A year of progress

Diurnal Group plc
Annual Report 2020

Diurnal

Our purpose is to address the major unmet clinical and patient needs in endocrinology by creating products for the lifelong treatment of chronic conditions.

Our vision is to become a world-leading endocrinology specialty pharma company.

Financial highlights

Revenue

£6.3m[1]

2020: **£6.3m**

2019: **£1.0m**

2018: **£0.1m**

Earnings per share

(4.3)p

2020: **(4.3)p**

2019: **(19.7)p**

2018: **(26.8)p**

1. Includes licensing income of £3.9m.

Read more about our operational highlights on page 16

We believe that Diurnal is an attractive investment for the following reasons

Strong position in rare and orphan endocrine diseases

Diurnal has built a strong portfolio of potential treatments to address unmet needs in chronic endocrine diseases.

5 products in pipeline including 3 for treatment of orphan diseases

Read more on **page 2**

Robust in-market protection

Diurnal's products are protected by a combination of robust patents and, where applicable, Diurnal will also seek orphan drug protection.

lead products have commercial exclusivity until

2034

Read more on **page 4**

Opportunities to expand globally

Diurnal is seeking international partners to bring its products to patients globally outside of its core European markets.

$9.5bn combined total market opportunity for pipeline products

Read more on **page 6**

Strong team with ability to deliver

Diurnal's Board and employees are highly experienced in all aspects of drug development, commercialisation, capital markets and business development.

175 years of combined experience on the Board across drug development, commercialisation and financing

Read more on page 8

Building a strong position in rare endocrine diseases

Diurnal is a revenue-generating business, initially targeting a market opportunity of over $3bn in diseases of cortisol deficiency. Our first product, Alkindi®, has launched and is generating revenues in Europe, and has been submitted for approval to the FDA in the US. We have a direct sales force in key territories in Europe, with potential to leverage this investment through future pipeline products and/or in-licensing, and are forging commercial partnerships globally.

OUR PRODUCTS

LATE-STAGE "ADRENAL FRANCHISE"

Alkindi®

What does it do?

Alkindi® is the first preparation of hydrocortisone specifically designed for use in children suffering from paediatric adrenal insufficiency. Alkindi® is an oral, immediate-release paediatric formulation of hydrocortisone granules in capsules for opening that allows for accurate age-appropriate dosing in children.

Key milestones

+ Strong uptake in Europe with 2020 sales growing by 130% compared to the prior financial year.
+ New drug application (NDA) submitted to the US Food and Drug Administration (FDA) in November 2019 and subsequently accepted for review in February 2020.
+ Exclusive licensing deal for the US with Eton Pharmaceuticals ("Eton") executed in March 2020.
+ Approval in Israel and Australia announced after the end of the financial year.

Chronocort®

What does it do?

Chronocort® is a modified-release preparation of hydrocortisone that has been specifically designed to mimic the circadian rhythm of cortisol when given in a twice-a-day "toothbrush" regimen (last thing at night and first thing in the morning) to control androgen excess and chronic fatigue in patients with diseases of cortisol deficiency.

Key milestones

+ Marketing authorisation application (MAA) submitted to the European Medicines Agency (EMA) in December 2019 and subsequently passed validation stage in March 2020.
+ Data from the European Phase 3 trial selected for oral presentation at the prestigious international ENDO meeting.
+ Patients from the European Phase 3 study continue treatment in a safety extension trial.
+ US Phase 3 clinical trial protocol updated and submitted to the US FDA for a Special Protocol Assessment meeting.

EARLY-STAGE PIPELINE

Native oral testosterone (DITEST™)

+ Testosterone replacement treatment for patients suffering from male hypogonadism.
+ Successful Phase 1 study results announced in December 2019.
+ Positive meeting with the US FDA confirming 505(b)(2) regulatory pathway announced July 2020.

T3 modified-release

+ A modified-release preparation of T3 (triiodothyronine) hormone for patients suffering from hypothyroidism.
+ Formulation feasibility work planning underway with a view to commencing human clinical studies in due course.

siRNA

+ Short interfering RNA oligonucleotide therapy for patients suffering from adrenocorticotropin-dependent Cushing's syndrome.
+ Orphan Drug Designation previously secured in Europe.
+ Formulation work underway with a view to commencing *in vivo* proof-of-principle experiments in due course.

DRUG DEVELOPMENT PIPELINE

Name	Indication	Pre-clinical	Phase 1	Phase 2	Phase 3	Regulatory	Market	Est. regulatory opinion
Alkindi®	Congenital adrenal hyperplasia and adrenal insufficiency (under 18 years)	EU						Approved
	Congenital adrenal hyperplasia and adrenal insufficiency (under 17 years)	US						2020
Chronocort®	Congenital adrenal hyperplasia	EU						2021
		US						TBC
	Adrenal insufficiency	EU						2023
		US						TBC
Testosterone	Male hypogonadism	EU						TBC
		US						2025
T3 modified-release	Hypothyroidism	EU						TBC
		US						TBC
Oligonucleotide (siRNA)	Cushing's	EU						TBC
		US						TBC

Read more about our markets on page 4

Focus on high unmet need in valuable niche markets

Our products are designed to meet specific unmet patient needs and, through our drug development, we aim to improve treatments, reduce side effects, improve bioavailability and provide improved patient outcomes that are cost effective.

WHAT CONDITIONS ARE WE TREATING?

Congenital adrenal hyperplasia (CAH)

+ An orphan condition usually caused by deficiency of the enzyme 21-hydroxylase, required to produce the adrenal steroid hormone, cortisol. The block in the cortisol production pathway causes the over-production of male steroid hormones (androgens), which are precursors to cortisol.
+ The condition is congenital (inherited at birth) and affects both sexes.
+ The condition can lead to increased mortality, infertility and severe development defects including ambiguous genitalia, premature sexual development and short stature. Sufferers, even if treated, remain at risk of death through an adrenal crisis.
+ The condition is estimated to affect a total of approximately 57,000 patients across Europe and the US with approximately 40,000 in the rest of the world.

Adrenal insufficiency (AI)

+ An orphan condition that results from a deficiency of cortisol secretion from the adrenal gland.
+ Primary AI results from diseases of the adrenal gland and secondary AI from pituitary diseases where there is a failure of stimulation of the adrenal gland.
+ In primary AI the most common condition is Addison's disease, typically due to autoimmune destruction. Addison's disease is estimated to affect approximately 80,000 sufferers in Europe and the US with approximately 746,000 sufferers in the rest of the world.
+ In secondary AI the most common conditions are benign pituitary tumours or congenital disease in children. The condition is estimated to affect approximately 450,000 patients in Europe and the US with over 3,000,000 sufferers in the rest of the world.
+ The European and US markets are estimated to be worth a combined $2.8bn annually.

Hypogonadism

+ A condition that results from failure of the testes (primary gonadal failure) or from failure of stimulation by the pituitary (secondary hypogonadism).
+ Primary hypogonadism can be congenital or acquired due to a variety of causes (failure of the testes to descend into the scrotum, inflammation due to infections such as mumps, chemotherapy or radiotherapy, and removal of the testes for testicular tumours).
+ Secondary hypogonadism usually results from a benign tumour of the pituitary gland that causes hypopituitarism.
+ Hypogonadism in young men occurs in approximately 1% of the population. Prevalence rises from 12% to 50% as age increases. The classical hypogonadism market in Europe and the US is primarily driven by topical formulations (gels and patches) and long-acting injections and is estimated to be worth $4.8bn.

WHAT IS THE MARKET OPPORTUNITY?

The European and US CAH markets are estimated to be worth a combined amount annually in excess of **$0.5bn**

Over 4m
estimated sufferers of CAH and AI worldwide

$4.8bn
estimated value of hypogonadism market

Protecting our products in key markets

Diurnal's late-stage product candidates are afforded strong in-market protection through a combination of regulatory protection and internally generated intellectual property. Diurnal is pursuing intellectual property protection for its products in all key global markets.

Hypothyroidism

+ Hypothyroidism is caused by reduced levels of thyroxine (T4) and triiodothyronine (T3) in the bloodstream.
+ Primary hypothyroidism can be a result of dysfunction of the thyroid gland, with the most common cause being autoimmune destruction of the thyroid gland.
+ Less commonly, secondary hypothyroidism can be a result of failure of the pituitary, which stimulates the thyroid. The most common causes are benign pituitary tumours or surgery.

Cushing's syndrome/ disease

+ Results from excess cortisol production either as a result of a tumour in the adrenal gland (Cushing's syndrome) or from excess stimulation by benign tumours of the pituitary gland (Cushing's disease).
+ Initial treatment is surgery, but up to 35% of patients with Cushing's disease require long-term medical therapy if surgery is not successful.
+ There is an estimated drug-treatable prevalence of over 12,000 sufferers in Europe and the US.

	Regulatory exclusivity		Intellectual property	
	EU	US	European patent	US patent
Alkindi®	PUMA 10 years	Orphan 7 years[1]	2034 Composition of matter 2032 Medical use	2034 Composition of matter 2033 Method of treatment (x2)
Chronocort®	Orphan 10 years[1]	Orphan 7 years[1]	2033 Composition of matter and medical use	2033/2034 Composition of matter (x2)
Oral native testosterone (DITEST™)	Not an orphan disease	Not an orphan disease	2029 Composition of matter Under review[2] Medical use	2030 Composition of matter

1. Conditional and subject to grant of market authorisation (and that Diurnal is the first sponsor to obtain market authorisation for the relevant product) and on demonstrating significant benefit.
2. GB patent application 2001514.5.

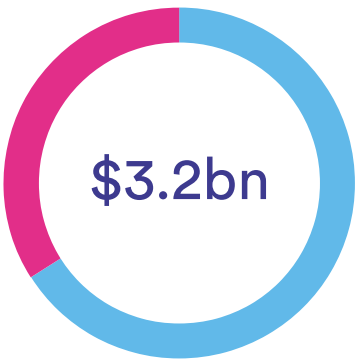
Global opportunity for cortisol deficiency business

Diurnal envisages a substantial opportunity for future growth in bringing its valuable treatments Alkindi® and Chronocort® to patients suffering with CAH and AI across the globe.

348,000
estimated number of EU patients

173,000
estimated number of US patients

Total addressable market size



- EU: $2.1bn
- US: $1.1bn

Our global strategy

+ Commercialise ourselves in major European markets
+ Seek licensing partners in major global markets, e.g. US and Japan
+ Seek distribution partners in other territories

US – Alkindi®

Following confirmation of acceptance of the regulatory submission for Alkindi® by the US FDA, Diurnal executed a highly valuable licensing agreement with Eton Pharmaceuticals for Alkindi®.

>$100m
market opportunity[1]

US – Chronocort®

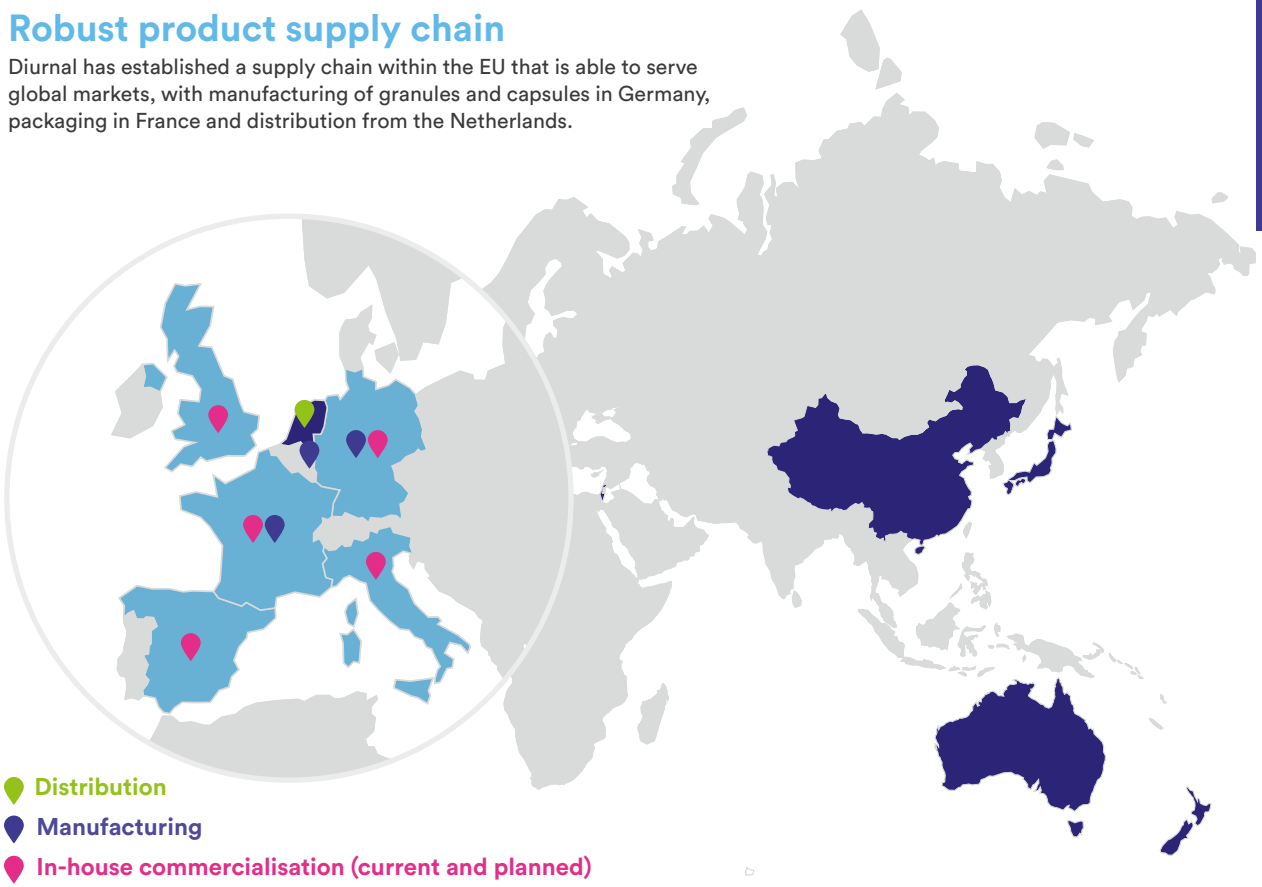
Diurnal is currently assessing opportunities to fund the US development programme for Chronocort® in CAH and AI, as well as evaluating partnering opportunities.

$1.0bn
market opportunity[2]

1. Eton Pharmaceuticals estimate for Alkindi® Sprinkle.
2. Based on Datamonitor report 2015 and price point of approximately $6,138 per patient per annum.

Robust product supply chain

Diurnal has established a supply chain within the EU that is able to serve global markets, with manufacturing of granules and capsules in Germany, packaging in France and distribution from the Netherlands.



Distribution
Manufacturing
In-house commercialisation (current and planned)

Europe

Diurnal has direct sales and marketing infrastructure in major European markets, initially for Alkindi® and subsequently for Chronocort® (assuming regulatory approval), supplemented by geographic distribution partners where appropriate, e.g. Frost Pharma in the Nordics.

$2.1bn
market opportunity

Switzerland

Diurnal has entered into a distribution agreement for Alkindi® with a local partner, which will seek regulatory approval in Switzerland and subsequently market the product.

$1m
market opportunity for Alkindi®

Netherlands/Belgium

Following the year end, Diurnal entered into a distribution agreement for Alkindi® and Chronocort® with Consilient Pharmaceuticals, which will commercialise these products in the Benelux countries.

$14m
market opportunity for Alkindi® and Chronocort®

Israel

Alkindi® has now been approved in Israel, with preparations being made for commercial launch in 2021.

$7m
market opportunity for Alkindi® and Chronocort®

China

Diurnal is exploring the potential market opportunity for Alkindi® in China, in light of the recent focus of Chinese health authorities on rare diseases, including chronic paediatric diseases.

Australia

Alkindi® was approved in Australia shortly after the financial year end and our partner Emerge Pharma is currently preparing for commercial launch in 2021.

$10m
market opportunity for Alkindi® and Chronocort®

Japan

Japan represents a significant opportunity for Diurnal's late-stage products, with a well-developed market and Orphan Drug Designation. Diurnal is currently assessing the optimum development and registration pathway.

$397m
market opportunity for Alkindi® and Chronocort®

Strong team with ability to deliver

Our experienced leadership team has combined expertise in pharmaceutical development, manufacturing, regulatory, finance, strategy, business development and commercialisation and is well placed to help Diurnal reach its full potential.

A flexible operating model

Diurnal operates a virtual business model, with activities such as manufacturing, packaging, logistics, pharmacovigilance, late-stage clinical trial operations and data management being outsourced with trusted vendors. Reflecting this, Diurnal maintains a core internal skill set that is required to effectively operate this virtual network.

Like many smaller companies, Diurnal does not need full-time dedicated staff for all functions, so uses a network of expert consultants for areas such as medical writing, statistics, business development and HR support.

30

employees (at 30 June 2020)

Building an efficient commercialisation model

Our partnership with Ashfield Healthcare enables us to build a Diurnal-branded commercial organisation in our key EU markets without the expense of setting up local operating entities. Our Ashfield team is 100% dedicated to, and managed by, Diurnal and works seamlessly as a team with our UK employees. We currently have commercial heads in Germany and Italy and intend to expand into Spain and France at the appropriate time.

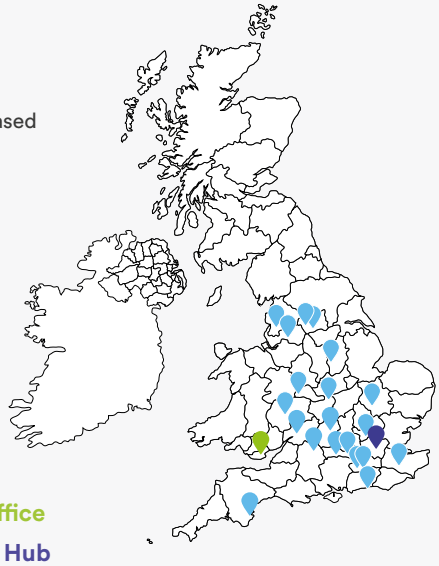
Employing the best people

Diurnal has operated a home working ethos since its outset. Outside of our Head Office in Cardiff, the majority of employees work from home. This ethos allows us to employ the best people for each position, regardless of their home location, and has helped minimise disruption to Diurnal's operations during the current Covid-19 pandemic.

Our London Hub provides a flexible meeting facility for times when face-to-face contact between our team is desirable.

80%

staff home based



Broad skill set

Our team's experience spans all key areas required to deliver Diurnal's strategy, including paediatric and adult endocrinology, formulation development, transition from development stage manufacturing to full commercial supply and running clinical trials from Phase 1 through to Phase 3. Our team of employees comprises the following functional skills:

Corporate	2
Manufacturing and supply chain	5
Clinical operations	4
Commercial	5
Medical	4
Regulatory	2
Quality	4
Finance and administration	4

As at 30 June 2020

Read more about our Board on page 30

Richard Ross
Chief Scientific Officer

Tell us about your role within Diurnal
Since founding Diurnal in 2004, I have split my time between treating patients as an endocrinologist at the Sheffield Teaching Hospitals NHS Foundation Trust and working with the Diurnal team to develop new treatments to address unmet needs in patients.

How do you go about designing new treatments?
Most endocrine diseases are chronic, lifelong conditions, and our aim as treating physicians is to try to provide patients with as normal a life as is possible. Through treating patients with endocrine diseases, I am aware of not only the benefits but also the shortfalls of existing treatment options. This unmet need is the starting point for designing a new treatment. Diurnal typically works with existing pharmaceutical molecules which were discovered and approved some time ago, but which have not been optimally formulated to meet patient needs. A good example is hydrocortisone, which is the synthetic version of the hormone cortisol and was first used over 60 years ago. Our products Alkindi® and Chronocort® are designed to meet two clear unmet needs in patients with diseases of cortisol deficiency: for Alkindi®, the lack of doses suitable for administration to paediatric patients, and for Chronocort®, our hypothesis that restoration of the normal circadian rhythm of cortisol will provide better disease control for patients. The formulations of Alkindi® and Chronocort® were designed by the Diurnal team to address these specific needs.

What future developments in the Diurnal pipeline excite you?
I am extremely interested in the development of Chronocort® as a potential treatment for adrenal insufficiency (AI). There are a large number of patients with either primary AI, for example through Addison's disease, or secondary AI, typically arising from a small tumour close to the pituitary gland, who are not being treated adequately at the moment, with little else in development for these disorders. Assuming Chronocort® is approved in congenital adrenal hyperplasia, we intend to pursue development programmes for Chronocort® in AI in both the US and Europe.

I was excited this year by the results of the first clinical trial of DITEST™, our native oral testosterone replacement product, and look forward to continuing the clinical development. There are a large number of men with low testosterone (hypogonadism) and Diurnal believes that DITEST™ may be able to address some of the remaining unmet needs in these patients.

Finally, although not a priority at present with the many other things we are seeking to achieve with our late-stage product pipeline, I am looking forward to progressing our early-stage pipeline products for conditions such as hypothyroidism and Cushing's disease, and I am always on the lookout for innovative new endocrine opportunities!

Realising our global ambitions

The past financial year marks a key transition in Diurnal's progress towards its vision of becoming a world-leading endocrinology specialty pharma company."

Stakeholder engagement

Diurnal invests significant time in understanding the interests of its different stakeholders and in ensuring, as far as is practicable, that these are addressed adequately. The Stakeholder Engagement section of the Annual Report details how Diurnal engages with different groups and takes account of their interests in making decisions.

Read more on page 14

I am very pleased to report that the past financial year marks a key transition in Diurnal's progress towards its vision of becoming a world-leading endocrinology specialty pharma company. During this period, Diurnal completed two key regulatory filings, executed its first major international licensing deal and concluded a fundraising that underpins the Group's finances for its late-stage cortisol deficiency franchise, notwithstanding the extremely challenging backdrop in the first half of 2020 arising from the Covid-19 pandemic. The Group is also undergoing an internal transition, with a search underway for a new Chairman to lead Diurnal through its next period of growth following Peter Allen's decision to step down at the end of June 2020. Until this process has concluded, I am delighted to lead Diurnal as Interim Chairman.

Building a strong commercial presence in endocrinology

The cornerstone of Diurnal's growth plans is the commercialisation of Alkindi® and Chronocort® in major European markets, where the Group can cost effectively promote these innovative products to specialist endocrinologists. Outside these core territories, Diurnal's strategy is to engage licensing or distribution partners which have extensive local knowledge, a strong commitment to our products and the ability to rapidly gain market access.

Diurnal has used Alkindi® to build a fully integrated organisation that has the capabilities to design, develop and commercialise innovative products addressing key unmet patient needs in chronic endocrine diseases. Assuming Chronocort® is approved as anticipated in 2021, the ability to plug in to our existing European commercial infrastructure and supply chain is expected to lead to a rapid take-up of this product, and subsequently create a profitable franchise in diseases of cortisol deficiency. In the longer term, this profitability will enable Diurnal to self-finance its innovative early-stage pipeline products, thereby potentially yielding a portfolio of high-quality products to patients, as well as providing major value-inflection points for Diurnal's shareholders.

Strong performance despite Covid-19 disruption

During the second half of 2019, Diurnal announced that it had filed the Alkindi® NDA with the US FDA and, subsequently, filed its Chronocort® MAA with the EMA. It is a significant achievement, particularly in the UK biopharma sector, to have made two major regulatory filings in such quick succession. These filings represent the culmination of an intense effort by the Group's employees and advisers.

Additionally, Diurnal's partners in Australia and Israel filed corresponding marketing authorisation submissions for Alkindi® in mid-2019 which were both approved post year end, highlighting the quality and robustness of the supporting data package for Alkindi®.

Progress with Alkindi® in the US has enabled Diurnal to execute its first major international licensing deal, with Eton Pharmaceuticals. In Eton, Diurnal has a dedicated partner that understands the key benefits of the product and preparations are underway for a rapid launch of Alkindi®, assuming approval as anticipated in H2 2020.

The progress in building out Diurnal's European commercial operations was evidenced through the significant increase in Alkindi® sales compared to the prior year. This growth was achieved despite the inability of medical and sales representatives to access hospitals due to the impact of Covid-19, highlighting the unmet need that Alkindi® is fulfilling in paediatric patients with adrenal insufficiency.

The Covid-19 pandemic has also provided some unprecedented challenges in running clinical trials, an area in which there is likely to be persistent challenges throughout the pharmaceutical industry even as the lockdown measures relax around the world. Diurnal's team has worked closely with treating physicians to ensure that all patients retain access to Chronocort® in the ongoing European dose-extension study.

Behind the scenes, the Group also successfully completed two regulatory inspections, covering its Good Distribution Practice (GDP) and global pharmacovigilance systems. This reflects the strong culture of quality within Diurnal's operations.

Building a sustainable product pipeline

Diurnal has managed to make significant progress with its native oral testosterone product, DITEST™. Shortly after the end of the period, Diurnal announced that the FDA had confirmed the 505(b)(2) regulatory pathway is suitable for DITEST™, enabling a significantly shorter development route. The Group continues with activities required to facilitate further clinical development and is assessing its options to finance the next stage of clinical development. The Group is also considering a number of further opportunities for the development of endocrinology-focused products addressing high levels of unmet need.

Financed for future growth

The Group has ended the financial year in a strong financial position as a result of the £11.2m placing in March 2020 and the upfront cash payment of $3.5m (£2.9m) from Eton following execution of the Alkindi® US licensing deal. I would like to thank our shareholders for their continued support of Diurnal in pursuit of our vision.

People and culture

Peter Allen stood down from the Board of Diurnal at the end of June 2020, reflecting the significant and rapid changes in corporate governance guidelines in relation to his portfolio of directorships. During Peter's five years as Chairman, his wise counsel has been invaluable in building the Group to its current strong financial and operating position, spanning the IPO in late 2015 as well as a series of subsequent fundraisings. On behalf of the Board, I would like to thank Peter for his significant contributions and wish him well in his future endeavours.

Diurnal has had a flexible working ethos since its outset, with most of its staff being home based. This has enabled it to attract the best people, regardless of location, and has become a significant strength for Diurnal with people reassessing working arrangements as a result of the Covid-19 lockdown. Indeed, Diurnal has added a number of new employees during the lockdown, further strengthening its team. I would like to thank all of Diurnal's employees for their resourcefulness and resilience over the last year, which has allowed the Group to meet a number of significant challenges.

Outlook

Diurnal remains confident about the prospects for growing the Alkindi® and Chronocort® franchise, despite a backdrop of global uncertainty with Covid-19 and domestic uncertainty as we approach the end of the Brexit transition period. In particular, the Group has a number of key milestones during the next 12 months, including anticipated approvals for Alkindi® in the US and Chronocort® in Europe, that are expected to be major inflection points. Diurnal believes that it is well placed to capitalise on these opportunities and in its ability to build a strong, profitable franchise around diseases of cortisol deficiency.

Sam Williams
Interim Chairman
14 September 2020

Our dynamic business model

Diurnal has built a strong business model bringing together key management, selected consultants, expert suppliers and commercialisation partners, operating seamlessly on a global basis.

Inputs

Diurnal employees

+ A core internal team covering development, regulatory, manufacturing, supply chain and commercialisation activities, in addition to business development, quality and administration.
+ The majority of Diurnal's team works virtually, giving the Group access to the best individuals regardless of location.

Consultants

+ Trusted consultants, bringing expertise to Diurnal's development, manufacturing and commercialisation activities.

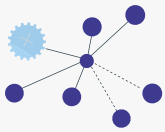
Suppliers

+ A network of contract organisations, providing robust support for critical business activities worldwide. Diurnal has had successful long-term relationships with many of its partners.

Partners

+ A growing network of licensing and distribution partners, providing local expertise and resources outside of Diurnal's key European markets.

Our process

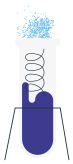


1. Development

+ Regulatory
+ Clinical operations
+ Medical monitoring
+ Statistics and data management

2. Commercial

+ Market access
+ Medical science liaison
+ Sales
+ Pharmacovigilance
+ Supply chain
+ Alliance management



3. Manufacturing

+ Formulation
+ Clinical supplies
+ Analytical services
+ Scale-up
+ Validation

Our strengths

Strong product portfolio

Diurnal's late-stage portfolio is complemented by novel early-stage approaches. Diurnal has undertaken extensive brand development for its late-stage products and protects this investment through careful selection of brand names and registering these as trademarks in key global territories.

Know-how

Diurnal's team has considerable expertise in the selection of formulation technologies and approaches and combining these to give the desired therapeutic profile and also to create a novel, patentable product.

Clinical development

Diurnal has built an extensive international network of endocrinologists which it uses to identify key unmet patient needs, provide input into its clinical development plans and treat patients enrolled into its clinical studies.

Patents

Diurnal has filed patents in key global territories in relation to its novel product pipeline. Key patents have already been granted relating to Alkindi®, Chronocort® and DITEST™.

Stakeholder value

Customers

+ Provide cost-effective treatments that deliver significant benefits to patients in areas of high unmet need.

Shareholders

+ Build a valuable commercial franchise that is able to deliver long-term value to the Company's shareholders and communicate progress transparently to the financial markets.

Suppliers

+ Engage in stable, long-term relationships that facilitate delivery of a high-quality service to the Group whilst providing suppliers with confidence to invest in their relationship with Diurnal.

Employees

+ Provide a rewarding work environment and enable individuals to grow and develop their skills.

Clinicians

+ Undertake high-quality clinical research in a transparent way, to further knowledge in rare endocrine diseases, including timely publication of all clinical trial data.

Partners

+ Engage in open and transparent relationships that utilise the skills of both parties to maximise the potential of Diurnal's products.

Responding to stakeholders' needs

Diurnal is committed to listening to, and effectively engaging with, all of its stakeholder groups and recognises its importance in ensuring responsible decisions are made.

	Physicians	Patients	Healthcare payers
Why we engage 	Diurnal's purpose is to address the major unmet clinical and patient needs in endocrinology, often in niche areas that are not of interest to larger companies. Regular engagement with treating physicians helps us to pinpoint optimal product profiles and also provides a pool of potential future collaborators for clinical development.	It is important for us to understand the key challenges faced by patients, including the burden of living with a particular condition, and to ensure this is reflected in our drug design and subsequent development programmes. It is also helpful to build awareness amongst patients of our future clinical trial plans.	The cost of providing healthcare is a major societal issue, with affordability balanced against the high cost of developing innovative products and the need to generate a return for shareholders who provide risk capital. We engage with payers to understand the economic burden of the conditions we aim to treat, along with the economic impact of our treatments.
How we engage 	We typically engage with physicians through advisory boards, scientific meetings and direct interaction with our medical science liaison (MSL) team. In addition, we have supported an independent global patient registry (iCAH) that provides a valuable resource for physicians to manage their CAH patients.	Pharmaceutical companies are not permitted to interact directly with patients in most parts of the world. Consequently, our engagement is with patient societies that represent sufferers of the chronic conditions we are seeking to treat. Our engagement includes support of patient society events and unconditional grants.	In developing new treatments, we proactively engage with healthcare providers, typically through detailed pricing studies conducted on our behalf. Once a product is approved, we then engage with payers through the pricing and reimbursement process.
Outcomes 	During development we monitor physician feedback through our interactions and through publication of peer reviewed data. Once approved, we are additionally able to track how extensively our products are used by physicians through market uptake.	During development, the ability to recruit patients to clinical trials provides an indication of successful incorporation of patient requirements. Following approval of a product, we track market uptake and patient retention as an indicator of patient satisfaction.	Successful engagement with payers should result in generating the required data from our clinical trials to support the benefits of our products, as evidenced by the ability to achieve positive health technology assessment (HTA) outcomes, and obtaining pricing in line with our expectations.

Collaborators	Suppliers	Employees	Shareholders
Outside of our core European markets, we operate a strategy of collaborating with companies which understand the local market and may have already built key relationships with prescribers. We regularly engage with these organisations to ensure sharing of best practice and resolution of any issues.	Diurnal operates on a virtual basis, with most of our operations being outsourced. We aim to build long-term supplier relationships with a "team" dynamic to encourage joint problem solving, as well as providing motivation for our suppliers to invest in Diurnal's future, for example new facilities or technologies.	As a largely intellectual capital-based business, we are critically dependent on the contribution of our employees, and the retention of the knowledge base that has been built up within Diurnal over many years. Additionally, it is widely accepted that a motivated workforce tends to perform at a higher level.	As a public market listed company, it is critically important that investors understand the long-term strategy of the Company, including the potential upside from investing in Diurnal as well as the risks. This includes setting market expectations and then reporting progress against our key objectives on a regular basis.
For each of our collaborators, we have an alliance management plan. We schedule regular calls and, where appropriate, face-to-face interaction of the respective teams, and also ensure we maintain regular senior level contact for oversight of the collaboration.	For all key suppliers, there is regular contact through scheduled joint team meetings. The responsibility for each key supplier lies with a specific individual, who ensures issues are addressed and that the relevant individuals within Diurnal are engaged at the appropriate time.	Day-to-day engagement of employees is the responsibility of their line manager. We set individual performance criteria within the overall corporate objectives, to ensure employees have visibility of their contribution to Diurnal's development. We provide regular corporate progress updates and hold all-company meetings to provide further clarity on our goals.	For institutional investors, we engage directly through meetings and by maintaining relationships with equity research analysts, to ensure there is a regular flow of information about Diurnal. For private investors, we participate in private investor events and increasingly are looking at the use of internet video to deliver key messages.
Feedback through our regular interactions with collaborators indicates any misalignment between the companies. Ultimately, the commercial success of our products in the relevant markets will indicate the quality of our collaborations.	Key supplier relationships, including issue logs, are reviewed at a senior management team level. Successful relationship management will be demonstrated by the responsiveness of the supplier to new or changing requirements and minimal disruption to operations from arising issues.	We monitor employee satisfaction through regular line management meetings and formally through the annual personal development plan process. We monitor employee turnover through exit interviews to identify any issues that require remediation.	Successful engagement should result in a pool of well-educated investors, whether current holders or not, and the ability to access funding for Diurnal when required. It should also result in reduced share price volatility. We regularly procure feedback from investors to assess the effectiveness of our engagement.

Advancing the product pipeline

Diurnal aspires to be a significant participant in the endocrinology field, with a pipeline of therapies targeting multiple endocrine disorders."

Highlights

+ Submission of two major regulatory filings, Alkindi® in the US and Chronocort® in Europe
+ Licensing deal for Alkindi® in the US with Eton Pharmaceuticals
+ Alkindi® sales growth of 130% year on year
+ Positive DITEST™ clinical data and subsequent agreement of the regulatory path with the US FDA

A year of progress

During the past year, Diurnal has made excellent progress across its business, despite the challenging backdrop posed by Covid-19 lockdown measures in the second half of our financial year. Diurnal, and its distribution and licensing partners, has made three regulatory submissions during the year, with two regulatory approvals being received shortly after the end of the financial year. Diurnal also successfully completed an £11.2m fundraising which will underpin the next phase of the Group's development.

The Group's primary focus remains on Chronocort® and Alkindi®, our two lead products, which are potentially valuable treatment options for CAH and paediatric AI, underserved orphan diseases resulting from cortisol deficiency. These commercial opportunities are worth over $0.5bn across the US and Europe. Diurnal has also broadened its product portfolio following positive Phase 1 data from its oral native testosterone product, DITEST™, during the year.

Diseases of cortisol deficiency: valuable near-term focus

Diurnal's late-stage development pipeline is targeting disorders of the adrenal axis with two novel formulations of hydrocortisone.

CAH is an orphan genetic condition caused by the deficiency of adrenal enzymes, most commonly 21-hydroxylase, which is required to produce cortisol, an essential hormone in regulating metabolism and the response to stress. The block in the cortisol production pathway causes the over-production of male steroid hormones (androgens), which are precursors to cortisol. The condition presents at birth and affects both sexes. Cortisol deficiency and over-production of male sex hormones can lead to increased mortality, infertility and severe development defects including ambiguous genitalia, premature sexual development and short stature. Sufferers, even if treated, remain at risk of death through an adrenal crisis. The condition is estimated to affect approximately 41,000 patients in Europe and 16,000 patients in the US, with approximately 405,000 patients in the rest of the world.

AI is a condition characterised by deficiency in cortisol acquired during a person's lifetime. The primary symptom of AI is chronic fatigue and patients are at risk of adrenal crisis and death if they do not have adequate cortisol replacement. AI is either primary or secondary, with primary AI resulting from diseases intrinsic to the adrenal gland and secondary AI resulting from pituitary diseases where there is a failure of the pituitary gland to stimulate the adrenal gland. The condition is estimated to affect approximately 297,000 patients in Europe

and 154,000 patients in the US, with approximately 3 million patients in the rest of the world.

Paediatric AI and the related condition CAH has been identified as an orphan disease in the US, where there are estimated to be approximately 5,000 sufferers under the age of 17, and in Europe, where there are estimated to be around 10,000 sufferers under the age of 18. Untreated, the disease is associated with significant morbidity and increased mortality.

Building a profitable European commercial business

The foundation of Diurnal's long-term strategy is its commercialisation infrastructure in key European markets. Diurnal has created one of the few dedicated endocrinology-focused commercial teams in Europe, dedicated to building awareness of its products within the concentrated prescribing community of endocrinologists, initially with Alkindi® following its regulatory approval in 2018. Outside of Western Europe, Diurnal intends to seek distribution or licensing partners in order to rapidly access these markets and to maximise the return on its commercial products.

Alkindi® Europe: strong revenue growth

Alkindi® is the first product specifically designed for young children suffering from paediatric AI and the related condition CAH. Alkindi® is licensed in Europe and has been proven to be effective, safe and easy to administer. Diurnal's Alkindi® commercialisation efforts are focused in the larger European markets, and initially on patients aged 0-6 years where the unmet need is highest. The Group assesses the most effective means of accessing smaller European markets on a case-by-case basis, either using its in-house capabilities or through distribution partners.

The commercial roll-out of Alkindi® has continued during the year, with launches in Italy and Austria and, through its partner Frost Pharma, in Sweden, Denmark, Norway and Iceland. Diurnal believes that the health economic arguments underpinning Alkindi® are robust and support pricing submissions in the remaining key European markets. Whilst there has been significant disruption to commercialisation efforts in 2020 due to the inability to access hospitals as a result of Covid-19 lockdown measures, Alkindi® sales have progressed significantly during the year and the Group expects strong future revenue growth for Alkindi® as the impact of Covid-19 lessens. Shortly after the end of the year, Diurnal announced distribution deals with Consilient Healthcare for the marketing of Alkindi® and Chronocort® in the Benelux countries and with an undisclosed partner for Alkindi® in Switzerland. These deals provide a highly effective means of maximising market access by plugging into established commercial organisations.

Diurnal has developed a robust product supply chain to support the commercial roll-out of Alkindi® and to minimise potential disruption to the Group's operations should the UK be unable to negotiate a trade agreement with the European Union (EU) before the end of the Brexit transition period. The Group's supply chain remains located within the EU, with manufacturing

of Alkindi® capsules in Germany, packaging in France and distribution from the Netherlands. Diurnal's wholly owned subsidiary, Diurnal Europe B.V., holds the Alkindi® European marketing authorisation and Wholesaler Dealer Licence (WDA) required to market Alkindi® in the European Economic Area (EEA), whilst the UK operating company, Diurnal Limited, holds the required WDA to market Alkindi® in the UK.

To ensure the Group is able to meet anticipated future demand for Alkindi®, several manufacturing improvement initiatives are underway at Glatt, Diurnal's contract manufacturer, including the installation of a higher throughput encapsulation machine and scale-up of the granule manufacturing process to approximately 50% higher than the current scale. It is envisaged that these enhancements will be submitted for regulatory approval during 2021.

Chronocort® Europe: preparing for commercialisation

Diurnal's second product candidate, Chronocort®, provides a drug release profile that the Group believes better mimics the body's natural cortisol circadian rhythm, which current therapies are unable to replicate, and is designed to improve disease treatment for adults with CAH, as measured by androgen (male sex hormone) control.

During the year, Diurnal submitted an MAA to the EMA for Chronocort® as a treatment for adult and adolescent patients with CAH. The MAA subsequently passed validation with the EMA in March 2020, confirming that the submission is sufficiently complete to begin the formal review process. The MAA submission followed a positive meeting with the EMA and written formal Scientific Advice confirming the clinical and regulatory pathway for Chronocort®, based on detailed analysis of data from the Group's Phase 3 study conducted in a total of 122 patients enrolled across 11 clinical sites, the largest ever interventional clinical trial in CAH, and an open-label safety extension study for patients completing treatment in the Phase 3 study. This extension study is assessing the impact of treatment with Chronocort® over an extended period, regardless of whether the patients were initially treated with Chronocort® or standard of care.

Building a profitable European commercial business continued

Chronocort® Europe: preparing for commercialisation continued

A significant proportion of patients eligible to enter the follow-on study did so, and patient retention rates in this study have been high, with a number of patients on this trial having been treated for over 42 months at the latest data-cut in April 2020. Patients on this trial have, to date, shown sustained benefit from extended Chronocort® treatment.

Shortly after the financial year end, Diurnal received the first formal set of questions from the EMA ("Day 120 questions") and is working to provide responses to these, including data from the latest data-cut of the Chronocort® extension study taken during the financial year, in line with the EMA's timetable. Assuming responses to these (and any subsequent) questions are acceptable to the EMA, Diurnal anticipates receiving recommendation for approval of Chronocort® in Europe in Q1 2021, with formal approval to follow in Q2 2021. In parallel with the MAA submission, Diurnal will apply for confirmation of Orphan Drug Status for Chronocort® in CAH.

Assuming the EMA approves Chronocort® for the treatment of CAH, Diurnal subsequently intends to submit a line extension in Europe for the treatment of AI, a much larger market opportunity, once an existing Orphan Drug Designation for the product Plenadren® in the treatment of adult AI has expired. This planned submission will use existing clinical data, along with data from a planned study comparing Chronocort® with Plenadren®.

The market access and pricing work undertaken for Alkindi® have provided insights into the cortisol deficiency market that are extremely valuable as Diurnal begins to develop its health economic arguments for Chronocort®. Extension study data will also be extremely valuable in preparing for pricing and reimbursement discussions. Additionally, the Group intends to leverage the commercial organisation and supply chain it has developed for Alkindi® for the planned future launch of Chronocort® in Europe, which will provide significant synergies and should enable the Group to build a profitable European franchise in diseases of cortisol deficiency in the near term.

Expanding Diurnal's global footprint

During the past year, Diurnal has made significant progress in bringing its products to patients suffering from CAH and AI outside of Europe, in particular through its distribution and licensing agreements.

Alkindi® US: valuable licensing deal

Diurnal successfully submitted its Alkindi® US NDA in November 2019 following a positive meeting with the US FDA in Q1 2019 which confirmed Diurnal's clinical and regulatory pathway for the product in the US. The NDA was subsequently accepted for review by the FDA in February 2020. In the US, the product will be known as Alkindi® Sprinkle; Diurnal is seeking approval of Alkindi® Sprinkle as a replacement therapy of AI in infants, children and adolescents (from birth to <17 years old) in the US. The PDUFA date set by the FDA, which would be the earliest date at which approval could occur, is 29 September 2020.

Reflecting the progress with Alkindi® Sprinkle, Diurnal was able to execute a valuable licensing deal with the US specialty pharmaceutical company Eton Pharmaceuticals ("Eton"), in April 2020. Eton is a NASDAQ-listed specialty pharmaceutical company focused on developing, acquiring and commercialising innovative products. Eton is primarily focused on hospital and paediatric products, including those in endocrinology. Diurnal will be responsible for obtaining registration for Alkindi® Sprinkle in the US and Eton will be responsible for all commercialisation activities, including pricing and reimbursement. Eton will initially utilise product from Diurnal's European supply chain, with an option to establish its own supply chain in the US in the future.

Under the terms of the licensing agreement, Diurnal received a non-refundable upfront payment of $5.0m, of which $3.5m was in cash and $1.5m was in new Eton shares, and will receive an additional $2.5m cash milestone payment upon first commercial sale in the US following regulatory approval and grant of Orphan Drug Status. Diurnal will receive a tiered royalty on sales and is also due sales-based milestone payments. Diurnal believes Eton is extremely well positioned to maximise the value of Alkindi® Sprinkle; in particular, its recent experience in replacing unapproved compounded products with approved pharmaceutical products will be invaluable in establishing Alkindi® Sprinkle in the US. Eton estimates the market opportunity for Alkindi® Sprinkle in the US could be in excess of $100m.

Chronocort® US: preparing for pivotal studies

During the past year, Diurnal has also refined its US development strategy for Chronocort®, to reflect both previous feedback from the FDA and its own experience with the European Phase 3 study. The design of the US Phase 3 study has now been optimised based on this information and, shortly after the end of the financial year, Diurnal submitted the updated protocol to the FDA for a Special Protocol Assessment (SPA) meeting. If granted, the SPA potentially offers more certainty for ultimate approval of Chronocort® in the US, assuming that the clinical endpoints of the Phase 3 study are met. The Phase 3 registration study for Chronocort® in the US will recruit up to 150 patients with CAH randomised to either receive Chronocort® twice daily or standard of care. The study is expected to commence once the Group has either secured additional funding to run the study or has identified

a US development and commercialisation partner for Chronocort®. Diurnal believes that the preparatory work previously undertaken for this study, including identification of key clinical sites, will substantially accelerate the start-up once the study financing has been secured.

Diurnal is also planning a Phase 2 study design to assess the utility of Chronocort® in AI, which represents a sizeable commercial opportunity in the US of potentially close to $1bn, with a highly favourable competitive landscape. Diurnal has developed a protocol for this study, which it intends to commence alongside the Phase 3 registration study on CAH, subject to funding for either in-house development or with the support of a US partner.

Optimising global market access

During the year, Diurnal continued to optimise market access for its products outside of key European markets and the US, where the Group aims to maximise revenues from Alkindi® and Chronocort® by entering into distribution and/or licensing agreements. The Group seeks to access territories where there is the potential for a price which reflects the innovation for its products, and which can use the European or US regulatory dossiers as the basis for local regulatory submissions.

Diurnal has existing agreements with Emerge Health for the marketing of Alkindi® and Chronocort® in Australia and New Zealand, and Medison for the marketing of Alkindi® and Chronocort® in Israel. During the year, Emerge Health successfully submitted an MAA for Alkindi® in Australia, which followed Medison's MAA submission towards the end of the previous financial year. Shortly after the financial year end, Diurnal announced that Alkindi® had been approved by the Ministry of Health in Israel as a replacement therapy of AI in infants, children and adolescents and by the Australian Therapeutic Goods Administration (TGA) as replacement therapy in AI with no age restriction.

Japan represents a significant opportunity for Alkindi® and Chronocort®, with the market size for CAH and AI estimated at $0.4bn. Diurnal has been working with a leading global contract research organisation during the year to assess the optimum strategy for development and registration of these products in Japan, including the potential for Orphan Drug Designation. Following completion of this assessment, Diurnal intends to enter into a dialogue later in 2020 with potential partners for development and commercialisation of Alkindi® and Chronocort® in this important market.

Diurnal also continues to assess the potential for the commercialisation of Alkindi® and Chronocort® in China, and has been in dialogue with local companies to assess the requirements for registration. There is particular interest in China for Alkindi®; the Chinese health authorities have recognised CAH as a rare disease and, additionally, have designated the treatment of chronic paediatric diseases as a priority area. China represents a large market opportunity for paediatric AI and the related condition CAH, with patient numbers estimated to be at least twice the size of the European market.

Early-stage pipeline: targeting needs in endocrine diseases

Diurnal aspires to be a significant participant in the endocrinology field, with a pipeline of therapies targeting multiple endocrine disorders where patient and clinical needs are underserved. Whilst Diurnal's primary focus is currently on bringing its cortisol deficiency pipeline to the market in Europe and the US and to expand these products into new indications and geographies, the Group's long-term plan is to expand into further endocrine disease areas, such as those associated with the thyroid, gonads and pituitary.

DITEST™: clear pathway to US registration

During the year, Diurnal announced positive headline results from its Phase 1 proof-of-concept clinical study with DITEST™, its native oral testosterone therapy for the treatment of male hypogonadism. The estimated $4.8bn market in the US and Europe for testosterone-based products for the treatment of hypogonadism is dominated by topically available products, which have compliance and safety issues, while key issues with the use of alternative, oral modified testosterone products (testosterone undecanoate) have been the variability in absorption and the requirement for a high-fat meal to achieve therapeutic testosterone levels.

COMMERCIAL OPPORTUNITY IN CAH AND AI

Early-stage pipeline: targeting needs in endocrine diseases continued

DITEST™: clear pathway to US registration continued

This Phase 1 study, which confirmed the positive findings in the Group's successful *in vivo* pre-clinical studies, evaluated the pharmacokinetics, safety and tolerability of DITEST™ in the target patient group of 24 adult men with primary or secondary hypogonadism. The primary endpoint of the trial compared the rate and extent of absorption of testosterone from a single dose of DITEST™ with a single dose of testosterone undecanoate in the fed state in hypogonadal men. DITEST™ was shown to achieve testosterone levels within the healthy young male adult normal range after oral administration, with levels that were less variable than testosterone undecanoate. Secondary endpoints demonstrated that there was no impact on the rate and extent of absorption of testosterone from DITEST™ whether taken with either food or in the fasted state, representing a major difference with testosterone undecanoate. The safety and tolerability of two different doses of DITEST™ were also assessed in the study: there were no serious adverse events in the DITEST™ arm of the study, and levels of the potent testosterone derived androgen, dihydrotestosterone (DHT), were lower than with testosterone undecanoate.

Following these positive results, the Group consulted with the FDA, which confirmed that DITEST™ can progress to an NDA via the abbreviated 505(b)(2) route, which relies, in part, on published literature and other non-Company studies to support a marketing application and can significantly accelerate the time to approval, compared to FDA-designated new chemical entities. Diurnal is currently assessing opportunities to fund the next stage of clinical development.

Diurnal's other early-stage pipeline products include a modified-release T3 replacement therapy for patients with hypothyroidism who do not respond to the current standard of care (a potential market of $1bn in the US and Europe), and its novel siRNA therapy for Cushing's disease (a market opportunity of close to $0.5bn), a condition characterised by an excess of cortisol. In addition, Diurnal regularly assesses third party products for endocrine disorders that fit within its strategic vision.

Outlook

We believe the combined opportunity for Alkindi® and Chronocort® in CAH and paediatric AI is worth over $0.5bn in the US and Europe alone and Diurnal expects to make continued progress with both franchises during the current financial year, especially as Covid-19 lockdown measures begin to ease. In particular, if approved by the EMA, Chronocort® will join Alkindi® to enlarge the Group's commercial cortisol replacement therapy franchise. This should enable Diurnal to build a strong and profitable European business through penetration of the combined addressable market for the treatment of CAH and paediatric AI. Diurnal also anticipates approval for Alkindi® in the US, which should generate a strong stream of royalties and milestone payments from its partner Eton.

With the operational progress made over the past year, along with its strengthened financial position, Diurnal believes it can become a profitable European biopharmaceutical company, based upon successfully taking multiple products from concept to commercialisation.

Martin Whitaker
Chief Executive Officer
14 September 2020

Q&A with our CEO

How do you feel Diurnal performed this year?

Diurnal has made significant advances towards achieving its vision of becoming a leading global endocrinology-focused specialty pharma company this year, with major regulatory filings for Alkindi® in the US and Chronocort® in Europe, regulatory approvals for Alkindi® in Australia and Israel, a major US licensing deal with Eton for Alkindi® and continued strong growth for Alkindi® revenues in Europe. In addition, we were pleased to be able to report positive data from the first human clinical trial with DITEST™, which further enhances our product pipeline. This strong performance enabled Diurnal to complete a significant fundraising during the year which, along with the Eton licensing revenues, underpins the commercial roll-out of Alkindi® and Chronocort® in Europe.

How has the Covid-19 situation impacted your progress?

Like many other companies, the Covid-19 situation has presented Diurnal with several challenges. In particular, access to hospitals and physicians has impacted both our ongoing Chronocort® safety extension study and Alkindi® commercialisation activities. Our clinical team has worked closely with our trial investigators to adapt the ongoing study to a virtual working environment. For Alkindi®, despite the strong sales performance, there has undoubtedly been some impact on its growth, especially in Italy; however, we have now adapted to incorporate a digital approach to our interactions with prescribers, in the event that restricted access to hospitals continues. We are very grateful to our manufacturing partners, Glatt and Delpharm, for their efforts in enabling us to maintain continuity of drug supply for Alkindi®, despite disruption to their own businesses.

On the positive side, the Covid-19 pandemic has highlighted the benefits of Diurnal's established virtual, home-based working environment for the majority of our team, and has assisted us in attracting further recruits during the pandemic to strengthen our operations. Overall, the extraordinary efforts of our staff have enabled Diurnal to navigate the Covid-19 situation with minimal impact on our operations, and the fundraising which we completed in March 2020 has enabled us to focus on developing our business.

What future challenges do you see to the business?

Undoubtedly, the disruption to hospitals caused by the Covid-19 situation will impact the ability of companies to start up new clinical trials for some time: we will work closely with our partners to minimise start-up times for our planned future studies. The impact of Covid-19 on global travel also means that we must think about new ways of undertaking our business development activities, which have typically relied on face-to-face contact.

We also continue to plan and adapt our business for the potential outcomes at the end of the Brexit transition period. Whilst planning for an uncertain outcome is challenging, Diurnal believes it is well placed to navigate any potential short-term disruption, having situated its supply chain within the EU and by holding a buffer of Alkindi® stocks in the UK in line with UK government recommendations, ahead of the end of 2020.

Finally, there is a continued focus globally on the cost effectiveness of medicines that impacts the entire pharmaceutical industry. Diurnal believes that its approach of conducting high-quality clinical trials with a clear demonstration of the clinical benefits for its products will stand it in good stead for future discussions with pricing authorities.

With Alkindi® partnered in the US, what are your plans for Chronocort®?

Following completion of the Chronocort® European Phase 3 CAH study, we have redesigned the US Phase 3 protocol and recently submitted this to the US FDA for Special Protocol Assessment, which provides a more certain regulatory pathway through to NDA submission. We are also developing a Phase 2 protocol for the development of Chronocort® in AI in the US, which represents a much larger commercial opportunity with little competition. We are currently assessing funding opportunities to run these studies ourselves, alongside our ongoing partnering discussions, and expect to report further progress during this financial year.

What opportunities do you see for your products outside of Europe and the US?

There continues to be strong interest in Alkindi® and Chronocort® across the globe. Japan remains a large opportunity for our late-stage pipeline: Diurnal is currently working with a global contract research organisation to formulate a development, regulatory and commercial strategy to support its ongoing business development activities. There is also significant interest in Alkindi® and Chronocort® in China, where the health authorities have designated CAH as a rare disease and have also recently been focusing on treatments for chronic paediatric diseases. Finally, we will continue to look for opportunities to enter in distribution deals outside of our core European territories, as exemplified by deals in Switzerland and the Benelux countries this year.

What key news flow can we expect from Diurnal in next 12 months?

Diurnal has two pivotal events during this financial year, namely the anticipated regulatory approvals for Alkindi® in the US and Chronocort® in Europe. We expect to be able to report further growth in Alkindi® European sales and to report our first revenues from the US, following the expected commercial launch of Alkindi® by our partner Eton. We will continue to move Chronocort® forward in the US and hope to be able to report progress either with financing in-house development in CAH and AI or in securing a licensing partner. Finally, we also expect to be able to report the advancement of our DITEST™ development programme for the treatment of low testosterone in men.

Our strategy moving forward

	What we achieved in 2019/20	Our focus for 2020/21
Regulatory	The Group made two major regulatory submissions during the year (Alkindi® in the US and Chronocort® in Europe) as well as supporting its partners in Israel and Australia.	Our focus for the current year is progressing Alkindi® to regulatory approval in the US and Chronocort® to regulatory approval in Europe, as well as opening an investigational new drug (IND) application for DITEST™ in the US.
Commercialisation	The Group successfully launched (or supported its partners in launching) Alkindi® in a number of European countries during the year, with Alkindi® sales growing by 130% compared to the previous year.	The commercial team will continue the roll-out and growth of Alkindi® in Europe, as well as preparing for the commercial launch of Chronocort® in Europe including market access and pricing work.
Strategic collaborations	During the year the Group completed a major licensing deal with Alkindi® in the US, granting exclusive commercialisation rights to Eton Pharmaceuticals.	The business development focus is currently on expanding market access for Alkindi®, exemplified by distribution deals already executed in Switzerland and the Benelux countries, and on assessing partnering opportunities for Chronocort® in the US.
Financing	In March 2020 the Group successfully completed a major placing, raising £11.2m before expenses, to fund development of its European cortisol deficiency franchise.	The Group is assessing opportunities to finance DITEST™ Phase 2 development and the Chronocort® US development programme, to generate further value for shareholders.

Measuring our success

Total revenues

£6.3m

2020: **£6.3m**

2019: **£1.0m**

2018: **£0.1m**

Definition
Product revenues, net of provisions, plus income from product licensing agreements.

Why we measure
Product revenues indicate the success of our commercialisation efforts and licensing revenues indicate the success of our business development activities.

Performance
Revenues increased significantly reflecting both increased Alkindi® product sales and the upfront licensing payment of £3.9m received from Eton Pharmaceuticals.

Research and development expenditure[1]

£4.7m

2020: **£4.7m**

2019: **£8.7m**

2018: **£10.0m**

Definition
Gross expenditure on research and development of the Group's pipeline.

Why we measure
Indicates investment in future potential products.

Performance
Research and development expenditure decreased in line with expectations reflecting lower clinical trial activity.

1. After adding back capitalised development costs.

Cash and cash equivalents

£15.4m

2020: **£15.4m**

2019: **£9.1m**

2018: **£17.3m**

Definition
The Group's cash resources representing deposits with a maturity of less than three months.

Why we measure
Cash resources indicate the Group's ability to support its future growth and development plans.

Performance
Cash and cash equivalents at the year end are sufficient to support the Group's activities in relation to the launch and commercialisation of Alkindi® and Chronocort®.

Gross margin (on sale of goods)

72%

2020: **72%**

2019: **79%**

2018: **79%**

Definition
Gross margin on sale of goods (as disclosed in Note 3 to the financial statements) as a percentage of sale of goods.

Why we measure
In the long term, gross margin indicates the success of initiatives to improve the manufacturing efficiency of products.

Performance
The decrease in gross margin reflects a higher proportion of sales through distributors, where we share revenues.

Funds raised (gross of expenses)

£11.2m

2020: **£11.2m**

2019: **£5.9m**

2018: **£10.5m**

Definition
Funds raised both through placings and open offers, from institutional and retail investors.

Why we measure
Funds raised indicate the Group's ability to finance its future growth and development plans.

Performance
The Group successfully completed an £11.2m fundraising during the year to support the continued development of its cortisol deficiency franchise.

Earnings/(loss) per share

(4.3)p

2020: **(4.3)p**

2019: **(19.7)p**

2018: **(26.8)p**

Definition
Profit/loss for the year divided by the weighted average shares outstanding during the year.

Why we measure
A reduction in losses per share indicates the Group's progression towards becoming a profitable, endocrinology-focused pharmaceutical company.

Performance
Loss per share reduced significantly reflecting increased revenues and lower operating expenses.

Investing for the future

The Group will continue to invest in launch activities in anticipation of the expected approval of Chronocort® in Q1 2021."

Revenues and gross margin

Total revenues for the year were £6.3m (2019: £1.0m) comprising product sales of Alkindi® of £2.4m (2019: £1.0m), and licensing income of £3,923k (2019: £nil).

The strong growth in product sales of Alkindi® reflects both continued growth in Germany and the UK, where Alkindi® was launched in 2018, as well as new launches during the financial year in Austria, Sweden, Denmark, Norway and Iceland. This growth was achieved despite restrictions on the ability to access prescribers during the first half of 2020 due to Covid-19 lockdown measures. Alkindi® was launched in Italy during February 2020; however, product sales have been extremely limited due to the Covid-19 pandemic.

Alkindi® also achieved reimbursement in the Netherlands during the year and the Group expects further country launches during the 2020/21 financial year that will provide revenue growth for Alkindi®, in addition to continued growth in existing markets.

Licensing income represents the non-refundable upfront payment of $5m received from Eton following signature of an exclusive licensing agreement for Alkindi® Sprinkle in the US. This upfront payment was satisfied by a cash payment of $3.5m and the issue to Diurnal of 379,474 Eton shares, representing value of $1.5m based upon a trailing average price prior to execution of the agreement. These shares will be marked to market, with any movement in share price recognised as a fair value movement through the consolidated income statement; a gain of £0.6m was recognised on the Eton shares at 30 June 2020. The upfront payment has been recognised in full in the 2019/20 financial year, as it is not associated with any future obligations.

Cost of goods relates entirely to product sales of Alkindi®. Gross margin for Alkindi® product sales during the year was 72% (2019: 79%). The overall gross margin is impacted by the mix of sales by country, in particular for the Nordic region where Diurnal divides revenue with its distribution partner, and by dose strength. As Alkindi® sales volumes grow, the Group expects to be able to realise margin improvements through manufacturing efficiencies. Additionally, Diurnal has implemented several measures with its manufacturing partners to further reduce the cost of goods, as detailed in the Chief Executive Officer's Review.

Operating expenses

Research and development (R&D) expenditure as reported for the year was £4.6m (2019: £8.7m). During the prior year, R&D expenditure increased significantly as the Group undertook activities to initiate a Chronocort® US Phase 3 trial in CAH and a US Phase 2 trial in AI; following the Chronocort® European Phase 3 trial read-out in October 2018, these US clinical studies were put on hold, in order to reassess the study designs. In addition, the prior year includes costs of completion of the Chronocort® Phase 3 registration trial in Europe. Reflecting this expected reduction in clinical development activity, R&D expenses reduced significantly in the year. Key ongoing development activities include the Chronocort® dosing extension study in Europe and manufacturing process improvement work for Alkindi® and Chronocort®.

R&D costs are net of capitalised development costs for Alkindi® in Europe of £38k (2019: £37k). The Group continues to expense development costs relating to the separate programmes for Alkindi® in the US and for Chronocort® in Europe and the US.

In order to provide more detailed information on the financial impact of the continued build-out of Diurnal's European commercial infrastructure to support Alkindi® and the planned future launch of Chronocort®, selling and distribution expenses have been split out from administrative expenses. Figures for the year ended 30 June 2019 have been reanalysed on the same basis, to provide useful comparative information.

Selling and distribution expenses, comprising the costs of the Group's sales and marketing, medical scientific liaison and supply chain activities, were £4.1m (2019: £4.5m). The prior year included significant expenditure relating to market access activities required to secure pricing for Alkindi® in Europe. In addition, following the Chronocort® European Phase 3 trial read-out in October 2018, a number of cost-saving measures were implemented during the prior year, including a restructuring of the commercial team engaged by Ashfield Healthcare.

Administrative expenses for the year were £2.9m (2019: £2.2m). Expenses in the prior year included a credit of £0.6m relating to the provision for employer's National Insurance contributions on future share option exercises, reflecting the fall in the share price following the announcement of the Chronocort® Phase 3 clinical trial headline data in October 2018.

Operating loss

Operating loss for the year reduced to £5.4m (2019: £14.5m), reflecting the increased revenues and lower overall operating expenses outlined above.

Financial income

Financial income in the year was £114k (2019: £130k), reflecting both lower average cash balances compared to the previous year and along with a reduction in interest rates following the introduction of economic measures resulting from the Covid-19 pandemic.

Loss before tax

Loss before tax for the period was £5.3m (2019: £14.4m).

Tax

The current year includes the estimated research and development tax credit claim in respect of the year ended 30 June 2020 of £1,194k, which has not yet been submitted to HMRC, along with an additional £14k in respect of the year ended 30 June 2019 following finalisation and agreement of the claim, offset by a provision of £2k for tax payable by its Dutch subsidiary. The reduction in R&D tax credit receivable at the year end mirrors the reduction in R&D expenditure highlighted above.

The Group has not recognised any deferred tax assets in respect of trading losses arising in either the current financial year or accumulated losses in previous financial years.

Earnings per share

Loss per share was 4.3 pence (2019: 19.7 pence).

Cash flow

Net cash used in operating activities was £4.8m (2019: £13.7m). The operating cash outflow was significantly reduced in the second half of the year, reflecting the increase in revenues and reduced operating expenditure, as detailed above.

Net cash from financing activities during the year of £10.7m represents the net proceeds of the placing completed in March 2020. Net cash from financing activities in the prior year of £5.5m reflects the net proceeds of the placing and open offer completed in June 2019.

Balance sheet

Net assets increased to £18.4m (2019: £10.9m), largely reflecting the placing completed in March 2020, offset by the utilisation of cash in operating activities highlighted above.

Stock represents raw materials, components, work in progress and finished goods relating to commercial supplies of Alkindi®. Total stock at the year end increased substantially to £1.2m (2019: £0.7m), largely reflecting both manufacturing batches in progress, to support the planned product launches and further growth in Alkindi®, as well as higher levels of stocks for the UK in order to mitigate potential impacts following the end of the Brexit transition period in December 2020.

Cash and cash equivalents were £15.4m (2019: £9.1m). Total liabilities were similar to the prior year at £2.6m (2019: £2.5m).

Financial outlook

During the next financial year, the Group will continue to invest in launch activities in anticipation of the expected approval of Chronocort® in Q1 2021, including accumulation of commercial stocks of Chronocort®. This is expected to result in a significant increase in selling and distribution costs, and also a further increase in inventories. The Group will continue activities designed to improve the gross margin of its products whilst minimising its working capital requirements and is also focused on maintaining a disciplined cost base outside of planned investments.

Following the completion of the placing in March 2020 and receipt of the $3.5m upfront payment from Eton, Diurnal expects its cash resources to take it through to profitability based upon current plans and assumptions, including expectations regarding the timing of product approvals and sales projections. These plans do not include the potential for investment in DITEST™ clinical development and/or Chronocort® US development, which would be subject to additional financing being available to the Group.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 27 to 29.

Richard Bungay
Chief Financial Officer
14 September 2020

How we manage risk

The management of risk is a key responsibility of the Board of Directors. The Board ensures that all key risks are understood and appropriately managed considering the Group's strategy and objectives, and that an effective risk management process, including appropriate internal controls, is in place to identify, quantify, minimise and manage important risks.

The Audit Committee oversees risk management on behalf of the Board. The Group operates a comprehensive risk register, overseen by the Audit Committee, which has a number of key objectives:

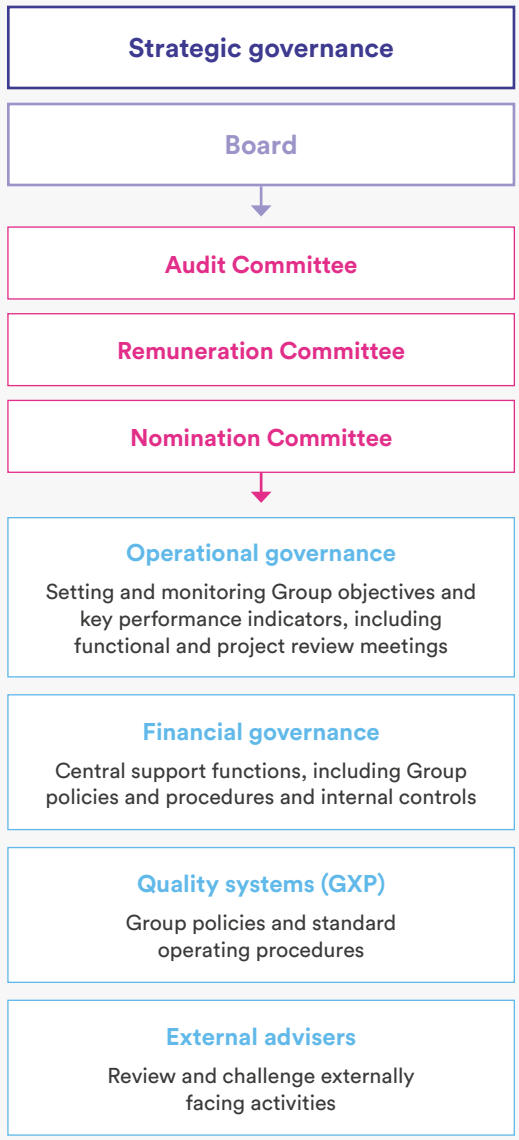
+ to confirm and communicate key risks facing the Group;
+ to establish and promote the importance of risk management across the Group;
+ to establish a methodology for assessment of risk and to ensure those risks assessed as having a higher level of impact are proactively managed; and
+ to assign responsibility for management of each risk.

Operational risk management

To effectively manage the business, including risks, the Group regularly reviews the progress of key activities as follows:

+ The Board of Directors meets regularly and reviews operational progress against the Group's strategy and key objectives.
+ The Audit Committee meets regularly and reviews the risk register and mitigating action plans to ensure that these address risks to achieving the Group's strategy and objectives.
+ The senior management team meets at least once a month to review operational progress and, during these meetings, identify and discuss areas of risk and communicate these to the Board as appropriate.
+ Commercial, regulatory, supply chain, development and quality teams, in addition to project teams, meet at least once a month to review the progress of all key projects and identify key issues for discussion with the senior management team.

Risk management framework



Impact of Covid-19 pandemic

During the financial year, the emergence of the Covid-19 pandemic has impacted business globally, with the potential for significant disruption across Diurnal's operations, including its clinical development, regulatory, supply chain and commercial activities. Reflecting the significance of the potential impacts of the Covid-19 pandemic, the specific risks posed to the Group are detailed in the table below. These have been separated from the other risks facing the Group, as it is expected the impacts of Covid-19 will not persist in the long term.

Risk description	Change[1]	Key mitigation	Impact of Covid-19
Approval of products		The Group will utilise its experience from the successful registration of Alkindi® in Europe during the regulatory approval process for Alkindi® in the US and Chronocort® in Europe, including the use of subject matter experts alongside its highly experienced internal team for compilation of the regulatory dossier and response to questions raised during the review process. The Group has also obtained scientific advice from regulators in order to identify and manage potential issues ahead of making regulatory submissions.	**Change** ▲ **Mitigation** The regulatory review process may potentially be delayed due to staffing issues at the European and US regulators, and restrictions on the ability of regulators to travel to inspect manufacturing facilities for Alkindi® and Chronocort®. The Group maintains a close dialogue with both regulators for early visibility of any potential delays.
Ability to find partners for major territories outside Europe	▼ Alkindi® partnered in the US during the year	The Group will leverage the experience both of its team and external consultants to ensure it is engaged with appropriate organisations for potential future partnering deals, including a presence at key conferences. The Group maintains a high-quality partnering package with all key data to ensure partners receive the data they need to assess opportunities on a timely basis.	**Change** ▶ **Mitigation** Partnering activities continue using digital platforms and have not been impacted by Covid-19. The Group's US licensing deal for Alkindi® in the US was completed during the pandemic.
Delays in clinical study enrolment		Timely subject enrolment is a common challenge for pharmaceutical development. The Group seeks to proactively address this with detailed feasibility work, careful selection of contract research organisations (CROs) appropriate for the size and complexity of a particular study, and close operational oversight of projects, including weekly update reports.	**Change** ▶ **Mitigation** The Group has only one ongoing clinical trial at the present time and measures such as remote monitoring, video consultations and direct delivery of the study drug to patients have been implemented to minimise any impacts.

1. Excluding the impact of Covid-19.

Risk description	Change[1]	Key mitigation	Impact of Covid-19
Design of suitable clinical trials including agreement of regulatory endpoints	▶	With the Group's focus on underserved endocrine diseases, regulatory development pathways are by their nature less well defined. The Group seeks to engage with key opinion leaders, patient groups and regulators at an early stage to identify factors having a significant impact on patients' quality of life and health outcomes suitable for assessment in clinical studies.	**Change** ▲ **Mitigation** Engagement with regulators may potentially be reduced in the short term due to the amount of Covid-19 clinical trial activity that is underway at the present time. The Group maintains a close dialogue with regulators for early visibility of any potential delays.
Reimbursement	▶	Both Alkindi® and Chronocort® Phase 3 programmes include follow-on studies designed to assess the longer-term impact of these therapies on important clinical measures that impact patient quality of life. Additional data-cuts of the Chronocort® follow-on study have been taken in order to support the product's value proposition. The Group has engaged specialist market access consultants to ensure expected benefits are well understood by payers.	**Change** ▶ **Mitigation** The Covid-19 pandemic does not have any direct impact on pricing and reimbursement discussions.
Significant exchange rate movements	▶	The Group assesses its currency needs on a rolling basis and either holds currency deposits or will enter into forward exchange arrangements to provide certainty against its budgeted exchange rates for expenditure in Euros and US Dollars. Over time, revenues from planned product launches in Europe and – subsequently – the US should provide a natural hedge for operating expenses.	**Change** ▶ **Mitigation** Whilst foreign exchange markets are volatile as a result of the economic disruption arising from measures designed to minimise health impacts from the Covid-19 pandemic, the Group's net exposure to foreign currencies remains low.
Disruption of product supply	▶	The Group currently has a single source of supply for both Alkindi® and Chronocort® capsules. Alkindi® and Chronocort® are both currently at a scale of production that will support the early years following launch. The Group aims to maintain sufficient stocks of both clinical and commercial material such that it would able to transfer manufacturing in the event of disruption to product supply. The Group also maintains business interruption insurance to cover increased costs of working arising from losses of product against routine business risks.	**Change** ▲ **Mitigation** Contract manufacturing facilities, including those used by the Group for the Alkindi® commercial supply chain, have seen disruption due to higher than usual staff absences. Alkindi® is deemed to be a priority medicine and hence minimally impacted by these issues. In line with many other companies, Diurnal's business interruption insurance policy does not cover losses arising from disruption due to infectious diseases.

1. Excluding the impact of Covid-19.

Risk description	Change[1]	Key mitigation	Impact of Covid-19
Failure to protect products	A number of key patents have been granted during the year	Notification of grant has been received during the year for key Alkindi® and Chronocort® patents in Europe. This follows notices of grant in the previous year for Alkindi® and Chronocort® in both the US and Japan. DITEST™ patents have previously been granted in all key territories globally. The Group continues to prosecute patents for Alkindi®, Chronocort® and DITEST™ globally.	**Change** **Mitigation** The Covid-19 pandemic does not have any direct impact on patent prosecution.
Promotion and distribution of products		The Group's supply chain is entirely within the EU in order to minimise customs, duty and VAT risks arising from the movement of goods. Diurnal has established a wholly owned subsidiary in the Netherlands (Diurnal Europe B.V.) which holds the European marketing authorisation and a Wholesaler Dealer Licence to enable distribution of products within the EU. The Group has established a satellite warehouse at Heathrow Airport to manage movement of product into the UK.	**Change** **Mitigation** Despite limitations on human traffic, pharmaceutical products have been able to move freely across borders during the pandemic. Access to hospitals for sales and medical representatives, however, is currently severely limited; consequently, such activities have been reconfigured as digital meetings.
Cybersecurity		The Group continues to rely on expert third party cloud-hosted applications, which provide cost-effective services with significant redundancies and disaster prevention and recovery strategies.	**Change** **Mitigation** Certain organisations have seen an increase in cybersecurity risk due to the sudden and widespread move to home working. Since Diurnal is largely a virtual organisation, its IT infrastructure is already set up for a secure home working environment.
Availability of finance	The Group completed a large fundraising in 2020	The Group successfully completed a £11.2m fundraising during the financial year and ended the 2019/20 financial year with cash of £15.4m. The Group continues to manage its existing cash resources carefully and based upon current plans and timings is now financed to profitability. The Group meets regularly with new and existing investors to ensure the equity story is well understood, should further investment capital be required.	**Change** **Mitigation** The Group is not currently exposed to capital markets risk following the completion of its £11.2m fundraising during the pandemic.
Ability to attract and retain key staff		Following the IPO in December 2015 an updated salary and benefits package including equity was implemented. The Group utilises an HR adviser to benchmark packages against the biotechnology sector and make recommendations to the Remuneration Committee.	**Change** **Mitigation** The Group's virtual organisation has made it an attractive employment prospect due to shifting views on office-based roles, and consequently it has been able to recruit a number of key roles during the pandemic.

1. Excluding the impact of Covid-19.

An experienced team

Sam Williams, MA PhD

Interim Chairman, Board representative of IP Group plc

Appointed: 29 October 2014

Skills and experience
Sam has over 20 years' experience in the biotechnology industry, both as a top-ranked equity analyst in the City and, subsequently, as an entrepreneur and Chief Executive. Sam is Head of Life Sciences at IP Group plc and serves as Non-Executive Chairman and/or Director on the boards of several portfolio companies. Sam has a PhD in Molecular Biology from Cambridge University and an MA in Pure and Applied Biology from Oxford University.

Other current roles
Executive Chairman of Istesso Ltd; Non-Executive Chairman of Microbiotica Ltd and Iksuda Ltd; and Non-Executive Director of Genomics plc, Pulmocide Ltd and Psioxus Therapeutics Ltd.

Martin Whitaker, BSc PhD

Chief Executive Officer

Appointed: 22 August 2012[1]

Skills and experience
Martin has over 20 years' experience in the pharmaceutical industry and has led the Diurnal team since 2008. Previously, Martin worked with Fusion IP plc (now IP Group plc) with responsibility for commercialising research from the University of Sheffield. Prior to this, Martin was Operations Director of Critical Pharmaceuticals, a venture capital-backed drug delivery company developing long-acting growth hormone products. Martin is also a Director of D3 Pharma Limited, which successfully commercialised Plenachol®, a high-dose vitamin D product. Martin has a PhD in Pharmaceutical Science from the University of Nottingham and a BSc (Hons) in Biochemistry from Bristol University. He is Honorary Professor of Medical Innovation at the University of Sheffield.

Other current roles
Director of D3 Pharma Limited.

Richard Bungay, BSc ACA

Chief Financial Officer and Company Secretary

Appointed: 13 January 2017

Skills and experience
Richard has over 25 years' experience in senior finance and strategic roles within the pharmaceutical and biotechnology sector. His prior experience includes CFO and COO of Mereo BioPharma, CFO of Glide Technologies, CFO of Verona Pharma, CEO (formerly CFO) of Chroma Therapeutics, Director of Corporate Communications and Strategic Planning at Celltech and Finance Director of the Respiratory and Inflammation therapy area at AstraZeneca. He qualified as a Chartered Accountant with Deloitte and has a first class degree in Chemistry from Nottingham University.

Other current roles
Director of Chroma Therapeutics Limited.

Board of Directors' skills breakdown

Biotechnology/pharmaceuticals

Business development

Clinical development

Financial

Drug commercialisation

Board of Directors' tenure

1–5 years

5+ years

Richard Ross, MBBS MD FRCP

Chief Scientific Officer

Appointed: 29 September 2004[1]

Skills and experience

Richard is a founding Director of Diurnal. He is a Professor of Clinical Endocrinology and Head of the Academic Unit of Diabetes, Endocrinology and Metabolism at the University of Sheffield and was previously a Senior Lecturer at St. Bartholomew's Hospital, London. Richard's primary research interest is pituitary and adrenal disease with a particular focus on hormone replacement. His research has yielded over 200 papers, more than 30 granted patents and publications in Nature Medicine, Nature Reviews Endocrinology, Nature Genetics, The Lancet, The BMJ and PNAS. He has been a member of the editorial boards of Clinical Endocrinology and the Journal of Clinical Endocrinology and Metabolism and served as an elected member of the executive committees for the European Society of Endocrinology (Treasurer), the Society for Endocrinology, the Growth Hormone Research Society and the Pituitary Society.

Other current roles

Director of Asterion Limited.

John Goddard, BA FCA MCT

Independent Non-Executive Director

Appointed: 6 November 2015[1]

Skills and experience

John has had a distinguished career in the global pharmaceutical industry, the majority of which was with AstraZeneca, where he was ultimately Head of Group Strategic Planning and Business Development. Prior to his retirement from AstraZeneca in 2010, he was responsible for a 100-strong global team focused on M&A and licensing, which completed around 75 transactions in four years including several acquisitions, in-licensing and out-licensing of compounds and disposals. Latterly, John became Chairman of two AstraZeneca subsidiaries, Aptium Oncology in the US and Astratech in Sweden. John is a Fellow of the Institute of Chartered Accountants and a Member of the Association of Corporate Treasurers.

Other current roles

Non-Executive Director of Intas Pharmaceuticals Limited.

Alan Raymond, BSc PhD

Non-Executive Director

Appointed: 22 April 2015[1]

Skills and experience

Alan is an industry veteran with over 30 years of international marketing and general management experience within the pharmaceutical and biomedical industry. Most recently, Alan was the Sales and Marketing Director at Aesica Pharmaceuticals Ltd. During his career, Alan progressed through senior executive and marketing roles in Banner Pharmacaps, RP Scherer, Reckitt and Colman, Eli Lilly, and MSD, within the UK, the Netherlands and Australia. Prior to his industrial career, Alan was a postdoctoral researcher in the Cardiothoracic Research Institute (London) and he holds a PhD in Invertebrate Neurobiology from St. Andrews University. Up until March 2020 Alan was the representative for the Development Bank of Wales on Diurnal's Board.

Other current roles

Executive Chairman of ADC Biotechnology Ltd.

1. Appointed initially as a Director of Diurnal Limited; upon creation of the parent company immediately prior to its IPO in December 2015, appointed to the Board of Diurnal Group plc on 1 December 2015.

A strong governance culture

The Board and its Committees play a key role in the Group's governance by providing an independent perspective to the senior management team and by seeking to ensure that an effective system of internal controls and risk management procedures is in place."

Chairman's governance overview

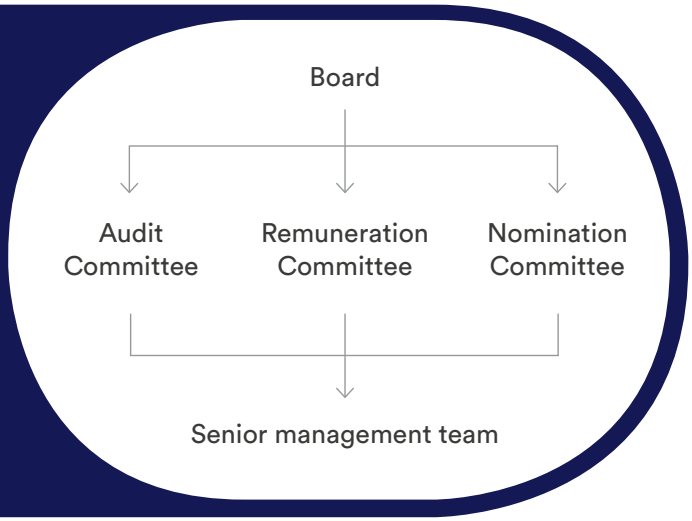
I am pleased to present the Corporate Governance Report for the year ended 30 June 2020. The Board believes that strong governance is a central element of the successful growth and development of the Group. The Board and its Committees play a key role in the Group's governance by providing an independent perspective to the senior management team and by seeking to ensure that an effective system of internal controls and risk management procedures is in place. This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 30 June 2020. At the time of writing this report, the Diurnal Board is in a transitional phase following the departure of Peter Allen as Chairman on 30 June 2020. The Group is currently seeking to make additional appointments: once these have been made, the Board Committees will be reviewed and refreshed, to ensure a governance structure is in place that provides the appropriate level of oversight for Diurnal's next phase of growth.

Our governance framework

See facing page for the role of the Board and its Committees.

Board

The Board comprises six Directors. We have three Executive Directors, a Non-Executive Chairman, one Independent Non-Executive Director and one further Non-Executive Director.



Audit Committee

Key responsibilities
The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting and risk management.

Membership at 30 June 2020
+ John Goddard (Chairman)
+ Alan Raymond

Meetings held in 2020
Three

Nomination Committee

Key responsibilities
The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board including appointments to the executive management team.

Membership at 30 June 2020
+ Sam Williams (Chairman)
+ John Goddard
+ Alan Raymond

Meetings held in 2020
One

Remuneration Committee

Key responsibilities
The Remuneration Committee recommends the Group's policy on remuneration and determines the levels of remuneration for the executive management team and the Chairman.

Membership at 30 June 2020
+ Alan Raymond (Chairman)
+ John Goddard
+ Sam Williams

Meetings held in 2020
Six

Adoption of the QCA Code

Diurnal has adopted the QCA Corporate Governance Code (the "QCA Code") as it considers that this is the most suitable framework for smaller listed companies. The table below shows how the Group addresses the ten principles underpinning the QCA Code:

Deliver growth

1. **Establish a strategy and business model which promote long-term value for shareholders**
   See "Business model" on page 12 and "Our strategy" on page 22

2. **Seek to understand and meet shareholder needs and expectations**
   See the "Corporate governance" section of our website, www.diurnal.co.uk

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**
   See the "Corporate governance" section of our website, www.diurnal.co.uk

4. **Embed effective risk management, considering both opportunities and threats, throughout the organisation**
   See "Principal risks and risk management" on page 26

Maintain a dynamic management framework

5. **Maintain the board as a well-functioning, balanced team led by the chair**
   See this section

6. **Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**
   See this section and "Board of Directors" on page 30

7. **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**
   See this section

8. **Promote a corporate culture that is based on ethical values and behaviours**
   See this section and the "Corporate governance" section of our website, www.diurnal.co.uk

9. **Maintain governance structures and processes that are fit for purpose and support good decision making by the board**
   See the "Corporate governance" section of our website, www.diurnal.co.uk

Build trust

10. **Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**
    See this section and the "Corporate governance" section of our website, www.diurnal.co.uk

The Board considers that it is fully compliant with all the principles of the QCA Code.

The Board

The Board currently comprises six Directors: three Executive Directors and three Non-Executive Directors, each bringing a different experience and background, as detailed on pages 30 and 31. At the time of writing this report, the Diurnal Board is in a transitional phase following the fundraising in March 2020 and the departure of Peter Allen as Chairman in June 2020. The Company is currently seeking to make additional Board appointments, which will be classified as independent. Additionally, Alan Raymond represented the Development Bank of Wales (DBW), a key investor in the Company, up until the completion of the fundraising in March 2020, at which time DBW's right to appoint a Director fell away. Recognising the significant experience Alan brings to the Company, the Board decided to retain him as a Non-Executive Director; however, given Alan's previous representation of DBW he is not considered to be independent.

Of the Directors at the time of writing this report, one is considered to be independent: John Goddard (Senior Independent Director). Sam Williams represents a key investor in the Company and, as such, is not considered to be independent. Once the ongoing recruitment has been completed the Board considers that the new structure will provide sufficient independence on the Board given the size and stage of development of the Group.

The Chairman is responsible for ensuring that the Board as a whole contains the necessary mix of experience, skills, personal qualities and capabilities to deliver the Group's strategy, in particular, experience of developing and obtaining regulatory approval for novel medicines; the effective launch and marketing of pharmaceutical products; business development, including structuring, negotiating and executing licensing deals; financing and investor relations in a listed company environment; and maintaining effective risk management and control processes to support a rapidly growing business. In addition, the Chairman is responsible for ensuring that the Non-Executive Directors are of sufficient competence and calibre to add strength and objectivity to the Board.

Sam Williams is the Interim Chairman and Martin Whitaker is the Chief Executive Officer, each with clearly defined responsibilities. Sam Williams operates in a non-executive capacity. The Chairman leads the Board and is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is not involved in the day-to-day management of the Group. The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information and that effective communication occurs with institutional shareholders.

The Board is responsible to the shareholders for the proper management of the Group and meets regularly and at least six times in the year to set the overall direction and strategy of the Group and to review operational and financial performance. The Board also convenes on an ad-hoc basis between scheduled Board meetings to review the strategy and activities of the business. Non-Executive Directors are required to devote sufficient time and attention to fulfilling their Board duties.

The key responsibilities of the Board are as follows:

+ setting the Group's values and standards;
+ approval of long-term objectives and strategy;
+ approval of budgets and plans;
+ oversight of operations ensuring adequate systems of internal controls and risk management are in place, maintenance of accounting and other records and compliance with statutory and regulatory obligations;
+ review of performance in light of strategy and budgets, ensuring any necessary corrective actions are taken;
+ approval of the Annual Report and Financial Statements and major projects such as potential licensing deals;
+ changes to the structure, size and composition of the Board;
+ determining the remuneration policy for the Executive Directors and approval of the remuneration of the Non-Executive Directors; and
+ review of communications with shareholders and the market.

All Directors receive appropriate and timely information and all Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. Updates and training are given to the Board on developments in governance and regulations as appropriate, including presentations from the Company's Nomad and legal advisers. The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles. In addition, the Directors are able to obtain independent professional advice in the furtherance of their duties, if necessary, at the Group's expense. The Chairman and Non-Executive Directors maintain their skill sets through the portfolio of positions they hold in other organisations within the pharmaceutical and biotechnology sector.

At each Annual General Meeting (AGM) of the Company, any Director who was not elected or re-elected at either of the two preceding AGMs shall retire from office and be eligible for re-election. Directors appointed during any year are subject to re-election at the next AGM after taking office.

Conflicts of interest

Each Director has a duty to avoid situations in which he has or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Group. The Board requires each Director to declare to the Board the nature and extent of any direct or indirect interest in a proposed transaction or arrangement with the Group and the Company Secretary maintains a register of Directors' other interests. The Board has power to authorise any potentially conflicting interests that are disclosed by a Director. Directors are required to notify the Company Secretary when any potential conflict of interest arises.

Attendance at Board meetings

The Directors' attendance at Board and Committee meetings over the course of the 2019/20 financial year was as follows:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Meetings	Attended	Meetings	Attended	Meetings	Attended	Meetings	Attended
Executive								
Martin Whitaker	8	8	—	—	—	—	—	—
Richard Bungay	8	8	—	—	—	—	—	—
Richard Ross	8	7	—	—	—	—	—	—
Non-Executive								
Peter Allen	8	8	3	3	6	6	1	1
John Goddard	8	8	3	3	6	6	1	1
Alan Raymond	8	8	3	3	6	6	1	1
Sam Williams	8	7	—	—	6	6	1	1

The Board reviews and considers the attendance record and commitment of each Non-Executive Director to ensure that they devote enough time to the Group's affairs. No issues have arisen during the year.

Board performance evaluation

The Board has a process for evaluation of its own performance and that of its Committees and individual Directors, including the Chairman, which is carried out annually. The Board has completed an effectiveness evaluation tool during the year and has reviewed the results at a Board meeting. The evaluation did not identify any significant deficiencies in the Board's performance; the evaluation did highlight a lack of diversity in the current Board structure. As highlighted above, the Company is currently recruiting new members and will be mindful of the need to increase diversity on the Board when undertaking this exercise.

Board Committees

In order to effectively manage governance of the Group, the Board has delegated certain responsibilities to sub-committees. The Board has established Audit, Remuneration and Nomination Committees, each with written terms of reference. If the need should arise, the Board may set up additional committees, as appropriate. All the Board Committees are authorised to obtain, at the Group's expense, professional advice on any matter within their terms of reference and to have access to sufficient resources in order to carry out their duties.

Audit Committee (including the Audit Committee Report)

The Audit Committee currently comprises two members, who are both Non-Executive Directors: John Goddard (Chairman) and Alan Raymond. John Goddard is a qualified Chartered Accountant and has significant experience gained in senior financial management positions and as a Non-Executive Director and an audit committee member and chairman.

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses, in particular, on compliance with accounting policies and ensuring that an effective system of audit and financial control is maintained, including considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors and advising on the appointment of external auditors. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half yearly reports remains with the Board. The Audit Committee also focuses on risk management processes within the Group and ensures that the appropriate controls and mitigation steps are implemented by the senior management team.

The Audit Committee will meet at least three times a year at the appropriate times in the financial reporting and audit cycle and at such other times as may be deemed necessary. The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, together with requirements of any quorum for, and the right to attend, meetings.

The responsibilities of the Audit Committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the Committee to carry out its responsibilities.

The Audit Committee met three times during 2019/20, to:

+ review the audit arrangements;
+ review the 2018/19 final results prior to their submission for approval to the full Board;
+ review the 2019/20 interim results prior to their submission for approval to the full Board;
+ review the audit strategy and plan for the 2019/20 full year results; and
+ review of the corporate risk register.

During the year the Audit Committee considered the appropriateness of accounting policies, including revenue recognition (in particular, the Alkindi® US licensing agreement), valuation of intercompany receivables, share-based payments and the preparation of the financial statements on a going concern basis.

Board Committees continued

Audit Committee (including the Audit Committee Report) continued

Any non-audit services that are to be provided by the external auditors are reviewed in order to safeguard auditor objectivity and independence. During the year the Committee considered the external auditors' procedures to safeguard independence and objectivity. The fee for audit services is shown in Note 4 to the financial statements. There were no non-audit services provided in relation to years ended 30 June 2020 or 30 June 2019. The external auditors have the opportunity during the Audit Committee meetings to meet privately with Audit Committee members in the absence of executive management.

The Company has a whistleblowing policy, in which staff may notify management or Non-Executive Directors of any concerns regarding suspected wrongdoing or dangers at work.

Remuneration Committee

The Remuneration Committee currently comprises three members, all of whom are Non-Executive Directors: Alan Raymond (Chairman), John Goddard and Sam Williams.

The Remuneration Committee has responsibility for determination of specific remuneration packages for each of the Executive Directors and certain senior executives of the Group, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share incentive or other performance-related schemes. It meets at least twice a year and at such other times as may be deemed necessary, in particular for the assessment of vesting conditions in relation to performance share awards and the agreement of vesting conditions for new performance share awards. The Remuneration Committee also generates an annual Remuneration Report to be approved by the members of the Company at the Annual General Meeting. The Directors' Remuneration Report is presented on pages 38 to 43.

The responsibilities of the Remuneration Committee covered in its terms of reference include the following: determining and monitoring policy on and setting levels of remuneration; termination; performance-related pay; pension arrangements; reporting and disclosure; share incentive plans and use of remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the Remuneration Committee to carry out its responsibilities.

Nomination Committee

The Nomination Committee currently comprises three members, all of whom are Non-Executive Directors: Sam Williams (Chairman), John Goddard and Alan Raymond.

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board Committees and the chairmanship of the Board Committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, for making recommendations to the Board regarding any changes necessary, taking into account the skills and expertise that will be needed on the Board in the future, and for making recommendations regarding the remuneration of the Non-Executive Directors (excluding the Chairman). The Nomination Committee's terms of reference deal with such things as membership, quorum and reporting responsibilities. The Nomination Committee meets at least once a year and at such other times as may be deemed necessary.

Share Dealing Code

The Company has adopted a code on dealings in relation to the securities of the Company. The Company shall require the Directors and other relevant employees of the Group to comply with the Share Dealing Code and takes proper and reasonable steps to secure its compliance.

Internal controls

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide reasonable assurance that the Group's assets are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and regulatory compliance areas, together with risk management. The principal risks and uncertainties for the Group are set out on pages 27 to 29 of this Annual Report. The Group maintains a risk register, which is reviewed and updated regularly. Each potential risk across the Group will be assessed against the likelihood of occurrence and the impact on the business, should the risk be realised.

The Board has established, maintains and is responsible for assessing and reviewing the effectiveness of the Group's system of internal control. Some of the key features of the internal control procedures are as described below.

+ Each year, the Board approves the annual budget and performance is monitored against budget, with relevant action being taken throughout the year. Expenditure is regulated by the budgetary process together with authorisation levels. For expenditure exceeding a certain level, Board approval is required.
+ In addition to the expenditure authorisation control, other financial controls operate around the payroll and payment processes and the monthly accounting cycle, including the review and reconciliation of certain accounts. Segregation of duties and dual signature controls exist where appropriate and practicable.
+ The external auditors provide a supplementary, independent perspective on those areas of the internal control system which they assess in the course of their work. Their findings are reported to the Board via the Audit Committee.

Employment and corporate culture

The Board recognises its legal responsibility to ensure the wellbeing, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for its visitors.

The corporate culture of the Group is established through the annual setting of corporate objectives by the Board, which flow through the organisation by the setting of departmental and individual objectives, including identification of the critical success factors for the Group. These objectives are reviewed by the senior management team for consistency with the overarching corporate goals. The Board regularly receives updates on the organisational development and discusses behaviours of the wider team.

Financial and business reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all half year, final and price-sensitive reports and other information required to be presented by statute. The Board receives a number of reports to enable it to monitor and clearly understand the Group's financial position. Procedures have been put in place to ensure that price-sensitive information is identified effectively and all communications with the market are released in accordance with expected time scales.

Investor relations

The Board encourages communications with all shareholders. There is regular dialogue with major, institutional shareholders, usually after the announcement of half year and full year results. Presentations are made to analysts at those times to present the Group's results; these presentations are made available on the Group's website. This assists with the promotion of knowledge of the Group in the investment marketplace and with the existing shareholders. The process also helps the Directors to understand the needs and expectations of shareholders. The Group also presents regularly at private investor events to ensure that its smaller shareholders are able to engage with the senior management and is increasing its use of video presentations to increase the quality of information available to private investors. The Directors use the Annual Report and Financial Statements and the Annual General Meeting (AGM) as opportunities to engage with its private investors in addition to its institutional investors. The Board believes that the AGM offers an excellent opportunity to communicate directly with shareholders; in light of this, the Company is proposing changes to its Articles of Association at this year's AGM such that it is able to hold its AGM in a hybrid format (i.e. allowing virtual attendance alongside physical attendance) to ensure that social distancing measures, such as those put in place during the Covid-19 pandemic, do not prevent the opportunity for all shareholders to engage with the senior management. This year's AGM will be held on 20 November 2020 and details of the resolutions to be proposed at the meeting can be found in the Notice of Meeting at the end of this Annual Report. The Group reports the results of resolutions proposed to the AGM including, if applicable, commentary on any significant voting against particular resolutions.

Stakeholder and social responsibilities

The Board believes that good corporate governance encompasses assessing the Company's impact on and contribution to society, its community and the environment. The Board recognises its responsibilities to shareholders and to other stakeholders, such as employees, customers and suppliers, and to the patients who will ultimately benefit from its products. Further details of the Group's engagement with stakeholders are detailed on pages 14 and 15.

Further details on the Group's corporate governance can be found on the "Corporate governance" section of the Group's website, www.diurnal.co.uk.

On behalf of the Board

Sam Williams
Interim Chairman
14 September 2020

Introduction

This report sets out the remuneration policy operated by the Group in respect of the Executive and Non-Executive Directors.

Remuneration Committee (unaudited)

The Remuneration Committee consists of Alan Raymond (Chairman), John Goddard and Sam Williams. Peter Allen served on the Remuneration Committee until his leaving date of 30 June 2020.

The Remuneration Committee has responsibility for the following:

+ determining and monitoring remuneration policy;
+ determination of remuneration packages for each of the Executive Directors and certain senior executives of the Group, including pension rights and any compensation payments;
+ recommending and monitoring the level and structure of remuneration for senior management;
+ implementing share incentive or other performance-related schemes;
+ reporting and disclosure of remuneration; and
+ the use of remuneration consultants, as appropriate.

There were six Remuneration Committee meetings during the year.

Policy on remuneration of Executive Directors (unaudited)

It is the Group's policy to provide remuneration packages that:

+ are competitive with those of other companies of a similar size, complexity and stage of development;
+ reward delivery of value to shareholders and achievement of the Group's key strategic objectives;
+ are designed to motivate and retain business-critical employees; and
+ enable the Group to continue to attract high-quality recruits.

Components of the remuneration package (unaudited)

The principal components of Executive Directors' remuneration packages are base salary, a performance-related bonus, and medium- and long-term incentives in the form of share options, pension contributions and other benefits. The policy in relation to each of these components and the key terms of the various incentive and benefit programmes are explained further below.

Base salary

Base salaries are reviewed annually, with the level of increases for Executive Directors taking account of the increases awarded to the workforce as a whole, as well as a consideration of the performance of the Group and the individual, skill set and experience and external indicators such as salaries in comparable companies and inflation. In assessing base salary, the Remuneration Committee takes account of benchmark data for companies (i) of a similar size; (ii) in a similar sector; and (iii) at a similar stage of development to the Group, and weights the benchmark data appropriately.

For the 2019/20 financial year, the Board considered it appropriate to award an inflation-only increase to Executive Directors. Accordingly, with effect from 1 July 2020 the base salary of Martin Whitaker, Chief Executive Officer, was increased to £262,500 and the base salary of Richard Bungay, Chief Financial Officer, was increased to £210,000.

Performance-related bonus

The Remuneration Committee, in discussion with the Executive Directors, establishes performance criteria at the beginning of each financial year that are aligned with the Group's strategic objectives and are designed to be challenging. Annual bonuses are payable at the sole discretion of the Remuneration Committee.

For the 2019/20 financial year the Remuneration Committee decided that:

+ bonuses up to a maximum of 100% of base salary for the Chief Executive Officer and 75% of base salary for the Chief Financial Officer could be earned for performance against annual operational and financial goals; and
+ any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: 50% cash and 50% deferred share awards.

The 2019/20 corporate objectives were weighted as follows:

Objective	Weighting	Performance assessed	% of bonus awarded
Raise sufficient financing to fund the Group to be funded beyond Chronocort® approval in Europe	40%	100%	40%
Complete a minimum of one licensing deal in either the US, China or Japan	20%	100%	20%
Ensure that the Group is on track for EMA positive opinion for Chronocort® in Q4 2020 to enable commercial launch in Q2 2021	20%	50%	10%
Exceed forecast revenues by 10% or more	20%	100%	20%
Total	**100%**		**90%**

For the 2020/21 financial year the Remuneration Committee decided that:

+ bonuses up to a maximum of 150% of base salary for the Chief Executive Officer and 100% of base salary for the Chief Financial Officer could be earned for performance against annual operational and financial goals, reflecting benchmark data from comparable AIM-listed companies; and
+ any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: 50% cash and 50% deferred share awards.

The 2020/21 corporate objectives were weighted as follows:

Objective	Weighting
Obtain approval for Chronocort® in congenital adrenal hyperplasia in the EU	25%
Exceed forecast revenues by 20%	25%
Complete supply chain enhancements for Alkindi® and Chronocort® to meet future capacity requirements and reduce cost of sales	25%
Complete DITEST™ preparatory work and submit IND application to the US FDA	25%
Total	**100%**

The number of ordinary shares comprised within deferred share awards will be set on grant at such number equal in value to the portion of the bonus being deferred. Such deferred share awards to Executive Directors will ordinarily vest after one year, subject only to continued employment.

Long Term Incentive Plan (LTIP)

The primary long-term incentive arrangements for Executive Directors, senior managers and all eligible staff are "performance share awards" under the performance share award feature of the LTIP. Awards will ordinarily be granted on an annual basis, shortly following announcement of the Group's full year results. Such performance share awards under the LTIP will ordinarily vest three years from award, or upon the assessment of performance conditions, if later, subject to the participant's continued service and to the extent to which the performance conditions specified for the awards are satisfied.

Performance share awards are set at a maximum value of 100% of base salary for the Chief Executive Officer and Chief Financial Officer. Reflecting the substantial fall in the Group's share price during the 2018/19 financial year, and in order to avoid excessive dilution for shareholders, the awards made to the Chief Executive Officer and Chief Financial Officer during the 2018/19 financial year were set at a value of 25% of base salary and the 2019/20 awards were set at 30% of base salary. The Board anticipates retaining flexibility when setting the level of future performance share awards in order to balance the appropriate incentivisation of senior management with shareholder dilution. The awards are issued as nil cost options, with the underlying shares delivered to the participating employee through the Group's Employee Benefit Trust (EBT).

Performance awards to Executive Directors under the LTIP were made following the announcement of the Group's annual results for the financial years ended 30 June 2019, 30 June 2018, 30 June 2017 and 30 June 2016 up to such level and are detailed in the table on page 45. Selected senior managers and, at the Remuneration Committee's discretion, other employees will also participate in the performance share award element of the LTIP.

Pension arrangements

Pension is to be provided either via a contribution into the Group's defined contribution plan, or, in the event an individual is unable to make pension contributions due to personal taxation, via a cash supplement. The level of pension for the Executive Directors is 10% of base salary.

Other benefits

Other benefits for Executive Directors include life assurance, private medical insurance and income protection.

Policies and guidelines (unaudited)

Recovery and withholding provisions may be operated at the discretion of the Remuneration Committee in respect of awards granted under the performance-related bonus plan and the LTIP in certain circumstances (including where there has been a misstatement of accounts or an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant).

The Company has adopted shareholding guidelines to encourage Executive Directors to build or maintain a shareholding in the Company equivalent in value to at least 100% of salary, primarily through subscription for shares as part of placings, in-market purchases and the acquisition of shares under share option agreements. An Executive Director will be expected to retain at least half of the shares vesting (net of those sold to fund exercise price and taxation liabilities) under the Group's share-based employee incentive schemes until the guideline is met. Directors' interests are shown in the Directors' Report on page 45.

Policy on remuneration of Non-Executive Directors (unaudited)

It is the Group's policy to provide fees that attract and retain high-calibre individuals with the requisite experience and knowledge. Fees are reviewed on a periodic basis against companies of a similar size to ensure they remain competitive and adequately reflect the time commitments and scope of the role. The Nomination Committee is responsible for making recommendations to the Board on the fees payable to the Company's Non-Executive Directors. Non-Executive Directors' fees were previously reviewed at the time of the IPO in December 2015.

The Non-Executive Director fees were reviewed during the 2019/20 financial year and were increased to £35,000 with effect from 1 July 2020 to bring them in line with fees paid at comparable AIM-listed companies.

Directors' service contracts (unaudited)

The Group's policy is for Executive Directors to have contracts of employment with an indefinite term providing for a maximum of one year's notice and for Non-Executive Directors to be engaged on letters of appointment with an indefinite term providing for a maximum of three months' notice.

At each Annual General Meeting (AGM) of the Company, any Director who was not elected or re-elected at either of the two preceding AGMs shall retire from office and be eligible for re-election. Directors appointed during any year are subject to re-election at the next AGM after taking office.

Details of current Directors' service contracts and letters of appointment are as follows:

Name	Date of appointment	Notice period
Executive		
Martin Whitaker	1 December 2015	12 months
Richard Bungay	18 January 2017	6 months
Richard Ross[1]	1 December 2015	3 months
Non-Executive		
John Goddard	1 December 2015	3 months
Alan Raymond[2]	1 December 2015	3 months
Sam Williams[3]	1 December 2015	3 months

1. Richard Ross is employed by the University of Sheffield. A secondment agreement and a research agreement with the University cover his activities for the Group in addition to his Director's service agreement.
2. Up until 27 March 2020, Alan Raymond was a Director nominated by the Development Bank of Wales plc (DBW) shareholders under a relationship agreement with the Company while the shareholding exceeded 10%. Following the Group's fundraising in March 2020, DBW's shareholding fell below 10%. From 27 March 2020 Alan Raymond is now a Non-Executive Director.
3. Director nominated by IP Group plc under a relationship agreement with the Company while its shareholding exceeds 10%.

Directors' remuneration (audited)

The remuneration of the Directors who held office during the periods ended 30 June 2020 and 2019 was as follows:

Name	Base salary and fees £000	Bonus £000	Benefits £000	Total emoluments 2019/20[5] £000	Pension contributions 2019/20 £000	Total emoluments 2018/19 £000	Pension contributions 2018/19 £000
Executive							
Martin Whitaker[1]	**255**	**230**	**1**	**486**	**26**	302	22
Richard Bungay	**204**	**138**	**2**	**344**	**20**	255	20
Richard Ross[2]	**—**	**47**	**—**	**47**	**—**	18	—
Non-Executive							
Peter Allen	**50**	**—**	**—**	**50**	**—**	50	—
John Goddard[3]	**30**	**—**	**—**	**30**	**—**	30	—
Alan Raymond	**29**	**—**	**—**	**29**	**—**	29	—
Sam Williams[4]	**29**	**—**	**—**	**29**	**—**	29	—
	597	**415**	**3**	**1,015**	**46**	713	42

1. Following the announcement of the unexpected Chronocort® European Phase 3 data in October 2018 and reflecting the need to conserve cash and align with other staff-related cost-conserving measures, the Chief Executive Officer waived 20% of his base salary from 1 October 2018 until 30 June 2019.
2. Employed by the University of Sheffield and no base salary or fees paid. A secondment agreement and a research agreement with the University cover his activities for the Group in addition to his Director's service agreement.
3. John Goddard elected to take part of his annual fee as shares during the years ended 30 June 2020 and 30 June 2019, which are issued quarterly in arrears based upon the average share price for the quarter then ended. His annual fee for the year ended 30 June 2020 was £30,000, of which £15,000 was paid in cash and £15,000 in shares.
4. Director's fee paid to IP Group plc. Director nominated by IP Group plc under a relationship agreement with the Company while its shareholding exceeds 10%.
5. Total emoluments for 2019/20 include the bonus payable in relation to the 2019/20 financial year, of which 50% was settled in cash and 50% in deferred share awards after the end of the financial year. The share-based payment charge has been treated as if the deferred share awards were issued at the start of the financial year to which the bonus relates. The deferred bonus awards, made in July 2020, are nil cost options and were as follows: Martin Whitaker: 376,230 shares; Richard Bungay: 225,738 shares; and Richard Ross: 77,800 shares.

Directors' share options and awards (audited)

Directors holding office at 30 June 2020 had the following options outstanding over ordinary shares:

Date of grant/award	Exercise price	At 1 July 2019	Granted in the year	Exercised	Lapsed	**At 30 June 2020**	Latest vesting date
Executive							
Martin Whitaker							
1 Jul 2008 option grant	£0.002	44,500	—	(44,500)	—	—	Exercised
1 Dec 2008 option grant	£0.002	55,000	—	(55,000)	—	—	Exercised
17 Feb 2010 option grant	£0.002	75,000	—	(75,000)	—	—	Exercised
20 Jul 2011 option grant	£0.002	50,000	—	(50,000)	—	—	Exercised
22 Aug 2012 option grant	£0.002	200,000	—	(200,000)	—	—	Exercised
11 Sep 2015 option grant	£0.4377	495,000	—	—	—	**495,000**	Vested
8 Nov 2016 performance share award	£0.05	133,333	—	(80,000)	(53,333)	—	Exercised
17 Oct 2017 performance share award	£0.05	148,698	—	—	—	**148,698**	17 Oct 2022
5 Jul 2018 deferred bonus share award	£nil	35,580	—	(35,580)	—	—	Exercised
4 Nov 2018 performance share award	£nil	255,105	—	—	—	**255,105**	4 Dec 2023
8 Jul 2019 deferred bonus share award	£nil	—	143,443	—	—	**143,443**	8 Jul 2020
10 Jan 2020 performance share award	£nil	—	298,965	—	—	**298,965**	10 Jan 2025
		1,492,216	442,408	(540,080)	(53,333)	**1,341,211**	
Richard Bungay							
8 May 2017 performance share award	£0.05	404,762	—	—	(161,905)	**242,857**	Vested
17 Oct 2017 performance share award	£0.05	94,795	—	—	—	**94,795**	17 Oct 2022
5 Jul 2018 deferred bonus share award	£nil	22,682	—	(22,682)	—	—	Exercised
4 Nov 2018 performance share award	£nil	204,083	—	—	—	**204,083**	4 Dec 2023
8 Jul 2019 deferred bonus share award	£nil	—	86,066	—	—	**86,066**	8 Jul 2020
10 Jan 2020 performance share award	£nil	—	239,172	—	—	**239,172**	10 Jan 2025
		726,322	325,238	(22,682)	(161,905)	**866,973**	
Richard Ross							
1 Jul 2008 option grant	£0.002	862,000	—	(862,000)	—	—	Exercised
22 Aug 2012 option grant	£0.002	157,000	—	(157,000)	—	—	Exercised
23 Sep 2015 option grant	£0.002	330,000	—	(330,000)	—	—	Exercised
5 Jul 2018 deferred bonus award	£nil	9,381	—	(9,381)	—	—	Exercised
4 Nov 2018 performance share award	£nil	71,743	—	—	—	**71,743**	4 Dec 2023
8 Jul 2019 deferred bonus share award	£nil	—	30,256	—	—	**30,256**	8 Jul 2020
10 Jan 2020 performance share award	£nil	—	82,431	—	—	**82,431**	10 Jan 2025
		1,430,124	112,687	(1,358,381)	—	**184,430**	
Non-Executive							
Peter Allen							
23 Sep 2015 option grant	£0.002	69,000	—	(69,000)	—	—	Exercised
12 Apr 2016 option grant	£0.002	104,421	—	(104,421)	—	—	Exercised
		173,421	—	(173,421)	—	—	

Historical share options granted prior to the Company's incorporation on 28 October 2015, by Diurnal Limited, have been exchanged into options of Diurnal Group plc and are shown in the table above as if they always had been options of Diurnal Group plc.

The aggregate amount of gains made by Directors on the exercise of share options during the year was £553,577 (2019: £1,889).

All share options have a ten year life at the date of issue. The Remuneration Committee previously extended the option life of the share awards made to Martin Whitaker on 1 July 2008 and 1 December 2008 and the share award made to Richard Ross on 1 July 2008 by two years (i.e. to a total of 12 years).

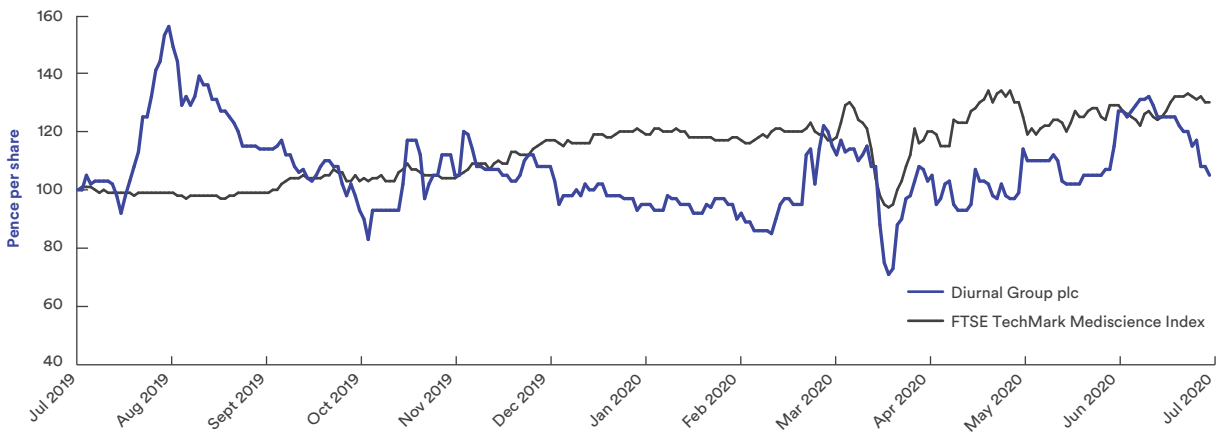
Directors' interests in the share capital of the Company as at the date of this report are shown in the Directors' Report on page 45.

Share information (unaudited)

The shares trade on the AIM market of the London Stock Exchange under the symbol "DNL". The shares were admitted to trading on 24 December 2015 at a price of 144 pence and a market capitalisation of £75.2m prior to which the shares were not publicly traded.

At 30 June 2020 the market price of the Company's shares was 31 pence per share and the market capitalisation was approximately £38m.

The Board considers that the FTSE TechMark Mediscience Index is an appropriate benchmark for the performance of its shares and a comparison is set out below for the year ended 30 June 2020. This chart highlights that Diurnal's share price underperformed the FTSE TechMark Mediscience Index by 19%.



On behalf of the Board

Alan Raymond
Remuneration Committee Chairman
14 September 2020

Introduction

The Directors present their report and the audited financial statements for Diurnal Group plc (the "Company") and its subsidiaries (together, the "Group") for the year ended 30 June 2020.

Principal activities

The Group's principal activity is in specialty pharmaceuticals, targeting patient needs in chronic endocrine (hormonal) diseases. Further details about the principal activity of the Group are set out in the Strategic Report.

The Company's principal activity is to act as the parent company for the Group.

Review of the business and future development

The Strategic Report describes research and development and commercialisation activity during the year and outlines future planned developments. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the Financial Review. Principal risks and key performance indicators are outlined in the Strategic Report.

Going concern

For the year ended 30 June 2020, the Group made an operating loss of £5.4m on revenues of £6.3m and used net cash in operating activities of £4.8m. Cash and cash equivalents at 30 June 2020 were £15.4m.

The Board has considered the applicability of the going concern basis in the preparation of the financial statements. Based on the Directors' current forecasts and plans (including modelling of a number of scenarios reflecting potential outcomes of the Group's ongoing regulatory reviews for Alkindi® and Chronocort®), and considering the cash and cash equivalents at 30 June 2020 of £15.4m (which reflects the £11.2m fundraising and $3.5m upfront payment from the Alkindi® US licensing deal, both completed in March 2020), the Group and Company have sufficient funding for the foreseeable future and at least one year from the date of approval of the financial statements. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Results and dividends

The Group recorded a loss for the year before taxation of £5.3m (2019: £14.4m). Further details are provided in the Financial Review. The Directors do not recommend payment of a dividend.

Research and development

During the year, the Group spent £4.7m (2019: £8.7m) in the continuing development of its product portfolio. Of this cost, £38k (2019: £37k) was capitalised and £4.6m was expensed in the consolidated income statement, in accordance with the Group's accounting policy. Further details on the activities and nature of this expense are contained in the Operational Review and Financial Review.

Directors

The Directors of the Company and their details are set out on pages 30 and 31. All Directors served throughout the financial year and subsequent to the date of signing of the financial statements. Peter Allen stood down from the Board on 30 June 2020.

Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the Directors, indemnifying them against certain liabilities which may be incurred by them in relation to the Group.

Directors' interests

The interests of the Directors in the ordinary share capital of the Company at the date of this report are as follows:

	14 September 2020	
Name	Ordinary shares of £0.05 each in Diurnal Group plc	% of issued share capital
Executive		
Martin Whitaker	**582,480**	**0.48%**
Richard Bungay	**107,109**	**0.09%**
Richard Ross	**2,212,676**	**1.81%**
Non-Executive		
John Goddard	**200,103**	**0.16%**
Alan Raymond[1]	**66,849**	**0.05%**
Sam Williams[2]	**85,248**	**0.07%**

1. Director previously nominated by the Development Bank of Wales plc (DBW, formerly Finance Wales plc) shareholders under a relationship agreement with the Company up until 27 March 2020, when DBW's shareholding fell below 10%. DBW's holding is 11,534,888 shares.
2. Director nominated by the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%. IP Group plc's holding is 44,085,999 shares.

Employees

The Group is committed to promoting equal opportunities in employment. Its employees and job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

The Executive Directors regularly engage with employees to seek their views and provide briefings and presentations on key developments and strategy. Employees are encouraged to offer suggestions and views, and to raise queries with the Directors and senior managers.

To aid in retention, a benefits package encompassing death in service and medical insurance, together with a contributory pension scheme, is offered to all employees, in addition to salary. A discretionary bonus scheme and a long-term incentive programme are also available.

Health, safety and environment

The Directors are committed to ensuring the highest standards of health and safety for the employees of the Group. The Directors are also committed to minimising the impact of the Group's operations on the environment.

Political and charitable donations

The Group made charitable donations during the year of £nil (2019: £50). No political donations were made in either financial year.

Financial risk management

A description of financial risk management, including the use of financial instruments by the Group, is set out in Note 19 to the financial statements.

Significant shareholdings

At 14 September 2020 the Company has been notified of the following interests of 3% or more of the issued ordinary share capital of the Company:

Name of holder	Number of shares	% of issued share capital
IP Group plc	44,085,999	36.3%
Development Bank of Wales plc	11,534,888	9.5%
Polar Capital	10,135,688	8.3%
Amati Global Investors	9,500,000	7.8%
Chelverton Asset Management	5,057,500	4.1%
Richard Griffiths and controlled undertakings	4,604,615	3.8%

Statement of Directors regarding disclosure of information to auditors

Each Director, whose name and function are listed in the Directors' Report, confirms that:

+ so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
+ the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Company's London office, Regus Woburn Place, 16 Upper Woburn Place, London WC1H 0BS, on Friday 20 November 2020 at 11.00 a.m. Based on government social distancing guidelines in respect of the Covid-19 pandemic that are in place at the time of writing this report, shareholders will not be permitted to attend the AGM in person, but are encouraged to vote on the business to be conducted at the AGM. Should guidelines change ahead of the AGM, the Company will notify shareholders through an RNS announcement. Full details of the business to be transacted at the AGM can be found in the Notice of Annual General Meeting on pages 80 to 84 of this report.

By order of the Board

Richard Bungay
Company Secretary
14 September 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

+ select suitable accounting policies and then apply them consistently;
+ state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
+ make judgements and accounting estimates that are reasonable and prudent; and
+ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

to the members of Diurnal Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Diurnal Group plc's Group financial statements and Company financial statements (the "financial statements"):

+ give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2020 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
+ have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
+ have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company balance sheets as at 30 June 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and Company cash flow statements, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

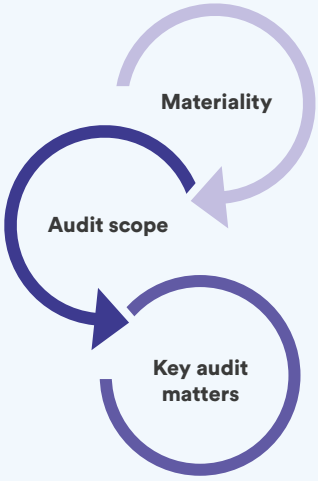
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



+ Overall Group materiality: £460,000 (2019: £729,000), based on 5% of loss before tax after removing licensing revenue of £3,923,000 from Eton Pharmaceuticals, Inc.
+ Overall Company materiality: £526,000 (2019: £352,000), based on 1% of total assets.
+ The Diurnal Group has its finance function in one location, being the UK. The Group's head office is located in the UK where our work on the Group consolidation was performed.
+ In total, locations where we performed audit work accounted for 97% of the Group loss before tax after removing licensing income.
+ Going Concern (Group and Company)
+ Accounting for the Eton Pharmaceuticals Inc. licensing agreement (Group).
+ Covid-19 (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Report on the audit of the financial statements continued

Our audit approach continued
Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Going Concern For the year ended 30 June 2020 the Group used net cash in operating activities of £4.8m and the Company received net cash from operating activities of £0.3m. Cash and cash equivalents at 30 June 2020 were £15.4m for the Group and £14.8m for the Company. The Board considered the applicability of the going concern basis in the preparation of the financial statements and in doing so have prepared forecasts and plans (including modelling of a number of scenarios reflecting potential outcomes of the Group's ongoing regulatory reviews for Alkindi® and Chronocort®). After considering these forecasts and plans and the cash and cash equivalents held at 30 June 2020, the Directors concluded that the Group and Company have sufficient funding for the foreseeable future and at least one year from the date of approval of the financial statements and have therefore continued to adopt the going concern basis in preparing the financial statements. *This key audit matter is relevant to the Group and Company.*	We have performed the following procedures: We obtained management's forecasts and plans for the different scenarios and performed tests to validate the integrity of the model and completeness of costs included. We assessed the reasonableness of the assumptions within the models based on our understanding of the business and by comparing against historical results. We ran various sensitivities, in particular looking at the potential outcomes of the Group's ongoing regulatory reviews for Alkindi® and Chronocort® and the impact that these had on the forecasts. Our conclusions relating to going concern are noted below, under the heading 'Conclusions relation to going concern'.
Accounting for the Eton Pharmaceuticals Inc. licensing agreement In March 2020, Diurnal Limited entered into a licensing arrangement with Eton Pharmaceuticals Inc. ('Eton'). Under the agreement, Diurnal granted the exclusive license to commercialise Alkindi in the US in return for upfront non-refundable cash consideration of £2.9 million and 379,474 shares in Eton Pharmaceuticals Inc. as well as future milestones and royalties. Eton also pays Diurnal for the supply of Alkindi at cost plus a small mark-up to cover labour costs and overseeing the orders. Management have recognised £2.9 million of cash and £1.0 million (representing the fair value of the Eton shares received) as revenues in the year ended 30 June 2020 equating to the £3.9 million of licensing revenue recognised.	We have performed the following procedures: We obtained and reviewed the stock purchase agreement and license agreement to agree the number of shares received from Eton, and agreed the cash consideration to bank statements. We obtained management's accounting paper and reviewed the proposed accounting against the 5 steps of IFRS 15. We considered the key judgements opposite and whether an alternative conclusion would be more appropriate. 1) We considered whether the license and supply of Alkindi should be a single performance obligation. However, we noted that Eton can benefit from the license to Alkindi without having Diurnal supply the product because Eton have the required know-how from the contract effective date to manufacture the product. As such, the most appropriate judgement is to conclude that there are two performance obligations.

Report on the audit of the financial statements continued

Our audit approach continued
Key audit matters continued

Key audit matter	*How our audit addressed the key audit matter*
Accounting for the Eton Pharmaceuticals Inc. licensing agreement continued To determine the revenue recognition under IFRS 15, management have had to make a number of judgements. The key judgements made by management are: 1) There are two distinct performance obligations in the contract relating to the provision of a license to commercialise Alkindi in the US and the supply of the Alkindi product. 2) The supply of Alkindi to Eton is deemed to be at its stand-alone selling price, such that all the remaining consideration relates to the license. 3) The license is a right to use license such that revenues allocated to the license are recognised on the contract effective date when the license is granted. Our audit risk is focused around these judgements because a different conclusion on any of the above judgements would have a significant impact on the revenue recognition for the contract. *This Key Audit Matter is relevant to the Group.*	2) We considered whether the stand-alone selling price of Alkindi should be the price that Diurnal charge to the external market. However, in this arrangement, Diurnal effectively acts as a clinical manufacturing organisation and if Diurnal were to charge an external market price, the arrangement would not be commercially viable. As such, we agree that by charging cost plus a small mark-up to cover labour costs and overseeing the orders, Alkindi is being supplied to Eton at its stand-alone selling price and all remaining consideration relates to the license. 3) We considered whether the license might be right to access such that the revenue should be spread over the term of the license. However, because Alkindi is already a marketed product and there are no significant ongoing activities that affect the intellectual property, we agree the license is a right to use license.
Covid -19 Given the extent of the impact of the virus was well known by 30 June 2020, at which point it was considered a global pandemic, management are required to consider the impact of Covid-19 on the financial statements, including in their forecasts where those are used to justify recoverable amounts, wider impairment considerations as well as going concern. Management have considered the main risks to be delays in the approval of products, design of clinical trials and the disruption of product supply, promotion and distribution. As noted within the Strategic Report, the Covid-19 pandemic has provided some unprecedented challenges in running clinical trials and also impacted sales growth, especially in Italy. In order to mitigate these risks, management keeps in close contact with regulators, maintaining sufficient levels of inventory such that it can transfer manufacturing in the event of disruption and digital meetings. *This key audit matter is relevant to the Group and Company.*	We have performed the following audit procedures: + Held discussions with management to understand in qualitative and quantitative terms, the impact of Covid-19 on business operations + Evaluated management's sensitives/modelling and challenged the key assumptions contained within cash flow forecasts + Challenged management's impairment assessment over key assets + Assessed the reasonableness/achievability of management's mitigating actions + Read management's disclosures in the financial statements. From the procedures performed, we found that management's analysis is supportable and that the disclosures within the financial statements are appropriate.

Report on the audit of the financial statements continued

Our audit approach continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Following this assessment, we determined that we needed to focus our audit work at the Group's head office where we performed work over Diurnal Group plc and Diurnal Limited. Through discussions with the Group finance team, we obtained a full understanding of the operational activities of Diurnal Group plc and Diurnal Limited, and appropriately scoped the audit risks. This, together with additional procedures performed at the Group level over the consolidation process, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

The financially significant component for the Group audit was Diurnal Limited as this was the only component that contributed more than 15% to loss before tax after removing Eton licensing revenues. We also performed audit work on Diurnal Group plc for cash and cash equivalents and total equity in order to ensure we had sufficient coverage over these financial statement line items from a Group perspective.

Diurnal Group plc was separately audited to its own company materiality in order to support the overall audit opinion on the financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£460,000 (2019: £729,000).	£526,000 (2019: £352,000).
How we determined it	5% of loss before tax after removing licensing revenue of £3,923,000 from Eton Pharmaceuticals Inc.	1% of total assets.
Rationale for benchmark applied	Whilst revenues for the year ended 30 June 2020 have grown, the Group continues to be loss making. The Group is a commercial biopharmaceutical Group looking to make a profit and therefore we believe that loss before tax is the primary measure used by the shareholders in assessing the financial performance of the Group. In the current year, the Group has earned £3.9 million of licensing revenues through licensing Alkindi to Eton Pharmaceuticals Inc. in the US. Because this is considered to be non-recurring income, we have used a loss before tax after removing Eton licensing revenues as our materiality benchmark.	The entity fulfils the role of the holding company within the Group. The entity's main function within the Group has historically been the raising of funds through equity issues to fund the Group's development activities and manage the Group's cash reserves. As such, we believe that total assets is the most appropriate measure to assess the financial position of the Company, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to audit the only significant component was £437,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £23,000 (Group audit) (2019: £37,000) and £26,000 (Company audit) (2019: £18,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Report on the audit of the financial statements continued

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

+ the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
+ the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit continued
Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

+ we have not received all the information and explanations we require for our audit; or
+ adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
+ certain disclosures of directors' remuneration specified by law are not made; or
+ the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sam Taylor (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
14 September 2020

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2020

	Note	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Revenue	3	**6,313**	1,044
Cost of sales		**(668)**	(224)
Gross profit		**5,645**	820
Research and development expenditure		**(4,625)**	(8,690)
Selling and distribution expenditure[1]		**(4,135)**	(4,506)
Administrative expenses[1]		**(2,904)**	(2,150)
Other gains – net	11	**627**	—
Operating loss	4	**(5,392)**	(14,526)
Finance income	6	**114**	130
Loss before tax		**(5,278)**	(14,396)
Taxation	7	**1,206**	2,108
Loss for the year		**(4,072)**	(12,288)
Basic and diluted loss per share (pence per share)	8	**(4.3)**	(19.7)

All activities relate to continuing operations.

1. Comparative data reanalysed from previously published financial results as detailed in the Financial Review on pages 24 and 25.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Loss for the year and total comprehensive loss for the year	**(4,072)**	(12,288)

CONSOLIDATED BALANCE SHEET

as at 30 June 2020

	Note	2020 £000	2019 £000
Non-current assets			
Intangible assets	9	**79**	49
Property, plant and equipment	10	**23**	33
Investments held at fair value through profit and loss	11	**1,668**	—
		1,770	82
Current assets			
Inventories	12	**1,241**	672
Research and development tax credit claims receivable		**1,194**	2,105
Trade and other receivables	14	**1,337**	1,457
Cash and cash equivalents	15	**15,434**	9,147
		19,206	13,381
Total assets		**20,976**	13,463
Current liabilities			
Trade and other payables	16	**(2,555)**	(2,503)
		(2,555)	(2,503)
Non-current liabilities			
Trade and other payables	16	**(36)**	(16)
		(36)	(16)
Total liabilities		**(2,591)**	(2,519)
Net assets		**18,385**	10,944
Equity			
Share capital	17	**6,082**	4,226
Share premium		**50,967**	42,153
Group reconstruction reserve		**(2,943)**	(2,943)
Accumulated losses		**(35,721)**	(32,492)
Total equity		**18,385**	10,944

The financial statements on pages 53 to 79 were approved by the Board of Directors on 14 September 2020 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

COMPANY BALANCE SHEET

as at 30 June 2020

	Note	2020 £000	2019 £000
Non-current assets			
Investment in subsidiary undertakings	13	**—**	—
Amount owed by subsidiary undertaking	13	**37,706**	26,204
		37,706	26,204
Current assets			
Trade and other receivables	14	**43**	65
Amount owed by employee benefit trust		**105**	1
Cash and cash equivalents	15	**14,759**	8,895
		14,907	8,961
Total assets		**52,613**	35,165
Current liabilities			
Trade and other payables	16	**(114)**	(242)
Total liabilities		**(114)**	(242)
Net assets		**52,499**	34,923
Equity			
Share capital	17	**6,082**	4,226
Share premium		**50,967**	42,153
Accumulated losses		**(4,550)**	(11,456)
Total equity		**52,499**	34,923

The Company's profit for the year was £6,063k (2019: loss of £27,886k).

As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent company.

The financial statements on pages 53 to 79 were approved by the Board of Directors on 14 September 2020 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2020

Group	Share capital £000	Share premium £000	Group reconstruction reserve £000	Accumulated losses £000	Total £000
Balance at 1 July 2018	**3,067**	**37,769**	**(2,943)**	**(21,012)**	**16,881**
Loss for the year and total comprehensive loss for the year	—	—	—	(12,288)	(12,288)
Equity settled share-based payment transactions (Note 18)	—	—	—	825	825
Issue of shares for cash	1,159	4,790	—	(17)	5,932
Costs charged against share premium	—	(406)	—	—	(406)
Total transactions with owners recorded directly in equity	1,159	4,384	—	808	6,351
Balance at 30 June 2019	**4,226**	**42,153**	**(2,943)**	**(32,492)**	**10,944**
Loss for the year and total comprehensive loss for the year	—	—	—	(4,072)	(4,072)
Equity settled share-based payment transactions (Note 18)	—	—	—	843	843
Issue of shares for cash	1,856	9,424	—	—	11,280
Costs charged against share premium	—	(610)	—	—	(610)
Total transactions with owners recorded directly in equity	1,856	8,814	—	843	11,513
Balance at 30 June 2020	**6,082**	**50,967**	**(2,943)**	**(35,721)**	**18,385**

Company	Share capital £000	Share premium £000	Retained earnings/ (accumulated losses) £000	Total £000
Balance at 1 July 2018	**3,067**	**37,769**	**15,622**	**56,458**
Loss for the year and total comprehensive loss for the year	—	—	(27,886)	(27,886)
Equity settled share-based payment transactions	—	—	825	825
Issue of shares for cash	1,159	4,790	(17)	5,932
Costs charged against share premium	—	(406)	—	(406)
Total transactions with owners recorded directly in equity	1,159	4,384	808	6,351
Balance at 30 June 2019	**4,226**	**42,153**	**(11,456)**	**34,923**
Profit for the year and total comprehensive profit for the year	—	—	6,063	6,063
Equity settled share-based payment transactions	—	—	843	843
Issue of shares for cash	1,856	9,424	—	11,280
Costs charged against share premium	—	(610)	—	(610)
Total transactions with owners recorded directly in equity	1,856	8,814	843	11,513
Balance at 30 June 2020	**6,082**	**50,967**	**(4,550)**	**52,499**

Profit or loss for the year is the only constituent of total comprehensive profit or loss for each year so the amounts are shown in the same line in the consolidated and Company statements of changes in equity.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

for the year ended 30 June 2020

	Note	Group		Company	
		Year ended 30 June 2020 £000	Year ended 30 June 2019 £000	**Year ended 30 June 2020 £000**	Year ended 30 June 2019 £000
Cash flows from operating activities					
(Loss)/profit for the year		**(4,072)**	(12,288)	**6,063**	(27,886)
Adjustments for:					
Licensing income received as non-cash consideration	11	**(1,041)**	—	**—**	—
Fair value adjustment to investments	11	**(627)**	—	**—**	—
Depreciation and amortisation		**25**	22	**—**	—
Impairment loss on investment in subsidiary	13	**—**	—	**—**	15,351
(Reversal)/increase of impairment on loan to subsidiary	13	**—**	—	**(5,909)**	12,689
Share-based payments	18	**843**	825	**843**	825
Net foreign exchange gain		**(357)**	(10)	**(2)**	(25)
Finance income	6	**(114)**	(130)	**(112)**	(128)
Taxation	7	**(1,206)**	(2,108)	**—**	—
Increase in inventories		**(569)**	(549)	**—**	—
Decrease/(increase) in trade and other receivables		**119**	1,361	**23**	(11)
Increase in amount owed by subsidiary undertaking		**—**	—	**(487)**	(821)
Increase/(decrease) in trade and other payables		**70**	(3,143)	**(128)**	110
Cash (used in)/from operations		**(6,929)**	(16,020)	**291**	104
Tax received	7	**2,120**	2,279	**—**	—
Net cash (used in)/from operating activities		**(4,809)**	(13,741)	**291**	104
Cash flows from investing activities					
Additions of property, plant and equipment		**(7)**	(25)	**—**	—
Capitalisation of research and development expenditure		**(38)**	(37)	**—**	—
Loan to subsidiary undertaking		**—**	—	**(5,106)**	(13,909)
Increase in loan to employee benefit trust		**—**	—	**(105)**	—
Interest received		**114**	130	**112**	128
Net cash from/(used in) investing activities		**69**	68	**(5,099)**	(13,781)
Cash flows from financing activities					
Net proceeds from issue of share capital		**10,670**	5,526	**10,670**	5,526
Net cash from financing activities		**10,670**	5,526	**10,670**	5,526
Net increase/(decrease) in cash and cash equivalents		**5,930**	(8,147)	**5,862**	(8,151)
Cash and cash equivalents at the start of the year		**9,147**	17,284	**8,895**	17,021
Effect of exchange rate changes on cash and cash equivalents		**357**	10	**2**	25
Cash and cash equivalents at the end of the year		**15,434**	9,147	**14,759**	8,895

1 Corporate information

The consolidated financial statements of Diurnal Group plc and its subsidiaries (collectively, the "Group") for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 14 September 2020. Diurnal Group plc (the "Company" or the "parent") is a public limited company incorporated and domiciled in the United Kingdom and registered in England and Wales (registered number: 09846650), whose shares are publicly traded. The registered office is located at Cardiff Medicentre, Heath Park, Cardiff CF14 4UJ.

The Group is a specialty pharmaceutical business targeting patient needs in chronic endocrine (hormonal) diseases. Information on the Group's structure is provided in Note 13. Information on other related party relationships of the Group is provided in Note 23.

2 Significant accounting policies and basis of preparation

2.1 Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in the Group and parent company financial statements.

Foreign currency

The presentational currency of the Group is pounds Sterling, and the reporting currency is also pounds Sterling. The foreign subsidiary uses the local currency of the country it operates in, i.e. Euros. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign subsidiary are expressed in sterling using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising on consolidation, if any, are recorded in other comprehensive income.

Transactions in foreign currencies entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate are recorded at the rates ruling when the transactions occur. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated at foreign exchange rates ruling at the dates the fair value was determined.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using actual costing techniques. The cost of finished goods comprises raw materials, third party manufacturing costs and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In arriving at net realisable value, provision is made for any obsolete or damaged inventories.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of less than three months.

Financial instruments

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

+ those to be measured subsequently at fair value (either through OCI or through profit or loss); and
+ those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Financial instruments continued

Subsequent measurement of financial assets depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its financial assets:

+ Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated income statement.
+ FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on an investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

From 1 July 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Intangible assets

Research and development

Expenditure on development activities not directly attributable to an intangible asset is recognised in the consolidated income statement as an expense as incurred. Expenditure on development activities directly attributable to an intangible asset is capitalised when the following conditions are met:

+ it is technically and commercially feasible to complete the product so that it will be available for use;
+ the Group intends to complete development of the product and sell or use it;
+ the Group has the technical ability and sufficient resources to sell or use the product;
+ it can be demonstrated that the product will generate probable future economic benefits; and
+ the expenditure attributable to the intangible asset during its development can be reliably measured.

The Group considers that regulatory approval of a marketing authorisation application in the relevant jurisdiction confirms these criteria.

Internally developed intangible assets are recorded at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Capitalised directly attributable development costs include clinical trial costs and manufacturing and process development costs. Internal salary costs have not been capitalised as they are not considered to directly relate to bringing the asset to its working condition and employee costs are not allocated by project.

Expenditure in relation to patent registration and renewal of current patents is also expensed in the consolidated income statement. Patents acquired or licensed from third parties of patents are capitalised as intangible assets and are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the relevant intangible assets. Patent assets are amortised from the date they are available for use. Capitalised development costs are amortised from the date of revenue generation from the relevant product. The estimated useful lives are as follows:

Patents and licences	ten years
Development costs	ten years

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost comprises the purchase price plus any incidental costs of acquisition and commissioning. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the tangible assets as follows:

Equipment	three years

Investments in subsidiary undertakings

Investments in subsidiaries are held at cost less accumulated impairment losses.

Investments held at fair value through profit and loss

The Group may receive shares in listed companies as part of the consideration for licensing agreements; upon initial recognition the Group has the option to hold such shares at fair value through profit and loss or irrevocably elect to hold them at fair value through other comprehensive income. For the shares received during the year in Eton Pharmaceuticals, the Group has opted to hold these at fair value through profit and loss and the value of the investment is adjusted at the reporting date to reflect its fair value. The fair value of financial assets that are traded in an active market are based on quoted market price. The arising gain or loss is recognised in the income statement and presented net within 'Other gains – net'. The valuation principles adopted are classified as level 1 inputs in the IFRS 13 fair value hierarchy.

Impairment of assets

An impairment review is carried out annually for assets not yet in use. An impairment review is carried out for assets being amortised or depreciated when a change in market conditions and other circumstances indicates that the carrying value may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Expenses

Finance income and expenses

Finance expenses comprise interest payable. Finance income comprises interest receivable on funds invested.

Interest income is recognised in the consolidated income statement as it accrues. Interest payable is recognised in the consolidated income statement as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The Group recognises R&D tax credit claims on an accruals basis, based upon a successful history of having made such claims. Any such accrued amounts are estimates since they have not yet been agreed with HMRC.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Employee benefits

Share-based payments

In accordance with IFRS 2 Share-based Payment, share options are measured at fair value at their grant date. The fair value for the majority of the options is calculated using a modified Black Scholes formula and charged to the consolidated income statement on a straight-line basis over the expected vesting period. At each year-end date, the Group revises its estimate of the number of options that are expected to become exercisable. This estimate is not revised according to estimates of changes in market-based conditions. For share awards under the deferred share element of the annual bonus scheme, a deemed grant date of the first day of the financial year in which performance must be achieved is assumed.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in the subsidiary. If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Post-retirement benefits

The Group operates a defined contribution pension scheme. Contributions to the pension scheme are expensed in the consolidated income statement as they fall due.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities and revenue from licensing agreements.

Revenue from sale of goods

The Group's revenues from sale of goods comprises the sale of pharmaceutical products. The Group considers that all of its performance obligations have been fulfilled once the end customer accepts delivery of the products, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Consequently, the Group recognises revenues from the sale of pharmaceutical products upon confirmation of delivery to the end customer.

The Group's revenues are reported net of value added tax, returns, discounts, provisions for damaged goods and goods where the minimum shelf life specified in customer contracts has expired and after eliminating sales within the Group. Provisions for damaged goods and goods where the minimum shelf life specified in customer contracts has expired are estimated based upon historical experience.

Revenue from licensing agreements

The Group will, from time to time, enter licensing agreements in respect of its intellectual property, potentially generating upfront payments and further amounts payable on subsequent completion of future milestones as well as royalties based on future sales.

IFRS 15 requires the transaction price to be allocated to distinct performance obligations based on their stand-alone selling price. For each distinct performance obligation:

+ where there are no future performance obligations, the Group will recognise revenue as it becomes contractually due; and
+ where there are future performance obligations, the Group will recognise revenue over the period of these performance obligations so as to match the transfer of goods or services to the licensing partner.

2.2 Basis of preparation

The consolidated and Company financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRS IC interpretations and the Companies Act 2006. The financial information contained in these financial statements has been prepared under the historical cost convention and on a going concern basis.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The parent company's result for the year ended 30 June 2020 was a profit of £6,063k (2019: loss of £27,886k).

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 July 2019:

+ IFRS 9 Financial Instruments – Amendments regarding prepayment features with negative compensation and modifications of financial liabilities;
+ IFRS 16 Leases;
+ IAS 19 Employee Benefits – Amendments regarding plan amendments, curtailments or settlements;
+ IAS 28 Investments in Associates and Joint Ventures – Amendments regarding long-term interests in associates and joint ventures; and
+ Annual Improvements 2015–2017 Cycle.

All amendments listed above did not have any impact on the amounts recognised in prior periods, did not affect the current period and are not expected to significantly affect future periods. All other accounting policies used in the financial information are consistent with those used in the prior year. At the date of these financial statements there were no standards and interpretations in issue but not yet implemented.

2 Significant accounting policies and basis of preparation continued

2.2 Basis of preparation continued

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. There are no standards that are not yet effective and that would be expected to have a material impact on the current or future reporting periods and on foreseeable future transactions.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

2.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's and Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements relate to the recognition of deferred tax assets (Note 7). Other accounting judgements relate to the recognition of revenue from licensing agreements (Note 3), impairment of investments in and amounts owed by subsidiary undertakings (Note 13), share options and deferred share bonus awards (Note 18).

Deferred tax assets

Estimates of future profitability are required for the decision whether or not to recognise a deferred tax asset. To date no deferred tax assets have been recognised, based on the Group's judgement that there is uncertainty regarding the availability of future taxable profits.

Revenue from licensing agreements

The key judgements in recognising revenue from licensing agreements relate to the number of performance obligations in the licensing agreement, allocation of the transaction price against performance obligations and determination of the license as a "right-of-use" license, as detailed in Note 3.

Impairment of investments in and amounts owed by subsidiary undertakings

The Company has an investment in, and amounts owed to it by, its subsidiary company Diurnal Limited. The net carrying value of this aggregated investment and intercompany balance is assessed annually in line with IFRS requirements in order to evaluate if there are any impairment triggers. If a trigger is identified a full valuation assessment is required.

Such a valuation assessment, when performed, is to assess whether the aggregated carrying value of the subsidiary and any intercompany balance owed by the subsidiary to the Company is impaired. This assessment involves comparing the net assets of the subsidiary and their future discounted cash flows to the aggregated carrying value of the investment and intercompany balance. The key estimates in the model include:

+ market size and product penetration;
+ costs of manufacturing;
+ costs of development;
+ probability of achieving product approvals and/or successful country launches; and
+ discount rate.

Where an impairment is identified using this discounted cash flow approach, the Company uses its market capitalisation as at the balance sheet date as a proxy for fair value and then estimates the impairment based on the difference between the market capitalisation and aggregated book value for the investment and intercompany balances, excluding the impact of any estimated premium for control and costs to effect such a change of control. The impairment is recognised as a charge in the Company income statement. Any impairment recognised in the Company income statement is only reversed to the extent that future cash flows supporting the reversal have a high degree of certainty.

Share-based payments

Estimates of future share price volatility, the average period to exercise and the risk free rate of return are required to calculate the fair value of share options granted using a modified Black Scholes model (for performance share awards) or a Black Scholes model (for deferred share bonus awards).

2 Significant accounting policies and basis of preparation continued

2.4 Going concern

For the year ended 30 June 2020, the Group made an operating loss of £5.4m on revenue of £6.3m and used net cash in operating activities of £4.8m. Cash and cash equivalents at 30 June 2020 were £15.4m.

The Board has considered the applicability of the going concern basis in the preparation of the financial statements. Based on the Directors' current forecasts and plans (including modelling of a number of scenarios reflecting potential outcomes of the Group's ongoing regulatory reviews for Alkindi® and Chronocort®), and considering the cash and cash equivalents at 30 June 2020 of £15.4m (which reflects the £11.2m fundraising and $3.5m upfront payment from the Alkindi® US licensing deal, both completed in March 2020), the Group and Company have sufficient funding for the foreseeable future and at least one year from the date of approval of the financial statements. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

3 Segmental information

The Board regularly reviews the Group's performance and balance sheet position for its operations and receives financial information for the Group in order to assess performance and make strategic decisions about the allocation of resources. The Group previously presented financial information based upon the following segmentation:

+ Alkindi® – development and supply of the Group's Alkindi® product;
+ Chronocort® – development of the Group's Chronocort® product; and
+ central and early stage – all other activities, including development of the Group's early-stage pipeline products.

In light of the common supply chain, commercial infrastructure and prescribing audience, the Group now considers its business to operate in a single segment, namely the development and supply of novel therapeutic agents for the treatment of chronic endocrine disorders. This is in line with reporting to senior management and the information used is the same as that disclosed in the financial statements.

All material non-current assets are located in the UK.

Disaggregation of revenue

An analysis of revenue by type is set out in the table below:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Sale of goods	**2,390**	1,044
Licence fees	**3,923**	—
	6,313	1,044

License fees comprise the upfront payment received from Eton Pharmaceuticals as part of the licensing agreement signed in March 2020. Under the agreement, Eton obtained the exclusive right to use the intellectual property of Alkindi® in the US. The upfront payment comprised $3,500k (£2,882k) in cash and a notional amount of $1,500k in Eton shares, satisfied through the issue of 379,474 shares in Eton, based upon a trailing average price prior to execution of the agreement. The Eton shares were recorded at $1,263k (£1,041k) based on Eton's closing share price at the date of completion of the licensing agreement.

In addition to the upfront payment the Group is entitled to received further amounts that become payable on subsequent completion of future milestones as well as royalties based on future sales.

The Group has concluded that there are two distinct performance obligations under the licensing agreement: firstly, the license and secondly the manufacture and supply of Alkindi®, since Eton is able to benefit from the license without having Diurnal supply and manufacture the product.

The agreement contains four elements of consideration, namely:

+ upfront payment recorded in the financial statements at $4,763k (fixed) (notional amount: $5,000k, as noted above);
+ milestone payments;
+ sales-based royalty payments; and
+ recharges of direct costs for the manufacture of Alkindi® stock.

The Group has determined that the licence agreement with Eton represents a "right-of-use" licence due to the fact that Alkindi® is an established marketed product in Europe and there are no ongoing activities that significantly affect its intellectual property in the US. The Group has determined that the recharges of direct costs for the manufacture and supply of Alkindi® stock reflects the stand-alone selling price of Alkindi® in the agreement such that the remaining consideration is attributable to the license. As such, the upfront payment has been fully recognised as revenue during the year.

3 Segmental information continued

Disaggregation of revenue continued

Milestone and royalty payments are linked to specific sales-based activities and will be recognised when the underlying sales occur since neither is associated with any future performance obligations. Recharges of direct costs will be recognised on the collection of stock by Eton. During the year no revenue was recognised in respect of milestone payments, royalty payments or recharges.

An analysis of revenue by the country of destination is set out below:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
UK	**900**	300
Rest of Europe	**1,490**	744
USA	**3,923**	—
	6,313	1,044

All revenues were recognised at a point in time. No revenues were recognised over time (2019: £nil).

For sale of goods the Group's customers are wholesalers and distributors in the markets in which it has launched Alkindi®. An analysis of revenue from the sale of goods by customer is set out in the table below:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Customer A	**900**	300
Customer B	**725**	291
Customer C	**194**	137
Customer D	**177**	134
Customer E	**140**	—
Other customers	**254**	182
	2,390	1,044

All license fees and milestones are from one customer.

4 Expenses and auditors' remuneration

Operating loss for the year is after charging/(crediting):

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Depreciation	**17**	18
Amortisation[1]	**8**	4
Research and development expenditure	**4,625**	8,690
Lease expenses	**111**	133
Movement in employer NI accrual regarding share-based payments[2]	**(48)**	(573)
Exchange gain on settlement of US Dollar commitments	**(362)**	—
Auditors' remuneration:		
- fees payable to Company's auditors for the audit of the parent company and consolidated financial statements	**59**	38
- auditing the accounts of the subsidiary pursuant to legislation	**11**	7
Total auditors' remuneration	**70**	45

1. Amortisation of intangible assets is included in administrative expenses in the income statement.
2. The Group accrues for employer National Insurance contributions that may become due on unexercised share-based payments that are not HMRC tax advantaged.

5 Staff costs

The monthly average number of persons employed by the Group and Company (including Executive and Non-Executive Directors) during the year, analysed by category, was as follows:

	Group		Company	
	Year ended 30 June 2020 Number	Year ended 30 June 2019 Number	**Year ended 30 June 2020 Number**	Year ended 30 June 2019 Number
Research and development	**12**	15	**—**	—
Selling and distribution	**10**	5	**—**	—
Administration	**7**	7	**—**	—
	29	27	**—**	—
Non-Executive Directors	**4**	4	**4**	4
	33	31	**4**	4

Their aggregate remuneration, including Directors, comprised:

	Group		Company	
	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000	**Year ended 30 June 2020 £000**	Year ended 30 June 2019 £000
Wages and salaries	**2,812**	2,413	**—**	—
Non-Executive Director fees	**138**	138	**138**	138
Social security costs	**373**	312	**9**	10
Other pension costs	**165**	147	**—**	—
Other benefits	**40**	37	**—**	—
Share-based payments (see Note 18)	**843**	825	**15**	12
	4,371	3,872	**162**	160

Details of Directors' remuneration and the highest paid Director can be found on page 41 of the Remuneration Report. Key management personnel comprise only the Directors of the Company.

Share-based payment expense of £528k in respect of Directors was charged to the income statement during the year (2019: £566k). Share-based payment expense of £15k in respect of Non-Executive Directors was charged to the income statement during the year (2019: £12k).

Total Directors' emoluments disclosed in the Remuneration Report (excluding the deferred element of the bonus) is £807k (2019: £634k). Aggregate key management personnel remuneration is £1,335k (2019: £1,200k) (being the sum of the above share-based payment expense and Directors' emoluments).

6 Finance income

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Interest receivable on cash and cash equivalents	**114**	130
Total finance income	**114**	130

7 Taxation

The Group is entitled to claim tax credits in the United Kingdom under the UK research and development (R&D) small or medium-sized enterprise (SME) scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, and includes an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue & Customs (HMRC).

The Group has reflected R&D tax credits on an accruals basis since establishing a track record of agreeing claims with HMRC. Consequently, the income statement for the year ended 30 June 2019 reflects the R&D tax credit claim for the year ended 30 June 2019, which was received from HMRC in March 2020. The amount in respect of the year ended 30 June 2020 has not yet been agreed with HMRC, although there is no reason to believe that this claim will be rejected.

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Current tax:		
- UK corporation tax on losses for the year	**—**	—
- Dutch corporation tax on subsidiary profits for the year	**2**	—
- Research and development tax credit receivable for the current year	**(1,194)**	(2,105)
- Prior year adjustment in respect of research and development tax credit	**(14)**	(3)
Deferred tax:		
- Origination and reversal of temporary differences	**—**	—
Tax on loss on ordinary activities	**(1,206)**	(2,108)

Reconciliation of total tax credit

The tax assessed for the year varies from the small company rate of corporation tax as explained below:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Loss on ordinary activities before tax	**(5,278)**	(14,396)
Tax at the standard rate of UK corporation tax rate of 19% (2019: 19%)	**(1,003)**	(2,735)
Effects of:		
- Expenses not deductible for tax purposes	**96**	35
- Temporary timing differences	**3**	(2)
- Enhanced research and development relief	**(521)**	(906)
- Share-based payments	**61**	134
- Prior year adjustment in respect of research and development tax credit	**(14)**	(3)
- Tax losses carried forward	**172**	1,369
Total tax credits for the year	**(1,206)**	(2,108)

The standard rate of UK corporation tax has been 19% from 1 April 2017.

The Group has accumulated losses available to carry forward against future trading profits of £24.0m (2019: £23.3m). No deferred tax asset has been recognised in respect of tax losses since it is uncertain at the balance sheet date as to whether future profits will be available against which the unused tax losses can be utilised due to the uncertainty of availability of future taxable profits. The reversal of the reduction in the rate of corporation tax from 19% to 17% was announced in the March 2020 budget. This was substantively enacted on 17 March 2020, and therefore 19% was the prevailing rate at the balance sheet date. The estimated value of the deferred tax asset not recognised at 30 June 2020 is £4.5m, measured at a standard rate of 19% (2019: £4.0m at 17%).

8 Loss per share

	Loss for the year 2020 £000	Weighted average number of shares 2020 000	Loss per share 2020 pence	Loss for the year 2019 £000	Weighted average number of shares 2019 000	Loss per share 2019 pence
Basic and diluted	**(4,072)**	**95,228**	**(4.3)**	(12,288)	62,390	(19.7)

The diluted loss per share is identical to the basic loss per share in all years, as potentially dilutive shares are not treated as such since they would reduce the loss per share.

9 Intangible assets

Group	Patents and licences £000	Development costs £000	Total £000
Cost			
Balance at 1 July 2018	39	15	54
Additions	—	37	37
Balance at 30 June 2019	39	52	91
Additions	—	38	38
Balance 30 June 2020	**39**	**90**	**129**
Amortisation			
Balance at 1 July 2018	37	1	38
Charge for the year	2	2	4
Balance at 30 June 2019	39	3	42
Charge for the year	—	8	8
Balance at 30 June 2020	**39**	**11**	**50**
Net book value			
At 30 June 2018	2	14	16
At 30 June 2019	—	49	49
At 30 June 2020	**—**	**79**	**79**

Capitalisation of development costs
Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will only be made where there is evidence that an economic benefit will flow to the Company. The Group commenced capitalisation of ongoing development costs of its product Alkindi® in relation to its European marketing authorisation, following approval of the paediatric use marketing authorisation by the European Commission in February 2018.

10 Property, plant and equipment

Group	Equipment £000
Cost	
Balance at 1 July 2018	53
Additions	25
Disposals	(1)
Balance at 30 June 2019	77
Additions	7
Disposals	—
Balance 30 June 2020	**84**
Depreciation	
Balance at 1 July 2018	27
Charge for the year	18
Disposals	(1)
Balance at 30 June 2019	44
Charge for the year	17
Disposals	—
Balance at 30 June 2020	**61**
Net book value	
At 30 June 2018	26
At 30 June 2019	33
At 30 June 2020	**23**

11 Investments held at fair value through profit and loss

	2020 £000	2019 £000
Balance at 1 July	—	—
Additions	1,041	—
Fair value adjustment to investments	627	—
Balance at 30 June	1,668	—

Additions to investments solely relate to the 379,474 shares held in Eton Pharmaceuticals that were received as part of the upfront consideration for the exclusive licence agreement of Alkindi® Sprinkle in the US. The shares in Eton are treated as a level 1 financial investment in the IFRS 13 fair value hierarchy as the shares are traded in an active market and therefore the value is based on quoted market prices.

The fair value adjustment of these shares represents the entire amount charged to the income statement as 'other gains – net'.

12 Inventories

	2020 £000	2019 £000
Raw materials	192	—
Work in progress	733	521
Finished goods	316	151
	1,241	672

Inventories recognised as an expense during the year ended 30 June 2020 amounted to £651k (2019: £224k). These were included in cost of sales in the consolidated income statement.

Write-downs of inventories to net realisable value amounted to £17k (2019 £nil). These were recognised as an expense during the year ended 30 June 2020 and included in cost of sales in the consolidated income statement.

13 Investment in subsidiary undertakings and amount owed by subsidiary undertaking

On 1 December 2015, the Company acquired 100% of the shares and voting rights of Diurnal Limited, a company incorporated and registered in the United Kingdom, by issuing 30,267,498 ordinary shares of 50 pence each and 4,385,000 B shares of 5 pence each. The initial value of the investment was £15,351k. During year ended 30 June 2018, the Group established Diurnal Europe B.V., a wholly owned subsidiary of Diurnal Limited.

Group company	Country of incorporation	Registered address	Proportion of shares and voting rights held	Activity
Diurnal Limited	UK	Cardiff Medicentre Heath Park Cardiff CF14 4UJ	100%	Pharmaceutical development and supply
Diurnal Europe B.V.	The Netherlands	Van Heuven Goedhartlaan 935A 1181 LD Amstelveen	100% (held indirectly)	Holding European marketing authorisations and pharmaceutical supply
Diurnal Group plc Employee Benefit Trust	Jersey	Of Trustee: Link Trustees (Jersey) Limited 12 Castle Street St Helier JE2 3RT	—	Employee share scheme

Under IFRS, the Employee Benefit Trust is treated as an extension of the Group and the Company as it is controlled and therefore consolidated.

As at 30 June 2019, an impairment assessment of the investment in and loan to the subsidiary Diurnal Limited was undertaken. This assessment involved comparing the recoverable amount of these balances to the aggregated carrying value of the investments and intercompany balance held by the Company (see Note 2.3 for further details). The recoverable amount was determined by reference to the market capitalisation of the Company at this date. This exercise resulted in a shortfall of £28,040k, determined on an aggregated basis. The Company recognised the impairment firstly against the investment and secondly as a provision against the intercompany loan balance. As such the investment of £15,351k was fully impaired and the remaining £12,689k was provided against the carrying value of the intercompany loan.

As at 30 June 2020, the same assessment resulted in the aggregated brought forward carrying value of the investment and the loan being less than the recoverable amount. As such, the previous provision against the loan to the subsidiary was reversed by £5,909k. This reversal meant that the new carrying value of the intercompany balance was equal to the market capitalisation of the Company at the balance sheet date. No reversal of impairment was recognised against the investment in the subsidiary.

Company	Investment in subsidiary undertakings £000	Loan to subsidiary £000
Cost		
Balance at 1 July 2018	15,351	24,163
Additions	—	14,730
Balance at 30 June 2019	15,351	38,893
Additions	—	5,593
Balance at 30 June 2020	**15,351**	**44,486**
Impairment		
Balance at 1 July 2018	—	—
Balance at 30 June 2019	15,351	12,689
Reversal of impairment	—	(5,909)
Balance at 30 June 2020	**15,351**	**6,780**
Carrying value at 30 June 2018	15,351	24,163
Carrying value at 30 June 2019	—	26,204
Carrying value at 30 June 2020	**—**	**37,706**

13 Investment in subsidiary undertakings and amount owed by subsidiary undertaking continued

As market capitalisation is used as a proxy for the fair value of the investment in and loan to the subsidiary, the amount of impairment is impacted by changes in the market capitalisation of the Company. At the reporting date a 10% increase in the Company's market capitalisation would have increased the reversal of the impairment on the loan to subsidiary by £3,771k (2019: decrease of the impairment charge by £2,620k) and a 10% decrease in the Company's market capitalisation would have reduced the impairment reversal by £3,771k (2019: increase of the impairment charge by £2,620k) . A 10% variation in market capitalisation at the reporting date would not have impacted the impairment or carrying value of the investment in subsidiary undertakings (2019: no impact) as the Company did not judge there was sufficient certainty in future cash flows to reverse the previous impairment of the investment.

14 Trade and other receivables

	Group		Company	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Trade receivables	**393**	510	**—**	—
VAT receivable	**188**	219	**25**	39
Prepayments	**576**	482	**18**	26
Other receivables	**180**	246	**—**	—
	1,337	1,457	**43**	65

The Directors consider that the carrying amount of trade and other receivables approximate to their recoverable amount. Trade and other current receivables were all payable within 90 days.

No interest is charged on outstanding receivables. All significant amounts outstanding at the reporting date have been received since the year end and therefore the provision for expected credit losses at 30 June 2020 is £nil (30 June 2019: £nil).

15 Cash and cash equivalents

	Group		Company	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Cash at bank and on hand	**15,434**	9,147	**14,759**	8,895

The Group holds its cash and cash equivalents with its clearing bank and in a segregated cash facility providing same day access to its cash. The Group's treasury policy is summarised in Note 19. The Group's treasury policy requires that deposits are held with financial institutions having a minimum credit rating of A- (from Moody's, S&P or Fitch), that individual counterparty exposure is no more than £5m and that the maximum term is 12 months. The Group's deposits are in line with this policy.

16 Trade and other payables

	Group		Company	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Trade payables	**807**	1,145	**25**	158
Tax and social security	**91**	82	**—**	—
Accrued expenses	**1,634**	1,255	**89**	84
Other payables	**59**	37	**—**	—
	2,591	2,519	**114**	242

The Group accrues for employer National Insurance contributions that may become due on unexercised share-based payments that are not HMRC tax advantaged. In the current year £36k (2019: £16k) of the accrued expenses has been classified as a non-current liability.

17 Share capital

	2020		2019	
	Number	**£000**	Number	£000
Authorised				
Ordinary shares of £0.05 each	**121,633,387**	**6,082**	84,528,382	4,226
Issued and fully paid				
Ordinary shares of £0.05 each	**121,633,387**	**6,082**	84,528,382	4,226

The following table lists all shares issued in the year ended 30 June 2020:

Date of issue	Number	Nature of issue	Consideration £000	Share capital £000	Share premium £000	Costs charged against share premium £000
8 July 2019	98,735	Deferred bonus share vesting	—	5	—	—
8 July 2019	11,884	Shares issued in lieu of fees	—	1	—	—
21 October 2019	1,773,500	Share option exercise	3	88	3	—
21 October 2019	12,939	Shares issued in lieu of fees	—	1	—	—
26 November 2019	80,000	Share option exercise	4	4	—	—
2 December 2019	30,000	Share option exercise	2	1	—	—
10 January 2020	178,221	Share option exercise	—	9	—	—
10 January 2020	12,326	Shares issued in lieu of fees	—	1	—	—
26 March 2020	14,878,880	Placing – EIS and VCT shares	4,761	744	4,017	—
27 March 2020	20,015,557	Placing – general admission	6,405	1,001	5,404	(603)
21 April 2020	12,963	Shares issued in lieu of fees	—	1	—	—
		Late costs re FY19 fundraising	—	—	—	(7)
	37,105,005		**11,175**	**1,856**	**9,424**	**(610)**

The £610k charged against share premium relates to transaction costs directly attributable to placings and open offers.

The following table lists all shares issued in the year ended 30 June 2019:

Date of issue	Number	Nature of issue	Consideration	Share capital £000	Share premium £000	Costs charged against share premium £000	Capitalisation of reserves £000
14 November 2018	363,543	Share option exercise	1	18	—	—	(17)
24 December 2018	10,792	Share option exercise	1	1	—	—	—
26 April 2019	11,022	Share option exercise	1	1	—	—	—
17 June 2019	2,190,945	EIS	569	109	460	—	—
18 June 2019	20,615,557	General admission	5,360	1,029	4,330	(395)	—
		Late costs re FY18 fundraising	—	—	—	(11)	—
	23,191,859		5,932	1,159	4,790	(406)	(17)

The £406k charged against share premium relates to transaction costs directly attributable to placings and open offers.

18 Share-based payments

At 30 June 2020, the Group and Company had two types of share-based payment awards: share options (including performance share awards) and deferred share bonus awards. All outstanding Diurnal Limited share option awards have been exchanged for equivalent awards in Diurnal Group plc and the numbers and values in this note have been restated to reflect the Group reorganisation conducted in December 2015 and allow for consistency of analysis.

18 Share-based payments continued

Share options
Share options have been issued over time as follows:

Diurnal Limited unapproved share options
Between 2007 and 2012, 1,898,500 share options were awarded to four individuals, being Executive and Non-Executive Directors and a consultant. All these options vested prior to the AIM IPO.

In September 2015, 729,000 share options were awarded to three individuals, being Executive and Non-Executive Directors and a consultant. These options vested in equal tranches on the first three anniversaries of their grant. No further awards are to be made.

Diurnal Limited share option scheme
1,108,500 share options were awarded to eight individuals, being employees. These options vested in equal tranches on the first three anniversaries of their grant. No further awards are to be made.

Diurnal Group plc unapproved share options
104,421 share options and 32,374 share awards were awarded to two individuals, being Non-Executive Directors to whom commitments had been made prior to the AIM IPO. The share options vested in equal tranches on the first three anniversaries of the AIM IPO and the share awards vested in equal tranches on the 18, 24 and 36 month anniversaries of the AIM IPO. The awards were in lieu of part of the Directors' annual fees. No further awards are to be made.

Performance share awards under the Diurnal Group plc Long Term Incentive Plan (LTIP)
The main scheme for future awards is the Diurnal Group plc Long Term Incentive Plan (LTIP). The LTIP was established on 21 December 2015 and is a discretionary plan pursuant to which awards may be made in the form of performance share awards, restricted share awards, deferred bonus awards and market value option awards.

Eligibility
Any employee (including an Executive Director) of the Company and its subsidiaries will be eligible to participate in the LTIP at the discretion of the Remuneration Committee, subject to individual limits and grant timing requirements operated by the Remuneration Committee.

Performance conditions
The extent of vesting of any performance share awards or market value option awards granted will be subject to performance conditions set by the Remuneration Committee. Performance conditions for performance share awards include a component relating to share price performance and a component relating to the achievement of key operational milestones during the performance period. No performance conditions shall apply in the case of restricted share awards and deferred bonus awards.

Vesting
Performance share awards, restricted share awards and market value options normally vest on the third anniversary of grant or, if later, when the Remuneration Committee determines the extent to which any performance conditions have been satisfied. Deferred bonus awards normally vest on the first anniversary of grant. The Remuneration Committee may specify different vesting periods in relation to awards granted to participants who are not Executive Directors.

Where awards are granted in the form of options, once vested, such options will then be exercisable up until the tenth anniversary of grant (or such shorter period specified by the Remuneration Committee at the time of grant) unless they lapse earlier. Shorter exercise periods shall apply in the case of "good leavers" and vesting of awards in connection with corporate events.

IFRS 2 valuation – share options issued under the LTIP
The fair value of services received in return for performance share awards, restricted share awards, and market value option awards issued under the LTIP (but excluding deferred bonus awards) are measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by using a modified Black Scholes valuation model, using the following inputs:

+ The expected volatility is based on historical volatility over a relevant period prior to the grants.
+ The expected life is the average expected period to exercise, which has been taken as five years for share options and a shorter period for the share awards.
+ The risk free rate of return is the yield as at the grant date on zero coupon UK government bonds of a term commensurate with the expected award life.

IFRS 2 valuation of deferred share bonus awards issued under the LTIP are covered separately below.

18 Share-based payments continued

Performance share awards under the Diurnal Group plc Long Term Incentive Plan (LTIP) continued

IFRS 2 valuation – share options issued under the LTIP continued

Measurement assumptions are as follows:

Financial year ended	**2020**	**2020**	2019	2019
Deemed grant date	**19 March 2020**	**10 January 2020**	17 December 2018	4 December 2018
Award type	**Performance share**	**Performance share**	Performance share	Performance share
Share price	**£0.215**	**£0.28**	£0.22	£0.23
Exercise price	**£nil**	**£nil**	£nil	£nil
Expected volatility	**70.1%**	**69.0%**	53.1%	53.4%
Expected option life	**5 years**	**5 years**	5 years	5 years
Expected dividends	**0.00%**	**0.00%**	0.00%	0.00%
Risk free interest rate	**0.77%**	**0.79%**	0.89%	0.88%
Fair value per award	**£0.215**	**£0.280**	£0.220	£0.230
Number of options/awards	**118,226**	**1,214,660**	437,303	1,217,259

Financial year ended	2018	2018	2017	2017
Deemed grant date	11 December 2017	17 October 2017	8 May 2017	8 November 2016
Award type	Performance share	Performance share	Performance share	Performance share
Share price	£1.43	£1.35	£1.26	£1.20
Exercise price	£0.05	£0.05	£0.05	£0.05
Expected volatility	10.8%	10.7%	25.9%	27.4%
Expected option life	5 years	5 years	5 years	5 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk free interest rate	0.75%	0.73%	0.46%	0.62%
Fair value per award	£1.382	£1.297	£1.211	£1.152
Number of options/awards	39,033	538,245	404,762	479,660

Financial year ended	2016	2016	2016	2016
Deemed grant date	12 April 2016	12 April 2016	23 September 2015	11 September 2015
Award type	Share award	Share option	Share option	Share option
Share price	£1.470	£1.470	£0.625	£0.625
Exercise price	£0.050	£0.002	£0.002	£0.438
Expected volatility	66.9%	67.6%	65.0%	65.0%
Expected option life	2.7 years	5 years	5 years	5 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk free interest rate	0.43%	0.81%	1.20%	1.22%
Fair value per award	£1.421	£1.468	£0.623	£0.392
Number of options/awards	32,374	104,421	729,000	1,108,500

Prior to the year ended 30 June 2018, historical volatility was measured using a composite basket of similar companies in the biotechnology sector, given the limited trading history of the Company following its IPO in December 2015; with effect from the year ended 30 June 2018, historical volatility is measured using the Company's share price only.

18 Share-based payments continued

Performance share awards under the Diurnal Group plc Long Term Incentive Plan (LTIP) continued

IFRS 2 valuation – share options issued under the LTIP continued

The number and weighted average exercise prices of the share options and performance share awards are as follows:

	2020		2019	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	**0.078**	**5,940,723**	0.099	4,828,288
Granted during the year	**0.000**	**1,332,886**	0.000	1,654,562
Exercised during the year	**0.005**	**(2,061,721)**	0.003	(374,335)
Lapsed during the year	**0.044**	**(383,618)**	0.076	(167,792)
Outstanding at the end of the year	**0.091**	**4,828,270**	0.078	5,940,723
Exercisable at the end of the year	**0.288**	**1,437,251**	0.133	3,003,378

The ability to exercise performance share awards is subject to an assessment by the Remuneration Committee at the end of the performance period. As at 30 June 2019 no performance share awards had reached the end of their performance period. During the year ended 30 June 2020, the Remuneration Committee determined that 60% of the performance share awards vesting on 8 November 2019 (being the awards made on 8 November 2016 and 8 May 2017) would become exercisable, with the balance lapsing at that date.

As at June 30 June 2020, the weighted average remaining contractual life of share awards (excluding deferred bonus share awards) outstanding at the year end was 3.8 years (2019: 3.9 years).

Deferred share bonus awards

The Group and Company operate a discretionary annual bonus scheme, under which any annual bonus for Executive Directors and certain other employees will be paid in a specified mix of cash and deferred share awards by individual. Deferred share awards will be awarded under the deferred share award feature of the LTIP. The number of ordinary shares comprising the deferred share awards will be set on grant to equal such number equal in value to the portion of the bonus being deferred (adjusted as necessary to neutralise the cost of exercise where awards are structured as nominal cost options). Such deferred share awards will ordinarily vest after one year, subject only to continued employment.

The Remuneration Committee will set performance targets for the annual bonus plan at the start of each financial year.

IFRS 2 valuation

The fair value of services received in return for the deferred share award element of the annual bonus scheme is calculated at the start of the financial year to which the bonus relates (the deemed grant date) rather than at the actual grant date of the deferred share award and is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by using a Black Scholes valuation model, using the following inputs:

+ The expected volatility is based on historical volatility of the Company over a relevant period prior to the grant.
+ The expected life is the average expected period to exercise, which has been taken as 36 months.
+ The risk free rate of return is the yield as at the grant date on zero coupon UK government bonds of a term commensurate with the expected life.

With effect from the year ended 30 June 2019, the deferred share awards are issued as zero cost share options, through the Company's Employee Benefit Trust. As a result, the fair value of share options using the Black Scholes valuation model is equal to the share price at the date of issue of the deferred share awards.

18 Share-based payments continued

Deferred share bonus awards continued
IFRS 2 valuation continued
Measurement assumptions are as follows:

Financial year ended	2020	2019
Deemed grant date	**1 July 2019**	1 July 2018
Award type	**Deferred bonus share**	Deferred bonus share
Share price	**£0.305**	£1.83
Exercise price	**£0.000**	£0.000
Expected volatility	**69.8%**	13.4%
Expected option life	**3 years**	3 years
Expected dividends	**0.00%**	0.00%
Risk free interest rate	**0.55%**	0.77%
Fair value per award	**£0.305**	£1.83
Deemed number of options	**973,682**	371,817

The number and weighted average exercise prices of the deferred bonus share awards reflecting the actual grant date (rather than deemed grant date) are as follows:

	2020		2019	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	**0.00**	**98,735**	—	—
Granted during the year	**0.00**	**371,817**	0.00	114,102
Exercised during the year	**0.00**	**(98,735)**	—	—
Lapsed during the year	**—**	**—**	0.00	(15,367)
Outstanding at the end of the year	**0.00**	**371,817**	0.00	98,735
Exercisable at the end of the year	**—**	**—**	—	—

The total expense recognised for share-based payments is as follows:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Share options	**352**	423
Deferred share awards	**491**	402
	843	825

19 Financial instruments

The Group's and Company's activities expose them to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk). This note addresses each of these matters in turn, and also gives details of financial assets and liabilities with a carrying value that is materially different to their fair value and the Group's capital management objectives.

Capital management
The Group considers capital to comprise the total equity and reserves of the Group and long-term debt financing, including convertible loans issued. The Group's objectives are to manage capital as a primary source of funding in conjunction with the ability to remain as a going concern.

Treasury policy
The Group has financed its operations by a mixture of shareholders' funds and other borrowings and loan notes, as required. The Group's objective has been to obtain sufficient funding to meet development activities until the Group becomes profitable. During the year and for the foreseeable future the Group's objective in using financial instruments is to safeguard the principal for funds held on deposit and to minimise currency risk where appropriate.

Interest rate risk
The Group invests its surplus funds in money market and short-term bank deposits. The Group would review the balance between fixed and floating rate debt if it takes on any future debt.

19 Financial instruments continued

Liquidity risk

The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group, to manage liquidity risk. The Group also ensures that sufficient funds are available on 24 hours' notice to fund the Company's immediate needs.

The Group finances its operations through the issue of equity shares. The Group manages its liquidity risk by monitoring existing and committed funding against forecast requirements (with particular reference to non-discretionary expenditure). The following are the contractual maturities of financial liabilities, including estimated interest payments.

	30 June 2020					
Group	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1 to 2 years £000**	**2 to 5 years £000**	**> 5 years £000**
Trade payables	**807**	**807**	**807**	**—**	**—**	**—**
Other payables	**59**	**59**	**59**	**—**	**—**	**—**
Other tax and social security	**91**	**91**	**91**	**—**	**—**	**—**
Accrued expenses	**1,634**	**1,634**	**1,598**	**31**	**5**	**—**
	2,591	**2,591**	**2,555**	**31**	**5**	**—**

	30 June 2019					
Group	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	> 5 years £000
Trade payables	1,145	1,145	1,145	—	—	—
Other payables	37	37	37	—	—	—
Other tax and social security	82	82	82	—	—	—
Accrued expenses	1,255	1,255	1,239	11	5	—
	2,519	2,519	2,503	11	5	—

	30 June 2020					
Company	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1 to 2 years £000**	**2 to 5 years £000**	**> 5 years £000**
Trade payables	**25**	**25**	**25**	**—**	**—**	**—**
Accrued expenses	**89**	**89**	**89**	**—**	**—**	**—**
	114	**114**	**114**	**—**	**—**	**—**

	30 June 2019					
Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	> 5 years £000
Trade payables	158	158	158	—	—	—
Accrued expenses	84	84	84	—	—	—
	242	242	242	—	—	—

Currency risk

The Group manages foreign currency exposure by matching expected currency outflows with inflows of the same currency to the extent possible. The Group would consider hedging instruments if there was considered to be a significant mismatch but this has not proven necessary to date.

The following table considers the impact of changes to the spot GBP/Euro and GBP/US Dollar exchange rates of +/– 1%, assuming all other variables remain constant. If these changes were to occur the figures in the table below reflect the impact on loss before tax.

19 Financial instruments continued

Currency risk continued

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
1% increase in GBP/Euro rate	**3**	1
1% decrease in GBP/Euro rate	**(3)**	(1)
1% increase in GBP/US Dollar rate	**2**	—
1% decrease in GBP/US Dollar rate	**(2)**	—

Credit risk

The Group is exposed to credit risk from its cash investments and its trade receivables. The Group minimises the risk to its cash investments by placing its cash deposits only with established financial institutions with a minimum credit rating of A- as defined by the three major credit rating agencies. The Group minimises risk to its trade receivables by performing credit checks on potential customers and setting appropriate credit limits based upon the recommendation of credit rating agencies. The trade receivables are considered to be low risk (2019: low) as the Group's customer base comprises of a small number of large, multi-national pharmaceutical wholesalers. In determining the risk of trade receivables the Group also considers forward looking information such as macro-economic trends, reflecting the pharmaceutical sector's reduced susceptibility to adverse economic cycles. At the year end £174k (2019: £88k) of the trade receivables balance was overdue and impairment of trade receivables was £nil (2019: £nil). All significant amounts outstanding at the reporting date have been received since the year end and therefore any allowance for expected credit losses would be insignificant; consequently there was no allowance for expected credit losses at 30 June 2020 (30 June 2019: £nil).

The Company's loan to subsidiary undertaking is subject to IFRS 9's expected credit loss model. This loan is considered to be high risk, and therefore the impairment provision is determined as a lifetime expected credit loss. Applying the expected credit risk model resulted in the recognition of a loss allowance of £6,780k on 30 June 2020 (the previous loss allowance was £12,689k). See Note 13 for further details.

Interest rate risk of financial assets

The following table shows, by currency, the effective interest rates the Group has received on its cash and cash equivalents during the year.

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Cash and cash equivalents		
Floating rate – GBP	**1.30%**	1.15%
Floating rate – EUR	**0.00%**	0.00%
Floating rate – USD	**0.42%**	2.71%

The following table considers the impact of a change of the Sterling interest rate of +/– 100 basis points, assuming all other variables remain constant. If these changes were to occur the figures in the table reflect the impact on loss before tax. The analysis covers financial instruments subject to variable interest rates and interest receivable.

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
1% increase in Sterling interest rate	**86**	89
1% decrease in Sterling interest rate	**(86)**	(89)

Fair values

The carrying values of cash and cash equivalents, accounts receivable and accounts payable reasonably approximate their fair values.

19 Financial instruments continued

Financial assets at amortised cost

	Group		Company	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Research and development tax credit claims receivable	**1,194**	2,105	**—**	—
Trade receivables	**393**	540	**—**	—
VAT receivable	**188**	219	**25**	39
Other receivables	**180**	246	**—**	—
Cash and cash equivalents	**15,434**	9,147	**14,759**	8,895
Amount owed by subsidiary undertaking	**—**	—	**37,706**	26,204
	17,389	12,257	**52,490**	35,138

Financial liabilities at amortised cost

	Group		Company	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Trade payables	**807**	1,145	**25**	158
Other payables	**59**	37	**—**	—
Other tax and social security	**91**	82	**—**	—
Accrued expenses	**1,634**	1,255	**89**	84
	2,591	2,519	**114**	242

20 Capital commitments

The Group had no material capital commitments at the end of the financial years.

21 Lease commitments

The Group's total commitments under non-cancellable leases are as follows:

	2020		2019	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Not later than one year	**84**	**1**	91	1
Later than one year but not later than five years	**14**	**—**	14	2
	98	**1**	105	3

All of the Group's leases either meet the exemptions for short-term leases or low value assets under IFRS 16.

22 Contingent liabilities

During the year, the Group entered into an agreement with its manufacturing partner, Glatt Pharmaceutical Services GmbH & Co. KG ("Glatt"), for the procurement, installation and validation of a new capsuling machine to increase the capacity and decrease unit costs for Alkindi® and, in the event that it is approved for sale, Chronocort®. The total cost (including commissioning) of the capsuling machine is estimated at €1.3m, which will be recovered by Glatt over a five year period by way of a fixed charge per capsule produced. In the event that there is a shortfall between the total cost of €1.3m and the cost recovered by Glatt over the five year period, the Group will be liable to fund the shortfall. As at 30 June 2020 the Group's forecasts do not indicate there will be a shortfall between the total cost and the projected cost recovery.

23 Related party transactions

Transactions between the Company and its subsidiaries Diurnal Limited and Diurnal Europe B.V., which are related parties, have been eliminated on consolidation. The Company holds the Group's treasury balances and provides funds to Diurnal Limited in order to fund its operating activities. Such movements are recorded through an intercompany loan account. The Company makes a management charge to Diurnal Limited each year, which is disclosed in the table below. Diurnal Europe B.V. recharges its operating expenses along with a management charge to Diurnal Limited, which is disclosed in the table below. Details of the intercompany loan account between the Company and Diurnal Limited are disclosed in Note 13.

The following transactions with shareholders (subsidiaries of IP Group plc) were recorded, excluding VAT, during the year:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Purchase of goods and services		
IP Group plc and subsidiaries	**29**	29
Sales and recharges between Group companies		
Sale of goods from Diurnal Limited to Diurnal Europe B.V.	**1,159**	—
Charges from Diurnal Group plc to Diurnal Limited	**659**	513
Charges from Diurnal Europe B.V. to Diurnal Limited	**205**	82

Purchase of goods and services from related parties comprises the provision of Non-Executive Directors, management and consulting services, corporate finance services, monitoring fees and expenses. These were made at arm's length and on normal commercial trading terms.

Compensation of key management personnel of the Group
Key management includes only Executive and Non-Executive Directors and information on their share options, emoluments, pension benefits and other non-cash benefits can be found in the Remuneration Report. The aggregate key management personnel remuneration is disclosed in Note 5. There were no other related party transactions with key management personnel.

Employee Benefit Trust
The Company has established an Employee Benefit Trust for the purposes of buying and selling shares on the employees' behalf. A total of 2,095,768 shares were purchased by the Trust during the year ended 30 June 2020 (2019: 11,022).

24 Ultimate controlling party

The Directors do not believe that there is an ultimate controlling party.

NOTICE OF ANNUAL GENERAL MEETING

(Incorporated in England and Wales with registered number 09846650)

Notice is given that the 2020 Annual General Meeting (AGM) of Diurnal Group plc (the "Company") will be held at the Company's London office, Regus Woburn Place, 16 Upper Woburn Place, London WC1H 0BS, on Friday 20 November 2020 at 11.00 a.m.

The Company is required to hold its AGM in order to pass the resolutions set out in this Notice. **However, in consideration of UK Government advice to reduce the transmission of COVID-19 and to ensure both shareholders and those running the Meeting can stay safe the Board has concluded that shareholders should not plan to attend the AGM in person.** It is currently intended that the AGM will be held with the minimum number of shareholders present as required to form a quorum under the Company's Articles of Association together with individuals who are essential for the business of the AGM to be conducted.

Having regard to their own safety and that of others, shareholders are respectfully asked to comply with the UK Government advice and not make plans to attend the AGM. To ensure the safety of the limited number of people whose attendance is essential, the Company will not be able to allow other shareholders to gain access to the AGM on the day. Given the restrictions on accommodating shareholders and consequently how the Meeting itself may be conducted, shareholders are strongly encouraged to exercise their right to vote and to submit a proxy as early as possible.

We always welcome questions from our shareholders at the AGM but this year we encourage shareholders to engage before the Meeting by submitting questions in advance via email to info@diurnal.co.uk for the attention of the Company Secretary, who will arrange for a response to be provided to the questions, either directly or by publishing responses on our website.

The purpose of the Meeting is to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Company's audited Annual Report and Accounts and the Strategic Report and Directors' and Auditors' Reports thereon for the year ended 30 June 2020.
2. To reappoint Richard Bungay, who retires as a Director of the Company and offers himself for reappointment.
3. To reappoint John Goddard, who retires as a Director of the Company and offers himself for reappointment.
4. To reappoint Alan Raymond, who retires as a Director of the Company and offers himself for reappointment.
5. To reappoint Richard Ross, who retires as a Director of the Company and offers himself for reappointment.
6. To reappoint Martin Whitaker, who retires as a Director of the Company and offers himself for reappointment.
7. To reappoint Sam Williams, who retires as a Director of the Company and offers himself for reappointment.
8. To receive and approve the Directors' Remuneration Report contained within the Annual Report and Accounts for the year ended 30 June 2020.
9. To reappoint PricewaterhouseCoopers LLP as auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid.
10. To authorise the Directors or any Audit Committee of the Directors to determine the remuneration of the auditors.
11. That, pursuant to section 551 of the Companies Act 2006 (the "Act"), the Directors be generally and unconditionally authorised to allot Relevant Securities:

    11.1 up to a maximum aggregate nominal value of £2,033,611.97 or, if less, the nominal value of one third of the issued share capital of the Company; and

    11.2 comprising equity securities (as defined in section 560(1) of the Act) up to a maximum aggregate nominal value of £4,067,223.93 or, if less, the nominal value of two thirds of the issued share capital of the Company (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph 12.1) in connection with an offer by way of a rights issue or other pre-emptive offer:

        11.2.1 to holders of ordinary shares in the capital of the Company ("Ordinary Shares") in proportion (as nearly as practicable) to the respective numbers of Ordinary Shares held by them; and

        11.2.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    but subject, in each case, to such exclusions, limitations, restrictions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter,

    provided that these authorities shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date which is 15 months from the date of this Meeting (whichever is the earlier), save that, in each case, the Company may make an offer or enter into an agreement before the authority expires which would or might require Relevant Securities to be allotted and/or transferred after the authority expires and the Directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired.

The purpose of the Meeting is to consider and, if thought fit, to pass the following resolutions as ordinary resolutions continued:

In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right, and a reference to the nominal amount or nominal value of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount or nominal value of the shares which may be allotted pursuant to that right.

These authorities are in substitution for all existing authorities under section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

To consider and, if thought fit, to pass the following resolutions as special resolutions:

12. That, subject to the passing of resolution 11 and pursuant to section 570 of the Act, the directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 11 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    12.1 in connection with an offer or issue of equity securities (whether by way of a rights issue, open offer or other pre-emptive offering):

        12.1.1 to holders of Ordinary Shares in proportion (as nearly as practicable) to the respective numbers of Ordinary Shares held by them; and

        12.1.2 to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    but subject, in each case, to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and

    12.2 otherwise than pursuant to paragraph 12.1 of this resolution up to an aggregate nominal amount of £305,041.80 (being equivalent to 5% of the nominal value of the issued share capital of the Company),

    and this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date which is 15 months from the date of this Meeting (whichever is the earlier), save that the Company may make an offer or enter into an agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

13. That, subject to the passing of resolution 11 and pursuant to section 570 of the Act, the Directors be and are generally empowered in addition to any authority granted under resolution 12 to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 11 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    13.1 up to a nominal amount of £305,041.80.50 (being equivalent to 5% of the nominal value of the issued share capital of the Company); and

    13.2 used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice,

    and this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date which is 15 months from the date of this Meeting (whichever is the earlier), save that the Company may make an offer or enter into an agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

To consider and, if thought fit, to pass the following resolutions as special resolutions continued:

14. That the Company be generally and unconditionally authorised, pursuant to section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of up to 18,290,306 Ordinary Shares (being approximately 14.99% of the issued Ordinary Share capital of the Company) on such terms and in such manner as the Directors may from time to time determine, provided that:

    14.1 the maximum price which may be paid for each share (exclusive of expenses) shall not be more than the higher of: (1) 5% above the average mid-market price of the Ordinary Shares for the five business days before the date on which the contract for the purchase is made; and (2) an amount equal to the higher of the price of the last independent trade and the highest current independent bid as derived from the trading venue where the purchase was carried out; and

    14.2 the minimum price which may be paid for each share shall not be less than £0.05 per share, being the nominal value of an Ordinary Share,

    and this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date which is 15 months from the date of this Meeting (whichever is the earlier), save that the Company may make a contract to purchase its own shares before this authority expires which would or might be executed wholly or partly after such expiry, and the Company may make a purchase of its own shares in pursuance of such contract as if this authority had not expired.

15. That the Articles of Association of the Company be amended to enable persons entitled to attend and participate in a general meeting to do so:

    15.1 partly (but not wholly) by simultaneous attendance and participation by means of electronic facility or facilities; and

    15.2 by simultaneous attendance and participation at a satellite meeting place or places anywhere in the world.

By order of the Board

Richard Bungay
Company Secretary
14 September 2020

Registered office
Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

Registered in England and Wales No. 09846650

Notice of Meeting notes:

Due to the current circumstances related to the COVID-19 pandemic, physical attendance at the Meeting will not be permitted and the Meeting will be held with the minimum number of shareholders present as required to form a quorum under the Company's Articles of Association together with individuals who are essential for the business of the AGM to be conducted. Given the restrictions on accommodating shareholders and consequently how the Meeting itself may be conducted, shareholders are strongly encouraged to exercise their right to vote and to submit a proxy as early as possible.

The following notes explain your general rights as a shareholder and your right to vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on 18 November 2020. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to vote at the Meeting.
2. As attendance in person is not permitted, shareholders are encouraged to vote electronically in advance using the methods set out in Note 6 below.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. You can vote either:

   + by logging on to www.signalshares.com and following the instructions; if you need help with voting online, please contact our Registrar, Link Asset Services (previously called Capita), on 0371 664 0391 if calling from the UK, or +44 (0) 371 664 0391 if calling from outside of the UK, or email Link at shareholderenquiries@linkgroup.co.uk; or
   + in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent BR3 4ZF, by 11.00 a.m. on 18 November 2020.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00 a.m. on 18 November 2020. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Notice of Meeting notes continued:

10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

11. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

12. As at 30 September 2020 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 122,016,718 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 30 September 2020 are 122,016,718.

13. Under section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditors' Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with auditors of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

14. Any shareholder attending the Meeting has the right to ask questions but this year we encourage shareholders to engage before the Meeting by submitting questions in advance via email to info@diurnal.co.uk for the attention of the Company Secretary, who will arrange for a response to be provided to the questions, either directly or by publishing responses on our website.

15. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting: copies of the Directors' letters of appointment or service contracts. Under the current circumstances, we would request that you contact us by email at info@diurnal.co.uk if you wish to arrange a visit to inspect these documents.

16. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found on the Company's website at www.diurnal.co.uk.

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