Diurnal

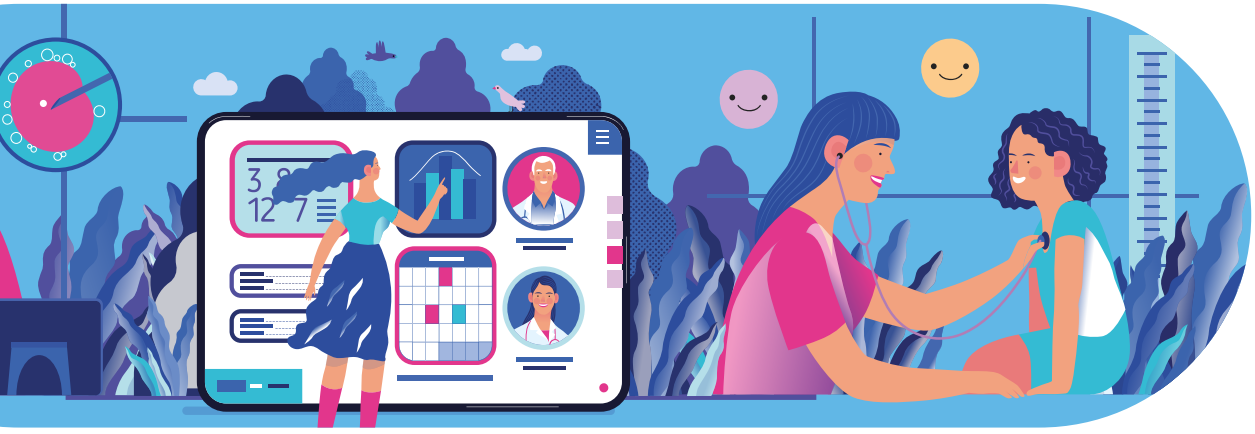
Realising Our Global Ambitions

Diurnal Group plc

Annual Report 2021

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.



Read more about our business at diurnal.com

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.

4 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 5

Opportunities to expand globally

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

$9.6bn 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.

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

Read more on page 8

Financial highlights

Revenue

£4.4m[1]

1. Includes licensing income of £2.1m.
2. Includes licensing income of £3.9m.

Earnings per share

(7.3)p

Read more about our financial highlights on page 25

Operational highlights

+ Alkindi Sprinkle® approved by FDA in the US and subsequently launched by partner Eton Pharmaceuticals
+ Efmody® approved in the EEA and GB for treatment of adolescents and adults with CAH
+ Special Protocol Assessment agreed with FDA for Efmody® Phase III trial in CAH
+ Completion of two fundraisings totalling £30.5m before expenses

Read more about our operational highlights on page 16

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 the US, and our second product, Efmody®, has recently been launched in Europe. 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®
(development name: Infacort®)

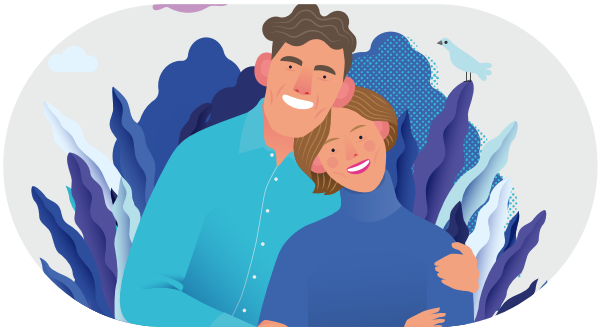
What does it do?

Alkindi® is the first preparation of hydrocortisone specifically designed for use in children suffering from paediatric adrenal insufficiency (AI). 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

+ Approved in US (as Alkindi Sprinkle®) and subsequently launched by partner Eton Pharmaceuticals; licensing deal with Eton extended to Canada
+ Approved in Australia and Israel
+ Licensing deal for China with Citrine Medicine and further distribution deals including Benelux Countries, Switzerland and Turkey

Efmody®
(development name: 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) approved by the European Medicines Agency (EMA) in the EEA and by the Medicines and Healthcare products Regulatory Agency (MHRA) in GB, with first launches in Q3 2021
+ Special Protocol Assessment agreed with the FDA for US Phase III study
+ Phase III data published in peer-reviewed publication, the Journal of Clinical Endocrinology and Metabolism
+ Licensing deal for China with Citrine Medicine and further distribution deals including Benelux Countries, Nordic countries and Turkey

DRUG DEVELOPMENT PIPELINE

Name	Indication	Pre-clinical	Phase I	Phase II	Phase III	MAA/ NDA	Est. regulatory opinion	Annual Addressable Market
Chronocort®	Congenital adrenal hyperplasia	US					2025	$106m
	Adrenal insufficiency	EU US					2023 TBC	$2,932m
DITEST™	Classical hypogonadism	US EU					2026 TBC	$5,069m
T3 modified-release	Hypothyroidism (T4 non-responders)	EU US					TBC TBC	$656m
Oligonucleotide (siRNA)	Cushing's disease	EU US					TBC TBC	$491m

EARLY-STAGE PIPELINE

DITEST™

+ Testosterone replacement treatment for patients suffering from male hypogonadism.
+ Successful Phase I study results announced in December 2019.
+ IND submission planned following positive meeting with the US FDA confirming 505(b)(2) regulatory pathway.

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.

Realising Global Ambitions

Outside of its core development territories of Europe and the US, Diurnal is seeking to maximise access to its cortisol deficiency treatments through licensing and distribution agreements. Diurnal has already entered into major agreements for the commercialisation of Alkindi® in the US and for the development, registration and commercialisation of Alkindi® and Efmody® in China. Outside of these territories, Diurnal is collaborating with a series of distribution partners who have substantial local regulatory and commercial expertise.

Read more on **page 6**

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 400,000 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 $2.9bn 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 $5.0bn.

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

$5.0bn
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] (AI only)	Orphan 7 years[1]	2033 Composition of matter and medical use	2033/2034 Composition of matter (x2)
DITEST™	Not an orphan disease	Not an orphan disease	2029 Composition of matter 2040[2] Medical use	2030 Composition of matter 2040[2] Medical use

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. Patent application WO2021/156043.

Global opportunity for cortisol deficiency business

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

Our global strategy

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

348,000
estimated number of EU patients

173,000
estimated number of US patients

Total addressable market size

US/Canada – Alkindi®

Diurnal's partner, Eton Pharmaceuticals, has launched Alkindi Sprinkle® in the US following approval by the FDA in September 2020 and will seek registration of Alkindi® in Canada.

>$100m
market opportunity in US[1]

US – Efmody®

Diurnal is preparing to commence a US Phase III trial of Efmody® in CAH following a successful fundraising in May 2021 and the subsequent agreement of a Special Protocol Assessment with the FDA.

$1.1bn
market opportunity[2]

DITEST™

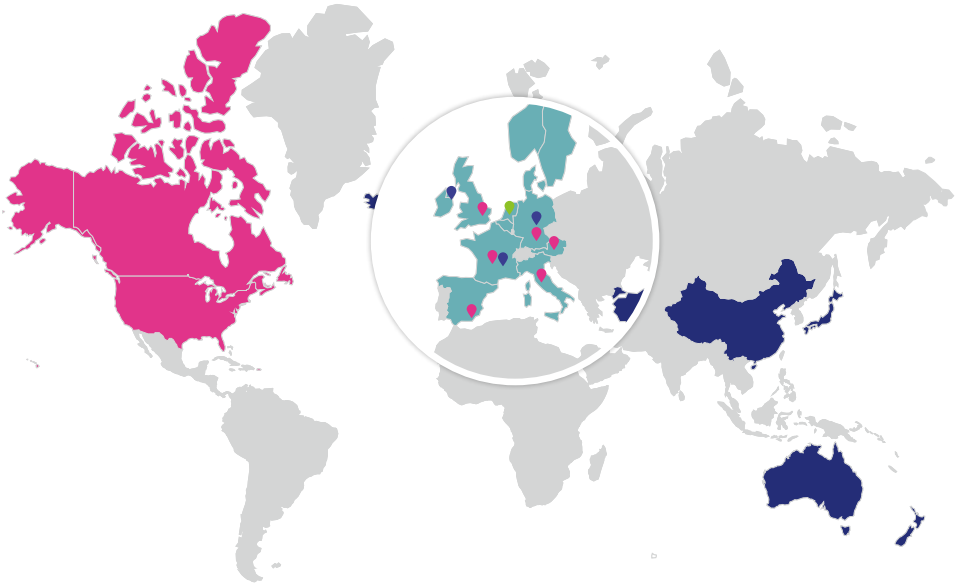
Preparations are underway to make an Investigational New Drug (IND) submission in the US ahead of commencing a multiple ascending dose study in men with low testosterone.

$5.0bn
market opportunity[2]

1. Eton Pharmaceuticals estimate for Alkindi Sprinkle®.
2. Based on Datamonitor report 2015 and price point of approximately $6,470 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, and packaging in France and Ireland.



Distribution Manufacturing Core commercial markets

Europe

Diurnal has direct sales and marketing infrastructure in major European markets, covering Alkindi® and Efmody®, supplemented by geographic distribution partners where appropriate.

$2.3bn
market opportunity

Switzerland

Diurnal has entered into a distribution agreement for Alkindi® with EffRx Pharmaceuticals; EffRx is seeking regulatory approval in Switzerland and will subsequently market the product.

$1m
market opportunity for Alkindi®

Nordics

Diurnal extended its distribution agreement with Consilient during 2021 to include commercialisation of Efmody® in the Nordic region, complementing Diurnal's existing agreement for Alkindi® with FrostPharma.

$14m
market opportunity for Alkindi® and Efmody®

Netherlands/Belgium

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

$14m
market opportunity for Alkindi® and Efmody®

Israel

Alkindi® has now been approved in Israel, with preparations being made for commercial launch following completion of pricing and reimbursement activities.

$7m
market opportunity for Alkindi® and Efmody®

Turkey

Diurnal has entered into a distribution deal with Er-Kim in Turkey, who will make Alkindi® and Efmody® available on a named-patient basis.

over 8,000
patients with CAH and Paediatric AI

China

Diurnal has entered into a licensing deal with Citrine Medicine for the development, registration and commercialisation of Alkindi® and Efmody® in China.

$43m
potential milestone and upfront payments

Australia

Alkindi® has been approved in Australia and our partner Chiesi (formerly Emerge Pharma) is currently undertaking pricing and reimbursement activities ahead of commercial launch.

$10m
market opportunity for Alkindi® and Efmody®

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 Efmody®

Realising our global ambitions

Diurnal has had a landmark year with two major product approvals, an exceptional achievement for a small company."

Sam Williams
Interim Chairman

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 12

Despite the headwinds caused by the Covid-19 pandemic, Diurnal has had a landmark year with two major product approvals, an exceptional achievement for a rapidly growing company. During the year, Diurnal has expanded its global reach through the execution of new licensing and distribution arrangements and has also successfully completed fundraisings that allow it to expand its pipeline opportunities. In addition, Diurnal has continued to grow product revenues in its core European markets of UK, Germany, Italy and Austria, despite the considerable impacts of the pandemic on its commercial operations. Taken together, these significant advances move Diurnal closer to its vision of becoming a world-leading endocrinology specialty pharma company. I am also pleased to be able to introduce Diurnal's emerging disclosures on environmental, social and governance aspects to illustrate the ways in which Diurnal is developing in a sustainable way that reflects the interests of all its stakeholders.

Building a global endocrine leader

Diurnal's core business model is to develop its own products in-house and commercialise these itself in major European markets, where the Group can cost-effectively promote these innovative products to specialist endocrinologists. The launch of Alkindi® has enabled Diurnal to build a fully integrated organisation that has the capabilities to design, develop and market innovative products addressing key unmet patient needs in chronic endocrine diseases. With the recent approval of Efmody® in CAH, the Group expects to realise significant synergies in the utilisation of its existing European commercial infrastructure and supply chain. This is also expected to lead to a rapid take up of Efmody®, as the launch gains momentum and the year progresses, and subsequently to create a profitable franchise in diseases of cortisol deficiency.

Outside of its core territories, Diurnal's strategy is to engage licensing or distribution partners who have extensive local knowledge, a strong commitment to our products, and the ability to rapidly gain market access. Diurnal has entered into a number of new partnerships during the last year, validating the Board's belief in the quality of the Group's products.

In the longer term, achieving profitability will enable Diurnal to self-finance its innovative early-stage pipeline, thereby yielding a portfolio of high-quality products to patients, as well as providing major value-accretion for Diurnal's shareholders. Diurnal will also assess external endocrine-focused opportunities that it believes will strengthen its business model.

Investing for the future

During the year, Diurnal successfully completed two oversubscribed fundraisings totalling £30.5m before expenses, designed to support the expansion of its pipeline opportunities in the Group's core cortisol deficiency franchise, as well as bringing forward earlier stage programmes that sit outside the cortisol deficiency area such as our native oral testosterone product, DITEST™. I would like to thank Diurnal's shareholders for their continued support of the Company.

It is the Board's expectation that the Group's cash reserves are now sufficient to take it through to profitability based upon current plans and assumptions, including expectations regarding the timing of product approvals and sales projections.

Focus on high-quality science

A key milestone for the Group during the year was the approval of Efmody® for the treatment of CAH in Europe, despite the Phase III study having missed its primary endpoint when completed in 2018. As many longer-term shareholders in Diurnal will recall, this was a particularly challenging experience in terms of the stock market reaction and the potentially negative impact it could have had on the morale of the Executive team. However, driven by confidence in the benefits of Efmody® for patients and by positive feedback from key opinion leaders, the team stuck to its belief that the data were beneficial enough to warrant regulatory review, and this underlying conviction helped the team guide the programme through the European regulatory submission and review process. The Board would like to thank the executive team for their persistence in achieving this milestone, as well as those shareholders who supported the Company during this period. The team's belief in the benefits of Efmody® was validated through the publication of the European Phase III data and follow-on study in the prestigious Journal of Clinical Endocrinology and Metabolism (JCEM), illustrating Diurnal's commitment to high-quality science through timely and transparent disclosure of data to the medical community via peer-reviewed publications.

Diurnal's scientific credentials were further validated during the year by the Laureate Award for Outstanding Innovation which was made to Diurnal's founder and Chief Scientific Officer, Professor Richard Ross, by the Endocrine Society.

Strong team with the ability to deliver

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 as people across our industry reassess working arrangements as a result of the Covid-19 lockdown. Diurnal has recruited a number of key positions during the year, further strengthening its team to continue to support the growth in the business.

The Covid-19 pandemic has provided unprecedented challenges in many areas of our business, in particular the conduct of clinical trials and commercialisation of our products. Our team has also had to work closely with our suppliers, particularly in manufacturing where staffing levels during the pandemic have created many challenges. 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 the significant challenges posed by Covid-19.

There have been significant additional pressures on our administration team this year, with a substantial increase in audit procedures, implementation of new cross-border trading arrangements following the end of the Brexit transition period and increased governance and disclosure requirements. Like many growth companies, Diurnal has a small administration team, and I would like to thank them for their resilience in absorbing this additional workload.

The Covid-19 pandemic has also had an impact on Diurnal's plans to strengthen its Board through the appointment of a permanent Chairman and an additional independent Non-Executive Director. With the gradual easing of restrictions on face-to-face meetings, Diurnal anticipates completing these key appointments before the end of 2021.

Well positioned to deliver further growth

Diurnal is heading into an intense period of activity, with a strong focus on the commercial roll-out of Efmody® in Europe together with the commencement of Efmody® development activities in the US, and initiation of new clinical studies to broaden and deepen our product pipeline. In parallel with its own efforts, Diurnal expects its commercial partners to make significant progress in the coming period. Whilst uncertainty remains around the ongoing impact of the Covid-19 pandemic, Diurnal believes that it is well positioned to make significant steps towards becoming a strong, sustainable global endocrinology leader during the forthcoming period.

Sam Williams
Interim Chairman
13 September 2021

Environmental, Social and Governance (ESG) reporting

Diurnal is developing its ESG reporting using a materiality-based approach.

This is detailed further on **page 14**

Strong team with ability to deliver

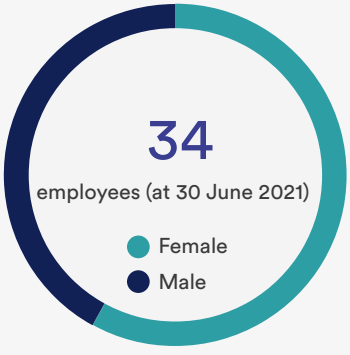
Our experienced leadership team has combined expertise in pharmaceutical development, manufacturing, regulatory, finance, strategy, business development and commercialisation, and is well placed to help Diurnal reach its full potential.

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.

Gender balance



Details of pay ratios along with details of the ways in which we reward our employees, are included in the Remuneration Report on pages 43 to 49.

Building an efficient commercialisation model

Our partnership with Ashfield Healthcare enables us to build a Diurnal-branded commercial organisation in our key European 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 in line with the planned commercial roll-out of Efmody®.

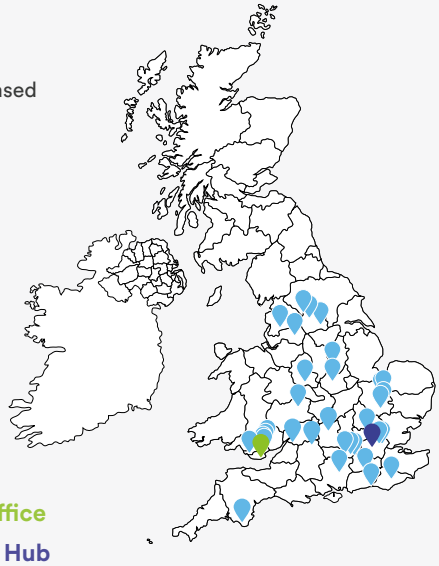
Employing the best people

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 background or home location, and has enabled Diurnal to recruit a diverse employee base, as well as minimising 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.

82%

staff home based



Human capital

This section details our working practices, which are designed to provide a family-friendly working environment for our employees.

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 I through to Phase III. Our team of employees comprises the following functional skills:

Corporate	2
Manufacturing and supply chain	7
Clinical operations	4
Commercial	5
Medical	4
Regulatory	4
Quality	4
Finance and administration	4

As at 30 June 2021

Read more about our Board on page 30

Richard Ross
Chief Scientific Officer

Tell us about the history of Efmody®
The history of Efmody® is a bedside to bench and back again story. At the turn of the century, our clinical research at the University of Sheffield was investigating the importance of hormone rhythms in physiology and how their disruption in endocrine diseases led to increased mortality. The last century had seen massive advances in the treatment of acute illnesses and we recognised that we needed to turn our attention to the treatment of chronic diseases to optimise health for life. The development of Efmody®, based on our patient data, commenced in 2004. The first formulation of Efmody® demonstrated that we were able to replace the cortisol circadian rhythm in patients with adrenal insufficiency but the formulation technology could not be scaled up for commercialisation. The current programme commenced around 2008 with the successful generation of the current Efmody® formulation. Since completing the IPO in 2015, we have been able to accelerate development and bring our research all the way from the bench back to the patient.

What have the key challenges been in developing Efmody®?
Designing an oral formulation to replace a hormone that has a short half-life and a distinct diurnal rhythm rising overnight to peak in the morning proved a technology challenge. Diurnal was lucky to have a team of formulation pharmacists that could rise to this challenge.

The Phase III Efmody® study was the first and largest study ever undertaken in patients with CAH. Efmody® worked as we had predicted and improved the disease control but failed to meet the primary endpoint because the prespecified methods for data analysis obscured the impact of Efmody® in the morning and early afternoon. This was a challenge, but encouraged by the investigators who saw the benefits for their patients and by the EMA who reviewed the data we submitted a marketing authorisation. Our persistence paid off with the approval of Efmody® for CAH in Europe this year.

Using the lessons from the European Phase III study, we are initiating a pivotal clinical development program for CAH in the USA and the broader indication of adrenal insufficiency.

What have been the particular highlights this year?
We were extremely pleased to have the European Phase III data, published in a peer-reviewed journal this year. Diurnal is strongly committed to complete transparency with the medical community, and we have seen a positive reception to the study data from the endocrinology community.

I was also very pleased to have agreed the US Phase III protocol with the FDA for the development of Efmody® in CAH, through a Special Protocol Assessment. This provides a clear pathway to registration for Efmody® in the US and the Diurnal team is looking forward to getting this study started later this year.

Personally, I was honoured to have received a Laureate Award for Outstanding Innovation from the Endocrine Society during the year, which in many ways bookends the journey with Efmody® that started at the turn of the century.

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.

Social capital

Diurnal's core business model is the development of treatments for rare, chronic diseases that are sub-optimally treated using an efficient, virtual business model. This section details the social impacts of Diurnal's operations across its different stakeholder groups.

	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 which is available to support medical queries about our products. 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 and through rigorous development of models demonstrating the added value of our products. 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 for all of our clinical studies. 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 that is both in line with our expectations and sustainable from the perspective of payers.

Section 172 statement

The Directors are required by the Companies Act 2006 to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its shareholders as a whole and in doing so, are required to have regard to the following:

+ the likely consequences of any decision in the long term;
+ the interests of the Group employees;
+ the need to foster the Group's business relations with suppliers, customers and others;
+ the impact of the Group's operations on the community and the environment;
+ the Group's reputation for high standards of business conduct; and
+ the need to act fairly as between members of the Company.

The Group has adopted the QCA Corporate Governance Code, which the Board believes is appropriate for the Group's size and stage of development. Details of how the Group applies principles of the QCA Code are set out on page 35.

The Chairman's and Chief Executive Officer's Statements describe the Group's activities, strategy and future prospects including considerations for long-term decision making on pages 8 and 16.

Engagement with the Group's major stakeholders is detailed below.

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 as well as ensuring our collaborators maintain the high standards we have set ourselves.	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, in particular where these can improve sustainability.	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 Group, 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. Our programme of audits also includes our collaborators.	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. Key suppliers are also included in our audit programme, which ensures relevant quality standards are maintained.	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 platforms to deliver key messages to the widest possible audience.
Feedback through our regular interactions with collaborators and results of our audit programme 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.

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.

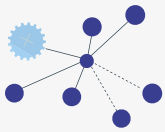
Suppliers

+ 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 core European commercial markets.

Our process

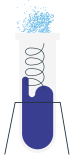


1. Development

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

2. Commercial

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



3. Manufacturing

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

ESG reporting

Reporting on the broader environmental, social and governance (ESG) aspects of business alongside financial performance is becoming increasingly important to stakeholders. Diurnal is currently undertaking a materiality assessment of its business to identify key areas for future reporting. Diurnal is using the Sustainability Accounting Standards Board (SASB) Biotechnology and pharmaceuticals standard to support the identification of material issues grouped under five key areas.

Environment

Diurnal's virtual business model has a minimal environmental impact, although there are wider impacts in Diurnal's supply chain. Early assessments from our materiality approach suggest that environmental issues will have a relatively low impact for Diurnal.

Read more on **page 29**

Social capital

Diurnal is focused on developing treatments for chronic endocrine diseases where there is a high level of unmet need. The development of medicines incorporates a number of areas that are materially significant to Diurnal, including accessibility, product quality and safety, and patient welfare.

Read more about the impacts on stakeholders on **pages 12 and 13**

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®, Efmody® and DITEST™.

Stakeholder value

Patients and their families

+ 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.

Human capital

As an intellectual capital-based business, Diurnal is dependent on a happy and motivated workforce to deliver its business goals, and consequently has a strong focus on creating a stimulating work environment for its employees. Employee engagement, as well as diversity and inclusion, are assessed to be material for Diurnal.

Read more about Diurnal's team on **pages 10 and 11**

Business model

Diurnal aims to build a sustainable business, where commercial success generates earnings to reinvest in an innovative product pipeline. Management of our supply chain is key to ensuring patients have uninterrupted access to Diurnal's medicines. Supply chain considerations are significant material issues for the Group.

Read more about Diurnal's strategy on **pages 22 and 23**

Leadership & governance

The Board of Diurnal is committed to a strong governance culture in order to ensure the business is controlled appropriately as it progresses towards becoming a global endocrine leader. In particular, business ethics in the development and promotion of medicines is assessed to be a material area for Diurnal's operations.

Read more on **pages 34 to 38**

Building a global endocrinology leader

Underpinning Diurnal's vision is the development of a strong commercial business in Europe."

Martin Whitaker
Chief Executive Officer

Highlights

- Alkindi Sprinkle® approved by FDA in the US and subsequently launched by partner Eton Pharmaceuticals
- Efmody® approved in the EEA and GB for treatment of adolescents and adults with CAH
- Further Alkindi® regulatory approvals in Australia and Israel
- Special Protocol Assessment agreed with FDA for Efmody® Phase III trial in CAH
- Publication of Efmody® Phase III date in the Journal of Clinical Endocrinology and Metabolism
- Completion of two fundraisings totalling £30.5m before expenses

A year of continued progress

During the past year, Diurnal has continued to make strong progress towards its vision of becoming a world-leading endocrinology specialty pharma company, despite the challenging backdrop posed by the Covid-19 pandemic.

Underpinning this vision is the development of a strong commercial business in Europe, initially focused on delivery of the Group's two lead products, Alkindi® and Efmody®, for patients suffering from the rare diseases adrenal insufficiency (AI) and congenital adrenal hyperplasia (CAH), a combined potential market of $2.3bn. Diurnal has built one of the few dedicated endocrinology-focused commercial teams in Europe, focused on building awareness of its products within a concentrated prescribing community, that will cover our core commercial markets: (the UK, Germany, Austria, Italy, France and Spain), along with a European-based supply chain that is able to support global distribution of both Alkindi® and Efmody®.

The Group has entered into further licensing and distribution deals during the year which are expected to expand the availability of Alkindi® and Efmody® to patients outside of our core European markets and to maximise the value of these products globally.

The Group is also building a pipeline of valuable opportunities addressing chronic endocrine disorders. In particular, Diurnal has made significant progress in the development of DITEST™, its native oral testosterone replacement product for the treatment of hypogonadism, a potential global market of greater than $5bn.

Alkindi®: establishing a global product presence

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 as a formulation specifically designed for the paediatric setting. Diurnal's commercialisation efforts for Alkindi® are focused on the larger European markets, and initially on patients aged 0–6 years where the unmet need is highest. In Europe, Alkindi® has been launched by Diurnal in the UK, Germany, Italy and Austria, and by its partner FrostPharma in Sweden, Denmark, Norway and Iceland.

During the year, the Group saw continued growth of Alkindi® sales in the UK and Germany, despite the impact of the Covid-19 pandemic on patients' ability to visit hospitals and, consequently, physicians' ability to switch these patients to Alkindi®. Growth from new territories where Alkindi® was launched during the year, including Italy, was modest, reflecting the limitation of impactful in-country launches due

to the Covid-19 pandemic. The Group saw a decline in revenues deriving from the Nordic region, largely reflecting timing of sales to its Nordic distribution partner. The Financial Review provides further detail on the development of Alkindi® revenues during the year.

Diurnal has further expanded the availability of Alkindi® in Europe during the year through execution of distribution deals with Consilient Health, covering the Benelux region (the Netherlands, Belgium and Luxembourg), and with EffRx in Switzerland. Pricing for Alkindi® has been approved in the Netherlands and the launch planning is underway by Consilient Health, whilst EffRx submitted a marketing authorisation application (MAA) to SwissMedic during the year, with approval anticipated during H2 2021. Pricing has not yet been agreed for Alkindi® in France or Spain; but for both territories Diurnal intends to resume the opportunity once Efmody® has been launched.

In the US, where the product is called Alkindi Sprinkle®, the US Food and Drug Administration (FDA) approved the product at the end of September 2020 for children aged under 17 years of age. In November 2020, less than two months after approval, Diurnal's partner, Eton Pharmaceuticals (Eton), announced the market launch of the product. Diurnal and Eton are awaiting confirmation of Orphan Drug Status from the FDA, which will trigger a $2.5m milestone payment to Diurnal. Following the approval of Alkindi Sprinkle® in US, Eton received interest from physicians in Canada and Diurnal subsequently extended its licensing deal with Eton to cover Canada in January 2021.

Diurnal's Australian partner, Chiesi (previously Emerge Health), received approval for Alkindi®, with no age restriction, and the Group's partner in Israel, Medison Pharma, received approval for Alkindi® in children under 18 years of age. Launches in these territories are expected following completion of pricing and reimbursement activities.

Elsewhere in the world, Diurnal entered into a licensing deal with Er-Kim in Turkey to supply Alkindi® on a named patient basis and a licensing deal with Citrine Medicine in China for Alkindi® during the year, both of which represent substantial market opportunities. Er-Kim is currently undertaking pricing and reimbursement activities ahead of the planned launch of Alkindi® and Citrine is preparing a regulatory dossier ahead of submitting Alkindi® for approval in China.

Diurnal continues to assess the opportunity for Alkindi® in Japan and, during the year, the Group formulated a development and regulatory strategy for this market. Consistent with this strategy, a submission for regulatory protection was submitted to the Japanese Ministry of Health, Labour and Welfare (MHLW) by the Japanese Paediatric Endocrine Society on behalf of Diurnal, ahead of commencing any local development activities.

To ensure the Group is able to meet anticipated future demand for Alkindi®, including supplying its global partners, several manufacturing improvement initiatives are underway, including the development of a higher throughput encapsulation and scale up of the granule manufacturing process. It is envisaged that these enhancements will be implemented on a timely basis, including relevant regulatory submissions.

Efmody®: expanding the cortisol deficiency franchise

Diurnal's second product candidate, Efmody®, provides a drug release profile that is designed to improve disease treatment for adults and adolescents with CAH, as measured by androgen (male sex hormone) control.

A pivotal event for the Group during the year was the approval of the Marketing Authorisation Application (MAA) for Efmody® as a treatment for adults and adolescents with CAH by the European Medicines Agency (EMA) and, subsequently, the UK Medicines and Healthcare Regulatory Agency (MHRA). These approvals were based upon a Phase III study conducted in a total of 122 patients enrolled across eleven clinical sites, the largest ever interventional clinical trial completed in CAH. The Phase III data was supported by detailed analysis of data from an open-label safety extension study for patients completing treatment in the Phase III study, which is assessing the impact of treatment with Efmody® over an extended period, regardless of whether the patients were initially treated with Efmody® or standard-of-care. 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 five years with Efmody®.

Efmody®: expanding the cortisol deficiency franchise continued

Reflecting the high quality of the data supporting the Efmody® MAA, Diurnal was pleased to announce during the year the publication of the peer-reviewed results of the Phase III clinical trial and extension study for Efmody® in the Journal of Clinical Endocrinology and Metabolism (JCEM). The Phase III study results published by the JCEM found that although the standard-deviation-score-focused primary endpoint of the study was missed, Efmody® significantly improved morning and early afternoon biochemical control for adults with CAH over standard glucocorticoid therapy. In the safety extension study, biochemical control was sustained for 18 months on median hydrocortisone doses in the range recommended for cortisol replacement therapy and lower than glucocorticoid doses normally used in the treatment of CAH. This important publication reflects Diurnal's goal of high-quality development programmes and transparency with the medical community, and will be a valuable resource for Diurnal in its discussions with potential prescribers.

The regulatory approvals in the European Economic Area (EEA) and Great Britain (GB) have enabled Diurnal to progress pricing applications across Europe, to facilitate a timely commercial launch in its target European markets, with the first commercial launches in Germany, Austria and the UK in September 2021. The Group intends to mirror its strategy for Alkindi® by commercialising the product itself in core European markets. In particular, the approval for the use of Efmody® in adolescent patients (i.e., aged 12–18) will enable Diurnal's commercial organisation to focus on both adult and paediatric endocrinologists, providing significant synergies with the continued promotion of Alkindi®.

Launch stocks for Efmody® have been manufactured in advance of the planned launches, utilising many aspects of the supply chain that have already been established for Alkindi®. As with Alkindi®, the Group is undertaking several initiatives to enhance capacity and reduce cost of goods of Efmody® in the mid-term.

Outside of its core European markets, Diurnal intends to make Efmody® available commercially through distribution or licensing deals with local partners who can quickly gain market access. Diurnal expanded its global reach during the year through entering into distribution deals with Consilient Health for Benelux and Nordic countries, with Er-Kim to supply Efmody® in Turkey (on a named patient basis) and, subsequently, extended to include Romania and Bulgaria. These new collaborations add to the Group's existing Efmody® distribution agreements with Chiesi in Australia and Medison Pharma in Israel.

In the US, the FDA has previously indicated that the registration package for CAH requires an additional study to the European Phase III CAH study. During the year, Diurnal successfully completed a Special Protocol Assessment (SPA), formalising agreement of the US Phase III protocol with the FDA. In parallel with the regulatory discussions, the Group has engaged a global clinical research organisation (CRO) to conduct the US Phase III development and expects to commence recruitment in this study in Q4 2021. This double-blind, double-dummy study comparing Efmody® to standard of care will be run in several countries in addition to the US. Notably, the study will include centres in Japan, where the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) has agreed this study can act as the registration study for Efmody® in Japan. The study is expected to take approximately 12 months to recruit, with patients being on treatment for 12 months. Diurnal completed a fundraising in May 2021 that will fund this development programme, which the Group believes will significantly increase the future value of the programme, as well as broadening the pool of potential commercialisation partners.

Diurnal continues to seek collaboration opportunities in other global markets, which has been exemplified by the extension of its existing Alkindi® licensing deal for China with Citrine Medicine to include Efmody®.

In addition to expanding the global availability of Efmody® to CAH patients, Diurnal is also seeking to expand its utility into the related condition, AI, a market opportunity of approximately $2.9bn across Europe and the US. Part of the fundraising completed in October 2020 will enable Diurnal to commence a study of Efmody® compared to the approved product Plenadren® in Europe, which Diurnal believes, along with the Phase III CAH study, will facilitate submission of a line extension to AI in Europe, and will also provide valuable insights into future development of Efmody® in AI in the US.

DITEST™: expanding the innovative product pipeline

Diurnal's third novel product, DITEST™, is a native oral testosterone therapy for the treatment of male hypogonadism. The estimated $5.0bn market in US and Europe for testosterone-based products for the treatment of hypogonadism is dominated by topical 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.

A Phase I study evaluating the pharmacokinetics, safety and tolerability of DITEST™ in adult men with primary or secondary hypogonadism demonstrated the achievement of testosterone levels within the healthy young male adult normal range after oral administration, with levels that were less variable than the comparator, 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 study also demonstrated that 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 has completed non-clinical activities requested following a meeting with the FDA during the year, at which it was confirmed that DITEST™ can progress to a New Drug Application (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. Diurnal is now progressing towards an Investigational New Drug (IND) submission expected in Q4 2021, with a view to commencing a Phase I multiple ascending dose study in the US in male patients with low testosterone shortly thereafter. Assuming this study is successful, the FDA indicated that a single Phase III study should be sufficient to obtain approval for DITEST™ in the US.

Outlook

Following the approvals in Europe, Efmody® will provide the Group's commercial cortisol replacement therapy franchise with critical mass, enabling Diurnal to build a strong and profitable European business through penetration of the combined addressable market for the treatment of CAH and paediatric AI, which is estimated by the Group to be worth over $300m in Europe alone. In addition, the Group expects an increased contribution from its licensing and distribution partners outside of Europe once regulatory and/or pricing and reimbursement activities for Alkindi® are completed in these territories.

The Group has now commenced the development of Efmody® in AI, initially in Europe but with a view to extending development in due course to the US, where Diurnal is not aware of any competition in the AI indication. In the US, Diurnal will continue to assess a range of options for the commercialisation of Efmody® following the completion of Phase III development in CAH.

DITEST™ represents a further valuable addition to Diurnal's growing pipeline of novel endocrinology treatments and the Group is moving forward with the next stage of development in order to maximise the value of this product in the $5.0bn potential market in the US and Europe.

With the operational progress made over the past year, 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
13 September 2021

COMMERCIAL OPPORTUNITY IN CAH AND AI

Q&A with our CEO

How do you feel Diurnal performed this year?

Diurnal has made significant strides towards becoming a profitable, global endocrinology leader this year, with four regulatory approvals worldwide for our late-stage cortisol deficiency products.

Firstly, in September 2020 the US Food and Drug Administration (FDA) approved Alkindi Sprinkle®. We were pleased to learn that Diurnal is only the third AIM-listed company to achieve a US product approval, highlighting the strength of both our data and the Diurnal team. Alkindi Sprinkle® was rapidly made available commercially by our partner, Eton Pharmaceuticals, who report that the product has been well-received by the US prescribing community. Secondly, over 15 years of research and development activity culminated in the approval of Efmody® for the treatment of congenital adrenal hyperplasia (CAH) in the European Economic Area (EEA) and in Great Britain (GB) towards the end of our financial year.

We also saw excellent progress during the year in making Diurnal's products available around the globe, with regulatory approvals for Alkindi® in Australia and Israel.

The progress that Diurnal has made this year enabled it to successfully complete two oversubscribed fundraisings, which will support the US development of Efmody® in CAH, the expansion of Efmody® into adrenal insufficiency (AI) and the further development of DITEST™.

How has the Covid-19 situation impacted your progress?

In common with similar businesses, the ongoing pandemic situation has presented Diurnal with numerous challenges. This has been most visible in our Alkindi® commercialisation activities, where the rate of growth in prescriptions has been significantly slowed by lockdown measures. Whilst Diurnal was able to adapt its commercial activities to a virtual environment, the restrictions on patients visiting hospitals has impacted the ability to switch them from their current medication to Alkindi®. Encouragingly, we believe that the majority of newborn patients are now receiving Alkindi®, and we expect to return to stronger growth as the pandemic measures are relaxed. We are grateful to our manufacturing partners for their efforts in enabling us to maintain continuity of drug supply for Alkindi® for patients during the pandemic, despite disruption to their own businesses.

Equally, there have been challenges in our ongoing Efmody® safety extension study: our clinical team has worked closely with our trial investigators and clinical research organisation (CRO) to adapt the ongoing study to a virtual working environment, and we have managed to avoid major disruption to this study.

More positively, the Covid-19 pandemic has highlighted the benefits of Diurnal's established virtual, home-based working environment, which operates for the majority of our team, and has assisted us in attracting a number of experienced recruits during the pandemic to strengthen our operations.

Overall, Diurnal's staff have worked extremely hard to navigate the Covid-19 situation, and I would like to express my gratitude to them for these efforts.

What future challenges do you see to the business?

With three major clinical trials commencing in the next six months, we are mindful of the continued disruption to hospitals caused by Covid-19 and have selected CROs to work on these studies who have robust Covid-19 mitigation strategies. We believe this will enable Diurnal to start these studies on a timely basis and to recruit patients to our planned timelines.

We are also mindful that lockdown measures remain in place to varying degrees across Europe as we prepare for the imminent launching of Efmody®. Our commercial team has undertaken extensive planning to ensure that the Efmody® launch campaign is successful despite the uncertainty around access to hospitals due to pandemic measures.

Finally, there is a continued focus globally on the cost effectiveness of medicines that impacts the entire pharmaceutical industry, in particular the potential for significant US healthcare reforms over the next few years. 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.

What are your long-term plans for Efmody® in the US?

With the recent agreement by the US FDA of the Special Protocol Assessment (SPA) for our Phase III study in CAH, there is now a greater degree of certainty regarding the regulatory pathway through to regulatory submission. We are also looking to the planned European study of Efmody® in AI, not only to unlock this opportunity in Europe, but also to guide future US development in this indication – a large commercial opportunity with little competition. Assuming the commercial roll-out of Efmody® in Europe is in line with our expectations, we have the potential to fund a US AI study ourselves.

With regards to the eventual commercialisation of Efmody®, we remain in regular contact with potential partners as well as being mindful that we have the potential to establish our own commercial footplate in the US and will assess the optimal route for Diurnal's stakeholders over the next year.

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

There continues to be strong interest in Alkindi® and Efmody® across the globe, in particular catalysed by the regulatory approvals achieved during the year.

A key achievement during the year was the entry into licensing agreements for Alkindi® and Efmody® in China with Citrine Medicine. We believe that these products could meet a significant unmet need in China: the Chinese health authorities have designated CAH as a rare disease and have also recently been focusing on treatments for chronic paediatric diseases.

Japan remains a large opportunity for our late-stage pipeline: Diurnal has been working with a global CRO to formulate a development, regulatory and commercial strategy to support its ongoing business development activities in Japan. We recently agreed with the Japanese regulatory authorities that the planned Efmody® US Phase III study can also act as a registration study for Japan, accelerating the development of Efmody® in this territory. For Alkindi®, we have been working with the Japanese patient society, who are enthusiastic about having this product available for Japanese paediatric patients.

Finally, we will continue to look for opportunities to enter in distribution deals outside of our core European territories, as exemplified by a number of new deals for our cortisol deficiency products this year.

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

During the next year we will begin the commercial roll-out of Efmody® and look forward to reporting progress across Europe. We also expect to be able to report a return to a normal sales trajectory for Alkindi® European sales as the impacts from Covid-19 lessen.

In our development pipeline, we expect to commence three major clinical trials during the second half of 2021: the Efmody® US study, a European study with Efmody® in AI and a multiple ascending dose study for DITEST™. Once again, we expect a busy year and look forward to reporting progress to stakeholders next year.

Our strategic focus

Building a platform for growth

The cornerstone of Diurnal's strategy is to build a profitable European business around its cortisol deficiency franchise, through commercialisation itself in the UK, Germany, Italy, France and Spain, and using distribution partners outside of these core markets.

Through this, Diurnal expects to generate funds which it can use to broaden the use of its cortisol deficiency products, by adding new disease indications and geographies, and also to invest in its novel, patent-protected early-stage pipeline. Through this reinvestment of earnings, Diurnal believes it can maximise the value of its business for all stakeholders.

Creating a focused commercial platform

Diurnal's pipeline of endocrinology products is focused on niche, rare and orphan conditions. Patients with such conditions are typically seen in specialist treatment centres: often university/teaching hospitals. Diurnal's estimates that there are less than 200 such centres across its core commercial markets.

As a result, Diurnal is able to address its core prescribing audience with a small team, typically one or two key account managers per country, supported by Diurnal's medical liaison team. This lean infrastructure will market to both paediatric and adult endocrinologists, providing significant synergies between the commercialisation of Alkindi® and Efmody®.

Read more on pages 16 to 19

Development and regulatory

Commercialisation

Strategic collaborations

Financing

Business model

Diurnal operates a virtual business model using a network of collaborators. This section highlights how Diurnal aims to build a sustainable business.

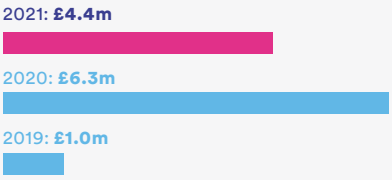
Read more on pages 14 to 15

What we achieved in 2020/21	Our focus for 2021/22
The Group achieved four worldwide approvals during the year, with major approvals for Alkindi Sprinkle® in the US and Efmody® for CAH in Europe. Read more on **pages 16 to 19**	A key focus for the next year is commencing clinical trials with Efmody® for CAH in the US and for AI in Europe, and the next DITEST™ study. Diurnal will also support our partner in China for their planned regulatory submissions, seeking approval for Alkindi® and Efmody® in China.
During the year the focus has been in preparing health economic arguments for Efmody®, in anticipation of its approval in Europe. Read more on **pages 16 to 19**	The key focus for the next year will be the Efmody® European launch, whilst also ensuring sales of Alkindi® are optimised as Covid-19 restrictions relax. Diurnal will also continue to review the optimal model for commercialisation of Efmody® in the US.
Diurnal entered into collaborations for Alkindi® and Efmody® in China during the year. A number of deals were also put in place for countries outside of Diurnal's core commercial markets, including Turkey, the Benelux countries and Canada. Read more on **pages 16 to 19**	Diurnal will continue to assess the opportunity in Japan during the next year, including discussions with potential partners, as well as focusing on supporting our existing distribution partners with their local product launches.
Diurnal completed oversubscribed fundraisings in October 2020 and May 2021, raising a total of £30.5m before expenses, which will fund its development activities for Efmody® and DITEST™. Read more on **pages 25 to 27**	Diurnal's focus for next year is to successfully launch Efmody® in Europe, so it can move towards a position of being able to self-finance future development activities.

Measuring our success

Total revenues

£4.4m



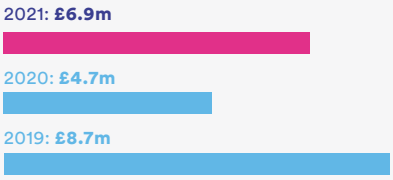
Definition
Product revenues, net of provisions, plus income from product licensing agreements.

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 decreased reflecting a decline in Alkindi® product sales and lower licensing income, which tends to fluctuate depending on progress in the Group's collaborations.

Research and development expenditure[1]

£6.9m



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

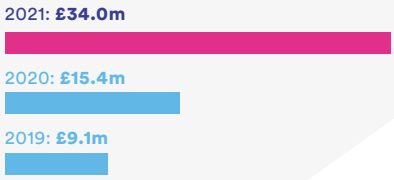
Why we measure
Indicates investment in future potential products.

Performance
Research and development expenditure increased in line with expectations reflecting set-up cost for three major new clinical trials.

1. After adding back capitalised development costs.

Cash and cash equivalents

£34.0m



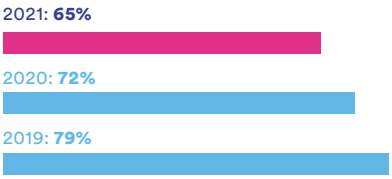
Definition
The Group's cash resources representing deposits with a maturity of less than three months.

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 progress the Group's cortisol deficiency franchise to profitability, based upon current plans and assumptions.

Gross margin (on sale of goods)

65%



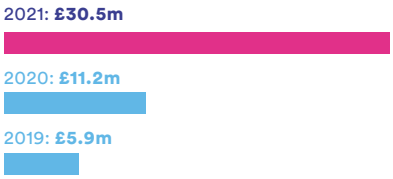
Definition
Gross margin on sale of goods (as defined in Note 3 to the financial statements) as a percentage of sale of goods.

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 the provision for expiring stock and price adjustments in the Nordic markets.

Funds raised (gross of expenses)

£30.5m



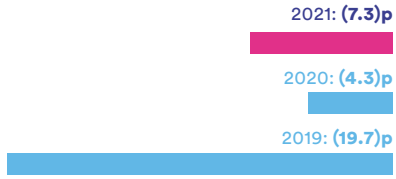
Definition
Funds raised both through placings and open offers, from institutional and retail investors.

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

Performance
The Group successfully completed fundraisings of £9.8m and £20.7m during the year to support the continued development of its cortisol deficiency franchise and early stage pipeline.

Earnings/(loss) per share

(7.3)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
The increase in loss per share reflects lower revenues and the planned increase in research and development expenditure.

Investing for the future

The Group will continue to invest in the continued commercial roll-out of Efmody® and its development pipeline."

Richard Bungay
Chief Financial Officer

Revenues and gross margin

Total revenues for the year were £4,371k (2020: £6,313k), comprising Alkindi® product sales of £2,267k (2020: £2,390k) and licensing income of £2,104k (2020: £3,923k).

Product sales of Alkindi® of £2,267k for the year ended 30 June 2021, on a statutory reporting basis, include a retrospective price adjustment of £104k. This relates to sales to Diurnal's Nordic distribution partner which were originally recorded by Diurnal in the year ended 30 June 2020. In addition, levies and rebates previously included within selling and distribution expenditure have been reclassified as a deduction from Alkindi® product sales, following an internal review of Diurnal's revenue accounting policy. The impact of this was to reduce reported Alkindi® product sales by £88k for the year ended 30 June 2021 and to reduce selling and distribution expenditure by the same amount. The equivalent levies and rebates figure for the prior year, which has not been adjusted in the consolidated income statement, is £79k.

Diurnal saw continued growth of Alkindi® sales in its core commercial markets of the UK, Germany, Italy and Austria, with proforma sales increasing by 18% despite the impact of the Covid-19 pandemic on patients' ability to visit hospitals and, consequently, physicians' ability to switch these patients to Alkindi®. Proforma sales in other markets decreased by 21%, primarily due to timing of bulk sales to the Group's Nordic partner, with proforma sales into the Nordic region for the year 56% lower than the comparative period.

Alkindi® sales growth in existing markets is expected to accelerate with the gradual lifting of Covid-19 restrictions. In addition, the Group expects further country launches during the next 12 months that will provide additional revenue growth opportunities for Alkindi®.

Milestone and licensing income for the year of £2,104k includes a total of $2,750k (£1,952k) in signature fees and milestone payments from Citrine Medicine relating to the licensing deals for Alkindi® and Efmody® in China. Milestone and licensing income of £3,923k for the year ended 30 June 2020 comprised a $5m non-refundable upfront payment relating to the US licensing deal with Eton Pharmaceuticals for Alkindi®. These milestone and upfront payments have been recognised in full in the respective financial years, as they are not associated with any future obligations.

Revenues and gross margin continued

Cost of goods relates entirely to product sales of Alkindi®. Gross margin for Alkindi® product sales during the year was 65% (2020: 72%). Gross margin for the year was depressed by the inclusion in cost of sales of a provision for expiring inventories of finished goods totalling £107k (2020: £17k), primarily relating to stock manufactured for the Nordic market. Excluding this provision, gross margin for Alkindi® product sales during the year was 70%. The overall gross margin was impacted by the mix of sales, in particular between core commercial markets, distributor markets (where Diurnal divides revenue with its distribution partner) and for product supplied to licensing partners from Diurnal's European supply chain at cost. Overall, gross margin during the year for Diurnal's core commercial markets (UK, Germany, Italy and Austria) was 78%.

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's Review.

Operating expenses

Research and development (R&D) expenditure for the year was £6,915k (2020: £4,625k). The significant increase in R&D expenditure reflects the set-up of key studies designed to increase the value of Diurnal's pipeline, including the Efmody® US Phase III trial in CAH, the Efmody® European comparator trial in AI, and the DITEST™ multiple ascending dose study in the US, along with DITEST™ non-clinical activities in support of the planned Investigational New Drug (IND) submission to the FDA. The increased expenditure also includes development and regulatory pathway planning activities for Alkindi® and Efmody® in Japan and initial manufacturing scale-up activities for Efmody®, which are expensed to the consolidated income statement.

Reflecting this increase in clinical trial activity, R&D expenditure is expected to grow substantially in the next financial year as patient recruitment commences in these studies.

R&D costs are net of capitalised development costs for the development of Alkindi® and for the development of Efmody® for CAH in Europe totalling £25k (2020: £38k). The Group continues to expense development costs relating to the separate programmes for Efmody® development in AI in Europe and in CAH in the US.

Selling and distribution expenses, comprising the costs of the Group's sales and marketing, medical liaison and supply chain activities, were £5,236k (2020: £4,135k). This planned increase in expenditure reflects the Group's preparations for the commercial launches of Efmody® beginning in Q3 2021. In particular, the Group has initiated health economic modelling and pricing work to support pricing and reimbursement applications across Europe following the approval of Efmody® in the European Economic Area (EEA) and in Great Britain (GB).

Administrative expenses for the year were £3,056k (2020: £2,904k). Expenses for the year reflect substantially increased costs for audit fees and corporate insurances, reflecting a broader economic backdrop of increased risk arising from recent corporate failures and the impact of Covid-19.

Operating loss

Operating loss for the year increased to £11,600k (2020: £5,392k), reflecting the impact of lower revenues and increased operating expenses outlined above. Operating loss for the year includes a gain of £15k (2020: gain of £627k) relating to the shares held in Eton that were received as part of the upfront consideration for the exclusive licence agreement of Alkindi Sprinkle® in the US, which is shown under "Other gains – net" in the consolidated income statement. Since the issue of the Eton shares to Diurnal in March 2020, their value has increased by £642k, of which £269k has been realised at 30 June 2021 through the sale of 161,692 shares for total cash proceeds of £713k, and of which £373k remains unrealised at 30 June 2021.

Financial income

Financial income in the year was £62k (2020: £114k), reflecting a reduction in interest rates on commercial deposits following the introduction of economic measures resulting from the Covid-19 pandemic.

Loss on ordinary activities before tax

Loss before tax for the period was £11,538k (2020: £5,278k).

Tax

The current year includes the estimated research and development tax credit claim in respect of the year ended 30 June 2021 of £1,485k, which has not yet been submitted to HMRC, along with an additional £5k in respect of the year ended 30 June 2020 following finalisation and agreement of the claim with HMRC. The increase in R&D tax credit receivable at the year end mirrors the increased 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. Following the European approval of Efmody® during the year, the Group expects to be able to achieve profitability on the assumption that Efmody® sales are in line with the Group's internal projections. However, since the Group is in the pre-launch phase there remains uncertainty regarding the Efmody® revenue stream and, consequently, the ability to achieve profitability.

Earnings per share

Loss per share was 7.3 pence (2020: 4.3 pence).

Cash flow

Net cash used in operating activities was £10,662k (2020: £4,809k). The operating cash outflow significantly increased during the year, reflecting the lower revenues and increased operating expenditure detailed above, as well as increases in working capital noted below, particularly the increase in inventories and prepayments.

Net cash from financing activities during the year of £28,762k represents the net proceeds of the placings completed in October 2020 and May 2021. Net cash from financing activities in the prior year of £10,670k reflects the net proceeds of the placing and open offer completed in March 2020.

Balance sheet

Total assets increased to £41,790k (2020: £20,976k), largely reflecting the fundraisings completed in October 2020 and May 2021, 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® and Efmody®. Total stock at the year end increased substantially to £1,625k (2020: £1,241k); this reflects both an unplanned increase in Alkindi® inventory, reflecting lower revenues than expected resulting from Covid-19 restrictions, as detailed above, along with the planned accumulation of launch stocks for Efmody®. As Covid-19 restrictions lift, it is expected that Alkindi® inventories will reduce with the anticipated growth in product sales.

Trade and other receivables increased to £3,433k (2020: £1,337k), largely driven by upfront payments to clinical research organisations relating to the set-up of Efmody® clinical studies totalling £960k and cash proceeds from the sale of Eton shares not yet transferred to Diurnal of £713k.

Investments held at fair value through profit and loss of £970k (2020: £1,668k) solely relate to the shares held in Eton noted above. Reflecting the intention to dispose of the Eton shares, the investment has been reclassified from non-current to current.

Cash and cash equivalents were £34,037k (2020: £15,434k).

Total liabilities increased to £4,226k (2020: £2,591k), primarily due to timing of payments to trade creditors and an increase in accrued expenses, largely arising from an increase in the accrual for employers National Insurance due on the exercise of share options, reflecting the substantial increase in the Company's share price during the year.

Proposed change of accounting year end

In order to better align Diurnal's reporting calendar to its international peer group, the Group intends to change its accounting year end to 31 December. Diurnal intends to operate an 18-month accounting period to 31 December 2022, with interim results to be issued for the six-month period ended 31 December 2021 and 12-month period ended 30 June 2022. Diurnal will provide comparative information for the calendar years ended 31 December 2020 and 31 December 2021 in order to enable investors to better track the performance of the Group.

Financial outlook

During the next financial year, the Group will continue to invest in the continued commercial roll-out of Efmody® and in its development pipeline, and will progress activities designed to improve the gross margin of its products whilst minimising its working capital requirements. The Group also remains focused on maintaining a streamlined organisation and a disciplined cost base.

Diurnal expects its cash resources to take its core commercial European cortisol deficiency franchise through to profitability based upon current plans and assumptions, including expectations regarding the timing of product approvals and sales projections. The Group intends to "ringfence" this franchise and to seek incremental funding and/or partnering arrangements for discrete, future development opportunities. These plans assume that Diurnal enters into a licensing agreement for the commercialisation of Efmody® in the US, and does not include the potential for investment in DITEST™ Phase III clinical development and/or Efmody® US studies in adrenal insufficiency (AI), which could require additional financing being available to the Group if the Group was unable to self-finance these activities through its operating cash flows, through additional equity investment, non-dilutive financing and/or partnering arrangements.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the Strategic Review on pages 28 to 31.

Richard Bungay
Chief Financial Officer
13 September 2021

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 management of each risk.

Operational risk management

To effectively manage the business, including risks, the Group regularly reviews 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, Clinical, Manufacturing and Quality teams, in addition to project teams, meet at least once a month to review progress of all key projects and identify key issues for discussion with the senior management team.

Risk management framework

Strategic governance

Board

Audit Committee

Remuneration Committee

Nomination Committee

Operational governance

Setting and monitoring Group objectives and key performance indicators, including functional and project review meetings

Financial governance

Central support functions, including Group policies and procedures and internal controls

Quality systems (GXP)

Group policies and standard operating procedures

External advisers

Review and challenge externally facing activities

Environment

Diurnal operates a virtual business model, with most of its employees being home based and key functions such as supply chain being entirely outsourced. As a consequence, Diurnal's operations have a minimal environmental impact: a key focus for the future is engagement with its external partners to ensure that they have appropriate environmental policies and they are managing environmental risks adequately.

Impact of Covid-19 pandemic

The Covid-19 pandemic has impacted business globally, with the potential for significant disruption across Diurnal's operations, including clinical development, regulatory, supply chain and commercial. 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 (general risks)	Mitigation of general impacts	Change (Covid-19 related)	Mitigation of Covid-19 specific impacts
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.	▶	The Group has successfully engaged with the US FDA for the design of the Efmody® US pivotal Phase III study in CAH. The Group maintains a close dialogue with both regulators for early visibility of any potential delays.
Delays in clinical study enrolment	▲ Commencing new Efmody® and DITEST™ clinical trials	Timely subject enrolment is a common challenge for pharmaceutical development. In addition, competitor activities in CAH may impact the availability of patients for the US Phase III pivotal study in CAH (see "Competitor products" below). 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.	▲ Significant increase in clinical trial activity	The Group is currently starting up three Efmody® clinical trials and a DITEST™ clinical trial. Selection criteria for the CROs running these trials included their approach to managing potential disruption from the pandemic, including measures such as remote monitoring, video consultations, home visits and direct delivery of study drug.
Approval of products	▶	The Group will utilise its experience from the successful registration of Alkindi® in Europe and the US and Efmody® in Europe during the regulatory approval process for Efmody® in the US, 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 sought scientific advice from the US FDA in advance of commencing the Efmody® pivotal US clinical study in CAH through the Special Protocol Assessment process.	▼ Alkindi® and Efmody® regulatory approvals	The Group successfully completed the regulatory review process for both Alkindi® in the US and Efmody® in Europe during the pandemic. With the next regulatory submission several years away, the Group expects Covid-19 challenges to have significantly lessened by the time of that submission. The Group maintains a close dialogue with both regulators for early visibility of any potential delays.

Risk description	Change (general risks)	Mitigation of general impacts	Change (Covid-19 related)	Mitigation of Covid-19 specific impacts
Reimbursement	▶	Both Alkindi® and Efmody® Phase III programmes included follow-on studies designed to assess longer-term impact of these therapies on important clinical measures that impact patient quality of life. Additional data cuts of the Efmody® 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.	▶	The Covid-19 pandemic has not had any direct impact on pricing and reimbursement discussions to date.
Promotion and distribution of products	▶	The Group's supply chain is entirely within the Eurozone 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's products are promoted to specialist prescribers in Europe, typically residing in hospitals. The Group continues to maintain a good relationship with the endocrinology community through regular interactions, publication of key data and participation in scientific meetings.	▶	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, remains severely limited; consequently, such activities have been reconfigured for digital meetings. These interactions are not viewed by the Group as being as effective as face-to-face interaction. In addition, the pandemic has restricted the ability of patients with paediatric adrenal insufficiency (AI) to visit clinics in order to discuss medication options, including Alkindi®.
Competitor products	▲ Increased activity in CAH development	During the year, two competitors have progressed products designed to directly decrease, block or lower androgen production into late-stage clinical trials. Whilst Diurnal believes that these competitor products are likely to be complementary to Efmody®, there is increased competition for CAH patients that could impact the timing of the Group's US Phase III pivotal study in CAH. For Alkindi®, there is the potential for competitors to develop competing immediate-release formulations of hydrocortisone. The Group monitors competitor activity closely to ensure it is prepared for the entry of potential competitor products into the market.	▶	The Covid-19 pandemic does not have any differential impact on the activities of Diurnal's competitors.
Disruption of product supply	▶	The Group currently has a single source of supply for both Alkindi® and Efmody® capsules. Alkindi® and Efmody® are both currently manufactured 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.	▶	Contract manufacturing facilities, including those used by the Group for the Alkindi® and Efmody® commercial supply chains, have seen disruption due to higher than usual staff absences. Alkindi® is deemed a priority medicine and hence has been minimally impacted by these issues to date. In line with many other companies, Diurnal's business interruption insurance policy does not cover losses arising from disruption due to infectious diseases.

Risk description	Change (general risks)	Mitigation of general impacts	Change (Covid-19 related)	Mitigation of Covid-19 specific impacts
Ability to find partner for major territories outside Europe	Alkindi® and Efmody® partnered in China	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.		Partnering activities have continued using digital platforms and have not been impacted by Covid-19. The Group's licensing deals with Citrine for Alkindi® and Efmody® in China along with distribution deals in several other territories were completed during the pandemic.
Failure to protect products	Further key European patents have been granted during the year	During the year the opposition period for key Alkindi® and Efmody® patents in Europe expired without challenges. Alkindi® and Efmody® patents have previously been granted 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®, Efmody® and DITEST™ globally.		The Covid-19 pandemic does not have any direct impact on patent prosecution.
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.	All vacancies recruited during year	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.
Availability of finance	The Group completed two fundraisings during the year	The Group successfully completed two fundraisings during the financial year raising a total of £30.5m before the expenses and ended the year with cash of £34.0m. The Group continues to manage its existing cash resources carefully and – based upon current plans and timings – remains 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.		The Group is not currently exposed to capital markets risk following the completion of two fundraisings during the pandemic.
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. Product revenues from Eurozone countries and licensing income received on US Dollars currently provide a natural hedge for operating expenses in those currencies.		Whilst foreign exchange markets are volatile as a result of the economic disruption arising measures designed to minimise health impacts from the Covid-19 pandemic, the Group's net exposure to foreign currencies remains low.
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.		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.

This Strategic Report was approved by the Board on 13 September 2021 and signed on its behalf by:

Richard Bungay
Chief Financial Officer

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; 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 Ltd, 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

Non-Executive Director of Cambridge Cognition Holdings plc; Director of Monument Therapeutics Limited; Director of Chroma Therapeutics Limited.

Board of Directors' skills breakdown

Biotechnology/pharmaceuticals

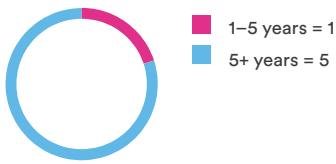
Business development

Financial

Clinical development

Drug commercialisation

Board of Directors' tenure



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. In 2021, Richard was recognised by the Endocrine Society with a Laureate Award for Outstanding Innovation.

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 general management and Board level experience within the pharmaceutical and biomedical industry. Most recently, Alan was the Executive Chair of ADC Bio Ltd and successfully completed the sale to Sterling Pharma Solutions Ltd. Alan has served as a Non Executive Director on the Boards of several life science companies and NHS trusts. 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. Alan has a Postgraduate Diploma in Business and Executive Coaching. Up until March 2020 Alan was the representative for Development Bank of Wales on Diurnal's Board.

Other current roles

Director of James Raymond Homes 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."

Sam Williams
Interim Chairman

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended 30 June 2021. 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 2021.

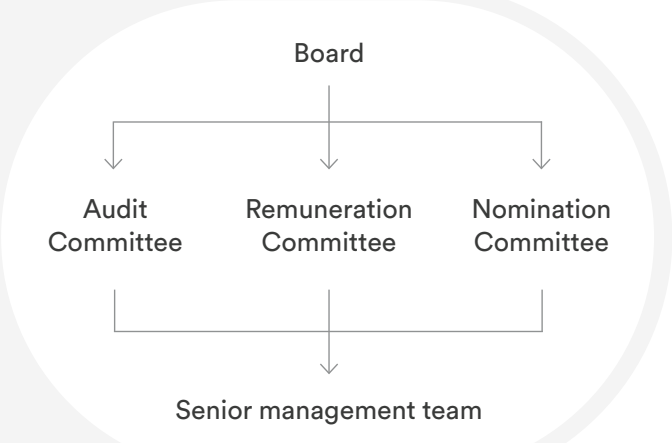
The Diurnal Board is in a transitional phase with the ongoing search for a new Chairman and an additional Non-Executive Director having taken longer to complete than originally envisaged, due to the restrictions on meeting candidates face-to-face resulting from the Covid-19 pandemic: once these appointments 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 and development.

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.



Leadership & governance

Diurnal has adopted the QCA Corporate Governance Code as being an appropriate framework for the Group's size and stage of development. The Board Committees play a pivotal role in oversight of the Group's governance, including periodic assessment of the Group's risk management systems: Diurnal is currently recruiting additional Board members to ensure it has a suitable balance of independent directors, and to refresh its Board Committees.

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 2021
+ John Goddard (Chairman)
+ Alan Raymond

Meetings held during the year ended 30 June 2021
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 2021
+ Sam Williams (Chairman)
+ John Goddard
+ Alan Raymond

Meetings held during the year ended 30 June 2021
Two

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 2021
+ Alan Raymond (Chairman)
+ John Goddard
+ Sam Williams

Meetings held during the year ended 30 June 2021
Three

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 14 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 uncertainties" on page 28

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 32
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement
   See this section and "Nomination Committee report" on page 41
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 "Corporate governance" section of our website, www.diurnal.co.uk

As detailed above, the Company is currently undertaking a search for a new Chairman and Non-Executive Director, both of whom will be classified as independent. Until this exercise is completed, the Company is not currently in compliance with the principles of the QCA Code with regards to Board composition; in particular, the balance of independent Non-Executive Directors versus Executive Directors and Non-Executive Directors who are not considered to be independent.

The Board considers that it is fully compliant with all other 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 32 and 33.

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. Alan Raymond represented Development Bank of Wales (DBW), a key investor in the Company, up until the completion of the March 2020 fundraising, 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. Once the Board recruitment has been completed the Board will comprise eight Directors: three Executive Directors and five Non-Executive Directors, of whom three will be independent. The Board considers that this 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; experience of 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.

John Goddard is the Senior Independent Director (SID). A key role of the SID is to be available to stakeholders (including shareholders and employees) if they have concerns that they have failed to resolve with the Chairman and/or Executive Directors.

The Board is responsible to the shareholders for the proper management of the Group and meets regularly, and at least six times during each 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.

Leadership & governance

Diurnal has a strong culture of governance that is driven by the senior management team. The Group has extensive Quality systems with a rigorous training programme for all employees. Diurnal is a member of the Association of the British Pharmaceutical Industry (ABPI) and undertakes regular training on the ABPI Code to ensure ethical promotion of its medicines. The Board has oversight of Diurnal's overall compliance programme.

Attendance at Board meetings

The Directors' attendance at Board and Committee meetings over the course of the 2020/21 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								
John Goddard	8	8	3	3	3	3	2	2
Alan Raymond	8	8	3	3	3	3	2	2
Sam Williams	8	8	—	—	3	3	2	2

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 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

The Audit Committee is responsible for monitoring and reviewing the integrity of the financial reporting process, risk management and internal control, ensuring compliance with relevant accounting standards.

The report of the Audit Committee for the year ended 30 June 2021 is set out on pages 39 and 40.

Remuneration Committee

The Remuneration Committee is responsible for the development and implementation of the Group's remuneration framework and policies for Directors and other employees of the Group and to ensure that these support the strategic aims of the business while also complying with the relevant regulations and guidelines.

The report of the Remuneration Committee for the year ended 30 June 2021 is set out on pages 43 to 49.

Nomination Committee

The Nomination Committee is responsible for the structure of the Board, considering and making recommendations to the Board in respect of appointments to the Board and succession planning, and monitoring the composition of the Board and its Committees.

The report of the Nominations Committee for the year ended 30 June 2021 is set out on pages 41 to 42.

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.

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 results of the evaluation process are detailed in the Nominations Committee Report on pages 41 to 42.

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 their compliance.

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.

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 28 to 31 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 and 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.

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. 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 changed to its Articles of Association at the November 2020 AGM such that it is now able to hold its AGM as a hybrid meeting (i.e. a mixture of physical and virtual) in the event 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 19 November 2021 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 12 to 13.

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
13 September 2021

Introduction

As Chair of the Audit Committee, I am pleased to present its report for the year ended 30 June 2021. The Audit Committee is a subcommittee of the Diurnal Board and is responsible for ensuring effective governance over financial reporting and internal controls.

The internal financial environment at Diurnal has remained stable during the year, with the finance team being strengthened through the addition of new members. The external audit environment, conversely, has continued to be challenging during the year, with increased regulation within the audit profession (precipitated, in part, by several recent large-scale corporate failures) compounded by audit measures imposed as a response to the impacts of the Covid-19 pandemic. Diurnal, as with most other companies, has seen the increased audit procedures put in place as a response to this environment manifest through a substantial increase in external audit fees. A key activity for the Audit Committee during the year was, therefore, to review current audit arrangements, as detailed further below.

Membership

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.

Background and scope of Audit Committee activities

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 Audit Committee works with the full Board to fulfil its oversight responsibilities, with its primary functions as follows:

+ monitoring the integrity of the Group's financial reporting including the review of significant financial reporting issues and judgements contained in the financial statements and any announcements relating to the Group's financial performance;
+ reviewing and challenging whether appropriate accounting policies have been adopted, in particular for significant or unusual transactions where different approaches are possible;
+ reviewing the content of the Annual Report and financial statements and advising the Board on whether, taken as a whole, it is fair, balanced, understandable and provides the information for shareholders to assess the Group's performance, business model and strategy;
+ keeping under review the adequacy and effectiveness of the internal financial systems, internal controls and risk management systems including the Group's procedures for the identification, assessment, management and reporting of risks;
+ overseeing the external audit process including monitoring the external auditors' independence, objectivity, effectiveness and performance;
+ reviewing the Group's systems and controls for detecting fraud and preventing bribery;
+ monitoring the need for an internal audit function; and
+ monitoring and reviewing the Group's whistleblowing arrangements.

The ultimate responsibility for reviewing and approving the Annual Report and financial statements and the half yearly reports remains with the Board.

The Audit Committee also has primary responsibility for the relationship between the Group and the external auditors, PricewaterhouseCoopers LLP (PwC). This includes:

+ considering and recommending to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the Group's external auditors;
+ considering the external auditors' independence, objectivity, qualifications and effectiveness;
+ reviewing the audit plan presented by the external auditors and considering the risks identified therein;
+ reviewing the auditors' findings reports on the Group's Annual Report and financial statements; and
+ approving the level of fees paid to the auditors for audit and non-audit services.

The terms of reference of the Audit Committee are available on the Group's website and cover the full responsibilities of the Audit Committee as well as such issues as membership and the frequency of meetings, together with requirements of any quorum for, and the right to attend, meetings.

Principal activities for the year

The Audit Committee met four times during the year, with the key activities as follows:

1. Activities relating to the Group's regular reporting cycle
Review and recommendation to the Board of approval of the 2020 Annual Report including the financial statements. In particular, the Audit Committee considered the appropriateness of accounting policies, including revenue recognition (in particular the Alkindi® US licensing agreement), valuation of intercompany receivables, judgements used in the preparation of the charge for share-based payments and the preparation of the financial statements on a going concern basis. As part of this review the Audit Committee received reports from the external auditors on their audit for 2020. It also reviewed the announcement made to the London Stock Exchange and also reviewed and recommended for approval by the Board the going concern statement together with the supporting forecasts and assumptions.

Approval of the 2021 audit plan prepared by the external auditors.

Review and recommendation to the Board the approval of the 2021 interim financial statements including the going concern statement together with the supporting forecasts and assumptions.

2. Approval of the audit fees for 2021
As highlighted above, during the year the external auditors proposed a significant increase in audit fees compared to the prior year, reflecting the additional audit procedures necessitated by changes in audit regulation and specific measures to assess the robustness of companies as a result of the Covid-19 pandemic. The Audit Committee decided to undertake an exercise to review the audit arrangements, including engagement with two alternative "Big Six" audit firms. The Audit Committee concluded that, reflecting the balance of audit quality and cost, it was in the Group's best interests to retain PwC as its external auditors. Accordingly, the Audit Committee approved the audit fees as set out in Note 4 to the financial statements.

3. Non-audit services provided by the external auditors
Non-audit services provided by the Company's external auditors are kept under review by the Audit Committee. Non-audit work is only awarded to the auditors after due consideration of matters of objectivity, independence, costs, quality of service and efficiency. The breakdown between audit and non-audit services is shown in Note 4 to the financial statements. During the year PwC was engaged to perform additional testing of the Group's financial processes and controls as preparation for future developments, including the proposed implementation in the UK of a regime similar to Sarbanes-Oxley in the US. There were no other non-audit services provided by the external auditors during the year.

4. Effectiveness and independence of external auditors
The Audit Committee is responsible for advising the Board on the appointment of the external auditors and assessing their independence and effectiveness.

Independence:
There are no contractual obligations that restrict the Audit Committee's choice of external auditors. PwC has been external auditors to the Group since 2019. The report from PwC confirming their independence and objectivity was reviewed by the Committee during the year.

Effectiveness:
The Audit Committee is responsible for regularly reviewing the effectiveness and performance of the external auditors and considering and agreeing appropriate fees for the audit. As highlighted above, after the end of the 2020 audit, the Audit Committee reviewed and were ultimately satisfied with the performance of PwC and recommended their reappointment for 2021 to the Board.

Following the review of the auditors' activities as outlined above, the Audit Committee has recommended to the Board that PwC is reappointed as external auditors by shareholders for 2022 at the 2021 Annual General Meeting.

5. Feedback from the auditors without management present
The Audit Committee meets with the external auditors without management present at least twice a year. There were no matters of concern raised in these meetings during the year.

6. Internal audit function
The Audit Committee concluded that there was no immediate requirement for the Group to have an internal financial audit function, due to its current size and complexity. The Audit Committee will consider the need for an internal audit function on an annual basis.

On behalf of the Board

John Goddard
Chairman of the Audit Committee
13 September 2021

Introduction

As Chair of the Nomination Committee, I am pleased to present its report for the year ended 30 June 2021. The Nomination Committee is a subcommittee of the Diurnal Board and is responsible for reviewing the structure, size and composition of the Board on a regular basis to ensure the skills, knowledge and experience matches the requirements of the business.

As highlighted in the Corporate Governance Report, Diurnal is conducting a search for a new Chairman and an additional independent Non-Executive Director; this has been a key focus for the Nomination Committee during the year and remains ongoing at the time of writing this report.

Membership

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

Background and scope of Nomination Committee activities

The Nomination Committee will meet at least once a year and works with the full Board to fulfil its oversight responsibilities, with its primary functions as follows:

+ to review and make recommendations to the Board on any changes to the size, structure and composition of the Board;
+ to provide a formal, rigorous and transparent procedure for identifying and nominating new Directors to the Board;
+ to review the succession planning for the Group as a whole and for key Board positions in particular; and
+ to review and evaluate the performance of the Board.

The terms of reference of the Nomination Committee are available on the Group's website and cover the full responsibilities of the Nomination Committee as well as such issues as membership, quorum and reporting responsibilities.

Principal activities for the year

The Nomination Committee met 2 times during the year, with the key activities as follows:

+ agreeing the specification for a new Chairman and independent Non-Executive Director;
+ appointing an executive search firm to identify potential candidates;
+ interviewing potential candidates and providing feedback on their profile to the Board; and
+ undertaking an internal performance evaluation exercise and reviewing key finding.

In addition to the formal Nomination Committee meetings, ad hoc meetings and calls were held during the year between members of the Nomination Committee, and at times with contributions from other members of the Board.

Process for Board appointments

When considering a Board appointment, the Nomination Committee draws up a specification for the relevant position, taking into consideration the specific role as well as the balance of skills, knowledge and experience of its existing Board members, the diversity of the Board and the independence of continuing Board members, together with the ongoing requirements and strategic development of the Group. Care is taken to ensure that proposed appointees have sufficient time to devote to the role and that there are no conflicts of interest.

The Nomination Committee utilises the services of an executive search firm to identify appropriate candidates, in addition to the personal experience and networks of the Board of Directors. A long list of potential appointees is reviewed, followed by the shortlisting of candidates for interview based upon the objective criteria identified in the specification. Committee members interview the shortlisted candidates together with other Directors as appropriate and identify a preferred candidate. Following these meetings, and subject to satisfactory references, the Nomination Committee makes a formal recommendation to the Board on the appointment.

Diversity policy

The Group makes all Board appointments on individual merit, while recognising the benefits of Board diversity. A diverse Board has members with different skills, backgrounds, regional and industry experiences, races, genders and other qualities.

Performance evaluation

During the year, the Nomination Committee considered the need for external performance evaluation and concluded that such an exercise would be more appropriate once the new Chairman and independent Non-Executive Director appointments have been made. Accordingly, the Nomination Committee undertook an internal performance evaluation exercise which was designed to bring about debate on relevant issues and assist in identifying potential areas of improvement in the Board's processes as well as ensuring the Board operates efficiently and effectively. The themes covered by the internal evaluation included:

+ the size, composition and diversity of the Board;
+ performance and effectiveness of the Board including effectiveness of decision making;
+ performance and effectiveness of Board Committees;
+ performance of the Executive Directors;
+ leadership and culture; and
+ effectiveness of monitoring performance.

A number of improvement opportunities were identified for implementation and the internal evaluation concluded that the Board, its Committees and each of its Directors continue to be effective.

On behalf of the Board

Sam Williams
Chairman of the Nomination Committee
13 September 2021

Introduction

As Chair of the Remuneration Committee, I am pleased to present its report for the year ended 30 June 2021. The Remuneration Committee is a subcommittee of the Diurnal Board and is responsible for determining the remuneration policy operated by the Group in respect of the Executive and Non-Executive Directors and other employees of the Group.

The ongoing Covid-19 pandemic gave rise to many challenges during the year, in particular the commercial roll-out of the Group's first approved product, Alkindi®. Despite this, the Group has made excellent progress overall during the year, with major regulatory approvals for Alkindi® in the US and Efmody® in the EEA, the completion of several important licensing and distribution deals, and two successful fundraisings to support the continued growth and development of the Group. The Group's remuneration approach for the year, as determined by the Remuneration Committee, reflects the overall progress made by the Group during its 2020/21 financial year. The Group did not furlough any staff during the year, nor did it take advantage of any other Covid-19 related government schemes.

Membership

The Remuneration Committee consists of Alan Raymond (Chairman), John Goddard and Sam Williams. All have served in the Remuneration Committee since its formation ahead of the Company's IPO in December 2015. The Remuneration Committee's terms of reference envisage a maximum membership of the committee of up to five years: as noted in the Nomination Committee Report, the Company is currently in the process of recruiting a new Chairman and a further Non-Executive Director. It is the Company's intention to review the membership of all Board Committees once the Board recruitment has been completed.

Background and scope of Remuneration Committee activities

The Remuneration Committee will meet at least two times a year and at such other times as may be deemed necessary. The Remuneration Committee works with the full Board to fulfil its oversight responsibilities, with its primary functions as follows:

+ determining and monitoring remuneration policy, taking account of legal and regulatory requirements and relevant corporate governance guidelines;
+ determination of remuneration packages for each of the Executive Directors and certain senior Executives of the Group, including pension rights and any compensation payments, having regard to the pay and employment conditions across the Group as well as remuneration packages in similar companies;
+ recommending and monitoring the level and structure of remuneration for other employees of the Group;
+ implementing share incentive or other performance-related schemes;
+ reporting and disclosure of remuneration, including preparation of the Remuneration Report to be included in the Annual Report; and
+ the use of remuneration consultants, as appropriate.

The terms of reference of the Remuneration Committee are available on the Group's website and cover the full responsibilities of the Remuneration Committee as well as such issues as membership and the frequency of meetings, together with requirements of any quorum for, and the right to attend, meetings.

Principal activities for the year

The Remuneration Committee met three times during the year, with key activities as follows:

+ review of the overall remuneration policy for the Group;
+ determining the overall salary increase to be awarded to employees of the Group with effect from 1 July 2021;
+ determining the appropriate comparator Group for the Executive Directors and reviewing the comparative remuneration information;
+ determining the remuneration package applicable with effect from 1 July 2021 for the Executive Directors and certain senior managers taking account of the remuneration for other employees of the Group;
+ reviewing the structure of the senior management team in light of the continued growth and development of the Group and approving changes;
+ determining the outcome of the 2017 long-term incentive plan (LTIP) awards;
+ setting the performance criteria for the 2020 LTIP awards and the level of awards to be made across all employees of the Group;

Principal activities for the year continued

+ determining the achievement of performance-related bonus criteria for the year ended 30 June 2021; and
+ setting bonus criteria for the six months ended 31 December 2021.

The Annual General Meeting (AGM) provides an opportunity for shareholders in the Company to provide feedback on the Group's remuneration policy and recommendations. The shareholder resolutions put before the AGM include an advisory vote on the Remuneration Report. At the Group's 2020 AGM, 99.9% of voting shareholders voted in favour of the Group's Remuneration Report for the year ended 30 June 2020.

Policy on remuneration

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

The principal components of 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, external indicators such as salaries in comparable companies and inflation, and any additional responsibilities undertaken by the Executive Directors. 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 2021/22 financial year, based on the benchmarking exercise,the Board considered it appropriate to maintain the base salary of Martin Whitaker, Chief Executive Officer, at £262,500 and award an inflation-only increase to Richard Bungay, Chief Financial Officer, whose base salary was increased to £215,300 with effect from 1 July 2021.

For other employees of the Group, an inflation-related increase of 2.5% was awarded, along with merit-related increases for certain employees.

The overall impact of increases for employees of the Group, including the Executive Directors, was to increase base salaries by 3.1%.

Performance-related bonus

The Remuneration Committee, in discussion with the Executive Directors, establishes performance criteria at the beginning of each financial year that are designed to be challenging and are aligned with the Group's short-term strategic objectives, which themselves are aligned with measures designed to deliver long-term value for stakeholders in the Group. Annual bonuses are payable at the sole discretion of the Remuneration Committee.

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; and
+ any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: 50% cash, 50% deferred share awards.

The 2020/21 corporate objectives were weighted as follows:

Objective 2020/21	Weighting	Performance assessed	% of bonus awarded
Obtain approval for Efmody® in congenital adrenal hyperplasia in the EU	25%	80%	20%
Exceed forecast revenues by 20%	25%	0%	0%
Complete supply chain enhancements for Alkindi® and Efmody® to meet future capacity requirements and reduce cost of sales	25%	40%	10%
Complete DITEST™ preparatory work and submit IND application to the US FDA	25%	80%	20%
TOTAL	**100%**		**50%**

For the 2021/22 financial year the Remuneration Committee decided to leave the performance-related bonus scheme unchanged:

+ 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; and
+ any annual bonus for Executive Directors is payable in cash and deferred share awards under the following proportions: 50% cash, 50%

As highlighted in the Financial Review, the Group intends to change its financial year end to 31 December. The first accounting period after the change of financial year end will be the 18 months ending 31 December 2022; the Remuneration Committee decided to set corporate objectives for the six months ended 31 December 2021 and, subsequently, the

12 months ending 31 December 2022. The corporate objectives for the six-month period ending 31 December 2021 were weighted as follows:

Objective six months ended 31 December 2021	Weighting
Exceed Alkindi® forecast revenues by 20%	25%
Exceed Efmody® forecast revenues by 20%	25%
Achieve Efmody® pricing in the UK	15%
Commence Efmody® CAH Phase III study in the US; commence Efmody® AI Phase II study in Europe; and commence DITEST™ multiple ascending dose study in the US	35%
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. All staff become eligible for performance share awards following satisfactory completion of their probation period.

Performance share award vesting conditions are designed to reward delivery of the Group's strategy and growth for stakeholders over a multi-year period and are intended to align Executive Directors' interests with those of stakeholders. Performance share awards are set at a maximum value of 100% of base salary for the Chief Executive Officer and Chief Financial Officer. The 2020/21 awards were set at 100% of base salary. Reflecting the persistent low share price during the 2019/20 financial year following the Efmody® European Phase III study results in October 2018, and in order to avoid excessive dilution for shareholders, the 2019/20 awards made to the Chief Executive Officer and Chief Financial Officer 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).

During the year, the Remuneration Committee determined the proportion of options over ordinary shares previously granted under the 2017 LTIP to the Executive Directors of the Company that are exercisable at the vesting date of 17 October 2020. Details of the performance conditions and the Remuneration Committee's assessment of performance are as follows:

Objective	Weighting	Performance assessed	% of LTIP vesting
Achieving a target share price of 201 pence for a one-month rolling period during the 5 years following grant	20%	100%	20%
Grant of market authorisation of Alkindi® in the US or out-licensing of US marketing rights	40%	100%	40%
Completion of clinical trial report for US pivotal Phase III study for Chronocort® or out-licensing of US marketing rights	40%	0%	0%
Total % of LTIP vesting			60%

Reflecting this assessment, 40% of the performance share awards originally granted, including those granted to the Executive Directors, lapsed on 17 October 2020. The impact for the Executive Directors is detailed in the table on page 48. The vested options remain subject to exercise.

Performance awards under the LTIP were made following the announcement of the Group's annual results for the financial years ended 30 June 2020, 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 48. 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 basic salary. The level of pension for other employees of the Group commences at 7% following satisfactory completion of their probation period, rising to 10% following completion of two years' service.

Other benefits

Other benefits for employees of the Group include life assurance, private medical insurance. In addition, the Executive Directors are offered income protection.

Policies and guidelines

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. Shareholdings as at 30 June 2021 were as follows:

Name	Shares held at 30 June 2021[1]	Percentage of salary based on closing price at 30 June 2021
Martin Whitaker	603,823	144%
Richard Bungay	114,252	34%
Richard Ross	2,184,355	n/a[2]

1. Includes shareholding of connected persons.
2. Employed by the University of Sheffield and no base salary or fees paid.

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.

Policy on remuneration of Non-Executive Directors

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.

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. No increase in Non-Executive Directors' fees is proposed for the 2021/22 financial year.

Directors' service contracts

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 the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%.

Directors' remuneration

The remuneration of the Directors who held office during the years ended 30 June 2021 and 2020 was as follows:

Name	Base salary and fees £000	Bonus £000	Benefits £000	Total emoluments 2020/21[5] £000	Pension contributions 2020/21 £000	Total emoluments 2019/20 £000	Pension contributions 2019/20 £000
Executive							
Martin Whitaker	**263**	**197**	**1**	**461**	**26**	486	26
Richard Bungay	**210**	**105**	**2**	**317**	**21**	344	20
Richard Ross[1]	**—**	**34**	**—**	**34**	**—**	47	—
Non-Executive							
Sam Williams[2]	**50**	**—**	**—**	**50**	**—**	29	—
John Goddard[3]	**35**	**—**	**—**	**35**	**—**	15	—
Alan Raymond	**35**	**—**	**—**	**35**	**—**	29	—
Peter Allen[4]	**—**	**—**	**—**	**—**	**—**	50	—
	593	**336**	**3**	**932**	**47**	1,000	46

1. 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.
2. Director's fee paid to IP Group plc. Director nominated by the IP Group plc shareholders under a relationship agreement with the Company while the shareholding exceeds 10%. The fee reflects Sam Williams' role as Interim Chairman for the 2020/21 financial year.
3. John Goddard elected to take part of his annual fee as shares during the year ended 30 June 2020, which are issued quarterly in arrears based upon the average share price for the quarter then ended.
4. Peter Allen resigned effective from 30 June 2020.
5. Total emoluments for 2020/21 include the bonus payable in relation to the 2020/21 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 2021, are nil cost options and were as follows: Martin Whitaker: 157,500 shares; Richard Bungay: 84,000 shares; and Richard Ross: 35,856 shares.

CEO pay ratio

The table below sets out the ratio between the pay (comprising base salary and bonus) of the Chief Executive Officer and that of the Group's employees.

	25th percentile ratio	Median ratio	75th percentile ratio
Year ended 30 June 2021	9.0:1	5.9:1	4.0:1
Year ended 30 June 2020	9.8:1	6.7:1	4.1:1

Directors' share options and awards

Directors holding office at 30 June 2021 had the following options outstanding over ordinary shares:

Date of grant/award	Exercise price	At 1 July 2020	Granted in the year	Exercised	Lapsed	**At 30 June 2021**	Latest vesting date
Executive							
Martin Whitaker							
11 Sep 2015 option grant	£0.4377	495,000	—	—	—	**495,000**	Vested
17 Oct 2017 performance share award	£0.05	148,698	—	—	(59,479)	**89,219**	Vested
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)	—	**—**	Exercised
10 Jan 2020 performance share award	£nil	298,965	—	—	—	**298,965**	10 Jan 2025
10 Jul 2020 deferred bonus share award	£nil	—	376,230	—	—	**376,230**	10 Jul 2021
18 Dec 2020 performance share award	£nil	—	514,705	—	—	**514,705**	18 Dec 2025
		1,341,211	890,935	(143,443)	(59,479)	**2,029,224**	
Richard Bungay							
8 May 2017 performance share award	£0.05	242,857	—	—	—	**242,857**	Vested
17 Oct 2017 performance share award	£0.05	94,795	—	—	(37,918)	**56,877**	Vested
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)	—	**—**	Exercised
10 Jan 2020 performance share award	£nil	239,172	—	—	—	**239,172**	10 Jan 2025
10 Jul 2020 deferred bonus share award	£nil	—	225,738	—	—	**225,738**	10 Jul 2021
18 Dec 2020 performance share award	£nil	—	411,764	—	—	**411,764**	18 Dec 2025
		866,973	637,502	(86,066)	(37,918)	**1,380,491**	
Richard Ross							
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)	—	**—**	Exercised
10 Jan 2020 performance share award	£nil	82,431	—	—	—	**82,431**	10 Jan 2025
10 Jul 2020 deferred bonus share award	£nil	—	77,800	—	—	**77,800**	10 Jul 2021
18 Dec 2020 performance share award	£nil	—	137,860	—	—	**137,860**	18 Dec 2025
		184,430	215,660	(30,256)	—	**369,834**	

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 £nil (year ended 30 June 2020: £553,577).

All share options have a ten-year life at the date of issue.

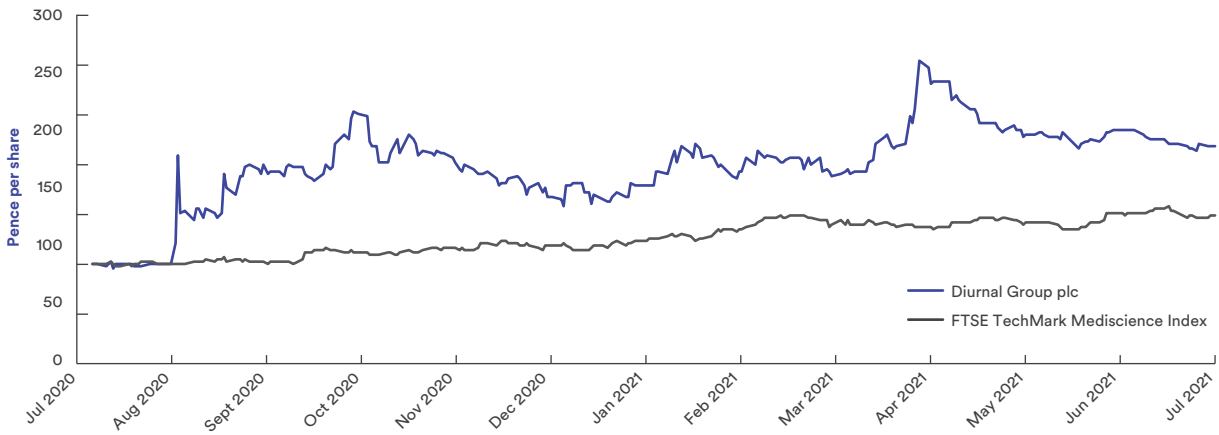
Directors' interests in the share capital of the Company as at the date of this report are shown in the Directors' Report on page 51.

Share information

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 2021 the market price of the Company's shares was 64.3 pence per share and the market capitalisation was approximately £108m.

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 2021. This chart highlights that Diurnal's share price outperformed the FTSE TechMark Mediscience Index by 45%.



On behalf of the Board

Alan Raymond
Chairman of the Remuneration Committee
13 September 2021

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 2021.

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

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, and considering the cash and cash equivalents at 30 June 2021 of £34.0m (which reflects the £20.7m fundraising completed in May 2021 and the £9.8m fundraising completed in October 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 £11.5m (2020: £5.3m). 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 £6.9m (2020: £4.7m) in the continuing development of its product portfolio. Of this cost, £25k (2020: £38k) was capitalised and the remainder 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 32 and 33. All Directors served throughout the financial year and subsequently to the date of signing of the financial statements.

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 (including their connected parties) in the ordinary share capital of the Company at the date of this report are as follows:

	13 September 2021	
Name	Ordinary shares of £0.05 each in Diurnal Group plc	% of issued share capital
Executive		
Martin Whitaker	**899,441**	**0.53%**
Richard Bungay	**234,192**	**0.14%**
Richard Ross	**2,262,155**	**1.34%**
Non-Executive		
John Goddard	**228,674**	**0.14%**
Alan Raymond[1]	**66,849**	**0.04%**
Sam Williams[2]	**113,819**	**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 as at 13 September 2021.
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 49,800,285 shares as at 13 September 2021.

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.

Engagement with stakeholders

The Group's engagement with stakeholders is detailed on pages 12 and 13.

Political and charitable donations

The Group made charitable donations during the year of £nil (2020: £nil). 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 13 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	49,900,285	29.5%
Polar Capital	14,965,708	8.9%
Development Bank of Wales plc	11,534,888	6.8%
Chelverton Asset Management	9,750,000	5.8%
Amati Global Investors	9,500,000	5.6%
JO Hambro Capital Management	8,200,000	4.9%
BGF Investments	7,542,857	4.5%

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 offices of FTI Consulting LLP, 200 Aldersgate, London EC1A 4HD, on 19 November 2021 at 11.00 a.m. Full details of the business to be transacted at the AGM can be found in the Notice of Annual General Meeting on page 87 of this report.

By order of the Board

Richard Bungay
Company Secretary
13 September 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, 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 company and of the profit or loss of the group 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 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 company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2021 and of the Group's loss and the Group's cash flows for the year then ended;
+ the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
+ the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
+ the financial statements 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 2021; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, 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
Audit scope
+ The Group's head office (including the finance function) is located in the UK where our work over the Group consolidation was performed. In total, locations where we performed audit work accounted for 95% of the Group loss before tax.

Key audit matters
+ Going Concern (Group and parent)
+ Covid-19 (Group and parent)

Materiality
+ Overall Group materiality: £576,800 (2020: £460,000) based on 5% of loss before tax.
+ Overall Company materiality: £888,000 (2020: £526,000) based on 1% of total assets.
+ Performance materiality: £432,600 (Group) and £666,000 (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.

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.

Accounting for licensing agreements, which was a key audit matter last year, is no longer included because of the lower judgement required to conclude on the accounting, as last year was the first agreement of this type to be signed. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Going Concern (Group and parent) For the year ended 30 June 2021, the Group used net cash in operating activities of £10.7m. Cash and cash equivalents at 30 June 2021 were £34.0m for the Group and £31.6m 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 shortfalls in sales of Alkindi® and Efmody®). After considering these forecasts and plans and the cash and cash equivalents held at 30 June 2021, 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.	For our audit response and conclusions in respect of going concern, see the 'Conclusions relating to going concern' section below.
Covid-19 (Group and parent) Given the extent of the impact of the virus was well known by 30 June 2021, 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.	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 sensitivities/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.

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 entity 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 on Diurnal Limited, Diurnal Group plc and Diurnal Europe B.V. Through discussions with the Group finance team, we obtained an understanding of the operational activities of these entities, and appropriately determined the audit risks for each entity based on the size of individual financial statement line items and the judgements/estimates made by the directors. 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 financial statements as a whole. The only financially significant component for the audit is Diurnal Limited as this was the only component that contributed more than 15% to the loss before tax. Consequently, we performed a full scope audit over this entity. We also performed audit work on Diurnal Group plc for cash and cash equivalents, operating expenses and total equity and for Diurnal Europe B.V. we audited revenue and inventory in order to ensure we had sufficient coverage over these financial statement line items from a Group perspective. All work was done by the Group audit team and no component auditors were involved in the audit.

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:

	Financial statements – Group	*Financial statements – Company*
Overall materiality	£576,800 (2020: £460,000).	£888,000 (2020: £526,000).
How we determined it	5% of loss before tax	1% of total assets
Rationale for benchmark applied	Whilst revenues for the year ended 30 June 2021 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.	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 range of materiality allocated across components was £450,000 to £547,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £432,600 for the Group financial statements and £666,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £28,800 (Group audit) (2020: £23,000) and £44,000 (Company audit) (2020: £26,000) 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

Our evaluation of the members' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

+ Obtaining managements' forecasts and plans for the different scenarios and performing tests to validate the integrity of the model and completeness of costs included.
+ Assessing the reasonableness of the assumptions within the models, based on our understanding of the business and by comparing against historical results.
+ Running various sensitivities, in particular looking at the potential impact of a significant shortfall in forecast sales for Efmody® and the impact that this had on the cash run rate. We also considered the extent to which forecast expenditure was discretionary and could be cut under such a downside scenario.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

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 members 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 members for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the members 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 members 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 members 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 members 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to patent protection, data privacy, product safety and regulatory compliance, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and misappropriation of cash. Audit procedures performed by the engagement team included:

+ Discussions with the directors, including considerations of known or suspected instances of non-compliance with laws and regulations and fraud.
+ Evaluation of management's controls designed to prevent and detect irregularities.
+ Identifying and testing journal entries, in particular any journal entries that credit cash or credit revenues where the offsetting entry was to an unexpected account based on the normal flow of transactions for these financial statement line items.
+ Testing the governance process around publications and review and approval of any regulatory announcements.
+ Obtaining a list of bank mandates and reviewing the signatories for each bank account to ensure that only appropriate individuals can authorise/approve bank payments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 members' 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
13 September 2021

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2021

	Note	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Revenue	3	**4,371**	6,313
Cost of sales		**(779)**	(668)
Gross profit		**3,592**	5,645
Research and development expenditure		**(6,915)**	(4,625)
Selling and distribution expenditure		**(5,236)**	(4,135)
Administrative expenses		**(3,056)**	(2,904)
Other gains – net	11	**15**	627
Operating loss	4	**(11,600)**	(5,392)
Finance income	6	**62**	114
Loss before tax		**(11,538)**	(5,278)
Taxation	7	**1,489**	1,206
Loss for the year		**(10,049)**	(4,072)
Basic and diluted loss per share (pence per share)	8	**(7.3)**	(4.3)

All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2021

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Loss for the year and total comprehensive loss for the year	**(10,049)**	(4,072)

CONSOLIDATED BALANCE SHEET

as at 30 June 2021

	Note	2021 £000	2020 £000
Non-current assets			
Intangible assets	9	**92**	79
Property, plant and equipment	10	**148**	23
Investments held at fair value through profit and loss	11	**—**	1,668
		240	1,770
Current assets			
Inventories	12	**1,625**	1,241
Research and development tax credit claims receivable	7	**1,485**	1,194
Trade and other receivables	14	**3,433**	1,337
Investments held at fair value through profit and loss	11	**970**	—
Cash and cash equivalents	15	**34,037**	15,434
		41,550	19,206
Total assets		**41,790**	20,976
Current liabilities			
Trade and other payables	16	**(4,163)**	(2,555)
		(4,163)	(2,555)
Non-current liabilities			
Trade and other payables	16	**(63)**	(36)
		(63)	(36)
Total liabilities		**(4,226)**	(2,591)
Net assets		**37,564**	18,385
Equity			
Share capital	17	**8,397**	6,082
Share premium		**77,414**	50,967
Group reconstruction reserve		**(2,943)**	(2,943)
Accumulated losses		**(45,304)**	(35,721)
Total equity		**37,564**	18,385

These financial statements on pages 59 to 86 were approved by the Board of Directors on 13 September 2021 and were signed on its behalf by:

Richard Bungay
Director

Company registered number: 09846650

COMPANY BALANCE SHEET

as at 30 June 2021

	Note	2021 £000	2020 £000
Non-current assets			
Investment in subsidiary undertakings	13	—	—
Amount owed by subsidiary undertaking	14	**53,679**	37,706
Current assets			
Trade and other receivables	14	**148**	43
Amount owned by employee benefit trust		—	105
Cash and cash equivalents	15	**31,623**	14,759
		31,771	14,907
Total assets		**85,450**	52,613
Current liabilities			
Trade and other payables	16	**(292)**	(114)
Total liabilities		**(292)**	(114)
Net assets		**85,158**	52,499
Equity			
Share capital	17	**8,397**	6,082
Share premium		**77,414**	50,967
Accumulated losses		**(653)**	(4,550)
Total equity		**85,158**	52,499

The Company's profit for the year was £3,431k (2020: profit of £6,063k).

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

These financial statements on pages 59 to 86 were approved by the Board of Directors on 13 September 2021 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 2021

Group	Share capital £000	Share premium £000	Group reconstruction reserve £000	Accumulated losses £000	Total £000
Balance at 1 July 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	—	—	—	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**
Loss for the year and total comprehensive loss for the year	—	—	—	(10,049)	(10,049)
Equity settled share-based payment transactions	—	—	—	466	466
Issue of shares for cash	2,315	28,205	—	—	30,520
Costs charged against share premium	—	(1,758)	—	—	(1,758)
Total transactions with owners recorded directly in equity	2,315	26,447	—	466	29,228
Balance at 30 June 2021	**8,397**	**77,414**	**(2,943)**	**(45,304)**	**37,564**

Company	Share capital £000	Share premium £000	Accumulated losses £000	Total £000
Balance at 1 July 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 for the year and total comprehensive profit for the year	—	—	3,431	3,431
Equity settled share-based payment transactions	—	—	466	466
Issue of shares for cash	2,315	28,205	—	30,520
Costs charged against share premium	—	(1,758)	—	(1,758)
Total transactions with owners recorded directly in equity	2,315	26,447	466	29,228
Balance at 30 June 2021	**8,397**	**77,414**	**(653)**	**85,158**

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 CASH FLOW STATEMENT

for the year ended 30 June 2021

	Note	Group Year ended 30 June 2021 £000	Group Year ended 30 June 2020 £000
Cash flows from operating activities			
(Loss) for the year		**(10,049)**	(4,072)
Adjustments for:			
Licensing income received as non-cash consideration		**—**	(1,041)
Fair value adjustment to investments	11	**(15)**	(627)
Depreciation and amortisation		**24**	25
Share-based payment	18	**466**	843
Net foreign exchange loss/(gain)		**109**	(357)
Finance income	6	**(62)**	(114)
Taxation	7	**(1,489)**	(1,206)
Increase in inventories		**(384)**	(569)
(Increase)/decrease in trade and other receivables		**(2,096)**	119
Increase in trade and other payables		**1,635**	70
Cash used in operations		**(11,861)**	(6,929)
Tax received	7	**1,199**	2,120
Net cash used in operating activities		**(10,662)**	(4,809)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(138)**	(7)
Purchase of intangible assets		**(25)**	(38)
Proceeds from sale of investment		**713**	—
Interest received		**62**	114
Net cash from investing activities		**612**	69
Cash flows from financing activities			
Net proceeds from issue of share capital		**28,762**	10,670
Net cash from financing activities		**28,762**	10,670
Net increase in cash and cash equivalents		**18,712**	5,930
Cash and cash equivalents at the start of the year		**15,434**	9,147
Effect of exchange rate changes on cash and cash equivalents		**(109)**	357
Cash and cash equivalents at the end of the year		**34,037**	15,434

1 Corporate information

The consolidated financial statements of Diurnal Group plc and its subsidiaries (collectively, the "Group") for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Directors on 13 September 2021. Diurnal Group plc (the "Company" or the "parent") is a public limited company (limited by shares) 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 pounds 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 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 as detailed under "Financial Instruments" below.

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

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.

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 two 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. Any impairment losses are presented as a separate line item in the consolidated income statement.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Financial instruments continued

+ FVPL: Assets that do not meet the criteria for amortised cost 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

The Group assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortised cost. 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 product.

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 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	10 years
Development costs	10 to 12 years

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	3 to 7 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. 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/(losses). The valuation principles adopted are classified as Level 1 inputs in the IFRS 13 fair value hierarchy. Investments that are expected to be sold within 12 months of the reporting date are treated as current assets within the consolidated balance sheet.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

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 giving rise to the deferred tax asset can be utilised.

Employee benefits

Share-based payments

Equity settled share-based payments 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 or Monte Carlo simulation 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 based on its expectation of leavers prior to vesting. Furthermore, for options subject to performance conditions, the number of options expected to vest is adjusted based on the expected success of such conditions. For options subject to "market-based" conditions no adjustments are made. Charges made to the consolidated income statement in respect of equity settled share-based payments are credited to equity.

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.

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 after eliminating sales within the Group. Provision for returns in respect of damaged goods and goods where the minimum shelf life specified in customer contracts has expired are estimated at each year end based upon historical experience.

2 Significant accounting policies and basis of preparation continued

2.1 Significant accounting policies continued

Revenue continued

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 financial statements of the Group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS) and also in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial information contained in these financial statements has been prepared under the historical cost convention (as modified to include the revaluation of financial assets held at fair value through profit and loss) and on a going concern basis.

The financial statements of the Company have been prepared under the historical cost convention and on a going concern basis. The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS) 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council (FRC) and has informed its shareholders of its intention to use FRS 101. Accordingly, in the year ended 30 June 2021, the Company has adopted FRS 101 Reduced Disclosure Framework and has undergone transition from reporting under IFRSs adopted by the European Union to FRS 101 as issued by the FRC. This transition is not considered to have a material effect on the Company's financial statements.

The Company has taken advantage of the disclosure exemptions available as permitted by FRS 101 in relation to:

+ statement of cash flows;
+ financial instruments;
+ fair value measurement; and
+ related party transactions with wholly owned subsidiaries.

The basis of using the above exemptions is because equivalent disclosures are included in the Group financial statements in which the entity is consolidated.

Furthermore, 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 2021 was a profit of £3,431k (2020: profit of £6,063k).

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 July 2020:

+ IFRS 3 Business combinations – Amendments to clarify the definition of a business;
+ IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments – Amendments regarding pre-replacement issues in the context of the IBOR reform; and
+ IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendments regarding the definition of material.

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.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 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 Significant accounting policies and basis of preparation continued

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 2.1, 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). Key sources of estimation uncertainty include the impairment of investments in subsidiary undertakings (Note 13), amounts owed by subsidiary undertaking (Note 13) and 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, as detailed in Note 7.

Revenue from licensing agreements

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

Impairment of investments in subsidiary undertakings

The Company has an investment in its subsidiary company Diurnal Limited. The net carrying value of this investment is assessed annually. Any impairment previously recognised in the Company income statement is only reversed to the extent that future cash flows supporting the reversal are judged by the Company to have a high degree of certainty.

Amounts owed by subsidiary undertaking

The Company is required to make an assessment of lifetime expected credit losses relating to amounts owed by subsidiary undertakings. The calculation of the allowance for lifetime expected credit losses requires a significant degree of estimation and judgement, in particular in determining the probability weighted likely outcome for each scenario considered to determine the expected credit loss in each scenario. Should the outcomes vary, this could have a significant impact on the carrying value of the amounts owed by subsidiary undertakings in subsequent periods.

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 or Monte Carlo simulation model (for performance share awards) or a Black Scholes model (for deferred share bonus awards).

2.4 Going concern

For the year ended 30 June 2021, the Group made an operating loss of £11.6m on revenue of £4.4m and used net cash in operating activities of £10.7m. Cash and cash equivalents at 30 June 2021 were £34.0m.

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 commercialisation efforts for Alkindi® and Efmody®), and considering the cash and cash equivalents at 30 June 2021 of £34.0m (which reflects the £20.7m fundraising completed in May 2021 and the £9.8m fundraising completed in October 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. In light of the common supply chain, commercial infrastructure and prescribing audience, the Group 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 2021 £000	Year ended 30 June 2020 £000
Sale of goods	**2,267**	2,390
Licence fees	**2,104**	3,923
	4,371	6,313

Licence fees for the year ended 30 June 2021 primarily comprises upfront and milestone payments totalling $2,750k (£1,952k) received from Citrine Medicine ("Citrine") relating to the licensing agreement for Alkindi® signed in January 2021 and for Efmody® signed in May 2021. Of this amount, a total of $1,500k (£1,071k) relates to upfront payments and $1,250k (£881k) relates to milestone payments.

Licence fees for the year ended 30 June 2020 comprise the upfront payment received from Eton Pharmaceuticals ("Eton") relating to the licensing agreement for Alkindi® in the US signed in March 2020, comprising $3,500k (£2,882k) in cash and 379,474 shares in Eton, 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 payments noted above, the Group is entitled to receive further amounts that become payable on subsequent completion of future milestones as well as royalties based on future sales for both the Citrine and Eton licensing agreements.

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

The agreements contain four elements of consideration, namely:

+ upfront payment recorded in the financial statements, as noted above;
+ milestone payments;
+ sales-based royalty payments; and
+ recharges of direct costs for the manufacture of Alkindi® or Efmody® stock.

The Group has determined that the licence agreements with Citrine and Eton represent "right-of-use" licences due to the fact that Alkindi® and Efmody® are marketed products in Europe and there are no ongoing activities that significantly affect its intellectual property in China or the US, respectively. The Group has determined that the recharges of direct costs for the manufacture and supply of Alkindi® or Efmody® stock reflect the stand-alone selling price of these products in the agreements such that the remaining consideration is attributable to the licence. As such, the upfront payments from Citrine and Eton have been fully recognised as revenue during the year in which they were paid and the milestone payments from Citrine have also been fully recognised as revenue during the year in which they were paid.

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 Citrine or Eton. During the year £39k of revenue was recognised in respect of royalty payments (2020: £nil).

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

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
UK	**1,108**	900
Rest of Europe	**1,094**	1,490
Rest of World	**2,169**	3,923
	4,371	6,313

All revenues were recognised at a point in time. No revenues were recognised over time (2020: £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 2021 £000	Year ended 30 June 2020 £000
Customer A	**1,108**	900
Customer B	**213**	—
Customer C	**169**	725
Customer D	**163**	32
Customer E	**163**	194
Other customers	**451**	539
	2,267	2,390

4 Expenses and auditors' remuneration

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

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Depreciation[1]	**12**	17
Amortisation[1]	**12**	8
Research and development expenditure	**6,915**	4,625
Operating lease expenses	**105**	111
Movement in employer NI accrual re share-based payments[2]	**228**	(48)
Exchange gain on settlement of US Dollar commitments	**—**	(362)
Auditors' remuneration:		
- audit of the parent company and consolidated financial statements	**105**	59
- auditing the financial statements of the subsidiary pursuant to legislation	**20**	11
- audit-related assurance services	**35**	—
Total auditors' remuneration	**160**	70

1. Amortisation and depreciation are included in administrative expenses in the consolidated 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 2021 Number	Year ended 30 June 2020 Number	**Year ended 30 June 2021 Number**	Year ended 30 June 2020 Number
Research and development	**15**	12	**—**	—
Selling and distribution	**11**	10	**—**	—
Administration	**7**	7	**—**	—
	33	29	**—**	—
Non-Executive Directors	**3**	4	**3**	4
	36	33	**3**	4

Their aggregate remuneration, including Directors, comprised:

	Group		Company	
	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000	**Year ended 30 June 2021 £000**	Year ended 30 June 2020 £000
Wages and salaries	**3,112**	2,950	**120**	138
Social security costs	**398**	373	**7**	9
Other pension costs	**242**	165	**—**	—
Share-based payments (see Note 18)	**466**	843	**4**	15
	4,218	4,331	**131**	162

Further information on Directors' remuneration can be found in the remuneration report on pages 43 to 49. Key management personnel comprise only the Directors of the company and their aggregate remuneration is disclosed in note 23.

The remuneration of the highest paid Director, including the deferred element of the bonus, was £461k (2020: £486k) and pension contributions were £26k (2020: £26k). During the year, the highest paid Director was granted 514,705 (2020: 298,965) share options under the Company's Long-Term Incentive Plan.

During the year, three Directors received share options under the long-term incentive scheme in respect of their qualifying services (2020: three Directors). No Directors exercised share options under the long-term incentive scheme during the year (2020: three Directors). The aggregate amount of gains made by Directors on the exercise of share options during the year was £nil (2020: £554k).

6 Finance income

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Interest receivable on cash and cash equivalents	**62**	114
Total finance income	**62**	114

7 Taxation

The Group's main operating subsidiary, Diurnal Limited, 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 2020 reflects the R&D tax credit claim for the year ended 30 June 2020, which was received from HMRC in November 2020. The amount in respect of the year ended 30 June 2021 has not yet been agreed with HMRC, although there is no reason to believe that this claim will be rejected.

7 Taxation continued

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Current tax:		
- UK corporation tax on losses for the year	**—**	—
- Dutch corporation tax on subsidiary profits for the year	**1**	2
- Research and development tax credit receivable for the current year	**(1,485)**	(1,194)
- Prior year adjustment in respect of research and development tax credit	**(5)**	(14)
Deferred tax:		
- Origination and reversal of temporary differences	**—**	—
Tax on loss on ordinary activities	**(1,489)**	(1,206)

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 2021 £000	Year ended 30 June 2020 £000
Loss on ordinary activities before tax	**(11,538)**	(5,278)
Tax at the standard rate of UK corporation tax rate of 19% (2020: 19%)	**(2,192)**	(1,003)
Effects of:		
- Expenses not deductible for tax purposes	**52**	96
- Temporary timing differences	**121**	3
- Enhanced research and development relief	**(644)**	(521)
- Share-based payments	**65**	61
- Prior year adjustment in respect of research and development tax credit	**(5)**	(14)
- Tax losses carried forward	**1,114**	172
Total tax credits for the year	**(1,489)**	(1,206)

The standard rate of UK corporation tax has been 19% from 1 April 2017, although this is set to increase to 25% with effect from 1 April 2023.

The Group has accumulated losses available to carry forward against future trading profits of £30,505k (2020: £23,952k). As detailed in the Strategic Report, Diurnal believes that a successful launch of Efmody® in Europe will enable it to achieve profitability in future accounting periods; however, as at the balance sheet date the success of the commercial launch remains uncertain. Consequently, 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. The increase to the rate of corporation tax from 19% to 25% was announced in the March 2021 budget and substantively enacted on 24 May 2021, and therefore 25% was the prevailing rate at the balance sheet date. The estimated value of the deferred tax asset not recognised at 30 June 2021 is £7,849k, measured at a standard rate of 25% (2020: £4,532k at 19%).

8 Loss per share

	Loss for the year 2021 £000	Weighted average number of shares 2021 000	Loss per share 2021 pence	Loss for the year 2020 £000	Weighted average number of shares 2020 000	Loss per share 2020 pence
Basic and diluted	**(10,049)**	**137,090**	**(7.3)**	(4,072)	95,228	(4.3)

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	Acquired patents and licences £000	Internally generated development costs £000	Total £000
Cost			
Balance at 1 July 2019	39	52	91
Additions	—	38	38
Balance at 30 June 2020	39	90	129
Additions	—	25	25
Balance at 30 June 2021	**39**	**115**	**154**
Accumulated amortisation			
Balance at 1 July 2019	39	3	42
Charge for the year	—	8	8
Balance at 30 June 2020	39	11	50
Charge for the year	—	12	12
Balance at 30 June 2021	**39**	**23**	**62**
Net book value			
At 30 June 2020	—	79	79
At 30 June 2021	**—**	**92**	**92**

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 Group. The Group commenced capitalisation of ongoing development costs of its products from the point that the respective market authorisations were received as detailed below:

+ European development costs of Alkindi® following approval of the paediatric use marketing authorisation by the European Commission in February 2018;
+ global development costs of Alkindi® following the grant of US market authorisation by the US Food and Drug Administration in September 2020; and
+ European development costs of Efmody® for the treatment of congenital adrenal hyperplasia (CAH) following approval by the European Commission in May 2021.

10 Property, plant and equipment

Group	Equipment £000
Cost	
Balance at 1 July 2019	77
Additions	7
Balance at 30 June 2020	84
Additions	138
Disposals	(9)
Balance at 30 June 2021	**213**
Accumulated depreciation	
Balance at 1 July 2019	44
Charge for the year	17
Balance at 30 June 2020	61
Charge for the year	12
Disposals	(8)
Balance at 30 June 2021	**65**
Net book value	
At 30 June 2020	23
At 30 June 2021	**148**

11 Investments held at fair value through profit and loss

	2021 £000	2020 £000
Balance at 1 July 2020	**1,668**	—
Additions	**—**	1,041
Disposals	**(713)**	—
Fair value adjustment to investments	**15**	627
Balance at 30 June 2021	**970**	1,668
Of which:		
Current	**970**	—
Non-current	**—**	1,668
Balance at 30 June 2021	**970**	1,668

Investments held at fair value through the profit and loss solely relate to 217,782 (2020: 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 signed in March 2020. During the year the Group sold 161,692 (2020: nil) shares and the Group intends to sell the remaining shares within a year of the balance sheet date and as such has classified the investment as a current asset at the reporting date.

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, together with the realised profit on disposals made during the year, represents the entire amount charged to the consolidated income statement as “other gains – net”.

12 Inventories

	2021 £000	2020 £000
Raw materials	**123**	192
Work in progress	**1,046**	733
Finished goods	**456**	316
	1,625	1,241

Inventories recognised as an expense in cost of sales during the year amounted to £779k (2020: £668k). This amount includes provision for obsolete stock of £107k as outlined in the Financial Review (2020: £17k).

A further provision for Italian stock that is expected to expire before it can be sold is included within selling and distribution expenditure totalling £78k (2020: £nil) as a result of lower than anticipated product sales in Italy due to the impact of Covid-19 on launch activities.

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

The Employee Benefit Trust (EBT) is treated as an extension of the Group and the Company as it is controlled by the Company and therefore included in the consolidated financials. The Company provides loan finance to the EBT to enable it to purchase newly-issued shares of the Company at nominal value. Since the EBT does not have any assets with which to repay the loan, the loan value as at 30 June 2021 has been impaired to nil.

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. 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.

On an ongoing basis the Company is required to make an assessment of lifetime expected credit losses relating to amounts owed by subsidiary undertakings. Having considered the amount and probability of credit losses expected to arise across a number of scenarios, the total loss provision was reduced from £6,780k at 30 June 2020 to £3,380k at 30 June 2021. The amount owed by subsidiary undertakings is included in Note 14.

As detailed in the Strategic Report, Diurnal believes that a successful launch of Efmody® in Europe will enable it to achieve profitability in future accounting periods; however, as at 30 June 2021 and 30 June 2020 the success of the commercial launch was uncertain and as such no reversal of impairment was recognised against the investment in the subsidiary.

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

Company	Investment in subsidiary undertakings £000
Cost	
Balance at 1 July 2019	15,351
Balance at 30 June 2020	15,351
Balance at 30 June 2021	**15,351**
Impairment	
Balance at 1 July 2019	15,351
Balance at 30 June 2020	15,351
Balance at 30 June 2021	**15,351**
Carrying value at 30 June 2019	—
Carrying value at 30 June 2020	—
Carrying value at 30 June 2021	**—**

14 Trade and other receivables

	Group		Company	
Current	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Trade receivables	**361**	393	**—**	—
VAT receivable	**501**	188	**75**	25
Prepayments	**1,460**	576	**73**	18
Other receivables	**1,111**	180	**—**	—
	3,433	1,337	**148**	43

	Group		Company	
Non-current	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Amount owed by subsidiary undertaking	**—**	—	**53,679**	37,706

Included within other receivables is £713k (2020: £nil) due to Group in respect of the proceeds from the sale of shares in Eton Pharmaceuticals that had not been received at the reporting date (see Note 11).

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. Excluding the amount owed by subsidiary undertaking, 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 2021 is £nil (30 June 2020: £nil).

The amount owed by subsidiary undertaking above is net of a provision for expected credit losses of £3,380k (2020: £6,780k).

15 Cash and cash equivalents

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Cash at bank and on hand	**34,037**	15,434	**31,623**	14,759

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 on initial deposit 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	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Trade payables	**1,728**	807	**186**	25
Tax and social security	**121**	91	**—**	—
Accrued expenses	**2,258**	1,634	**106**	89
Other payables	**119**	59	**—**	—
	4,226	2,591	**292**	114

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 £63k (2020: £36k) of the accrued expenses has been classified as a non-current liability.

17 Share capital

	2021		2020	
	Number	**£000**	Number	£000
Authorised				
Ordinary shares of £0.05 each	**167,930,008**	**8,397**	121,633,387	6,082
Issued and fully paid				
Ordinary shares of £0.05 each	**167,930,008**	**8,397**	121,633,387	6,082

The following table lists all shares issued in the year ended 30 June 2021:

Date of issue	Number	Nature of issue	Consideration £000	Share capital £000	Share premium £000	Costs charged against share premium £000
15 July 2020	11,514	Shares issued in lieu of fees	1	1	—	—
15 July 2020	371,817	Deferred bonus share vesting	19	19	—	—
24 November 2020	3553	Share option exercise	—	—	—	—
17 December 2020	8465	Share option exercise	—	—	—	—
29 October 2020	16,308,668	General admission	9,785	815	8,970	(669)
11 May 2021	29,592,604	General admission	20,715	1,480	19,235	(1,089)
	46,296,621		**30,520**	**2,315**	**28,205**	**(1,758)**

The £1,758k charged against share premium relates to transaction costs directly attributable to placings and open offers.

17 Share capital continued

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

Date of issue	Number	Nature of issue	Consideration	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.

18 Share-based payments

At 30 June 2021, 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.

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.

18 Share-based payments continued

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

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 "market-based" 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 or Monte Carlo Simulation model for 'market-based' awards, 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.

Measurement assumptions are as follows:

Financial year ended	2021	2021	2020	2020
Deemed grant date	**7 January 2021**[1]	**18 December 2020**	19 March 2020	10 January 2020
Award type	**Performance share**	**Performance share**	Performance share	Performance share
Share price	**£0.601**	**£0.510**	£0.215	£0.28
Exercise price	**£nil**	**£nil**	£nil	£nil
Expected volatility	**70.1%**	**75.6%**	70.1%	69.0%
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%**	**(0.02)%**	0.77%	0.79%
Fair value per award	**£0.215**	**£0.490**	£0.215	£0.280
Number of options/awards	**289,773**	**2,235,383**	118,226	1,214,660

1. Correction of performance share award originally made on 19 March 2020.

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

Financial year ended	2019	2019	2018	2018
Deemed grant date	17 December 2018	4 December 2018	11 December 2017	17 October 2017
Award type	Performance share	Performance share	Performance share	Performance share
Share price	£0.22	£0.23	£1.43	£1.35
Exercise price	£nil	£nil	£0.05	£0.05
Expected volatility	53.1%	53.4%	10.8%	10.7%
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	0.89%	0.88%	0.75%	0.73%
Fair value per award	£0.220	£0.230	£1.382	£1.297
Number of options/awards	437,303	1,217,259	39,033	538,245

Financial year ended	2017	2017	2016	2016
Deemed grant date	8 May 2017	8 November 2016	12 April 2016	12 April 2016
Award type	Performance share	Performance share	Share award	Share option
Share price	£1.26	£1.20	£1.470	£1.470
Exercise price	£0.05	£0.05	£0.050	£0.002
Expected volatility	25.9%	27.4%	66.9%	67.6%
Expected option life	5 years	5 years	2.7 years	5 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk free interest rate	0.46%	0.62%	0.43%	0.81%
Fair value per award	£1.211	£1.152	£1.421	£1.468
Number of options/awards	404,762	479,660	32,374	104,421

Financial year ended	2016	2016
Deemed grant date	23 September 2015	11 September 2015
Award type	Share option	Share option
Share price	£0.625	£0.625
Exercise price	£0.002	£0.438
Expected volatility	65.0%	65.0%
Expected option life	5 years	5 years
Expected dividends	0.00%	0.00%
Risk free interest rate	1.20%	1.22%
Fair value per award	£0.623	£0.392
Number of options/awards	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:

	2021		2020	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	**0.091**	**4,828,270**	0.078	5,940,723
Granted during the year	**0.000**	**2,525,156**	0.000	1,332,886
Exercised during the year	**0.050**	**(12,018)**	0.005	(2,061,721)
Lapsed during the year	**0.046**	**(274,328)**	0.044	(383,618)
Outstanding at the end of the year	**0.060**	**7,067,080**	0.091	4,828,270
Exercisable at the end of the year	**0.257**	**1,648,599**	0.288	1,437,251

The ability to exercise performance share awards is subject to an assessment by the Remuneration Committee at the end of the performance period. During the year ended 30 June 2021, the Remuneration Committee determined that 60% of the performance share awards vesting on 17 October 2020 and 11 December 2020 (being the awards made on 17 October 2017 and 11 December 2017) would become exercisable, with the balance lapsing at that date.

As at 30 June 2021, the weighted average remaining contractual life of share awards (excluding deferred bonus share awards) outstanding at the year end was 4.0 years (2020: 3.8 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 deemed grant date 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	30 June 2021	Financial year ended	30 June 2020
Deemed grant date	**1 July 2020**	Deemed grant date	1 July 2019
Award type	**Deferred bonus share**	Award type	Deferred bonus share
Share price	**£0.305**	Share price	£0.305
Exercise price	**£0.000**	Exercise price	£0.000
Expected volatility	**85.93%**	Expected volatility	69.8%
Expected option life	**3 years**	Expected option life	3 years
Expected dividends	**0.00%**	Expected dividends	0.00%
Risk free interest rate	**0.00%**	Risk free interest rate	0.55%
Fair value per award	**£0.305**	Fair value per award	£0.305
Number of options	**350,512**	Number of options	973,682

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:

	2021		2020	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	**0.00**	**371,817**	0.00	98,735
Granted during the year	**0.00**	**973,682**	0.00	371,817
Exercised during the year	**0.00**	**(371,817)**	0.00	(98,735)
Lapsed during the year	**0.00**	**—**	—	—
Outstanding at the end of the year	**0.00**	**973,682**	0.00	371,817
Exercisable at the end of the year	**0.00**	**—**	—	—

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

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Share options	**279**	352
Deferred share awards	**187**	491
	466	843

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. 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, whilst minimising dilution for equity holders. The total equity and reserves of the Group was £37,564k at 30 June 2021. During the year the Group raised equity financing totalling £30,520k before expenses in order to support the further development of its product pipeline; the Board of Directors considers this sufficient to enable the Group to reach profitability based on current plans and assumptions.

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.

19 Financial instruments continued

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.

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 2021					
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	**1,728**	**1,728**	**1,728**	**—**	**—**	**—**
Other payables	**119**	**119**	**119**	**—**	**—**	**—**
Accrued expenses	**2,258**	**2,258**	**2,195**	**44**	**19**	**—**
	4,105	**4,105**	**4,042**	**44**	**19**	**—**

	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	—	—	—
Accrued expenses	1,634	1,634	1,598	31	5	—
	2,500	2,500	2,464	31	5	—

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.

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
1% increase in GBP/Euro rate	**3**	3
1% decrease in GBP/Euro rate	**(3)**	(3)
1% increase in GBP/US Dollar rate	**13**	2
1% decrease in GBP/US Dollar rate	**(13)**	(2)

19 Financial instruments continued

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 (2020: 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 none (2020: £174k) of the trade receivables balance was overdue and impairment of trade receivables was £nil (2020: £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 2021 (30 June 2020: £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 review is determined as a lifetime expected credit loss. Applying the expected credit loss model resulted in the recognition of a loss allowance of £3,380k at 30 June 2021 (2020: £6,780k). 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 2021 £000	Year ended 30 June 2020 £000
Cash and cash equivalents		
Floating rate – GBP	**0.31%**	1.30%
Floating rate – EUR	**0.00%**	0.00%
Floating rate – USD	**0.02%**	0.42%

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 2021 £000	Year ended 30 June 2020 £000
1% increase in Sterling interest rate	**198**	86
1% decrease in Sterling interest rate	**(198)**	(86)

Financial assets at amortised cost

	Group	
	2021 £000	2020 £000
Trade receivables	**361**	393
Other receivables	**1,111**	180
Cash and cash equivalents	**34,037**	15,434
	35,509	16,007

19 Financial instruments continued

Financial liabilities at amortised cost

	Group	
	2021 £000	2020 £000
Trade payables	**1,728**	807
Other payables	**119**	59
Accrued expenses	**2,258**	1,634
	4,105	2,500

The Directors consider there to be no material difference between the carrying value and the fair value of the financial assets and financial liabilities classified as held at amortised cost.

20 Capital commitments

The Group had no material capital commitments at the year ended 30 June 2021 or 30 June 2020.

21 Lease commitments

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

	2021		2020	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Not later than one year	**86**	**1**	84	1
Later than one year but not later than five years	**14**	**—**	14	2
	100	**1**	98	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 ended 30 June 2020, 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 Efmody®. 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 2021 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

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 on pages 43 to 49. The aggregate key management personnel remuneration is detailed below and there were no other related party transactions with key management personnel.

	Group		Company	
	Year ended 30 June 2021	Year ended 30 June 2020	**Year ended 30 June 2021**	Year ended 30 June 2020
Short-term employee benefits and fees	**763**	807	**120**	138
Post-employment benefits	**47**	46	**—**	—
Share-based payments	**231**	543	**4**	15
	1,041	1,396	**124**	153

The amounts above for short-term employee benefits and fees are exclusive of deferred bonuses as these are reflected within the share-based payments amount.

The Group purchases services from related parties in respect of some Non-Executive Director fees. The following table shows the related party and the amount recorded in respect of such services that were recorded during the year:

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Purchase of goods and services		
IP Group plc and subsidiaries	**50**	29
Amounts owing at the year end		
IP Group plc and subsidiaries	**34**	—

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 383,331 shares were purchased by the Trust during the year ended 30 June 2021 (2020: 2,095,768).

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 2021 annual general meeting (AGM) of Diurnal Group plc (the "Company") will be held at the offices of FTI Consulting LLP, 200 Aldersgate, London EC1A 4HD on Friday 19 November 2021 at 11.00 a.m. for the following purposes:

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 2021.
2. To receive and approve the directors' remuneration report contained within the annual report and accounts for the year ended 30 June 2021.
3. To reappoint PricewaterhouseCoopers LLP as auditor 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.
4. To authorise the directors or any audit committee of the directors to determine the remuneration of the auditors.
5. That, pursuant to section 551 of the Companies Act 2006 (the "**Act**"), the directors be generally and unconditionally authorised to allot Relevant Securities:

   5.1 up to a maximum aggregate nominal value of £2,815,061.50 or, if less, the nominal value of one third of the issued share capital of the Company; and

   5.2 comprising equity securities (as defined in section 560(1) of the Act) up to a maximum aggregate nominal value of £5,630,123.00 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 6.1) in connection with an offer by way of a rights issue or other pre-emptive offer:

      5.2.1 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

      5.2.2 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.

   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:

6. That, subject to the passing of resolution 5 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 5 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:

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

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

      6.1.2 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

6. continued

   6.2 otherwise than pursuant to paragraph 6.1 of this resolution up to an aggregate nominal amount of £422,259.23 (being equivalent to 5 per cent. 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.

7. That, subject to the passing of resolution 5 and pursuant to section 570 of the Act, the directors be and are generally empowered in addition to any authority granted under resolution 6 to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 5 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:

   7.1 up to a nominal amount of £422,259.23 (being equivalent to 5 per cent. of the nominal value of the issued share capital of the Company); and

   7.2 used only for the purposes of financing (or refinancing, if the authority is to be used within 6 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.

8. 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 25,318,663 Ordinary Shares (being approximately 14.99 per cent 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:

   8.1 the maximum price which may be paid for each share (exclusive of expenses) shall not be more than the higher of: (1) five per cent, 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

   8.2 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.

By order of the board

Richard Bungay
Secretary
13 September 2021

Registered office

Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

Registered in England and Wales No. 09846650

Notice of Meeting notes:

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 **17 November 2021**. 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. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 11am (UK time) on 19 November 2021 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
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 Group, 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 Group at PXS 1, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL **by 11 am on 17 November 2021**.
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. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. 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.
10. 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 11am on 17 November 2021**. 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

11. 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.

12. 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.

13. As at 27 September 2021 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 168,903,690 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 27 September 2021 are 168,903,690.

14. 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 Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor 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 auditor 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.

15. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

16. 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.

17. 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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