GW pharmaceuticals

Annual report and accounts 2016

www.gwpharm.com

Contents

Strategic Report

The Directors present their Strategic Report for the Group for the financial year ended 30 September 2016.

Strategy, Objectives and Business Model

The strategy of the Group is to research, develop and commercialise a range of plant-derived cannabinoid prescription medicines to meet unmet patient needs in a wide range of medical conditions.

We believe that we have unique expertise and occupy a leading position in cannabinoid science. Over the last 18 years we have selectively bred our library of cannabis plants to create plant varieties which contain high concentrations of selected cannabinoids. We then extract these cannabinoids, formulate them and, in collaboration with a network of scientific collaborators, we take these product candidates through a battery of pharmacology, toxicology, in vitro and in vivo models of disease in order to identify disease areas where these cannabinoids show promise.

Using our in-house clinical management expertise we then take these product candidates through a series of Phase 1, Phase 2 and Phase 3 clinical trials, gathering evidence of safety, efficacy and control over chemistry and manufacturing of our products in order to compile and present regulatory dossiers to healthcare regulators and seek pharmaceutical marketing authorisations.

We expect to retain marketing rights for niche, orphan opportunities where our reputation as leaders in cannabinoid science will be a key part of the targeted marketing of our prescription medications to specialist clinicians in focused areas of medicine. These opportunities include Epidiolex®, our treatment for paediatric epilepsy for two orphan indication syndromes, Dravet syndrome and Lennox-Gastaut syndrome ("LGS").

During 2016 we have reported a series of positive results from three pivotal Phase 3 trials of Epidiolex in Dravet syndrome and LGS. In each of these three trials Epidiolex achieved the primary endpoint of a significant reduction in seizures assessed over the treatment period compared with placebo. The Company expects to submit a New Drug Application ("NDA"), to the Food and Drug Administration ("FDA") in 2017 for Epidiolex in both Dravet syndrome and LGS. GW Pharmaceuticals plc ("GW") is also building an experienced commercial team in the US in preparation for the future commercial launch of Epidiolex.

During 2016 we have also started Phase 3 clinical trials in the treatment of Tuberous Sclerosis Complex ("TSC") and we expect to commence Phase 3 clinical trials in the treatment of Infantile Spasms ("IS") in the near-term. We believe that we have a deep pipeline of additional cannabinoid product candidates with an increasing focus on orphan paediatric neurologic conditions. The Company's pipeline includes cannabidivarin ("CBDV"), which is in Phase 2 development in the field of epilepsy and is also being researched in several severe autism spectrum disorders. In addition, GW has received Orphan Drug Designation and Fast Track Designation from the FDA for intravenous cannabidiol ("CBD") for the treatment of Neonatal Hypoxic Ischemic Encephalopathy ("NHIE"), which is expected to enter Phase 1 development in Q4 2016. We are also developing promising product candidates for the treatment of Glioma and Schizophrenia.

We also collaborate with other pharmaceutical companies. Where appropriate, we out-license the marketing rights to our products to large pharmaceutical partner companies, who have appropriate marketing expertise, in return for licence, technical access and collaboration fees, funding of our research and development ("R&D") programmes, development and approval milestones, royalties and product revenues. We manufacture our medicines, acting as the sole source of supply to our marketing partners, in return for a product supply price based upon an agreed share of their in-market sales revenues.

We believe that our track record and expertise give us a significant competitive advantage. We have been conducting cannabinoid research for 18 years and believe that our accumulated knowledge and expertise in the field of cannabinoid science gives us a distinct competitive advantage. We have a range of intellectual property as well as strong relationships with leading cannabinoid scientists. In addition, we are the first company in the world to have successfully obtained regulatory approval for a plant-derived cannabinoid medicine. In total, 29 countries have approved Sativex® and we continue to build relationships with medicines and controlled substance regulatory authorities around the world. We aim to protect our leadership position by maintaining our professional reputation, by continuing our open collaboration efforts with other cannabinoid scientists, using a combination of confidentiality and non-compete agreements to protect our know-how, registration of plant variety rights and further enhancing our broad range of patent rights.

The Group operates a business model that allows us to create value by developing a broad pipeline of potential future products.

Where we consider that the risk reward ratio is sufficiently attractive and where development costs and timelines are manageable, it is our intention to seek to develop certain pipeline programmes in-house with a view to retaining the valuable commercialisation rights to such products ourselves. Such programmes are most likely to be orphan programmes where opportunities exist to develop valuable and worthwhile medicines to address unmet patient need in defined, readily addressable patient populations and where there is sufficient intellectual property or regulatory protection from competition to enable a healthy commercial return to be earned over the medium to long term. Where we consider it to be appropriate, we out-license in order to share the financial risk with our partners. By maintaining close internal control over most aspects of R&D, product manufacture and regulatory compliance, we mitigate the other risks associated with our business by continuing to maintain a robust internal controls process and risk management framework.

The nature of our business is to take product development risk in order to create valuable medicines targeted to address areas of significant unmet medical need. We invest our efforts and financial resources into the process of identifying suitable pharmaceutical product candidates which we then take through an extensive development process. This is an inherently risky process.

Strategic Report continued

Not all of our product candidates will progress successfully to become marketable products. However, our in-house development expertise and unique knowledge of the cannabinoids with which we work should allow us to develop valuable products in an efficient manner that will significantly reduce, but which cannot eliminate, this risk in the future.

Business Strategy

Our goal is to capitalise on our leading position in the field of plant-derived cannabinoid therapeutics by pursuing the following strategies:

- Secure regulatory approval and launch using our own commercial organisation and our lead product candidate Epidiolex in Dravet syndrome and LGS in the US and around the world. We have reported positive Phase 3 data in Dravet syndrome and LGS, held pre-NDA meetings with the FDA regarding our filing approach and expect to submit a NDA to the FDA at the end of the first half of 2017. We also expect to submit a regulatory application in Europe in the second half of 2017, and also have future plans to submit applications elsewhere around the world. We are building US and European commercial organisations in preparation for potential launch of Epidiolex.
- Expand the market opportunity for Epidiolex within the field of epilepsy. We have commenced Phase 3 clinical development of Epidiolex for TSC and clinical development of Epidiolex for IS in Q4 2016. We are evaluating additional indications for Epidiolex within the field of epilepsy.
- Develop additional product candidates within the field of epilepsy and paediatric neurology. We have a second product candidate, GWP42006, for which a Phase 2 clinical trial in epilepsy is under way with data expected mid-2017. We expect to commence Phase 2 development of GWP42006 in the field of autism spectrum disorder ("ASD") in Q3 2017. We also commenced a Phase 1 clinical trial in 2016 for an intravenous CBD formulation in the treatment of NHIE. In addition, following positive proof-of-concept data in a Phase 2 schizophrenia trial, we expect to conduct further research within the field of psychiatric disease in children. We retain global commercial rights to these programmes.
- Leverage our proprietary cannabinoid product platform to discover, develop and commercialise additional novel first-in-class cannabinoid products. We believe our established platform, including our in-house development expertise, allows us to achieve candidate selection and proof-of-concept in an efficient manner.
- Further strengthen our competitive position. We will continue to develop our extensive international network of the most prominent scientists in the cannabinoid field and secure additional intellectual property rights.

Review of the Business

Revenue

Total revenue for the year ended 30 September 2016 was £10.3 million, compared to £28.5 million for the year ended 30 September 2015. The decrease of £18.2 million comprises:

- £19.0 million decrease in R&D fees reflecting the impact of the conclusion of the Group's partner-funded Sativex Phase 3 cancer pain clinical trials.
- £1.0 million increase in Sativex product sales revenues to £5.2 million due to increased shipments. In-market sales volumes sold by GW's commercial partners for the year ended 30 September 2016 were 14% higher than the year ended 30 September 2015. Sales volumes to partners increased by 9% over the same period.
- £0.1 million decrease in licence, collaboration and technical access fees to £1.2 million for the year ended 30 September 2016 compared to £1.3 million for the year ended 30 September 2015. This decrease is due to the recognition period of certain signature fees having come to an end in the prior year.
- £0.1 million decrease in development and approval milestones as a result of their one-off nature and not having been repeated in the current year.

Cost of Sales

Cost of sales for the year ended 30 September 2016 of £2.7 million represents an increase of £0.1 million compared to the £2.6 million recorded in the year ended 30 September 2015. This increase reflects the growth in the volume of Sativex inventory shipped to commercial partners in the year ended 30 September 2016.

Research and Development Expenditure

Total R&D expenditure for the year ended 30 September 2016 of £99.8 million increased by £23.0 million compared to the £76.8 million incurred in the year ended 30 September 2015.

GW-funded R&D expenditure increased by £42.0 million to £96.0 million for the year ended 30 September 2016 from £54.0 million for the year ended 30 September 2015. The increase is due to:

- £17.1 million increase in epilepsy and other GW-funded clinical programme costs – reflecting the costs associated with GW's continuing Dravet syndrome and LGS Epidiolex studies, setting up new Phase 3 studies, costs of our other pipeline studies and costs of providing regulatory support and Epidiolex to an increasing number of patients under FDA-authorised expanded access INDs.
- £16.0 increase in R&D staff and employment-related expenses linked to increased global headcount combined with the transition of the Group's clinical headcount from partner-funded Sativex trials to the GW-funded pipeline activities and Epidiolex development programme.
- £6.5 million increase in other overheads associated with running clinical trials such as depreciation of R&D assets, consumables and other property-related overheads. This increase has been impacted by the Group's refocusing of assets on GW-funded activities from partner-funded projects.
- £2.4 million increase in costs of growing an increased volume of high CBD plant material for the Epidiolex development programme.

We track all R&D expenditures against detailed budgets but do not seek to allocate and monitor all R&D costs by individual project. As noted in the segmental analysis below, we do analyse GW-funded R&D into Sativex related expenditures and pipeline related expenditures. External third-party costs of running clinical trials totalling £28.1 million for the year ended 30 September 2016 and £13.4 million for the year ended 30 September 2015 were tracked as individual projects while the remaining £67.9 million for the year ended 30 September 2016 and £40.6 million for the year ended 30 September 2015 consisting largely of internal overhead costs were not allocated to individual projects. We believe that our existing liquidity is sufficient to complete our currently ongoing GW-funded R&D projects.

Development partner-funded R&D projects are funded in advance by our development partners, which involves the receipt of advanced funds every three months, sufficient to cover projected expenditure for the next three months.

Sativex US development expenses decreased by £18.8 million, or 84%, to £3.5 million during the year ended 30 September 2016 as compared to £22.3 million for the year ended 30 September 2015. This reflects decreased expenditure following the completion of the three Sativex Phase 3 cancer pain trials.

Otsuka research collaboration expenses decreased by £0.2 million, or 37%, to £0.3 million during the year ended 30 September 2016 as compared to £0.5 million for the year ended 30 September 2015. The decrease reflects the fact that the Otsuka research collaboration term ended on 30 June 2013 and the remaining revenue relates to income recognised to offset the depreciation expense of property, plant and equipment purchased under the collaboration agreement, which are now all fully depreciated. Most of the pre-clinical programmes that Otsuka was funding are now proceeding into Phase 1/2 clinical trials as part of the GW-funded clinical programmes.

Sales, General and Administrative Expenses

Sales, general and administrative expenses for the year ended 30 September 2016 of £19.9 million increased by £7.3 million compared to the £12.6 million incurred in the year ended 30 September 2015. This net increase is due to:

- £6.3 million increase in employee-related expenses, comprising a £5.1 million increase in payroll costs driven by increased headcount and a £1.2 million increase in the charge in respect of the provision for payroll taxes on unrealised staff share option gains.
- £0.9 million increase in property and travel costs, primarily to the US by staff involved in the establishment of US based operations.
- £0.5 million increase in accountancy, audit and investor relation costs arising from GW's US listing and Sarbanes-Oxley compliance.
- A £0.4 million decrease in respect of pre-launch commercialisation costs in the US. These costs follow discrete commercialisation projects.

Net Foreign Exchange Gains

Net foreign exchange gains increased by £19.4 million, or 312%, to £25.6 million for the year ended 30 September 2016 compared to £6.2 million for the year ended 30 September 2015. This represents foreign exchange gains, due to unrealised gains on our US Dollar denominated cash deposits at the closing balance sheet exchange rate.

Other Expense

Other expense of £0.2 million for the year ended 30 September 2016 increased by £0.1 million, or 131%, compared to the £0.1 million recorded for the year ended 30 September 2015. This increase reflects an increase in interest paid on leases for manufacturing facilities.

Other Income

Other income increased by £0.4 million, or 149%, to £0.6 million for the year ended 30 September 2016 compared to £0.2 million for the year ended 30 September 2015. The increase reflects the increase in the Group's cash and cash equivalents balance and additional tax credit recognised in the UK.

Tax

Our tax benefit increased by £10.0 million, or 80%, to £22.5 million for the year ended 30 September 2015 compared to £12.5 million for the year ended 30 September 2015. This benefit consists of:

- Accrual for an expected R&D tax credit claim of £21.2 million in respect of the year ended 30 September 2016 for GW Research Limited. We expect to submit this claim in the quarter ending 31 March 2017 and this claim is subject to agreement by HMRC.
- Recognition of an additional £0.5 million of R&D tax credit in respect of the year ended 30 September 2015 for GW Research Limited.
- Recognition of US tax credits of £0.8 million in respect of the years ended 30 September 2015 and 30 September 2016 for the Group's US subsidiary, Greenwich Biosciences, Inc. (formerly GW Pharmaceuticals Inc.) following the submission of an orphan drug tax credit claim.

R&D tax credits recognised vary depending on our available tax losses, the eligibility of our R&D expenditure and the level of certainty relating to the recoverability of the claim.

Strategic Report
continued

Summary of Cash Flows

Operating Activities

Net cash outflow from operating activities for the year ended 30 September 2016 of £84.6 million was £38.1 million higher than the £46.5 million outflow from operating activities for the year ended 30 September 2015, principally reflecting the increase in investment in Epidiolex and other pipeline R&D activities offset by additional tax benefit.

Investing Activities

The net cash outflow from investing activities decreased by £9.0 million to £8.8 million for the year ended 30 September 2016 from £17.8 million for the year ended 30 September 2015, reflecting a decrease in capital expenditure of £9.2 million during the year ended 30 September 2016 due to the conclusion of a significant phase of construction of these facilities.

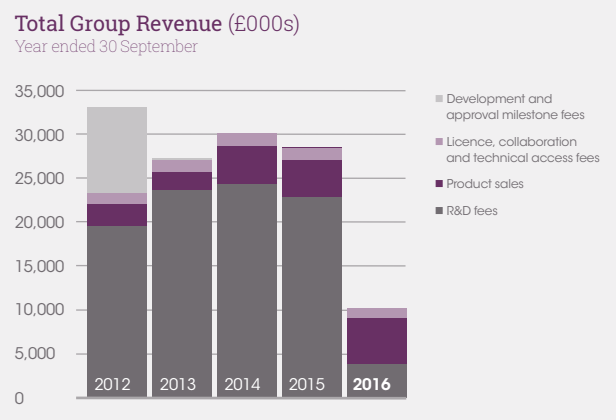
Financing Activities

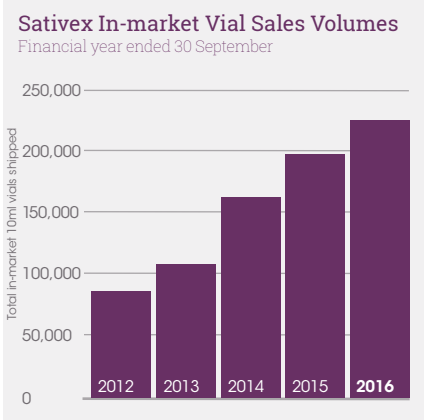
Net cash flow from financing activities increased by £78.4 million to a £206.8 million inflow in the year ended 30 September 2016 compared to a £128.4 million inflow for the year ended 30 September 2015 due to a £79.1 million increase in net new equity funding inflows, a £0.6 million reduction in proceeds from the exercise of employee share options, a £0.2 million increase in fit out funding repayments and a £0.1 million decrease in finance lease repayments.

Our Key Business Trends

The following information provides a summary of the development and performance of the Company's business during the financial year and the position of the business as at 30 September 2016.

Our revenues consist of R&D fees, product sales revenues, royalties, licence collaboration and technical access fees and development and approval milestone fees.





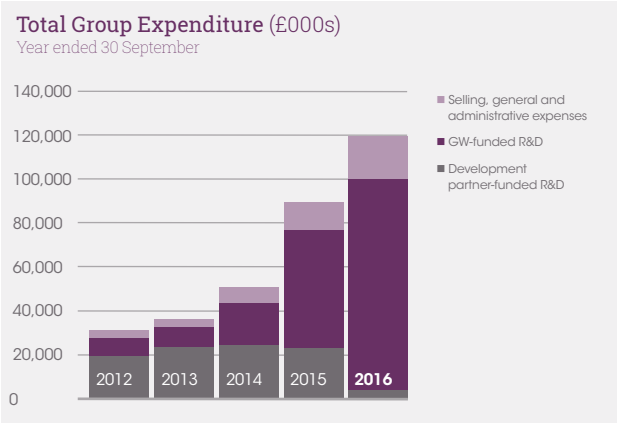
For the year ended 30 September 2016, we recorded revenues of £5.2 million for Sativex product sales, an increase of £0.9 million from the £4.3 million recorded for the year ended 30 September 2015. This increase was due primarily to an increase in the volume of shipments to partners of 9%.

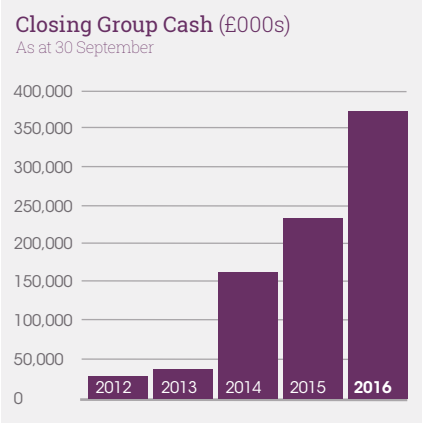
In the year to 30 September 2016 we have seen a decline in our R&D fee income, as the level of rechargeable activity associated with our completed cancer pain trials programme has significantly reduced during the course of the year. We consider our licence, collaboration and technical access fees and our product sales revenues to be recurring revenues. The milestone revenues recognised in each of the financial years above tend to be individual items linked to specific development milestones achieved in a particular financial year.

In 2012 we received substantial development and approval milestones from our Sativex licensees. In 2013, we received only one £250,000 development and approval milestone. In 2014, we received no development and approval milestones. In 2015, we received two €125,000 development and approval milestones linked to regulatory filings by Ipsen, our commercial partner in Latin America. In 2016, we received one €125,000 development and approval milestone linked to a regulatory submission filing by Ipsen in Venezuela.

The Sativex in-market vial sales volumes graph above illustrates the trend in in-market commercial sales volumes of Sativex by our commercial marketing partners Bayer in UK/Canada, Almirall S.A. in Europe and Neopharm in Israel. In-market sales volumes grew by 14% from 2015 to 2016.

In 2012 commercial sales to private patients started in Sweden and in 2013 commercial sales by Almirall S.A. commenced in Norway, Austria, Italy, Poland and by Neopharm in Israel. In 2014, Almirall S.A. launched Sativex in Switzerland and Finland. 2015 and 2016 saw volume growth driven primarily by increased prescribing in Germany and Italy, as well as launch in Belgium.





As illustrated in the Total Group Expenditure graph above, our R&D expenditures have shown a consistent growth trend over the last five financial years from £27.6 million in 2012 to £99.8 million in 2016. The growth during 2016 of £23.0 million from the £76.8 million of R&D incurred in 2015 demonstrates the execution of our epilepsy Phase 3 clinical research with Epidiolex as well as progress with a number of other pipeline product candidates. In addition, selling, general and administrative expenses expenditure has increased from £12.6 million in 2015 to £19.9 million in 2016, reflecting the increased activity in respect of pre-launch commercialisation in the US.

From 2012 to 2015 a significant proportion of the partner-funded R&D expenditure has been driven by our US Phase 3 cancer pain clinical trials programme, which included three pivotal Phase 3 cancer pain trials plus a series of supporting Phase 1 clinical trials and regulatory activities. All of this clinical activity was funded by our development partner Otsuka. These activities have come to an end during 2016, explaining the significant decrease in partner-funded R&D.

In 2012 and 2013, Otsuka also funded a significant amount of pre-clinical activity as part of our six-year pre-clinical research collaboration. This pre-clinical collaboration ended on 30 June 2013. GW now has a worldwide licence to all data and product candidates generated under this collaboration.

From 2012 to 2016 GW-funded R&D increased from £8.1 million in 2012 to £96.0 million in 2016. In 2014 GW-funded R&D increased significantly to £19.2 million, reflecting our investment in the development of Epidiolex, CBDV and other pipeline candidates. In 2015 GW-funded R&D increased further to £54.0 million, as we initiated five Phase 3 clinical trials in several forms of refractory childhood epilepsy, including Dravet syndrome and LGS. In 2016 GW-funded R&D increased to £96.0 million as we completed three Phase 3 clinical trials, and continued to invest in our wider epilepsy programme to support the forthcoming NDA filing in the US. In addition we commenced a Phase 3 clinical trial in TSC as well as continuing to progress multiple active Phase 1/2 clinical trials in other disease areas such as epilepsy partial seizures, Glioma and NHIE.

The Closing Group Cash graph above illustrates the trend in our financial year-end closing cash position for each of the last five years.

In 2012 we recorded a positive net operating cash inflow each financial year, largely as a result of the substantial milestone receipts from our Sativex development partners. Since 2013, having taken the decision to invest in the development of Epidiolex to treat a number of refractory forms of childhood onset epilepsy we have consistently recorded operating cash outflows, offset by the proceeds of a series of fundraisings, each of which have been conducted following the achievement of key product development milestones. Our aim has been to ensure that the Group remains well funded with sufficient working capital to successfully execute our Epidiolex and other pipeline product development plans. These equity fundraisings, together with proceeds from share options and warrants, have generated net financing cash inflows as follows:

– £18.1 million of net new funds from issue of equity as part of our NASDAQ IPO in May 2013.
– £136.6 million in 2014.
– £128.7 million in 2015.
– £207.2 million in 2016.

As a result of this series of successful equity fundraisings the Group has made excellent progress with the execution of our Epidiolex development strategy and with £374 million of cash reserves held at 30 September 2016, the Group has the funds necessary to execute our plans to file an NDA with the FDA, to scale up our growing and manufacturing facilities and to expand our commercial team in preparation for Epidiolex commercialisation.

The subsidiary undertakings affecting the results and net assets of the Group are listed in note 28 to the financial statements.

Strategic Report
continued

Principal Risks and Uncertainties

In common with other pharmaceutical development companies, GW faces a number of risks and uncertainties. Internal controls are in place to help identify, manage and mitigate these risks. Further details of risk factors considered by GW for the year ended 30 September 2016 are included on Form 20-F to be filed with the US Securities and Exchange Commission.

The main risks have been identified as follows:

Clinical

- Clinical trials for our product candidates are expensive, time-consuming, uncertain and susceptible to change, delay or termination. Even if we completed Phase 3 clinical trials for a product candidate and these trials show positive results, there can be no assurance that a regulatory authority will approve that product candidate for any given indication.
- Information obtained from expanded access studies and other survey results may not reliably predict the efficacy of our product candidates in company-sponsored clinical trials and may lead to adverse events that could limit approval.
- There is a high rate of failure for drug candidates proceeding through clinical trials.

Regulatory and Legislative

- Legislative or regulatory reform of the healthcare system in the US and foreign jurisdictions may affect our ability to profitably sell our products, if approved.
- If product liability lawsuits are successfully brought against us, we will incur substantial liabilities and may be required to limit the commercialisation of our product candidates.
- We are subject to the UK Bribery Act, the US Foreign Corrupt Practices Act and other anti-corruption laws, as well as export control laws, customs laws, sanctions laws and other laws governing our operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect our business, results of operations and financial condition.
- Our proprietary information, or that of our customers, suppliers and business partners, may be lost or we may suffer security breaches.
- Any failure by us to comply with existing regulations could harm our reputation and operating results.
- The anticipated development of a Risk Evaluation and Mitigation Strategy ("REMS") for our product candidates could cause delays in the approval process and would add additional layers of regulatory requirements that could impact our ability to commercialise our product candidates in the US and reduce their market potential.
- If we are found in violation of federal or state "fraud and abuse" laws, we may be required to pay a penalty and/or be suspended from participation in federal or state healthcare programmes, which may adversely affect our business, financial condition and results of operations.
- Controlled substance legislation differs between countries and legislation in certain countries may restrict or limit our ability to sell Epidiolex and our product candidates.
- The product candidates we are developing will be subject to US controlled substance laws and regulations and failure to comply with these laws and regulations, or the cost of compliance with these laws and regulations, may adversely affect the results of our business operations, both during clinical development and post approval, and our financial condition.
- As a foreign private issuer, we are not subject to certain NASDAQ Global Market corporate governance rules applicable to US listed companies and are subject to reporting obligations that are different and less frequent than those of a US listed company. As a result, investors in our securities may not have the same protections afforded to shareholders of companies that are not foreign private issuers.
- We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.

Orphan Drug Designation and Intellectual Property

- In respect of our product candidates targeting rare indications, orphan drug exclusivity may afford limited protection, and if another party obtains orphan drug exclusivity for the drugs and indications we are targeting, we may be precluded from commercialising our product candidates in those indications during that period of exclusivity.
- If third parties claim that intellectual property used by us infringes upon their intellectual property, our operating profits could be adversely affected.
- We may not be able to adequately protect Epidiolex, our product candidates or our proprietary technology in the marketplace.

Manufacturing

- Problems with scale up of our manufacturing process, failure to comply with manufacturing regulations or pass regulatory inspections or unexpected increases in our manufacturing costs could harm our business, results of operations and financial condition.
- Business interruptions could delay us in the process of developing our product candidates and could disrupt our product sales.

Marketing and Commercialisation
> We are dependent on the success of our product candidates, none of which may receive regulatory approval or be successfully commercialised.
> Our product candidates, if approved, may be unable to achieve the expected market acceptance and, consequently, limit our ability to generate revenue from new products.
> We expect to face intense competition, often from companies with greater resources and experience than we have.
> Product shipment delays could have a material adverse effect on our business, results of operations and financial condition.
> Product recalls or inventory losses caused by unforeseen events, cold chain interruption and testing difficulties may adversely affect our operating results and financial condition.
> Counterfeit versions of our products could harm our business.

Safety
> Serious adverse events or other safety risks could require us to abandon development and preclude, delay or limit approval of our product candidates, limit the scope of any approved label or market acceptance.

Staffing
> We have recently grown our business and will need to further increase the size and complexity of our organisation in the future, and we may experience difficulties in managing our growth and executing our growth strategy.
> We depend upon our key personnel and our ability to attract and retain employees.
> We are exposed to the risk of employee fraud or other employee misconduct. Employee misconduct could involve the improper use of information, including information obtained in the course of clinical trials, or illegal misappropriation of drug product, either of which could result in governmental investigations and serious harm to our reputation.

Funding and Operational
> We have significant and increasing liquidity needs and may require additional funding.
> We may acquire other companies which could divert our management's attention, result in additional dilution to our shareholders and otherwise disrupt our operations and harm our operating results.
> The UK's vote in favour of withdrawing from the European Union could lead to increased market volatility which could adversely impact the market price of our American Depositary Shares ("ADSs") and make it more difficult for us to do business in Europe.
> The liquidity of our ADSs may have an adverse effect on share price, which may be volatile.

Risk in Relation to the Use of Financial Instruments
The Group is exposed to a number of financial risks, including credit risk, liquidity risk, market price risk and exchange rate risk. It is the Group's policy that no speculative trading in financial instruments shall be undertaken, and as such the Group does not enter into contracts for complicated or compound financial instruments.

Credit Risk
> The Group's principal financial assets are cash and short-term cash equivalents. Risk is minimised through an investment policy restricting the investment of surplus cash to interest-bearing deposits principally held with the major UK banking groups and with UK subsidiaries of banking groups with acceptable credit ratings.
> Trade receivables are concentrated in a small number of large customers with well-established relationships, where the risk and history of default is considered to be low.

Liquidity Risk
> This risk is minimised by placing surplus funds in a range of low-risk cash deposits and short-term liquid investments for periods up to 90 days. This portfolio of deposits is managed to ensure that a rolling programme of maturity dates is managed in accordance with Group expenditure plans in order to ensure available liquid cash funds when required.

Market Price Risk
> Market price risk primarily comprises interest rate exposure risk, which is managed by maintaining a rolling programme of varying deposit maturity dates, up to a maximum of 90 days, on a breakable deposit basis. The majority of funds are deposited for terms of less than 90 days. This allows the Group to react to rate changes within a reasonable timeframe and to mitigate pricing risk accordingly.

Strategic Report
continued

Exchange Rate Risk

> The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling.

Exchange rate fluctuations between local currencies and the Pound Sterling create risk in several ways, including the following:

- Weakening of the Pound Sterling may increase the Pound Sterling cost of overseas R&D expenses and the cost of sourced product components outside the UK;
- Strengthening of the Pound Sterling may decrease the value of our revenues denominated in other currencies;
- Exchange rates on non-Sterling transactions and cash deposits can distort our financial results; and
- Commercial Sativex pricing and profit margins are affected by currency fluctuations.

During the year the Group had exposure to US Dollars ("US$"), Euros ("€") and Canadian Dollars ("CAD"). The Group's policy is to maintain natural hedges, where possible, by matching revenue and receipts with expenditure. The Group continues to hold a large balance of US$, to match future anticipated US$-denominated expenditure on pre-launch activities and our clinical trials for Epidiolex.

Going Concern

Having reviewed cash flow forecasts for the 12-month period following the date of signing the financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing these financial statements.

Employee Consultation and Human Rights

The Group places considerable value on the involvement of its employees. They are regularly briefed on the Group's activities in Company-wide meetings and updates, and have regular opportunities to share their views with Executive Directors. Their contribution is a key element to the future success of the Group and accordingly, the majority of employees are given the opportunity to participate in the Company's share capital by joining one or more of the share option schemes operated by the Company. Details of the share options issued under these plans are set out in note 23 to the financial statements. Equal opportunity is given to all employees regardless of their age, sex, colour, race, disability, religion or ethnic origin.

The Group considers that respecting human rights is a global standard of expected conduct for all business enterprises. The Group aims to comply with all applicable laws, especially health and safety, to prevent abuses of human rights. Regular dialogue is held between employees at each of the Group's sites and senior management to ensure that any issues are identified and resolved. The Group maintains and operates within a Code of Conduct and Business Ethics with which all staff are required to comply.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Our Employees

We aim to recruit, retain and motivate intelligent people who will share our passion for developing medicines that meet the needs of patients and who will strive to help us to achieve strategic aims. We recognise that the accumulated knowledge and experience of our staff is one of our greatest assets and we recognise and reward loyalty.

As at 30 September 2016, 102 (2015: 87) of our staff have worked for the Group for more than five years. 50 (2015: 51) of these have been with us for more than 10 years. We seek to encourage staff retention by offering participation in staff share option schemes, bonus schemes and the GW Spirit Award scheme with which we reward those members of staff who have demonstrated exceptional achievements, innovative ideas, great teamwork and/or other praiseworthy achievements that go beyond the day-to-day requirements of their role.

We recruit individuals who have the skills, experience and positive attitude needed to optimally perform the roles that we need in order to help us to drive our business forward. We recruit without regard to sex or ethnic origin, appointing and thereafter promoting staff based upon merit, positive attitude and success.

The profile of the Group's employees at 30 September 2016 was as follows:

	Male 30 September 2016	Female 30 September 2016	Total 30 September 2016
Number of persons who were Directors of the Company	9	–	9
Number of persons who were senior managers of the Company	18	10	28
Number of persons who were employees of the Company	208	251	459
Total employees at 30 September 2016	**235**	**261**	**496**

Environmental Matters

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Our sources of emission relate principally to our growing and manufacturing facilities, the costs of which are included within our consolidated financial statements. We have responsibility for any emission sources where we bear the associated costs in our consolidated statements.

We have used the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard (revised edition) data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2015.

We have used the most recent evidence or estimates provided by our energy supply partners to generate our disclosure of emissions for the year ended 30 September 2016. These include the purchase of electricity, heat, steam or cooling.

The annual quantity of emissions for the Group for 2016 was 3,052 tonnes of carbon dioxide (2015: 2,414), produced by activities for which the Group is responsible. The Group considers that the intensity ratio of tonnes of carbon dioxide per employee is a suitable metric for its operations. This was 6.9 tonnes per head average (2015: 7.5 tonnes) for the year ended 30 September 2016.

The Group actively looks to minimise indirect areas of emissions by encouraging remote working and promoting online conferencing facilities to reduce business-related travel and is actively exploring ways to reduce the light energy used in some of its plant growing facilities.

As a business whose core activity starts with the growing of plants which are actively absorbing carbon dioxide, we have a natural carbon capture process within our business operations. We have not sought to quantify the extent to which this offsets the carbon footprint of our business but we take some comfort from the fact that this helps to mitigate the environmental impact of our business and we expect this to increase as the scale of our growing operations expands to meet future demand for our plant-derived medicines.

On behalf of the Board

Adam George
Chief Financial Officer
5 December 2016

Directors' Report

The Directors present their report and the consolidated financial statements for the Company and for the Group for the financial year ended 30 September 2016. The Company has chosen to set out some of the matters otherwise required by regulations made under section 416(4) of the Companies Act 2006 to be disclosed in the Directors' Report as the Directors consider are of strategic importance to the Company.

Principal Activities

The principal activity of GW Pharmaceuticals plc ("GW") is the development and commercialisation of prescription cannabinoid medicines, which address clear unmet patient needs.

We are the global leader in the development of cannabinoid prescription medicines. Our lead product, Epidiolex® (cannabidiol) is in Phase 3 clinical development to treat rare and catastrophic forms of childhood-onset epilepsy, potentially offering relief to patients for conditions that previously had few treatment options.

Group Research and Development Activities

The research and development ("R&D")undertaken by the Group amounted to £99.8 million (2015: £76.8 million), all of which was expensed during the year. This included £3.8 million (2015: £22.8 million) of R&D expenditure which was carried out under contract for, and was fully funded by, our development partners.

Results and Dividends

The Consolidated Income Statement for the year is set out on page 35. The Group's loss for the financial year after tax was £63.7 million (2015: £44.6 million).

The Directors do not recommend the payment of a dividend (2015: £nil).

Share Capital

Information relating to changes to the issued share capital during the year is given in note 22 to the financial statements.

The Group is funded principally by ordinary share capital and has no bank debt as at 30 September 2016 (2015: £nil). The Group had a fit out funding liability of £9.2 million at 30 September 2016 (2015: £8.8 million) and a finance lease liability of £5.2 million (2015: £1.7 million), reflecting funding provided by our landlords to fit out leased properties of a number of our manufacturing premises.

We have also signed a long-term commercial growing agreement with an external supplier to produce plant material for use in the Epidiolex development programmes and commercial release. This agreement, which is expected to commence during Q2 2017 and continue over a 10-year period, forms part of the Group's strategy to support expected future sales growth. The agreement includes multiple fee elements designed to incentivise cost efficient, reliable production volumes. Associated with this agreement is the lease of a plant-growing facility, which has been identified as an operating lease. Rental payments commence during Q2 2017 and continue over a 10-year period. Future minimum lease payments associated with this operating lease are included in the table set out in note 25 to the financial statements.

Substantial Shareholdings

On 5 December 2016 the Company had been notified, in accordance with the Companies Act 2006, of the following interests in the ordinary share capital of the Company:

	Number of Shares Held	Percentage
Capital Research and Management Companies, Inc.	45,341,270	15.0
Prudential plc group of companies	24,602,551	8.1
Scopia Capital Management	22,622,004	7.5
Fidelity Management & Research Co.	21,119,580	7.0
Dr. Geoffrey W. Guy	12,847,852	4.2
Deerfield Partners	12,101,700	4.0
Viking Global Investors	11,791,860	3.9
Janus Capital Management	9,297,036	3.1
Bank of New York Mellon	9,134,064	3.0

Directors and their Interests

The following Directors held office during the period:
Dr Geoffrey W Guy
Justin Gover
Dr Stephen Wright
Adam George
Chris Tovey
Julian Gangolli
James Noble
Thomas Lynch
Cabot Brown

Details of the beneficial interests of Directors in the ordinary shares of the Company are disclosed within the Directors' Remuneration Report on page 18.

Details of the Directors' share options and service contracts are shown in the Directors' Remuneration Report.

In accordance with the Articles of Association of the Company, Geoffrey Guy, Thomas Lynch and Cabot Brown will retire by rotation at the forthcoming Annual General Meeting ("AGM") and, being eligible, all offer themselves for re-election.

Annual General Meeting

The AGM will be held in London in March 2017. Further details will be provided to shareholders in early 2017.

Auditor and Audit Information

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
(b) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is 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.

The audit committee has recommended the re-appointment of the Group's existing auditors, Deloitte LLP, which will be proposed at the forthcoming AGM.

By order of the Board

Adam George
Chief Financial Officer
5 December 2016

Directors' Remuneration Report

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Remuneration Committee Chairman's Annual Statement

Dear Shareholder

On behalf of the Board I am pleased to present the remuneration committee's report for the financial year ending 30 September 2016.

Following another year of excellent corporate progress I would like to take this opportunity to provide you with an overview of the remuneration committee's major decisions taken during 2016, together with the context in which these decisions were taken. We were delighted to receive a high level of shareholder voting support at the AGM in March 2016, with 98.2% of proxy voting in support of the resolution to adopt the 2015 remuneration report. This was consistent with the 97.7% of shareholder support for the resolution passed at the previous Annual General Meeting ("AGM") in February 2015 to approve the Executive Director Remuneration Policy (the "Policy"). We remain confident that, for 2017, the Policy remains appropriate for the business and therefore no changes to the Policy are proposed at the forthcoming AGM in March 2017. We expect to seek shareholder re-approval of the Policy in early 2018.

Context of the Committee's Decisions in 2016

2016 has been another year of excellent progress towards the successful execution of the Board's strategy. The Executive Team have successfully led the GW Pharmaceuticals plc ("GW") team to execute a series of successful Epidiolex® Phase 3 clinical studies producing the efficacy and safety data that we expect to enable the submission of an Epidiolex New Drug Application ("NDA") to the Food and Drug Administration ("FDA") in 2017. This data has fundamentally changed the risk profile of the business, creating a valuable asset that, subject to achievement of future regulatory approvals, has the potential for near-term commercialisation. At the start of 2016 the committee agreed a set of objectives with the executive management team that included successful execution of the Epidiolex Phase 3 trials, objectives linked to interaction with regulators to agree the regulatory pathway for Epidiolex and objectives linked to the scale up of growing and key steps of the manufacturing process in order to create the capability to meet potential market demand. In parallel with these achievements the team have managed the rapid growth of headcount necessary to execute our strategic plans and are managing an increasing level of technical and operational complexity as the business expands both in the UK and the US.

Looking forwards 2017 and 2018 are likely to be demanding but have the potential to create significant shareholder value if executed successfully. It is in this context that the committee have made our major decisions during 2016. We have been able to reward success via the 2015 short-term bonus incentive award paid in February 2016 and by approving, in September 2016, the vesting of 100% of the Long Term Incentive Plan ("LTIP") options granted in September 2013. We have sought to encourage retention of the Executive Team by making additional LTIP option awards and we have sought to align their remuneration incentives with the key value drivers for the business by linking the vesting of the majority of these awards to the successful filing of an NDA with the FDA and achievement of a US marketing approval for Epidiolex.

The Remuneration Committee

In accordance with best practice, the GW remuneration committee, consisting of independent non-executive Directors under my Chairmanship, manages the remuneration of the Executive Directors within the framework of the shareholder approved Policy and shareholder approved LTIP option scheme rules.

Our approach to remuneration:
The Group remuneration policy for Executive Directors aims to:

- align the interests of Executive Directors with those of shareholders;
- have regard to the individuals' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality, while avoiding remunerating those Directors more than is necessary;
- link individual remuneration packages to the Group's short-term and long-term performance through the award of incentives via participation in the Group's cash and equity-based incentive schemes;
- provide post-retirement benefits through defined contribution pension schemes; and
- provide employment-related benefits including the provision of life assurance and medical assurance.

I believe that these aims, which remain unchanged from previous years, have been working well, continue to be relevant and provide a firm framework within which future remuneration will be determined. The shareholder approved Policy provides a set of parameters within which we work whilst still allowing the remuneration committee sufficient flexibility to adapt remuneration packages in line with the development of the business. This should allow the Company to attract, retain and motivate Executive Directors and senior management with the skills, talent and motivation to deliver upon our strategy and to continue to create value for our shareholders.

Key Remuneration Committee Activities in 2016:

During 2016 the remuneration committee's key activities have been as follows:

- At the start of the 2016 financial year we engaged Willis Towers Watson as independent advisers to benchmark the remuneration of the Executive Directors against the selected peer group and to provide recommendations for basic salaries, LTIP awards and the structure of bonus incentive awards for the year.
- In January 2016, in line with inflationary increases given to the majority of GW staff, the Executive Directors were given an inflationary basic salary increase of 2%, effective from 1 January 2016.
- In February 2016, the remuneration committee met to consider the extent of achievement of 2015 calendar year objectives by the Executive Team and to determine the level of short-term bonus incentive award to be paid in respect of the 2015 calendar year. The consensus was that 2015 had been a very successful year with significant progress having been made against the majority of the objectives that had been agreed at the start of 2015. These included:
  - Successful recruitment of Epidiolex Phase 3 clinical trials in Dravet and Lennox-Gastaut syndromes together with successful management of effectiveness data emerging from the expanded access programme;
  - Successful scale up of Epidiolex manufacturing volumes to meet demand from the clinical trials programme, expanded access and Investigator initiated studies;
  - Establishment of Commercial scale growing capability;
  - Achievement of multiple orphan designations from US and European Union regulators; and
  - Good progress with recruitment of Phase 2 clinical trials with pipeline products in the fields of schizophrenia, Glioma and diabetes.

  Unfortunately, the Sativex® phase 3 trials for the treatment of advanced cancer pain did not achieve statistical significance for the primary clinical endpoint for these studies, with the result that the cancer pain programme funded by Otsuka has been discontinued.

  The consensus reached by the committee was that each member of the Executive Team should receive a short-term incentive bonus award, in respect of achievements in the 2015 calendar year, equivalent to 48% of their 2015 basic salary.
- At the same time, the remuneration committee approved the objectives to be achieved by the Executive Directors during 2016. These are considered to be commercially sensitive and will not be disclosed here in detail but are primarily linked to achievement of positive Phase 3 clinical trial results with Epidiolex together with scale up of Epidiolex manufacturing capability, inspection readiness and progress towards readiness to submit an NDA filing to the FDA in 2017. These are considered by the remuneration committee to be the key value drivers for the business and therefore represent the optimum objectives for Executive Team incentive schemes to be based upon in 2016.
- In February 2016, the remuneration committee met and agreed the terms of the 2016 grant of LTIP awards to the executive Directors. These were segmented so that:
  - 50% of the value of the award is linked to specific performance conditions which must be achieved in the three-year vesting period. Half of the share options will vest upon receipt from the FDA of their confirmation of acceptance of an Epidiolex NDA filing, and half will vest upon the FDA grant of Epidiolex regulatory approval;
  - 25% of the value of the award is in the form of market-priced share options with a three-year vesting period; and
  - 25% of the value of the award took the form of restricted stock options which vest at the rate of 25% per annum over a four-year vesting period.

  The selected performance conditions that are required to be achieved in order to trigger vesting of 50% of this award are again considered to be directly linked to key business value drivers creating alignment with shareholders' interests. The restricted stock option element of the award is considered to encourage long-term retention, considered to be a key factor critical to success, and the market priced options are intended to align further the interests of the Executive Directors with shareholders' interests.
  At the grant date these awards had expected values equivalent to 400% of basic salary for the Chief Executive and President, North America, 300% of basic salary for the Chairman and 200% for the Chief Financial Officer, Chief Medical Officer and Chief Operations Officer.
- In March 2016 the members of the remuneration committee attended the AGM in order to make themselves available to answer shareholder questions about remuneration policy and to receive feedback from shareholders represented at the meeting.
- In September 2016, the three-year vesting period for the 2013 awards under the 2008 LTIP scheme concluded. The vesting condition for these options stated that the GW share price needed to increase by at least 75% over the three years from the NASDAQ IPO date in May 2013. The share price actually increased by more than 900% over this period, with the result that the committee approved the vesting of 100% of this award.
- As part of the consideration of the vesting of the September 2013 LTIP award, the committee also agreed to indemnify Justin Gover for the incremental US taxation that he is likely to suffer on the gain arising from these LTIP options as a result of having relocated to the US at the Company's request during the vesting period of this award. At 30 September 2016 this additional income tax liability is estimated at $1.25 million, and is expected to payable when the option gain is crystallised by sale of these options, expected in late 2016/early 2017.

Directors' Remuneration Report
continued

- Since 30 September, in preparation for the end of 2016 remuneration review the remuneration committee have again engaged Willis Towers Watson as independent consultants to advise the committee. In recognition of the fact that following achievement of multiple positive Phase 3 trial results during 2016 together with growth in the size and complexity of the Company's operations plus the significant growth in the market capitalisation of the business since the original peer group was established in 2014, Willis Towers Watson advised that a peer group refresh is appropriate. Willis Towers Watson have therefore conducted a new peer group selection process with the result that the 21 company peer group consisting of comparable US-listed biotech/pharmaceutical development companies, to be used for benchmarking of future pay awards now consists of:
  Acadia Pharmaceuticals Inc., Agios Pharmaceuticals Inc., Alder Biopharmaceuticals Inc., Alnylam Pharmaceuticals Inc., Ariad Pharmaceuticals Inc., Bluebird Bio Inc, Depomed Inc., Horizon Pharma plc, Insys Therapeutics Inc., Intercept Pharmaceuticals Inc., Juno Therapeutics Inc., Kite Pharma Inc., Neurocrine Biosciences Inc., Pacira Pharmaceuticals Inc., Portola Pharmaceuticals Inc., Puma Biotechnology Inc., Radius Health Inc., Sage Therapeutics Inc., Sarepta Therapeutics Inc., Tesaro Inc., Ultragenyx Pharmaceuticals Inc.

Looking forwards we expect that the committee will meet in December 2016 to consider:
- Short-term bonus incentives payable in respect of performance objectives achieved by the Executive Team in the 2016 calendar year;
- Potential changes to basic salaries; and
- Performance objectives to be used for short-term bonus incentives during 2017.

On the pages that follow I welcome the opportunity to set out the Policy that was approved by shareholders at our February 2015 AGM and which has been in force throughout 2016. We propose to continue to apply this pay policy to Executive remuneration in 2017. We believe that the Policy gives the remuneration committee transparent powers to implement appropriate incentive rewards, in line with US market practice, enabling us to continue to maintain appropriate remuneration for the existing Executive team, the non-executive Directors, and new senior roles that we expect to join GW during 2017.

Thomas Lynch
Remuneration Committee Chairman
5 December 2016

Annual Report on Remuneration

The information provided in this part of the Directors' Remuneration Report is subject to audit.

Single Total Figure of Remuneration for Each Director

The Directors received the following remuneration for the year ended 30 September 2016:

Name of Director	Salary and Fees £	Taxable Benefits £	Short-term Incentives £	Long-term Incentive Plans[2] £	Pension Contributions £	**2016 Total £**
Executive						
Dr Geoffrey W Guy	353,860	28,475	167,342	3,127,209	54,416	**3,731,302**
Justin Gover	311,921	32,852	146,720	2,585,049	52,993	**3,129,535**
Adam George	197,276	17,699	93,293	1,734,260	30,337	**2,072,865**
Dr Stephen Wright	242,370	20,180	114,618	2,130,678	39,830	**2,547,676**
Chris Tovey	214,179	17,817	101,287	1,882,849	35,198	**2,251,330**
Julian Gangolli	274,997	1,159	72,658	53,666	1,664	**404,144**
Non-executive						
James Noble	63,500	–	–	–	–	**63,500**
Cabot Brown	51,294	–	–	–	–	**51,294**
Thomas Lynch[1]	–	–	–	–	–	**–**
Aggregate emoluments	1,709,397	118,182	695,918	11,513,711	214,438	**14,251,646**

1 Since his appointment as a non-executive Director in July 2010, Thomas Lynch has waived his right to receive remuneration for this role.
2 LTIP gains represent the unrealised gains on LTIPs that vested during the year ended 30 September 2016, calculated according to the share price at the date of vesting. These gains have not been realised by 30 September 2016 as the Directors have not exercised or sold these LTIPs.

The Directors received the following remuneration for the year ended 30 September 2015:

Name of Director	Salary and Fees £	Taxable Benefits[2] £	Short-term Incentives £	Long-term Incentive Plans[3] £	Pension Contributions £	2015 Total £
Executive						
Dr Geoffrey W Guy	345,212	29,843	170,897	688,377	53,850	1,288,179
Justin Gover	286,188	202,289	140,531	617,423	48,817	1,295,248
Adam George	193,408	18,472	95,275	443,981	30,853	781,989
Dr Stephen Wright	237,618	22,435	117,331	562,561	41,583	981,528
Chris Tovey	209,980	18,724	103,438	–	36,746	368,888
Julian Gangolli	80,631	–	–	–	–	80,631
Non-executive						
James Noble	65,000	–	–	–	–	65,000
Cabot Brown	58,000	–	–	–	–	58,000
Thomas Lynch[1]	–	–	–	–	–	–
Aggregate emoluments	1,476,037	291,763	627,472	2,312,342	211,849	4,919,463

1 Since his appointment as a non-executive Director in July 2010, Thomas Lynch has waived his right to receive fees for this role.
2 Taxable benefits comprise healthcare insurance premiums, telephone allowances, healthcare and the cash value of car allowances. Justin Gover's taxable benefits include a relocation allowance of £181,653 paid to him in September 2015 to reimburse expenditures incurred as a result of his relocation to the US.
3 LTIP gains represent the unrealised gains on LTIPs that vested during the year ended 30 September 2015, calculated according to the share price at the date of vesting. Apart from Justin Gover's vested options, these gains have not been realised as the Directors have not exercised or sold these LTIPs.

Long-Term Incentive Awards Vesting During the Financial Year

On 24 September 2016 the vesting period for the 2013 LTIP award ended. This extent of vesting of this award, granted following the NASDAQ IPO in 2013, was linked to the growth in the Company's share price over the period from the IPO to the vesting date, as follows:

> All of the awards will vest if the share price increases by 75% or more.
> 25% of the awards will vest if 25% growth is achieved.
> A straight-line basis of calculation will be used to calculate the number of LTIPs vesting between these two extremes.
> No LTIPs will vest if the share price growth is below 25% over the three-year vesting period.

The starting price for this calculation was based on the average price of the AIM shares over the last 30 trading days prior to the NASDAQ IPO date on 1 May 2013 and was compared to the average price over the last 30 trading days of the vesting period.

The average AIM share price over the last 30 days prior to the NASDAQ IPO date was 55.6 pence, giving an American Depository Share ("ADS") equivalent price at the time of $10.7. This increased to an average ADS price for the 30 days prior to vesting of $92.3, representing growth of 763%.

Directors' Remuneration Report continued

The committee were therefore delighted to be able to approve the vesting of 100% of this LTIP award on 24 September 2016.

The intrinsic value of these vested options has been included in the 2016 remuneration table above based on the share price at the vesting date of £6.99 per ordinary share.

Long-Term Incentive Awards Granted to the Executive Directors in 2016

Executive Directors are awarded LTIPs at the discretion of the remuneration committee. Awards are typically calculated with reference to the closing mid-market ordinary share price of the Company's ordinary shares on the day prior to grant. During periods of volatility, the price used to determine award size is determined by reference to the average closing mid-market ordinary share price of the previous five trading days.

Following the completion of the review of the Group's remuneration strategy, the Executive Directors were awarded options to subscribe for the Company's ordinary shares split into three different types of options:

- market-priced options, whereby the options have an exercise price equivalent to the market price at market close on the day prior to grant;
- performance stock options, whereby the options will vest upon the third anniversary of the date of grant subject to certain corporate performance conditions having been achieved; and
- restricted stock options, whereby the options are subject to a four-year service condition and vesting period. 25% of the options will vest on the each anniversary of the date of grant over the four-year period.

In general, the awards may be exercised at any time between the vesting date and the 10th anniversary of the date of grant. Our US-based Directors will be required to exercise their performance stock and restricted stock options within six months of the vesting date. The exercise price of the performance stock options and restricted stock options is 0.1p per ordinary share, being the par value of the shares. Awards which do not vest at the end of the vesting period will lapse permanently.

The table below sets out the LTIPs awarded in the year to 30 September 2016 to Executive Directors:

Name of Director	Granted	Value at Date of Grant	Valuation Method	Exercise Price	Performance Period End	Date of Expiry	Percentage of Award Vesting for Minimum Performance
Justin Gover							
Market-priced options	213,245	238,759	Fair value	257.0p	15/02/2019	15/02/2026	100
Restricted stock options year 1 – 25%	30,334	80,006	Face value	0.1p	15/02/2017	15/08/2017	100
Restricted stock options year 2 – 25%	30,334	80,006	Face value	0.1p	15/02/2018	15/08/2018	100
Performance stock options	404,455	1,066,750	Face value	0.1p	15/02/2019	15/08/2019	0
Restricted stock options year 3 – 25%	30,334	80,006	Face value	0.1p	15/02/2019	15/08/2019	100
Restricted stock options year 4 – 25%	30,334	80,006	Face value	0.1p	15/02/2020	15/08/2020	100
Dr Geoffrey W Guy							
Market-priced options	182,171	274,517	Fair value	257.0p	15/02/2019	15/02/2026	100
Restricted stock options year 1 – 25%	25,914	68,348	Face value	0.1p	15/02/2017	15/02/2026	100
Restricted stock options year 2 – 25%	25,914	68,348	Face value	0.1p	15/02/2018	15/02/2026	100
Performance stock options	345,517	911,301	Face value	0.1p	15/02/2019	15/02/2026	0
Restricted stock options year 3 – 25%	25,914	68,348	Face value	0.1p	15/02/2019	15/02/2026	100
Restricted stock options year 4 – 25%	25,913	68,346	Face value	0.1p	15/02/2020	15/02/2026	100
Dr Stephen Wright							
Market-priced options	83,183	125,350	Fair value	257.0p	15/02/2019	15/02/2026	100
Restricted stock options year 1 – 25%	11,833	31,210	Face value	0.1p	15/02/2017	15/02/2026	100
Restricted stock options year 2 – 25%	11,833	31,210	Face value	0.1p	15/02/2018	15/02/2026	100
Performance stock options	157,771	416,121	Face value	0.1p	15/02/2019	15/02/2026	0
Restricted stock options year 3 – 25%	11,833	31,210	Face value	0.1p	15/02/2019	15/02/2026	100
Restricted stock options year 4 – 25%	11,832	31,207	Face value	0.1p	15/02/2020	15/02/2026	100
Chris Tovey							
Market-priced options	73,508	110,771	Fair value	257.0p	15/02/2019	15/02/2026	100
Restricted stock options year 1 – 25%	10,456	27,578	Face value	0.1p	15/02/2017	15/02/2026	100
Restricted stock options year 2 – 25%	10,456	27,578	Face value	0.1p	15/02/2018	15/02/2026	100
Performance stock options	139,420	367,720	Face value	0.1p	15/02/2019	15/02/2026	0
Restricted stock options year 3 – 25%	10,457	27,580	Face value	0.1p	15/02/2019	15/02/2026	100
Restricted stock options year 4 – 25%	10,457	27,580	Face value	0.1p	15/02/2020	15/02/2026	100
Adam George							
Market-priced options	67,707	102,029	Fair value	257.0p	15/02/2019	15/02/2026	100
Restricted stock options year 1 – 25%	9,631	25,402	Face value	0.1p	15/02/2017	15/02/2026	100
Restricted stock options year 2 – 25%	9,631	25,402	Face value	0.1p	15/02/2018	15/02/2026	100
Performance stock options	128,417	338,700	Face value	0.1p	15/02/2019	15/02/2026	0
Restricted stock options year 3 – 25%	9,631	25,402	Face value	0.1p	15/02/2019	15/02/2026	100
Restricted stock options year 4 – 25%	9,632	25,404	Face value	0.1p	15/02/2020	15/02/2026	100

Name of Director	Granted	Value at Date of Grant	Valuation Method	Exercise Price	Performance Period End	Date of Expiry	Percentage of Award Vesting for Minimum Performance
Julian Gangolli							
Market-priced options	192,755	215,817	Fair value	257.0p	15/02/2019	15/02/2026	100
Restricted stock options year 1 – 25%	27,419	72,318	Face value	0.1p	15/02/2017	15/08/2017	100
Restricted stock options year 2 – 25%	27,419	72,318	Face value	0.1p	15/02/2018	15/08/2018	100
Performance stock options	365,591	964,246	Face value	0.1p	15/02/2019	15/08/2019	0
Restricted stock options year 3 – 25%	27,419	72,318	Face value	0.1p	15/02/2019	15/08/2019	100
Restricted stock options year 4 – 25%	27,420	72,320	Face value	0.1p	15/02/2020	15/08/2020	100

The vesting of the above awards is subject to the following performance conditions:

25% of the awards are in the form of market-priced options, whereby the options have an exercise price equivalent to the market price at market close on the day prior to grant ($44.64 per ADS, equivalent to 257p per ordinary share). These options become exercisable on the third anniversary of the date of grant. Future gains upon exercise of these options will be linked to the extent of share price growth over the vesting period. The committee consider that this element of the awards will help to ensure continuing alignment between Executive and shareholders' interests. The Black-Scholes option pricing model was used to derive the fair values.

50% of the awards are in the form of performance stock options, whereby the options will vest upon the third anniversary of the date of grant subject to certain corporate performance conditions having been achieved. In this case, vesting of half of the performance stock options will occur upon receipt from the FDA of their confirmation of acceptance of an Epidiolex NDA filing and half will vest upon the FDA grant of Epidiolex regulatory approval. The committee considers these particular milestones to be important elements of our agreed strategy and the key value drivers for the business at this time. Each option has a face value equal to 264p, the share price on the date of grant.

25% of the awards are in the form of restricted stock options whereby these options are subject to a four-year service condition and vesting period. 25% of the options will vest on each anniversary of the date of grant over the next four years. The committee consider that this element of the awards should help to ensure retention of our team of Executive Directors, a key factor for GW's future success. Each option has a face value equal to 264p, the share price on the date of grant.

Long-Term Incentive Awards Granted to the Non-Executive Directors in 2016

The Policy, approved by shareholders in March 2015, allows the grant of LTIP awards to the non-executive Directors. During December 2016 the executive members of the Board met to discuss and approve the first such award.

The award was made after seeking advice from Willis Towers Watson and was based upon peer group benchmarking data that was used to review the total remuneration packages for the non-executive members of the Board. This review resulted in a reduction to the cash based remuneration receivable offset by the implementation of a proposed annual grant of equity based incentives. The first such grant took place on 29 December 2015.

The table below sets out the LTIPs awarded in the year to 30 September 2016 to non-executive Directors:

Name of Director	Granted	Value at Date of Grant	Valuation Method	Exercise Price	Performance Period End	Date of Expiry	Percentage of Award Vesting for Minimum Performance
James Noble							
Market-priced options	68,122	105,230	Fair value	383.0p	29/12/2018	29/12/2025	100
Restricted stock options	14,479	55,853	Face value	0.1p	29/12/2018	29/12/2025	100
Cabot Brown							
Market-priced options	68,122	105,230	Fair value	383.0p	29/12/2018	29/06/2019	100
Restricted stock options	14,479	55,853	Face value	0.1p	29/12/2018	29/06/2019	100
Thomas Lynch							
Market-priced options	68,122	105,230	Fair value	383.0p	29/12/2018	29/12/2025	100
Restricted stock options	14,479	55,853	Face value	0.1p	29/12/2018	29/12/2025	100

This LTIP award has been structured as follows:
67% of the awards are in the form of market-priced options, whereby the options have an exercise price equivalent to the market price at market close on the day prior to grant ($68.39 per ADS, equivalent to 383p per ordinary share). These options become exercisable on the third anniversary of the date of grant. Future gains upon exercise of these options will be linked to the extent of share price growth over the vesting period. The committee consider that this element of the awards will help to ensure continuing alignment between Executive and shareholders' interests. The Black-Scholes option pricing model was used to derive the fair values.

33% of the awards are in the form of restricted stock options whereby these options are subject to a three-year service condition and vesting period. 100% of the options will vest on the third anniversary of the date of grant. The committee consider that this element of the awards should help to ensure retention of our team of non-executive Directors, a key factor for GW's future success. Each option has a face value equal to 386p, the share price on the date of grant.

Directors' Remuneration Report continued

In structuring these grants, the Executive Directors were mindful of best practice advice received from Willis Towers Watson whereby the award of options with vesting linked to performance is considered to have the potential to impair the independence of the non-executive members of the Board. It is for this reason that the vesting of awards is not linked to specific future performance conditions.

In accordance with the equity retention policy the non-executives will generally be required to retain their options for as long as they continue to serve as a non-executive Director. However, vested awards must be exercised by the 10th anniversary of the date of grant. Also, in the event that vesting triggers a tax liability, the option holders may seek prior approval to exercise and dispose of sufficient shares to cover the tax liability.

Statement of Directors' Shareholding and Share Interests

The table below shows, for each Director, the total number of ordinary shares owned, the total number of share options with and without performance conditions, those vested but unexercised and those exercised during the year. Details of the share retention policy applicable to the Executive Directors is set out on page 27.

		Nominal-cost Options:			
Name of Director	Shares Owned[1]	Unvested With Performance Measures	Unvested Without Performance Measures[2]	Vested Not yet Exercised[3]	Exercised During the Year
Executive					
Dr Geoffrey W Guy	13,797,852	475,386	466,888	450,148	1,369,848
Justin Gover	2,513,759	546,846	510,447	372,823	–
Adam George	27,617	176,685	188,883	448,250	5,921
Dr Stephen Wright	5,915	217,071	232,191	602,990	256,488
Chris Tovey	2,500	191,825	205,065	270,887	99,600
Julian Gangolli	–	507,035	409,625	10,608	–
Non-executive					
James Noble	27,500	–	82,601	–	–
Cabot Brown	7,200	–	82,601	–	–
Thomas Lynch	2,074	–	82,601	–	–

1 This comprises the Directors' holding of ordinary shares as at 30 September 2016. Further details are given in the table below.
2 Unvested awards in this column are solely subject to a service performance requirement, which the regulations treat differently from other types of performance measure.
3 This includes vested share options, LTIPs and vested shares held in trust under the GW Pharmaceuticals All Employee Share Scheme. Further details are given in the table below.
Note: Each NASDAQ listed ADS represents 12 ordinary 0.1 pence shares.

The table below shows the total number of Directors' interests in the ordinary shares of GW Pharmaceuticals plc:

Name of Director	Ordinary Shares of 0.1p 30 September 2016	Ordinary Shares of 0.1p 30 September 2015
Executive		
Dr Geoffrey W Guy[1]	13,797,852	14,443,648
Justin Gover[2]	2,513,759	2,513,759
Adam George[3]	27,617	21,696
Dr Stephen Wright[4]	5,915	5,915
Chris Tovey	2,500	2,500
Julian Gangolli	–	–
Non-executive		
James Noble	27,500	27,500
Thomas Lynch	2,074	56,344
Cabot Brown	7,200	–

1 Dr Geoffrey Guy's holding includes 225,000 ordinary shares held by his immediate family and 1,168,958 shares held by his personal pension plan.
2 Justin Gover's holding includes 2,143,314 ordinary shares held by The Gover Family Investment LLP, of which Justin owns 99% and the remaining 1% is held by his wife.
3 Adam George's holding includes 21,696 shares held by his personal pension scheme.
4 Dr Stephen Wright's holding includes 5,000 ordinary shares held by his wife.
Note: Each NASDAQ listed ADS represents 12 0.1 pence ordinary shares.

In addition, the following ordinary shares are owned by Directors under the rules of the GW Pharmaceuticals All Employee Share Scheme as follows:

Name of Director	At 30 September 2016	At 30 September 2015	Vested
Executive			
Dr Stephen Wright	1,507	1,507	22/01/07
	1,500	1,500	21/01/08
Adam George	–	2,065	01/06/12

The interests of the Directors in share options over the ordinary shares of the Company as at 30 September 2016 were:

Name of Director	At 1 October 2015	Granted	Exercised	Lapsed	At 30 September 2016	Nominal Value	Exercise Price	Date of Vesting	Date of Expiry
Geoffrey Guy	171,315	–	(171,315)	–	–	0.1p	125.5p	10/02/2009	10/02/2016
	364,675	–	(364,675)	–	–	0.1p	95.5p	26/03/2010	26/03/2017
	170,000	–	(170,000)	–	–	0.1p	0.1p	19/03/2011	19/03/2018
	170,000	–	(170,000)	–	–	0.1p	0.1p	27/03/2012	27/03/2019
	129,918	–	(129,918)	–	–	0.1p	0.1p	19/07/2013	19/07/2020
	259,493	–	(259,493)	–	–	0.1p	0.1p	08/06/2014	08/06/2021
	104,458	–	(104,447)	–	11	0.1p	0.1p	06/06/2015	06/06/2022
	440,397	–	–	–	440,397	0.1p	0.1p	24/09/2016	24/09/2023
	82,639	–	–	–	82,639	0.1p	0.1p	12/08/2017	12/08/2024
	69,202	–	–	–	69,202	0.1p	671.0p	24/06/2018	24/06/2025
	9,740	–	–	–	9,740	0.1p	0.1p	24/06/2016	24/06/2025
	9,740	–	–	–	9,740	0.1p	0.1p	24/06/2017	24/06/2025
	9,740	–	–	–	9,740	0.1p	0.1p	24/06/2018	24/06/2025
	129,869	–	–	–	129,869	0.1p	0.1p	24/06/2018	24/06/2025
	9,740	–	–	–	9,740	0.1p	0.1p	24/06/2019	24/06/2025
	–	182,171	–	–	182,171	0.1p	257.0p	15/02/2019	15/02/2026
	–	25,914	–	–	25,914	0.1p	0.1p	15/02/2017	15/02/2026
	–	25,914	–	–	25,914	0.1p	0.1p	15/02/2018	15/02/2026
	–	25,914	–	–	25,914	0.1p	0.1p	15/02/2019	15/02/2026
	–	345,517	–	–	345,517	0.1p	0.1p	15/02/2019	15/02/2026
	–	25,914	–	–	25,914	0.1p	0.1p	15/02/2020	15/02/2026
Total	**2,130,926**	**631,344**	**(1,369,848)**	**–**	**1,392,422**				
Justin Gover	362,144	–	–	–	362,144	0.1p	0.1p	24/09/2016	24/09/2023
	67,955	–	–	–	67,955	0.1p	0.1p	12/08/2017	12/08/2024
	75,874	–	–	–	75,874	0.1p	671.0p	24/06/2018	24/06/2025
	10,679	–	–	–	10,679	0.1p	0.1p	24/06/2016	24/12/2016
	10,679	–	–	–	10,679	0.1p	0.1p	24/06/2017	24/12/2017
	10,679	–	–	–	10,679	0.1p	0.1p	24/06/2018	24/12/2018
	142,391	–	–	–	142,391	0.1p	0.1p	24/06/2018	24/12/2018
	10,679	–	–	–	10,679	0.1p	0.1p	24/06/2019	24/12/2019
	–	213,245	–	–	213,245	0.1p	257.0p	15/02/2019	15/02/2026
	–	30,334	–	–	30,334	0.1p	0.1p	15/02/2017	15/08/2017
	–	30,334	–	–	30,334	0.1p	0.1p	15/02/2018	15/08/2018
	–	30,334	–	–	30,334	0.1p	0.1p	15/02/2019	15/08/2019
	–	404,455	–	–	404,455	0.1p	0.1p	15/02/2019	15/08/2019
	–	30,334	–	–	30,334	0.1p	0.1p	15/02/2020	15/08/2020
Total	**691,080**	**739,036**	**–**	**–**	**1,430,116**				
Adam George	10,000	–	–	–	10,000	0.1p	0.1p	26/11/2011	26/11/2018
	35,000	–	(3,856)	–	31,144	0.1p	0.1p	19/07/2013	19/07/2020
	90,593	–	–	–	90,593	0.1p	0.1p	08/06/2014	08/06/2021
	67,372	–	–	–	67,372	0.1p	0.1p	06/06/2015	06/06/2022
	245,521	–	–	–	245,521	0.1p	0.1p	24/09/2016	24/09/2023
	46,071	–	–	–	46,071	0.1p	0.1p	12/08/2017	12/08/2024
	25,720	–	–	–	25,720	0.1p	671.0p	24/06/2018	24/06/2025
	3,620	–	–	–	3,620	0.1p	0.1p	24/06/2016	24/06/2025
	3,620	–	–	–	3,620	0.1p	0.1p	24/06/2017	24/06/2025
	3,620	–	–	–	3,620	0.1p	0.1p	24/06/2018	24/06/2025
	48,268	–	–	–	48,268	0.1p	0.1p	24/06/2018	24/06/2025
	3,620	–	–	–	3,620	0.1p	0.1p	24/06/2019	24/06/2025
	–	67,707	–	–	67,707	0.1p	257.0p	15/02/2019	15/02/2026
	–	9,631	–	–	9,631	0.1p	0.1p	15/02/2017	15/02/2026
	–	9,631	–	–	9,631	0.1p	0.1p	15/02/2018	15/02/2026
	–	9,631	–	–	9,631	0.1p	0.1p	15/02/2019	15/02/2026
	–	128,417	–	–	128,417	0.1p	0.1p	15/02/2019	15/02/2026
	–	9,632	–	–	9,632	0.1p	0.1p	15/02/2020	15/02/2026
Total	**583,025**	**234,649**	**(3,856)**	**–**	**813,818**				

Directors' Remuneration Report
continued

Name of Director	At 1 October 2015	Granted	Exercised	Lapsed	At 30 September 2016	Nominal Value	Exercise Price	Date of Vesting	Date of Expiry
Stephen Wright	58,295	–	(58,295)	–	–	0.1p	95.5p	26/03/2010	26/03/2017
	140,000	–	(140,000)	–	–	0.1p	0.1p	27/03/2012	27/03/2019
	88,985	–	(58,193)	–	30,792	0.1p	0.1p	19/07/2013	19/07/2020
	177,735	–	–	–	177,735	0.1p	0.1p	08/06/2014	08/06/2021
	85,366	–	–	–	85,366	0.1p	0.1p	06/06/2015	06/06/2022
	301,642	–	–	–	301,642	0.1p	0.1p	24/06/2016	24/09/2023
	56,735	–	–	–	56,735	0.1p	0.1p	12/08/2017	12/08/2024
	31,598	–	–	–	31,598	0.1p	671.0p	24/06/2018	24/06/2025
	4,448	–	–	–	4,448	0.1p	0.1p	24/06/2016	24/06/2025
	4,448	–	–	–	4,448	0.1p	0.1p	24/06/2017	24/06/2025
	4,448	–	–	–	4,448	0.1p	0.1p	24/06/2018	24/06/2025
	59,300	–	–	–	59,300	0.1p	0.1p	24/06/2018	24/06/2025
	4,448	–	–	–	4,448	0.1p	0.1p	24/06/2019	24/06/2025
	–	83,183	–	–	83,183	0.1p	257.0p	15/02/2019	15/02/2026
	–	11,833	–	–	11,833	0.1p	0.1p	15/02/2017	15/02/2026
	–	11,833	–	–	11,833	0.1p	0.1p	15/02/2018	15/02/2026
	–	11,833	–	–	11,833	0.1p	0.1p	15/02/2019	15/02/2026
	–	157,771	–	–	157,771	0.1p	0.1p	15/02/2019	15/02/2026
	–	11,832	–	–	11,832	0.1p	0.1p	15/02/2020	15/02/2026
Total	**1,017,448**	**288,285**	**(256,488)**	**–**	**1,049,245**				
Chris Tovey	200,000	–	(99,600)	(100,000)	400	0.1p	0.1p	30/11/2015	30/11/2022
	266,557	–	–	–	266,557	0.1p	0.1p	24/09/2016	24/09/2023
	50,018	–	–	–	50,018	0.1p	0.1p	12/08/2017	12/08/2024
	27,924	–	–	–	27,924	0.1p	671.0p	24/06/2018	24/06/2025
	3,930	–	–	–	3,930	0.1p	0.1p	24/06/2016	24/06/2025
	3,930	–	–	–	3,930	0.1p	0.1p	24/06/2017	24/06/2025
	3,930	–	–	–	3,930	0.1p	0.1p	24/06/2018	24/06/2025
	52,404	–	–	–	52,404	0.1p	0.1p	24/06/2018	24/06/2025
	3,930	–	–	–	3,930	0.1p	0.1p	24/06/2019	24/06/2025
	–	73,508	–	–	73,508	0.1p	257.0p	15/02/2019	15/02/2026
	–	10,456	–	–	10,456	0.1p	0.1p	15/02/2017	15/02/2026
	–	10,456	–	–	10,456	0.1p	0.1p	15/02/2018	15/02/2026
	–	10,456	–	–	10,456	0.1p	0.1p	15/02/2019	15/02/2026
	–	139,421	–	–	139,421	0.1p	0.1p	15/02/2019	15/02/2026
	–	10,457	–	–	10,457	0.1p	0.1p	15/02/2020	15/02/2026
Total	**612,623**	**254,754**	**(99,600)**	**(100,000)**	**667,777**				
Julian Gangolli	75,369	–	–	–	75,369	0.1p	671.0p	24/06/2018	24/06/2025
	10,608	–	–	–	10,608	0.1p	0.1p	24/06/2016	24/12/2016
	10,608	–	–	–	10,608	0.1p	0.1p	24/06/2017	24/12/2017
	10,608	–	–	–	10,608	0.1p	0.1p	24/06/2017	24/12/2017
	141,444	–	–	–	141,444	0.1p	0.1p	24/06/2018	24/12/2018
	10,608	–	–	–	10,608	0.1p	0.1p	24/06/2019	24/12/2019
	–	192,755	–	–	192,755	0.1p	257.0p	15/02/2019	15/02/2026
	–	27,419	–	–	27,419	0.1p	0.1p	15/02/2017	15/08/2017
	–	27,419	–	–	27,419	0.1p	0.1p	15/02/2018	15/08/2018
	–	27,419	–	–	27,419	0.1p	0.1p	15/02/2019	15/08/2019
	–	365,591	–	–	365,591	0.1p	0.1p	15/02/2019	15/08/2019
	–	27,420	–	–	27,420	0.1p	0.1p	15/02/2020	15/08/2020
Total	**259,245**	**668,023**	**–**	**–**	**927,268**				

Name of Director	At 1 October 2015	Granted	Exercised	Lapsed	At 30 September 2016	Nominal Value	Exercise Price	Date of Vesting	Date of Expiry
James Noble	–	68,122	–	–	**68,122**	0.1p	383.0p	29/12/2018	29/12/2025
	–	14,479	–	–	**14,479**	0.1p	0.1p	29/12/2018	29/12/2025
Total	**–**	**82,601**	**–**	**–**	**82,601**				
Cabot Brown	–	68,122	–	–	**68,122**	0.1p	383.0p	29/12/2018	29/06/2019
	–	14,479	–	–	**14,479**	0.1p	0.1p	29/12/2018	29/06/2019
Total	**–**	**82,601**	**–**	**–**	**82,601**				
Thomas Lynch	–	68,122	–	–	**68,122**	0.1p	383.0p	29/12/2018	29/12/2025
	–	14,479	–	–	**14,479**	0.1p	0.1p	29/12/2018	29/12/2025
Total	**–**	**82,601**	**–**	**–**	**82,601**				

During the year 1,729,792 options (2015: 1,326,525) over ordinary shares were exercised. The average exercise price for the year ended 30 September 2016 was £0.36 (2015: £0.47) and the average market price at date of exercise was £4.09 (2015: £6.43), resulting in a notional gain at exercise of £6,452,124 (2015: £7,910,206).

The market price of the Company's ordinary shares as at 30 September 2016 was £8.39 (2015: £4.99) and the range during the year was £2.12 to £8.39 (2015: £3.20 to £6.96).

Illustration of Total Shareholder Return

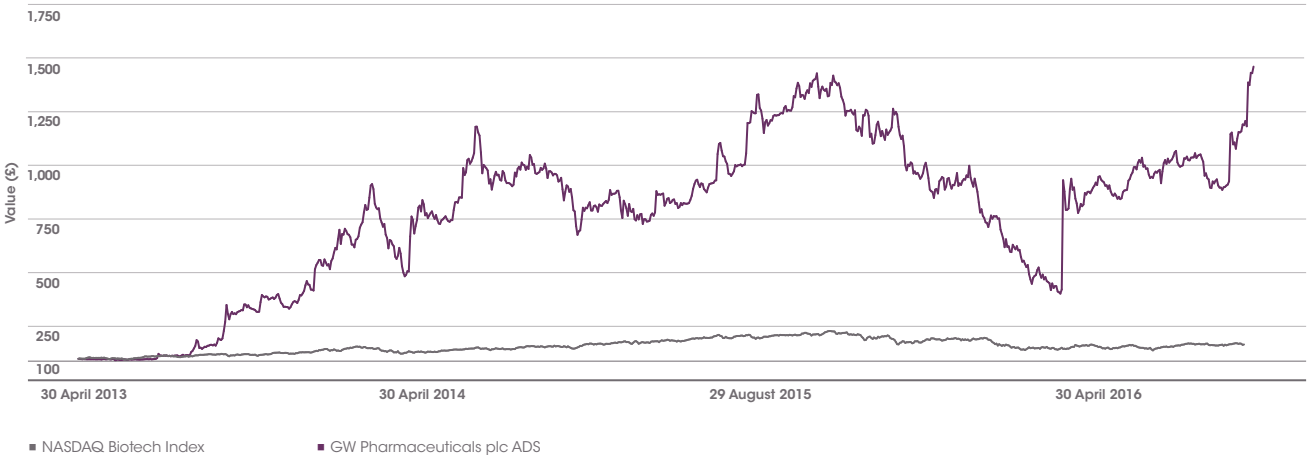
The information provided in this part of the Directors' Remuneration Report is not subject to audit.

The first graph below shows the Company's performance, measured by total shareholder return, for the ADSs listed on NASDAQ as compared to the NASDAQ Biotech Index ("NASDAQ BTI"). GW's ADSs are a constituent of the NASDAQ BTI so this is considered to be the most suitable comparator index.

Although the Company ceased to be listed on the AIM market of the London stock exchange on 5 December 2016, in order to present greater than three years of data, we have elected to provide a second graph to show the Company's share price performance, measured by total shareholder return, for the UK ordinary shares listed on AIM compared with the performance of the FTSE SmallCap Index, excluding investment trusts. The FTSE SmallCap Index is considered to be the most suitable UK comparator index.

Total Shareholder Return – ADS

Source: Thomson Reuters



This graph shows the daily movements, by 30 September 2016, of £100 invested in GW Pharmaceuticals plc ADR on 1 May 2013 compared with the value of £100 invested in the NASDAQ Biotech Index.

Directors' Remuneration Report continued

Total Shareholder Return

Source: Thomson Reuters

This graph shows the daily movements, by 30 September 2015, of £100 invested in GW Pharmaceuticals plc on 30 September 2008 compared with the value of £100 invested in the FTSE SmallCap (excluding investment trusts) Index.

Chief Executive Officer Total Remuneration History

The table below sets out total remuneration details for the Chief Executive Officer.

Year	CEO Single Figure of Total Remuneration[1]	Short-Term Incentive Pay-out Against Maximum	Long-Term Incentive Vesting Rates Against Maximum Opportunity
2016	3,129,535	48%	100%
2015	1,295,928	50%	50%
2014	1,390,235	100%	100%
2013	482,084	35%	50%
2012	586,171	50%	100%
2011	541,294	30%	100%
2010	535,325	70%	100%
2009	354,871	23%	100%

1 This total includes unrealised gains on share options vesting in each of the financial years shown above.

The table below shows the percentage change in remuneration of the Chief Executive Officer and the Company's employees as a whole between 2015 and 2016.

	Percentage Increase in Remuneration in 2016 Compared with Remuneration in 2015	
	CEO %	All employees %
Basic salary	2	2
Taxable benefits[1]	59	–5
Short-term incentives	4	28

1 Taxable benefits provided to the Chief Executive Officer exclude the relocation allowance of £181,653 paid during 2015 but do include the additional healthcare insurance benefits required as a result of relocation to become a US resident employee from July 2015 onwards.

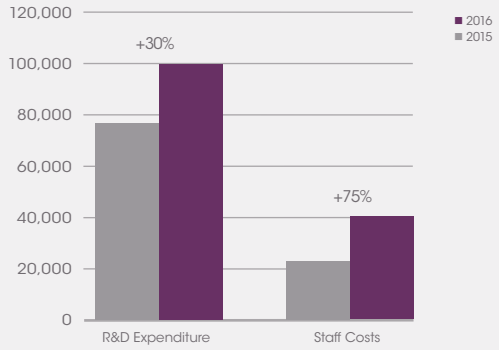
The employee comparator group comprises employees in the UK and the US. We consider this to be an appropriate comparator group because it is representative of the Group and the employee populations are well balanced in terms of seniority and demographics. To provide a meaningful comparison of salary increases, a consistent employee comparator group is used by which the same individuals appear in the 2015 and 2016 group.

Relative Importance of Spend on Pay

The committee has determined that research and development ("R&D") expenditure is the most relevant comparator for staff costs of the Group. Dividend distribution and share buy-back comparators have not been included as the Group has no history of such transactions.

The graph below shows the Group actual staff costs as compared to R&D expenditure for the last two financial years and illustrates the year-on-year growth in both. Staff costs continue to grow faster than R&D spend as, in addition to R&D team headcount growth we have been expanding our manufacturing and commercialisation team headcount in preparation for future commercialisation of Epidiolex.

Relative Importance of Spend on Pay (£000s)



Proposed Application of the Remuneration Policy for the Year Ended 30 September 2017

Executive Directors' remuneration packages are considered annually and comprise a number of elements, as follows:

i) Fixed Elements of Remuneration

Fixed elements of remuneration including basic salary, pension contributions and other benefits will be set and paid in accordance with our Remuneration Policy. Any changes to salary will be considered in the context of a number of factors including the annual peer group based benchmarking exercise carried out for the remuneration committee by Willis Towers Watson, home-market location, any changes to executive responsibilities since the last review and broader employee increases.

ii) Short-term Incentive

We anticipate that the remuneration committee will meet in December 2016 to assess Executive Director performance for the calendar year ended 31 December 2016. Based upon this assessment and in accordance with the Remuneration Policy Report below, the remuneration committee may award a cash bonus payment to each Executive Director. The level of award will depend upon the extent of achievement of strategic objectives that were set by the remuneration committee in 2016. These included specific objectives linked to what were considered, at the date that these were established, to be the key value drivers for the business and which included progress with our Epidiolex Phase 3 clinical trial programme, pipeline development activities, operational and business development objectives, financial position and equity valuation.

At the date of signing of this report, objectives for the 2017 calendar year have not yet been set. It is anticipated that details pertaining to the performance targets will comprise commercially sensitive information. However, to the extent that this is not the case, targets will be disclosed in next year's report.

iii) Long-term Incentive Plan

It is expected that 100% of the LTIP awards granted on 12 August 2014 will vest on 12 August 2017. The vesting of this award is subject to a "continued service as a Director" performance condition.

Long-term incentive awards for 2017, to be determined by the remuneration committee in December 2016 will be informed by the peer group benchmarking data provided to the committee by Willis Towers Watson and vesting will be linked to share price performance and/or subject to appropriate performance objectives linked to value drivers for the business.

Details of the 2017 LTIP awards to Executive Directors will be disclosed upon grant and in next year's Annual Report.

Directors' Remuneration Report continued

iv) Non-executive Director Fees and Equity Based Incentives
Non-executive Director fees were last reviewed by the executive members of the Board at the end of 2015, under guidance from Willis Towers Watson, as part of the broader remuneration benchmarking exercise referenced above. The result of this review was a reduction to the cash based fees receivable by the non-executives. We do not expect the level of cash based fees to change during 2017 but we do expect there to be a further grant of equity based incentives. This grant will be subject to approval by the executive members of the Board and is likely to be linked to a combination of share price performance and service-based conditions.

Remuneration Committee Approach to Remuneration Matters

The remuneration committee comprises James Noble and Cabot Brown under the chairmanship of Thomas Lynch. The constitution of the committee is in compliance with the provisions of the UK Corporate Governance Code (the "Code").

During the year the committee received advice from Adam George in his capacity as Company Secretary. The committee also retains Willis Towers Watson to provide ongoing peer group remuneration benchmarking, option valuations and remuneration policy related advice. The committee is satisfied that Willis Towers Watson, signatories of the Remuneration Consultants' Code of Conduct, provides independent and objective advice.

When setting its remuneration policy for Executive Directors the committee gives consideration to the provisions and principles of the Code. Operation of this remuneration policy will largely be compliant with the remuneration elements of the Code but we are aware that in certain areas we will consciously differ from the Code. These instances reflect significant differences in US market practice when compared to the UK. Any departures from the Code are intentional and are driven by accepted market practice in the US. We consider that these design features are pivotal to our ability to offer competitive incentive packages in the markets that we compete and operate in.

The terms of reference of the remuneration committee can be found on the GW website at www.gwpharm.com.

Statement of Voting at Annual General Meeting

The Group is committed to ongoing shareholder dialogue and the remuneration committee takes an active interest in voting outcomes.

Voting at our shareholder meetings is generally conducted by a show of hands by shareholders who are in attendance at the meeting. Such votes have resulted in unanimous approval of the Directors' Remuneration Report at each of the last three AGMs. No votes were withheld.

On 5 February 2015 the Group put the Remuneration Policy to shareholders for approval, with 97.7% of proxy votes submitted prior to the meeting approving this policy. At the 2016 AGM held on 23 March 2016, 98.2% of shareholders' proxy votes approved the 2015 Directors' Remuneration Report.

In the event that we experience significant levels of shareholder votes against any remuneration-related resolutions we will seek to investigate the reasons for such votes and in the event that the remuneration committee consider that changes to the Remuneration Policy are appropriate, we will disclose details of proposed changes in a timely manner.

Remuneration Policy Report

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

The Remuneration Policy has been designed to ensure that Executive Directors are appropriately incentivised and rewarded for their performance, responsibility and experience. The remuneration committee aims to ensure that the policy aligns the interests of Executive Directors with those of shareholders.

The Remuneration Policy that follows was presented to shareholders at the AGM on 5 February 2015 for a binding vote. Following shareholder approval this policy then became effective from the date of the AGM and will remain in use for three years, or until a revised policy is approved by shareholders. There will continue to be an advisory vote on the Directors' Remuneration Report presented to shareholders at the AGM on an annual basis.

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the vesting/exercise of past share awards). Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Future Policy Table

The policy table below describes GW's shareholder-approved Remuneration Policy for Directors and seeks to explain how each element of the Directors' remuneration packages operates:

Summary Remuneration Policy – Executive Directors

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets	Changes to Policy
Salary	Rewards skills and experience and provides the basis for a competitive remuneration package	Salaries will be reviewed annually by reference to market practice and market data, on which the committee receives independent advice, rates of inflation, broader employee increases, the individual's experience and scope of the role Salaries will be benchmarked against comparable roles in a selected peer group of other US-listed pharmaceutical development companies with similar market capitalisations and/or scale of operational complexity. We typically expect to align salaries with the 50th percentile of peer group comparator data but may vary from this general rule where we consider that special circumstances apply or where recruitment or retention of a particular role is required The Committee may also decide to approve future increases following changes to job responsibilities or to reflect experience within the role	Salaries will not exceed the 75th percentile of peer group comparator data for the relevant role. The committee will reference alternative comparator data for roles not widely represented in the core peer group	Not applicable	No changes proposed The peer group used for benchmarking will be annually reviewed and updated under guidance from Willis Towers Watson
Pension	Enables Executive Directors to build long-term retirement savings	Company contribution to a personal pension scheme or salary supplement. Levels will be reviewed annually and the committee may decide to increase future contribution levels should the review indicate such a change is appropriate	17.5% of basic salary	Not applicable	No changes proposed
Benefits	Protects against risks and provides other benefits in line with market practice	Benefits currently include death-in-service life insurance, family private medical cover, ill-health income protection and a taxed cash car allowance. The committee will review benefits offered from time to time and retains the discretion to add or substitute benefits to ensure they remain market competitive In the event that the Group requires an Executive Director to relocate, we would offer appropriate relocation assistance and would be likely to update the package of benefits to align with local market practice, eg increased health insurance benefits if relocating to US	The disclosed taxable value of benefits and allowances is not expected to exceed 15% of salary per annum The Committee may exceed this in the event of relocation, both on a one-off and ongoing basis to align with local market norms	Not applicable	No changes proposed

Directors' Remuneration Report continued

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets	Changes to Policy
Short-term Incentive Awards	Incentivises and rewards achievement of the near-term business objectives, reflecting individual and team performance of the Executive Directors	Objectives are set at the start of each calendar year The choice of annual performance objectives will reflect the committee's assessment of the key milestones/ metrics required to be achieved within the calendar year in order to make progress towards achieving GW's strategic plan Payable in cash Clawback provisions will apply (see details below)	Up to 150% of salary	The remuneration committee retains the ability to set performance objectives annually These objectives can be group-based and/or individual, financial and/or non-financial, and are likely to include various milestones linked to: > successful execution of key elements of the Epidiolex development programme and identification and execution of other new orphan drug developments; > progress with and results from our Sativex Phase 3 cancer pain clinical trials programme in the US; > key regulatory steps (IND grants, NDA filings, regulatory approvals); > successful commercialisation of approved products, either by our own commercial organisation or by our partners; > the Group's financial position; and > equity liquidity and valuation	No changes proposed
Long-term Incentive Awards	Rewards execution of GW's strategic plan and growth in shareholder value over a multi-year period. Encourages achievement of strategy over the medium to long term and aligns Executive Directors' interests with those of shareholders	Conditional awards of nominal-cost options, share options, performance shares and/or restricted shares Awards normally vest over periods of three or more years. The committee is able to grant awards which permit phased vesting over the period Clawback provisions will apply (see details below)	Individual awards in any one year will have an expected value of no more than 600% of basic salary Expected values are calculated in accordance with generally accepted methodologies based on Black-Scholes or binomial stochastic models	Performance conditions are set at the discretion of the remuneration committee and will generally consist of a mixture of: > service requirements; > milestone-based events, linked to the successful execution of GW's strategic plan, likely to include items such as positive trial results, or regulatory approvals; and > market-based measures such as absolute or relative share price performance Major shareholders may be consulted as part of the process of setting performance conditions	No changes proposed

Notes to the Policy Table

Clawback of incentives: The following clawback policy was implemented with effect from 5 February 2015, applying to future eligible executive incentive grants. The policy provides that certain incentive compensation is recoverable from a Director if the Company is required to restate financial statements due to the misconduct of that particular Director, and that misconduct has significantly contributed to the need for the restatement. Generally, eligible incentive grants shall include cash short-term incentive awards and equity-based long-term incentive awards that have been awarded and/or vested based upon achievement of specific financial or operational goals which were deemed to have been achieved but which, following restatement, are considered to no longer have been achieved. To be effective, intention to claw back awards which have already vested and been exercised must be notified to the Director within 24 months of the award having vested. The committee may effect a clawback either through a cash or equity repayment by the individual, or via an adjustment to an outstanding award that is yet to vest or that has vested but is not yet exercised.

Notes to the Policy Table continued

Equity retention policy: To encourage executives to retain a meaningful amount of equity in the Company the following equity retention policy for Executive Directors took effect from 5 February 2015. The purpose of this policy is to encourage ownership of the Company's shares, promote alignment of the long-term interests of the Executive Directors with those of our shareholders, and promote our commitment to sound corporate governance. The policy is applicable to our Executive Directors and certain other members of our leadership team, as nominated by our Chief Executive Officer. Under the policy, covered Directors and officers must retain an agreed proportion of each new equity grant issued to them after 1 January 2015, subject to the payment of any applicable taxes, for a period of five years from vesting until an overall level of share ownership is achieved. The target level of ownership equates to four times basic salary for the Chief Executive Officer and two times basic salary for the other Executive Directors. The target deadline for achieving the ownership requirement is intended to be five years from implementation of the policy. Existing shareholdings or direct purchases of equity by executives shall contribute towards attainment of the targeted shareholding cap. The committee retains the power to consider an individual ineligible for future equity incentive grants if the required target has not been achieved in a timely manner, subject to the consideration of individual circumstances.

General discretions relating to the operation of incentive plans: The committee will operate all incentive plans in accordance with Plan Rules and will retain full discretion over a number of areas relating to the operation and administration of these plans. This includes, but is not limited to, determining eligibility, setting performance conditions, determining the extent to which performance conditions are achieved, leaver terms and the vehicle of delivery.

Summary Remuneration Policy – Non-executive Directors

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets	Changes to Policy
Non-executive fees	Reflects time commitments and responsibilities of each role Reflects fees paid by similarly sized companies	The remuneration of the non-executive Directors will be determined by the Board as a whole by reference to market practice and market data, on which the committee receives independent advice, and reflects the individual's experience, scope of the role, time commitment and changes to the job responsibilities Fees typically consist of a basic fee for non-executive Director responsibilities plus incremental fees for additional roles/responsibilities such as chairmanship of Board sub-committees, senior non-executive Director and US representative Director roles Fees can be paid in the form of cash or shares to be held until the individual retires from the Board. Any element of fees paid in the form of shares will not be subject to performance conditions The non-executive Directors do not receive any pension from the Company, nor do they participate in any performance-related incentive plans	The value of individuals' aggregate fees will not exceed the 75th percentile of peer group comparator data	Not applicable	No changes proposed

All Employee Comparison

The following differences exist between the Company's policy for the remuneration of Executive Directors as set out above and its approach to the payment of employees generally:

- Benefits offered to other employees are consistent with those offered to the Executive Directors.
- All employees are entitled to a contribution from the Company towards a personal pension scheme which is generally at a lower level than the Executive Directors.
- All employees are able to participate in the LTIP schemes although the size of LTIP awards tends to increase with seniority as there is a greater emphasis on performance-related pay for senior members of staff.
- A lower level of maximum annual bonus/short-term incentive opportunity typically applies to other employees.

Approach to Recruitment Remuneration

The remuneration package for a new Executive Director, to include basic salary, benefits, pension, annual bonus/short-term incentive and long-term incentive awards, will be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment. The committee will consider the role, responsibility and experience of the candidate and will seek independent advice and market data to help derive an appropriate level of remuneration in order to secure the right candidate with the required skills and experience for the role.

Directors' Remuneration Report continued

To facilitate recruitment, the committee may offer additional cash and/or share-based remuneration to take account of, and compensate for, remuneration that the Director is required to relinquish when leaving a former employer. Any such offer would take into account the nature, time horizon and performance conditions attached to any such remuneration and would seek to offer no more than the potential value of the remuneration opportunity being relinquished.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms. In addition, any other contractual remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the committee may agree that the Group will provide reasonable relocation support. In all cases, the committee will ensure that decisions made are in the best interests of the Group.

The remuneration for any non-executive appointments will be set in accordance with the prevailing Remuneration Policy. No additional payments will be made.

Service Contracts

It is Group policy that Executive Directors should have contracts with an indefinite term providing for a maximum of 12 months' notice. New appointees to the Board are typically given a six-month notice period which can then be increased to 12 months' notice, at the discretion of the remuneration committee, once the new appointee is considered to be established within their role.

Details of Directors' service contracts are as follows:

Director	Date of Contract	Notice Period
Executive		
Dr Geoffrey W Guy	November 2000	12 months
Justin Gover	November 2000	12 months
Dr Stephen Wright	March 2005	12 months
Adam George	June 2012	12 months
Chris Tovey	October 2012	12 months
Julian Gangolli	May 2015	6 months
Non-executive		
James Noble	February 2016	3 months
Thomas Lynch	July 2010	3 months
Cabot Brown	January 2016	3 months

The non-executive Directors have service agreements which are subject to a three-month notice period. Their remuneration is reviewed by the Board annually. In accordance with the Company's Articles of Association, non-executive Directors are included in the requirement that one-third of Directors are subject to retirement by rotation at each AGM. Geoffrey Guy, Thomas Lynch and Cabot Brown will be retiring by rotation at the next AGM and, being eligible, they will seek re-election.

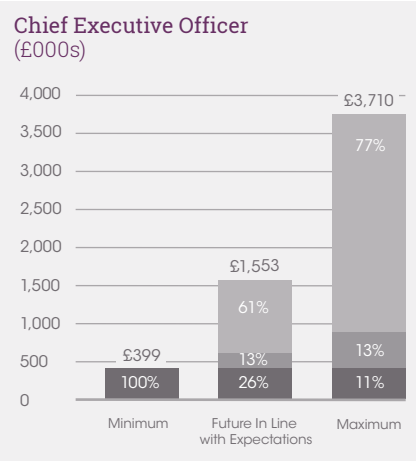
Illustrations of the Application of the Remuneration Policy – Performance and Remuneration Scenarios

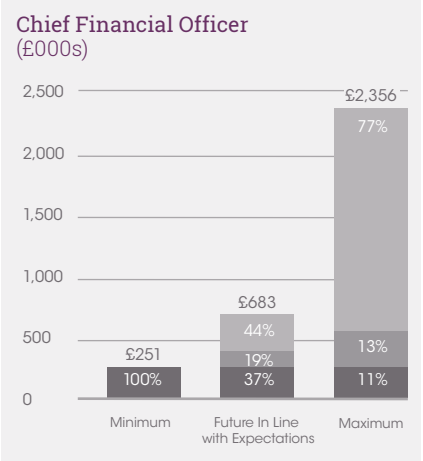
The following table and graphical illustrations provide an illustration of the potential remuneration for the year ended 30 September 2017 for each of the Executive Directors, computed in accordance with the Remuneration Policy outlined above for each of three performance scenarios, as follows:

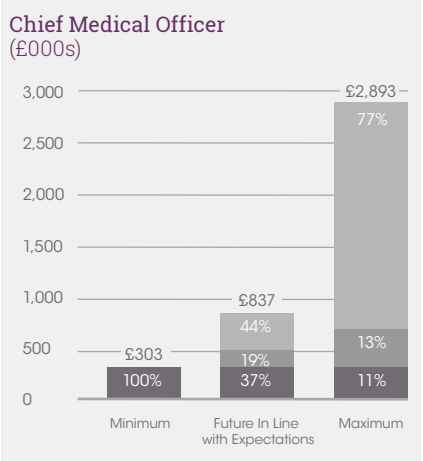
The following table provides an illustration of the potential remuneration:

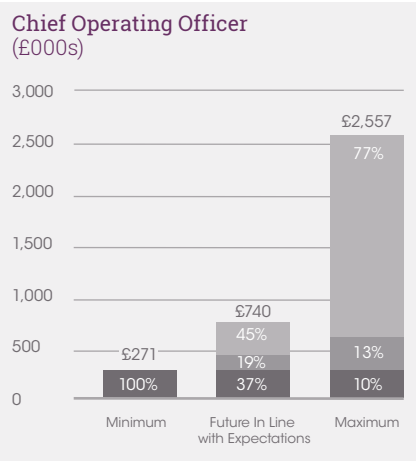
Minimum – fixed elements of remuneration	This scenario assumes that the current basic salary for each Director continues to be earned in 2017. The value of benefits receivable for the year ended 30 September 2017 is assumed to be equal to the value of benefits received in the year ended 30 September 2016 as set out in the single total figure of remuneration table on page 22. The pension contribution receivable by each Director for the year ended 30 September 2017 is assumed to be in line with the maximum of 17.5% of basic salary – as set out in the pay Policy Table above. The only exception to this is Julian Gangolli, who do es not currently receive a Company pension contribution. No short-term incentive payment is assumed for any Director. No vesting of long-term equity-based incentives is assumed.
Performance in line with expectations	This scenario is illustrative only and is not expected to be a prediction of 2017 remuneration for any of the Executive Directors. Fixed elements of remuneration, as set out above, plus: On-target level of short-term incentive payment is taken to be 66% of basic salary, being the current best estimate of the average bonus likely to be awarded by the remuneration committee in years when Group and individual Director performance is in line with expectations. This scenario assumes the grant of equity-based incentives with a Black-Scholes valuation at grant equivalent to 400% of basic salary to the CEO, 300% for the US based President of Commercial Operations and the Chairman, with 200% granted to the other Directors. It is then assumed that 50% of these awards will vest. We are required to illustrate the face value of these awards, ie where awards consist of market priced option awards, the face value is derived by multiplying the number of options granted by the exercise price. For the purposes of the illustrations below, we have assumed that the face value of options will equate to 152% of the Black-Scholes value. This has been derived by reference to the most recent equity incentive award to the Directors in February 2016. No account is taken of share price growth over the vesting period. This is illustrative only and is not intended to be predictive of 2016 Executive Director remuneration. The August 2014 LTIP grant will vest in August 2017. These awards were granted with a service condition only and therefore will vest after a three year period with no additional performance conditions. In addition, 25% of the restricted stock option awards granted to Executive Directors in June 2015 can be expected to vest in June 2017, and 25% of the restricted stock option awards granted to Executive Directors in February 2016 can be expected to vest in February 2017.
Maximum remuneration receivable	This scenario is illustrative only and is not expected to be predictive of 2017 remuneration for any of the Executive Directors. Fixed elements of remuneration, as set out above, plus: The maximum level of short-term incentive payment is assumed to be 150% of basic salary. This scenario assumes the grant, to all Directors, of the maximum possible number of equity-based incentives per the above policy, being awards with a Black-Scholes valuation at grant equivalent to 600% of basic salary. We are required to illustrate the face value of these awards, ie where awards consist of market priced option awards, the face value is derived by multiplying the number of options granted by the exercise price. For the purposes of the illustrations below, we have assumed that the face value of options will equate to 152% of the Black-Scholes value. This has been derived by reference to the most recent equity incentive award to the Directors in February 2016. For illustrative purposes, it is then assumed that 100% of these awards will vest. Awards are valued as at the date of grant with no account taken of share price growth over the vesting period. It is very important to note that it is likely that a significant proportion of future long-term equity incentive grants to the Executive Directors are likely to consist partly of market priced share options and/or option awards with vesting conditions linked to share price growth or similarly structured awards which will only have value to the Executive Directors if they are successful in generating share price growth during the vesting period. The remuneration committee believe that this approach will align the interests of Executive Directors with those of our shareholders. The face value of equity incentive awards shown in the graphical illustrations below is not therefore indicative of the amount that the Directors will earn from these awards in future, as it is principally the future growth in value of these awards that will generate a financial return for each Director. Operation of the equity retention policy, outlined above, will also mean that Executive Directors may only be able to realise a proportion of the illustrated incentive gains in 2017 as they are likely to be required to retain equity shares acquired under such schemes for an extended period.

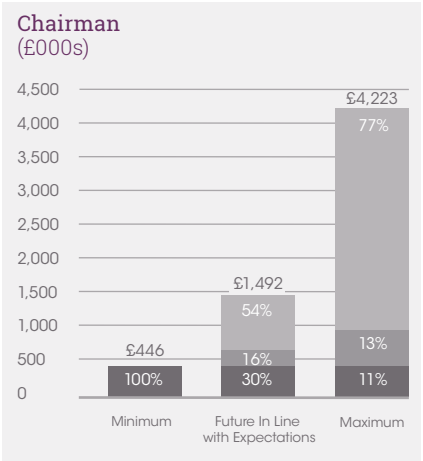
Directors' Remuneration Report

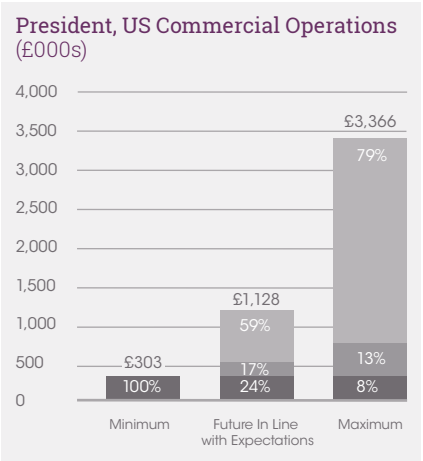












Fixed remuneration
Annual variable remuneration
Long-term variable remuneration

Policy for Payments for Loss of Office

The committee's approach to payments in the event of termination is to take account of the individual circumstances including the reason for termination, individual performance, contractual obligations and the terms of the LTIPs in which the Executive Director participates. On notice from the Company, the Company will normally continue to pay salary, pension and other benefits during the balance of the notice period while the individual remains an employee. Although the Executive Director employment contracts do not provide for payment in lieu of notice, the remuneration committee may offer payment in lieu of notice if they consider that it is in the best interests of the Company, subject to such payment not exceeding the contractual notice entitlement. The committee may also approve other limited payments in connection with a departure, which may include legal fees connected to the departure, untaken holiday, out-placement and repatriation.

There is no automatic contractual entitlement to bonus on termination although this may be considered.

Unvested LTIP awards normally lapse although the committee retains the power to determine, in accordance with the good leaver provisions of the LTIP scheme rules, what proportion of unvested awards will be retained and what proportion will lapse. In determining this, the committee will give consideration to the reason for leaving, the extent of achievement of performance conditions at the date of leaving and may decide to time pro-rate awards.

Statement of Consideration of Employment Conditions Elsewhere in the Company

During the annual review of remuneration, the committee considers the remuneration and terms and conditions for the broader employee population when determining the extent of basic salary increases for the Executive Directors. Employees have not been consulted in respect of the design of the Company's senior executive remuneration policy to date although the committee will keep this under review.

Statement of Shareholder Views

The remuneration committee considers shareholder feedback received in relation to the AGM each year at a meeting immediately following the AGM. This feedback, plus any additional feedback received from shareholders in respect of remuneration matters during the financial year, is then considered as part of the Company's annual review of remuneration policy. In addition, the remuneration committee will seek to engage directly with major shareholders should any material changes be proposed to the Remuneration Policy.

Approval

This report was approved by the Board of Directors and signed on its behalf by:

Adam George
Company Secretary
5 December 2016

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, as issued by the International Accounting Standards Board ("IASB") and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

For the year ended 30 September

Independent Auditor's Report to the Members of GW Pharmaceuticals plc

We have audited the financial statements of GW Pharmaceuticals plc for the year ended 30 September 2016 which comprise the Consolidated Income Statements, the Consolidated Statements of Comprehensive Loss, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate Opinion in Relation to IFRSs as Issued by the IASB

As explained in Note 2 to the Group financial statements, the Group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB").

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Independent Auditor's Report continued

For the year ended 30 September

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

David Hedditch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
5 December 2016

Consolidated Income Statements

For the year ended 30 September

	Notes	2016 £000s	2015 £000s	2014 £000s
Revenue	3	**10,315**	28,540	30,045
Cost of sales		**(2,719)**	(2,618)	(2,060)
Research and development expenditure	4	**(99,815)**	(76,785)	(43,475)
Sales, general and administrative expenses		**(19,939)**	(12,569)	(7,337)
Net foreign exchange gain		**25,551**	6,202	3,188
Operating loss		**(86,607)**	(57,230)	(19,639)
Interest expense	9	**(173)**	(75)	(61)
Other income	9	**608**	244	130
Loss before tax	5	**(86,172)**	(57,061)	(19,570)
Tax benefit	10	**22,515**	12,498	4,911
Loss for the year		**(63,657)**	(44,563)	(14,659)
Loss per share – basic	11	**(23.5)p**	(18.1)p	(7.0)p
Loss per share – diluted	11	**(23.5)p**	(18.1)p	(7.0)p

The accompanying notes are an integral part of these consolidated income statements.

All activities relate to continuing operations.

Consolidated Statements of Comprehensive Loss

For the year ended 30 September

	2016 £000s	2015 £000s	2014 £000s
Loss for the year	**(63,657)**	(44,563)	(14,659)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**349**	(71)	(2)
Other comprehensive gain/(loss) for the year	**349**	(71)	(2)
Total comprehensive loss for the year	**(63,308)**	(44,634)	(14,661)

The accompanying notes are an integral part of these consolidated statements of comprehensive loss.

Consolidated Statement of Changes in Equity

For the year ended 30 September

Group	Share Capital £000s	Share Premium Account £000s	Other Reserves £000s	Accumulated Deficit £000s	Total Equity £000s
At 1 October 2013	178	84,005	20,184	(68,965)	35,402
Issue of share capital	51	127,315	–	–	127,366
Expenses of new equity issue	–	(1,067)	–	–	(1,067)
Exercise of share options	4	5,014	–	–	5,018
Exercise of warrants	4	5,284	(922)	922	5,288
Share-based payment transactions	–	–	–	1,238	1,238
Loss for the year	–	–	–	(14,659)	(14,659)
Other comprehensive loss	–	–	(2)	–	(2)
Balance at 30 September 2014	**237**	**220,551**	**19,260**	**(81,464)**	**158,584**
Issue of share capital	22	127,812	–	–	127,834
Expenses of new equity issue	–	(271)	–	–	(271)
Exercise of share options	2	1,183	–	–	1,185
Share-based payment transactions	–	–	–	2,488	2,488
Loss for the year	–	–	–	(44,563)	(44,563)
Deferred tax attributable to unrealised share option gains	–	–	–	84	84
Other comprehensive loss	–	–	(71)	–	(71)
Balance at 30 September 2015	**261**	**349,275**	**19,189**	**(123,455)**	**245,270**
Issue of share capital (note 22)	39	206,512	–	–	206,551
Expenses of new equity issue	–	(472)	–	–	(472)
Underwriters' contribution towards expenses of new equity issue	–	472	–	–	472
Exercise of share options (note 22)	2	690	–	–	692
Share-based payment transactions	–	–	–	8,152	8,152
Loss for the year	–	–	–	(63,657)	(63,657)
Deferred tax attributable to unrealised share option gains	–	–	–	1,133	1,133
Other comprehensive gain	–	–	349	–	349
Balance at 30 September 2016	**302**	**556,477**	**19,538**	**(177,827)**	**398,490**

Company Statement of Changes in Equity

For the year ended 30 September

Group	Share Capital £000s	Share Premium Account £000s	Other Reserves £000s	Accumulated Deficit £000s	Total Equity £000s
At 1 October 2013	178	84,005	922	43,092	128,197
Issue of share capital	51	127,315	–	–	127,366
Expenses of new equity issue	–	(1,067)	–	–	(1,067)
Exercise of share options	4	5,014	–	–	5,018
Exercise of warrants	4	5,284	(922)	922	5,288
Share-based payment transactions	–	–	–	1,238	1,238
Profit for the year	–	–	–	4,267	4,267
Balance at 30 September 2014	**237**	**220,551**	**–**	**49,519**	**270,307**
Issue of share capital	22	127,812	–	–	127,834
Expenses of new equity issue	–	(271)	–	–	(271)
Exercise of share options	2	1,183	–	–	1,185
Share-based payment transactions	–	–	–	2,478	2,478
Profit for the year	–	–	–	8,046	8,046
Balance at 30 September 2015	**261**	**349,275**	**–**	**60,043**	**409,579**
Issue of share capital (note 22)	39	206,512	–	–	206,551
Expenses of new equity issue	–	(472)	–	–	(472)
Underwriter's contribution towards expense of new equity issue	–	472	–	–	472
Exercise of share options (note 22)	2	690	–	–	692
Share-based payment transactions	–	–	–	8,152	8,152
Profit for the year	–	–	–	30,480	30,480
Balance at 30 September 2016	**302**	**556,477**	**–**	**98,675**	**655,454**

The accompanying notes are an integral part of these consolidated and Company statements of changes in equity.

Consolidated Balance Sheets

As at 30 September

	Notes	Group 2016 £000s	Group 2015 000s	Company 2016 £000s	Company 2015 £000s
Non-current assets					
Intangible assets – goodwill	12	**5,210**	5,210	**–**	–
Other intangible assets	13	**629**	245	**–**	–
Investments	28	**–**	–	**305,027**	199,853
Property, plant and equipment	14	**38,947**	28,733	**–**	–
Deferred tax asset	10	**3,873**	418	**–**	–
		48,659	34,606	**305,027**	199,853
Current assets					
Inventories	15	**4,248**	4,756	**–**	–
Taxation recoverable	10	**21,322**	12,641	**–**	–
Trade receivables and other current assets	16	**4,556**	2,873	**23,331**	32,584
Cash and cash equivalents	21	**374,392**	234,872	**327,676**	177,971
		404,518	255,142	**351,007**	210,555
Total assets		**453,177**	289,748	**656,034**	410,408
Current liabilities					
Trade and other payables	17	**(31,170)**	(24,022)	**(580)**	(829)
Current tax liabilities	10	**(883)**	(366)	**–**	–
Obligations under finance leases	19	**(211)**	(111)	**–**	–
Deferred revenue	20	**(2,686)**	(3,269)	**–**	–
		(34,950)	(27,768)	**(580)**	(829)
Non-current liabilities					
Trade and other payables	17	**(9,423)**	(8,445)	**–**	–
Obligations under finance leases	19	**(4,959)**	(1,540)	**–**	–
Deferred revenue	20	**(5,355)**	(6,725)	**–**	–
Total liabilities		**(54,687)**	(44,478)	**(580)**	(829)
Net assets		**398,490**	245,270	**655,454**	409,579
Equity					
Share capital	22	**302**	261	**302**	261
Share premium account		**556,477**	349,275	**556,477**	349,275
Other reserves	24	**19,538**	19,189	**–**	–
Accumulated (deficit)/profit		**(177,827)**	(123,455)	**98,675**	60,043
Total equity		**398,490**	245,270	**655,454**	409,579

The financial statements of GW Pharmaceuticals plc, registered number 04160917, on pages 35 to 71 were authorised by the Board and approved for issue on 5 December 2016.

The accompanying notes are an integral part of these consolidated and Company balance sheets.

Consolidated Cash Flow Statements

For the year ended 30 September

	Group			Company		
	2016 £000s	2015 000s	2014 £000s	**2016 £000s**	2015 £000s	2014 £000s
(Loss)/profit for the year	**(63,657)**	(44,563)	(14,659)	**30,480**	8,046	4,267
Adjustments for:						
Interest expense	**173**	75	61	**–**	–	3
Other income	**(608)**	(244)	(130)	**(320)**	(67)	(16)
Tax	**(22,515)**	(12,498)	(4,911)	**–**	–	–
Depreciation of property, plant and equipment	**3,605**	2,250	1,398	**–**	–	–
Impairment of property, plant and equipment	**–**	606	–	**–**	–	–
Amortisation of intangible assets	**62**	52	–	**–**	–	–
Net foreign exchange gains	**(25,551)**	(6,282)	(1,876)	**(24,439)**	(5,782)	(2,072)
Increase/(decrease) in provision for inventories	**72**	33	(408)	**–**	–	–
Decrease in deferred signature fees	**(1,170)**	(1,250)	(1,065)	**–**	–	–
Share-based payment charge	**8,152**	2,478	1,238	**–**	–	–
Loss on disposal of property, plant and equipment	**1**	1	2	**–**	–	–
	(101,436)	(59,342)	(20,350)	**5,721**	2,197	2,182
Decrease/(increase) in inventories	**436**	(12)	292	**–**	–	–
(Increase)/decrease in trade receivables and other current assets	**(753)**	(1,010)	(142)	**9,253**	(5,591)	(22,980)
Increase/(decrease) in trade and other payables and deferred revenue	**4,761**	8,478	4,393	**(249)**	328	239
Cash (used in)/generated by operations	**(96,992)**	(51,886)	(15,807)	**14,725**	(3,066)	(20,559)
Income taxes paid	**(883)**	–	–	**–**	–	–
Research and development tax credits received	**13,281**	5,415	3,181	**–**	–	–
Net cash (outflow)/inflow from operating activities	**(84,594)**	(46,471)	(12,626)	**14,725**	(3,066)	(20,559)
Investing activities						
Interest received	**434**	236	145	**320**	67	15
Increase in loan to subsidiary	**–**	–	–	**(97,022)**	(58,235)	(28,345)
Purchase of property, plant and equipment	**(8,678)**	(17,915)	(7,254)	**–**	–	–
Purchase of intangible assets	**(512)**	(114)	–	**–**	–	–
Proceeds from sale of property, plant and equipment	**–**	2	14	**–**	–	–
Net cash outflow from investing activities	**(8,756)**	(17,791)	(7,095)	**(96,702)**	(58,168)	(28,330)
Financing activities						
Proceeds on exercise of share options	**540**	1,185	5,018	**540**	1,185	5,018
Proceeds of new equity issue	**206,550**	127,834	127,367	**206,550**	127,834	127,367
Expenses of new equity issue	**(319)**	(271)	(1,067)	**(319)**	(271)	(1,067)
Underwriters' contribution towards expenses of new equity issue	**472**	–	–	**472**	–	–
Proceeds of warrant exercise	**–**	–	5,288	**–**	–	5,288
Interest paid	**(69)**	(74)	(61)	**–**	–	(3)
Proceeds from fit out funding	**–**	–	7,822	**–**	–	–
Repayments of fit out funding	**(240)**	–	–	**–**	–	–
Repayments of obligations under finance leases	**(127)**	(255)	(100)	**–**	–	–
Net cash inflow from financing activities	**206,807**	128,419	144,267	**207,243**	128,748	136,603
Effect of foreign exchange rate changes	**26,063**	6,224	1,876	**24,439**	5,782	2,072
Net increase in cash and cash equivalents	**139,520**	70,381	126,422	**149,705**	73,296	89,786
Cash and cash equivalents at the beginning of the year	**234,872**	164,491	38,069	**177,971**	104,675	14,889
Cash and cash equivalents at end of the year	**374,392**	234,872	164,491	**327,676**	177,971	104,675

The accompanying notes are an integral part of these consolidated and Company cash flow statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September

1. General Information

GW Pharmaceuticals plc (the "Company") and its subsidiaries (the "Group") are primarily involved in the development of cannabinoid prescription medicines using botanical extracts derived from the cannabis plant. The Group is developing a portfolio of cannabinoid medicines, of which the lead product is Epidiolex®, an oral medicine for the treatment of refractory childhood epilepsies.

The Company is a public limited company, which has had American Depository Receipts ("ADRs") registered with the US Securities and Exchange Commission ("SEC") and is listed on NASDAQ since 1 May 2013. Until 5 December 2016, the Company was also listed on the Alternative Investment Market ("AIM"), which is a sub-market of the London Stock Exchange. The Company is incorporated and domiciled in the UK. The address of the Company's registered office and principal place of business is Sovereign House, Vision Park, Histon, Cambridgeshire.

2. Significant Accounting Policies

The principal Group accounting policies are summarised below.

Basis of Accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union and as issued by the International Accounting Standards Board ("IASB"). The Group financial statements also comply with Article 4 of the European Union IAS regulation.

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets and received for the liabilities. The principal accounting policies are set out below.

Going Concern

At 30 September 2016 the Group had cash and cash equivalents of £374.4 million (2015: £234.9 million). The Directors have considered the financial position of the Group, its cash position and forecast cash flows for the 12-month period from the date of this report when considering going concern. They have also considered the Group's key risks and uncertainties affecting the likely development of the business. In the light of this review, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least a 12-month period from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 September each year. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies of the entity concerned, generally accompanying a shareholding of more than one half of the voting rights.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Acquisitions are accounted for under the acquisition method.

In future business combinations, if a non-controlling interest in a subsidiary arises, such non-controlling interest will be identified separately from the Group's equity therein. The interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (ie reclassified to profit or loss or transferred directly to accumulated deficit) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

No income statement is presented for GW Pharmaceuticals plc as permitted by section 408 of the Companies Act 2006. The Company's profit for the financial year was £30,480,000 (2015: £8,046,000; 2014: £4,267,000).

Intangible Assets – Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets and liabilities assumed.

Goodwill is not amortised but is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible Assets – Other

Other intangible assets are stated at cost less provisions for amortisation and impairments. Licences, patents, know-how, software and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives using the straight-line basis from the time they are available for use. The estimated useful lives for determining the amortisation take into account patent lives and related product application, but do not exceed their lifetime. Asset lives are reviewed annually and adjusted where necessary. Contingent milestone payments are recognised at the point that the contingent event becomes certain. Any subsequent development costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of value added tax and other sales-related taxes. The Group recognises revenue when the amount can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below.

The Group's revenue arises from product sales, licensing fees, collaboration fees, technical access fees, development and approval milestone fees, research and development ("R&D") fees and royalties. Agreements with commercial partners generally include non-refundable up-front licence and collaboration fees, milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulatory or commercial milestones, as well as royalties on product sales of licenced products, if and when such product sales occur, and revenue from the supply of products. For these agreements, total arrangement consideration is attributed to separately identifiable components on a reliable basis that reasonably reflects the selling prices that might be expected to be achieved in stand-alone transactions. The then allocated consideration is recognised as revenue in accordance with the principles described below.

The percentage of completion method is used for a number of revenue streams of the Group. For each of the three years ended 30 September 2016, there were no discrete events or adjustments which caused the Group to revise its previous estimates of completion associated with those revenue arrangements accounted for under the percentage of completion method.

Product Sales

Revenue from the sale of products is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group no longer has effective control over the goods sold, the amount of revenue and costs associated with the transaction can be measured reliably, and it is probable that the Group will receive future economic benefits associated with the transaction. Product sales have no rights of return other than where products are damaged or defective.

The Group maintains a rebate provision for expected reimbursements to our commercial partners in circumstances in which actual net revenue per vial differs from expected net revenue per vial as a consequence of, as an example, ongoing pricing negotiations with local health authorities. The amount of our rebate provision is based on, amongst other things, monthly unit sales and in-market sales data received from commercial partners and represents management's best estimate of the rebate expected to be required to settle the present obligation at the end of the reporting period. Provisions for rebates are established in the same period that the related sales are recorded.

Licensing Fees

Licensing fees received in connection with product out-licensing agreements, even where such fees are non-refundable, are deferred and recognised over the period of the licence term.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

2. Significant Accounting Policies continued

Collaboration Fees
Collaboration fees are deferred and recognised as services rendered based on the percentage of completion method.

Technical Access Fees
Technical access fees represent amounts charged to licensing partners to provide access to, and to commercially exploit, data that the Group possesses or which can be expected to result from Group research programmes that are in progress. Non-refundable technical access fees that involve the delivery of data that the Group possesses and that permit the licensing partner to use the data freely and where the Group has no remaining obligations to perform are recognised as revenue upon delivery of the data. Non-refundable technical access fees relating to data where the research programme is ongoing are recognised based on the percentage of completion method.

Development and Approval Milestone Fees
Development and approval milestone fees are recognised as revenue based on the percentage of completion method on the assumption that all stages will be completed successfully, but with cumulative revenue recognised limited to non-refundable amounts already received or reasonably certain to be received.

Research and Development Fees
Revenue from partner-funded contract R&D agreements is recognised as R&D services are rendered. Where services are in progress at period end, the Group recognises revenues proportionately, in line with the percentage of completion of the service. Where such in progress services include the conduct of clinical trials, the Group recognises revenue in line with the stage of completion of each trial so that revenues are recognised in line with the expenditures.

Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Research and Development

Expenditure on R&D activities is recognised as an expense in the period in which it is incurred prior to achieving regulatory approval.

An internally generated intangible asset arising from the Group's development activities is recognised only if the following conditions can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Group has determined that regulatory approval is the earliest point at which the probable threshold can be achieved. All R&D expenditure incurred prior to achieving regulatory approval is therefore expensed as incurred.

Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants for research programmes are recognised as revenue over the periods necessary to match them with the related costs incurred, and in the consolidated income statement are deducted from the related costs. Government grants related to property, plant and equipment are treated as deferred income and released to the consolidated income statement over the expected useful lives of the assets concerned.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement using the effective interest method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any recognised impairment loss. Depreciation is provided so as to write off the cost of assets, less their estimated residual values, over their useful lives using the straight-line method, as follows:

Leasehold buildings	20 years or term of lease if shorter
Plant, machinery and lab equipment	3–10 years
Office and IT equipment	3–5 years
Leasehold improvements	4–15 years or term of the lease if shorter

Assets under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

No depreciation is provided on assets under the course of construction. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation on these assets commences when the assets are available for use.

The gain or loss arising on disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

Investments in Subsidiary Companies

Investments are shown at cost less any provision for impairment. Investments in subsidiary companies which are accounted for under merger accounting principles are shown at the nominal value of shares issued in accordance with the provisions of section 131 of the Companies Act 2006.

The carrying value of investments in subsidiary companies in the Company balance sheet is increased annually by the value of the capital contribution deemed to have been made by the Company in its subsidiary by the grant of equity-settled share-based payments to the employees of the subsidiary company. The value attributable to these equity-settled share-based payments is calculated in accordance with IFRS 2 Share-based Payments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Cost includes materials, direct labour, depreciation of manufacturing assets and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

If net realisable value is lower than the carrying amount, a write-down provision is recognised for the amount by which the carrying amount exceeds its net realisable value.

Inventories manufactured prior to regulatory approval are capitalised as an asset but provided for until there is a high probability of regulatory approval of the product. At the point when a high probability of regulatory approval is obtained, the provision is adjusted appropriately to increase the carrying value to expected net realisable value, which may not exceed original cost.

Adjustments to the provision for inventories manufactured prior to regulatory approval are recorded as a component of R&D expenditure. Adjustments to the provision against commercial product related inventories manufactured following achievement of regulatory approval are recorded as a component of cost of goods.

Taxation

The tax expense represents the sum of the tax currently payable or recoverable and deferred tax. Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

2. Significant Accounting Policies continued

Deferred tax is the tax expected to be payable or recoverable on differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(Loss)/Earnings per Share

Basic earnings or loss per share represents the profit or loss for the year, divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares held in the GW Pharmaceuticals All Employee Share Scheme (the "ESOP") during the year to satisfy employee share awards.

Diluted earnings or loss per share represents the profit or loss for the year, divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of shares held in the ESOP during the year to satisfy employee share awards, plus the weighted average number of dilutive shares resulting from share options or warrants where the inclusion of these would not be anti-dilutive.

Retirement Benefit Costs

The Group does not operate any pension plans, but makes contributions to personal pension arrangements of its Executive Directors and employees. The amounts charged to the consolidated income statement in respect of pension costs are the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the consolidated balance sheet.

Foreign Currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Share-based payments

The Group operates a number of equity-settled share-based compensation plans under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted (excluding the effect of any non-market-based performance and service vesting conditions) at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based performance and service vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date of grant.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals under operating leases are charged on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as an expense in the periods in which they are incurred.

Financial Instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

For each reporting period covered herein, the Group's financial assets were restricted to "loans and receivables".

Loans and Receivables

Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables are assessed for indicators of impairment at each balance sheet date. Trade receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the receivables have been affected. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and on-call deposits held with banks and other short-term highly liquid investments with a maturity of three months or less.

Financial Liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit and loss" or "other financial liabilities". For each reporting period covered herein, the Group's financial liabilities were restricted to "other financial liabilities".

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

2. Significant Accounting Policies continued

Other Financial Liabilities

Trade payables are initially recognised at fair value and then held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, using the effective interest method. The difference between the proceeds, net of transaction costs, and the amount due on redemption is recognised as a charge to the income statement over the period of the relevant borrowing.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Critical Judgements in Applying the Group's Accounting Policies

In the application of the Group's accounting policies, which are described above, the Board of Directors are 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 associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and 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 revisions and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Recognition of Clinical Trials Expenditure

The Group recognises expenditure incurred in carrying out clinical trials during the course of conduct of each clinical trial in line with the state of completion of each trial. This involves the calculation of clinical trial accruals at each period end to account for expenditure which has been incurred. This requires estimation of the expected full cost to complete the trial and also estimation of the current stage of trial completion.

Clinical trials usually take place over extended time periods and typically involve a set-up phase, a recruitment phase and a completion phase which ends upon the receipt of a final report containing full statistical analysis of trial results. Accruals are prepared separately for each in-process clinical trial and take into consideration the stage of completion of each trial including the number of patients that have entered the trial, the number of patients that have completed treatment and whether the final report has been received. In all cases, the full cost of each trial is expensed by the time the final report has been received.

Revenue Recognition

The Group recognises revenue from product sales, licensing fees, collaboration fees, technical access fees, development and approval milestone fees, R&D fees and royalties. Agreements with commercial partners generally include a non-refundable up-front fee, milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulatory or commercial milestones, as well as royalties on product sales of licenced products, if and when such product sales occur. For these agreements, the Group is required to apply judgement in the allocation of total agreement consideration to the separately identifiable components on a reliable basis that reasonably reflects the selling prices that might be expected to be achieved in stand-alone transactions.

Product revenue received is based on a contractually agreed percentage of our commercial partner's in-market net sales revenue. The commercial partner's in-market net sales revenue is the price per vial charged to end customers, less set defined deductible overheads incurred in distributing the product. In developing estimates, the Group uses monthly unit sales and in-market sales data received from commercial partners during the course of the year. For certain markets, where negotiations are ongoing with local reimbursement authorities, an estimated in-market sales price is used, which requires the application of judgement in assessing whether an estimated in-market sales price is reliably measurable. In the Group's assessment, the Group considers, inter alia, identical products sold in similar markets and whether the agreed prices for those identical products support the estimated in-market sales price. In the event that the Group considers there to be significant uncertainty with regard to the in-market sales price to be charged by the commercial partner as a result of, as an example, ongoing pricing negotiations with local health authorities, such that it is not possible to reliably measure the amount of revenue that will flow to the Group, the Group would not recognise revenue until that uncertainty has been resolved.

The Group applies the percentage of completion revenue recognition method to certain classes of revenue. The application of this approach requires the judgement of the Group with regard to the total costs incurred and total estimated costs expected to be incurred over the length of the agreement.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Deferred Taxation

At the balance sheet date, the Group has accumulated tax losses of £102.8 million (2015: £74.0 million) and other temporary differences of £33.9 million (2015: £20.7 million) available to offset against future profits. If the value of these losses and other temporary differences were recognised within the Group's balance sheet at the balance sheet date, the Group would be carrying an additional deferred tax asset of £23.2 million (2015: £18.9 million). However, as explained in the tax accounting policy note, the Group's policy is to recognise deferred tax assets only to the extent that it is probable that future taxable profits, feasible tax-planning strategies, and deferred tax liabilities will be available against which the brought-forward trading losses can be utilised. Estimation of the level of future taxable profits is therefore required in order to determine the appropriate carrying value of the deferred tax asset at each balance sheet date. As such, a deferred tax asset of £3.9 million has been recognised at 30 September 2016 (2015: £0.4 million) in respect of temporary timings differences relating to the Group's US subsidiary that are expected to be fully recoverable.

Research and Development and Orphan Tax Credits

The Group's R&D tax credit claim is complex and requires management to interpret and apply UK and US R&D and orphan credit tax legislation to the Group's specific circumstances and requires the use of certain assumptions in estimating the portion of current year research costs that are eligible for the claim.

Impairment of Investments in Subsidiaries and Inter-Company Receivables

The Company considers the recoverability of investments in subsidiaries and inter-company receivables on an ongoing basis, whenever indicators of impairment are present. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

Adoption of New and Revised Standards

In the current year the following revised standards have been adopted in these financial statements. Adoption has not had a significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions.

Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (November 2013)
Annual Improvements to IFRSs 2011–2013 Cycle (December 2013)
Annual Improvements to IFRSs 2010–2012 Cycle (December 2013)

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were issued by the IASB but not yet effective:

IFRS 9 Financial Instruments (July 2014)
IFRS 14 Regulatory Deferral Accounts (January 2014)
IFRS 15 Revenue from Contracts with Customers (May 2014)
IFRS 16 Leases (January 2016)
Annual Improvements to IFRSs 2012–2014 Cycle (September 2014)
Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions (June 2016)
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (September 2016)
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (December 2014)
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (September 2014)
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (May 2014)
Clarifications to IFRS 15: Revenue from Contracts with Customers (April 2016)
Amendments to IAS 1: Disclosure Initiative (December 2014)
Amendments to IAS 7: Disclosure Initiative (January 2016)
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (January 2016)
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (May 2014)
Amendments to IAS 16 and IAS 41: Bearer Plants (June 2014)
Amendments to IAS 27: Equity Method in Separate Financial Statements (August 2014)

IFRS 15: establishes comprehensive guidelines for determining when to recognise revenue and how much revenue to recognise. The core principle in that framework is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for reporting periods beginning on or after 1 January 2018. The Group continues to assess the impact of IFRS 15 on the results of the Group, and expects to finalise this assessment following final endorsement by the European Union, which occurred on 31 October 2016. The impact is expected to be limited to historic revenue-generative partner agreements.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

2. Significant Accounting Policies continued

IFRS 16: Leases will replace IAS 17 for accounting periods beginning on or after 1 January 2019. In so doing it will eliminate the distinction between classification of leases as finance or operating leases. The adoption of IFRS 16 is not expected to have a significant impact on the Group's net results or net assets, although the full impact will be subject to further assessment following the conclusion of the ongoing consultations.

The Directors do not expect that the adoption of the remaining Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

3. Segmental Information

Information reported to the Company's Board of Directors, the chief operating decision maker for the Group, for the purposes of resource allocation and assessment of segment performance is focused on the stage of product development. The Group's reportable segments are as follows:

- **Commercial:** The Commercial segment distributes and sells the Group's commercial products. Currently Sativex® is promoted through strategic collaborations with major pharmaceutical companies for the currently approved indication of spasticity due to multiple sclerosis ("MS"). The Commercial segment will include revenues from the direct marketing of other future approved commercial products. The Group has licensing agreements for the commercialisation of Sativex with Almirall S.A. in Europe (excluding the UK) and Mexico, Otsuka Pharmaceutical Co. Ltd. ("Otsuka") in the US, Novartis Pharma AG in Australia, New Zealand, Asia (excluding Japan, China and Hong Kong), the Middle East and Africa, Bayer HealthCare AG in the UK and Canada, Neopharm Group in Israel and Ipsen Biopharm Ltd. in Latin America (excluding Mexico and the Islands of the Caribbean). Commercial segment revenues include product sales, royalties, licence, collaboration and technical access fees, and development and approval milestone fees.
- **Sativex Research and Development:** The Sativex Research and Development ("Sativex R&D") segment seeks to maximise the potential of Sativex through the development of new indications. Sativex has shown promising efficacy in Phase 2 trials in other indications such as neuropathic pain, but these areas are not currently the subject of full development programmes. Sativex R&D segment revenues consist of R&D fees charged to Sativex licensees.
- **Pipeline Research and Development:** The Pipeline Research and Development ("Pipeline R&D") segment seeks to develop cannabinoid medications other than Sativex across a range of therapeutic areas using our proprietary cannabinoid technology platform. The Group's product pipeline includes Epidiolex, in development as a treatment for Dravet syndrome, Lennox-Gastaut syndrome, Tuberous Sclerosis Complex and Infantile Spasms, as well as other product candidates in Phase 1 and 2 clinical development for glioma, adult epilepsy and schizophrenia. Pipeline R&D segment revenues consist of R&D fees charged to Otsuka under the terms of our pipeline research collaboration agreement.

The accounting policies of the reportable segments are consistent with the Group's accounting policies described in note 2. Segment result represents the result of each segment without allocation of share-based payment expenses, and before sales, general and administrative expenses, interest expense, interest income and tax. No measures of segment assets and segment liabilities are reported to the Group's Board of Directors in order to assess performance and allocate resources. There is no intersegment activity and all revenue is generated from external customers.

Segment Results

For the Year Ended 30 September 2016

	Commercial £000s	Sativex R&D £000s	Pipeline R&D £000s	Total Reportable Segments £000s	Unallocated Costs[1] £000s	Consolidated £000s
Revenue:						
Product sales	5,208	–	–	5,208	–	5,208
R&D fees	–	3,500	337	3,837	–	3,837
Licence, collaboration and technical access fees	1,172	–	–	1,172	–	1,172
Development and approval milestones	98	–	–	98	–	98
Total revenue	6,478	3,500	337	10,315	–	10,315
Cost of sales	(2,719)	–	–	(2,719)	–	(2,719)
R&D expenditure	–	(4,125)	(91,571)	(95,696)	(4,119)	(99,815)
Segmental result	3,759	(625)	(91,234)	(88,100)	(4,119)	(92,219)
Sales, general and administrative expenses						(19,939)
Net foreign exchange gain						25,551
Operating loss						(86,607)
Interest expense						(173)
Other income						608
Loss before tax						(86,172)
Tax benefit						22,515
Loss for the year						(63,657)

1 Unallocated costs represent the portion of share-based payment expenditures which is included in R&D expenditure, but which is not allocated to segments. The remaining share-based payment expenditure is included within sales, general and administrative expenses, which is similarly excluded from segmental result.

Segment Results
For the Year Ended 30 September 2015

	Commercial £000s	Sativex R&D £000s	Pipeline R&D £000s	Total Reportable Segments £000s	Unallocated Costs[1] £000s	Consolidated £000s
Revenue:						
Product sales	4,255	–	–	4,255	–	4,255
R&D fees	–	22,275	535	22,810	–	22,810
Licence, collaboration and technical access fees	1,287	–	–	1,287	–	1,287
Development and approval milestones	188	–	–	188	–	188
Total revenue	5,730	22,275	535	28,540	–	28,540
Cost of sales	(2,618)	–	–	(2,618)	–	(2,618)
R&D expenditure	–	(26,398)	(48,862)	(75,260)	(1,525)	(76,785)
Segmental result	3,112	(4,123)	(48,327)	(49,338)	(1,525)	(50,863)
Sales, general and administrative expenses						(12,569)
Net foreign exchange gain						6,202
Operating loss						(57,230)
Interest expense						(75)
Other income						244
Loss before tax						(57,061)
Tax benefit						12,498
Loss for the year						(44,563)

1 Unallocated costs represent the portion of share-based payment expenditures which is included in R&D expenditure, but which is not allocated to segments. The remaining share-based payment expenditure is included within sales, general and administrative expenses, which is similarly excluded from segmental result.

Segment Results
For the Year Ended 30 September 2014

	Commercial[1] £000s	Sativex R&D £000s	Pipeline R&D £000s	Total Reportable Segments £000s	Unallocated Costs[2] £000s	Consolidated £000s
Revenue:						
Product sales	4,382	–	–	4,382	–	4,382
R&D fees	–	23,618	667	24,285	–	24,285
Licence, collaboration and technical access fees	1,378	–	–	1,378	–	1,378
Total revenue	5,760	23,618	667	30,045	–	30,045
Cost of sales	(2,060)	–	–	(2,060)	–	(2,060)
R&D credit/(expenditure)	847	(26,444)	(17,103)	(42,700)	(775)	(43,475)
Segmental result	4,547	(2,826)	(16,436)	(14,715)	(775)	(15,490)
Sales, general and administrative expenses						(7,337)
Net foreign exchange gain						3,188
Operating loss						(19,639)
Interest expense						(61)
Other income						130
Loss before tax						(19,570)
Tax benefit						4,911
Loss for the year						(14,659)

1 The R&D credit in the commercial segment is the element of the inventory provision movement that relates to commercial inventory.
2 Unallocated costs represent the portion of share-based payment expenditures which is included in R&D expenditure, but which is not allocated to segments. The remaining share-based payment expenditure is included within sales, general and administrative expenses, which is similarly excluded from segmental result.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

3. Segmental Information continued

Segment Results

Revenues from the Group's largest customer are included within the above segments as follows:

	Commercial £000s	Sativex R&D £000s	Pipeline R&D £000s	Total £000s
Year ended 30 September 2016	**4,310**	**–**	**–**	**4,310**
Year ended 30 September 2015	3,385	–	–	3,385
Year ended 30 September 2014	3,494	–	–	3,494

Revenues from the Group's second largest customer, the only other customer where revenues account for more than 10% of the Group's revenues, are included within the above segments as follows:

	Commercial £000s	Sativex R&D £000s	Pipeline R&D £000s	Total £000s
Year ended 30 September 2016	**280**	**3,500**	**337**	**4,117**
Year ended 30 September 2015	280	22,275	535	23,090
Year ended 30 September 2014	280	23,618	667	24,565

Geographical Analysis of Revenue by Destination of Customer:

	2016 £000s	2015 £000s	2014 £000s
UK	**1,082**	1,158	1,099
Europe (excluding UK)	**4,435**	3,592	3,864
US	**3,780**	22,555	23,904
Canada	**680**	700	518
Asia/Other	**338**	535	660
	10,315	28,540	30,045

4. Research and Development Expenditure

	2016 £000s	2015 £000s	2014 £000s
GW-funded R&D	**95,978**	53,975	19,190
Development partner-funded R&D	**3,837**	22,810	24,285
	99,815	76,785	43,475

GW-funded R&D expenditure consists of costs associated with the Group's research activities. These costs include costs of conducting pre-clinical studies or clinical trials, payroll costs associated with employing a team of R&D staff, share-based payment expenses, property costs associated with leasing laboratory and office space to accommodate research teams, costs of growing botanical raw material, costs of consumables used in the conduct of in-house research programmes, payments for research work conducted by sub-contractors by a network of academic collaborative research scientists, costs associated with safety studies and costs associated with the development of further Epidiolex, Sativex or other pipeline product data.

Development partner-funded R&D expenditures include the costs of employing staff to work on joint R&D plans, plus the costs of sub-contracted pre-clinical studies and sponsorships of academic scientists who collaborate with the Group. These expenditures are charged to the Group's commercial partners, principally Otsuka. The Group is the primary obligor for these activities and under the terms of the Sativex development agreements, the Group uses both its internal resources and third-party contractors to provide contract R&D services to its commercial partners.

5. Loss Before Tax

Loss before tax is stated after charging/(crediting):

	2016 £000s	2015 £000s	2014 £000s
Operating lease rentals – land and buildings	**2,341**	1,473	1,301
Operating lease rentals – equipment	**20**	–	–
Depreciation of property, plant and equipment	**3,605**	2,250	1,398
Impairment of property, plant and equipment	**–**	606	–
Amortisation of intangible assets	**62**	52	–
Increase/(decrease) provision for inventories	**72**	33	(408)
Foreign exchange gain	**(25,551)**	(6,202)	(3,188)
Staff costs (see note 7)	**40,463**	23,083	17,725

6. Auditor's Remuneration

	2016 £000s	2015 £000s	2014 £000s
The auditor for the years ended 30 September 2016, 2015 and 2014 was Deloitte LLP			
Audit fees:			
– Audit of the Group's annual accounts[1]	**400**	400	243
– Audit of the Company and subsidiaries pursuant to legislation	**50**	50	41
Total audit fees	**450**	450	284
Other services			
– Audit-related assurance[2]	**75**	53	46
– Other assurance services[3]	**109**	92	193
Total non-audit fees	**184**	145	239

1 For the years ended 30 September 2016, 2015 and 2014, audit fees include amounts for the audit of the consolidated financial statements in accordance with the International Standards of Auditing, and standards of the Public Company Accounting Oversight Board (United States). For the years ended 30 September 2016, 2015 and 2014, audit fees also include amounts for the audit of the Group's internal controls over financial reporting.

2 Audit-related assurance fees relate to fees for the performance of interim reviews, and other procedures on interim results.

3 Other assurance services represents assurance reporting on historical financial information included in the Company's initial, shelf and follow-on US registration statements.

An additional £40,000 was billed in respect of the 2015 audit during the year ended 30 September 2016.

An additional £156,000 was billed in respect of the 2014 audit during the year ended 30 September 2015.

The audit committee's policy is to pre-approve all audit, audit-related and other services performed by the auditor. All such services were pre-approved during the years ended 30 September 2016, 2015 and 2014 under the audit committee's policy.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

7. Staff Costs

The average number of Group employees (including Executive Directors) for the year ended 30 September was:

	2016 Number	2015 Number	2014 Number
R&D	**391**	288	202
Management and administration	**53**	34	21
	444	322	223

The average number of Company employees for the year ended 30 September was four (2015: one and 2014: none).

	2016 Number	2015 Number	2014 Number
Group aggregate remuneration comprised:			
Wages and salaries	**25,823**	17,092	11,470
Social security costs	**5,132**	2,748	4,484
Other pension costs	**1,356**	765	533
Share-based payment	**8,152**	2,478	1,238
	40,463	23,083	17,725

Included in social security costs are local tax obligations on unrealised share option gains.

The Company incurred £0.2 million of staff costs during the year (2015: £0.2 million and 2014: £nil).

8. Directors' Remuneration

Directors' remuneration and other benefits for the year ended 30 September were as follows:

	2016 £000s	2015 £000s	2014 £000s
Emoluments	**2,523**	2,395	2,688
Money purchase contributions to Directors' pension arrangements	**215**	211	203
Gain on exercise of share options	**6,453**	7,910	5,526
	9,191	10,516	8,417

During 2016, six Directors were members of defined contribution pension schemes (2015 and 2014: five).

Further details concerning the Directors' remuneration, shareholdings and share options which form part of these financial statements are set out in the Directors' Remuneration Report on pages 12 to 31.

9. Other Income and Expense

	2016 £000s	2015 £000s	2014 £000s
Interest income – bank interest	**435**	244	130
Other income	**173**	–	–
Interest expense – finance lease interest	**(173)**	(75)	(61)

Other income relates to an "above the line" credit associated with the UK large company R&D tax scheme. This represents an amount that is expected to be claimable from UK tax authorities in relation to qualifying expenditure incurred in the year ended 30 September 2016.

10. Tax

a) Analysis of Tax Credit for the Year

	2016 £000s	2015 £000s	2014 £000s
Current year R&D tax credit	**(21,150)**	(12,641)	(5,251)
Current period tax (credit)/charge	**1,175**	366	–
Adjustment in respect of prior year tax credit	**(546)**	(165)	(278)
Deferred tax credit	**(2,037)**	(335)	(829)
Movements on deferred tax assets	**43**	277	1,447
Tax benefit	**(22,515)**	(12,498)	(4,911)

Tax credits relate to UK R&D tax credits claimed under the Finance Act 2000. The current period tax charge relates to US taxation on the taxable profit for the Group's US subsidiary.

The Group recognises in full the estimated benefit for qualifying current year UK R&D expenditures and resulting tax credits. Any difference in the credit ultimately received is recorded as an adjustment in respect of prior year.

The Group recognises the likely recoverable estimated benefit for qualifying current year US R&D expenditures and resulting tax credits. Any difference in the credit ultimately received is recorded as an adjustment in respect of prior year.

At 30 September 2016 the Group had tax losses available for carry forward of approximately £102.8 million (2015: £74.0 million). Of such carried-forward losses, the Group has recognised a deferred tax asset of £1.8 million (2015: £1.9 million) up to the level of deferred tax liabilities arising in the same jurisdiction and additionally an asset supportable by taxable income projections of £nil (2015: £nil). The Group has also recognised a deferred tax asset of £3.9 million (2015: £0.4 million) in respect of taxable temporary timing differences relating to timing differences in another jurisdiction supportable by taxable income projections. In addition, the Group has not recognised deferred tax assets relating to other temporary differences of £33.9 million (2015: £20.7 million). These deferred tax assets have not been recognised as the Group's management considers that there is insufficient future taxable income, taxable temporary differences and feasible tax-planning strategies to utilise all of the cumulative losses and therefore it is probable that the deferred tax assets will not be realised in full. If future income differs from current projections, this could significantly impact the tax charge or benefit in future periods.

In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2016 £000s	2015 £000s	2014 £000s
Change in estimate of excess tax deductions related to share-based payments	**1,133**	84	–
Total income tax recognised directly in equity	**1,133**	84	–

b) Factors Affecting the Tax Benefit for the Year

The tax benefit for the year can be reconciled to the tax benefit on the Group's loss for the year at the standard UK corporation tax rate as follows:

	2016 £000s	2015 £000s	2014 £000s
Loss before tax	**(86,172)**	(57,061)	(19,570)
Tax credit on Group loss before tax at the standard UK corporation tax rate of 20.0% (2015: 20.5%; 2014: 22.0%)	**(17,234)**	(11,698)	(4,305)
Effects of:			
Expenses not deductible in determining taxable profit	**588**	233	1,070
Impact of employee share acquisition relief	**(1,842)**	(2,519)	(1,053)
Income not taxable in determining taxable profit	**–**	–	(1)
Current year UK R&D tax credit	**(21,150)**	(12,641)	(5,251)
Current year US tax credits	**(1,766)**	–	–
R&D enhanced tax relief and surrender of losses	**12,679**	7,756	3,875
Effect of unrecognised losses and temporary differences	**6,634**	6,536	1,861
Overseas profits taxed at different rates	**122**	–	–
Recognition of previously unrecognised deferred tax asset	**–**	–	(829)
Adjustment in respect of prior year tax credit	**(546)**	(165)	(278)
Tax	**(22,515)**	(12,498)	(4,911)

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

10. Tax continued

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated Tax Depreciation £000s	Tax Losses £000s	Share-Based Payment and Other Compensation £000s	Total £000s
At 1 October 2013	(740)	1,635	–	895
(Charged)/credited to profit or loss	135	(753)	–	(618)
At 1 October 2014	(605)	882	–	277
Credited/(charged) to profit or loss	(1,290)	1,002	345	57
Credited/(charged) to equity	–	–	84	84
At 1 October 2015	**(1,895)**	**1,884**	**429**	**418**
Credited/(charged) to profit or loss	(23)	(48)	2,072	2,001
Credited/(charged) to equity	–	–	1,454	1,454
At 30 September 2016	**(1,918)**	**1,836**	**3,955**	**3,873**

Deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so, and intends to settle on a net basis. The taxing authority permits the Group to make or receive a single net payment for all UK subsidiaries. The Group's US subsidiary operates in a different jurisdiction with no legally enforceable right to offset against UK tax charges or credits.

On 6 September 2016, the UK Government substantively enacted a reduction in the main rate of corporation tax from 20% to 19% with effect from 1 April 2017. The main rate of corporation tax will be reduced by a further 2% to 17% with effect from 1 April 2020. The enacted UK tax rate until 1 April 2015 was 21%.

11. Loss Per Share

The calculations of loss per share are based on the following data:

	2016 £000s	2015 £000s	2014 £000s
Loss for the year – basic and diluted	**(63,657)**	(44,563)	(14,659)

	Number of Shares		
	2016 Million	2015 Million	2014 Million
Weighted average number of ordinary shares	**270.4**	246.4	210.4
Less ESOP trust ordinary shares[1]	**–**	–	–
Weighted average number of ordinary shares for purposes of basic earnings per share	**270.4**	246.4	210.4
Effect of potentially dilutive shares arising from share options[2]	**–**	–	–
Weighted average number of ordinary shares for purposes of diluted earnings per share	**270.4**	246.4	210.4
Loss per share – basic	**(23.5)p**	(18.1)p	(7.0)p
Loss per share – diluted	**(23.5)p**	(18.1)p	(7.0)p

1 As at 30 September 2016, 33,054 ordinary shares were held in the ESOP trust (2015: 33,054 and 2014: 34,706). The effect is less than 0.1 million shares, and consequently these have not been presented above.

2 The Group incurred a loss in each of the financial years above. As a result, the inclusion of potentially dilutive share options in the diluted loss per share calculation would have an anti-dilutive effect on the loss per share for the period. The impact of 7.1 million share options have therefore been excluded from the diluted loss per share calculation for the year ended 30 September 2016 (30 September 2015: 7.8 million; 30 September 2014: 9.5 million).

12. Intangible Assets – Goodwill

	2016 £000s	2015 £000s
Cost – as at 1 October	**5,210**	5,210
Net book value – as at 30 September	**5,210**	5,210

Goodwill arose upon the acquisition of GW Research Limited (formerly G-Pharm Limited) by GW Pharma Limited in 2001. For impairment testing purposes, all goodwill has been allocated to the Commercial segment as a separate cash-generating unit. Goodwill has an indefinite useful life and is tested annually for impairment or more frequently if there are indications of impairment.

The Company has determined the recoverable amount of the Commercial segment based on a value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a two-year period. Cash flows beyond the two-year period are based upon detailed internal and external third party analysis of the Company's product opportunity, of which Epidiolex is a significant contributor, or are extrapolated using the estimated growth rates stated below. The projections include assumptions about the timing and likelihood of product launches and pricing policy.

Management has determined the following assumptions to be the key assumptions in the calculation of value-in-use for the Commercial segment:

Growth rate – sales volume in each period is the main driver for revenue and costs. The same growth rates have been used in financial budgets and are consistent with in-market run rates and internal commercial forecasts based on a 10-year period.

Long-term growth rate – A 0% growth rate has been applied after 10 years (2015: 0% after 10 years). This approach has been adopted by management as it is representative of the long development and product life cycle in the pharmaceutical sector. In future periods, depending on the performance of the Commercial segment, it may be necessary to revise the terminal growth rate.

Discount rate – a 12.6% (2015: 14.3% and 2014: 13.2%) pre-tax rate has been used. This is considered appropriate for the purpose of impairment reviews as it reflects the current market assessment of the time value of money and the risks specific to the cash-generating unit.

Any reasonably possible change in the key assumptions on which value-in-use is based would not cause the carrying amount to exceed the recoverable amount of the Commercial segment.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

13. Other Intangible Assets

Group	Intangible Assets Under the Course of Construction £000s	Software £000s	Licences £000s	Total £000s
Cost				
At 1 October 2014	–	–	–	–
Additions	55	76	59	190
Reclassifications from property, plant and equipment (note 14)	11	144	–	155
At 1 October 2015	66	220	59	345
Additions	387	35	24	446
Transfers of completed assets	(38)	38	–	–
At 30 September 2016	**415**	**293**	**83**	**791**
Accumulated amortisation				
At 1 October 2014	–	–	–	–
Charge for the year	–	48	4	52
Reclassifications	–	48	–	48
At 1 October 2015	–	96	4	100
Charge for the year	–	57	5	62
At 30 September 2016	**–**	**153**	**9**	**162**
Net book value				
At 30 September 2016	**415**	**140**	**74**	**629**
At 30 September 2015	66	124	55	245

Included in additions are £nil of other intangible assets which are unpaid at the balance sheet date and are included in trade and other payables (2015: £0.1 million).

The Company does not own any other intangible assets.

14. Property, Plant and Equipment

Group	Assets Under the Course of Construction £000s	Leasehold Buildings £000s	Plant, Machinery and Lab Equipment £000s	Office and IT Equipment £000s	Leasehold Improvements £000s	Total £000s
Cost						
At 1 October 2014	6,490	–	4,655	1,478	4,657	17,280
Additions	12,374	–	3,056	2,054	2,574	20,058
Reclassifications to other intangible assets (note 13)	(11)	–	–	(144)	–	(155)
Transfers of completed assets	(1,570)	–	570	–	1,000	–
Disposals	–	–	(366)	(41)	(67)	(474)
At 1 October 2015	17,283	–	7,915	3,347	8,164	36,709
Additions	7,698	3,603	1,754	273	473	13,801
Reclassifications	–	–	1,463	(1,463)	–	–
Transfers of completed assets	(3,623)	–	1,809	29	1,785	–
Disposals	–	–	(112)	(789)	(122)	(1,023)
Exchange differences	–	–	–	20	1	21
At 30 September 2016	**21,358**	**3,603**	**12,829**	**1,417**	**10,301**	**49,508**
Accumulated depreciation and impairment						
At 1 October 2014	–	–	3,384	918	1,339	5,641
Disposals	–	–	(365)	(41)	(67)	(473)
Charge for the year	–	–	746	510	994	2,250
Impairment of assets	606	–	–	–	–	606
Reclassifications	–	–	–	(48)	–	(48)
At 1 October 2015	606	–	3,765	1,339	2,266	7,976
Disposals	–	–	(112)	(788)	(122)	(1,022)
Charge for the year	–	63	1,654	338	1,550	3,605
Reclassifications	–	–	216	(216)	–	–
Exchange differences	–	–	–	1	1	2
At 30 September 2016	**606**	**63**	**5,523**	**674**	**3,695**	**10,561**
Net book value						
At 30 September 2016	**20,752**	**3,540**	**7,306**	**743**	**6,606**	**38,947**
At 30 September 2015	16,677	–	4,150	2,008	5,898	28,733

The Company does not own any property, plant and equipment.

The impairment loss for the year ended 30 September 2015 on assets under the course of construction arose in connection with a change in use of manufacturing assets whereby the recoverable value of the assets did not exceed their carrying value.

The net book value of property, plant and equipment at 30 September 2016 includes £4.9 million in respect of assets held under finance leases (2015: £1.5 million). In addition, assets under the course of construction include £1.6 million of capitalised interest (2015: £1.0 million). Included in additions is £3.2 million of property, plant and equipment which is unpaid and is included in trade and other payables (2015: £1.4 million).

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

15. Inventories

	2016 £000s	2015 £000s
Raw materials	**252**	317
Work in progress	**3,226**	3,686
Finished goods	**770**	753
Total inventories, net of provision	**4,248**	4,756

Inventories with a carrying value of £2.2 million are considered to be recoverable after more than one year from the balance sheet date, but within the Group's normal operating cycle (2015: £2.7 million).

The provision for inventories relates to inventories expected to be utilised in the Group's R&D activities. The movement in the provision for inventories is as follows:

	2016 £000s	2015 £000s
Opening balance as at 1 October	**66**	351
Write-down of inventories	**129**	98
Write-off of inventories included in the provision	**(20)**	(318)
Reversal of write-down of inventories	**(57)**	(65)
Closing balance as at 30 September	**118**	66

The reversal of write-down is as a result of an increased level of production, reducing the level of work in progress expected to expire before use. Write-off of inventories previously provided for does not impact cash flow.

The Company did not own any inventory in the current or prior years.

16. Trade and Other Receivables

	Group		Company	
	2016 £000s	2015 £000s	2016 £000s	2015 £000s
Amounts falling due within one year				
Trade receivables	**778**	373	**–**	–
Prepayments and accrued income	**2,637**	1,544	**177**	193
Other receivables	**1,141**	956	**23,153**	32,391
	4,556	2,873	**23,330**	32,584

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

Trade receivables at 30 September 2016 represent 27 days of sales (2015: 5 days). The average trade receivable days during the year ended 30 September 2016 was 19 days (2015: 22 days). The credit period extended to customers is 30 to 60 days.

The trade receivables balance at 30 September 2016 consisted of balances due from four customers (2015: four customers) with the largest single customer representing 70% (2015: 46%) of the total amount due. The Group's customers consist of a small number of large pharmaceutical companies, where the risk attributable to each customer is considered to be low. The Group seeks to mitigate credit risk by seeking payments in advance from pharmaceutical partners for expenditure to be incurred on their behalf.

No interest is charged on trade receivables. No impairment losses were recognised during the year ended 30 September 2016 (2015: £nil).

The Directors consider that the carrying value of trade receivables approximates to their fair value due to the short maturity thereof.

17. Trade and Other Payables

	Group		Company	
	2016 £000s	2015 £000s	**2016 £000s**	2015 £000s
Amounts falling due within one year				
Other creditors and accruals	**15,899**	10,714	**521**	386
Clinical trial accruals	**9,503**	8,374	**–**	–
Trade payables	**3,433**	3,795	**52**	334
Fit out funding (see note 18)	**845**	348	**–**	–
Other taxation and social security	**1,490**	791	**7**	109
	31,170	24,022	**580**	829
Amounts falling due after one year				
Other creditors and accruals	**1,081**	–	**–**	–
Fit out funding (see note 18)	**8,342**	8,445	**–**	–
	9,423	8,445	**–**	–
	40,593	32,467	**580**	829

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

Trade payables at 30 September 2016 represent the equivalent of 14 days' purchases (2015: 17 days).

The average credit period taken for trade purchases during the year ended 30 September 2016 was 14 days (2015: 17 days).

For most suppliers, no interest is charged on invoices that are paid within a pre-agreed trade credit period. The Group has procedures in place to ensure that invoices are paid within agreed credit terms so as to ensure that interest charges by suppliers are minimised.

The Directors consider that the carrying value of trade payables approximates to their fair value due to the short maturity thereof.

Non-current other creditors and accruals relates entirely to the expected employer's payroll taxes payable on employee share options vesting more than one year after the financial year end.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

18. Fit Out Funding

On 19 November 2013 the Group entered into an agreement with its landlord to receive fit out funding of £7.8 million to fund the expansion and upgrades to manufacturing facilities. The funds were received in tranches, with the final amount received on 1 July 2014. The repayment of the borrowing takes the form of quarterly rental payments over a period of 15 years which commenced on 27 May 2016 when the Group entered into the associated lease of the building. As at 30 September 2016 associated interest of £1.6 million has been incurred (30 September 2015: £1.0 million). The total liability at 30 September 2016 is £9.2 million (30 September 2015: £8.8 million). The Group has estimated that £0.9 million of the total liability will be due within one year and the remaining £8.3 million is due after one year.

The liability in respect of the funding was initially recognised at the amount of proceeds received, net of transaction costs, and has been subsequently carried at amortised cost using the effective interest method and a rate of 7.0% (30 September 2015: 7.2%).

The following table details the Group's remaining contractual maturity for its borrowings and the related interest payments. The tables are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group could be required to pay. The table includes cash flows for both interest, based on the rate applicable as at 30 September 2016, and principal amounts:

Forward Projection of Cash Flows as at 30 September 2016	**<1 Year £000s**	**1–2 Years £000s**	**2–3 Years £000s**	**3–4 Years £000s**	**4–5 Years £000s**	**5+ years £000s**	**Total £000s**
Principal	845	389	417	446	479	6,611	9,187
Interest	603	576	548	519	486	2,480	5,212
Total	**1,448**	**965**	**965**	**965**	**965**	**9,091**	**14,399**

Forward Projection of Cash Flows as at 30 September 2015	<1 Year £000s	1–2 Years £000s	2–3 Years £000s	3–4 Years £000s	4–5 Years £000s	5+ years £000s	Total £000s
Principal	348	369	397	426	456	7,011	9,007
Interest	516	596	568	539	509	2,740	5,468
Total	864	965	965	965	965	9,751	14,475

19. Obligations Under Finance Leases

Group	Minimum Lease Payments 2016 £000s	2015 £000s
Amounts payable under finance leases:		
Within one year	**571**	176
In the second to fifth years inclusive	**2,223**	703
After five years	**6,511**	1,206
	9,305	2,085
Less: future finance charges	**(4,135)**	(434)
Present value of lease obligations	**5,170**	1,651

	Present Value of Lease Payments 2016 £000s	2015 £000s
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	**211**	111
Amounts due for settlement after 12 months	**4,959**	1,540
	5,170	1,651

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The weighted average lease term remaining is 17.1 years (2015: 12.1 years). For the year ended 30 September 2016, the average effective borrowing rate was 7.5% (2015: 4.0%). Interest rates are fixed at the contract date. All leases to date have been on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Pounds Sterling.

The carrying value of the Group's lease obligations as at 30 September 2016 approximates to their fair value.

The Group's obligations under finance leases are generally secured by the lessors' rights over the leased assets.

20. Deferred Revenue

	Group		Company	
	2016 £000s	2015 £000s	**2016 £000s**	2015 £000s
Amounts falling due within one year				
Deferred licence, collaboration and technical access fee income[1]	**1,451**	1,260	**–**	–
Advance R&D fees[2]	**1,236**	2,009	**–**	–
	2,687	3,269	**–**	–
Amounts falling due after one year				
Deferred licence, collaboration and technical access fee income[1]	**5,355**	6,725	**–**	–

1 Deferred revenue primarily relates to up-front licence fees received in 2005 of £12.0 million from Almirall S.A. (deferred revenue balance as at 30 September 2016: £3.5 million; 30 September 2015: £4.3 million) and collaboration and technical access fees from other Sativex licensees. Amounts deferred under each agreement will be recognised in revenue as disclosed in note 2.

2 Advance payments received represent payments for R&D activities to be recognised as revenue in future periods as the services are rendered.

21. Financial Instruments

The Group manages its capital to ensure that entities in the Group will be able to continue operating as a going concern while maximising shareholder returns. The Group's overall strategy remains unchanged from 2015.

Group senior management are responsible for monitoring and managing the financial risks relating to the operations of the Group, which include credit risk, market risks arising from interest rate risk and currency risk, and liquidity risk. The Board of Directors and the audit committee review and approve the internal policies for managing each of these risks, as summarised below. The Group is not subject to any externally imposed capital requirements.

The Group's financial instruments, as at 30 September, are summarised below:

Categories of Financial Instruments

	2016 £000s	2015 £000s
Financial assets – loans and receivables		
Cash and cash equivalents	**374,392**	234,872
Trade receivables – at amortised cost	**778**	373
Other receivables	**385**	248
Total financial assets	**375,555**	235,493
Financial liabilities – amortised cost		
Other creditors and accruals	**12,401**	10,426
Clinical trial accruals	**9,503**	8,374
Trade payables	**3,433**	3,795
Fit out funding	**9,187**	8,793
Obligations under finance leases	**5,170**	1,651
Total financial liabilities	**39,694**	33,039

All financial assets and financial liabilities, other than the non-current element of £5.0 million in respect of the obligations under finance leases (2015: £1.5 million) and £8.3 million (2015: £8.4 million) of fit out funding received from the Group's landlord, are current in nature. In all instances, the Directors consider that the carrying value of financial assets and financial liabilities approximates to their fair value.

It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

21. Financial Instruments continued

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy counterparties, principally involving the major UK clearing banks and their wholly owned subsidiaries, when placing cash on deposit. In addition the Group operates a treasury policy that dictates the maximum cash balance that may be placed on deposit with any single institution or group. This policy is reviewed and approved by the audit committee and the Board of Directors.

Trade receivables represent amounts due from customers for the sale of commercial product and research funding from development partners, consisting primarily of a small number of major pharmaceutical companies where the credit risk is considered to be low. The Group seeks to minimise credit risk by offering only 30 days credit to new commercial customers and by requesting payment in advance from its development partners for the majority of its research activities.

At the balance sheet date the maximum credit risk attributable to any individual counterparty was £244.0 million (2015: £113.2 million) which is held by HSBC.

The carrying amount of the financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Market Risk

The Group's activities expose it primarily to financial risks of changes in interest rates and foreign currency exchange rates. These risks are managed by maintaining an appropriate mix of cash deposits in various currencies, placed with a variety of financial institutions for varying periods according to the Group's expected liquidity requirements. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures risk.

i) Interest Rate Risk

The Group is exposed to interest rate risk as it places surplus cash funds on deposit to earn interest income. The Group seeks to ensure that it secures the best commercially available interest rates from those banks that meet the Group's stringent counterparty credit rating criteria. In doing so, the Group manages the term of cash deposits, up to a maximum of 90 days, in order to maximise interest earnings while also ensuring that it maintains sufficient readily available cash in order to meet short-term liquidity needs.

Interest income of £0.4 million (2015: £0.2 million; 2014: £0.1 million) during the year ended 30 September 2016 was earned from deposits with a weighted average interest rate of 0.36% (2015: 0.24%; 2014: 0.54%). Therefore, a 100 basis point increase in interest rates would have increased interest income, and reduced the loss for the year, by £1.2 million (2015: reduced loss by £1.0 million; 2014: reduced loss by £0.5 million).

The Group does not have any balance sheet exposure to assets or liabilities which would increase or decrease in fair value with changes to interest rates.

ii) Currency Risk

The functional currency of the Company, and each of its subsidiaries apart from Greenwich Biosciences, Inc. (formerly GW Pharmaceuticals Inc.), is Pounds Sterling and the majority of transactions in the Group are denominated in that currency. The functional currency of Greenwich Biosciences, Inc. is US Dollars ("US$"). The Group receives revenues and incurs expenditures in foreign currencies and is exposed to the risks of foreign exchange rate movements, with the impact recognised in the consolidated income statement. The Group seeks to minimise this exposure by passively maintaining foreign currency cash balances at levels appropriate to meet foreseeable foreign currency expenditures, converting surplus foreign currency balances into Pounds Sterling as soon as they arise. The Group does not use derivative contracts to manage exchange rate exposure.

The table below shows analysis of the Pounds Sterling equivalent of year-end cash and cash equivalent balances by currency:

	2016 £000s	2015 £000s
Cash at bank and in hand:		
Pounds Sterling	**73,277**	18,756
Euro	**1,582**	2,070
US Dollar	**169,738**	98,417
Canadian Dollar	**448**	804
Total	**245,045**	120,047
Short-term deposits (less than 30 days):		
Pounds Sterling	**31,564**	31,516
US Dollar	**97,783**	83,309
Total cash and cash equivalents	**374,392**	234,872

The table below shows those transactional exposures that give rise to net currency gains and losses recognised in the consolidated income statement. Such exposures comprise the net monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the relevant Group entity. As at 30 September these exposures were as follows:

Net Foreign Currency Assets/(Liabilities)

	2016 £000s	2015 £000s
US Dollar	**263,094**	177,797
Euro	**1,665**	768
Canadian Dollar	**649**	953
Other	**(38)**	(55)
	265,370	179,463

Foreign Currency Sensitivity Analysis

The most significant currencies in which the Group transacts, other than Pounds Sterling, are the US Dollar, the Euro and the Canadian Dollar. The Group also trades in other currencies in small amounts as necessary. The Group's sensitivity to foreign currency has increased during the current period primarily due to the issuance of 38.6 million new shares on NASDAQ (see note 22).

The following table details the Group's sensitivity to a 10% change in the year-end rate, which the Group feels is the maximum likely change in rate based upon recent currency movements, in the key foreign currency exchange rates against Pounds Sterling:

Year Ended 30 September 2016	Euro £000s	US Dollar £000s	Canadian Dollar £000s	Other £000s
Loss before tax	**167**	**26,309**	**65**	**(4)**
Equity	**167**	**26,309**	**65**	**(4)**

Year Ended 30 September 2015	Euro £000s	US Dollar £000s	Canadian Dollar £000s	Other £000s
Loss before tax	77	17,780	95	(6)
Equity	77	17,780	95	(6)

Year Ended 30 September 2014	Euro £000s	US Dollar £000s	Canadian Dollar £000s	Other £000s
Loss before tax	141	10,095	31	(3)
Equity	141	10,095	31	(3)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

21. Financial Instruments continued

Liquidity Risk

Responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework to enable the monitoring and management of short, medium and long-term cash requirements of the business.

The Board of Directors actively monitors Group cash flows and regularly reviews projections of future cash requirements to ensure that appropriate levels of liquidity are maintained. The Group manages its short-term liquidity primarily by planning the maturity dates of cash deposits in order to time the availability of funds as liabilities fall due for payment. The Group does not maintain any borrowing facilities.

Cash deposits, classified as cash and cash equivalents on the balance sheet, comprise deposits placed on money markets for periods of up to three months and on call. The weighted average time for which the rate was fixed was 32 days (2015: 32 days).

All of the Group's financial liabilities at each balance sheet date have maturity dates of less than 12 months from the balance sheet date, other than the £5.0 million in respect of the obligations under finance leases (2015: £1.5 million) and £8.3 million (2015: £8.4 million) of fit out funding received from the Group's landlord. The obligations under finance leases will be repaid over a weighted average 17.1 year term (2015: 12.1 year term) and the fit out funding received is being repaid over a 15-year finance term of which repayments commenced during the year. There have been no material changes to the Group's exposure to liquidity risks or the manner in which it manages and measures liquidity risk.

22. Share Capital

As at 30 September 2016 the share capital of the Company's allotted, called-up and fully paid amounts were as follows:

	2016 £000s	2015 £000s
Allotted, called-up and fully paid	**302**	261

Changes to the number of ordinary shares in issue have been as follows:

	Number of Shares	Total Nominal Value £000s	Total Share Premium £000s	Total Consideration £000s
As at 1 October 2014	236,646,895	237	220,551	220,788
Issue of new shares (net of issuance costs)	22,093,601	22	127,541	127,563
Exercise of share options	2,439,677	2	1,183	1,185
As at 1 October 2015	261,180,173	261	349,275	349,536
Issue of new shares (net of issuance costs)	38,640,000	39	206,512	206,551
Exercise of share options	2,272,966	2	690	692
As at 30 September 2016	**302,093,139**	**302**	**556,477**	**556,779**

In July 2016, the Group completed an equity financing, issuing 38,640,000 ordinary shares in the form of American Depositary Shares ("ADSs") listed on the NASDAQ Global market, raising net proceeds after expenses of $273.1 million (£206.6 million). This took the form of 3,220,000 ADSs at a price to the public of $90.00 per ADS. Each ADS represents 12 ordinary shares of 0.1p each in the capital of the Company.

In May 2015, the Group completed an equity financing, issuing 22,080,000 ordinary shares in the form of ADSs listed on the NASDAQ Global market, raising net proceeds after expenses of $193.3 million (£127.5 million). This took the form of 1,840,000 ADSs at a price to the public of $112.00 per ADS. Each ADS represents 12 ordinary shares of 0.1p each in the capital of the Company.

The Company has one class of ordinary shares which carry no right to fixed income.

23. Share-based Payments

Equity-settled Share Option Schemes

The Company operates various equity-settled share option schemes for employees of the Group. All options granted under these schemes are exercisable at the share price on the date of the grant, with the exception of certain options issued under the GW Pharmaceuticals Long Term Incentive Plan ("LTIP") which are issued with an exercise price equivalent to the par value of the shares under option. The vesting period for all options granted range between one and four years from the date of grant and options lapse after six months to seven years from the vesting date. Options generally also lapse if the employee leaves the Group before the options vest. However, at the discretion of the remuneration committee, under the "Good Leaver" provisions of the various share option scheme rules, employees may be allowed to retain some or all of the share options upon ceasing employment by the Group. Vested options usually need to be exercised within six months of leaving.

In the year ended 30 September 2016, two employees designated as "Good Leavers" were permitted to retain options over 4,807 shares upon ceasing employment. Also during the year ended 30 September 2016, 90,000 non-director LTIP share options were replaced and accounted for as a modification of terms per the provisions of IFRS 2 Share-based Payment. This led to the recognition of an incremental fair value charge of £0.4 million, calculated using the Black-Scholes share option pricing model, which arises due to increases in the underlying share price since the initial options were granted.

LTIP awards granted to employees (excluding Executive Directors) are subject to service and non-market-based performance conditions which must be achieved before the options vest and become exercisable. LTIP awards granted to Executive Directors are subject to service and performance conditions which are determined by the remuneration committee. These are usually a mixture of market-based and non-market-based performance conditions which are intended to link executive compensation to the key value drivers for the business whilst aligning the interests of the Executive Directors with those of shareholders and employees. In the event that the performance conditions (non-market and market) are not achieved within the required vesting period, the options lapse.

2013 Awards

In the year ended 30 September 2013, all awards granted were LTIP awards.

The 2013 LTIP awards are subject to performance conditions whereby 100% of the awards vest on the third anniversary of the date of the grant if the ADS price has increased by 75% or more during the three-year vesting period ended 24 September 2016. 25% of the awards vests if 25% growth is achieved, with a straight-line basis of calculation being used to calculate the number of options vesting between these two extremes. No options vest if the share price growth is below 25% over the three-year vesting period.

The 2013 LTIP awards are subject to a service condition whereby the awards vest on the third anniversary of the date of the grant if the holders remain in employment, subject to the performance conditions above.

2014 Awards

In the year ended 30 September 2014, all awards granted were LTIP awards.

The 2014 LTIP awards are subject to a service condition whereby 100% of the awards vest on the third anniversary of the date of the grant if the holders remain in employment.

2015 Awards

In the year ended 30 September 2015, all awards granted were LTIP awards.

The 2015 LTIP awards are subject to performance conditions, whereby:

- 25% of the awards are in the form of market-priced options, whereby the options have an exercise price equivalent to the market price at market close on the day prior to grant ($127.26 per ADS, equivalent to 671p per ordinary share). These options become exercisable on the third anniversary of the date of grant. Future gains upon exercise of these options will be linked to the extent of share price growth over the vesting period.
- 50% of the awards are in the form of performance stock options, whereby the options will vest upon the third anniversary of the date of grant subject to certain corporate performance conditions having been achieved. In this case, vesting of half of the performance stock options will occur upon receipt from the Food and Drug Administration ("FDA")of their confirmation of acceptance of an Epidiolex New Drug Application ("NDA") filing and half will vest upon the FDA grant of Epidiolex regulatory approval.
- 25% of the awards are in the form of restricted stock options whereby these options are subject to a four-year service condition and vesting period. 25% of the options will vest on each anniversary of the date of grant over the next four years.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

23. Share-based Payments continued

2016 Awards

In the year ended 30 September 2016, all awards granted were LTIP awards.

The 2016 LTIP awards are subject to performance conditions, whereby:

- 25% of the awards are in the form of market-priced options, whereby the options have an exercise price equivalent to the market price at market close on the day prior to grant ($44.64 per ADS, equivalent to 257p per ordinary share). These options become exercisable on the third anniversary of the date of grant. Future gains upon exercise of these options will be linked to the extent of share price growth over the vesting period.
- 50% of the awards are in the form of performance stock options, whereby the options will vest upon the third anniversary of the date of grant subject to certain corporate performance conditions having been achieved. In this case, vesting of half of the performance stock options will occur upon receipt from the FDA of their confirmation of acceptance of an Epidiolex NDA filing and half will vest upon the FDA grant of Epidiolex regulatory approval.
- 25% of the awards are in the form of restricted stock options whereby these options are subject to a four-year service condition and vesting period. 25% of the options will vest on each anniversary of the date of grant over the next four years.

The number of outstanding options under each scheme can be summarised as follows:

	30 September 2016 Number of Share Options	30 September 2015 Number of Share Options
Employee share option schemes	**107,542**	770,936
Employee LTIP awards	**10,525,630**	7,660,564
Options outstanding	**10,633,172**	8,431,500

The movement in share options in each scheme during the year can be summarised as follows:

	Employee Options		Employee LTIP		Consultant Options		Total Options	
	Number of Share Options	Weighted Average Exercise Price £	Number of Share Options	Weighted Average Exercise Price £	Number of Share Options	Weighted Average Exercise Price £	Number of Share Options	Weighted Average Exercise Price £
Outstanding at 1 October 2014	1,868,699	0.98	7,471,320	0.001	104,806	1.27	9,444,825	0.21
Granted during the year	–	–	2,009,231	1.09	–	–	2,009,231	1.09
Exercised during the year	(1,097,763)	0.96	(1,237,108)	0.001	(104,806)	1.27	(2,439,677)	0.49
Lapsed during the year	–	–	(582,879)	0.001	–	–	(582,879)	0.001
Outstanding at 1 October 2015	770,936	1.02	7,660,564	0.29	–	–	8,431,500	0.35
Granted during the year	–	–	4,767,106	0.60	–	–	4,767,106	0.60
Exercised during the year	(663,394)	1.04	(1,609,572)	0.001	–	–	(2,272,966)	0.305
Lapsed during the year	–	–	(292,468)	0.001	–	–	(292,468)	0.001
Outstanding at 30 September 2016	**107,542**	**0.868**	**10,525,630**	**0.482**	**–**	**–**	**10,633,172**	**0.61**

Share options outstanding at 30 September 2016 can be summarised as follows:

	Employee Options		Employee LTIP		Consultant Options		Total Options	
	Number of Share Options	Weighted Average Remaining Contractual Life/Years	Number of Share Options	Weighted Average Remaining Contractual Life/Years	Number of Share Options	Weighted Average Remaining Contractual Life/Years	Number of Share Options	Weighted Average Remaining Contractual Life/Years
£0.00–£0.50	4,000	1.97	9,182,071	6.26	–	–	9,186,071	6.25
£0.51–£1.00	103,542	0.59	–	–	–	–	103,542	0.59
£1.00+	–	–	1,343,559	7.24	–	–	1,343,559	7.24
Outstanding at 30 September 2016	**107,542**	**0.64**	**10,525,630**	**6.38**	**–**	**–**	**10,633,172**	**6.32**
Exercisable at 30 September 2016	107,542	0.64	3,057,821	6.12	–	–	3,165,363	5.93

Share options outstanding at 30 September 2015 can be summarised as follows:

	Employee Options		Employee LTIP		Consultant Options		Total Options	
	Number of Share Options	Weighted Average Remaining Contractual Life/Years	Number of Share Options	Weighted Average Remaining Contractual Life/Years	Number of Share Options	Weighted Average Remaining Contractual Life/Years	Number of Share Options	Weighted Average Remaining Contractual Life/Years
£0.00–£0.50	4,000	2.97	7,333,940	6.95	–	–	7,337,940	6.95
£0.51–£1.00	547,812	1.52	–	–	–	–	547,812	1.52
£1.01–£1.50	219,124	0.36	–	–	–	–	219,124	0.36
£1.51+	–	–	326,624	9.74	–	–	326,624	9.74
Outstanding at 30 September 2015	770,936	1.20	7,660,564	7.07	–	–	8,431,500	6.53
Exercisable at 30 September 2015	770,936	1.20	2,207,875	4.98	–	–	2,978,811	4.00

Charges for share-based payments have been allocated to the R&D expenditure and sales, general and administrative expenses in the consolidated income statements as follows:

	2016 £000s	2015 £000s	2014 £000s
R&D expenditure	**4,119**	1,525	775
Sales, general and administrative expenses	**4,033**	953	463
	8,152	2,478	1,238

In the year ended 30 September 2016, options were granted on 29 December 2015, 15 January 2016, 15 February 2016, 18 March 2016, 14 April 2016, 12 May 2016, 9 June 2016 and 26 August 2016. The aggregate of the estimated fair values of the options granted on those dates is £12.7 million and the weighted average fair value of the awards made during 2016 was £2.66 per option.

In the year ended 30 September 2015, options were granted on 24 December 2014, 9 January 2015, 25 February 2015, 20 March 2015, 9 April 2015, 6 May 2015, 24 June 2015 and 22 September 2015. The aggregate of the estimated fair values of the options granted on those dates is £10.6 million and the weighted average fair value of the awards made during 2015 was £5.30 per option.

Fair values were calculated using the Black-Scholes share option pricing model for grants with non-market-based performance conditions. The Monte Carlo share option pricing model has been used for grants with market-based performance conditions. The following weighted average assumptions were used in calculating these fair values:

	2016 £000s	2015 £000s	2014 £000s
Weighted average share price	**298p**	579p	303p
Weighted average exercise price	**60p**	109p	0.1p
Expected volatility	**58%**	59%	58%
Expected life	**3.3 years**	3.6 years	5.0 years
Risk-free rate	**1.09%**	1.32%	0.5%
Expected dividend yield	**Nil**	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, performance conditions and behavioural considerations.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

24. Other Reserves

Other reserves of £19.5 million (30 September 2015: £19.2 million) relate to a £19.3 million merger reserve (30 September 2015: £19.3 million) and a £0.2 million credit relating to exchange difference on translation of foreign operations (30 September 2015: debit £0.1 million). The merger reserve was created as a result of the acquisition by the Company of the entire issued share capital of GW Pharma Limited in 2001. This acquisition was effected by a share-for-share exchange which was merger accounted under UK Generally Accepted Accounting Practice ("UK GAAP"), in accordance with the merger relief provisions of section 131 of the Companies Act 1985 (as amended) relating to the accounting for business combinations involving the issue of shares at a premium. In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded in a merger reserve on consolidation, rather than in a share premium account. The merger reserve was retained upon transition to IFRSs, as allowed under UK law. This reserve is not considered to be distributable.

ESOP Reserve

The Group's "ESOP" is an Inland Revenue-approved all employee share scheme constituted under a trust deed. The trust holds shares in the Company for the benefit of and as an incentive for the employees of the Group. The trustee of the ESOP is GWP Trustee Company Limited, a wholly owned subsidiary of the Company. Costs incurred by the trust are expensed in the Group's financial statements as incurred. Distributions from the trust are made in accordance with the scheme rules and on the recommendation of the Board of Directors of the Company.

Shares held in trust represent issued and fully paid up 0.1p ordinary shares and remain eligible to receive dividends. The shares held by the ESOP were originally acquired in 2000 for nil consideration by way of a gift from a shareholder and hence the balance on the ESOP reserve is nil (2015: nil).

As at 30 September the ESOP held the following shares:

	2016 Number	2015 Number
Unconditionally vested in employees	**90,043**	115,352
Shares available for future distribution to employees	**33,054**	33,054
Total	**123,097**	148,406

The valuation methodology used to compute the share-based payment charge related to the ESOP is based on fair value at the grant date, which is determined by the application of a Black-Scholes share option pricing model. The assumptions underlying the Black-Scholes model for the ESOP shares are as detailed in note 23 relating to the LTIP awards. The exercise price for shares granted under the ESOP is nil, and the vesting conditions include employment by the Group over a three-year vesting period from the date of grant. The share-based payment charge for shares granted under the ESOP plan amounted to £nil in the year ended 30 September 2016 (2015: £nil).

As at 30 September 2016 the number and market value of shares held by the trust which have not yet unconditionally vested in employees is 33,054 (2015: 33,054) and £0.3 million (2015: £0.2 million) respectively.

25. Financial Commitments

The Group had capital commitments for property, plant and equipment contracted but not provided for at 30 September 2016 of £5.1 million (2015: £0.7 million). Included within the commitment for the year ended 30 September 2016 is £4.0 million of property, plant and equipment associated with the commercial growing agreement explained further below.

At the balance sheet date the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2016 £000s	2015 £000s	**2016 £000s**	2015 £000s
Within one year	**2,723**	1,642	**–**	–
Between two and five years	**8,117**	4,600	**–**	–
After five years	**2,198**	1,982	**–**	–
	13,038	8,224	**–**	–

The minimum lease payments payable under operating leases recognised as an expense in the year were £2.4 million (2015: £1.5 million).

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Manufacturing and laboratory facilities are subject to 5 to 15-year leases, some of which have a lease break three years prior to the conclusion of the lease at the Group's option. Office properties are subject to 1 to 10-year leases.

During the year ended 30 September 2016, the Group signed a commercial growing agreement with an external supplier to produce plant material for use in the Epidiolex development programmes and commercial release. This agreement commences during Q2 2017 and includes multiple fee-elements designed to incentivise cost efficient, reliable production volumes of raw materials for use in research, development and commercial activities.

As part of the accounting treatment for this agreement a component operating lease has been identified under the requirements of IFRIC 4 Determining Whether an Arrangement Contains a Lease. Rental payments commence during Q2 2017 and continue over a five-year non-cancellable period. Future minimum lease payments associated with this operating lease are included in the table shown above.

Other gross payments associated with this agreement, excluding operating lease rentals and capital commitments outlined above, fall due as follows:

	Group		Company	
	2016 £000s	2015 £000s	**2016 £000s**	2015 £000s
Within one year	**6,755**	–	**–**	–
Between two and five years	**36,667**	–	**–**	–
After five years	**2,248**	–	**–**	–
	45,670	–	**–**	–

26. Contingent Liabilities

As at 30 September 2016 certain fees associated with capital expenditure have been estimated. The final fees payable are to be agreed and paid once agreement is reached, which is expected during Q2 2017. The Group estimates that there is a possible contingent liability for incremental fees of up to £0.4 million of capital expenditure.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September

27. Related Party Transactions

Remuneration of Key Management Personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related party disclosures.

	2016 £000s	2015 £000s	2014 £000s
Short-term employee benefits	**2,523**	2,395	2,688
Post-employment benefits	**215**	211	203
Share-based payments	**4,556**	1,164	666
	7,294	3,770	3,557

Other Related Party Transactions

Group

The Group purchased various regulatory support services from Icon Clinical Research Limited and Icon Clinical Research (UK) Limited, which are part of Icon plc. Tom Lynch, a non-executive Director of the Group, acted as Chairman for Icon plc up to 29 March 2016. These services were at a cost of £2,044 (2015: £12,762; 2014: £12,166). As at 30 September 2016 there was £nil due in relation to these amounts (2015: £nil; 2014: £2,799).

The Group paid £138 (2015: £263; 2014: £3,441) under a consultancy agreement for medical writing services to Kathryn Wright, wife of the Group's Chief Medical Officer Stephen Wright. As at 30 September 2016 there was no amount due to Kathryn Wright (2015 and 2014: £nil).

The Group paid £47 (2015 and 2014: £nil) to Adaptimmune Ltd in relation to travel expenses incurred by James Noble, a non-executive Director of the Group, who also acts as Chief Executive Officer for Adaptimmune Ltd. As at 30 September 2016 there was no amount due to Adaptimmune Ltd (2015 and 2014: £nil).

All fees outlined above were paid on an arms-length basis and were carried out in accordance with the Group's policy regarding related party transactions.

As part of the consideration of the vesting of the September 2013 LTIP award, the remuneration committee has agreed to indemnify Justin Gover for the incremental US taxation that he is likely to suffer on the gain arising from these LTIP options as a result of having relocated to the US at the Company's request during the vesting period for this award. As at 30 September 2016 this liability is estimated as $1.2 million, and is expected to payable when the option gain is crystallised by sale of the resulting shares, expected in late 2016/early 2017.

Company

During 2016, the Company advanced funds to GW Research Limited, in order to fund Group pipeline R&D activities. This took the form of a long-term loan, bearing interest at 5% per annum. The balance due to the Company at 30 September 2016 was £213.9 million (2015: £115.7 million). As a long-term loan, this has been disclosed within the Company balance sheet as an investment – see note 28.

At 30 September 2016, the amount due from GW Pharma Limited to the Company was £23.1 million (2015: £32.3 million).

At 30 September 2016, the amount due from Greenwich Biosciences, Inc. (formerly GW Pharmaceuticals Inc.) to the Company was £nil (2015: £1.3 million).

28. Investments

Group Investments

Company	Investments £000s	Loans to Group Undertakings £000s	Total £000s
At 1 October 2014	80,358	58,782	139,140
Capital contribution in respect of share-based payment charge	2,478	–	2,478
Additional funds advanced during year	–	58,235	58,235
At 1 October 2015	82,836	117,017	199,853
Capital contribution in respect of share-based payment charge	8,152	–	8,152
Additional funds advanced during year	–	97,022	97,022
At 30 September 2016	**90,988**	**214,039**	**305,027**

The Company has investments in the following subsidiary undertakings:

Name of Undertaking	Country of Registration	Activity	Percentage Holding
Direct ownership:			
GW Pharma Limited	England and Wales	R&D	100
GW Research Limited	England and Wales	R&D	100
Greenwich Biosciences Inc. (formerly GW Pharmaceuticals Inc.)	United States of America	Pharmaceutical development services	100
Indirect ownership:			
GWP Trustee Company Limited	England and Wales	Employee share ownership	100
Cannabinoid Research Institute Limited	England and Wales	Dormant	100
Guernsey Pharmaceuticals Limited	Guernsey	Dormant	100
G-Pharm Limited	England and Wales	Dormant	100

All the subsidiary undertakings are included in the consolidated accounts.

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Cautionary statement:
This annual report release contains forward-looking statements that reflect GW's current expectations regarding future events, including statements regarding financial performance, the timing of clinical trials, the relevance of GW products commercially available and in development, the clinical benefits of Sativex® and Epidiolex® and the safety profile and commercial potential of Sativex and Epidiolex. Forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected in this news release and depend on a number of factors, including (inter alia), the success of GW's research strategies, the applicability of the discoveries made therein, the successful and timely completion of uncertainties related to the regulatory process, and the acceptance of Sativex, Epidiolex and other products by consumer and medical professionals. A further list and description of risks and uncertainties associated with an investment in GW can be found in GW's filings with the US Securities and Exchange Commission. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. GW undertakes no obligation to update or revise the information contained in this press release, whether as a result of new information, future events or circumstances or otherwise.

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