



GW Pharmaceuticals plc

**Annual Report & Accounts
2010**

Contents

01	Chairman's Statement
02	Managing Director's Review
06	Finance Director's Review
08	Board of Directors
10	Directors' Report
14	Chairman's Corporate Governance Report
18	Directors' Remuneration Report
23	Statement of Directors' Responsibilities
24	Independent Auditors' Report
26	Consolidated Income Statement
27	Statements of Changes in Equity
28	Balance Sheets
29	Cash Flow Statements
30	Notes to the Financial Statements
52	Advisers

Cautionary statement:

This annual report contains forward-looking statements that reflect GW's current expectations regarding future events, including development and regulatory clearance of GW's products. Forward-looking statements involve risks and uncertainties. Actual results and events could differ materially from those projected herein 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® and other products by consumer and medical professionals. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this annual report should be construed as a profit forecast.

Business Review

Chairman's Statement



“We believe that recent successes with Sativex provide validation of GW’s cannabinoid technology platform.”

Dr Geoffrey W Guy
Executive Chairman

This has been a landmark year for GW. We have reported a strong rise in revenues and profits, gained our first major approvals in Europe for Sativex[®], and advanced this innovative medicine into Phase III development in cancer pain.

At the same time we have enhanced our longer term prospects through the extension of our research collaboration with Otsuka and generation of exciting data in our earlier stage pipeline.

GW was founded to research and develop plant derived cannabinoid medicines. The UK approval and launch of Sativex is a world first for this new class of medicines and the product of eleven years’ research by GW into the cannabinoid system. As such, the launch of Sativex represented both a welcome advance in MS symptom treatment and a significant achievement for GW and its scientific team.

The UK launch represents the start of a planned global commercialisation plan for Sativex. In the next few years, we will be working to achieve approvals and launches of this medicine across many regions of the world. We will also be looking to extend the use of Sativex into cancer pain and potentially other clinical indications.

We believe that recent successes with Sativex provide validation of GW’s cannabinoid technology platform. The potential of this pipeline is clearly demonstrated by the agreement announced this year with Otsuka to extend their cannabinoid research collaboration with GW for a further three years and to increase their investment in GW’s research programmes. GW’s extensive research into the pharmacology of cannabinoids continues to yield highly promising data and new intellectual property across a range of therapeutic areas. With a world leading position in cannabinoid science, a promising pipeline, partnership track record, and a prudent financial model focused on revenue growth and partner funded R&D, we believe that GW has the assets and capability to create further valuable product opportunities.

GW therefore intends to continue to pursue a strategy which focuses on maximising the commercial potential of Sativex through global commercialisation and expansion of approved indications, as well as leveraging the Company’s cannabinoid platform to expand, advance and partner the pipeline.

During the year, we were pleased to welcome Thomas Lynch as a non-executive Director. Tom has been a prominent member of the European biotech sector for many years and is one of a small select number of European executives to have direct experience in managing the transformation of a development stage biotech company into a prominent commercial-stage pharmaceutical business.

Tom replaced Hans Schram, who retired as a non-executive Director after seven years. We are all most grateful to him for his important contribution to the Company.

I should also like to take this opportunity to thank all our staff and network of scientific collaborators. The achievements of this year have only been possible as a result of their expertise and dedication to our research efforts.

With an approved lead product, exciting cannabinoid pipeline, strong partnerships, and healthy financial position, we are excited about the Company’s prospects for the future and I look forward to reporting our progress to you next year

Dr Geoffrey W Guy
Executive Chairman
22 November 2010

Business Review

Managing Director's Review



“This year’s achievements provide GW with the opportunity to continue to build a dynamic and successful biopharmaceutical business.”

Justin Gover
Managing Director

This year has seen the first major approvals and commercial launch of Sativex as well as significant progress with the earlier stage cannabinoid pipeline.

Sativex is now being marketed in the UK as a treatment for Multiple Sclerosis (MS) Spasticity and this indication is also now approved in Spain, Canada and New Zealand, with the launch in Spain due in the very near term. Regulatory filings are now under way to expand the approval into other European markets and GW is also planning additional submissions in several other parts of the world in the near future.

Separately, the development of Sativex as a treatment for cancer pain made a significant advance with the reporting of positive data from a 360 patient Phase IIb trial. The Phase III clinical programme in this indication has just commenced and includes two Phase III trials. This programme represents the initial target indication for Sativex in the United States and is fully funded by our US marketing partner, Otsuka Pharmaceutical Co. Ltd.

We believe that the recent successes with Sativex provide validation of GW’s cannabinoid technology platform. This is further evidenced by the agreement announced this year with Otsuka to extend their cannabinoid research collaboration with GW for a further three years and to increase their investment in the development of GW’s pipeline.

GW is in excellent financial health and the Company’s prospects are strong. This year’s achievements provide GW with the opportunity to continue to build a dynamic and successful biopharmaceutical business. The Company’s strategy is not only to maximise the Sativex business opportunity in terms of geographic expansion and clinical indications, but also to leverage its world leading cannabinoid platform to develop and out-license several

new cannabinoid drug candidates in the coming years. With an approved lead product, exciting cannabinoid pipeline, strong partnerships, and healthy financial position, we believe we are well positioned for growth and are excited about the Company’s future.

SATIVEX IN MS SPASTICITY Regulatory Strategy

In Europe, regulatory approval for Sativex in the UK and Spain for the indication of MS spasticity has now been achieved and marketing authorisation is now being sought in other major European countries via the Mutual Recognition Procedure (MRP). The first MRP filing was made in July 2010 with the objective of obtaining approval in other European markets – the validation phase of this filing is now taking place and the final country list will be determined at the end of this step. This MRP process is expected to be completed around mid 2011 and the first launch is expected in Germany shortly thereafter. Following this, GW intends to file an additional MRP application to broaden the approval into further European countries.

Beyond Europe, Sativex has recently received full regulatory approval in Canada and New Zealand. With this positive regulatory track record, there are a large number of other territories around the world for which the existing approvals provide an excellent basis for a regulatory submission. Of additional note is that Sativex has now been exported to 28 countries either on a named patient prescription basis or in clinical trials. GW therefore expects to make regulatory filings in several other countries over the next year in parallel with putting into place distribution partners for these countries/regions. A filing is already under way in Israel in collaboration

with Neopharm, Israel's largest domestic pharmaceutical company.

UK Launch

Sativex was launched in the UK at the end of June by GW's UK marketing partner, Bayer Schering Pharma. Bayer already has a leading position in the field of MS disease modifying treatments, established through its Betaferon® product, and is therefore able to take advantage of its close relationships with key opinion leaders and patient organisations in the MS field. Bayer has in place eight MS specialist sales persons targeting the 85 MS centres in the UK and these individuals are responsible for the Sativex sales effort.

Bayer's launch campaign has focused on maximising opinion leader support for Sativex amongst senior MS specialists, hosting in-depth meetings around the UK for prescribers, marketing campaigns in relevant medical journals, and visits to MS centres across the country. Initial market response to the launch of Sativex has been positive and both GW and Bayer are pleased with initial prescription rates and clinician feedback. Sativex is also receiving strong support from the UK's two leading MS patient organisations, the MS Society and the MS Trust.

Prior to commercial launch, Sativex had been available in the UK on named patient prescription since January 2006 and annual in-market sales had reached a peak of approximately £900,000 in the year prior to launch. In the first four months since launch, in-market sales have already reached £900,000 and the rate of new patients starting Sativex treatment has increased fourfold. Perhaps more importantly, there is widespread clinician support for Sativex in meeting patients' unmet needs in MS spasticity.

As with all newly approved innovative branded treatments in the UK, the market access environment has become more challenging in recent years. Bayer Schering employs

a dedicated market access team to focus on efforts to secure NHS funding for its treatments since the Primary Care Trusts (PCTs) which are responsible for funding decisions often present hurdles which need to be overcome. In this respect, the UK market environment is one now characterised by steady growth rather than rapid market uptake. We expect Sativex to follow this established industry pattern.

Bayer's commercial plan for Sativex in the UK is tailored to this market circumstance. Their strategy focuses on key MS centres and specialists and aims to secure access for the Sativex target patient population. In targeting this patient group, obtaining wholesale 'formulary' acceptance by PCT's, or endorsement from the Wales or Scotland national recommendation bodies is not core to the strategy since there are alternative means to gain NHS reimbursement for this patient population, such as the exceptional use route in which individual patient circumstances are considered.

Since launch, Sativex has been prescribed in approximately 85% of English PCT regions. It is not yet known whether Sativex will be reviewed as part of a Health Technology Appraisal by the National Institute for Clinical Excellence (NICE) or whether it will be reviewed as part of the NICE MS Treatment Guidelines which are due to start to be revised early next year. A draft scoping document is to be issued by NICE in order to consult stakeholders on this matter.

Bayer's marketing plan for 2011 aims to build on the positive initial market response by continuing to focus efforts on working together with specialist prescribers and PCTs to facilitate appropriate access to patients for whom Sativex may offer a valuable treatment option.

European Launch Preparation

The UK represents just the start of a planned European roll-out for Sativex. The market opportunity in

continental Europe is significant with over 400,000 people with MS, compared with 100,000 in the UK. In all European countries except the UK, Sativex will be marketed by Almirall S.A.

Sativex has also now received regulatory approval in Spain and is awaiting pricing/reimbursement approval. The latter is required in Spain prior to commercial launch. GW's European partner, Almirall, expects pricing approval prior to the end of 2010 with commercial launch to follow shortly thereafter in the new year.

The Sativex launch team at Almirall benefits from Almirall's position as Spain's largest domestic pharmaceutical company. Almirall's last reported annual sales in Spain exceeded €530m. Almirall has a dedicated central European brand and marketing team for Sativex as well as a local team for each individual country, including Spain. As with Bayer, GW has a close working relationship with all relevant functions within Almirall as we work together towards launch in Spain and thereafter in the rest of Europe.

As mentioned above, we are currently seeking approvals via the MRP process in other European markets and expect an outcome in mid 2011. Following approval, the first major country to launch within this group is expected to be Germany, which has the highest MS patient population in Europe. In preparation for German launch, Almirall has recruited a dedicated Sativex marketing and sales team. In addition, Almirall has recently established a wholly owned subsidiary in Scandinavia in advance of the Sativex launch and is expected to expand operations in other markets such as Italy and France in preparation for product launch.

In October 2010, Almirall hosted a Satellite Symposium at Europe's leading MS conference, the 26th annual congress of the European Committee for Treatment and

Business Review

Managing Director's Review *continued*

Research in Multiple Sclerosis (ECTRIMS). This Symposium was attended by a large number of European MS specialists and we are encouraged by the level of enthusiasm within Europe for the anticipated launches of Sativex.

SATIVEX IN CANCER PAIN

Sativex is also being developed to treat cancer pain. This year has seen considerable progress in the development of this indication and a comprehensive Phase III programme is now under way.

GW's cancer pain clinical programme is being wholly funded by Otsuka, which has licensed the US commercialisation rights to this product. The cancer pain trials are designed to obtain approval in this indication from the FDA in the US, but these data will also be used by GW for future regulatory applications in this indication in Europe and around the world.

In March 2010, GW announced preliminary results of a 360 patient Phase IIb cancer pain trial, performed in conjunction with Otsuka. The study met its key objectives of providing data to support entry into Phase III, showing statistically significant differences from placebo in pain scores, according to both the "continuous response analysis of percent improvement from baseline" (an analysis of percent improvement in pain across the spectrum of response levels) and the change from baseline analysis in average pain score.

"GW's extensive research into the pharmacology of cannabinoids continues to yield highly promising data"

Justin Gover
Managing Director

The results of the Phase IIb dose ranging study were consistent with a 177 patient Phase IIa study in which Sativex also showed statistically significant improvements versus placebo. This study was published earlier this year in the *Journal of Pain and Symptom Management*.

The Phase III programme includes two Phase III randomised placebo-controlled multi-centre multinational trials as well as a long-term extension study. Each Phase III trial will include 370 patients and will evaluate the efficacy and safety of Sativex versus placebo over a five week treatment period. The primary efficacy analysis is the continuous response analysis, the same analysis that has yielded statistically significant results in both the Phase IIa and IIb trials.

The Phase III trials are expected to recruit patients in Europe, North America, Latin America and Asia. The first Phase III trial site has now been initiated in Europe and the first patient is expected to be recruited during December 2010.

OTHER SATIVEX INDICATIONS

Having now achieved the first approvals for Sativex in MS spasticity and with the cancer pain development programme now advancing into Phase III, GW is broadening the commercial opportunity for the product through a clinical development programme in at least one additional indication. In recent years, GW has generated positive results from clinical trials in a range of indications, including various types of pain, as well as other symptoms of MS. GW is currently evaluating these opportunities in conjunction with its marketing partners before selecting the first new target indication for development and hopes to commence an additional Sativex clinical trial during 2011.

CANNABINOID PLATFORM

GW occupies a world leading position in cannabinoid science. The Company has developed a proprietary

and validated cannabinoid technology platform and formed constructive collaborations with leading international scientists in the field. GW's extensive research into the pharmacology of cannabinoids continues to yield highly promising data and new intellectual property across a range of therapeutic areas and provides GW with the potential to develop and license several new cannabinoid drug candidates in the coming years. GW expects to step up the pace of this research in the coming years to maximise the potential of its in-house pipeline.

Otsuka Research Collaboration

In June, GW was pleased to announce a three year extension to its global cannabinoid research collaboration with Otsuka. We believe that this provides a significant endorsement of the potential of GW's cannabinoid pipeline. This collaboration was originally signed in July 2007 with a three year term, and the collaboration will now extend to the end of June 2013. Under this agreement, GW and Otsuka research a range of GW cannabinoids as potential new drug candidates in the field of CNS disorders and oncology.

All research activities within this collaboration are funded by Otsuka. Over the next three years, Otsuka will make available a research fund of \$12 million to cover these research activities. Otsuka has the discretion to increase this funding from time to time as the development of selected drug candidates advances.

The GW-Otsuka research collaboration is led by a joint research team incorporating senior scientists from both companies. This team works in close collaboration with a number of leading cannabinoid scientists around the world. The objective of this collaboration is to select the most promising candidates for full clinical development, regulatory approval and global commercialisation. Products selected for full development will be the subject of a licence from GW to Otsuka.

Cancer

We have shown in pre-clinical studies the ability of certain cannabinoids to inhibit the growth of various cancers, notably prostate, breast and colon cancer. We have also produced promising data showing a potential synergistic action of cannabinoids with existing anti-cancer agents in reducing the proliferation of glioma cells in cancer models. The mechanisms of action that cause these effects are becoming better understood and extend far beyond actions at the cannabinoid receptors. Several new patent filings have been submitted to protect these data. As a result of the promising progress to date in this area, GW expects an increased focus on its cancer research programme in the next 12 months.

Neuroscience

Research into nervous system disorders is currently focused primarily on epilepsy and psychiatric illness. This research programme is also funded as part of the GW-Otsuka research collaboration agreement.

A number of GW phytocannabinoids have already shown a marked anti-epileptic effect in several pre-clinical models of epilepsy. A lead candidate has now been identified and efforts to define its mechanism of anti-seizure activity are now being made. This research is centred at the University of Reading and data are now being published.

In the field of schizophrenia, GW cannabinoids have shown notable anti-psychotic effects in accepted pre-clinical models of schizophrenia and importantly have also demonstrated the ability to reduce the characteristic movement disorders induced by currently available anti-psychotic agents.

GW expects to advance its research effort in both the above therapeutic areas and is confident that the data generated will support advancing new cannabinoid drug candidates into clinical trials.

Diabetes/Metabolic Disease

GW's research in diabetes/metabolic syndrome falls outside the GW-Otsuka collaboration and is at present funded in-house with a view to potential future outlicensing. In September, GW commenced the first of a programme of Phase IIa exploratory clinical trials exploring GW's cannabinoids as potential treatments in this therapeutic area. This study programme follows promising pre-clinical research results and comprises at least three small scale clinical trials evaluating various metabolic parameters.

The first Phase IIa study to commence is a multi-centre, randomised, double blind, placebo controlled, parallel group pilot study in the treatment of dyslipidaemia in patients with Type 2 diabetes. At least two additional studies are planned as part of this programme. One of these further studies is due to start in the near future and another is due to start later in 2011. The overall programme is aimed at examining the effects of GW cannabinoids on a range of features of the metabolic syndrome including cholesterol, lipid parameters, glucose control and insulin sensitivity.

This progress into Phase IIa clinical trials follows a significant pre-clinical research programme on GW cannabinoids in several models of type 2 diabetes at the GW Metabolic Research Laboratory. This Laboratory is led by Professor Mike Cawthorne, Director of Metabolic Research at the Clore Laboratory, University of Buckingham, and a recognised world leading authority in the research of new treatments for metabolic syndrome.

Results of this research have also shown desirable effects of a number of GW cannabinoids on plasma insulin, leptin and adiponectin levels, hormones of particular relevance to the development and treatment of diabetes and metabolic function. In addition, these results have shown a reduction in total

cholesterol with an increase in the proportion of HDL (good) cholesterol. Of particular note, GW research cannabinoids have also shown the ability to reduce liver fat levels in animal models of hepatic steatosis. Fatty liver is a significant and increasing clinical problem and represents a clear unmet medical need.

Inflammation

Several GW cannabinoids have shown anti-inflammatory properties in a number of models of inflammation, and have the capacity to inhibit the production in tissues of chemical mediators of inflammation. We are currently working to select candidate cannabinoids with a view to constructing proof of concept studies in inflammatory conditions.

SUMMARY

GW is in excellent financial health and the Company's prospects are strong. This year's achievements provide GW with the opportunity to continue to build a dynamic and successful biopharmaceutical business. The Company's strategy is not only to maximise the Sativex business opportunity in terms of geographic expansion and clinical indications, but also to leverage its world leading cannabinoid platform to develop and out-license several new cannabinoid drug candidates in the coming years. With an approved lead product, exciting cannabinoid pipeline, strong partnerships, and healthy financial position, we believe we are well positioned for growth and are excited about the Company's future.



Justin Gover
Managing Director
22 November 2010

Financial Review

Finance Director's Review



“GW is in excellent financial health and the company's prospects are strong.”

David Kirk
Finance Director

This year's financial results show strong profit growth, increased revenues, positive cash flow and a robust cash position.

Income Statement

Pre-tax profit for the year was £4.6m, compared with a pre-tax profit of £1.2m in 2009.

Revenues increased by 27% to £30.7m (2009: £24.1m), reflecting increased Sativex sales, milestone income and additional research activity carried out on behalf of Otsuka.

Milestone income comprised £10.0m received from Bayer following the UK approval of Sativex and a further £1.2m received from Bayer following approval in Canada. The prior year included an £8.0m milestone from Almirall that was paid upon achievement of positive MS Spasticity clinical trial results.

Total Sativex sales increased by 64% to £2.8m (2009: £1.7m), primarily as a result of the UK commercial launch by Bayer in the last three months of our financial year. Prior to commercial launch, GW supplied Sativex on a named patient basis to UK patients to the value of £0.7m, all of which was retained as revenue by GW. Following commercial launch in late June, GW's product sales revenues are earned through product supply to Bayer at a supply price calculated as a percentage of Bayer's commercial in-market sales. Hence, post launch, the named patients previously supplied by GW immediately transferred to Bayer to be supplied on a commercial basis in future. GW's product sales to Bayer for the UK market, totalling £1.1m, included an initial launch stock order of £0.9m.

Sales in Canada remained flat year on year at £0.4m. As in prior years, this situation is due to the lack of public reimbursement for Sativex in that country. The receipt of a full approval for the MS Spasticity indication from Health Canada at the end of August provides an

opportunity to seek to change this position, a process which is likely to take some time.

Named patient sales in Spain generated revenues of £0.4m (2009: £0.3m). Following regulatory approval in Spain, we now await pricing approval following which commercial launch can take place.

Research and development fee revenues of £14.8m (2009: £12.5m) represent an increase of 18% over the previous financial year. These fees consist of research and development costs incurred by GW and charged to Otsuka under the Sativex US development agreement, totalling £10.2m (2009: £9.1m) and the research collaboration agreement of £4.6m (2009: £3.4m). Otsuka has continued to utilise the services of GW's clinical team to manage the Sativex US clinical programme. The GW clinical team will continue to play a major part in the management of the proposed Phase III trials programme that is expected to start in the near future.

Total research and development expenditure, which is expensed as incurred, was £21.8m (2009: £19.3m), of which £14.8m (2009: £12.5m) was funded by Otsuka. GW-funded research increased marginally to £7.0m (2009: £6.8m) but still represented just 32% (2009: 35%) of total research and development spend.

Management and administration expenditure was £3.0m (2009: £2.7m) whilst the share-based payment charge remained at £0.6m (2009: £0.6m) and interest receivable was £0.1m (2009: £0.1m). We continue to take a very conservative approach to managing counterparty credit risk on our cash deposits.

The Group has not claimed a research and development tax credit

for the year ended 30 September 2010 (2009: £0.4m). The small tax credit in the P&L represents the successful outcome of the 2009 R&D claim which resulted in receipt of a tax credit marginally higher than had been accrued in the 2009 year end accounts.

Cash Flow

Having started the year with £20.6m of cash, the Group ended the year with £25.2m, a net inflow of £4.6m. Cash flow was significantly enhanced by the receipt of £11.2m of approval milestones from Bayer and the £0.7m of funds received from the exercise of share options by members of staff.

Capital expenditure of £0.4m (2009: £1.2m) consisted mainly of IT and laboratory equipment.

During the year the Group also received £0.4m (2009: £1.8m) of research and development tax credit claimed in respect of the 2009 financial year.

Balance Sheet

The Group's net funds comprise cash balances together with amounts held on short-term deposit totalling £25.2m (2009: £20.6m).

Inventory of £0.8m (2009: £0.6m) consists of finished goods, consumable items and work in progress. This is stated net of a realisable value provision of £3.9m (2009: £4.0m) which has been calculated in accordance with the Company's inventory accounting policy.

Trade and other receivables at 30 September 2010 were £1.2m (2009: £0.8m), consisting of £0.6m (2009: £0.1m) of trade debtors (from sales of Sativex) and £0.6m (2009: £0.7m) of other receivables and prepayments.

At 30 September 2010 the Group had received £3.2m (2009: £2.7m) of advance payments for research activities to be carried out on behalf

of Otsuka in the next six months. This has been disclosed as an advance payment received, within deferred revenue due within one year.

Deferred signature fee revenue amounts to £13.5m (2009: £15.4m), of which £1.9m (2009: £1.9m) is shown as due within one year and £11.6m (2009: £13.5m) is shown as due after more than one year, represents the balance of non-refundable Sativex licence agreement signature fees. This will be recognised as revenue in future periods.

The Group has tax losses of £44.3m (2009: £43.7m) which are available to carry forward and relieve against future profits. The value of these losses is not reflected in the Group balance sheet.

Average headcount of the Group for the year was 120 (2009: 110).

2011 Financial Year

In 2011, we expect a £2.5m milestone from Almirall on Spanish commercial launch and a further \$4m from Otsuka on the recruitment of the first patient into the first Phase III cancer pain trial. The \$4m is slightly less than the \$5m previously guided and has been adjusted to reflect the significant increase in Otsuka's investment in GW's clinical operations as part of the US clinical development programme. In 2011 we expect GW funded R&D to increase by 20–30% over 2010 and it is likely we will report a small loss for the year.



David Kirk
Finance Director
22 November 2010

Business Review

Board of Directors



1. James Noble MA, FCA
Non-executive Deputy Chairman
 Aged 51. Mr Noble has extensive experience in the biotech industry and is currently CEO of Immunocore Limited and Adaptimmune Limited, two companies involved in T cell receptor technology. Mr Noble was previously CEO of Avidex Limited, a private biotech company, which was sold to MediGene AG in 2006, and also a Director of CuraGen Corporation, a NASDAQ-listed biopharmaceutical company. Mr Noble is also non-executive Chairman of Astaire Group plc (AIM-listed) and 3D Diagnostic Imaging plc (PLUS-markets).

2. Thomas Lynch
Non-executive Director
 Aged 53. Mr Lynch most recently served as Chairman (from 2000) and Chief Executive Officer (from December 2007) of Amarin Corporation plc, a NASDAQ-listed biotechnology company specialising in cardiovascular disease, until December 2009. He continued to serve as a non-executive Director of Amarin until October 2010. From

1993 to 2004, Mr Lynch worked in a variety of capacities in Elan Corporation plc. From 1993 to 2001, he served as Chief Financial Officer and Executive Vice-President; from 2001 to 2002 as Vice-Chairman; and from 2002 to 2004 as a senior adviser. In 1994, Mr Lynch founded a company which became Warner Chilcott plc (having negotiated and financed the acquisition of the Warner Chilcott division from the Warner-Lambert Company in 1996). Mr Lynch was a board member of that company from 1994 to 1999 and from then until 2002 was a Director of Galen plc, which acquired Warner Chilcott in 1999.

Mr Lynch currently serves as a Director of the IDA Ireland (an agency of the Irish government responsible for inward investment); Senior Independent Director of ICON plc, (a clinical research company); Profectus BioSciences Inc., (a company conducting research into immunological diseases); and is Chairman of Chronotech AB (a Swedish company conducting research in infectious diseases).

3. Dr Geoffrey W Guy BSc, MB BS, MRCS Eng, LRCP, LMSSA, Dip Pharm Med
Executive Chairman
 Aged 56. Dr Guy founded Ethical Holdings plc in 1985 and led that company as Chairman and Chief Executive to its NASDAQ flotation in 1993 before leaving in 1997. He received 3i's "Venturer of the Year" award in the science and technology category. In 1990, Dr Guy co-founded the plant-medicines company that became Phytopharm plc, of which he was Chairman until 1997. Dr Guy served as Director of Clinical Development at Napp Laboratories from 1983 to 1985 and as International Clinical Research Co-ordinator at Laboratories Pierre Fabre from 1981 to 1983.

4. Justin Gover BSc, MBA
Managing Director
 Aged 39. Mr Gover has been Managing Director of GW since January 1999. In this time, he has been responsible for managing the Group's operations, equity financing and business development activities.



Mr Gover has 14 years' experience in the biotech industry and was previously Head of Corporate Affairs at Ethical Holdings plc, the NASDAQ-quoted drug delivery company. In this role, he was responsible for the company's strategic corporate activities, including mergers and acquisitions, strategic investments, equity financing and investor relations. Transactions included acquisitions and disposals in North and South America, public listings of group companies in London and the US, and strategic investment in Asia.

**5. Dr Stephen Wright MA, MD, FRCPE, FFPM
Research and Development
Director**

Aged 58. Dr Wright joined GW's senior management team in January 2004 as Research and Development (R&D) Director and was promoted to the Board in March 2005. Dr Wright has more than 15 years of experience in medicines development, having worked on both sides of the Atlantic, in large and small pharmaceutical companies. He joined GW from Ipsen, where he

was Senior Vice President of Clinical R&D and a member of the UK Board of Directors. In this role he led teams responsible for regulatory success in both the US and EU.

**6. David Kirk BSc, FCA
Finance Director**

Aged 57. Mr Kirk joined GW as Finance Director on 11 September 2001. He joined Arthur Andersen in 1975, qualifying as a chartered accountant in 1978 and becoming a partner in 1988. At Arthur Andersen he specialised in entrepreneurial growth companies and worked across a range of sectors. He was responsible for launching the UK Arthur Andersen Biotech Programme in 1994 whilst Head of its UK Technology Team. In 1997 he became the first Finance Director of CeNeS Limited, the company developing drugs for CNS disorders and pain control. He was a founding director of Amura Limited, an antibacterial research company, and was until June 2001 a non-executive director of Avlar Bioventures, a biotechnology venture capital fund based in Cambridge.

**7. Richard Forrest BSc
Non-executive Director**

Aged 62. Mr Forrest has extensive commercial experience in the international pharmaceutical industry, gained over a period of 30 years. This included 19 years with the Rhone-Poulenc Rorer Group (now Sanofi-Aventis), where his most senior position was Senior Vice-President, Europe. His roles have included responsibility for General Management, Marketing and Sales and Business Development in Europe and Rest of the World (South America, Africa, Middle East and South-East Asia). Mr Forrest was also a member of the Pharmaceutical Operations Committee which had responsibility for worldwide operational performance, as well as the Pharmaceutical Development Committee, which had responsibility for all R&D portfolio decisions and major licensing. More recently he was Chief Operating Officer of Novuspharma, an Italian biotech company, prior to its merger with Cell Therapeutics Inc. (USA).

Governance

Directors' Report

For the year ended 30 September 2010

The Directors present their report and the audited financial statements for the Company and for the Group for the financial year ended 30 September 2010.

Principal Activity and Business Review

The principal activity of the Group is the research, development and commercialisation of a range of cannabinoid prescription medicines to meet patient needs in a wide range of medical conditions.

A review of the results for the year and of future developments in the business is given in the Chairman's Statement, Managing Director's Review and in the Financial Review, which form part of this Annual Report.

The subsidiary undertakings principally affecting the results and net assets of the Group are listed in note 11 to the financial statements.

Results and Dividends

The consolidated income statement for the year is set out on page 26. The Group's profit for the financial year after taxation was £4.6m (2009: £1.5m).

The Directors do not recommend the payment of a dividend (2009: nil).

Group Research and Development Activities

The research and development (R&D) undertaken by the Group amounted to £21.8m (2009: £19.3m), all of which was written off during the year. This included £14.8m (2009: £12.5m) of R&D expenditure which was carried out under contract for, and was fully funded by our development partner.

Substantial Shareholdings

On 22 November 2010 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	%
Dr Geoffrey W Guy	18,364,448	14.0
Prudential plc group of companies	17,008,889	13.0
Dr Brian Whittle	10,044,641	7.7
Great Point Partners	6,602,000	5.0
Mr Preston L Parish	6,682,245	5.0
Mr Justin Gover	3,983,668	3.0

Share Capital

Information relating to changes to the issued share capital during the year is given in note 19 to the financial statements.

The Group is funded wholly by its ordinary share capital and has no debt (2009: nil) other than a single finance lease accepted during 2009. Further details of this liability are given in note 16.

Directors and their Interests

The Directors who served during the year and to the date of signing, together with their beneficial interests in the shares of the Company, are as follows:

	Ordinary shares of 0.1p 30 September 2010	Ordinary shares of 0.1p 30 September 2009
Executive		
Dr Geoffrey W Guy ¹ – Chairman	18,364,448	18,323,952
Justin Gover ² – Managing Director	3,983,668	3,617,418
David Kirk ³ – Finance Director	59,500	59,500
Dr Stephen Wright ⁴ – R&D Director	5,000	–
Non-executive		
James Noble ⁵ – Deputy Chairman and Senior independent non-executive	72,500	72,500
Thomas Lynch (appointed 27 July 2010)	–	–
Hans Schram (retired 27 July 2010)	–	–
Richard Forrest	60,000	40,000

There have been no changes in the beneficial interests in the shares of the Company held by the Directors since 30 September 2010.

- 1 Dr Geoffrey Guy's holding includes 25,000 ordinary shares held by his immediate family and 1,096,073 shares held by his personal pension plan.
- 2 Justin Gover's holding includes 33,147 ordinary shares held by his wife.
- 3 David Kirk's holding includes 6,750 ordinary shares held by his wife and 40,000 shares held by his personal pension plan.
- 4 Dr Stephen Wright's holding of 5,000 ordinary shares is held by his wife.
- 5 James Noble's holding of 72,500 ordinary shares is held by his wife.

Details of the Directors' share options and service contracts are shown in the Directors' Remuneration Report. Biographical details of the Directors are given on pages 8 and 9.

In accordance with the Articles of Association of the Company, Dr Geoffrey Guy, David Kirk and Tom Lynch will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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 these controls are outlined on page 17 in the Chairman's Corporate Governance Report. The main risks have been identified as follows:

Clinical

Clinical trials may encounter delays or fail to achieve their endpoints.

Regulatory

Regulatory bodies around the world have different requirements for the approval of therapeutic products. This may result in the restriction of indication, denial of approval or demands for additional data.

Legislative

GW's lead product is a controlled drug and as such is subject to both national and international legislation, which can change at any time.

Manufacturing

GW may encounter problems in its manufacturing process which may delay product development programmes or restrict the commercial quantities of product that can be made.

Marketing and Commercialisation

Following regulatory approval, GW's products may not achieve commercial success or may be subject to competition.

Reimbursement agencies may not agree to cover the cost of an approved product.

Governance

Directors' Report *continued*

For the year ended 30 September 2010

During post-marketing surveillance, quality, safety or efficacy issues may emerge which may result in the withdrawal or restriction of the product licence.

Intellectual Property

The Group may not be able to secure and maintain the intellectual property protection for its products.

Funding

The Group may require access to additional funding in the future. If it fails to obtain such funding the Group may need to delay or scale back some of its R&D programmes or the commercialisation of some of its products.

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.

Credit Risk

The Group's principal financial assets are cash and short-term money market investments. Risk is minimised through an investment policy restricting the investment of surplus cash to interest bearing deposits with banks and building societies with high credit ratings.

Trade receivables are concentrated to a small number of large customers, where the risk of default is low.

Liquidity Risk

This risk is minimised by placing surplus funds in low risk cash deposits and money market investments for periods up to 12 months and at call.

Market Price Risk

Market price risk primarily comprises interest rate exposure risk, which is minimised by restricting money market investments to periods of no more than 12 months.

Exchange Rate Risk

The Group's principal functional currency is Pounds Sterling (GBP). However, during the year the Group had exposure to Euros (€), US Dollars (US\$) and Canadian Dollars (CAD\$). The Group's policy is to maintain natural hedges, where possible, by matching revenue and receipts with expenditure.

Going Concern

The Directors have considered the financial position of the Group, its cash position and future cash flows when considering going concern. They have also considered the Group's business activities, the key policies for managing financial risks and the key factors affecting the likely development of the business in 2011. In 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 the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Charitable and Political Contributions

No charitable donations were made during the year (2009: £450).

No political donation was made in either year.

Supplier Payment Policy

It is the Group's policy to settle debts with its creditors on a timely basis, taking into consideration the terms and conditions offered by each supplier. The number of supplier days outstanding at the year end, based on the average monthly outstanding Group creditor balances, was 43 days (2009: 60 days).

Employee Consultation

The Group places considerable value on the involvement of its employees and they are regularly briefed on the Group's activities. Their contribution is a key element to the future success of the Group and accordingly, from time to time, 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 20 to the financial statements. Equal opportunity is given to all employees regardless of their age, sex, colour, race, religion or ethnic origin.

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.

Annual General Meeting

The Annual General Meeting will be held at 11am on 19 January 2011 at Porton Down Science Park, Salisbury, Wiltshire SP4 0JQ.

Auditors 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 auditors 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 auditors are aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Adam George**

Company Secretary
22 November 2010

Governance

Chairman's Corporate Governance Report

For the year ended 30 September 2010

I am pleased to report that throughout 2010 the Board has continued to demonstrate its commitment to maintaining high standards of corporate governance.

As a company that has securities which are traded on the Alternative Investment Market (AIM), we are not required to comply with the requirements of Schedule 1 of the 2008 Combined Code. However, the Board has sought to robustly apply the principles of the Code as far as practicable given the size of the Company and the nature of its operations.

In recent months, since the publication of the new UK Corporate Governance Code in June 2010, the Board has considered the requirements of the new Code and has sought to determine how we can most appropriately apply the principles of good corporate governance and Board effectiveness set out therein to our business in future. It is our intention to continue to comply with the principles of the new Code in so far as it is appropriate for a Company of our size to do so.

In this, my first Chairman's Corporate Governance Report, I will explain how we have managed our corporate governance during 2010 and how we intend to maintain practices consistent with the requirements of the new Code in future:

Our Strategy, Business Model and Approach to Risk:

The nature of our business is to take product developmental 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. Not all of our product candidates will progress successfully to become marketable products. However, we consider that our in-house development expertise and expert knowledge of cannabinoid science allow for the Company to mitigate these risks, although the inherent nature of our business makes such risks impossible to eliminate.

We manage the extent of retained risk by:

- seeking to out-license our products to pharmaceutical companies with the expertise and resources to collaborate in development activities and subsequently market our products;
- maintaining close management oversight over the development process of our products, in conjunction with our partners, and ensuring compliance with all appropriate industry standards;
- seeking to mitigate the financial risk of development through funding from partners; and
- maintaining in-house control of product manufacture, to minimise reliance on external contractors, ensure product quality is maintained, processes optimised and manufacturing expertise and know-how retained within GW.

All of the above result in a business model that allows us to create value by developing a broad pipeline of potential future products whilst sharing a portion of the financial risk with our partners. By maintaining close internal control over most aspects of research and development, product manufacture and regulatory compliance we seek to mitigate the other risks associated with our business by continuing to maintain a robust internal controls process and risk management framework.

Having carried out a review of the level of risks that we are taking in pursuit of the Group's strategy, the Board is satisfied that the level of retained risk is appropriate and commensurate with the financial rewards that should result from achievement of our strategy.

The Board of Directors

The Company is controlled by the Board of Directors which currently comprises four executive and three independent non-executive Directors. The Board of Directors has overall responsibility for the Group. Its aim is to represent the interests of the Group's shareholders and to provide leadership and control in order to ensure the growth and long-term success of the business.

Due to the current size of the Group, it is the Board's view that the existing arrangement, whereby I provide leadership to the Board in my role as Executive Chairman, continues to be in the best interests of the Group. The Board is satisfied that the presence of Mr James Noble, Mr Thomas Lynch and Mr Richard Forrest, all of whom are considered by the Board to be independent Directors, provides sufficient independent influence to ensure that the Board is balanced and that good corporate governance practice is maintained.

Mr James Noble acts as the Company Deputy Chairman and Senior Independent Director.

All Directors are able to take independent advice in furtherance of their duties if necessary.

The Board is responsible to shareholders for the proper management of the Group. Board meetings are held at least six times a year to set the overall direction and strategy of the Group and to review financial and operating performance. Financial policy and budgets, including capital expenditure, are approved and monitored by the Board. All key strategic decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of the Directors are subject to retirement by rotation at each Annual General Meeting. The Board has considered the recommendation within the UK Corporate Governance Code, aimed at FTSE350 companies and above, that all Directors should be reappointed annually. However the Board has concluded that it is not appropriate for a company of GW's size to adopt annual reappointment. For the foreseeable future we will continue with the existing practice of retirement by rotation every three years.

During the year, there were six full meetings of the Board of Directors. All members of the Board of Directors attended each of the six meetings except for Mr Hans Schram, who attended four of the five meetings that took place in the period before his retirement date, and Mr Thomas Lynch, who attended the two Board meetings that followed his appointment.

Committees of the Board

The detailed terms of reference of each of the Board committees can be found on the Group website at www.gwpharm.com.

Remuneration Committee

The Remuneration Committee comprises all the non-executive Directors under the chairmanship of Mr Thomas Lynch. It reviews, inter alia, the performance of the Executive Directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. The Remuneration Committee also determines the allocation of awards under the Long Term Incentive Plan to Executive Directors. No Director has a service agreement with a notice period exceeding one year.

During the year, there were three full meetings of the Remuneration Committee. Mr James Noble and Mr Richard Forrest attended all three meetings while Mr Hans Schram attended the two meetings that took place prior to his retirement date.

It is a policy of the Remuneration Committee that no individual participates in discussions or decisions concerning his own remuneration.

The Directors' Remuneration Report is set out on pages 18 to 22.

Audit Committee

The Audit Committee comprises all the non-executive Directors under the chairmanship of Mr James Noble. It meets at least three times per year and oversees the monitoring of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without executive Board members present.

The Audit Committee is also responsible for overseeing the activities of the external auditors including their appointment, reappointment, or removal as well as monitoring of their objectivity and independence. The Committee also considers the fees paid to the external auditors and whether the fee levels for non-audit services, individually and in aggregate, relative to the audit fee are appropriate so as not to undermine their independence.

During the year, there were three full meetings of the Audit Committee. Mr James Noble and Mr Richard Forrest attended all three meetings while Mr Hans Schram attended the two meetings that took place prior to his retirement date. Mr Thomas Lynch attended the single meeting that has taken place since his date of appointment.

Governance

Chairman's Corporate Governance Report *continued*

For the year ended 30 September 2010

Nominations Committee

The Nominations Committee comprises Mr James Noble and Mr Richard Forrest, under my chairmanship. It meets at least twice a year and reviews the structure, size and composition of the Board, supervising the selection and appointment process in relation to Directors, making recommendations to the Board with regard to any changes, using an external search consultancy if considered appropriate. For new appointments, the Nominations Committee will make a final recommendation to the Board, which will have the opportunity to meet the candidate prior to approving the appointment. Once appointed, the Nomination Committee oversees the induction of new Directors as well as ensuring that the Board as a whole receive the appropriate training during the course of the year in order to ensure that they have the knowledge and skills necessary to operate effectively.

The Nominations Committee also retains responsibility for the Board appraisal process whereby the performance of all Directors is appraised annually both on an individual basis and for the Board as a whole, taking into account such factors as attendance record, contribution during Board meetings and the amount of time that has been dedicated to Board matters during the course of the year. I oversee the appraisal process, while my performance as Chairman is reviewed by Mr James Noble, in his capacity as Senior Independent Director, taking into account feedback from other members of the Board.

The new Code recommends that the Board should consider utilising an independent third party to facilitate the Board appraisal process, noting that this may not be appropriate for companies smaller than FTSE350. Having considered this recommendation, the Board has decided that the current appraisal process is operating satisfactorily and that, in recognition of GW's size, it is not considered necessary to utilise the services of an independent facilitator at this time. The Nominations Committee will reconsider this in future and may appoint an independent facilitator if it determines that this is appropriate.

During 2010 there have been three Nominations Committee meetings. These meetings were fully attended.

During the year, following the announcement of the proposed retirement of Mr Hans Schram, as part of the process of seeking a replacement non-executive, the Nominations Committee considered the nature of the skills and experience that would provide the most valuable contribution to the Board in the future. As a result of this, rather than using an external search agency, the Executive Directors carried out a targeted search amongst senior executives within the European biotech sector to identify an individual who had personal experience of managing the transition of a biotech company from research stage to successful commercial business. This search identified Mr Thomas Lynch, who, following meetings with members of the Nominations Committee and the Executive Directors, was invited to join the GW Board on 27 July 2010.

Executive Management Committees

Operational decision making is delegated to a number of Executive Management Committees which are committees consisting of certain Directors and members of senior management. The Executive Management Committees meet as required and on average every six weeks.

Communication with Shareholders

The Board attaches great importance to effective communication with shareholders and encourages dialogue with both its institutional and private investors and responds promptly to all questions received verbally or in writing. Regular communication is maintained with all shareholders through Company announcements, the Annual Report and Accounts, Preliminary Results and the Interim Report. In addition the Company operates a website which can be found at www.gwpharm.com. The website contains further details of the Group, its products and its activities, details of regulatory announcements and Company announcements, Annual and Interim Reports, and details of the Company's share price, share trading activity and graphs.

The Executive Directors regularly attend meetings with analysts and institutional shareholders throughout the year. With private shareholders this is not always practical. The Board has therefore sought to use the Company's Annual General Meeting as the opportunity for both the Executive and the non-executive Directors to meet shareholders, after which the Board gives a presentation on the activities of the Group and there is also an opportunity to ask questions of all Directors on a formal and informal basis. At other times during the year, the non-executive members of the Board and I are available to meet with our institutional shareholders upon request. We welcome the opportunity to develop a mutual understanding of objectives with our shareholders.

All shareholders have at least 21 days' notice of the Annual General Meeting.

Maintenance of a Sound System of Internal Control

The Directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations in any system of internal control, which can provide reasonable but not absolute assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of material misstatement or loss.

During 2010 the Board has considered and reviewed the system of internal controls in place. An assessment of the major risk areas for the business and methods used to monitor and control them was also undertaken with a particular focus upon the changing profile of the risks facing the business as we transition from being wholly R&D focused to being a commercial stage company with a marketed pharmaceutical product.

In addition to financial risk, the review covered operational, commercial, environmental, regulatory and research and development risks. The risk review is an ongoing process with regular review by the Board at least annually with appropriate input from the Audit Committee. The prime purpose of this review is to ensure that, having considered the controls that are in place to mitigate risks, the Board is satisfied with the residual level of risk being taken in pursuit of the Group strategy.

The key procedures designed to provide an effective system of internal control that have operated throughout the year and up to the date of the sign-off of this report are described below.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, we will review this decision as the operations of the Group develop.

Control Environment

There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority.

Risk Management

The Group employs Directors and senior executives with the appropriate knowledge and experience for a pharmaceutical group such as GW Pharmaceuticals plc. A formal risk management review is performed annually as part of the process of determining the adequacy of the Group's system of internal controls and risk mitigation procedures.

Financial Information

The Group prepares detailed budgets and working capital projections, which are approved annually by the Board and are updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify and manage any significant variances.

Management of Liquid Resources

The Board is risk averse when investing the Group's surplus cash funds. The Group's treasury management policy sets out strict procedures and limits on how surplus funds are invested.



Dr Geoffrey Guy
Chairman
22 November 2010

Governance

Directors' Remuneration Report

For the year ended 30 September 2010

Introduction

Companies that have securities that trade on AIM are not required to comply with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and the disclosure provisions under Schedule 8 of the Companies Act 2006. However, the Remuneration Committee is committed to maintaining high standards of corporate governance and has taken steps to comply with best practice in so far as it can be applied practically given the size of the Company and the nature of its operations.

Unaudited Information

Remuneration Report

The Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

The Remuneration Committee

The Remuneration Committee comprises all the non-executive Directors currently under the chairmanship of Mr Thomas Lynch. The constitution and operation of the Committee is in compliance with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy for Executive Directors the Committee gives full consideration to the provisions and principles of both the 2008 Combined Code and, from June 2010, the new UK Corporate Governance Code.

Remuneration Policy for Executive Directors

The remuneration policy has been designed to ensure that Executive Directors should receive appropriate incentive and reward given their performance, responsibility and experience. In determining this, the Remuneration Committee has regard to ensure that the policy aligns the interests of Executive Directors with those of the shareholders.

The Group remuneration policy for Executive Directors is to:

- have regard to the individual's 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 long-term performance through the award of share options, bonus schemes and via participation in the Group's Long Term Incentive Plan;
- provide post-retirement benefits through defined contribution pension schemes; and
- provide employment-related benefits including the provision of life assurance and medical insurance.

Directors' Service Contracts

It is Group policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice.

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
David Kirk	September 2001	12 months
Dr Stephen Wright	March 2005	12 months
Non-executive		
James Noble	January 2007	3 months
Richard Forrest	March 2007	3 months
Thomas Lynch	July 2010	3 months

Remuneration Package for Executive Directors

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

i) Basic Salary

Basic salaries are reviewed annually at the end of each calendar year. The review process is undertaken having regard to the development of the Group and the contribution that individuals will continue to make. Consideration is also given to the need to retain and motivate individuals and information on the salary levels in comparable organisations. In this respect the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

ii) Annual Performance Incentive

Executive Directors are eligible for an annual bonus at the discretion of the Remuneration Committee. Bonus awards are reviewed at the end of each calendar year and any such awards are determined by the performance of the individual and the Group as a whole based upon the achievement of strategic objectives set at the beginning of the year. The awards are normally limited to a maximum of 50% of basic salary, however in exceptional circumstances the annual maximum may increase up to 100% of basic salary.

iii) Pensions and Other Benefits

The Group does not operate a Group pension scheme. Instead the Group makes contributions to individual private pension arrangements. Other benefits provided are life assurance, permanent health insurance, private medical insurance and car allowance.

iv) Share Options/Long Term Incentive Plan

Executive Directors are awarded share options at the discretion of the Remuneration Committee. Share options are granted at the closing mid-market value of the Company's ordinary shares on the day prior to grant and vest after a period of three years.

Under the terms of the Long Term Incentive Plan Executive Directors are awarded options to subscribe for the Company's ordinary shares at an exercise price equal to the nominal value. These options are subject to performance conditions which must be achieved before the options vest and become exercisable. In the event that the performance conditions are not achieved within the required three year vesting period these options will lapse. Once vested, an award may be exercised at any time prior to the tenth anniversary of the date of grant.

The first award, granted following approval of this new scheme by shareholders at the Annual General Meeting on 18 March 2008, is subject to a performance condition whereby the Group must achieve approval for its main product, Sativex, in one of the four major European territories within three years from date of grant. Having achieved UK approval for Sativex in 2010 this award will vest in March 2011.

The 2009 award is subdivided into three tranches, each of which will vest upon first Sativex approval in each of the first, second and third major European territories. These approvals must be obtained within three years from the date of grant, otherwise the options shall lapse. The UK and Spanish approvals achieved in 2010 will result in the first two tranches of these options vesting upon the third anniversary of the date of their grant.

The 2010 award is subdivided into four equal tranches, each of which will vest on 19 July 2013 upon achievement of the following performance conditions:

- one quarter will vest upon achievement of regulatory approvals of the Company's lead product in a further six European countries (excluding UK and Spain) and three non-EU countries;
- one quarter will vest upon the conclusion of one new significant non-Sativex license agreement;
- one quarter will vest upon the successful completion of a Phase II proof of concept clinical trial in one non-Sativex product; and
- one quarter will vest if, on the vesting date, the GW Pharmaceuticals plc share price has both increased and outperformed the FTSE AIM All Share Index over the period from the date of grant until vesting of the option.

Governance

Directors' Remuneration Report *continued*

For the year ended 30 September 2010

The Remuneration Committee considered that, at the date of grant of the 2010 award, these objectives represented the key value drivers for the business and that achievement of these objectives should deliver significant value to the Group and to shareholders, such that the interests of the Executive Directors, the Group and our shareholders are appropriately aligned.

Remuneration Policy for non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The non-executive Directors do not receive any pension from the Company, nor do they participate in any of the bonus schemes.

The non-executive Directors have service agreements which are reviewed by the Board annually. They are included in the one third of Directors subject to retirement by rotation at each Annual General Meeting.

Audited Information

Directors' Remuneration

The Directors received the following remuneration during the year:

Name of Director	Salary and fees £	Bonus £	Taxable benefits £	Pension contributions £	2010 Total £	2009 Total £
Executive						
Dr Geoffrey W Guy	323,530	207,800	1,899	52,249	585,478	424,788
Justin Gover	261,117	173,109	1,164	42,965	478,355	354,871
David Kirk	211,205	136,300	2,099	34,231	383,835	297,705
Dr Stephen Wright	220,100	145,000	1,899	35,788	402,787	307,328
Non-executive						
James Noble	45,407	–	–	–	45,407	43,000
Thomas Lynch	7,646	–	–	–	7,646	–
Richard Forrest	35,788	–	–	–	35,788	35,000
Hans Schram	29,780	–	–	–	29,780	35,000
Aggregate emoluments	1,134,573	662,209	7,061	165,233	1,969,076	1,497,692

The bonuses awarded this year reflect the exceptional achievement of the first UK approval for Sativex.

Directors' Share Options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options are as follows:

Name of Director	At 1 Oct 2009	Granted	Exercised	Lapsed	At 30 Sept 2010	Exercise price	Earliest date of exercise	Date of expiry
Executive								
Dr Geoffrey W Guy	565,500	–	(415,500)	–	150,000	36.21p	15/01/04	15/01/11
	216,080	–	–	–	216,080	199.00p	22/01/07	22/01/14
	302,344	–	–	–	302,344	128.00p	02/03/08	02/03/15
	171,315	–	–	–	171,315	125.50p	10/02/09	10/02/16
	364,675	–	–	–	364,675	95.50p	26/03/10	26/03/17
	170,000	–	–	–	170,000	0.1p	19/03/11	19/03/18
	170,000	–	–	–	170,000	0.1p	27/03/12	27/03/19
	–	259,836	–	–	259,836	0.1p	19/07/13	19/07/20
Justin Gover	471,250	–	(471,250)	–	–	20.52p	02/10/03	02/10/10
	11,931	–	–	–	11,931	182.00p	14/05/04	14/05/11
	205,569	–	–	–	205,569	182.00p	01/06/04	01/06/11
	217,500	–	–	–	217,500	237.00p	20/06/04	01/06/11
	175,000	–	–	–	175,000	171.00p	16/01/06	16/01/13
	170,854	–	–	–	170,854	199.00p	22/01/07	22/01/14
	239,063	–	–	–	239,063	128.00p	02/03/08	02/03/15
	135,458	–	–	–	135,458	125.50p	10/02/09	10/02/16
	299,844	–	–	–	299,844	95.50p	26/03/10	26/03/17
	153,000	–	–	–	153,000	0.1p	19/03/11	19/03/18
	153,000	–	–	–	153,000	0.1p	27/03/12	27/03/19
	–	213,666	–	–	213,666	0.1p	19/07/13	19/07/20
David Kirk	900,000	–	–	–	900,000	104.50p	10/09/04	10/09/11
	500,000	–	–	–	500,000	171.00p	16/01/06	16/01/13
	155,778	–	–	–	155,778	199.00p	22/01/07	22/01/14
	217,969	–	–	–	217,969	128.00p	02/03/08	02/03/15
	123,506	–	–	–	123,506	125.50p	10/02/09	10/02/16
	238,883	–	–	–	238,883	95.50p	26/03/10	26/03/17
	137,000	–	–	–	137,000	0.1p	19/03/11	19/03/18
	137,000	–	–	–	137,000	0.1p	27/03/12	27/03/19
	–	170,228	–	–	170,228	0.1p	19/07/13	19/07/20
Dr Stephen Wright	100,000	–	–	–	100,000	199.00p	22/01/07	22/01/14
	400,000	–	–	–	400,000	99.00p	02/09/07	02/09/14
	200,000	–	–	–	200,000	119.50p	21/01/08	21/01/15
	107,570	–	–	–	107,570	125.50p	10/02/09	10/02/16
	229,610	–	–	–	229,610	95.50p	26/03/10	26/03/17
	140,000	–	–	–	140,000	0.1p	19/03/11	19/03/18
	140,000	–	–	–	140,000	0.1p	27/03/12	27/03/19
	–	177,970	–	–	177,970	0.1p	19/07/13	19/07/20

Options Granted

The options granted during 2010 represent the third award under the Group Long Term Incentive Plan which was approved by shareholders at the Annual General Meeting on 18 March 2008. The options are subject to performance conditions which must be achieved within three years from date of grant in order for the options to vest. The options will lapse in the event that the performance conditions are not achieved. Full details of the performance conditions are given on page 19.

Options Exercised

During the year 886,750 options (2009: nil) were exercised. These had an average exercise price of 28 pence and an average market price at date of exercise of 104 pence, resulting in a notional gain at exercise of £674,000.

Governance

Directors' Remuneration Report *continued*

For the year ended 30 September 2010

In addition the following ordinary shares have been conditionally gifted under the rules of the GW Pharmaceuticals All Employee Share Scheme as follows:

Name of Director	At 1 Oct 2009 and 30 Sept 2010	Vesting
Executive		
Mr Justin Gover	14,384	02/10/03
	2,450	23/01/05
Dr Stephen Wright	1,507	22/01/07
	1,500	21/01/08
Mr David Kirk	2,450	23/01/05

Directors' Shareholdings

The interests of the Directors in the shares of the Company as at 30 September 2010 were:

Name of Director	Ordinary shares of 0.1p 30 Sept 2010	Ordinary shares of 0.1p 30 Sept 2009
Executive		
Dr Geoffrey W Guy ¹	18,364,448	18,323,952
Justin Gover ²	3,983,668	3,617,148
David Kirk ³	59,500	59,500
Dr Stephen Wright ⁴	5,000	–
Non-executive		
James Noble ⁵	72,500	72,500
Tom Lynch	–	–
Richard Forrest	60,000	40,000

1 Dr Geoffrey Guy's holding includes 25,000 ordinary shares held by his immediate family and 1,096,073 shares held by his personal pension plan.

2 Justin Gover's holding includes 33,147 ordinary shares held by his wife.

3 David Kirk's holding includes 6,750 ordinary shares held by his wife and 40,000 shares held by his personal pension plan.

4 Dr Stephen Wright's holding of 5,000 ordinary shares is held by his wife.

5 James Noble's holding of 72,500 ordinary shares is held by his wife.

The market price of the Company's shares as at 30 September 2010 was 100p and the range during the year was 80p–156p.

By order of the Board



Thomas Lynch

Chairman of the Remuneration Committee
22 November 2010

Statement of Directors' Responsibilities

For the year ended 30 September 2010

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 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 accounts 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.

Governance

Independent Auditors' Report

For the year ended 30 September 2010

Independent Auditors' Report to the Members of GW Pharmaceuticals plc

We have audited the financial statements of GW Pharmaceuticals plc for the year ended 30 September 2010 which comprise the Group Income Statement, the Group and parent company Balance Sheets, the Group and parent company Cash Flow Statements, the Group and parent company Statements of Changes in Equity and the related notes 1 to 25. 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 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 auditors' 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 Auditors

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 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 (APB'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.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 September 2010 and of the Group's profit 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.

Opinion on other matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Other matters

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Although not required to do so, the Directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the June 2008 FRC Combined Code. We reviewed:

- the Directors' statement contained within the Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Jason Davies (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Reading, UK

22 November 2010

*Financial Statements***Consolidated Income Statement**

For the year ended 30 September 2010

	Notes	2010 £000's	2009 £000's
Revenue	2	30,676	24,121
Cost of sales		(752)	(433)
Gross profit		29,924	23,688
Research and development expenditure	3	(21,823)	(19,337)
Management and administrative expenses		(2,959)	(2,693)
Share-based payment	22	(630)	(634)
Operating profit		4,512	1,024
Interest payable	7	(8)	(8)
Interest receivable	7	100	136
Profit on ordinary activities before taxation	4	4,604	1,152
Tax credit on ordinary activities	8	37	353
Profit on ordinary activities after taxation being retained profit for the financial year		4,641	1,505
Earnings per share – basic	9	3.6p	1.2p
Earnings per share – diluted	9	3.4p	1.2p

The accompanying notes are an integral part of this consolidated income statement.

All activities relate to continuing operations.

The Group has no recognised gains or losses other than the gains and losses shown above and therefore no separate consolidated statement of comprehensive income has been presented.

Statements of Changes in Equity

For the year ended 30 September 2010

Group	Called-up share capital £000's	Share premium account £000's	Other reserves £000's	Retained earnings £000's	Total £000's
At 1 October 2008	121	58,375	19,262	(79,485)	(1,727)
Exercise of share options	–	15	–	–	15
Issue of new share capital	8	6,599	–	–	6,607
Expenses of share placing	–	(312)	–	–	(312)
Share-based payment	–	–	–	634	634
Retained profit for the year	–	–	–	1,505	1,505
Balance at 30 September 2009	129	64,677	19,262	(77,346)	6,722
Exercise of share options	2	678	–	–	680
Share-based payment	–	–	–	630	630
Retained profit for the year	–	–	–	4,641	4,641
Balance at 30 September 2010	131	65,355	19,262	(72,075)	12,673

Company	Called-up share capital £000's	Share premium account £000's	Other reserves £000's	Retained earnings £000's	Total £000's
At 1 October 2008	121	58,375	–	2,443	60,939
Exercise of share options	–	15	–	–	15
Issue of new share capital	8	6,599	–	–	6,607
Expenses of share placing	–	(312)	–	–	(312)
Share-based payment	–	–	–	634	634
Retained loss for the year	–	–	–	(128)	(128)
Balance at 30 September 2009	129	64,677	–	2,949	67,755
Exercise of share options	2	678	–	–	680
Share-based payment	–	–	–	630	630
Retained loss for the year	–	–	–	(214)	(214)
Balance at 30 September 2010	131	65,355	–	3,365	68,851

Financial Statements

Balance Sheets

As at 30 September 2010

	Notes	Group		Company	
		2010 £000's	2009 £000's	2010 £000's	2009 £000's
Non-current assets					
Intangible assets – goodwill	10	5,210	5,210	–	–
Investments	11	–	–	68,854	67,798
Property, plant and equipment	12	1,566	1,858	–	–
		6,776	7,068	68,854	67,798
Current assets					
Inventories	13	780	551	–	–
Taxation recoverable	8	–	360	–	–
Trade and other receivables	14	1,217	811	19	22
Cash and cash equivalents		25,219	20,601	–	–
		27,216	22,323	19	22
Total assets		33,992	29,391	68,873	67,820
Current liabilities					
Trade and other payables	15	(4,554)	(4,496)	(22)	(65)
Obligations under finance leases	16	(40)	(35)	–	–
Deferred revenue	17	(5,120)	(4,594)	–	–
		(9,714)	(9,125)	(22)	(65)
Non-current liabilities					
Obligations under finance leases	16	(6)	(45)	–	–
Deferred revenue	17	(11,599)	(13,499)	–	–
Total liabilities		(21,319)	(22,669)	(22)	(65)
Net assets		12,673	6,722	68,851	67,755
Equity					
Share capital	19	131	129	131	129
Share premium account		65,355	64,677	65,355	64,677
Other reserves	21	19,262	19,262	–	–
Retained earnings		(72,075)	(77,346)	3,365	2,949
Shareholders' funds		12,673	6,722	68,851	67,755

The financial statements of GW Pharmaceuticals plc, registered number 04160917, on pages 26 to 51 were approved by the Board on 22 November 2010, and were signed on its behalf by:



Dr Geoffrey W Guy
Chairman
22 November 2010

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

Cash Flow Statements

For the year ended 30 September 2010

	Group		Company	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Operating profit/(loss)	4,512	1,024	(214)	(128)
Adjustments for:				
Depreciation of property, plant and equipment	726	456	–	–
Share-based payment charge	630	634	–	–
Operating cash flow before movements in working capital	5,868	2,114	(214)	(128)
(Increase) in inventories	(229)	(48)	–	–
(Increase) in receivables	(406)	(38)	(426)	(6,144)
(Decrease) in payables	(1,298)	(2,599)	(40)	(56)
Cash generated/(used) by operations	3,935	(571)	(680)	(6,328)
Research and development tax credits received	397	1,791	–	–
Net cash inflow/(outflow) from operating activities	4,332	1,220	(680)	(6,328)
Investment activities				
Interest received	100	135	–	–
Interest paid	(8)	(8)	–	–
Purchases of property, plant and equipment	(434)	(1,061)	–	–
Net cash outflow from investing activities	(342)	(934)	–	–
Financing activities				
Proceeds on issue of shares	680	6,622	680	6,622
Expenses of share issue	(18)	(294)	–	(294)
Capital element of finance leases	(34)	(67)	–	–
Net cash from financing activities	628	6,261	680	6,328
Net increase in cash and cash equivalents	4,618	6,547	–	–
Cash and cash equivalents at beginning of year	20,601	14,054	–	–
Cash and cash equivalents at end of the year	25,219	20,601	–	–

Financial Statements

Notes to the Financial Statements

For the year ended 30 September 2010

1 Significant Accounting Policies

The principal Group accounting policies are summarised below.

Basis of Accounting

These financial statements have been prepared using accounting policies under International Financial Reporting Standards (IFRSs).

The financial statements have been prepared under the historical cost convention.

Adoption of New and Revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the presentation and disclosure in these financial statements.

Standards Affecting Presentation and Disclosure

IAS 1 (revised 2007) Presentation of Financial Statements	IAS 1(2007) has introduced a number of changes in the format and content of the financial statements. Where the Group has applied certain changes in accounting policies retrospectively (as we have done in respect of IFRS 8 below) the revised Standard requires the presentation of a third balance sheet as at 30 September 2008. However, as the retrospective application of IFRS 8 has had no impact upon any of the historic balance sheet disclosures, the Group has chosen not to present a third balance sheet in these accounts, in recognition of the fact that such extra disclosure would not provide any extra information to the reader of these accounts that cannot be obtained from our prior year Annual Report.
IFRS 8 Operating Segments	IFRS 8 is a disclosure Standard that requires detailed disclosure of the Group's reportable segments (see note 2). As the Group continues to have just one reportable segment, this has not resulted in any changes to the segmental information presented but has resulted in a small amount of additional disclosure explaining how this new standard has been applied and the rationale for continuing to treat the Group's business as a single operating segment.

Applicable Standards not Affecting Presentation and Disclosure, Reported Results or Financial Position

Amendments to IFRS 7 Financial Instruments: Disclosures	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. This has not resulted in any changes to the Group financial instrument disclosures given in note 18.
Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of “non-vesting” conditions and clarify the accounting treatment for cancellations. This has not resulted in any changes to the Group's accounting and disclosures in respect of share-based payment given in note 22.
IFRS 3 (revised 2008) Business Combinations	The amendments to IFRS 3 will change the Group's treatment of the cost of business combinations and deferred consideration for any transactions in future periods. This has not resulted to any changes to the Group's accounting or disclosures in these accounts.
IAS 23 (revised 2007) Borrowing Costs	The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This has not resulted in any changes to the Group's accounting or disclosures in respect of borrowing costs given in note 7.

The other Standards and Interpretations which have come into effect during the year are not relevant to the Group and are not therefore discussed here.

1 Significant Accounting Policies *continued*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)/IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements

The other Standards and Interpretations which are in issue but not yet effective are not considered to be relevant to the Group and are therefore not listed here.

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

Going Concern

The Directors have considered the financial position of the Group, its cash position and future cash flows when considering going concern. They have also considered the Group's business activities, the key policies for managing financial risks and the key factors affecting the likely development of the business in 2011. In 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 the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 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. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Acquisitions are accounted for under the purchase method.

As part of a Group reconstruction GW Pharmaceuticals plc acquired GW Pharma Limited on 31 May 2001. This purchase was accounted for under merger accounting principles. Under this method, results are reported as if the acquiring companies have been combined since the earlier date of incorporation. No purchased goodwill was created on the acquisition and the assets and liabilities of the acquired company were not adjusted to reflect their market value.

No income statement is presented for GW Pharmaceuticals plc as permitted by Section 408 of the Companies Act 2006. The Company's loss for the financial year was £214,000 (2009: £128,000).

Intangible Assets – Goodwill

Goodwill arising on the acquisition of the subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is recognised as an asset and shown separately on the face of the balance sheet. Goodwill is tested for impairment at least annually and, where appropriate, an impairment charge is reflected in the income statement.

Determination of whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires an estimate of the present value of expected future cash flows discounted at an appropriate discount rate. Where appropriate, provision is then made to ensure that the carrying value does not exceed this value in use estimate.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

1 Significant Accounting Policies *continued*

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 trade discounts, value added tax and other sales-related taxes. No revenue is recognised for consideration, the value or receipt of which is dependent on future events, future performance or refund obligations. The Group's principal revenue streams and their respective accounting treatments are set out below:

Product Sales

Revenue from the sale of products is recognised upon shipment to customers or at the time of delivery depending on the terms of sale.

Research and Development Fees

Revenue from contract research and development (R&D) agreements is recognised as the services are performed.

Licensing Fees

Licensing fees represent revenues derived from product out-licensing agreements and from contract R&D agreements.

Signature fees received in connection with product out-licensing agreements, even where such fees are non-refundable and not creditable against future royalty payments, are deferred and recognised over the period of the license term, or the period of the associated collaborative assistance if that period is reasonably estimable.

Development and Approval Milestones

During the term of certain contract R&D agreements and licensing agreements, the Group is eligible to receive non-refundable development and approval milestone payments when certain clinical or regulatory results are achieved or upon the occurrence of certain milestone events. These milestones are recognised upon achievement of the relevant result or upon the occurrence of the milestone event when they become receivable.

Research and Development

R&D expenditure is recognised as an intangible asset only when the Group has achieved reasonable certainty that future economic benefits will flow to the Group and then only to the extent that the asset created is separately identifiable and the costs of which can be measured reliably.

All R&D expenditure incurred prior to achieving regulatory approval is therefore expensed as incurred.

Property, Plant and Equipment

Fixtures and equipment are stated at cost, net of accumulated depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life commencing upon the satisfactory completion of installation such that assets are ready for their intended use, as follows:

Motor vehicles	4 years
Plant, machinery and lab equipment	4–10 years
Office and IT equipment	4 years
Leasehold improvements	4 years or term of the lease if shorter

Investments

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.

1 Significant Accounting Policies *continued*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the First in First Out (FIFO) method. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is the estimated selling price in the ordinary course of business, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provision is made for obsolete, slow moving or defective items where appropriate. Inventory is also provided for where the level of inventory held is in excess of the amount required to manufacture projected future sales volumes based on the current regulatory status of the relevant product. The provision ensures that the carrying value of inventory does not exceed expected net realisable value.

Prior to achieving territorial regulatory approvals, the sales volume projections for each territory, used to estimate the required level of inventory provision, are derived by applying historic growth rates to the current volumes being sold via named patient sales programmes. Once a territorial approval is achieved, volume projections are revised to take account of expected commercial sales volumes for that territory, based upon projections provided by commercial partners, adjusted to take into account other factors such as historic experience of sales growth rates and expected market penetration.

Taxation

The tax expense represents the sum of the tax currently payable or recoverable and deferred tax.

The tax payable or recoverable is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

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.

Retirement Benefit Costs

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

Foreign Currency

Transactions in 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. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Share-based Payment

The Group has applied the requirements of IFRS 2 Share-based Payments.

The Group issues equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based 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 and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

1 Significant Accounting Policies *continued*

Leases

Rentals payable under operating leases are charged on a straight-line basis over the term of the relevant lease.

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 charges are charged directly to the income statement.

Financial Instruments

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

Trade Receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost, using the effective interest rate method where credit exceeds normal terms. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. 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 deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less.

Trade Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described above, the 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.

Critical Judgements in Applying the Group's Accounting Policies

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 but for which invoices have not yet been received. 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.

1 Significant Accounting Policies *continued*

Revenue Recognition

The Group recognises R&D fee revenues as services are performed. Where services are in progress at the period end, the Group recognises revenues proportionately, in line with the stage of completion of the service. Where such in-progress services include the conduct of clinical trials, the Directors recognise service fees in line with the stage of completion of each trial so that revenues are recognised in line with the clinical trials expenditure, as outlined in detail above.

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.

Carrying Value of Inventory

The Group maintains inventory which, based upon current sales levels and the current regulatory status of the product, is in excess of the amount that is expected to be utilised in the manufacture of finished product for future commercial sales. Provision is therefore required to reduce the carrying value of inventory to its expected net realisable value. Estimation of the level of provision required involves estimation of future product sales volumes. Future changes to the regulatory status of products can be expected to lead to revisions to future sales projections which may in turn lead to partial release of this provision in future. However, the timing and extent of future provision release will be contingent upon timing and extent of future regulatory approvals and post-approval in-market sales demand, which remain uncertain at this time.

Deferred Taxation

The Group has accumulated tax losses of £44.3m which are available to carry forward and to offset against trading profits in future periods in order to make future corporation tax savings. If the value of these losses were recognised within our balance sheet at the balance sheet date, we would be carrying a deferred tax asset of £11.9m (2009: £12.2m). However, as explained in the taxation accounting policy note on page 33, our policy is to recognise deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the brought forward trading losses can be utilised so that the asset becomes realised. 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.

2 Segmental Information

Adoption of IFRS 8 Operating Segments

The Group has adopted IFRS 8 Operating Segments with effect from 1 October 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board to allocate resources to the segments and to assess their performance. Adoption of IFRS 8 has not resulted in any changes to the identification of the Group's reportable segments.

The Directors consider the business to be a single operating segment, being pharmaceutical development, the sole purpose of which is to commercialise the pharmaceutical products that result from our R&D activities.

In arriving at this conclusion we have taken account of the fact that, while the Board regularly reviews data that is segmented by department or by project, these departments are all working together towards our common purpose. In addition, the principal information used by the Board to make operational decisions and to assess performance against our strategic plan consists of profitability, cash flow and balance sheet information for the Group as a single operating entity.

Revenue:

	2010 £000's	2009 £000's
Product sales	2,768	1,689
R&D fees	14,808	12,532
Licensing fees:		
– signature fees	1,900	1,900
– development and approval fees	11,200	8,000
	30,676	24,121

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

2 Segmental Information *continued*

Geographical analysis of revenue by destination of customer:

	2010 £000's	2009 £000's
UK	1,834	915
Europe (excluding UK)	12,511	9,152
North America	11,904	10,689
Asia	4,427	3,365
	30,676	24,121

All revenue, profits and losses before taxation originated in the UK. All assets and liabilities are held in the UK.

3 Research and Development Expenditure

	2010 £000's	2009 £000's
GW-funded research	7,015	6,805
Development partner-funded research	14,808	12,532
	21,823	19,337

4 Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2010 £000's	2009 £000's
R&D expenditure	21,823	19,337
Operating lease rentals – land and buildings	749	717
Depreciation and amounts written off tangible fixed assets – owned	678	416
Depreciation and amounts written off tangible fixed assets – leased	48	40
Inventory recognised as an expense	528	251
Inventory provision (decrease)/increase	(114)	394
Foreign exchange gain	(16)	(66)
The auditors for the years ending 30 September 2010 and 2009 were Deloitte LLP		
Fees payable to the Company's auditor were:		
– Audit of the Company	8	8
– Audit of subsidiaries	34	34
– Interim procedures	5	5
– Taxation services	–	10

5 Staff Costs

The average number of Group employees (including Executive Directors) was:

	2010 Number	2009 Number
R&D	104	94
Management and administration	16	16
	120	110

5 Staff Costs *continued*

The Company had no employees during the year (2009: nil).

	2010 £000's	2009 £000's
Their aggregate remuneration comprised:		
Wages and salaries	6,260	5,142
Social security costs	798	603
Other pension costs	401	371
	7,459	6,116

The Company incurred no staff costs during the year (2009: nil).

6 Directors' Remuneration, Interests and Transactions**Aggregate Remuneration**

The total amounts for Directors' remuneration and other benefits were as follows:

	2010 £000's	2009 £000's
Emoluments	1,804	1,336
Money purchase contributions to Directors' pension arrangements	165	162
	1,969	1,498

During 2010, four Directors were members of defined contribution pension schemes (2009: four).

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 18 to 22.

7 Interest

	2010 £000's	2009 £000's
Finance lease interest payable	(8)	(8)
Bank interest receivable	100	136

8 Tax Credit on Profit/Loss on Ordinary Activities

	2010 £000's	2009 £000's
Current year charge/(credit)	-	(360)
Adjustment in respect of prior year – (credit)/charge	(37)	7
UK Corporation Tax – R&D tax credit	(37)	(353)

The UK Corporation Tax credit relates to R&D tax credits claimed under the Finance Act 2000.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

8 Tax Credit on Profit/Loss on Ordinary Activities *continued*

Factors Affecting the Tax Credit for the Period

The tax credit for the period is lower than the standard rate of Corporation Tax in the UK. The differences are explained below:

	2010 £000's	2009 £000's
Group profit on ordinary activities before tax	4,604	1,152
Tax charge on Group profit at standard UK Corporation Tax rate of 28% (2009: 28%)	1,289	323
Effects of:		
Expenses not deductible for tax purposes	(400)	(28)
Relief for share-based remuneration	–	(1)
Fixed asset timing differences	71	(45)
Other short-term timing differences	(97)	114
R&D tax relief	(1,342)	(1,208)
Losses surrendered for R&D tax credit	–	360
Share-based payment	202	59
Deferred tax losses not recognised	277	66
Adjustment in respect of prior year	(37)	7
Group tax credit for the year	(37)	(353)

At 30 September 2010 there were tax losses available for carry forward of approximately £44.3m (2009: £43.7m).

Net deferred tax assets, relating to carried forward losses, of approximately £11.9m (2009: £12.3m) have not been recognised as there is insufficient evidence at this stage that the assets will be recovered. These assets would be utilised if the Group were to make future taxable profits.

9 Earnings Per Share

The calculations of earnings per share are based on the following profits and numbers of shares:

	Basic		Diluted	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Profit for the financial year	4,641	1,505	4,657	1,511

	Number of shares		Number of shares	
	2010 m	2009 m	2010 m	2009 m
Weighted average number of shares	129.9	122.5	136.7	128.1

10 Intangible Fixed Assets – Goodwill

	2010 £000's	2009 £000's
Cost		
As at 1 October	5,210	5,210
Provision for impairment	–	–
Net Book Value		
As at 30 September	5,210	5,210

Goodwill arose upon the acquisition of G-Pharm Ltd by GW Pharma Limited in 2001.

10 Intangible Fixed Assets – Goodwill *continued*

The carrying value of the goodwill attributable to the G-Pharm acquisition derives from its entitlement to a share of future product sales revenues of GW Pharma Ltd. The value in use of this entitlement is calculated by discounting the cash flows expected to arise from projected future product sales revenues for the next 15 years, the estimated Sativex product lifecycle, using an estimated risk-adjusted cost of capital of 12% (2009: 12%) to calculate a present value. An impairment provision is recognised only if the goodwill carrying value exceeds this value in use.

No such provision was required at 30 September 2010 (2009: nil).

As at 30 September 2010 the Company had no intangible assets (2009: nil).

11 Investments

Principal Group Investments

Company	Investments £000's	Loans to Group undertakings £000's	Total £000's
At 1 October 2009	3,910	63,888	67,798
Add capital contribution in respect of share-based payment charge	630	–	630
Additional funds advanced during year	–	426	426
At 30 September 2010	4,540	64,314	68,854

The Company and the Group have investments in the following subsidiary undertakings.

Name of undertaking	Country of registration	Description of shares held	Activity	% holding
GW Pharma Limited*	England and Wales	0.1p ordinary shares	R&D	100
G-Pharm Limited	England and Wales	£1 ordinary shares	R&D	100
Cannabinoid Research Institute Limited	England and Wales	£1 ordinary shares	R&D	100
Guernsey Pharmaceuticals Limited	Guernsey	£1 ordinary shares	R&D	100
GWP Trustee Company Limited	England and Wales	£1 ordinary shares	Employee Share Ownership	100
G-Pharm Trustee Company Limited	England and Wales	£1 ordinary shares	Dormant	100
Advanced Dispensing Systems Ltd	England and Wales	£1 ordinary shares	Dormant	100

* Held directly by GW Pharmaceuticals plc.

All the subsidiary undertakings are included in the consolidated accounts.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

12 Property, Plant and Equipment

Group	Motor vehicles £000's	Plant, machinery and lab equipment £000's	Office and IT equipment £000's	Leasehold improvements £000's	2010 Total £000's
Cost					
At 1 October 2008	11	2,065	935	890	3,901
Additions	–	1,026	49	132	1,207
At 1 October 2009	11	3,091	984	1,022	5,108
Additions	–	234	188	12	434
Disposals	–	(185)	(394)	(66)	(645)
At 30 September 2010	11	3,140	778	968	4,897
Accumulated depreciation					
At 1 October 2008	11	1,483	728	572	2,794
Charge for the year	–	290	105	61	456
At 1 October 2009	11	1,773	833	633	3,250
Charge for the year	–	405	105	216	726
Disposals	–	(185)	(394)	(66)	(645)
At 30 September 2010	11	1,993	544	783	3,331
Net Book Value					
At 30 September 2010	–	1,147	234	185	1,566
At 30 September 2009	–	1,318	151	389	1,858

The Net Book Value at 30 September 2010 includes £58,000 in respect of assets held under finance leases (2009: £106,000).

The depreciation charge for the year includes a charge of £48,000 in respect of assets held under finance leases (2009: £40,000).

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

13 Inventories

	Group		Company	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Raw materials	126	93	–	–
Work in progress	505	286	–	–
Finished goods	149	172	–	–
	780	551	–	–

Inventories are stated net of a realisable value provision of £3.9m (2009: £4.0m).

Further details of how the level of provision is calculated are given in the inventories accounting policy note on page 33.

14 Financial Assets

Trade and Other Receivables

	Group		Company	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Amounts falling due within one year				
Trade receivables	645	129	–	–
Other receivables	154	75	3	4
Prepayments and accrued income	418	607	16	18
	1,217	811	19	22

The Directors consider that the carrying value of trade receivables equals their fair value.

No provision is required for impairment (2009: nil).

Trade receivables at 30 September 2010 represent eight days of sales (2009: two days). The average trade receivable days during the year was 24 days (2009: 22 days).

No interest is charged on trade receivables.

The trade receivables balance at 30 September 2010 consisted of balances due from five customers (2009: four customers) with the largest single customer representing 83% (2009: 76%) of the total amount due. No receivables are past their due date (2009: nil).

15 Financial Liabilities

Trade and Other Payables

	Group		Company	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Amounts falling due within one year				
Trade payables	1,281	2,463	6	57
Other taxation and social security	356	156	–	–
Other creditors and accruals	2,876	1,834	16	8
Defined contribution pension scheme accruals	41	43	–	–
	4,554	4,496	22	65

Trade payables at 30 September 2010 represents the equivalent of 26 days purchases (2009: 60 days).

The average trade payable days during the year was 43 days (2009: 60 days).

The Directors consider that the carrying value of trade payables approximates to their fair value.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

16 Obligations Under Finance Leases

	Minimum lease payments		Present value of lease payments	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Amounts payable under finance leases:				
Within one year	42	42	40	35
In the second to fifth years inclusive	7	49	6	45
	49	91	46	80
Less: future finance charges	(3)	(11)	n/a	n/a
Present value of lease obligations	46	80	46	80
Less: Amount due for settlement within 12 months (shown under current liabilities)			40	35
Amount due for settlement after 12 months			6	45

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three years. For the year ended 30 September 2010, the average effective borrowing rate was 11% (2009: 11%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Sterling.

The fair value of the Group's lease obligations is approximately equal to their carrying amount.

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

17 Deferred Revenue

	Group		Company	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Amounts falling due within one year				
Deferred signature fee income	1,900	1,900	–	–
Advance payments received	3,220	2,694	–	–
	5,120	4,594	–	–
Amounts falling due after one year				
Deferred signature fee income	11,599	13,499	–	–

Deferred signature fee income represents the balance of the non-refundable signature fees received from Almirall and Otsuka. For Almirall the £12m signature fee is being recognised at the rate of £0.8m per year over 15 years from December 2005. In the case of Otsuka, where the Group's obligations are weighted towards the earlier years, the \$18m (£9.2m) signature fee will be recognised from 1 April 2007 to 30 September 2011 at the rate of £1.1m per year and at £0.28m per year for the following 15 years.

Advance payments received represents payments for R&D activities to be carried out in the next financial year on behalf of Otsuka. These amounts will be recognised as revenue in future periods.

18 Financial Instruments

The Group's senior management are responsible for monitoring and managing the financial risks relating to the operations of the Group. These risks include credit risk, market risks, arising from interest rate risk and currency risk, and liquidity risk. The Board and Audit Committee review and approve the internal policies for managing each of these risks, as summarised below.

The Group's financial instruments comprise cash and liquid resources and various items such as trade payables and trade receivables, which arise directly from the Group's operations.

Categories of Financial Instruments

	2010 £000's	2009 £000's
Financial assets		
Receivables, cash and cash equivalents	26,436	21,772
Financial liabilities		
Liabilities at amortised cost	4,600	4,576

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

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 adopted 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 from time to time by the Audit Committee and the Board.

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 commercial customers and by requesting payment in advance from its development partners for the majority of its research activities.

Due to the nature of the small number of development partners and the sums involved in funding research activity, concentration of credit risk is considered to be high. In the short term the Group manages this risk by seeking payments in advance for most research activity.

At the balance sheet date the maximum credit risk attributable to any individual counterparty is £7.1m (2009: £6.0m).

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:

Market risk arises from the Group's exposure to fluctuation 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 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.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

18 Financial Instruments *continued*

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 consistently earns commercially competitive interest rates by using the services of an independent broker to identify and secure 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 £100,000 (2009: £136,000) during the year ended 30 September 2010 was earned from deposits with a weighted average interest rate of 0.64% (2009: 1.69%). Therefore, a 100 basis point increase in interest rates would have increased interest income, and increased the profit for the year, by £156,000 (2009: £80,000).

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 Group's functional currency is Sterling and the majority of its transactions are denominated in that currency. However, the Group receives revenues and incurs expenditures in foreign currencies and is exposed to the effects of foreign exchange. 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 Sterling as soon as they arise. The Group does not use forward exchange contracts to manage exchange rate exposure.

The table below shows an analysis of year end cash deposits by currency:

Cash Deposits:

	2010 £000's	2009 £000's
Sterling	21,841	17,036
Euro	222	164
US Dollar	3,145	3,401
Canadian Dollar	11	–
	25,219	20,601

The table below shows those transactional exposures that give rise to net currency gains and losses recognised in the 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 Group. As at 30 September 2010 these exposures were as follows:

Net Foreign Currency Assets/(Liabilities):

	2010 £000's	2009 £000's
Euro	(159)	(445)
US Dollar	2,988	2,969
Canadian Dollar	10	(59)
Other	(38)	9
	2,801	2,474

18 Financial Instruments *continued***Foreign Currency Sensitivity Analysis:**

The most significant currencies in which the Group trades, other than Sterling, are the US Dollar and the Euro. The Group also trades in the Canadian Dollar; the Czech Crown and the Polish Zloty. The following table details the Group's sensitivity to a 10% change in the key foreign currency exchange rates against Sterling:

Year ended 30 September 2010	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000
Profit before tax	(16)	299	1	(4)
Equity	(16)	299	1	(4)

Year ended 30 September 2009	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000
Profit before tax	(44)	297	(6)	1
Equity	(44)	297	(6)	1

Liquidity Risk

Responsibility for liquidity 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 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.

The cash deposits comprise deposits placed on money markets for periods of up to 90 days and on call. The weighted average time for which the rate was fixed was 35 days (2009: 33 days).

The Directors consider that all of the Group's financial liabilities at the year end and prior year end have maturity dates of less than 12 months from the balance sheet date. 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.

Fair Value of Financial Assets

The Directors consider there to be no material difference between the book and fair value of the Group's financial instruments at the balance sheet date.

19 Share Capital

As at 30 September 2010 the authorised share capital of the Company and the allotted, called-up and fully paid amounts were as follows:

	2010 £000's	2009 £000's
Authorised		
200,000,000 ordinary shares of 0.1p each	200	200
Allotted, called-up and fully paid	131	129

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

19 Share Capital *continued*

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

	Number of shares	Total nominal value £000's	Total share premium £000's	Total consideration £000's
As at 1 October 2008	120,785,335	121	–	–
Issue of new ordinary shares	8,470,920	8	6,599	6,607
Exercise of share options	21,400	–	15	15
As at 30 September 2009	129,277,655	129	–	–
Issue of new ordinary shares	–	–	–	–
Exercise of share options	1,920,137	2	678	680
As at 30 September 2010	131,197,792	131		

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

20 Options and Warrants in the Shares of GW Pharmaceuticals plc

Options

Options have been granted over 0.1p ordinary shares as follows:

	2010 Number	2009 Number
At 1 October	15,513,436	16,203,514
Granted during the year	911,450	1,131,132
Exercised during the year	(1,920,137)	(21,400)
Lapsed during the year	(292,395)	(1,799,810)
At 30 September	14,212,354	15,513,436

Share options, which include the share options granted to Directors as stated in the Directors' Remuneration Report, are as shown below:

	At 1 Oct 2009 Number	Options granted Number	Options exercised Number	Options lapsed Number	At 30 Sept 2010 Number	Date granted	Exercise price	Earliest date of exercise	Date of expiry
Approved share options:									
GW Pharmaceuticals Approved Company Share Option Scheme									
	20,550	–	(20,550)	–	–	02/10/00	27.10p	02/10/03	02/10/10
	111,800	–	–	–	111,800	01/02/01	36.21p	01/02/04	01/02/11
	13,050	–	(13,050)	–	–	23/02/01	36.21p	23/02/04	23/02/11
GW Pharmaceuticals Approved Share Option Scheme 2001									
	28,708	–	–	–	28,708	10/09/01	104.50p	10/09/04	10/09/11
	81,200	–	(29,000)	–	52,200	26/09/01	72.00p	26/09/04	26/09/11
	29,000	–	–	–	29,000	31/10/01	107.00p	31/10/04	31/10/11
	122,570	–	–	(5,800)	116,770	23/01/02	122.00p	23/01/05	23/01/12
	8,700	–	–	–	8,700	04/04/02	131.00p	04/04/05	04/04/12
	11,600	–	–	–	11,600	03/07/03	210.50p	03/07/06	03/07/13
	101,138	–	–	–	101,138	22/01/04	199.00p	22/01/07	22/01/14
	89,500	–	–	–	89,500	02/09/04	99.00p	02/09/07	02/09/14
	7,900	–	–	–	7,900	21/01/05	119.50p	21/01/08	21/01/15
	294,263	–	(29,900)	–	264,363	19/10/05	72.00p	19/10/08	19/10/15
	37,700	–	(17,400)	–	20,300	18/04/06	84.00p	18/04/09	18/04/16
	84,100	–	(8,700)	(11,600)	63,800	27/09/06	83.00p	27/09/09	27/09/16
	52,200	–	(12,000)	–	40,200	20/11/06	78.00p	20/11/09	20/11/16
	200,462	–	–	(40,600)	159,862	05/11/07	54.00p	05/11/10	05/11/17
	24,000	–	–	(6,000)	18,000	19/09/08	39.00p	19/09/11	19/09/18
Sub-total – carried forward									
	1,318,441	–	(130,600)	(64,000)	1,123,841				

20 Options and Warrants in the Shares of GW Pharmaceuticals plc *continued*

At 1 Oct 2009 Number	Options granted Number	Options exercised Number	Options lapsed Number	At 30 Sept 2010 Number	Date granted	Exercise price	Earliest date of exercise	Date of expiry
Sub-total – brought forward								
1,318,441	–	(130,600)	(64,000)	1,123,841				
Enterprise Management Incentive (EMI) Share Options:								
GW Pharmaceuticals Executive Share Option Scheme								
471,250	–	(471,250)	–	–	02/10/00	20.52p	02/10/03	02/10/10
377,000	–	(377,000)	–	–	02/10/00	25.34p	02/10/03	02/10/10
44,620	–	(44,620)	–	–	02/10/00	27.10p	02/10/03	02/10/10
348,667	–	(276,167)	–	72,500	15/01/01	36.21p	15/01/04	15/01/11
170,667	–	(156,167)	–	14,500	01/02/01	36.21p	01/02/04	01/02/11
498,913	–	(181,818)	(12,595)	304,500	14/05/01	55.00p	14/05/04	14/05/11
401,021	–	–	–	401,021	14/05/01	182.00p	14/05/04	14/05/11
GW Pharmaceuticals Unapproved Share Option Scheme 2001								
6,000	–	–	–	6,000	01/06/01	55.00p	01/06/04	01/06/11
60,900	–	–	–	60,900	08/07/02	107.00p	08/07/05	08/07/12
92,500	–	–	–	92,500	15/07/02	107.00p	15/07/05	15/07/12
139,140	–	–	(5,800)	133,340	16/01/03	171.00p	16/01/06	16/01/13
52,575	–	–	–	52,575	22/01/04	199.00p	22/01/07	22/01/14
217,200	–	–	(27,500)	189,700	02/09/04	99.00p	02/09/07	02/09/14
10,000	–	–	(10,000)	–	21/01/05	119.50p	21/01/08	21/01/15
162,500	–	–	–	162,500	19/10/05	72.00p	19/10/08	19/10/15
11,600	–	–	–	11,600	18/04/06	84.00p	18/04/09	18/04/16
150,000	–	–	–	150,000	05/11/07	54.00p	05/11/10	05/11/17
GW Pharmaceuticals Long Term Incentive Plan								
359,999	–	–	–	359,999	26/11/08	0.01p	26/11/11	26/11/18
101,133	–	–	–	101,133	20/05/09	0.01p	20/05/12	20/05/19
–	19,750	–	–	19,750	30/11/09	0.01p	30/11/12	30/11/19
–	169,374	–	–	169,374	19/07/10	0.01p	19/07/13	19/07/20
Unapproved share options:								
GW Pharmaceuticals Executive Share Option Scheme								
289,333	–	(139,333)	–	150,000	15/01/01	36.21p	15/01/04	15/01/11
108,182	–	(108,182)	–	–	01/06/01	55.00p	01/06/04	01/06/11
491,479	–	–	–	491,479	01/06/01	182.00p	01/06/04	01/06/11
942,500	–	–	–	942,500	01/06/01	237.00p	01/06/04	01/06/11
871,292	–	–	–	871,292	10/09/01	104.50p	10/09/04	10/09/11
9,380	–	–	–	9,380	23/01/02	122.00p	23/01/05	23/01/12
50,000	–	–	–	50,000	23/01/02	182.00p	23/01/05	23/01/12
790,958	–	–	–	790,958	16/01/03	171.00p	16/01/06	16/01/13
738,504	–	–	(37,500)	701,004	22/01/04	199.00p	22/01/07	22/01/14
100,000	–	–	(100,000)	–	16/03/04	179.00p	16/03/07	16/03/14
655,000	–	–	(35,000)	620,000	02/09/04	99.00p	02/09/07	02/09/14
205,000	–	–	–	205,000	21/01/05	119.50p	21/01/08	21/01/15
857,814	–	–	–	857,814	02/03/05	128.00p	02/03/08	02/03/15
344,500	–	(35,000)	–	309,500	19/10/05	72.00p	19/10/08	19/10/15
585,658	–	–	–	585,658	10/02/06	125.50p	10/02/09	10/02/16
1,219,454	–	–	–	1,219,454	26/03/07	95.50p	26/03/10	26/03/17
GW Pharmaceuticals Long Term Incentive Plan								
600,000	–	–	–	600,000	19/03/08	0.01p	19/03/11	19/03/18
600,000	–	–	–	600,000	27/03/09	0.01p	27/03/12	27/03/19
–	722,326	–	–	722,326	19/07/10	0.01p	19/07/13	19/07/20
Sub-total – carried forward								
14,453,180	911,450	(1,920,137)	(292,395)	13,152,098				

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

20 Options and Warrants in the Shares of GW Pharmaceuticals plc *continued*

	At 1 Oct 2009 Number	Options granted Number	Options exercised Number	Options lapsed Number	At 30 Sept 2010 Number	Date granted	Exercise price	Earliest date of exercise	Date of expiry
Sub-total – brought forward	14,453,180	911,450	(1,920,137)	(292,395)	13,152,098				
Options issued to consultants and other non-employees:									
	43,500	–	–	–	43,500	01/02/01	36.21p	01/02/04	01/02/11
	20,300	–	–	–	20,300	01/06/01	55.00p	01/06/04	01/06/11
	123,250	–	–	–	123,250	01/06/01	182.00p	01/06/04	01/06/11
	123,250	–	–	–	123,250	01/06/01	237.00p	01/06/04	01/06/11
	24,167	–	–	–	24,167	23/01/02	122.00p	21/12/05	23/01/12
	24,167	–	–	–	24,167	23/01/02	122.00p	21/12/06	23/01/12
	24,166	–	–	–	24,166	23/01/02	122.00p	21/12/07	23/01/12
	50,000	–	–	–	50,000	14/10/02	94.50p	14/10/05	14/10/12
	86,600	–	–	–	86,600	16/01/03	171.00p	16/01/06	16/01/13
	50,000	–	–	–	50,000	03/07/03	210.50p	03/07/06	03/07/13
	72,360	–	–	–	72,360	22/01/04	199.00p	22/01/07	22/01/14
	35,000	–	–	–	35,000	02/09/04	99.00p	02/09/07	02/09/14
	102,500	–	–	–	102,500	21/01/05	119.50p	21/01/08	21/01/15
	135,000	–	–	–	135,000	02/03/05	128.00p	02/03/08	02/03/15
	50,996	–	–	–	50,996	10/02/06	125.50p	10/02/09	10/02/16
	15,000	–	–	–	15,000	18/04/06	84.00p	18/04/09	18/04/16
	20,000	–	–	–	20,000	19/09/08	39.00p	19/09/11	19/09/18
	60,000	–	–	–	60,000	26/11/08	29.50p	26/11/11	26/11/19
Total	15,513,436	911,450	(1,920,137)	(292,395)	14,212,354				

Warrants

Warrants to subscribe for ordinary shares in the Company are as shown below:

	At 1 Oct 2009 Number	Warrants granted Number	Warrants exercised Number	Warrants lapsed Number	At 30 Sept 2010 Number	Date of issue	Exercise price	Date of expiry
Warrant holder								
Peter Mountford	108,750	–	–	–	108,750	09/02/01	188.0p	14/01/11
Adrian Bradshaw	108,750	–	–	–	108,750	09/02/01	188.0p	14/01/11
US Placing – February 2005	203,493	–	–	(203,493)	–	28/02/05	135.0p	01/03/10
Seven Hills Partners LLC	77,075	–	–	–	77,075	10/01/06	139.6p	10/01/11
Kings Road Investments Ltd	924,897	–	–	–	924,897	10/01/06	161.0p	10/01/11
Kings Road Investments Ltd	924,897	–	–	–	924,897	10/01/06	174.5p	10/01/11
Great Point Partners	1,888,480	–	–	–	1,888,480	13/08/09	105.0p	13/08/14
Great Point Partners	1,888,480	–	–	–	1,888,480	13/08/09	175.0p	13/08/14
Total	6,124,822	–	–	(203,493)	5,921,329			

21 Other Reserves

Other reserves is a merger reserve of £19,262,000 that arose in 2001 as a result of the acquisition by GW Pharmaceuticals plc of GW Pharma Ltd via a share for share exchange which was merger accounted.

ESOP Reserve

The GW Pharmaceuticals All Employee Share Scheme 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 is the GWP Trustee Company Limited, a wholly owned subsidiary. 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 recommendations from the Board of Directors of GW Pharmaceuticals plc.

21 Other Reserves *continued*

As at 30 September 2010 the trust held the following shares:

	2010 Number	2009 Number
Unconditionally vested in employees	328,474	351,415
Conditionally gifted to employees	196,769	206,578
Shares available for future distribution to employees	11,888	2,079
Total	537,131	560,072

Accordingly as at 30 September 2010 the number and market value of shares held by the trust which have not yet unconditionally vested in employees is 208,657 (2009: 208,657) and £208,657 (2009: £182,575) respectively.

The shares held by the trust were originally acquired for nil consideration by way of a gift and hence the balance on the ESOP reserve is nil (2009: nil).

22 Share-based Payment***Equity-settled Share Option Scheme***

The Company operates share option schemes for all employees of the Group. Options are granted at the market price on the day of grant, with the exception of options issued under the Long Term Incentive Plan which are issued with an exercise price equivalent to the nominal value of the shares under option. The vesting period is three years from the date of grant and the options lapse after 10 years. The options under the Long Term Incentive Plan lapse if the performance condition is not achieved by the time the three year vesting period has elapsed. All other options usually lapse if the employee leaves the Group before the options vest. Vested options usually need to be exercised within six months of leaving. Details of the share options outstanding during the year are as follows:

	2010		2009	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the year	15,513,436	1.06	16,203,514	1.22
Granted during the year	911,450	0.001	1,131,132	0.02
Exercised during the year	(1,920,137)	0.36	(21,400)	0.72
Lapsed during the year	(292,395)	1.32	(1,799,810)	1.82
Outstanding at the end of the year	14,212,354	1.08	15,513,436	1.06
Exercisable at the end of the year	11,231,910	1.35	12,126,188	1.24

The weighted average market price at the date of exercise for share options exercised during the year was £1.03 (2009: £0.85).

The options outstanding at 30 September 2010 had a weighted average exercise price of £1.08 (2009: £1.06) and a weighted average remaining contractual life of 4.2 years (2009: 4.4 years).

In the current year, options were granted on 30 November 2009 and 19 July 2010. The aggregate of the estimated fair values of the options granted on those dates is £1.04m.

In the prior year, options were granted on 26 November 2008, 27 March 2009 and 20 May 2009. The aggregate of the estimated fair values of the options granted on those dates is £0.59m.

Financial Statements

Notes to the Financial Statements *continued*

For the year ended 30 September 2010

22 Share-based Payment *continued*

The inputs into the Black-Scholes Option Pricing Model are as follows:

	2010	2009
Weighted average share price	115p	54p
Weighted average exercise price	0.1p	2p
Expected volatility	75%	71%
Expected life	3.0 years	3.1 years
Risk-free rate	0.5%	1.5%
Expected dividend yield	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three 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.

The Group recognised a total charge of £630,000 and £634,000 related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

23 Financial Commitments

The Group had no capital commitments for fixed assets contracted but not provided for at 30 September 2010 (2009: nil).

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

	Group 2010 £000's	Group 2009 £000's	Company 2010 £000's	Company 2009 £000's
– within one year	677	656	–	–
– between two and five years	1,714	1,673	–	–
– after five years	856	836	–	–
	3,247	3,165	–	–

The minimum lease payments payable under operating leases recognised as an expense in the year were £749,000 (2009: £717,000).

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Following renegotiation of a number of leases during the year all manufacturing and laboratory facilities are now subject to 10 year leases (2009: 10 years) with a seven year lease break at GW's option. Office properties are typically leased for one year or less (2009: one year) with the exception of the London office which is on a five year lease.

24 Contingent Liabilities

There were no contingent liabilities at 30 September 2010 (2009: nil).

25 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 IAS24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 18 to 22.

	2010 £000's	2009 £000's
Short-term employee benefits	1,804	1,336
Post-employment benefits	165	162
Share-based payments	444	453
	2,413	1,951

Other Related Party Transactions:

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year the Group purchased services in the ordinary course of business from Brian Whittle Associates Limited, a company controlled by Brian Whittle, a former Director and substantial shareholder of GW Pharmaceuticals plc, at a cost of £44,000 (2009: £42,304). As at 30 September 2010, £24,000 was due to Brian Whittle Associates Limited (2009: nil).

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