PHARMING

ANNUAL REPORT 2014

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Forward-looking statements

This Annual Report 2014 may contain forward-looking statements including without limitation those regarding Pharming's (the "Company") financial projections, market expectations, developments, partnerships, plans, strategies and capital expenditures.

The Company cautions that such forward-looking statements may involve certain risks and uncertainties, and actual results may differ. Risks and uncertainties include without limitation the effect of competitive, political and (macro) economic factors, legal claims, the Company's ability to protect intellectual property, fluctuations in exchange and interest rates, changes in tax rates, changes in legislation and the Company's ability to identify, develop and successfully commercialize new products, markets or technologies.

As a result, the Company's actual performance, position and financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. The Company assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates, unless required by law or regulations.

HIGHLIGHTS 2014

OPERATIONAL

- Following the FDA approval for the treatment of acute attacks of angioedema in patients with Hereditary Angioedema (HAE), Ruconest was launched by partner Salix Pharmaceuticals, Inc. (NASDAQ:SLXP) in the US in November 2014.

- Receipt of a US$20.0 million milestone payment in November 2014 from Salix for first commercial sale of Ruconest in the US, following the FDA approval.

- Initiated direct commercialisation activities for Ruconest in Austria, Germany and the Netherlands; hired a small team of HAE commercialisation and medical affairs experts.
  - Developed RucoVitae™, a full service programme for the treatment of acute attacks of HAE with Ruconest, for eligible HAE patients in Austria, Germany and the Netherlands, during the first quarter of 2015.

- Acquired certain assets from Transgenic Rabbit Models SASU (TRM), for €0.5 million in cash, including product leads for the development of new Enzyme Replacement Therapies (ERT) for Pompe, Fabry's and Gaucher's disease and rhFactor VIII for the treatment of Haemophilia A.

- Initiated a randomised double blind placebo controlled Phase II clinical trial to investigate Ruconest for the prophylaxis of HAE. The first patient was enrolled in early January 2015, patient enrollment for the study continues.

FINANCIAL

- Revenues increased to €21.2 million (2013: €6.8 million).
  - Mainly as a result of higher license fees, including the receipt of a US$20.0 million (€16.0 million) milestone from US partner Salix, while 2013 included a US$5.0 million (€3.8 million) milestone from Santarus (now Salix Pharmaceuticals, Inc.).
  - Product sales increased to €3.0 million (2013: €0.9 million) as a result of increased sales in the EU and initial sales orders in the US of €0.3 million.

- Operating result improved to an operating profit of €2.9 million in 2014 from a loss of €6.9 million in 2013.

- Net loss decreased from €15.1 million to €5.8 million in 2014.

- The equity position increased to €29.8 million at year-end 2014 (2013: €5.0 million), mainly as a result of the receipt of the US$20.0 million milestone, a private equity placement of net €14.0 million and the exercise of warrants.

- In preparation of further commercialisation of Ruconest, the inventories of Ruconest, including work in progress and skimmed milk, increased to €13.4 million at year-end 2014 (2013: €4.8 million).

- The cash position, including restricted cash, improved to €34.4 million at year-end 2014 (2013: €19.2 million), mainly as a result of the receipt of the milestone payment from Salix, the private equity placement of net €14.0 million and the exercise of warrants of €4.6 million.

ABOUT PHARMING GROUP N.V.

Pharming Group N.V. is developing innovative products for the treatment of unmet medical needs. Ruconest® (conestat alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of angioedema attacks in patients with HAE in the US, Israel, all 28 EU countries plus Norway, Iceland and Liechtenstein.

Ruconest is commercialised by Pharming in Austria, Germany and the Netherlands.

Ruconest is distributed by Swedish Orphan Biovitrum AB (publ) (SS: SOBI) in the other EU countries and in Azerbaijan, Belarus, Georgia, Iceland, Kazakhstan, Liechtenstein, Norway, Russia, Serbia and Ukraine.

Ruconest is partnered with Salix Pharmaceuticals, Inc. (NASDAQ: SLXP) in North America.

Ruconest is also being investigated in a randomised Phase II clinical trial for prophylaxis of HAE and evaluated for various additional follow-on indications. Pharming has a unique GMP compliant, validated platform for the production of recombinant human proteins that has proven capable of producing industrial volumes of high quality recombinant human protein in a more economical way compared to current cell-based technologies. Leads for Enzyme Replacement Therapy (ERT) in Pompe, Fabry's and Gaucher's diseases are under early evaluation. The platform is partnered with Shanghai Institute of Pharmaceutical Industry (SIPI), a Sinopharm Company, for joint global development of new products. Pre-clinical development and manufacturing will take place at SIPI and are funded by SIPI. Pharming and SIPI initially plan to utilise this platform for the development of recombinant human Factor VIII for the treatment of Haemophilia A.

Additional information is available on the Pharming website: www.pharming.com.

STRATEGIC FOCUS

- Generating value from its lead product Ruconest for treating acute HAE attacks by:
  - Commercialisation of Ruconest in the US, certain EU countries and Israel through commercialisation partners and distributors;
  - Direct commercialisation of Ruconest in Austria, Germany and the Netherlands;
  - Pursuing regulatory approvals for Ruconest in other markets;
  - Broadening the application of Ruconest to other indications, including prophylaxis of HAE, in order to expand the potential market for the product.
- Development of new Enzyme Replacement Therapies products for certain rare genetic disorders from product leads obtained from Pharming's in-house biologics technology platform.
- Leveraging the inherent value of its biologics technology platform through development of certain new compounds under strategic collaboration with SIPI.
- Pro-actively evaluating external opportunities to further enhance the development pipeline.

COMMITMENT

- Fostering an entrepreneurial culture through appropriate recognition and efficient management of opportunities and risks.
- Communicating in a timely, transparent and consistent manner to all internal and external stakeholders.
- Maintaining a high level of social and corporate responsibility. We operate to high ethical, environmental and animal welfare standards.

CEO'S STATEMENT

For Pharming, 2014 was a long-awaited year of important transitions:

After starting the year with a significant positive correction in valuation, the Company was able to solidify its balance sheet by means of a private equity placement in April that yielded net proceeds of €14.0 million.

In July, the FDA approved Ruconest for acute attacks of angioedema in patients with Hereditary Angioedema (HAE). The approval is a major milestone for Pharming. Until now, there has not been an FDA approved recombinant C1 esterase inhibitor option to treat symptoms of HAE.


Sijmen de Vries

For many years we have strived to make Ruconest available to the HAE patient community in the US, because we are aware of the great value and benefit this product adds to patients' lives. The unpredictability of HAE can make patients feel uncertain about when their next attack might strike, which is why it is important to have a medicine that can be administered by the patient themselves. The US market for acute and prophylaxis HAE continued to expand during 2014 and is now estimated at almost US$1 billion.

Ruconest was subsequently launched by US commercialisation partner Salix Pharmaceuticals, in November. In the same month the receipt of a US$20.0 million milestone payment was triggered from Salix for the first commercial sale of Ruconest in the US.

In September, the Company acquired certain assets from TRM SASU for €0.5 million in cash, including product leads for the development of Enzyme Replacement Therapies (ERT) for Pompe, Fabry's and Gaucher's disease and Factor VIII for the treatment of Haemophilia A. To facilitate optimisation of these products and to broaden the pipeline beyond the Ruconest franchise, we have set up an in-house Paris-based research group for the creation of new product leads from our biologics technology platform and for the subsequent development of the product leads to approvable products. This will be done either through the strategic collaboration with SIPI for products of mutual interest to SIPI and Pharming, such as Factor VIII for Haemophilia A or through Pharming's in-house new product development group (NPD), based in Boston. The NPD group was initiated early in 2015. Dr. Perry Calias, our newly appointed Chief Scientific Officer (CSO), will have overall responsibility for the development of these ERT programmes and will be based in Boston.

In October, we announced the initiation of direct commercialisation of Ruconest in Austria, Germany and the Netherlands. We have hired a small European team of experienced HAE commercialisation and medical affairs specialists to lead the direct commercialisation activities in these countries. This step forward into direct commercialisation of Ruconest became possible as result of our improved balance sheet and opens up new opportunities for Pharming to not only grow revenues, but also, as those revenues build, to put in place the right size of specialist commercial infrastructure which could, over time, be leveraged through the marketing of other products.

Another potential driver of such transition is the ongoing Phase II study for Ruconest in the additional indication of prophylaxis of HAE. This study is the first step of a 50/50 shared cost development programme with our US partner Salix. The study was started in September and is being conducted at sites in Europe and the United States.

The first patient was enrolled in early January 2015, patient enrollment for the study continues. Pharming and Salix will equally share the development costs for Ruconest for HAE prophylaxis and Pharming will receive an undisclosed milestone payment from Salix at FDA approval for this additional indication.

All of this means that we have now established a platform from which we can confidently build a financially sustainable enterprise with a pipeline beyond the Ruconest franchise.

To effectuate the transition into a financially sustainable enterprise we depend on revenues from Ruconest sales from:

- Salix launched Ruconest in November 2014 in the US. Ruconest is made available to eligible HAE patients in the US under a full service patient support programme; Ruconest Solutions.

- Swedish Orphan Biovitrum AB (Sobi) continues to be the distributor for the EU countries and former CIS countries.

- Pharming's direct commercialisation activities in Austria, Germany and the Netherlands. Early 2015, Pharming developed RucoVitae™; a full service support programme for the treatment of acute attacks of HAE with Ruconest for eligible HAE patients in Austria, Germany and the Netherlands.

- MegaPharm Ltd. launched Ruconest during the 2nd half of 2014 in Israel.

As a result of our achievements in 2014 and the ongoing development projects, we look forward with confidence to an exciting 2015, with potentially significant value-inflexion points and again increasing Ruconest sales, both from our partners and as a result of our own commercialisation activities.

I would like to thank all of our employees, investors and partners for their ongoing commitment and support during 2014 and for keeping faith in Pharming's potential to be unlocked. I look forward to the continued delivery on our challenging objectives during what promises to be yet another very busy year in the continuing transition of Pharming.

Leiden, 18 March 2015

Sijmen de Vries
Chief Executive Officer and Chairman of the Board of Management

MANAGEMENT REPORT

OPERATING REVIEW 2014

Highlights:

- Following the FDA approval for the treatment of acute attacks of angioedema in patients with Hereditary Angioedema (HAE), Ruconest was launched in the US in November 2014.
- Receipt of a US$20.0 million milestone payment in November 2014 from US partner Salix Pharmaceuticals for first commercial sale of Ruconest in the US.
- As a result of the continued roll-out of Ruconest across Europe and the initial sales in the US, revenue from product sales increased from €0.9 million in 2013 to €3.0 million in 2014.
- Announced the initiation of direct commercialisation activities in Austria, Germany and the Netherlands; a small team of HAE commercialisation and medical affairs experts was hired.
    - Developed RucoVitae™, a full service programme for the treatment of acute attacks of HAE with Ruconest for eligible HAE patients in Austria, Germany and the Netherlands, during the first quarter of 2015.
- Acquired certain assets from TRM SASU, for €0.5 million in cash, including product leads for the development of new Enzyme Replacement Therapies (ERT) for Pompe, Fabry's and Gaucher's disease and rhFactor VIII for the treatment of Haemophilia A.
- Initiated a randomised double blind placebo controlled Phase II clinical trial to investigate Ruconest for the prophylaxis of HAE. The first patient was enrolled early January 2015, patient enrollment for the study continues.

During the year, the following important multi-year project was completed:

FDA approval Ruconest

After a fifteen month review cycle, on 16 July 2014 the FDA approved the BLA for Ruconest for the treatment of acute attacks of HAE. Salix Pharmaceuticals (NASDAQ: SLXP) launched Ruconest in November. Ruconest is offered to eligible HAE patients under Ruconest Solutions, a full service patient care programme.

Regional Market and Product overview

US

The transition as result of the acquisition of Santarus by Salix in January 2014 was executed smoothly. Salix took over the task of regulatory agent to the FDA from Santarus. Salix engaged in regulatory discussions regarding the development path of Ruconest in prophylaxis in HAE and the Santarus plan for development of Ruconest for acute pancreatitis.

The US market for acute and prophylaxis HAE continued to expand during 2014 and is now estimated at almost US$1 billion, mainly driven by the growth of Shire's Firazyr® in the treatment of acute attacks and an increased estimate of Berinert® sales. We estimate the acute segment at almost US$500+ million (based on Shire's, and Dyax's SEC filings and estimates of US Berinert sales).

As consideration for the licenses and rights granted under the license agreement and as compensation for the commercial supply of Ruconest, Salix will pay Pharming a tiered supply price based on a percentage of net sales of Ruconest, which starts at 30% of net sales, increasing to a maximum of 40% depending on the amount of annual net sales. The consideration is subject to reduction in certain events. Both parties also agreed to extend the partnership by exploring certain additional indications, such as prophylaxis therapy for HAE and acute pancreatitis. During 2014, under the terms and conditions of the license agreement Pharming and Salix agreed to 50/50 fund the development costs of the prophylaxis indication for HAE. Pharming is entitled to use the data of the programme for regulatory submission elsewhere and will receive an undisclosed milestone payment from Salix upon receipt of FDA approval.

Furthermore, Salix will be required to pay one-time performance milestones if they achieve certain aggregate net sales levels of Ruconest.

EU

The commercialisation of Ruconest by Sobi in the EU continues to progress. Revenues from sales to Sobi increased during 2014. In October Sobi and Pharming agreed to extend the Sobi territories by adding a number of countries representing the former CIS, and Sobi returned commercialisation rights for Austria, Germany and the Netherlands to Pharming.

At the beginning of 2015, Pharming started to provide Ruconest under the RucoVitae™ patient care programme, a full service care programme for eligible HAE patients into these markets.

China

The strategic collaboration with Shanghai Institute of Pharmaceutical Industry (SIPI), effectuated in 2013, represented an important step forward towards building a pipeline of new products using our technology platform. Under the collaboration our entire technology platform, quality assurance and quality control (QA/QC) processes, and production system are being transferred to the SIPI Shanghai facilities. Pharming and SIPI intend to develop new compounds from this facility. SIPI will fund the pre-clinical and manufacturing development; Pharming will obtain IND clearance from the EMA and the US authorities, which will enable SIPI to obtain a clinical trial permit for China. SIPI will have commercialisation rights for China and its territories. Pharming will have commercialisation rights ex-China. SIPI will supply Pharming at a “cost–plus” basis. Both parties will pay each other (reciprocal) royalties of 4% on net sales in their respective territories. The first new compound to be jointly developed is recombinant human Factor VIII for the treatment of Haemophilia A. Haemophilia A is an X chromosome linked hereditary disorder caused by defects in the Factor VIII gene that leads to lower levels of the functional Factor VIII protein. Lack of functional Factor VIII diminishes the body’s clotting ability, which in turn can lead to damaging or fatal bleeding episodes. The global Factor VIII market is worth over US$4 billion with 90% of sales in the developed markets and very high unmet medical needs in the developing markets, such as China. In addition, only approximately 50% of the world-wide estimated Haemophilia A market can currently be supplied with appropriate Factor VIII therapy. Hence, there is still a high unmet medical need in this field and the Factor VIII market is estimated to grow to US$6.5 billion in 2020.

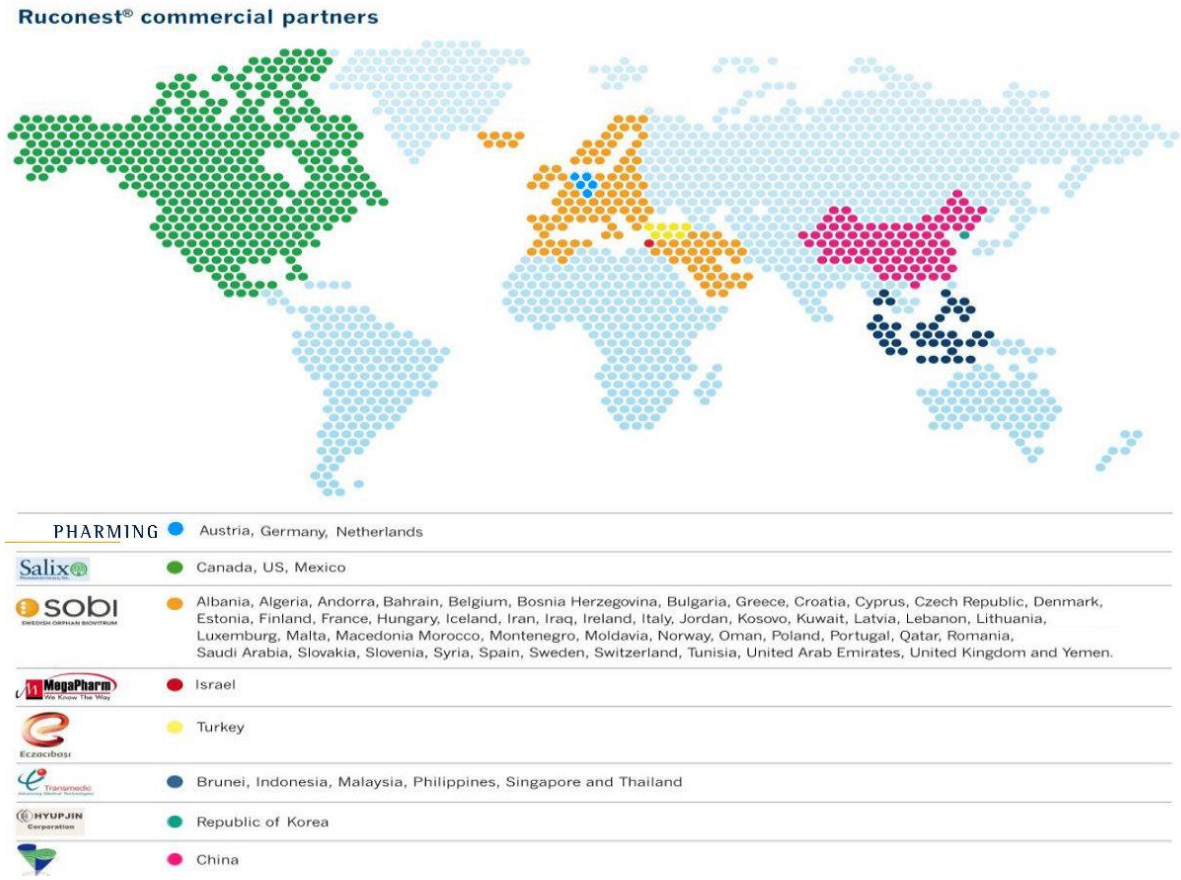
SIPI also obtained development and commercialisation rights for China and its territories for Ruconest. The manufacturing process for Ruconest is also being duplicated at SIPI, under all of the Pharming QA/QC and manufacturing standards, such that SIPI could manufacture rhC1 inhibitor for China and its territories, but could also supply Pharming in the future.

Other Markets

Ruconest was launched in Israel in 2014 by our partner MegaPharm.

The Turkish Ministry of Health materially completed all of their review activities and our Turkish partner, EIP Eczacibaşi Ilac Pazarlama A.S., is now expecting regulatory approval of our product in the course of 2015.

Although Pharming remains fully confident in the ability of all of our partners to successfully commercialise Ruconest across global territories, it should be noted that Pharming depends on its commercial partners to market its product in the various territories. Pharming is therefore also indirectly exposed to the risks of its chosen partners. We continue to believe that Ruconest is a valuable addition to the therapeutic options available to HAE patients and we continue to support our commercialisation partners in their endeavours.



Development of Ruconest

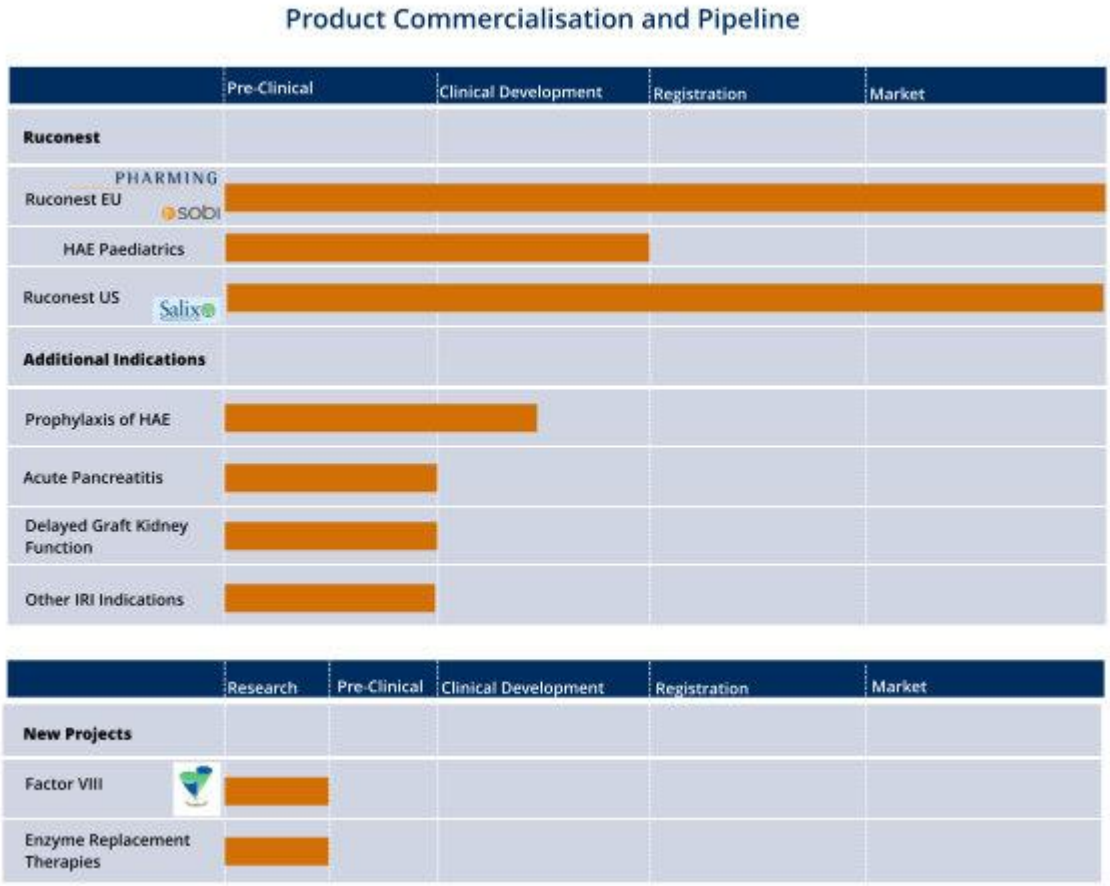
Ruconest for Heredity Angioedema (HAE)

Ruconest has been developed for the treatment of acute attacks of HAE. HAE is a rare genetic deficiency of C1 inhibitor activity resulting in recurrent attacks of local swelling (edema), which may present as abdominal pains, airway obstruction or swelling of the skin. These attacks are painful and disabling and attacks obstructing the airway can be fatal. Estimates of HAE prevalence vary between 1 in 10,000 and 1 in 50,000. Acute angioedema attacks often begin in childhood or adolescence, but due to the rarity of HAE, the disease is often not correctly diagnosed for many years. The frequency of HAE attacks varies between patients, from extreme cases with several attacks per week, to less severe cases with less than one attack per year, with an estimated average of eight treated attacks per year whilst using steroid prophylaxis.

Abdominal attacks cause abdominal pain and vomiting, potentially leading to unnecessary surgery in undiagnosed patients, and swelling of the skin leads to disfigurement, disability and pain. Untreated, attacks can last between 48 and 120 hours. Additional information about the disease is available on the international patient association's website, www.haei.org.

Administration of C1 inhibitor protein can stop these angioedema attacks. Ruconest is a recombinant version of the human protein C1 inhibitor (rhC1INH). It is produced through Pharming's proprietary technology in milk of transgenic rabbits. Ruconest offers higher purity and batch consistency compared to plasma derived C1 inhibitors and no risk of human virus transmission.

The 50 U/kg dose studied and approved in the EU, US and Israel and under review with the Turkish Ministry of Health, restores C1INH function to physiological levels and is a highly effective treatment of acute HAE attacks.



Additional indications for Ruconest

HAE in children

Pharming is conducting an open-label Phase II clinical study evaluating Ruconest for the treatment of acute attacks of angioedema in paediatric patients with HAE. The Ruconest paediatric study has been agreed with the European Medicine Agency's (EMA) Paediatric Committee and is expected to enrol approximately 20 patients, from 2 up to and including 13 years of age. This study, if successful, could broaden the label for Ruconest in Europe and also has the additional benefit of extending the regulatory exclusivity period, both of which are commercially important. Ruconest has regulatory exclusivity in Europe until late 2025 and paediatric exclusivity will add another six months, extending the exclusivity period to 2026.

In 2013 we received feedback from the EMA on the clinical data in treating adolescent HAE patients (ages 14-17 years) with Ruconest. The EMA agreed with our proposal that based on the data in 16 adolescents treated for 50 HAE attacks, no further clinical studies are required in this population. Pharming is reviewing regulatory options to expand the Ruconest EU label to include adolescents on the basis of this data.

Prophylaxis in HAE

Ruconest has been developed as treatment for acute HAE. In acute therapy, each individual attack is treated. In prophylaxis therapy, the patient receives the drug on a regular basis with the intention of preventing or reducing the frequency of attacks. In the US, the market size of prophylactic therapy segment in HAE is significant. Cinryze® (previously marketed by Viropharma Inc, now by Shire plc), which in the US is only approved for the prophylactic indication, had US sales in 2014 of almost US$500 million.

Following the results of our encouraging open label exploratory study (OPERA) with Ruconest in HAE prophylaxis in 2013, we engaged in discussions with FDA to obtain regulatory guidance towards obtaining a label for the prophylaxis of HAE. These discussions were initiated with our US commercial partner Santarus (acquired by Salix), and we initiated a double blind randomised placebo controlled Phase II trial in the second half of 2014.

Ischaemia-Reperfusion Injury

Ischaemia-Reperfusion Injury (IRI) is a complication arising from lack of oxygen due to an interruption of the blood supply (ischaemia) and subsequent resolution (reperfusion) resulting in tissue damage. This can occur in a transplanted organ, in the brain as a result of stroke and in the heart in the case of myocardial infarction ('heart attack'). It has been shown in various pre-clinical models that Ruconest can limit the extent of the IRI.

Dr. Thierry Hauet and colleagues from the University of Poitiers showed that Ruconest was effective in reducing IRI in a pig model when given to recipient animals prior to kidney transplantation. In addition to the short-term effects, it was demonstrated that treatment with Ruconest results in long-term beneficial effects on kidney function and morphology. These data support the assumption that prevention of IRI improves donor kidney function and graft survival.

In addition to the work in transplantation, Pharming is continuing its collaboration with the US Army Institute of Surgical Research (US Army) to evaluate the potential for Ruconest to reduce IRI in haemorrhagic shock, a serious complication of civilian and military traumatic injuries. Further results are expected this year and we are exploring options, together with the US Army, on how to move the development of Ruconest forward in this important indication. Together, the data provide strong support to evaluate Ruconest in clinical conditions with IRI, such as transplantation and acute myocardial infarction.

Acute Pancreatitis

Acute Pancreatitis (AP) is an acute inflammatory disorder of the pancreas for which there are currently no approved medical therapies. With approximately 300,000 hospitalisations per year in the US (an increase of more than 2-fold since 1988), AP represents the single most frequent gastrointestinal cause of hospital admissions. AP begins as a local process in the pancreas and eventually results in systemic activation of the contact and complement inflammatory cascades, leading to organ failure and death in severely affected patients.

Based on the broad anti-inflammatory properties of C1 esterase inhibitor (C1INH), plasma-derived C1INH (pdC1INH) and recombinant C1INH (rhC1INH) have been studied in a variety of clinical conditions and animal models of numerous conditions involving contact and complement system activation with a vascular/capillary leak component. These studies have included models of pancreatitis, sepsis, and thermal injury. On the whole, these studies suggest that rhC1INH may be able to interrupt the pro-inflammatory processes in patients with AP, and thereby resolve the ongoing systemic inflammatory response syndrome to ultimately prevent the complications related to AP.

Santarus began exploring clinical and regulatory strategies to evaluate Ruconest for the treatment of AP. This included discussions with FDA on a pre-IND briefing package for a Phase II clinical study. Salix is now further evaluating the opportunity in AP and will carry on the next steps in development work for this indication.

Pipeline development

With the acquisition of certain assets of TRM, a private French company in liquidation, for € 0.5 million in cash, access was gained to four potential new product leads (founder rabbits); recombinant human alpha-glucosidase for the treatment of Pompe disease, rh-alpha-galactosidase for the treatment of Fabry's disease, rh-beta-glucocerebrosidase for the treatment of Gaucher's disease and rhFactor VIII for the treatment of Haemophilia A.

In addition, Pharming gained access to transgenic rabbit founder technology and know-how developed by TRM. A small (French) research group was formed to facilitate further optimisation of these product leads, the further enhancement of the rabbit founder technology & know-how and for the generation of additional potential future products.

As next step, a Chief Scientific Officer; Dr. Perry Calias, was hired. Dr. Calias is highly skilled in development of Enzyme Replacement Therapies (ERT) and in order to take advantage of the available ERT development networks and expertise, Pharming also plans to open a small R&D office in Boston, Massachusetts. This group initiated the prioritisation of the assets acquired from TRM, taking into account developability, unmet medical need and commercial potential of the acquired assets. Dr. Calias will be based in Boston and will split his time between Boston, Paris and Leiden.

FINANCIAL REVIEW 2014

The financial objectives for 2014 were focussed on:

- accessing capital to ensure that the Company had sufficient resources to fund the operations while the BLA process with the US FDA was ongoing and to provide working capital to build up a stock of finished goods to prepare for further commercialisation;

- identification and acquisition of new development projects to leverage the technology platform and create a development pipeline.

Gross profit

Gross profit increased from €5.7 million in 2013 to €17.8 million in 2014, mainly as a result of a milestone payment from Salix and increased product sales in the EU.

Revenues increased to €21.2 million, from €6.8 million in 2013. The increase is mainly a result of the receipt of a US$20.0 million (€16.0 million) milestone payment from US partner Salix in 2014, following the launch of Ruconest in the US, while the Company received a US$5.0 million (€3.8 million) milestone payment in 2013.

Revenues from product sales increased to €3.0 million (2013: €0.9 million) due to higher sales in the EU and first sales (€0.3 million) in the US. Other license fee income increased to €2.2 million from €2.1 million in 2013. This license fee income reflects the release of accrued deferred license fees following receipt of in total €21.0 million upfront and milestone payments in 2010 and 2013 from Sobi, Salix and SIPI.

Cost of product sales in 2014 amounted to €2.9 million (2013: €0.5 million). In 2014 the Company incurred €0.6 million (2013: €0.6 million) of impairment of inventories related to cost of goods exceeding the anticipated sales price for the product.

Operating costs

Operating costs increased to €15.0 million from €12.8 million in 2013. The increase is a result of the combined effect of the start of a Phase II clinical study of Ruconest as prophylaxis for HAE, the expenses related to the (non-cash) accrual for share-based compensation as well as the expansion of the workforce, mainly in research and development.

Research and Development costs increased to €11.7 million from €10.2 million in 2013 and General and Administrative costs increased to €3.3 million in 2014 from €2.5 million in 2013.

Operating result

Mainly as a result of the receipt of a US$20.0 million milestone in November, the operating result improved from a loss of €6.9 million in 2013 to an operating profit of €2.9 million in 2014.

Financial income and expenses

The 2014 net loss on financial income and expenses was €8.6 million, compared to a €8.1 million net loss on financial income and expenses in 2013. The 2014 financial expenses included losses due to the increase of the fair value of outstanding and exercised warrants of €9.1 million.
The 2013 financial income and expenses included settlement losses of the convertible bonds in the amount of €4.6 million and effective interest of the convertible bond of €3.2 million.

Net result

As a result of the above items, the net loss decreased by €9.3 million to €5.8 million in 2014 (2013: €15.1 million). The net loss per share for 2014 decreased to €0.015 (2013: €0.071).

Inventories

In preparation of further commercialisation of Ruconest, the inventories of Ruconest, including work in progress and skimmed milk, increased from €4.8 million at year-end 2013 to €13.4 million at year-end 2014.

Cash flows

Total cash and cash equivalents (including restricted cash) increased by €15.2 million from €19.2 million at year-end 2013 to €34.4 million at the end of 2014. The increase follows from net cash outflows from operations of €2.6 million and investing activities of €0.7 million with net cash inflows from financing activities amounting to €18.0 million and exchange rate effects amounting to €0.5 million. Net cash flows from financing activities mainly follow from the April 2014 equity issue of net €14.0 million and the exercise of warrants of €4.6 million.

Equity

Since the private placement in October 2013, the Company's equity position is positive and amounted to €29.8 million at year-end 2014 (2013: €5.0 million). In addition, it should be noted that the Company has an amount of deferred license fee income (year-end 2014: €12.2 million) regarding non-refundable license fees received in 2010 and 2013 which fees will be recognised in the statement of income over the term of the license agreements involved.

Performance of Pharming shares

During 2014 our stock enjoyed a sharp increase in valuation, which enabled a non-discounted placement with a net yield of €14.0 million in April, which provided a significant strengthening of the balance sheet and allowed for planning the development of our pipeline which was initiated with the acquisition of certain assets of TRM.

OUTLOOK

Following the Ruconest launch in the US, the Company continues to invest in purification of sufficient quantities of Ruconest, out of the existing bulk inventory buffers (frozen milk).

The Company also expects to make investments in the continuing Phase II clinical trial for prophylaxis of HAE, which is a 50/50 cost sharing project with US partner Salix.

In addition the (early) development of new pipeline projects driven by the French Research Group and the Boston-based NPD group, will require new investments.

Direct commercialisation in Austria, Germany and the Netherlands will require investments.

The Company continues to support its partners to market its products in the various territories in order to grow sales as it believes that Ruconest is a valuable addition to the therapeutic options available to HAE patients.

GOING CONCERN

Pharming's 2014 financial statements have been drawn up on the basis of a going concern assumption.

The 2014 year-end cash balance of €34.4 million is expected to fund the Company for at least one year from the date of the report. The receipts from commercial supply of product to our partners in the EU, Israel and the US and proceeds from direct sales in Austria, Germany and the Netherlands will further increase our financial reserves.

Pharming has a history of operating losses and anticipates that it will continue to incur losses until such quantities of Ruconest are sold, that the proceeds to Pharming from such sales have become sufficient to off-set our losses.

Presently, no assurance can be given both on the timing and size of future profits and if profitability can ever be achieved on this basis.

In addition, to the extent the Company needs to raise capital by issuing additional shares, shareholders' equity interests will be diluted.

SUMMARY OF GOALS FOR 2015

- Achievement of (internal) market share/sales targets for Ruconest, in the US by Salix Pharmaceuticals.
- Achievement of (internal) market share/sales targets for Ruconest in Europe and other territories by our partners Sobi and MegaPharm and by direct commercialisation in Austria, Germany and the Netherlands.
- Completion of the Phase II randomised clinical trial of Ruconest for the prophylaxis of HAE.
- Prioritisation of new development projects and execution of the new products' early development plans.
- Develop the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

No guidance on total revenues from sales is provided for the financial results in 2015.

STATEMENT OF THE BOARD OF MANAGEMENT

On the basis of the above and in accordance with best practice II.1.5 of the Dutch corporate governance code effective as of 1 January 2009, and Article 5:25c of the Financial Markets Supervision Act, the Board of Management confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and confirms that these controls functioned properly in the year under review. It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realisation of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

The Board of Management declares that to the best of its knowledge and in accordance with applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the Management Report incorporated in this Annual Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and certain risks associated with the expected development of the group. For a detailed description of the risk factors, we refer to the 'Corporate governance and risk management' chapter in this report.

Leiden, 18 March 2015

The Board of Management

The original copy has been signed by the Board of Management

MANAGEMENT OF THE COMPANY

MANAGEMENT STRUCTURE

Pharming has a two-tier board structure, consisting of a Board of Management (in Dutch: Raad van Bestuur) and a Board of Supervisory Directors (in Dutch: Raad van Commissarissen).

MANAGEMENT POWERS AND FUNCTION

The Board of Management is entrusted with the management of the Company and is responsible for the policy and the central management of the Company under the supervision of the Board of Supervisory Directors. The Board of Management is authorised to commit the Company in contractual obligations to third parties. The Board of Management has adopted the Board of Management Regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Management.

The Board of Supervisory Directors is charged with supervising the policy of the Board of Management and the general course of the Company's affairs and the enterprise connected therewith. The Board of Supervisory Directors assists the Board of Management by rendering advice. In performing their duties, the members of the Board of Management are obliged to act in the best interests of the Company and the enterprise connected therewith. The Board of Supervisory Directors has adopted the Board of Supervisory Directors Regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Supervisory Directors.

The members of the Board of Management and the members of the Board of Supervisory Directors are appointed at a General Meeting of Shareholders from nominations made by the Board of Supervisory Directors. If the nomination comprises two or more persons for each vacancy, the nomination shall be binding. In addition, the Board of Supervisory Directors is authorised to make a non-binding nomination for a vacancy, consisting of one person. If the Board of Supervisory Directors fails to submit the nominations in time, the General Meeting of Shareholders has the authority to appoint any person it chooses. Notwithstanding the foregoing, the General Meeting of Shareholders may at all times, by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital, deprive the nominations of their binding effect. The General Meeting of Shareholders may adopt or reject a non-binding nomination by a resolution adopted with a majority of the votes cast.

The members of the Board of Management and the members of the Board of Supervisory Directors may at any time be suspended or dismissed by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital. The members of the Board of Management may also be suspended by a resolution of the Board of Supervisory Directors.

If in the aforementioned cases, the quorum of one third of the Company's issued share capital is not met, a new meeting will be convened in which a nomination can be rejected or a dismissal or suspension can be resolved by a majority of the votes cast.

COMPOSITION BOARD OF MANAGEMENT

During 2014, the Board of Management was composed of the following members:

Name	Position	Member since	Term
Mr. Sijmen de Vries	Chief Executive Officer	13 October 2008	Up to AGM in 2017
Mr. Bruno Giannetti	Chief Operations Officer	1 December 2006	Up to AGM in 2015

Sijmen de Vries, MD MBA (1959)

Title	Chief Executive Officer
Nationality:	Dutch
Date of initial appointment:	13 October 2008
Other current board positions:	Mr. De Vries holds non-executive directorships in Midatech Pharma plc and Sylus Pharma Ltd.

During 2014, Mr. De Vries was responsible for the overall management of the Company including financial accounting, investor relations and IT. Mr. De Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joined Pharming from Switzerland-based 4-Antibody where he was CEO. Mr. De Vries has also been CEO of Morphochem AG and prior to this he worked at Novartis Pharma and Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc where he held senior business and commercial positions. Mr. De Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

Bruno M.L. Giannetti, MD PhD (1952)

Title:	Chief Operations Officer
Nationality:	Italian
Date of initial appointment:	1 December 2006
Other current board positions:	Mr. Giannetti holds no other board positions.

During 2014, Mr. Giannetti was responsible for the Company's operations including research and development and manufacturing activities as well as medical governance and non-clinical and clinical development, regulatory affairs, drug safety, and medical information teams. He has more than 25 years of experience in the pharmaceutical and biotech industry. Previously, he was the President and founder of CRM Clinical Trials GmbH (now Topcro GmbH), CEO of AM-Pharma B.V. and President and CEO of Verigen AG. He has served as senior management consultant for pharmaceutical R&D projects at Coopers & Lybrand (in Switzerland and the UK). Mr. Giannetti was also worldwide Vice-President Marketing and Medical Information at Immuno, Austria and Head of Clinical Research at Madaus AG. Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn and has been appointed visiting Professor at the Pharmaceutical Faculty of the University of Seville (Spain).

COMPOSITION BOARD OF SUPERVISORY DIRECTORS

During 2014, the Board of Supervisory Directors was composed of the following Members:

Name	Position	Member since	Term
Mr. Jaap Blaak	Chairman	23 May 2007	Up to AGM in 2015
Mr. Juergen Ernst	Vice Chairman	15 April 2009	Up to AGM in 2017
Mr. Barrie Ward	Member	23 May 2007	Up to AGM in 2015
Mr. Aad de Winter	Member	15 April 2009	Up to AGM in 2017

Jaap Blaak, MSc (1941)
Chairman, member of the Remuneration Committee
Nationality: Dutch
Date of initial appointment: 23 May 2007
Other current board positions: Mr. Blaak is co-founder & shareholder of VenGen Holding B.V. and the founder & shareholder of TailWind B.V.

Mr. Blaak has held managerial positions with Hoogovens and Indivers N.V. and Interturbine Holding B.V. in the Netherlands, US, Germany and Singapore. In 1983, he was involved with the foundation of the MIP Equity Fund, one of the largest venture capital groups in Europe, and was appointed CEO in 1986. MIP made several investments in Life Sciences companies and was the driving force behind the BioScience Park in Leiden. MIP merged with the ABN AMRO Venture Capital Group to form AlpInvest in 1990. Mr. Blaak has been an advisor to the Dutch Ministry of Economic Affairs for the Biopartner and Technopartner Program and other innovative projects related to Entrepreneurship and Innovation. Amongst others, Mr. Blaak has held non-executive directorships in FlexGen Holding B.V., to-BBB Holding B.V. and Centocor B.V. Mr. Blaak holds an MSc in Physics and Business Economics from the Free University of Amsterdam and followed the Advanced Management Program of the Harvard Business School (AMP '81).

Juergen H.L. Ernst, MBA (1939)
Vice Chairman, member of the Audit, Corporate Governance and Remuneration Committees
Nationality: German
Date of initial appointment: 15 April 2009
Other current board positions: Mr. Ernst is lead director of the supervisory board of Aeterna Zentaris Inc.

Mr. Ernst has extensive senior level experience in the field of pharmaceutical development and marketing. From 1969 until 1989 he held several positions at Kali-Chemie AG (subsidiary of Solvay SA), including Head of Pharmaceutical Marketing and Head of Pharmaceutical Division. In 1989, Mr. Ernst continued his career at Solvay and held several positions until he retired in 2004. Amongst others, Mr. Ernst was chairman of the supervisory board of Aeterna Zentaris Inc., member of the board of Pharmaceutical Division, CEO of Health Divisions, General Manager Pharmaceutical Sector and supervisory director and member of the Executive Committee. Mr. Ernst holds an ISMP Degree from Harvard University and an MBA from the University of Cologne.

J. Barrie Ward, PhD (1938)
Member, Chairman of the Corporate Governance and Remuneration Committees and member of the Audit Committee
Nationality: British
Date of initial appointment: 23 May 2007
Other current board positions: Mr. Ward is a board member of BergenBio AS and ADC Therapeutics SARL.

Mr. Ward has a broad international network and experience in managing and financing biopharmaceutical companies. He has held senior management positions in the UK, US and Singapore at several pharmaceutical and biotechnology companies, including Glaxo Group Research Ltd, Virus Research Institute Inc., Avant Immunotherapeutics Inc and KuDOS Pharmaceuticals Ltd. and board positions at Cancer Research Technology Ltd. and Spirogen SARL and CellCenteric Ltd. His most recent senior management position was CEO of KuDOS Pharmaceuticals Ltd, which was sold to Astra-Zeneca in 2006. Mr. Ward holds a PhD in microbiology from the University of Bath, UK.

Aad de Winter, LLM (1953)
Member, Chairman of the Audit Committee and member of the Corporate Governance Committee
Nationality: Dutch
Date of initial appointment: 15 April 2009
Other current board positions: Mr. De Winter holds no other board positions.

Mr. De Winter has extensive financial experience. He started his career at AMRO Bank in 1980. He worked in the areas of capital markets, investment banking and institutional investor relationship management. In 1990, Mr. De Winter became senior Advisor Corporate and Institutional Finance at NIBC (formerly 'De Nationale Investerings Bank'). As of 1998, Mr. De Winter was at NYSE Euronext (now Euronext), Amsterdam responsible for advising and admitting companies to the stock exchange in Amsterdam as Director Listing & Issuer Relations. As of January 2009, Mr. De Winter is an Associate Partner of First Dutch Capital, Amsterdam and from 2008 to end of 2013, he was a member of the China and India working group at the Holland Financial Centre which was, inter alia, focused on attracting Chinese and Indian companies to a (cross) listing on the Euronext Amsterdam. He is also an Associate Partner at Nederlandsche Participatie Exchange (NPEX), an innovative online trading platform for securities of SME companies. Mr. De Winter has more than three decades of experience in assisting companies with stock exchange listings for various capital markets instruments. He holds a law degree from Erasmus University, Rotterdam, specialising in corporate law.

BOARD OF SUPERVISORY DIRECTORS COMMITTEES

The Board of Supervisory Directors has appointed from among its members an Audit Committee, a Remuneration Committee and a Corporate Governance Committee.

The Audit Committee consists of Mr. De Winter (Chairman), Mr. Ernst, and Mr. Ward. The tasks performed by the Audit Committee include reviewing the scope of internal controls and reviewing the implementation by the Board of Management recommendations made by the independent auditors of Pharming.

The Remuneration Committee consists of Mr. Ward (Chairman), Mr. Ernst and Mr. Blaak. The Remuneration Committee advises the Board of Supervisory Directors with regard to salaries, grants and awards under incentive plans, benefits and overall compensation for the individual members of the Board of Management.

The Board of Supervisory Directors decides upon remuneration of the Board of Management. The remuneration of each of the members of the Board of Supervisory Directors is determined by the General Meeting of Shareholders.

The Corporate Governance Committee consists of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. The Corporate Governance Committee is responsible for monitoring compliance with the Dutch Corporate Governance Code.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

CORPORATE GOVERNANCE

The Board wishes to draw attention to Pharming's compliance with the majority of the provisions in the prevailing Corporate Governance Code. Details of Pharming's position regarding our formal Corporate Governance Statement as required by Dutch Law can be found on our website: www.pharming.com.

RISK MANAGEMENT AND CONTROL

Pharming's Board of Management is responsible for designing, implementing and operating the Company's internal risk management and control systems. The purpose of these systems is to manage in an effective and efficient manner the significant risks to which the Company is exposed and that provide reasonable assurance that the financial reporting does not contain any errors of material importance. The Company's internal risk management and control systems are designed to provide reasonable assurance that strategic objectives can be met. The Company has developed an internal risk management and control system that is tailored to the risk factors that are relevant to the Company, allowing for its small size. Such systems can never provide absolute assurance regarding achievement of Company objectives, nor can they provide an absolute assurance that material errors, losses, fraud, and the violation of laws or regulations will not occur.
A summary of the risks that could prevent Pharming from realising its objectives is included in the section 'Risk Factors' of this report.

Our internal risk management and control systems make use of various measures including:

- Annual objective setting by the Board of Supervisory Directors and evaluation of realised objectives;
- Periodic operational review meetings of the Board of Management with departmental managers;
- Periodical updates to the Board of Supervisory Directors reviewing developments in the areas of operations, finance, research and development, business development, clinical development, and investor relations;
- Quarterly review of the financial position and projections as part of the meetings of the Board of Management with the Board of Supervisory Directors;
- A planning and control cycle consisting of annual, quarterly and monthly procedures, including budgets which incorporate both financial and operational objectives, cash flow forecasts and subsequent follow-up on achievements of targets set;
- A whistleblowers procedure, which is published on the Company's website.

An effective system of (internal) controls and procedures are maintained and these include:

- Regular meetings of the Audit Committee with each of the Board of Management and the Independent Auditor to discuss the financial results and the controls and procedures;
- Periodical update of the Risk Assessment by an internal Risk Assessment Team.

The Company maintains records and procedures designed to:

- Ensure the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only by authorised employees in accordance with documented authorisations;
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The complete internal risk management and control systems of the Company are regularly discussed by the Board of Management with the Board of Supervisory Directors, its Audit Committee and Corporate Governance Committee and, in addition, procedures and controls are reviewed and areas requiring improvement are identified in audits from external parties, for example financial and IT experts, including findings in the internal controls regarding financial reporting reported in the Management Letter of the Independent Auditor.

Pharming is subject to many risks and uncertainties that may affect its financial performance. If any of the events or developments described below (see Risk factors) occurs, Pharming's business, financial condition or results of operations could be negatively affected. In that case, the trading price of the Shares could decline and investors could lose all or part of their investment in the Shares.

With respect to the financial reporting risks reference is made to the 'Statements of the Board of Management' in this report. Refer to the 'Notes to the consolidated financial statements' under '31. Financial risk management'.

Risk factors

In the description of the risk factors below we focus on the risks we consider the main threats to achievement of our strategic goals. Although many risk factors can have been identified in a Risk Assessment, we are limiting the description to four factors that we consider the principal ones. We describe these risks together with the risk-mitigating actions we have taken to address them.

Commercial risk

Pharming faces and expects to remain confronted with intense competition in the various markets for its lead product

Several other companies develop products for the treatment of Hereditary Angioedema (HAE) attacks. Although Pharming is the sole provider of a recombinant therapy (either on the market or in development), the product will face competition from these and existing products used to treat HAE attacks. In Europe, two other human plasma derived C1 inhibitor products and one product using another mechanism of action have been approved, each for the treatment of acute HAE attacks. In the US one human blood plasma derived C1 inhibitor product and two products with alternative mechanisms of action have been approved for certain types of acute HAE attacks as well as one human blood plasma derived C1 inhibitor product for preventive treatment (prophylaxis) of HAE attacks. As a consequence, Pharming's commercialisation partners; Salix Pharmaceuticals, Sobi and MegaPharm and Pharming's direct commercialisation in Austria, Germany and the Netherlands may together not obtain sufficient market penetration with Ruconest to allow Pharming to become profitable.

Pharming's future success depends upon the commercial strength of its partners

Our strategy for the commercialisation has been to partner or out-license our products to third parties. We have established partnerships for the most important markets, the United States of America and Europe, to Salix and Sobi, respectively. Therefore the commercial success of our lead product Ruconest is to a very significant extent dependent on the capabilities of these partners to distribute and sell our product in their sales regions.

Our products may not gain market acceptance

Sales of medical products depend on physicians' willingness to prescribe the treatment, which is likely to be based on a determination by these physicians that the products are safe and efficacious from a therapeutic and cost perspective relative to competing treatments. We cannot predict whether physicians will make this determination in respect of our products. Even if our products achieve market acceptance, the market may prove not to be large enough to allow us to generate sufficient revenues.

Disappointing reimbursements paid by third parties and disappointing cost-effectiveness of Pharming's products once approved for marketing may have a material adverse effect on Pharming's financial results

Pharming's success is dependent on the reimbursement of Ruconest by third parties like the government health administration authorities, private health insurers and other organisations. There is an increasing tendency of health insurers to reduce healthcare cost by limiting both coverage and the level of reimbursement for new therapeutic products and by refusing, in some cases, to provide coverage altogether.

In addition to reimbursements from third parties, the Company, if it succeeds in bringing a product to the market, also faces uncertainties about the cost-effectiveness of the product. The prices for the product that health care insurers and/or consumers are willing to pay may be lower than the production costs which may make the product uncompetitive.

Development of additional indications of HAE

The prophylaxis segment of HAE appears an attractive addition to the current product and could add significant additional value to the market. Failing to develop and commercialising this additional product could influence future success.

Pharming faces significant margin pressure

With the increasing pressure on healthcare costs in general and pharmaceuticals pricing in particular, the importance of a competitive COGS (Cost of Goods Sold) increases. This applies in particular to low-risk development projects such as fast followers and biosimilars. In most cases the Pharming platform should be able to deliver lower COGS than current competing cell-based systems. On the other hand Pharming will only be able to provide good margins, if the sales will achieve certain minimal volumes triggering a decrease of COGS.

Pharming's supplies of Ruconest are dependent on third parties

Pharming has entered into (downstream) manufacturing and supply agreements for the production of rhC1INH (conestat alfa), the drug substance of Ruconest, namely with Sanofi Chimie S.A. (Sanofi) and Merck Sharp & Dohme B.V. (MSD). The possibility exists that these partners fail to live up to the agreements made with them.

Risk-mitigation actions

Pharming has established partnerships in the most important geographical areas with partners, capable of commercialising Ruconest in their local markets. The North-American market, which we believe is the most important one, has been partnered with Santarus, which was acquired by Salix in January 2014. Salix is a company with an excellent commercialisation track record. The European market has been partnered with Sobi.

Sobi has a specialised sales team that works closely with the physicians that treat the HAE patients in order to gain market acceptance for our product.
Recently Pharming initiated commercialisation in Austria, Germany and the Netherlands.

The issue of reimbursement mainly affects the European market. Sobi is addressing this on a country-by-country basis, and insofar (part-) reimbursement has been obtained in the majority of the EU countries. In the US, the product, once approved, will have to be covered under the various reimbursement programmes that are applicable for various groups of US citizens.

Information on sales progression and marketing and sales planning and execution will be exchanged on a regular basis with our commercial partners through Joint Steering Committees. To ensure the development of prophylaxis HAE Pharming carefully evaluates the development costs and risks together with their US partner Salix. Correct execution of the clinical trial programme will be closely monitored.
Continuous evaluation and implementation of improvements in both up-stream and down-stream manufacturing processes should reduce the COGS and the margin pressure.

Furthermore Pharming has started to mitigate the issue of dependency on third parties in the downstream production process, however it will take several years before this mitigation has been fully implemented to cover all aspects of the downstream production process, including inspection and approval by governmental regulatory agencies. The chosen approach is to engage other partners to create alternatives and/or additional capacity to existing suppliers in an effective and cost-efficient way.

Macro risks

The macroeconomic environment is volatile

The macro environment cannot be influenced by Pharming, however, it does have impact on Pharming's risk assessment. The biotech industry historically has been resilient through the economic cycle, however the current economic downturn is impacting all industries, including biotech, especially through the limited availability of funds. The US market is reviving since the year 2014 and also the EU market is slowly recovering.

High profile failures of biotech companies alters investment environment

Next to economic behaviour investors in biotechnology are also driven by sentiment and news flow. Performance of other biotech companies have an impact on the investment environment. This could also have an impact on Pharming's stock price development and availability of funding.

Risk-mitigation actions

Pharming tries to mitigate the impact of the macro environment by planning financing activities well in advance to ensure that the Company is not running out of cash. In order to do so, Pharming maintains relationships/contacts with an international spread of banks and investors. Besides that Pharming needs to identify the different audiences, determine their relative importance for the Company's immediate future and assess the information needs for the audiences. Pharming communicates important developments in press releases, on their website and in the annual report.

Research

Pipeline is dependent on C1 franchise

Up to now the pipeline has been heavily dependent on C1 franchise as this was the only viable product available. Any negative finding on the properties, efficacy or safety of the rabbit derived rhC1INH may have a vital impact on the Company's existence.

Pipeline is early stage

Since 2011 the Pipeline Team Pharming has been focusing on identifying potential projects with a relatively short development time based on the assumption that the main advantage of a potential new product as compared to existing alternatives on the market should derive from the advantages provided by the Company's proprietary rabbit platform including a significant commercial upside due to lower cost of goods.

Risk-mitigation actions

The Company is looking to further reduce the development timelines by searching for new projects in areas where core competence and know-how are already available in the Company.

A set of new activities to expand the pipeline according to the results of the Pipeline Team has been implemented including but not limited to:

- Collaboration with US company Renova Life to produce Factor VIII transgenic rabbits (achieved, Factor VIII expression to be tested);
- Assets of the French Company TRM SASU were acquired to expand rabbit platform (alpha-glucosidase, alpha-galactosidase, Factor VIII and beta-glucocerebrosidase). Transgenic rabbits for Factor VIII, a-Glu and a-Gal have been produced – milk expression is still to be verified.

Financial risks

Finance organisation

Since 2012 the Chief Financial Officer (CFO) role within the Company has been combined with the position of the CEO. As the Company further develops, its financial complexity will be increasing thus requiring strengthening of its financial functions to create more balance and control in both management and operations.

At the moment an interim Finance Director is contracted. Going forward we have the intention to identify a suitable candidate to become CFO.

The Company is dependent on access to external funding

Pharming does not yet generate sufficient cash from product revenues to meet its current working capital requirements and is, as has been the case since its incorporation, partially dependent on financing arrangements with third parties. The ability of Pharming to attract external funding is (inter alia) dependent on the external market conditions (equity and/or debt), the Company's ability to generate cash inflows from supplying Ruconest to its commercialisation partners and proceeds from direct commercialisation.

Pharming has a history of operating losses and will continue to incur losses. No assurance can be given that we will achieve profitability in the future. Furthermore, if our products do not gain all regulatory approvals sought, or if our products do not achieve market acceptance, we may never achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

We expect to need additional funding in the future, which may not be available to us on acceptable terms, or at all, which could force us to delay or impair our ability to develop or commercialise our products. There can be no assurance that additional funds will be available on a timely basis, on favourable terms, or at all, or that such funds, if raised, would be sufficient to enable us to continue to implement our long-term business strategy. If we are unable to raise such additional funds through equity or debt financing, we may need to delay, scale back or cease expenditures for some of our longer-term research, development and commercialisation programmes, or grant rights to develop and market products that we would otherwise prefer to develop and market ourselves, thereby reducing their ultimate value to us. In addition, to the extent we raise capital by issuing additional shares, shareholders' equity interests will be diluted.

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

The Board of Supervisory Directors, in general, supervises the Board of Management in its duty to manage the Company. It performs its duties and activities in accordance with the Articles of Association of the Company, its regulations, which are posted on the Company's website, the applicable law and the Dutch Corporate Governance Code applicable as of 1 January, 2009 (the "Code"). The supervision of the Board of Management by the Board of Supervisory Directors includes:

(a) the achievement of the Company's objectives;
(b) the corporate strategy and the risks inherent in the business activities;
(c) the structure and operation of the internal risk management and control systems;
(d) the financial reporting process;
(e) compliance with primary and secondary regulations;
(f) the Company-shareholders relationship; and
(g) corporate social responsibility issues that are relevant to the Company.

The Board of Supervisory Directors determines, together with the Board of Management, the corporate governance structure of the Company and ensures compliance with the Code and other (foreign) applicable rules and regulations, assisted by its Corporate Governance Committee. Assisted by its Audit Committee, it supervises the financial reporting process and assisted by its Remuneration Committee, it determines the remuneration of the individual Board of Management members within the remuneration policy adopted by the Annual General Meeting of Shareholders. The report of the Remuneration Committee is presented separately in this report.

COMPOSITION AND REMUNERATION

In 2014 the composition of the Board of Supervisory Directors was as follows: Mr. Blaak (Chairman), Mr. Ward, Mr. Ernst and Mr. De Winter.

The remuneration of the members of the Board of Supervisory Directors is determined by the General Meeting of Shareholders. The annual remuneration is based on the position an individual has in the Board of Supervisory Directors, the Audit Committee and the Remuneration Committee, no additional remuneration was agreed for members of the Corporate Governance Committee.

For 2014 the annual compensation was as follows (unchanged from 2013):

- Board of Supervisory Directors: Chairman €44,000 and Member €31,000;
- Audit Committee: Chairman €9,000 and Member €3,000;
- Remuneration Committee: Chairman €6,000 and Member €3,000; and
- an additional compensation of €1,000 per day is paid in case of extraordinary activities.

No current member of the Board of Supervisory Directors holds shares in the Company, however, the members of the Board of Supervisory Directors do participate in the Company's LTIP. No loans or other financial commitments were made to any member of the Board of Supervisory Directors on behalf of the Company. In the view of the Board of Supervisory Directors, best practice provision III.2.1 of the Code has been fulfilled by the Company and all members of the Board of Supervisory Directors consider themselves independent, within the meaning of best practice provision III.2.2 of the Code. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies.

ACTIVITIES

The Board of Supervisory Directors met 9 times in 2014, the individual presence of the Supervisory Directors is reflected in the following schedule:

Date	16 Jan	05 Mar	07 Apr	28 Apr	14 May
Extra participants	CEO*/ COO*/ Staff	CEO/COO/ Staff	CEO/COO/ Staff	CEO/COO/ Staff	CEO/COO/ Staff
Mr. Blaak	✓*	✓*	✓	✓	✓
Mr. Ernst	✓*	✓	✓*	✓*	✓
Mr. Ward	✓*	✓	✓*	✓*	✓
Mr. De Winter	✓*	✓	✓	✓	✓

Date	18 Jun	30 Jul	29 Oct	18 Dec
Extra participants	CEO/COO/ Staff	CEO/COO/ Staff	CEO/COO/ Staff	CEO/COO/ Staff
Mr. Blaak	✓	✓	✓	✓
Mr. Ernst	✓	✓	✓	✓
Mr. Ward	✓	✓	✓	✓
Mr. De Winter	✓	✓	✓	✓

** Joined by teleconference call*

At each of these meetings all Members attended. The Board of Management attended these meetings except when the composition, performance, remuneration of the Board of Management and the self-evaluation of the members of the Board of Supervisory Directors and its committees were discussed.
The Board of Supervisory Directors has received from each of the committees a report of its deliberations and findings.

As part of good governance, the Board of Supervisory Directors conducts a self-evaluation annually. These evaluations cover two parts; one part is the work of the Board of Supervisory Directors in relation to key objectives of the Company and the second part is the structure of the Board of Supervisory Directors to ensure that the members bring the correct skills and background knowledge for the benefit of the Company. The annual self-evaluation took place after the BOSD meeting of 18 June 2014 on the basis of a questionnaire completed by all members.

At the meetings of the Board of Supervisory Directors, the Company's financial and operational targets, strategy and accompanying risks, the latter always formulated in an appropriated Risk Assessment document, were extensively discussed. Amongst other topics, a considerable amount of time was spent on discussing regulatory issues with regard to Ruconest, the competitive landscape, partnerships, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the targets for 2014 and the operational and financial risks to which the Company is exposed.

During its meetings, the Board of Supervisory Directors paid special attention to the following risks:

- the Company's progress on the achievement of certain milestones. There is no certainty that these milestones will actually be achieved;
- the Company does not yet have a positive operational cash flow and therefore will be dependent on financial markets and/or partnership revenues for funding;
- the Company is largely dependent on the success of one key product; Ruconest in one market, the US. In other markets, the outcome of any registration process is uncertain and may be influenced by unpredictable events;
- the Company is almost entirely dependent on third party commercial performance for the receipts of proceeds from sales;

- the Company is dependent on the availability and commitment of key employees;
- the Company is active on a niche market for an orphan drug product with at least three competitors;
- the timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimise the Company's exposure. Financial risks are actively monitored by the finance department, whose findings are discussed with the Board of Management on a monthly basis or whenever deemed necessary. The finance department also maintains a close working relationship with the legal counsel and company secretary to monitor other corporate and contractual risks. The risks are further described in the 'Corporate governance and risk management' chapter in this report.

AUDIT COMMITTEE

The Audit Committee in 2014 consisted of Mr. De Winter (Chairman), Mr. Ernst, and Mr. Ward.

During the five Audit Committee meetings held in 2014, the financial statements were discussed with a special emphasis on complex transactions and the impact of IFRS related issues. In addition, the external Auditor's audit plan 2014, its management letter and board report were discussed. The main topics discussed related to revenue recognition, the valuation of inventories, the accounting for financial derivatives, the development of the finance function and funding.

The quarterly financial statements are circulated to the full Board of Supervisory Directors in advance of every Audit Committee meeting. The individual presence of its Members is reflected in the following schedule:

Date	5 Mar	28 Apr	14 May	30 July	29 Oct
Extra participants	CEO/COO/ Staff/PwC	CEO/COO*/ Staff/PwC* Mr. Blaak	CEO/COO/ Staff/PwC/ Mr. Blaak	CEO/Staff/ Mr. Blaak	CEO/COO/ Staff/PwC/ Mr. Blaak
Mr. Ernst	✓	✓ *	✓	✓	✓
Mr. Ward	✓	✓ *	✓	✓	✓
Mr. De Winter	✓	✓	✓	✓	✓

** Joined by teleconference call*

PwC = PricewaterhouseCoopers Accountants N.V.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee consisted of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. During 2014, it was decided to include Corporate Governance as a mandatory and separate topic during every meeting of the Board of Supervisory Directors. The Corporate Governance Committee did not meet separately during 2014.

A report of the Remuneration Committee can be found on pages 30-35.

FINANCIAL STATEMENTS

The Financial Statements of Pharming Group N.V. for 2014, as presented by the Board of Management, have been audited by PricewaterhouseCoopers Accountants N.V. Their report is included in this Annual Report on pages 94-100.
The Financial Statements were unanimously approved by the Board of Supervisory Directors and the Board of Management has signed these Statements.
The Board of Supervisory Directors recommends the General Meeting of Shareholders to adopt the 2014 Financial Statements and to discharge the Board of Management and the Board of Supervisory Directors from liability for their management and supervisory activities on behalf of the Company.

Leiden, 18 March 2015

The Board of Supervisory Directors

The original copy has been signed by the Board of Supervisory Directors

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee proposes the remuneration policy to the Board of Supervisory Directors as well as the remuneration of the individual members of the Board of Management. The policy includes the remuneration structure, defining the amount of fixed remuneration, shares and/or options to be granted and the variable benefits, pension rights, severance pay and other forms of compensation.

The Remuneration Committee also prepares the remuneration report that accounts for the implementation of the remuneration policy over the past financial year. It includes an overview of the remuneration policy for the next financial year and subsequent years, both in accordance with the Company's current Board of Supervisory Directors Regulations and Remuneration Committee Regulations.

The objectives of the remuneration policy are to attract, motivate and retain good management by means of a competitive policy linked to the Company objectives and the overall performance of the Board of Management and to create a long-term relationship with the Company. The Remuneration Committee recognises that the Company is increasingly competing in an international environment. The policy and its implementation are reviewed by the Remuneration Committee at least annually.

2014 REMUNERATION POLICY AND STRUCTURE

The remuneration policy for 2014 was a continuation of the 2013 policy and was approved in the Annual General Meeting of June 2014. The main items of this policy are:

- The remuneration of each member of the Board of Management consists of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long-term incentives by way of shares and/or options to shares in the Company and benefits in kind such as health insurance and participation in a pension plan, as further specified in Note 25 to the Financial Statements. In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/or extraordinary performance and/or the achievement of predetermined objectives. These contracts have included provisions for an individual bonus in cash or shares of up to 60% (for the CEO) and up to 50% for the other member(s) of the gross annual salary (including holiday allowance). Other benefits, such as health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay cannot exceed the member's gross annual salary. The notice period for each member is two months;
- Members of the Board of Management as well as other key individuals are eligible to participate in the Company's Long Term Incentive Plan (LTIP). Under the plan, participants receive shares in the Company, the number of which is dependent upon the performance of the Company share price, during a three year period, compared to a peer group of European Biotech Companies (see page 34).

MEETINGS AND COMPOSITION

During the 2014 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met three times in 2014. The individual presence of its Members is reflected in the following schedule:

Date	16 January	05 March	18 December
Extra participants	Mr. De Winter/CEO	Mr. De Winter/CEO	Mr. De Winter/CEO
Mr. Blaak	✓	✓	✓
Mr. Ernst	✓	✓	✓
Mr. Ward	✓	✓	✓

During these meetings the performance of the Board of Management in general and its individual members in particular were reviewed and discussed relative to pre-agreed targets and to define targets for the coming year. The remuneration packages, long-term incentive plan and achievements versus 2014 objectives were also discussed and agreed in the last meeting.

REMUNERATION REPORT 2014

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant 19,200,000 stock options to the Board of Management; (12,000,000 options to Mr. de Vries and 7,200,000 options to Mr. Giannetti). These options will vest in five equal tranches on 31 January of 2015, 2016, 2017, 2018 and 2019, as outlined below under the terms and conditions of the Board of Management Option Plan (as approved by the AGM on 18 June 2014), in line with the achievement of targets for the Board of Management.

The exercise price of these options, on a tranche by tranche basis, shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting. For the first tranche of 3,840,000 (2,400,000 options for Mr. de Vries and 1,440,000 options for Mr. Giannetti) this resulted in a strike price of €0.505; being the VWAP measured over the 20 trading days prior to 18 June 2014. The stock options will expire on 17 June 2019.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2014. The Remuneration Committee recommended and the Board of Supervisory Directors concurred that the Board of Management had to a major extent met the corporate and personal objectives set for 2014 and contributed to positioning the Company for the future in particular by the following accomplishments:

- Increased the value of the Ruconest franchise through support of our existing partners and through geographical expansion of partnerships and the initiation of direct commercialisation in Austria, Germany and the Netherlands;
- Built the C1 Inhibitor franchise by securing US regulatory approval and by progressing the development of C1 inhibitor in indications beyond acute HAE attacks;
- Developed the Factor VIII programme according to plan;
- Leveraged the embedded value of the transgenic technology platform by initiation of additional new projects, through the acquisitions of certain assets of TRM;
- Operated within agreed budgets at the department and company level;
- Created a basis for long-term sustainability through rationalisation of the current portfolio and concurrently broaden the portfolio with new projects, through a rational process of commercially led asset evaluations;
- Improved the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided therefore that both Mr. Giannetti and Mr. De Vries had achieved 80% of the corporate and personal objectives that had been set to determine their individual bonus award.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to pay out the regular bonus 75% in cash and 25% in shares.

The share component of the 2014 bonus payments was valued at the volume weighted average price (VWAP) measured over the 20 trading days prior to 31 January 2015 (€0.381). A detailed overview of the compensation of the members of the Board of Management can be found in note 25 of this Annual Report.

The individual remuneration of the members of the Board of Management was reviewed. In the light of the recent increases (following the FDA approval of Ruconest), it was decided not to increase the base salaries at this point in time.

REMUNERATION POLICY 2015 AND THE FUTURE

To continue to be able to attract and retain top talent in a competitive and global environment and to focus management and staff on creation of sustainable added value, total compensation continues to be significantly driven by variable performance dependent income components and continues to be kept in line with industry standards of companies at a comparable stage of development.

For 2015, the Remuneration Committee will continue to implement the compensation policy as approved at the 2010 AGM. All remuneration elements described below are consistent with and covered by the current compensation policy.

1. Fixed salary determined by the Board of Supervisory Directors.

2. Target bonus in cash and/ or shares percentage to be adapted following the FDA approval of Ruconest.

In accordance with the compensation policy approved at the 2010 AGM, the basis for the annual cash bonus shall be adapted as follows and effective from the date of receipt of the FDA approval of Ruconest:
CEO: to a maximum of 60% of annual salary.
Other Board of Management members: to a maximum of 50% of annual salary.
The issuance of any share-based bonus component for the cash bonus 2015 shall be valued at the VWAP measured over the 20 trading days prior to 31 January 2016. Payment of the bonus remains dependent on the achievement of pre-defined milestones, which are a combination of corporate and personal milestones.

Proposals on the potential award of a bonus, achievement of milestones and an increase of fixed salary is made by the Remuneration Committee towards the end of the year and formally approved by the Board of Supervisory Directors in the first meeting of the next year but in any case before or on the date of approval of the Annual Report.

The Board of Supervisory Directors has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for 2015.

The main corporate objectives for 2015 for the Board of Management can be summarised as follows:

- Increase the value of the Ruconest franchise through support of our existing partners and through geographical expansion by securing new partnerships;
- Build the C1 Inhibitor franchise by progressing the development of C1 inhibitor in indications beyond acute HAE attacks;
- Develop the Factor VIII programme according to plan;
- Leverage the embedded value of the transgenic technology platform by prioritisation and development of the new products leads according to the development plan;
- Operate within agreed budgets at the department and company level;
- Create a basis for long-term sustainability by broadening the portfolio with new projects, through a rational process of commercially led asset evaluations;
- Improve the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

For competitive reasons further details of these milestones and the personal milestones are not publicly disclosed.

3. Share options dependent on defined parameters.

From 2014 onwards, the Board of Management had the expectation that, following a considerable period of significant dilution of the share capital necessary to maintain the operations, such further highly dilutionary financings should not appear on the agenda going forward.

In the light of these expectations and in order to improve the longer-term alignment of interests of the shareholders and Board of Management, it was decided and approved by the Annual General Meeting at 18 June 2014, that share options should no longer be given annually but to grant share options in 2014 to the Board of Management that will vest in equal tranches over a five-year period going forward.
This implied that the approved 2014 option grants for the Board of Management and Staff pool are covering the period 2014-2018, with annual vesting of tranches as outlined below. No additional options are therefore now granted.

Description of the approved 2014 option grants, covering the period 2014-2018 and the division of the annually vesting tranches to the Board of Management:

	Number of options Grant 2014 for period 2014-2018	
Mr. Sijmen de Vries	12,000,000	
Mr. Bruno Giannetti	7,200,000	
	Annual vesting tranches	Parameters
Mr. Sijmen de Vries	2,400,000	Vested (strike price €0.505)
	2,400,000	In service at 31 January 2016
	2,400,000	In service at 31 January 2017
	2,400,000	In service at 31 January 2018
	2,400,000	In service at 31 January 2019
Mr. Bruno Giannetti	1,440,000	Vested (strike price €0.505)
	1,440,000	In service at 31 January 2016
	1,440,000	In service at 31 January 2017
	1,440,000	In service at 31 January 2018
	1,440,000	In service at 31 January 2019

It is proposed to reserve an additional 3,000,000 options for the Staff option pool.
The strike price of the 2015 share options grant for the Board of Management (being the second tranche of 2,400,000 options for Mr. Sijmen de Vries and the second tranche of 1,440,000 options for Mr. Bruno Giannetti) and the additional Staff option pool options for 2015 shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders (30 April 2015). Going forward the strike price of the options will be set each year at a value equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders.

In the event of a change of control of the Company all of the above options will vest immediately at the strike price of the last tranche. In case of an event resulting in a change of control and in case of the announcement of a (contemplated) public offer for the shares in the Company, the Board of Supervisory Directors can decide to settle the options for the Board of Management in cash.

4. The Long Term Incentive Plan (LTIP)

Under this LTIP, restricted shares are granted conditionally to the Board of Management and certain eligible managers each year with a target value of 30% of annual salary. These shares will vest after three years provided that the share price has increased (i.e. increased total shareholder value). The number of shares vested will be based on the relative performance of the share price compared to a group of 31 European Small Cap (< €500 million) listed companies active in Life Sciences over the preceding 36 months.

The reference group consists of the following companies:

Ablynx (BE)	Addex Therapeutics (CH)	Allergy Therapeutics (UK)
Ark Therapeutics (UK/FI)	Basilea Pharmaceutica (CH)	Bavarian Nordic (DK)
Biotie Therapies (FI)	Cellectis (FR)	Cytos (CH)
Diaxonhit (FR)	Evotec (DE)	Galapagos (BE)
Genmab (DE)	GW Pharmaceuticals (UK)	Hybrigenics (FR)
ImmuPharma (UK)	Innate Pharma (FR)	Medigene (DE)
Medivir (SE)	Morphosys (DE)	Neurosearch (DK)
Newron Pharmaceuticals (IT)	Oxford Biomedica (UK)	Photocure (NO)
Renovo (UK)	Santhera Pharmaceuticals (CH)	Ti-Genix (BE)
Transgene (FR)	Veloxis Pharmaceuticals (DK)	Vernalis (UK)
Wilex (DE)		

The vesting schedule will be as follows:

Ranking in the top	5% of the group:	100%
Ranking in the top	5-10% of the group:	80% of maximum
Ranking in the top	10-20% of the group:	60% of maximum
Ranking in the top	20-30% of the group:	50% of maximum
Ranking in the top	30-50% of the group:	20% of maximum
Ranking lower than	50% of the group:	0%

LTIP 2012 expired without pay-outs

At 1 January 2015, after three years of the three-year period of the 2012 LTIP, the Pharming share price has not increased over the period. As a result none of the allocated shares have vested.

The allocations under the 2013 and 2014 LTIP still have one and two years respectively to run. The minimum share prices (hurdles) for the 2013 and 2014 allocations to qualify for (part-)vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €0.25, being the closing price 31 at December 2012 for the LTIP 2013 and (2) €0.143, being the closing price at 31 December 2013 for the LTIP 2014.

LTIP 2015

For 2015, the Board of Supervisory Directors, following the recommendation of the Remuneration Committee, has determined that the number of shares (calculated at the closing price of 31 December 2014 of €0.389) shall be equal to 30% of each of the Board of Management's 2015 base salaries.

In addition to this, in order to be able to attract and retain members of the Board of Supervisory Directors with relevant industry experience in a competitive and global environment and in line with global pharmaceutical/biotech industry practice, the Annual General Meeting of 18 June 2014 approved to re-install the LTIP participation for the Board of Supervisory Directors according to the participating numbers of shares described below.
This results in the following allocations:

Board of Management: Mr. S. de Vries 332,884 shares, Mr. B.M.L. Giannetti 217,450 shares.
Senior managers: For a selected group of senior managers, 1,400,000 shares are available. A maximum amount of 100,000 shares per senior manager can be allocated.

Board of Supervisory Directors: Chairman 150,000 shares, Vice-Chairman and/or Board Committee Chairs 125,000 shares, other members 100,000 shares.

In the event of a change of control of the Company all outstanding LTIP share allocations will vest automatically and unconditionally. In case of an event resulting in a change of control and in case of the announcement of a (contemplated) public offer for the shares in the Company, the Board of Supervisory Directors can decide to settle the allocated shares for the Board of Management and for the Board of Supervisory Directors in cash.

The Notes to the Financial Statements contain further details with regard to the remuneration of the Board of Supervisory Directors and the Board of Management, as well as the Company's remuneration policy and pension schemes.

CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION

Our employees dedicate themselves to providing the most high end quality products. The quality, safety and efficacy of our products and the animal welfare are our top priority. Next to that, we take our obligation to behave in a sustainable, safe and responsible manner very seriously; we are aware of our responsibility towards all stakeholders. Our Corporate Social Responsibility pillars at a glance:

Medical need

Pharming is developing therapeutic products for specific rare diseases (Orphan Drug development) and other significant medical needs. Through our current product Ruconest and the development of new products currently in its pipeline, Pharming can offer alternative treatment options to patients, improve the quality of life and in some cases save lives. As such, we believe that Pharming makes a valuable contribution to society.

Patient safety

Pharmaceutical products need to be as safe as possible and fully compliant with regulatory guidelines. Therefore, in the development of therapeutics, the evaluation of safety and efficacy of the products is mandatory. Several studies need to be performed, ranging from early research studies in animals to clinical studies in healthy volunteers and patients. These studies are highly regulated and thoroughly monitored, reviewed and evaluated both by Pharming and the regulatory authorities. The risk benefit of the products in each indication under development or marketed is continuously evaluated. Findings, and Pharming's interpretation thereof, are reported to the relevant authorities according to legal timelines, and result in appropriate actions such as updating investigator brochures and product labelling. In the most extreme cases a safety concern can result in suspension of enrolment in a clinical trial or withdrawal of the product from the market.

Clinical studies are carried out in compliance with legal and regulatory requirements and according to Good Clinical Practice (GCP) guidelines. All production processes and analytical testing comply with regulatory current Good Manufacturing Practice (cGMP) guidelines and are warranted by Pharmacovigilance.

Pharming's Quality Assurance department conducts internal and external audits of manufacturing facilities, testing laboratories and suppliers of materials and services on a regular basis. All these procedures have been implemented to monitor, control, ensure and continuously improve the quality of Pharming's products.

Code of Conduct

Pharming endeavours to carry out its business fairly and honestly, at the same time taking into account the interests of all those who may in any way be affected by its activities. A good reputation is of major importance to the Company and its stakeholders. In order to achieve success, the members of the Board of Supervisory Directors, Board of Management and employees must comply with a number of behavioural standards, which have been stated in a set of general principles referred to as the Code of Conduct. This Code of Conduct has been designed to provide guidance on acting in accordance with the Company's high level of principles and standards as this is of the utmost importance for Pharming's reputation. The Code of Conduct is available on the Company's website.

Whistleblowers procedure

Pharming has a whistleblowers policy which can be found on the Company's website. This policy describes the internal reporting procedures of suspected irregularities with regard to a general, operational and financial nature in the Company. The whistleblowers procedure applies to all Pharming entities. Pharming will not discharge, demote, suspend, threaten, harass, or in any other matter discriminate against an employee in the terms and conditions of employment because of any lawful or other actions by the employee with respect to good faith reporting of complaints or participation in a related investigation.

Health and safety

Daily activities at the Company include working with materials that might harm employees and/or our environment. To create a work environment that is as safe as possible, we have created an internal Health and Safety specialist position. Our internal standard operating procedures are designed to protect our people and the environment from any harm. All employees receive safety training and training to deal with work related risks. Our extensive health and safety policy is published on the Intranet and is revised annually. The emergency response teams at our sites are trained to perform first aid, fight small fires and to manage an evacuation. Safety is continuously monitored in everything we do. For that reason we pay serious attention to education and information on all aspects of Safety.

Animal Care Code of Conduct and Welfare Policy

Pharming's transgenic technology involves animals and therefore animal safety and welfare are crucial. The Company produces products in animal systems, i.e. in the mammary glands of rabbits. Pharming's specific protein products are purified from the milk of these transgenic animals.

Pharming has an Animal Care Code of Conduct in place, which focuses on the strict regulatory control of transgenic materials and animals in regard to the environment. Our Animal Care Code of Conduct emphasises the importance of carrying out our activities with transgenic animals in a consistent and safe manner, and in conformity with the laws and regulations in force in the countries of operation.

Special attention is given to the strict separation of transgenic and non-transgenic materials and animals. In addition, the Company follows strict procedures to prevent the prohibited release of transgenic animals, their semen or any other reproductive transgenic material into nature. Pharming is largely dependent on its transgenic animals and highly values animal health and welfare. The Company has an Animal Welfare Policy, which amongst others, imposes that Pharming will not develop products with unacceptable adverse effects on animal health and welfare. Accordingly, Pharming carefully and continuously monitors the health and welfare of its animals.

Environment and traceability of supply chain

As a biotechnology company that manufactures and develops biopharmaceuticals, Pharming complies with the applicable environmental rules and regulations. Such rules include disposal of animal waste products from our farm, the environmental impact of which is compensated for.

The entire supply chain; from animal feed to animal waste products and from rabbit milk to the finished pharmaceutical product is covered by our highly detailed and fully cGMP compliant (industry standards) quality systems. Suppliers and contractors are audited on a regular basis. All elements of our operations are inspected by various specialised governmental agencies on a regular basis. As per the international biopharmaceutical regulations, the entire supply chain is fully traceable. Our staff is permanently trained and periodically requalified on a regular basis for compliance with the total quality system in our entire supply chain.

New suppliers and contractors related to our primary processes have to be pre-qualified and are therefore audited by our Quality Assurance department prior to engagement.

Our offices are located in a modern and environmental friendly building. We stimulate the use of telephone and video conferencing to limit business travel and stimulate the use of public transport, bicycles and environmentally friendly cars for business travel. Our office waste is separated prior to disposal or recycling.

Human Resources

Pharming sees its employees as the key driver of business success. Our Human Resources policy aims to assure the Company of the necessary expertise, skills and knowledge. We are committed to attracting, developing and retaining the most talented employees within our expertise field.

Pharming is operating in a fast-paced environment. Our organisation and thus our employees need to keep up with increasing internal and external changes. The biggest internal challenge in 2014 was to further evolve into a commercial driven company. New commercial departments were set up which brought new and provocative ideas and insights.
In our business field, there has been a lot of movement during 2014. Several take-overs and management buy-outs took place. As a relatively small biotech company, it is of great importance to be aware of our Unique Selling Points and strengths.
The HR initiative “Encourage to Change” has been an efficient and pleasant way to create awareness for the internal and external changes and employee satisfaction. We aim to provide a motivating working environment to increase (cross functional) collaboration, encourage employees to take ownership and responsibility and coach employees by improving management skills.

During this initiative, we redefined our internal mission and long-term vision. These parameters are “translated” by the departments into their own responsibilities. Departmental and personal action plans were created, in order to increase employee satisfaction and therewith increase productivity and thus shareholder value.
This initiative will continue during 2015, where we will primarily focus on employee growth by strategic workforce planning, succession planning, training and management development.

Employee participation

In 2013 and 2014, Pharming’s workforce counted less than 50 employees employed in the Netherlands. During the course of 2014, the term of the Works Council ended. Due to Dutch legislation, the Works Council body was therefore discontinued.
We do believe employee participation is valuable. Therefore, elections will be held to elect candidates to form a workers representative advisory council.

International human resources management

With the acquisition of certain assets of TRM, we started a recruitment strategy in France. Eventually, we hired four experienced France-based employees. With the decision to start a Boston-based ERT development group, our existing US based staff will be expanding. With these hires, our span of control is expanding globally. International management and long-distance leadership will become more important in the future.

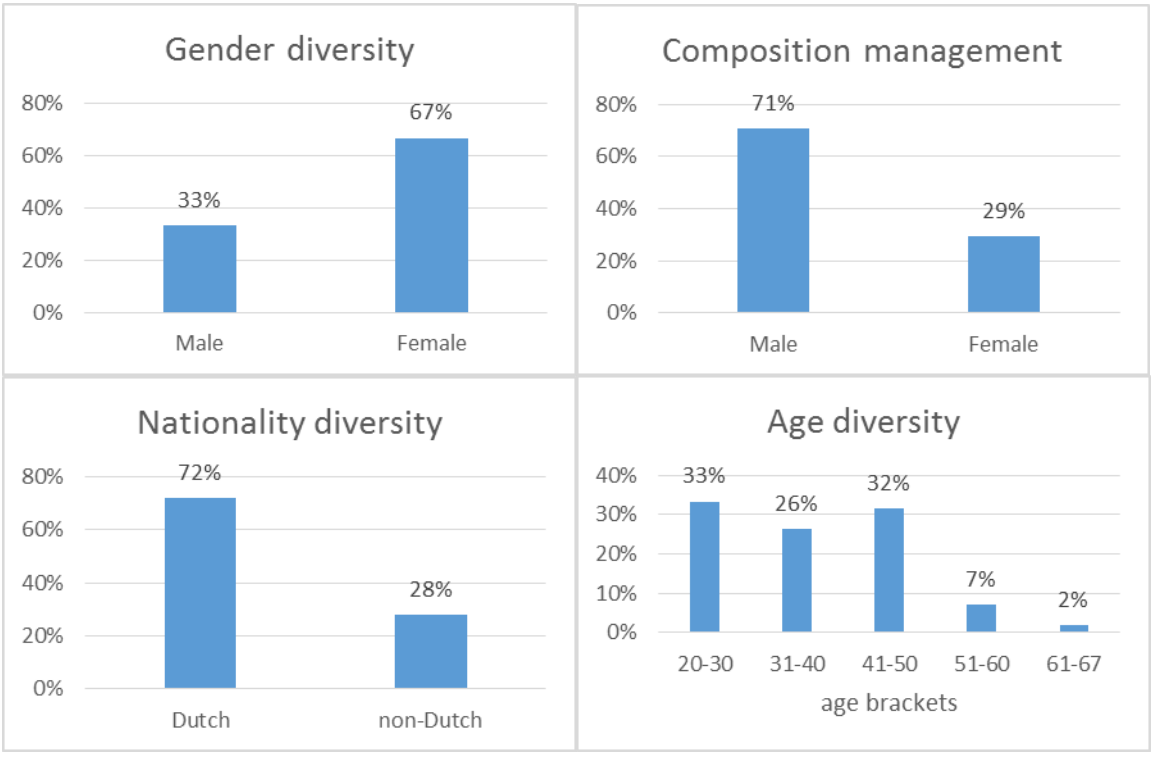
Employee statistics

As per 31 December 2014, the majority of staff is employed at Pharming's headquarters in Leiden; with approximately twenty employees working at other locations in the Netherlands, the US and France. The Company's business involves specific high-tech processes and technologies and requires the employment of highly skilled and motivated personnel. Therefore, it is important for Pharming to create an attractive work environment that retains and motivates personnel and attracts talent in a competitive and global environment.

During 2014, the Company hired 14 new employees (2013: 11) and 7 employees left the Company. As per 31 December 2014, 57 people (53.8 FTE) were employed (2013: 44).

Headcount per 31 December	2014	2013	2012
G&A	9	8	14
Manufacturing	19	16	19
R&D	29	20	28
Total	**57**	**44**	**61**

Diversity



Providing equal opportunities

We value and support diversity – of culture, gender and age – in our organisation. The relatively low number of women in senior management positions has been and remains a point for attention. However, as a small and highly specialised organisation, Pharming is committed to recruiting and promoting employees on the basis of talent and ability, without negative or positive bias and irrespective of absence of diversity in gender, nationality or age in the organisation. No reports of gender discrimination have ever been made.

Performance management cycle

Pharming carries out a yearly performance management cycle: Performance Management and Development System (PMDS). PMDS is a process for establishing shared understanding about what is to be achieved and an approach to managing and developing people in such a way that the individual and company goals can most likely be achieved. It is all about the achievement of job-related success for individuals so that they can make the best use of their abilities, realise their potential and maximise their contribution to the success of Pharming. Final individual reviews are enhanced and objectives identified during “calibration sessions” where the management team discuss their reviews.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

GENERAL

Pharming's policy is to provide all Shareholders and other parties with timely, equal and simultaneous information about matters that may influence the share price. In addition, we aim to explain our strategy, business developments and financial results.

We communicate with our Shareholders and investors through the publication of the Annual Report, meetings of Shareholders, press releases and our website. Pharming organises analysts and press meetings and/or conference calls, when presenting half year and annual financial results or other significant news. These meetings and/or conference calls are announced in advance by means of press releases and on Pharming's website. Audio and/or web casts of these conference calls and corporate presentations are made available on the website after the meetings. In addition to the scheduled half-yearly and yearly result presentations, we maintain regular contact with financial analysts and institutional investors through meetings and road shows. The Company is regularly present at conferences and corporate and scientific presentations are made available at the Company's website.

Activities in 2014 for shareholders and investors included:

- a full presentation of our annual results to financial journalists and analysts, including audio commentary, Q&A sessions and posting on our website;
- various additional conference calls with analysts, investors and providers of finance;
- regular road show meetings with potential and existing shareholders and sell side analysts;
- timely updates in the Investor Relations section of our website;
- a new "in the news" section on our website to provide additional updates aside from press releases.

SHARE INFORMATION

Pharming Group N.V.'s shares are listed on Euronext Amsterdam (symbol: PHARM) since 1999.
The Shares (ISIN Code: NL0010391025) are only traded through the book-entry facilities of Euroclear Nederland. The address of Euroclear Nederland is: Herengracht 459-469, 1017 BS Amsterdam, the Netherlands.

ABN AMRO Bank N.V. is the paying agent with respect to the Shares. The address of the paying agent is:
ABN AMRO Bank N.V., Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands.

FINANCIAL CALENDAR FOR 2015

30 April 2015	Publication of first quarter 2015 financial results at 07.00 CET.
30 April 2015	Annual General Meeting of Shareholders Location: Hotel Holiday Inn, Haagse Schouwweg 10, 2300 PA Leiden, the Netherlands at 14.00 CET.
30 July 2015	Publication of first six months 2015 financial results at 07.00 CET.
29 October 2015	Publication of first nine months 2015 financial results at 07.00 CET.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December

Amounts in €'000	Notes	2014	2013
License fees	5	18,190	5,903
Product sales	5	2,996	941
Revenues	4	**21,186**	**6,844**
Costs of product sales	7	(2,853)	(533)
Inventory impairments	7	(574)	(579)
Costs of sales		**(3,427)**	**(1,112)**
Gross profit		**17,759**	**5,732**
Income from grants	6	105	106
Other income		**105**	**106**
Research and development	7	(11,663)	(10,232)
General and administrative	7	(3,324)	(2,518)
Costs		**(14,987)**	**(12,750)**
Operating result		**2,877**	**(6,912)**
Interest income cash and cash equivalents	8	180	91
Financial income		**180**	**91**
Effective interest convertible bonds	22	-	(3,178)
Settlement convertible bonds	22	-	(4,555)
Other interest expenses	9	(175)	(198)
Foreign currency results	8	457	(214)
Fair value loss derivatives	11	(9,106)	(12)
Other financial expenses	12	-	(82)
Financial expenses		**(8,824)**	**(8,239)**
Result before income tax		**(5,767)**	**(15,060)**
Income tax expense	13	-	-
Net result for the year from continuing operations		**(5,767)**	**(15,060)**
Net result for the year from discontinued operations		-	-
Net result for the year		**(5,767)**	**(15,060)**
Attributable to:			
Owners of the parent		(5,767)	(15,060)
Non-controlling interests		-	-
Total net result		**(5,767)**	**(15,060)**
Basic earnings per share (€) from continuing operations	32	(0.015)	(0.071)

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

Amounts in €'000	Notes	2014	2013
Net result for the year		**(5,767)**	**(15,060)**
Currency translation differences	19	45	-
Items that may be subsequently reclassified to profit or loss		**45**	**-**
Other comprehensive income, net of tax		**45**	**-**
Total comprehensive income for the year		**(5,722)**	**(15,060)**
Attributable to:			
Owners of the parent		(5,722)	(15,060)
Non-controlling interests		-	-

The notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

Amounts in €'000	Notes	2014	2013
Intangible assets	14	777	405
Property, plant and equipment	15	5,598	6,228
Restricted cash	16	200	176
Non-current assets		**6,575**	**6,809**
Inventories	17	13,404	4,763
Trade and other receivables	18	1,554	860
Restricted cash	16	-	2,008
Cash and cash equivalents	16	34,185	16,968
Current assets		**49,143**	**24,599**
Total assets		**55,718**	**31,408**
Share capital	19	4,077	3,346
Share premium	19	282,260	254,901
Other reserves	19	36	-
Accumulated deficit	19	(256,530)	(253,237)
Shareholders' equity	19	**29,843**	**5,010**
Deferred license fees income	20	10,022	12,222
Finance lease liabilities	21	965	1,207
Other liabilities		15	44
Non-current liabilities		**11,002**	**13,473**
Deferred license fees income	20	2,200	2,200
Derivative financial liabilities	22	4,266	4,147
Trade and other payables	23	7,781	5,812
Finance lease liabilities	21	626	766
Current liabilities		**14,873**	**12,925**
Total equity and liabilities		**55,718**	**31,408**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

		Attributable to owners of the parent			
Amounts in €'000	Notes	**Number of shares**	**Share Capital**	**Share Premium**	**Other reserves**
Balance at 1 January 2013		**100,918,910**	**10,092**	**231,866**	**-**
Result for the year			-	-	-
Other comprehensive income for the year			-	-	-
Total comprehensive income for the year			**-**	**-**	**-**
Share-based compensation	19, 24	-	-	-	-
Bonuses settled in shares	19	1,003,977	10	135	-
Bond payments in shares	19, 22	127,369,530	2,894	13,825	-
Shares issued for cash	19	102,841,903	1,029	8,703	-
Warrants exercised	19, 22	2,483,404	24	370	-
Options exercised	19, 22	37,500	-	2	-
Adjustment nominal value per share	19	-	(10,703)	-	-
Total transactions with owners, recognised directly in equity		**233,736,314**	**(6,746)**	**23,035**	**-**
Balance at 31 December 2013		**334,655,224**	**3,346**	**254,901**	**-**
Result for the year			-	-	-
Other comprehensive income for the year			-	-	36
Total comprehensive income for the year			**-**	**-**	**36**
Share-based compensation	19, 24	-	-	-	-
Bonuses settled in shares	19	963,066	10	440	-
Shares issued for cash	19, 22	30,000,000	300	13,704	-
Warrants exercised/ issued	19, 22	42,012,059	420	13,213	-
Options exercised	19, 22	56,250	1	2	-
Total transactions with owners, recognised directly in equity		**73,031,375**	**731**	**27,359**	**-**
Balance at 31 December 2014		**407,686,599**	**4,077**	**282,260**	**36**

The notes are an integral part of these financial statements.

	Attributable to owners of the parent			
Amounts in €'000	**Accumulated deficit**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2013	**(249,610)**	**(7,652)**	**-**	**(7,652)**
Result for the year	(15,060)	(15,060)	-	(15,060)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	**(15,060)**	**(15,060)**	**-**	**(15,060)**
Share-based compensation	730	730	-	730
Bonuses settled in shares	-	145	-	145
Bond payments in shares	-	16,719	-	16,719
Shares issued for cash	-	9,732	-	9,732
Warrants exercised	-	394	-	394
Options exercised	-	2	-	2
Adjustment nominal value per share	10,703	-	-	-
Total transactions with owners, recognised directly in equity	**11,433**	**27,722**	**-**	**27,722**
Balance at 31 December 2013	**(253,237)**	**5,010**	**-**	**5,010**
Result for the year	(5,767)	(5,767)	-	(5,767)
Other comprehensive income for the year	9	45	-	45
Total comprehensive income for the year	**(5,758)**	**(5,722)**	**-**	**(5,722)**
Share-based compensation	2,465	2,465	-	2,465
Bonuses settled in shares	-	450	-	450
Shares issued for cash	-	14,004	-	14,004
Warrants exercised/ issued	-	13,633	-	13,633
Options exercised	-	3	-	3
Total transactions with owners, recognised directly in equity	**2,465**	**30,555**	**-**	**30,555**
Balance at 31 December 2014	**(256,530)**	**29,843**	**-**	**29,843**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

Amounts in €'000	Notes	2014	2013
Receipts from license partners, including product sales	20	18,544	5,626
Receipt of Value Added Tax		971	882
Interest received		185	49
Receipt of grants		-	145
Other receipts		283	300
Payments of third party fees and expenses, including Value Added Tax		(7,851)	(8,492)
Payments of manufacturing expenses		(10,124)	(1,456)
Net compensation paid to (former) board members and (former) employees		(2,472)	(3,136)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(2,109)	(2,211)
Other payments		-	-
Net cash flows from operating activities	16	**(2,573)**	**(8,293)**
Proceeds of sale of assets	15	-	262
Purchases of property, plant and equipment	15	(154)	(21)
Acquisition of business	29	(500)	-
Net cash flows from investing activities	16	**(654)**	**241**
Proceeds of equity and warrants issued	19	19,375	12,178
Proceeds of convertible bonds issued	19, 22	-	16,023
Repayments of convertible bonds	22	-	(4,746)
Payments of transaction fees and expenses	19	(697)	(1,485)
Payments of finance lease liabilities	21	(682)	(881)
Net cash flows from financing activities	16	**17,996**	**21,089**
Increase/(decrease) of cash	16	**14,769**	**13,037**
Exchange rate effects		464	(199)
Cash and cash equivalents at 1 January		19,152	6,314
Total cash at 31 December	16	**34,385**	**19,152**
Of which restricted cash	16	200	2,184
Cash and cash equivalents at 31 December	16	**34,185**	**16,968**

The notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The consolidated financial statements of Pharming Group N.V., Leiden for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Supervisory Directors on 18 March 2015. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for 30 April 2015.

Pharming Group N.V. is a limited liability public company which is listed on Euronext Amsterdam (PHARM), with its headquarters and registered office located at:

Darwinweg 24
2333 CR Leiden
The Netherlands

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS as adopted by the European Union and valid as of the balance sheet date. The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.3.

2.1.1 Changes in accounting policy and disclosures

The Company changed the method of determining the costs of inventories from weighted average cost to first-in first-out (FIFO). This method is more in line with the current structure of the supply chain. The impact of this change on the balance sheet and income statement is not material because most of the inventories were valued at the lower net realisable value.

2.2 Basis of consolidation

The consolidated financial statements include Pharming Group N.V. and its effectively controlled subsidiaries, after the elimination of all intercompany transactions and balances. Subsidiaries are consolidated from the date the acquirer obtains effective control until such time as control ceases.

An entity is considered effectively controlled if the Company, directly or indirectly, has more than half of the voting power in the entity, unless it can be clearly demonstrated that such ownership does not constitute control. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting year as Pharming Group N.V., using the same accounting policies. Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The following table provides an overview of the investments at 31 December 2014:

Entity	Registered office	Investment %
Pharming B.V.	The Netherlands	100.00
Pharming Intellectual Property B.V.	The Netherlands	100.00
Pharming Technologies B.V.	The Netherlands	100.00
Broekman Instituut B.V.	The Netherlands	100.00
DNage B.V. (in liquidation)	The Netherlands	51.00
Pharming Healthcare, Inc.	United States	100.00
ProBio, Inc.	United States	100.00

2.3 Significant accounting judgments and estimates

The preparation of financial statements requires judgments and estimates that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Financial Statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Inventories

At year-end 2014, the Company has capitalised batches of Ruconest as well as skimmed milk with an aggregate carrying value of €13.4 million. The Company has planned to further increase inventory levels after the end of the reporting year. These inventories are available for use in commercial, pre-clinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected sales as well as pre-clinical and clinical programmes for both the HAE project and other indications of the rhC1INH product. In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected lifetimes of the product involved.

Due to the early stage commercialisation cycle of Ruconest the actual cash proceeds from these product sales are currently difficult to predict in terms of volumes, timing and reimbursement amounts.
In addition, further inventory investments and execution of pre-clinical and clinical activities are subject to availability of sufficient financial resources.

Inventories are recognised at the lower of cost and net realisable value. The estimation of the net realisable value is based on an allocation of inventories to the different markets with different prices, based on sales forecasts by management and commercial partners, and clinical programmes. Actual sales can differ from these forecasts.

Derivative financial liabilities

Derivative financial liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss with changes in the fair value recognised in the statement of income as they arise.

The Company at year-end 2014 has presented derivative financial liabilities with a carrying value of €4.3 million. These liabilities represent the fair values of warrant rights and are based on models using assumptions with respect to, amongst others, the exercise of the warrants on or before maturity dates as well as (historical) volatility. Actual share price developments may trigger exercise of these warrants on a different moment than anticipated in the model and also cause transfer of assets to warrant holders under conditions that are (much) more or (much) less favourable than anticipated at 31 December 2014. As a result, the difference between the value of assets transferred to warrant right holders upon exercise and the carrying value at year-end 2014 as charged to the statement of income may be material.

Share price developments may also result in the warrants expiring unexercised while the fair value of warrants unexercised may fluctuate (significantly) until expiration. Fair value changes of warrant rights unexercised between 31 December 2014 and subsequent reporting dates are charged to the statement of income. A sensitivity analysis on the possible effects has been included in Note 31 of these consolidated financial statements.

Revenue

In 2014 a milestone payment of US$20.0 million or €16.0 million has been received from Salix for the first commercial sale in the US of Ruconest, following the FDA approval in July 2014. According to the License Agreement with Santarus (taken over by Salix in 2014) the milestone payment is non-refundable and was related to the effort, time and cost to achieve the milestone. The payment was received in November 2014. Based on these criteria the Company has recognised this milestone payment as a revenue. Recognising as a revenue is in line with the received milestone payments in 2012 and 2013. In 2013 a milestone payment of US$5.0 million was received for the acceptance of the BLA file by the FDA.

Property, plant and equipment

Pharming at year end 2014 has property, plant and equipment with a carrying value of €5.6 million. These assets are dedicated to the production of Ruconest inventories (€4.5 million) and other corporate purposes (€1.1 million). It is assumed these asset groups will continue to be used in ongoing production, research and development or general and administrative activities over its anticipated lifetime. The carrying value of these assets may be impaired in the future in case of a decision to cancel and/or defer certain activities.

2.4 Accounting policies

Foreign currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (generally euros) using exchange rates prevailing at the date of the transaction. Transactions executed in foreign currencies are translated at the exchange rate at the date of transaction. The resulting transaction gains or losses are recognised in the statement of income. Assets and liabilities of foreign entities are translated to euros using year-end spot foreign exchange rates. The statements of income of foreign entities are translated at weighted average exchange rates for the year. The effects of translating these operations are taken directly to other comprehensive income within equity. On disposal of a foreign entity, the accumulated exchange difference is recognised in the statement of income as a component of the gain or loss on disposal. The above-stated translation of foreign entities applies to the entity in the United States. The €/US$ exchange rates applied at 31 December 2014 amounted to € 0.823 (31 December 2013: € 0.726).

Distinction between current and non-current

An asset is classified as current when it is expected to be realised (settled) within twelve months after the end of the reporting year. Liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

Intangible assets

Intangible assets acquired separately are measured at historical cost. The cost of intangible assets acquired in a business combination is recognised and measured at fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income in the relevant expense category consistent with the function of the intangible asset.

The remaining amortisation periods for intangible assets at 31 December 2014 are:

Category	Description	Remaining amortisation period
Transgenic technology	Patents and licenses	Not applicable*
Ruconest for HAE (EU)	Development costs	6 years
ProBio technology	Patents and licenses	Not applicable*
New product leads**	Development costs	Not yet in use

* intangible assets with carrying value at 31 December 2014 of €nil.
** regarding Pompe and Fabry's disease

Research and development costs

Research expenditure is recognised as an expense in the period in which it is incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Technical feasibility and ability to use or sell the asset are, in general, considered probable when the Company estimates that obtaining marketing approval is deemed likely.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected useful life of the related patents. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation charges and accumulated impairment charges. Generally, depreciation is calculated using a straight-line basis over the estimated useful life of the asset. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

The depreciation periods for property, plant and equipment are:

Category	Depreciation period
Land	not depreciated
Land improvements	20 years
Operational facilities	10-20 years
Leasehold improvements	5-10 years
Manufacturing equipment (or less, based on actual use compared to standards)	5-10 years
Other	3-10 years

Depreciation charges for manufacturing equipment are based on actual use of the equipment involved, which is expected to take place in a period before technical expiration. Other property, plant and equipment apply to laboratory and office equipment, furniture, hardware and software.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are carried at the lower of cost and net realisable value. The Company has three inventory categories:

- Finished goods: Consists of batches Ruconest. These batches are comprised of therapeutic product available for sales, clinical development and pre-clinical activities. Initial recognition is at cost, including raw materials used, external manufacturing and testing fees incurred to bring the product in a saleable or useable position.
- Work in progress: Semi-finished goods consisting of drug substance.
- Raw materials: Consists of skimmed milk serving as a raw material for the batches Ruconest. Valuation per unit skimmed milk is based on the total costs of the rabbit facilities and the normal production levels.

Costs are determined using the first-in first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories are recognised as expense and included in costs of product sales.
An allowance is provided for inventories if no future use or sale is expected before the expiration date.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases and sales of financial assets are recognised using settlement date accounting.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each year-end of the reporting year whether there is any objective evidence that a financial asset or a group of financial assets is impaired, which is deemed the case if there is objective evidence as a result of one or more events that has occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Trade and other receivables

Trade and other receivables are initially stated at fair value. Subsequent measurement is at amortised cost using the effective interest method less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments (maturity less than 3 months) readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. For the purpose of the statement of cash flow, cash and cash equivalents are net of outstanding bank overdrafts.

Equity

The Company only has ordinary shares and these are classified within equity upon issue. Shares transferred in relation to settlement of (convertible) debt and derivative financial liabilities are measured at fair value with fair value based on the closing price of the shares on the trading day prior to the settlement date. Equity is recognised upon the issue of fixed warrants with a fixed exercise price as well as upon the recognition of share-based payment expenses; shares issued upon exercise of such warrants or options are measured at their exercise price.

Transaction costs associated with an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Transaction costs related to the issue of a compound financial instrument are allocated to the liability and equity components of the instruments in proportion to the allocation of proceeds.

Financial liabilities and borrowings

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss (derivative financial liabilities) or financial liabilities at amortised cost (borrowings and trade and other payables). All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs; transaction costs related to the issue of a compound financial instrument are allocated to the liability and equity components of the instruments in proportion to the allocation of proceeds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process. Purchases and sales of financial liabilities are recognised using settlement date accounting.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognising of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. The expense relating to any provision is presented in the statement of income net of any reimbursement.

Derivative financial liabilities

Derivative financial liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss with changes in the fair value recognised in the statement of income as they arise.

Trade and other payables

Trade and other payables are initially stated at fair value. Subsequent measurement is at amortised cost using the effective interest method.

Revenue recognition

In general, revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue and the costs (to be) incurred in the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, value added taxes and duties.

License fees and royalties

Revenue from license agreements is recognised when significant risks and rewards have been transferred to the license fee partner, it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably and no continuing performance obligation exists.

Upfront license fee payments received from third parties under license agreements with a continuing performance obligation are initially recognised as deferred license fee income within the statement of financial position and released to the statement of income in accordance with the substance of the agreement. If no reliable estimate of the Company's performance throughout the remaining license period can be made, the deferred income is equally released as revenues to the statement of income throughout the remaining license period.

Certain license agreements provide for additional non-refundable fees to be paid to the Company upon the achievement of (research, development or regulatory) milestones by the Company. These milestones, if deemed substantive (see below), are recognised as revenue when the milestones are achieved and the milestone payments are due and collectible under the terms of the agreement. Milestones are considered substantive if all of the following conditions are met:

- the milestone payments are non-refundable under the terms of the agreement;
- achievement of the milestone involved a degree of risk and was not reasonably assured at the inception of the agreement;
- substantial effort is involved in achieving the milestone;
- the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and
- a reasonable amount of time passed between the upfront license fee payment and the first milestone payment as well as between each subsequent milestone payment.

If any of these conditions are not met, the Company recognised the proportionate amount of the milestone payment upon receipt as revenue that corresponds with the percentage of work already completed. The remaining portion of the milestone payment would be deferred and recognised as revenue as performance obligations are completed.

Royalties on license agreements are recognised on an accrual basis in accordance with the substance of the agreement.

Product sales

Revenues from product sales are recognised when:

- the significant risks and rewards of ownership of the products have been transferred to the buyer;
- the Company does not retain either managerial involvement to the degree usually associated with ownership or effective control over the products sold;
- the amount of revenue and the costs (to be) incurred in the transaction can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Company.

Costs of product sales

Costs of product sales represent all production costs related to product sales, including production costs of the skimmed milk, external manufacturing costs and costs for product testing. They are measured at their actual costs based on FIFO and incurred to net realisable value if sales price is below actual costs.

Other income

Pharming receives certain grants which support the Company's research efforts in defined research and development projects. These subsidies generally provide for reimbursement of approved costs incurred as defined in various grants. Subsidies are recognised if the Company can demonstrate it has complied with all attached conditions and it is probable that the grant amount will be received.

The Company includes income from grants under 'income from grants' in the statement of income in order to enable comparison of its statement of income with companies in the life sciences sector. Companies in this sector generally present governmental grants as income since these often are a significant source of income.

Interest income

Interest income is recognised as interest accrues, using the effective interest method. For the purpose of the consolidated statement of cash flows, interest income derived from cash and cash equivalents have been presented as operating cash flows since the Company considers these interest items as the outcome of working capital management.

Costs

Costs are expensed as incurred. Costs of research and development cover those activities that are carried out to gain new scientific or technical knowledge and understanding as well as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products. Costs of general and administrative nature apply to overhead expenses and expenses incurred to commercialise products.

Interest expense is recognised as interest accrues, using the effective interest method. For the purpose of the consolidated statement of cash flows, interest expense and interest income derived from cash and cash equivalents have been presented as operating cash flows since the Company considers these interest items as a result of working capital management.

Short-term employee benefits
The Company does not provide any benefits based on the statement of income. Bonuses are expensed when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Pension plan
For all Dutch employees, the Company participates in defined contribution pension plans with an independent insurance company. Defined contributions are expensed in the year in which the related employee services are rendered.

Employees in the United States are enabled to participate in a 401k plan, which also qualifies as a defined contribution plan. To become an eligible participant, an employee must complete six months of service and attain the age of 21 years. The employer matches 100% of the first 3% the employee contributes to their 401k plan and 50% of any amount over 3% up to 5%. Any employee contribution over 5% is not matched. Costs of the 401k plan are expensed in the year in which the related employee services are rendered.

Share-based payment
The costs of option plans are measured by reference to the fair value of the options on the date on which the options are granted. The fair value is determined using the Black-Scholes model. The costs of these options are recognised in the income statement (share-based compensation) during the vesting period, together with a corresponding increase in equity (other reserves). Share-based payment charges do not affect equity or cash flows in the year of expense since all transactions are equity-settled.

Pharming's employee Option plan states that an employee is entitled to exercise the granted options immediately with a maximum exercise period of five years, but can only transfer the shares acquired upon exercise according to a sliding scale of up to 48 months or 4 or 5 years. For accounting purposes, the period in which the options become unconditional is defined as the vesting period. As a result of the sliding scale according to which the options become unconditional, graded vesting is applied.

Long Term Incentive Plan
For a limited number of Board Members and officers, performance shares are granted free of charge. A maximum number of predetermined shares vest three years after the grant date, provided that the participant to the Long Term Incentive Plan is still in service (continued employment condition), with actual shares to be transferred based on the relative achievement of Pharming's share price compared to a peer group. The maximum number of shares immediately vests upon a change of control. The fair value is determined using Monte Carlo simulation. The costs of the LTIP are recognised in the income statement during the vesting period. The fair value at the grant date includes the market performance condition (relative total shareholder return performance) but excludes the three year service condition.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against the statement of income.

Lease agreements in which the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Lease incentives

In certain lease agreements for property, plant and equipment, the lessor funds assets in use and effectively controlled by the Company. Such constructions qualify as a 'lease incentive', in which case the Company fully capitalises the contribution of the lessor in property, plant and equipment with a corresponding increase in liabilities. The investment is depreciated in accordance with the accounting policies for property, plant and equipment, with the accrued lease incentive released to operational lease charges in the statement of income throughout the lease agreement period and on a straight-line basis.

Deferred income tax

Deferred tax assets, including assets arising from losses carried forward, are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets and liabilities are recognised for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the end of the reporting year and are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets and liabilities are stated at face value. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of income.

Cash flow statement

Operating cash flows in the statement of cash flows are reported using the direct method. Interest income and expense relating to restricted cash, cash and cash equivalents as well as bank overdrafts have been presented as operating cash flows since the Company considers these interest items as the outcome of working capital management. Investing and financing cash flows reflect gross cash receipts and payments with the exception of reclaimable value added tax related to these transactions and which is presented as an operating cash flow.

Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans, warrants issued and convertible loan agreements.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Management, which makes the Company's strategic decisions, has been identified as the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments.

2.5 Effect of new and forthcoming accounting standards

The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. Pharming has introduced standards and interpretations that became effective in 2014. The adoption of these standards and interpretations did not have a material effect on the Company's financial performance or position.

Effect of new accounting standards

No new standards and interpretations became effective as of 1 January 2014 which impact the amounts reported in these consolidated financial statements.

Effect of forthcoming accounting standards

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements.

IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Contemporaneous documentation is still required so the Company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have material impact on the Company's financial statements.

3. Going concern assessment

The Board of Management of Pharming has, upon preparing and finalising the 2014 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of signing these financial statements.

Based on the above assessment, the Company has concluded that funding of its operations for a period of well in excess of one year after the date of signing of these financial statements is realistic and achievable. In arriving at this conclusion, the following main items and assumptions have been taken into account:

- cash and cash equivalents of approximately €30.3 million as per the date of publication of these financial statements;
- the projected, however undisclosed sales revenues for the period involved, related to the markets in which the Company already has market approval;
- the Company's operating cash outflows, its investments in (in)tangible assets as well as its financing payments for one year after the end of the financial statements. The cash outflow is expected to increase as a result of the increase in production.

Pharming has not taken into account other potential sources of cash income, including but not limited to the following:

- proceeds from the exercise of warrants or options outstanding as per the date of these financial statements (see Note 32);
- capital raised by means of an additional capital markets transaction, such as non-dilutive (debt) financing, issuance of equity or a combination thereof. The timing and proceeds from such a transaction are subject to, for instance, market conditions (e.g. the share price in relation to the nominal value per share), availability of assets to secure debt transactions as well as approvals of boards and/or shareholders (e.g. to issue additional shares); and
- receipts from existing or new license partners.

In addition, the Company may decide to cancel and/or defer certain activities in order to limit cash outflows until sufficient funding is available to resume them. Deferrals substantially relate to the timing of manufacturing-related and/or planned future clinical development activities for additional indications carried out on the initiative of Pharming.

Notwithstanding the above, the Board of Management of the Company emphasises that the funding of the Company's operations beyond one year after these financial statements is largely affected by its ability to increase product sales and/or license fee payments from both existing and new partnerships to generate positive cash flows in the future.

With regards to its ability to generate operating cash flows from product sales and/or license fee payments, the commercial success of Ruconest in the US has been identified as an uncertainty.

Overall, based on the outcome of this assessment, these financial statements have been prepared on a going concern basis. Notwithstanding their belief and confidence that Pharming will be able to continue as a going concern, the Board of Management emphasizes that the actual cash flows for various reasons may ultimately (significantly) deviate from their projections. Therefore, in a negative scenario (actual cash inflows less than projected and/or actual cash outflows higher than projected) the going concern of the Company could be at risk in the period beyond 12 months as per the date of these financial statements.

4. Segment information

The Board of Management is the chief operating decision-maker. The Board of Management considers the business from both a geographic and product perspective. From a product perspective the Company's business was almost exclusively related to the recombinant human C1 esterase inhibitor business. From a geographic perspective the Company is operating in three main segments: The US, Europe and Rest of the world. These segments are only related to revenues. Management and thus costs and assets are almost exclusively based at the central office in Leiden, the Netherlands. Costs and assets are not allocated to the geographic segments.

Total revenues per geographic segment:

Amounts in €'000	**2014**	**2013**
US	17,420	4,970
Europe	3,476	1,741
Rest of the world	290	133
	21,186	**6,844**

5. Revenues

Amounts in €'000	**2014**	**2013**
License fees	18,190	5,903
Product sales	2,996	941
	21,186	**6,844**

In 2014 the Company's income from license fees also included a released amount of €2.2 million (2013: €2.1 million); other license fees income of €16.0 million are largely associated with the receipt of a US$20.0 million milestone from Salix following market approval of Ruconest by the US FDA at 16 July 2014. The milestone is non-refundable and related to the effort, time and cost to achieve the milestone. The payment has been received in November 2014.

Product sales relate to supplies of Ruconest to Sobi for the EU market and to Salix for the US market. Salix will pay Pharming a tiered supply price based on a percentage of net sales of Ruconest, which starts at 30% of net sales, increasing to a maximum of 40% depending on the amount of annual net sales.

6. Income from grants

Other income related to grants exclusively and amounted to €105,000 in 2014 and €105,750 in 2013. Grants in both years reflect an annual payroll tax deduction granted by the Dutch government for a range of certain research and development activities.

7. Expenses by nature

Cost of product sales in 2014 amounted to €2.9 million (2013: €0.5 million) and relates to actual supplies as well as anticipated price adjustments on future supply of Ruconest inventories to Sobi.
Inventory impairments related to inventories designated for commercial activities amounted to €0.6 million in 2014 (2013: €0.6 million). The impairment stems from the valuation of the inventories against lower net realisable value.

Costs of research and development increased to €11.7 million in 2014 from €10.2 million in 2013. The €1.4 million increase primarily stems from an increase of costs associated with clinical and regulatory activities in relation to the US registration and clinical trials.

Pharming's general and administrative costs increased to €3.3 million in 2014 from €2.5 million in 2013; the increase stems from the share-based compensation (non-cash).

This Note further discusses items included in Research and development costs and/or General and administrative costs.
The share-based compensation has been described in Note 24 of the consolidated financial statements.

Employee benefits

Amounts in €'000	**2014**	**2013**
Salaries	(4,195)	(3,242)
Social security costs	(458)	(422)
Pension costs	(300)	(359)
Share-based compensation	(2,465)	(730)
	(7,418)	**(4,753)**

Salaries include holiday allowances and cash bonuses.

The number of employees

Weighted average full time equivalent	**2014**	**2013**
Research and development	40	33
General and administrative	7	10
	47	**43**

Employee benefits are charged to Research and development costs or General and administrative costs based on the nature of the services provided.

Inventories

In 2014, the Company expensed €1.0 for batches of Ruconest (2013: nil) for research and development, €0.6 million for impairment charges (2013: €0.6 million) and nil of other expenses (2013: €nil).

Depreciation and amortisation charges

Amounts in €'000	Note	2014	2013
Property, plant and equipment	15	(425)	(626)
Intangible assets	14	(97)	(130)
		(522)	**(756)**

The decrease of depreciation charges of property, plant and equipment in 2014 as compared to 2013 stems from fully depreciated items.
Amortisation charges of intangible assets have been fully allocated to research and development costs in the statement of income; for property, plant and equipment, in 2014 an amount of €332,000 was charged to research and development costs (2013: €529,000) and €93,000 to general and administrative expenses (2013: €97,000).

Operating lease charges

For the year 2014, the Company charged €0.7 million (2013: €0.7 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars. These non-cancellable leases at 31 December 2014 have remaining terms of between one to four years and generally include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The expected operating lease charges after the end of the reporting year have been disclosed in Note 30.
Allocations of the operating lease charges to Research and development costs or General and administrative expenses have been based on the nature of the asset in use.

Independent auditor fees

Fees of PricewaterhouseCoopers Accountants N.V. incurred in relation to 2014 and 2013 audit services were as followed:

Amounts in €'000	2014	2013
Audit of the financial statements	(119)	(115)
Other audit procedures	(7)	(24)
Charged to equity	-	11
	(126)	**(128)**

8. Interest income cash and cash equivalents

Amounts in €'000	2014	2013
Interest income cash and cash equivalents	**180**	**91**

Increased interest income from cash in 2014 is related to the cash inflows from the receipt of the equity placement of net €14.0 million in April 2014 and the exercise of warrants amounting to €4.6 million.

9. Other interest expenses

Decreased interest expenses from financial leases in 2014 compared to 2013 stems from redemption of the various finance arrangements entered into the course of 2011.

10. Foreign currency results

These results primarily follow from the revaluation of bank balances denominated in foreign currencies and the timing of foreign currency payments against the actual exchange rate as compared to the original exchange rate applied upon the charge of fees or expenses. Net exchange rate profits of €457,000 in 2014 included net profits of €464,000 in relation to revaluation of cash and cash equivalents; in 2013, exchange rate losses amounted to €214,000 of which €199,000 in relation to cash and cash equivalents.

11. Fair value loss derivatives

Amounts in €'000	**2014**	**2013**
Revaluation warrants	1,012	(12)
Revaluation warrants exercised	(10,118)	-
	(9,106)	**(12)**

12. Other financial expenses

Amounts in €'000	**2014**	**2013**
Costs related to issue of derivative financial liabilities	**-**	**(82)**

Costs related to issue of derivative financial liabilities include the portion of the total transaction fees of Bonds 2013 allocated to the derivative financial liabilities.

13. Income taxes

No current or deferred income taxes applied to the statement of income in both 2013 and 2014 and no other tax items apply to either equity or comprehensive income in both years.

The Dutch fiscal unity at year-end 2014 has approximately €167 million of taxable losses that can be offset in the years 2015-2023. The Board of Management has considered the Company's history of losses and concluded that it is not probable that the benefits of these tax loss carry forward will be realised in the near term. Accordingly, the Company did not record a deferred tax asset.

14. Intangible assets

Amounts in €'000	Transgenic technology	Ruconest for HAE (EU)	ProBio technology	New product development	Total
At cost	2,651	528	2,816	-	5,995
Accumulated:					
Amortisation charges	(2,493)	(116)	(1,027)	-	(3,636)
Impairment charges	(35)	-	(1,789)	-	(1,824)
Carrying value at 1 January 2013	**123**	**412**	**-**	**-**	**535**
Amortisation charges	(79)	(51)	-	-	(130)
Impairment charges	-	-	-	-	-
Assets held for sale	-	-	-	-	-
Movement 2013	**(79)**	**(51)**	**-**	**-**	**(130)**
At cost	**2,651**	**528**	**2,816**	**-**	**5,995**
Accumulated:					
Amortisation charges	(2,572)	(167)	(1,027)	-	(3,766)
Impairment charges	(35)	-	(1,789)	-	(1,824)
Carrying value at 31 December 2013	**44**	**361**	**-**	**-**	**405**
Amortisation charges	(44)	(53)	-	-	(97)
Impairment charges	-	-	-	-	-
Assets acquired	-	-	-	469	469
Movement 2014	**(44)**	**(53)**	**-**	**469**	**372**
At cost	2,651	528	2,816	469	6,464
Accumulated:					
Amortisation charges	(2,616)	(220)	(1,027)	-	(3,863)
Impairment charges	(35)	-	(1,789)	-	(1,824)
Carrying value at 31 December 2014	**-**	**308**	**-**	**469**	**777**

The Company has capitalised development costs in the amount of €528,000 in relation to Ruconest for HAE in the European Union. Following market launch of the product in the fourth quarter of 2010 the amortisation of the asset has started and no more development costs have been capitalised.

On 22 October 2014, the Company acquired assets from Transgenic Rabbit Models, a French simplified joint stock company in liquidation, for a total amount of €500,000 of which €469,000 is recognised as intangible assets regarding development costs of two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease. As a result of this transaction Pharming has a gain in their time-to-market for these two product leads. The assets are recorded at fair value, related to the development costs that Pharming avoids or saves by acquiring these assets. The development costs are not available for use until completion. Amortisation will start after completion which is not expected within four years. Annual impairment testing until completion has to be done. Please refer to Note 29 Business combinations.

15. Property, plant and equipment

Movement of property, plant and equipment for the financial year 2013 was:

Amounts in €'000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Other	Total
At cost	27	1,882	2,524	5,607	1,253	11,293
Accumulated depreciation	-	(1,249)	(1,602)	(350)	(964)	(4,165)
Carrying value at 1 January 2013	**27**	**633**	**922**	**5,257**	**289**	**7,128**
Investments	-	-	-	-	91	91
Divestments	-	-	(555)	(305)	-	(860)
Depreciation of divestments	-	-	555	305	-	860
Depreciation charges	-	(128)	(413)	(164)	(85)	(790)
Revaluation manufacturing equipment	-	-	-	(201)	-	(201)
Movement 2013	**-**	**(128)**	**(413)**	**(365)**	**6**	**(900)**
At cost	27	1,882	1,969	5,102	1,344	10,324
Accumulated depreciation	-	(1,376)	(1,460)	(210)	(1,050)	(4,096)
Carrying value at 31 December 2013	**27**	**506**	**509**	**4,892**	**294**	**6,228**

Depreciation charges on manufacturing equipment of €164,500 in 2013 are charged to the value of inventories and accordingly an amount of €626,000 of total 2013 depreciation charges have been charged to the statement of income.

At year-end 2013, the carrying value of the assets hired under a financial lease arrangement – and thus with a restricted title - was €3,616,000 of which €3,541,000 in relation to manufacturing equipment and €75,000 related to other property, plant and equipment.

Movement of property, plant and equipment for the financial year 2014 was:

Amounts in €'000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Other	Total
At cost	27	1,882	1,969	5,102	1,344	10,324
Accumulated depreciation	-	(1,376)	(1,460)	(210)	(1,050)	(4,096)
Carrying value at 1 January 2014	**27**	**506**	**509**	**4,892**	**294**	**6,228**
Investments	-	64	-	-	121	185
Depreciation charges	-	(129)	(203)	(516)	(93)	(941)
Revaluation manufacturing equipment	-	-	-	126	-	126
Movement 2014	**-**	**(65)**	**(203)**	**(390)**	**28**	**(630)**
At cost	27	1,946	1,969	5,228	1,465	10,635
Accumulated depreciation	-	(1,505)	(1,663)	(726)	(1,143)	(5,037)
Carrying value at 31 December 2014	**27**	**441**	**306**	**4,502**	**322**	**5,598**

Depreciation charges on manufacturing equipment of €515,700 in 2014 (2013: €164,500) are charged to the value of inventories and accordingly an amount of €425,000 of total 2014 depreciation charges have been charged to the statement of income (2013: €626,000).

At year-end 2014, the carrying value of the assets hired under a financial lease arrangement – and thus with a restricted title - was €1,504,000 (31 December 2013: €3,616,000) of which €1,483,000 in relation to manufacturing equipment (31 December 2013: €3,541,000) and €21,000 related to other property, plant and equipment (31 December 2013: €75,000).

On 22 October 2014, the Company acquired assets from Transgenic Rabbit Models, a French simplified joint stock company in liquidation, for a total amount of €500,000 of which €31,000 is recognised as investments in other property, plant and equipment. Please refer to note 29 Business combinations.

16. Restricted cash, cash and cash equivalents, cash flows

Amounts in €'000	2014	2013
Non-current restricted cash	200	176
Current restricted cash	-	2,008
Cash and cash equivalents	34,185	16,968
Balance at 31 December	**34,385**	**19,152**
Balance at 1 January	19,152	6,314
Exchange rate effects on cash	464	(199)
Increase of cash	**14,769**	**13,037**

Restricted cash represent the value of banker's guarantees issued with respect to (potential) commitments towards third parties and are primarily related to rental agreements.

The main cash flow statement items for the years 2014 and 2013 are:

Amounts in €'000	2014	2013
Net cash flows used in operating activities	(2,573)	(8,293)
Net cash flows from investing activities	(654)	241
Net cash flows from financing activities	17,996	21,089
Increase of cash	**14,769**	**13,037**

Pharming's net cash flows used in operating activities decreased from €8.3 million in 2013 to €2.6 million in 2014; the €5.7 million decrease primarily reflects the increase of the receipts from license partners of €12.9 million that exceeded the increase of the manufacturing expenses of €8.7 million.

The 2014 net cash flows from investing activities of €0.7 million primarily reflect payment of investment in property, plant and equipment of €0.2 million and the acquisition of assets from TRM in the amount of €0.5 million.
The 2013 net cash flows from investing activities of €0.2 million stem from the proceeds of sale of assets.

Net cash flows from financing activities in 2014 of €18.0 million stem from the proceeds of shares issued under the private equity placement (€14.7 million), the exercise of warrants (€4.6 million), net of €0.7 million in relation to payment of finance leases and €0.7 million for transaction fees and expenses related to the private equity placement.

17. Inventories

Inventories include batches Ruconest and skimmed milk available for production of Ruconest.

Amounts in €'000	2014	2013
Finished goods	7,023	922
Work in progress	5,044	2,528
Raw materials	1,337	1,313
Balance at 31 December	**13,404**	**4,763**

The inventory valuation at 31 December 2014 is stated net of a provision of €1.7 million (2013: €1.7 million) to write inventories down to their net realisable value. The adjustments to lower net realisable value recognised as expense in 2014 amounted to €0.6 million (2013: €0.6 million).

Amounts in €'000	**2014**
Balance at 1 January	(1,690)
Additional impairment for the year	(574)
Used in cost of product sales	573
Balance at 31 December	**(1,691)**

The cost of inventories included in the costs of product sales in 2014 was €2.9 million (2013: €0.5 million).

The major portion of inventories at 31 December 2014 has expiration dates starting beyond 2017 and is expected to be sold or used before expiration.

18. Trade and other receivables

Amounts in €'000	**2014**	**2013**
Trade receivables	391	211
Prepaid expenses	144	245
Value added tax	151	121
Other receivables	868	283
Balance at 31 December	**1,554**	**860**

Trade and other receivables at 31 December 2014 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

19. Shareholders' Equity

The Company's authorised share capital amounts to €5.5 million and is divided into 550,000,000 ordinary shares with a nominal value of €0.01 each. All 407,686,599 shares outstanding at 31 December 2014 have been fully paid-up.

Other reserves include those reserves related to currency translation, share-based compensation expenses and other equity-settled transactions. This note further describes the background of the main equity movements in 2014 and 2013.

Reverse share split

On 28 February 2013, the Company's shareholders approved a 10:1 reverse share split and a subsequent reduction of the nominal share capital from €0.10 to €0.01. As a result of the reverse split, the number of shares decreased to 118,918,910 from 1,189,189,097 while the nominal share capital increased to €0.10 from €0.01. The subsequent reduction in nominal share capital to €0.01 resulted in a decrease of the share capital with €10,703,000 and a corresponding decrease of accumulated deficit. The overall effect of the adjustment on shareholders' equity was €nil.

October 2013 €12,000,000 private placement

On 9 October 2013, Pharming entered into a private placement of €12,000,000 for which it issued 102,564,103 shares against €0.117 representing a 10% discount against the closing price of the previous trading day. In addition, the Company issued 25,641,026 warrants with a life of 5 years and an exercise price of €0.135 to the investors. The transaction costs for this placement amounted to €558,000.

April 2014 €14,700,000 private placement

On 21 April 2014, Pharming entered into a private placement of €14,700,000 for which it issued 30,000,000 shares against €0.49 representing the average closing price of the shares over the last five trading days preceding the placement. In addition, the Company issued 21,000,000 warrants with a life of 2 years and an exercise price of €0.57 to the investors. The transaction costs for this placement amounted to €696,500.

Adjustment Share Capital

On 18 June 2014 the Company's shareholders approved the increase of the Share Capital from €4.5 million to €5.5 million. The increase is made due to the granted Staff option pool for the period 2014-2018 and potential future capital raises. The overall effect of the adjustment on shareholders' equity was €nil.

Adjustment Other reserves

At year-end the Company reallocated the Other reserves to the Accumulated deficit as a result of a change in the nature of these reserves to not recordable free reserves. As of 31 December 2014 the Other reserves concern the currency translation differences of foreign investments.

Net loss and Accumulated deficit

Article 25.1 of the Articles of Association reads as follows: 'The management board shall annually determine, subject to the approval of the Board of Supervisory Directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.' The Board of Management has proposed to forward the net loss for the year 2014 of €5,767,000 to the accumulated deficit. Anticipating the approval of the financial statements by the Shareholders at the AGM, this proposal has already been reflected in the Financial Statements and accordingly accumulated deficit has increased to €256,530,000 at year-end 2014.

Foreign currency translation reserve

Adjustments of the currency translation reserve reflect the effect of translating US operations denominated in US$ since their functional currency is different from the reporting currency.

Share-based compensation

Share-based compensation within equity includes those transactions with third parties, the Board of Management and employees in which payment is based in shares or options based on current or future performance. For 2014 these transactions were valued at €2,465,000 and for 2013 at €730,000 (see Note 24).

Bonuses settled in shares

The Company in 2014 issued 963,066 shares to members of the Board of Management and various managers in lieu of bonuses with an aggregate value of €450,000. In 2013 a total of 1,003,977 shares were issued to pay off bonuses of €253,000.

Bond payments in shares

In January 2013, the Company issued short-term private bonds ('Bonds 2013', as further explained in Note 22) of €16.4 million carrying 8.5% annual interest. On 1 October 2013, the seventh and final instalment of the Bonds 2013 took place. Five instalments were repaid in Pharming shares, for which a total number of 127,369,531 shares were issued, and two instalments were repaid in cash.

Warrants exercised

In 2014, a total of 42,012,059 warrants were exercised in exchange for 42,012,059 shares. The Company received a cash amount of €4,647,054 in connection with these exercises.

In 2013, a total of 2,483,404 warrants were exercised in exchange for 2,483,404 shares. The Company received a cash amount of €178,000 in connection with these exercises.

20. Deferred license fees income

In 2010, the Company entered into a distribution agreement for Ruconest with Sobi under which a €3.0 million upfront payment and a €5.0 million milestone payment were received in cash. The €8.0 million is released to the statement of income in accordance with the remaining lifetime of the agreement following Market Approval for Ruconest in October 2010 and subsequent start of supplies. In both 2014 and 2013 another €0.8 million was released from this agreement.

In 2010 Pharming received an upfront payment of US$15.0 million or €11.7 million in cash from Santarus, Inc. with respect to a Ruconest license agreement for recombinant human C1 inhibitor in the US, Canada and Mexico. Since the Company has to perform clinical, regulatory and commercial activities, the amount is released to the statement of income over the full lifetime of the agreement as of its effective date. Accordingly, an amount of €1.1 million in license fees income was recognised as revenues from license fees in both 2014 and 2013.

In 2014 a milestone payment of US$20.0 million or €16.0 million was received for first commercial sale in the US of Ruconest and the receipt of the launch supplies by our partner Salix and is fully recognised as revenue. The milestone is non-refundable and related to the effort, time and cost to achieve the milestone. The payment has been received in November 2014. In 2013 a milestone payment of US$5.0 million was received for the acceptance of the BLA file by the FDA and was also recognised as revenue.

In 2013, Pharming received an upfront payment of €1.1 million in cash from the Shanghai Institute of Pharmaceutical Industry (SIPI) with respect to a strategic collaboration in China for the development, manufacture and commercialisation of new products at SIPI, funded by SIPI up to IND stage, based on the Pharming technology platform. In addition, Pharming has also granted SIPI an exclusive license to commercialise Ruconest in China. In 2014 €0.3 million was released from this agreement (2013: €0.1 million).

Amounts in €'000	**2014**	**2013**
Total balance at 1 January	**14,422**	**15,431**
Receipt of upfront and milestone payments in cash	15,990	4,894
Revenues from deferred license fees	(18,190)	(5,903)
Total balance at 31 December	**12,222**	**14,422**
Current balance at 31 December	(2,200)	(2,200)
Non-current balance at 31 December	**10,022**	**12,222**

Aggregate receipts from license partners, excluding receipts from product sales, in 2014 as per the consolidated statement of cash flows amounted to €16.0 million (2013: €4.9 million of which €1.1 million from upfront payments).

The revenues from deferred license fees are the release of upfront payments of €2.2 million and the immediate recognition of the receipt of the milestones from Salix (US$20.0 million) and MegaPharm (€15.0 thousand), total amounting €16.0 million as revenue. In 2013 the releases of upfront payments were €2.1 million and recognition of a milestone of €3.8 million (US$5.0 million).

21. Finance lease liabilities

Certain assets of the Company are subject to finance leases. These leases mainly relate to manufacturing equipment in which significant investments were made prior to 2012.

Amounts in €'000	Notes	2014	2013
Total balance at 1 January		**1,973**	**2,856**
Revaluation of finance lease liabilities		126	(200)
Interest expense accrued		175	198
Payments of finance lease liabilities	7	(683)	(881)
Total balance at 31 December		**1,591**	**1,973**
Current balance at 31 December		(626)	(766)
Non-current balance at 31 December		**965**	**1,207**

Pharming has entered into a finance lease arrangement related to an existing manufacturing agreement, in which a service provider invested into certain assets exclusively in use by the Company but operated by the service provider. The Company will reimburse the service provider an aggregate amount of €2,814,000 over the lifetime of the agreement through payments of a variable service fee charge based on the realised production.
The amount of the net present value of the investment of €1,805,000 has been presented as manufacturing equipment with a simultaneous increase of finance liabilities. An estimated 11.0% annual interest charge applies to this agreement. The service provider is and will remain to be the legal owner of the assets in use.

The fair value of the finance lease obligations approximates their carrying amount. No arrangements have been entered into for contingent rental payments.

Future minimum lease payments under finance leases as at 31 December 2014 and 2013 are as follows:

Amounts in €'000	2014		2013	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	657	626	810	766
After one year but not more than five years	1,126	808	1,127	813
More than five years	281	157	792	394
	2,064	**1,591**	**2,729**	**1,973**

At year-end 2014, the carrying value of the assets involved as leased was €1,504,000 (2013: €3,616,000) of which €1,483,000 in relation to manufacturing equipment (2013: €3,541,000) and €21,000 related to other property, plant and equipment (2013: €75,000).

22. Derivative financial liabilities

Derivative financial liabilities relate to financial instruments and include warrants issued in relation to the issue of equity. In 2013 the derivative financial liabilities also related to (convertible) bonds as well as conversion rights for holders of convertible bonds.

Bonds 2013

On 16 January 2013, the Company announced the issue of a €16.4 million private convertible short-term bonds ('Bonds 2013') carrying 8.5% annual interest. The Bonds 2013 could be redeemed either in cash or shares, at the Company's discretion in seven equal instalments until 1 October 2013. The investors received a total of 16,349,999 warrants in connection with this financing. The transaction was approved at the Extraordinary General Meeting of shareholders that was held on 28 February 2013.

In connection to the issue of the Bonds 2013 the Company also incurred transaction fees and expenses of €950,000 in total which has been allocated to the Bonds 2013 and the derivative financial liabilities based on their relative weight in the €16.0 million as received and accordingly an amount of €868,000 was charged to the carrying value of the convertible bonds and €82,000 to financial expenses (further see Note 12).

For accounting purposes, the convertible bond portion was initially recognised at the aggregate value of the value received minus the fair value of the derivative financial liabilities and the portion of transaction fees and expenses allocated to the convertible bond. (Pre)Payments of the monthly instalment plus interest could take place either in cash or shares; the Company (until maturity on 1 October 2013) decided to redeem five tranches in shares and two tranches in cash. A as result of the conditions of the agreement, this has resulted in transfer of shares for a value higher than if such a repayment had taken place in cash. Accordingly, a transaction loss of €4,555,000 was incurred in 2013.

Movements of the Bonds 2013 were as follows:

Amounts in €'000	**2013**
Received in cash	16,023
Fair value of warrants issued	(1,161)
Fair value of conversion right	(223)
Transaction fees and expenses	(868)
Carrying value initial recognition	13,771
Effective interest convertible bonds	3,178
Settlements convertible bonds	4,555
Fair value of shares issued in 2013	(16,758)
Cash repayments	(4,746)
Carrying value at 31 December 2013	-

Derivative financial liabilities

Derivative financial liabilities recognised in 2014 related to 21,000,000 warrants issued in relation with the April 2014 private placement amounting to €5,544,000. Following the exercise of 42,012,059 warrants in 2014, the Company derecognised their fair values prior to exercise of in total €4,387,000.

Derivative financial liabilities recognised in 2013 related to 16,349,999 warrants issued in relation to the Bonds 2013 and conversion rights on Bonds 2013 with the initial fair value of these items upon recognition amounting to €1,161,000 and €223,000.

Furthermore, derivative financial liabilities include the initial fair value of the 25,641,026 warrants issued in connection with the October 2013 private placement amounting to €1,754,000, as well as changes in the fair value of the warrants resulting from adjustments of their exercise prices. Following the exercise of 2,483,404 warrants in 2013, the Company derecognised their fair values prior to exercise of in total €213,000.

Movement of derivative financial liabilities for 2014 and 2013 can be summarised as follows:

Amounts in €'000	Notes	2014	2013
Balance at 1 January		**4,147**	**1,215**
Initial recognition upon issue		5,544	3,136
Derecognition fair values upon exercise of warrants		-	(216)
Fair value losses (gains) derivatives	11	9,106	12
Exercise of warrants		(14,531)	-
Balance at 31 December		**4,266**	**4,147**

Fair value gains on derivatives have been presented within financial income.

23. Trade and other payables

Amounts in €'000	2014	2013
Accounts payable	2,943	4,027
Taxes and social security	130	184
Deferred compensation due to related parties	478	390
Other payables	4,230	1,211
Balance at 31 December	**7,781**	**5,812**

The amount of deferred compensation due to related parties involves Members of the Board of Management and includes bonuses, holiday allowances and holiday rights.

24. Share-based compensation

The Company has a Long Term Incentive Plan and two option plans in place: one for the Board of Management and one for employees ('the Option plans'). All these plans or arrangements are equity settled. The total expense recognised in 2014 for share-based payment plans amounts to €2,465,000 (2013: €730,000).

Models and assumptions

The costs of option plans are measured by reference to the fair value of the options at the grant date of the option. IFRS 2 describes a hierarchy of permitted valuation methods for share-based payment transactions. If possible, an entity should use market prices at measurement date to determine the fair value of its equity instruments. If market prices are unavailable, as is the case with Pharming's Option plans and Long Term Incentive Plan, the entity shall estimate the fair value of the equity instruments granted. A valuation technique should be used to estimate the value or price of those equity instruments as it would have been at the measurement date in an arm's length transaction between knowledgeable, willing parties. The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments and shall incorporate all factors and assumptions that knowledgeable market participants would consider in setting the price.

Whatever pricing model is selected, it should, as a minimum, take into account the following elements:

(a) the exercise price of the option;
(b) the expected time to maturity of the option;
(c) the current price of the underlying shares;
(d) the expected volatility of the share price;
(e) the dividends expected on the shares;
(f) the risk-free interest rate for the expected time to maturity of the option.

The six elements above are all incorporated in the Black-Scholes model used to determine the fair value of options. The exercise price of the option and the share price are known at grant date. Volatility is based on the historical end-of-month closing share prices over 5 years prior to the option grant date. It is assumed no dividend payments are expected.

For the Long Term Incentive Plan, the following elements of Pharming and/or the peer group are included in order to determine the fair value of Long Term Incentive Plan share awards, using Monte Carlo Simulation:

(a) start and end date of performance period;
(b) the grant date;
(c) the share prices;
(d) exchange rates;
(e) expected volatilities;
(f) expected correlations;
(g) expected dividend yields;
(h) risk free interest rates.

Volatilities are based on the historical end-of-month closing share prices over the 3 years. Correlations are based on 3 years of historical correlations based on end-of-month closing quotes, taking into account exchange rates. Expected dividend yields for peers and risk-free interest rates (depending on the currency) are obtained from Bloomberg.

Long Term Incentive Plan

At the AGM of 16 April 2008 a Long Term Incentive Plan was approved with an effective date of 1 January 2008. Under the LTIP, restricted shares are granted conditionally each year with shares vesting based on the market condition in which the total shareholder return performance of the Pharming share is compared to the total shareholder return of a peer group of other European biotech companies.

The reference group for the 2011-2014 programmes consists of the following 31 companies:

Main location	Number	Company
Belgium	3	Ablynx, Galapagos, Ti-Genix
Denmark	3	Bavarian Nordic, Neurosearch, Veloxis Pharmaceuticals
Finland	1	Biotie Therapies
France	5	Cellectis, Diaxonhit, Hybrigenics, Innate Pharma, Transgene
Germany	5	Evotec, Genmab, Medigene, Morphosys, Wilex
Italy	1	Newron Pharmaceuticals
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex Therapeutics, Basilea Pharmaceutica, Cytos, Santhera Pharmaceuticals
United Kingdom	7	Allergy Therapeutics, Ark Therapeutics, GW Pharmaceuticals, ImmuPharma, Oxford Biomedica, Renovo, Vernalis

The vesting schedule is as follows. Ranking in the top:

5% of the index:	100%
5-10% of the index:	80% of maximum
10-20% of the index:	60% of maximum
20-30% of the index:	50% of maximum
30-50% of the index:	20% of maximum
Lower than 50% index:	0%

Upon a change of control, all shares will vest automatically.

An overview of the maximum number of LTIP shares granted in 2012-2014 and in total as well as the fair value per share award is as follows:

Participant category	2012	2013	2014	Total
Board of Supervisory Directors	-	-	525,000	525,000
Board of Management	415,610	793,200	1,497,062	2,705,872
Senior Managers	100,000	370,000	800,000	1,270,000
Total	**515,610**	**1,163,200**	**2,822,062**	**4,500,872**
Fair value per share award (€)	0.13	0.022	0.088	

The following table provides an overview of LTIP shares granted, forfeited or not vested in 2012-2014 as well as the number of LTIP shares reserved at 31 December 2014:

Participant category	Granted	Forfeited	Not vested	Reserved at 31 December 2014
Board of Supervisory Directors	525,000	-	-	525,000
Board of Management	2,705,872	(173,415)	(242,195)	2,290,262
Senior Managers	1,270,000	(40,000)	(60,000)	1,170,000
Total	**4,500,872**	**(213,415)**	**(302,195)**	**3,985,262**

The 2012 shares did not vest at the end of the vesting period (31 December 2014). LTIP shares reserved at 31 December 2014 relate to the 2013 and 2014 shares available for participants still in service at the end of 2014. The Company expensed amounts of €107,000 in 2014 compared to €127,000 in 2013.

Main characteristics of the Option plans

The total number of shares with respect to which options may be granted pursuant to the Option plans accumulated, shall be determined by Pharming, but shall not exceed 10% of all issued and outstanding shares of Pharming on a fully diluted basis. Shares transferred or to be transferred, upon exercise of options shall be applied to reduce the maximum number of shares reserved under the plans. Unexercised options can be re-used for granting of options under the Option plans.

Pharming may grant options to a Member of the Board of Management or an employee:

- at the time of a performance review;
- only in relation to an individual: a date within the first month of his or her employment;
- in case of an extraordinary achievement;
- in case of a promotion to a new function within Pharming.

The option exercise price is the price of the Pharming shares on the stock exchange on the trading day prior to the date of grant or on the trading day prior to the meeting of the Board of Supervisory Directors during which it was resolved to grant options. Options can be exercised at any time within five years following the date of grant. Unexercised options shall be deemed cancelled and shall cease to exist automatically after five years. Exercise of options is subject to compliance with laws and regulations in the Netherlands. Exercise of options is including withholding taxes. Each option is equal to one share unless otherwise stated. Options are not applicable for early retirement.

Option plan Board of Management

Article 2.1 of the Option plan for the BOM states: 'The Board of Supervisory Directors may, at its sole discretion, (i) grant Options to any Member (ii) define the conditions attached to the Options which need to be fulfilled before the Options can be exercised (iii) determine the criteria for the granting of the Options. The compensation committee of Pharming will propose (i) the criteria for the granting of Options, (ii) whether the criteria for granting an Option have been met by a potential Participant and (iii) the number of Options to be granted. The Options will at all times be granted under the condition that the granting of such Options will be approved by the general meeting of shareholders of Pharming.

Article 4.4 of the Option plan for the BOM reads as follows: 'In case of the termination of the membership of a Participant of the Board of Management, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse if the conditions set out in the Option Granting Letter have not been fulfilled at the time of the termination of the membership of the Board of Management.'

The Company in its sole discretion may decide to deviate from article 4.4.

At the AGM of 18 June 2014 the two members of the BOM were granted a total of 19,200,000 options for the period 2014-2018 with annual vesting conditions for the period 2015-2019. The exercise price of the granted options for the first tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.505, having fair values of €0.177 - €0.366. Vesting of the first tranche of the granted options in 2014 per individual Member of the Board of Management was based on the requirement to be in service at 31 January 2015. The options of S. de Vries (12,000,000 options valued at €3,542,400 in total) and B.M. Giannetti (7,200,000 options valued at €2,125,440 in total) Pharming expensed a total amount of €2,030,277 in 2014.

At the AGM of 15 May 2013 the two members of the BOM were granted a total of 4,125,000 options with an exercise price of €0.092139 and a fair value of €0.16. Vesting of the conditional stock options per individual Member of the Board of Management was based on the requirement to be in service at 1 January 2014. The options of S. de Vries (2,500,000 options valued at €400,000 in total) and B.M.L. Giannetti (1,625,000 options valued at €260,000 in total) vested on 1 January 2014 and accordingly Pharming in 2013 expensed a total amount of €660,000.

Option plan employees

Article 2.1 of the Option plan for employees' states: 'Pharming may grant Options to any Employee. The criteria for the granting of the Options will be determined by the Board of Supervisory Directors of Pharming, at its sole discretion. The Board of Management will propose (i) whether the criteria for granting an Option have been met by a potential Participant and (ii) the number of Options to be granted. Article 4.4 of the employee Option plan deals with the vesting scheme of employee options and reads as follows:

'In case of the termination of the employment of a Participant, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse. The following schedule shall apply for the cancellation:

- in the event of termination of employment within one year as of a Date of Grant, all Options shall lapse;
- in the event of termination of employment after the first year as of a Date of Grant, all Options, less 1/4 of the number of Options shall be cancelled. The number of Options to be cancelled decreases for each month that the employment continued for more than one year as of that Date of Grant by 1/48 of the number of Options granted of that Date of Grant.'

The Company in its sole discretion may decide to deviate from article 4.4.

In 2014 the Company granted 9,768,581 options to employees with a weighted average exercise price of €0.505; fair values for options granted in 2014 were €0.133 - €0.247.
In 2013 the Company granted 2,333,775 options to employees with a weighted average exercise price of €0.063; fair values for options granted in 2013 were €0.02.

An overview of activity in the number of options for the years 2014 and 2013 is as follows:

	2014		2013	
	Number	**Weighted average exercise price (€)**	**Number**	**Weighted average exercise price (€)**
Balance at 1 January	**8,825,431**	**0.515**	**2,542,210**	**1.979**
Expired	(201,951)	5.111	(131,881)	7.604
Exercised	(56,250)	0.063	(37,500)	0.063
Granted under plan for:				
Board of Management	19,200,000	0.505	4,125,000	0.092
Employees	9,768,581	0.505	2,333,775	0.063
Forfeited under plan for:				
Board of Management	-	-	-	-
Employees	(1,260)	0.337	(6,173)	1.010
Balance at 31 December	**37,534,551**	**0.481**	**8,825,431**	**0.515**

In 2014 56,250 options have been exercised with an average exercise price of €0.063 and in 2013 37,500 options have been exercised with an average exercise price of €0.063. All options outstanding at 31 December 2014 are exercisable with the exception of the options granted to the Board of Management and Employees. The 2014 share options for the Board of management vest annually, first of five tranches is 3,840,000 options at 31 January 2015, for the period 2014-2018 under the condition the Board members are still in service at vesting date. For the Employees the vesting period and conditions are similar, except the annually vesting date, starting at 1 September 2015 with the first of four tranches.
For employees subsequent sale of the shares is subject to the vesting conditions of the option. The weighted average remaining contractual life in years of the outstanding options at 31 December 2014 is 4.0 years (2013: 3.8 years).

Exercise prices of options outstanding at 31 December 2014 and the exercise values are in the following ranges:

Exercise prices in €	Number	Total range exercise value in €'000
0.063 - 0.099	6,360,300	522
0.100 - 0.999	29,882,665	15,131
1.000 – 1.999	1,090,479	1,690
2.000 – 4.999	183,062	612
5.000 – 6.100	18,045	90
	37,534,551	**18,045**

The following assumptions were used in the **Black-Scholes model** to determine the fair value of options at grant date:

	2014	2013
Expected time to maturity (employees)	2.5 years	2.5 years
Expected time to maturity (Board of Management)	2.6 years	5 years
Volatility (employees)	93 - 103%	82%
Volatility (Board of Management)	92 - 103%	78%
Risk-free interest rate (employees)	0.25 - 0.43%	0.21 - 0.42%
Risk-free interest rate (Board of Management)	0.31 - 0.64%	0.34%

The range of assumptions used in the **Monte Carlo simulation** to determine the fair value of Long Term Incentive Plan share awards at grant date were:

	2014	2013
Volatilities	27-97%	26-100%
Risk-free interest rates	0.29-2.11%	0.15-2.00%
Dividend yields	0.00%	0.00%

Share-based compensation for 2014 and 2013 can be summarised as follows:

Amounts in €'000	2014	2013
Board of Management options	2,030	660
Employee options	327	24
Long Term Incentive Plan	108	46
	2,465	**730**

The increase of Board of Management options expense in 2014 compared to 2013 results mainly from a higher number of options vested and the fair value of the 2014 options are higher than the previous year. The increased employee option expense reflects the higher fair value of the options granted in 2014 and the higher number of options granted. Long Term Incentive Plan expenses increased due to the effects of a higher fair value of the share awards and a higher number of awards.

25. Board of Management

S. de Vries (Chief Executive Officer) and B.M.L. Giannetti (Chief Operations Officer) have been members of the Board of Management for the entire years 2014 and 2013. The members of the Board of Management are statutory directors.

Remuneration

Compensation of the Members of the Board of Management for 2014 and 2013 was as follows:

Amounts in €'000	Year	Base salary	Extra tax (I)	Bonus	Share-based payment (II)	Post-employ-ment benefits	Other (III)	Total
S. de Vries	2014	423	-	201	1,307	58	32	2,021
	2013	396	42	150	420	71	30	1,109
B.M.L. Giannetti	2014	278	-	113	786	63	18	1,258
	2013	266	16	80	275	84	25	746
Total	**2014**	**701**	**-**	**314**	**2,093**	**121**	**50**	**3,279**
	2013	**662**	**58**	**230**	**695**	**155**	**55**	**1,855**

I In 2013, the Company was required to pay an additional one-off amount of tax to the Dutch government. The employer tax due is 16% of the surplus of an individual employee's fiscal income in 2013 over €150,000 based on actual payments in 2013.

II Share-based payments for 2014 relates to options of €2,030,000 (2013: €660,000) and Long Term Incentive Plan of €63,000 (2013: €35,000).

III Includes (lease) car compensation, for S. de Vries, and other expenses.

Shares

At 31 December 2014, the members of the Board of Management held the following number of shares:

	Shares held
B.M.L. Giannetti	421,230
S. de Vries	838,823
Total	**1,260,053**

All shares held by members of the Board of Management are unrestricted.

Options

The following table gives an overview of movements in number of option holdings of the individual members of the Board of Management in 2014 and 2013, the exercise prices and expiration dates:

	1 January 2013	Granted 2013	Granted 2014	Forfeited/ expired 2013-2014	31 December 2014	Exercise price (€)	Expiration date
B.M.L. Giannetti	4,167	-	-	(4,167)	-	11.20	15 April 2013
	25,000	-	-	(25,000)	-	6.20	12 October 2013
	25,000	-	-	(25,000)	-	5.00	14 April 2014
	25,000	-	-	-	25,000	4.01	26 May 2015
	227,500	-	-	-	227,500	1.54	10 May 2016
	243,750	-	-	-	243,750	0.56	13 May 2017
	-	1,625,000	-	-	1,625,000	0.09	14 May 2018
	-	-	7,200,000	-	7,200,000	0.505	17 June 2019
	550,417	1,625,000	7,200,000	(54,167)	9,321,250		
S. de Vries	50,000	-	-	(50,000)	-	6.20	12 October 2013
	50,000	-	-	(50,000)	-	5.00	14 April 2014
	75,000	-	-	-	75,000	4.01	26 May 2015
	350,000	-	-	-	350,000	1.54	10 May 2016
	375,000	-	-	-	375,000	0.56	13May 2017
	-	2,500,000	-	-	2,500,000	0.09	14 May 2018
	-	-	12,000,000	-	12,000,000	0.505	17 June 2019
	900,000	2,500,000	12,000,000	(100,000)	15,300,000		
In service at 31 December 2014	**1,450,417**	**4,125,000**	**19,200,000**	**(154,167)**	**24,621,250**		

Loans or guarantees

During the year 2014, no loans or guarantees have been granted to Members of the Board of Management. No loans or guarantees to Members of the Board of Management were outstanding at 31 December 2014.

26. Board of Supervisory Directors

Remuneration

The remuneration is based on the position an individual has in the Board of Supervisory Directors (BOSD), the Audit Committee (AC) and the Remuneration Committee (RC). For both 2014 and 2013 the annual compensation is as follows:

- BOSD: Chairman €44,000 and Member €31,000;
- AC: Chairman €9,000 and Member €3,000; and
- RC: Chairman €6,000 and Member €3,000.

An additional compensation of €1,000 per day is paid in case of extraordinary activities.

Compensation of the Members of the Board of Supervisory Directors for 2014 and 2013 was as follows:

Amounts in €'000	Year	BOSD	AC	RC	Extra-ordinary	Share-based payment	Total
J. Blaak	2014	44	-	3	-	4	51
	2013	44	-	3	-	-	47
J.H.L. Ernst	2014	31	3	3	2	4	43
	2013	31	3	3	-	-	37
J.B. Ward	2014	31	3	6	-	4	44
	2013	31	3	6	-	-	40
A. de Winter	2014	31	9	-	-	4	44
	2013	31	9	-	-	-	40
Total	**2014**	**137**	**15**	**12**	**2**	**16**	**182**
	2013	**137**	**15**	**12**	**-**	**-**	**164**

Shares, options and warrants

Members of the Board of Supervisory Directors do not participate in an option plan. In 2014 a total of 525,000 LTIP shares were granted at the AGM, held on 18 June 2014.

Loans or guarantees

During the year 2014, the Company has not granted loans or guarantees to any Member of the Board of Supervisory Directors. No loans or guarantees to Members of the Board of Supervisory Directors were outstanding at 31 December 2014.

27. Warrants

An overview of activity in the number of warrants for the years 2014 and 2013 is as follows:

	2014		2013	
	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)
Balance at 1 January	**47,404,795**	**0.113**	**7,897,174**	**0.180**
Issued	21,000,000	0.57	41,991,025	0.199
Exercised	(42,012,059)	0.111	(2,483,404)	0.072
Expired	-	-	-	-
Adjustments to exercise price	-	-	-	(0.089)
Balance at 31 December	**26,392,736**	**0.481**	**47,404,795**	**0.113**

The weighted average remaining contractual life in years of the outstanding warrants at 31 December 2014 is 1.83 years.

In 2014, the Company issued a total of 21,000,000 warrants with an exercise price of €0.57 in connection with the April 2014 private placement
In 2013, the Company issued a total of 41,991,025 warrants in two transactions: 16,349,999 warrants with an exercise price of €0.30 in connection with the issue of the Bonds 2013 and 25,641,026 warrants with an exercise price of €0.135 in connection with the October 2013 private placement. Due to the issue of shares for the redemption of tranches of the Bonds 2013 and as a result of the October 2013 private placement, warrants of previous transactions were adjusted based on the provisions of the respective agreements, resulting in an average warrant exercise price of €0.113 at 31 December 2013.

Overall, the number of outstanding warrants at 31 December 2014 is comprised of 50,000 warrants with an exercise price of €0.093175; 5,342,736 warrants with an exercise price of €0.135 and 21,000,000 warrants with an exercise price of €0.57.

In order to protect the warrant holders from the (potential) effects of dilution, both the number of warrants as well as their exercise prices can be adjusted in the event of issue of new shares or share rights (e.g. warrants) for conditions more favourable than for existing warrant holders (e.g. issue of new shares at a consideration below the existing exercise price); a number of transactions, such as the issue of options to members of the Board of Management and employees, are excluded from these adjustment clauses.

28. Related party transactions

Related parties disclosure relates entirely to key management compensation. Key management includes the members of the Board of Management and the Board of Supervisory Directors of Pharming.

Amounts in €'000	**2014**	**2013**
Salaries and other short-term employee benefits	1,231	1,169
Post-employment benefits	121	155
Share-based compensation	2,109	695
	3,461	**2,019**

All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in Notes 25 and 26 of these Financial Statements. At 31 December 2014, the Company owed a total amount of €478,000 (2013: €390,000) to members of the Board of Management and Board of Supervisory Directors.

29. Business combinations

On 22 October 2014 Pharming signed the Deed of Transfer for the acquisition of certain assets from Transgenic Rabbit Models SASU, a French company in liquidation for a total amount of €0.5 million.

The Company acquired both tangible and intangible assets related to the research and operation of Rabbit milk-based products. Besides this transfer of assets the Company also hired former key employees of TRM.

As a result of this transaction the Company has a gain in their time-to-market for two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease.

The following table summarises the consideration paid for the assets.

Recognised amounts of identifiable assets acquired:

Amounts in €'000	**2014**
Property, plant and equipment	31
Development costs alpha-glucosidase for Pompe disease (intangible)	234
Development costs alpha-galactosidase for Fabry's disease (intangible)	235
Total identifiable net assets	**500**
Goodwill	-
Total	**500**

The fair value of the development costs is based on the costs the Company would have made for these two product leads in one year for further developing. The costs expensed to the income statement in 2014 related to this acquisition amounted to €134,000.

30. Commitments and contingencies

Operating lease commitments

The Company has lease agreements for the rent of office and laboratory facilities, as well as lease cars for employees. Due to an expiring lease agreement in 2016 the total commitments in 2014 decreased to €1.1 million (2013: €1.7 million).

Amounts in €'000	**2014**	**2013**
Within one year	732	662
After one year but not more than five years	416	995
More than five years	-	-
	1,148	**1,657**

Operating lease charges of €0.7 million were taken to the profit and loss in 2014 (2013: €0.7 million).

Material Agreements

At end of 2014 the Company had several agreements with third parties related to the manufacturing of Ruconest. In these agreements certain minimum volumes are committed.

Total potential liabilities under these agreements are approximately €63 million (2013: €88 million), of which €8 million for 2015, €43 million for 2016-2019 and €12 million beyond 2019.

31. Financial risk management

General

Pharming is exposed to several financial risks: market risks (being currency risk and interest rate risk), credit risks and liquidity risks. The Board of Management is responsible for the management of currency, interest, credit and liquidity risks and as such ultimately responsible for decisions taken in this field.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern. This includes a regular review of cash flow forecasts and, if deemed appropriate, subsequent attraction of funds through execution of equity and/or debt transactions. In doing so, the Board of Management's strategy is to achieve a capital structure which takes into account the best interests of all stakeholders. Pharming's capital structure includes cash and cash equivalents and equity. Compared to last year there have been no significant changes in risk management policies.

Currency risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies, in particular of the United States dollar (US$). Certain milestone payments and sales of Ruconest in the US are being and will be received in US$. Some direct payments of US activities are carried in US$ through the Dutch entities.
At 31 December 2014 the Company's cash and cash equivalents, including restricted cash, amounted to €34.4 million. This balance consists of cash assets denominated in € for a total amount of €30.9 million and cash assets in US$ for a total amount of US$4.3 million or €3.5 million (applying an exchange rate € to US$ at 31 December 2014 of 0.823 to 1).

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pharming's interest rate risk policy is aimed at minimising the interest rate risks associated with the financing of the Company and thus at the same time optimising the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease liabilities. The Company performed a sensitivity analysis in which the effect of a 1% interest increase or 1% interest decrease on the carrying value of the financial instruments at year-end 2014 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be less than €0.1 million.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge obligations. Pharming manages credit risk exposure through the selection of financial institutions having a high credit rating, using credit rating reports issued by institutions such as Standard & Poor's and Moody's.

The maximum exposure to credit risk at 31 December 2014 is represented by the carrying amounts of cash and cash equivalents, assets held for sale and trade and other receivables.

The carrying amounts of the cash and cash equivalents (including restricted cash) as per 31 December 2014 amounted to €34.4 million and was held through financial institutions with an A-A+ rating from Standard & Poor's, an A2 rating from Moody's and an A+ rating from Fitch.

Trade and other receivables at 31 December 2014 amounted to €1.6 million. As per the date of these financial statements these amounts have largely been settled, including receipts in cash and receipt of goods and services in exchange of prepaid expense items. Altogether approximately €1.6 million of various items are subject to receipts of cash, goods or services after the end of these financial statements with no indication that such an event will not take place.

Based on the credit ratings of cash and cash equivalents (including restricted cash) as well as the position taken with respect to trade and other receivables, the Company estimates that total maximum exposure to credit risk at the end of 2014 is less than €0.1 million.

Liquidity risk

The liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Pharming's objective is to maintain a minimum level and certain ratio of cash and cash equivalents (including short-term deposits). The strategy of the Company is to repay its obligations through generation of cash income from operating activities such as product sales and licensing agreements. In case such cash flows are insufficient, the Company relies on financing cash flows as provided through the issuance of shares or incurring financial liabilities. Note 3 of these financial statements more extensively describe the Company's going concern assessment.

The following table presents the financial liabilities at year-end 2014, showing the remaining undiscounted contractual amounts due including nominal interest. Liabilities denominated in foreign currency have been converted at the exchange rate at 31 December 2014. The derivative financial liabilities relates to the fair value of warrant rights which can be exercised by warrant holders throughout the remaining lifetime.

Amounts in €'000	**2015**	**2016**	**2017**	**2018**	**2019**
Trade and other payables	7,781	-	-	-	-
Derivative financial liabilities	4,266	-	-	-	-
Finance lease liabilities	626	236	212	190	170
Total	**12,673**	**236**	**212**	**190**	**170**

Fair value estimation

The Company uses the following hierarchy for determining the fair value of financial instruments measured at fair value:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the **liabilities** that are measured at fair value at year-end 2014 and 2013:

Amounts in €'000	**2014**		**2013**	
	Level 3	**Total**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss	4,266	4,266	4,147	4,147
Balance at 31 December	**4,266**	**4,266**	**4,147**	**4,147**

The financial liabilities measured at fair value through profit or loss relates to warrants not publicly traded and for which no other observable inputs are available and accordingly the fair value of the warrants has been determined through the Black-Scholes model, applying the following parameters per the end of:

	2014	**2013**
Expected time to maturity of warrants in issue	1.8 years	4.5 years
Volatility	92 - 102%	75 - 84%
Risk-free interest rate	0.23 - 0.27%	0.78 - 1.31%

As per Note 2.3 (Significant accounting judgments and estimates) the Company has performed a sensitivity analysis which demonstrates the potential possible effects in the event that derivative financial liabilities are settled for shares at a fair value price different from the exercise value.

The following table provides an overview of the effect on the statement of income assuming the 26,392,736 warrants outstanding at 31 December 2014 with a total fair value of €4,266,000 and an exercise value of €12,696,000 are exercised with the fair value per share upon exercise ranging between €0.050 and €1.000 while applying a number of different intervals.

Impact on statement of income if 26,392,736 warrants outstanding at year-end 2014 are exercised at an assumed fair value per share between €0.050 and €1.000:

Fair value per share upon exercise in €	Exercise value in €'000	Actual fair value warrants in €'000	Fair value warrants at 31 December 2014 in €'000	Additional profit/(loss) in €'000
0.050	12,696	1,320	4,266	2,946
0.100	12,696	2,640	4,266	1,627
0.150	12,696	3,959	4,266	307
0.200	12,696	5,279	4,266	(1,012)
0.300	12,696	7,918	4,266	(3,652)
0.400	12,696	10,557	4,266	(6,291)
0.500	12,696	13,196	4,266	(8,930)
0.750	12,696	19,795	4,266	(15,529)
1.000	12,696	26,393	4,266	(22,127)

The following table includes carrying values and the estimated fair values of **financial instruments**:

Amounts in €'000	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents, including restricted cash	34,385	34,385	19,152	19,152
Assets held for sale	-	-	-	-
Trade and other receivables	1,554	1,554	860	860
Liabilities:				
Finance lease liabilities	1,591	1,591	1,973	1,973
Trade and other payables	7,781	7,781	5,812	5,812
Derivative financial liabilities	4,266	4,266	4,147	4,147

The above fair values of financial instruments are based on internal calculations with the exception of the derivative financial liabilities as calculated by an independent valuator. Cash and cash equivalents, trade and other receivables as well as trade and other payables are stated at carrying amount, which approximates the fair value in view of the short maturity of these instruments. The fair values of finance lease liabilities (both non-current and current portion) are based on arm's length transactions.

32. Earnings per share and fully-diluted shares

Basic earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year. For 2014 and 2013, the basic loss per share is:

	2014	2013
Net loss attributable to equity owners of the parent (in €'000)	(5,767)	(15,060)
Weighted average shares outstanding	393,145,998	213,007,959
Basic loss per share (in €)	(0.015)	(0.071)

Diluted earnings per share is computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans, warrants issued and convertible loan agreements. There is no difference in basic and diluted net loss per share recorded by the Company because the impact of the arrangements referred to is anti-dilutive in all periods.

Fully-diluted shares

The composition of the number of shares and share rights outstanding as well as authorised share capital as per 31 December 2014 and the date of these financial statements is provided in the following tables.

Movements between 31 December 2014 and 18 March 2015:

	31 December 2014	Shares issued	Other	18 March 2015
Shares	407,686,599	384,666	-	408,071,265
Warrants	26,392,736	-	-	26,392,736
Options	37,534,551	-	(200,477)	37,334,074
LTIP	3,985,262	-	-	3,985,262
Issued	**475,599,148**	**384,666**	**(200,477)**	**475,783,337**
Available for issue	74,400,852	(384,666)	200,477	74,216,663
Authorised share capital	**550,000,000**	**-**	**-**	**550,000,000**

33. Events after the reporting year

No events have occurred after the balance sheet date that could influence the users' economic decisions taken on the basis of these financial statements.

COMPANY BALANCE SHEET

As at 31 December (after proposed appropriation of net loss)

Amounts in €'000	Notes	2014	2013
Intangible assets		469	-
Property, plant and equipment	3	194	225
Financial assets	7	15,599	2,221
Non-current assets		**16,262**	**2,446**
Trade and other receivables	4	303	280
Restricted cash	5	-	1,452
Cash and cash equivalents	5	19,195	6,837
Current assets		**19,498**	**8,569**
Total assets		**35,760**	**11,015**
Share capital	6	4,077	3,346
Share premium	6	282,260	254,901
Other reserves	6	36	-
Accumulated deficit	6	(256,530)	(253,237)
Shareholders' equity	6	**29,843**	**5,010**
Deferred license fees income		400	664
Non-current liabilities		**400**	**664**
Deferred license fees income		264	264
Derivative financial liabilities	8	4,266	4,147
Trade and other payables	9	987	927
Finance lease liabilities		-	3
Current liabilities		**5,517**	**5,341**
Total shareholders' equity and liabilities		**35,760**	**11,015**

The notes are an integral part of these financial statements.

COMPANY STATEMENT OF INCOME

For the year ended 31 December

Amounts in €'000	Notes	2014	2013
Share in result of investments	7	8,329	(3,409)
Other results	10	(14,096)	(11,651)
Net loss		**(5,767)**	**(15,060)**

The notes are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. General

Within the Pharming Group, the entity Pharming Group N.V. acts as a holding company of the operating companies. Its activities are limited to the arrangement of financial transactions with third parties and to provide the operating companies with support in the field of legal, financial, human resources, public relations, IT and other services.

2. Summary of significant accounting policies

The company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands.

The accounting policies applied are the same as those used in the consolidated financial statements in accordance with the provisions of article 362-8 of Book 2 of the Dutch Civil Code, except for investments in subsidiaries which are accounted for using the equity method. In conformity with article 402 Book 2 of the Dutch Civil Code, a condensed statement of income is included in the company financial statements of Pharming Group N.V.

3. Property, plant and equipment

Property, plant and equipment include leasehold improvements related to office investments in the Company's headquarters and other items such as office furniture and equipment as well as hardware and software.

Amounts in €'000	**Leasehold improvements**	**Other**	**Total**
At cost	747	485	1,232
Accumulated depreciation charges	(479)	(436)	(915)
Carrying value at 1 January 2013	**268**	**49**	**317**
Investments	-	4	4
Divestment (*)	-	(117)	(117)
Depreciation charges	(75)	(21)	(96)
Depreciation of divestments (*)	-	117	117
Movement 2013	**(75)**	**(17)**	**(92)**
At cost (*)	747	372	1,119
Accumulated depreciation charges (*)	(554)	(340)	(894)
Carrying value at 31 December 2013	**193**	**32**	**225**
Investments	-	62	62
Depreciation charges	(77)	(16)	(93)
Movement 2014	(77)	46	(31)
At cost	747	434	1,181
Accumulated depreciation charges	(631)	(356)	(987)
Carrying value at 31 December 2014	**116**	**78**	**194**

(*) the Company eliminated fully depreciated assets no longer in use from accumulated costs and accumulated depreciation with an effect of €117,000 in 2013.

4. Trade and other receivables

Amounts in €'000	2014	2013
Prepaid expenses	134	138
Value added tax	151	121
Other receivables	18	21
Balance at 31 December	**303**	**280**

Trade and other receivables at 31 December 2014 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

5. Restricted cash, cash and cash equivalents

Amounts in €'000	2014	2013
Current restricted cash	-	1,452
Cash and cash equivalents	19,195	6,837
Balance at 31 December	**19,195**	**8,289**

The current restricted cash of 2013 of €1,452,000 was a deposit with expiry date 4 April 2014. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments (maturity less than 3 months) readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

The holding company Pharming Group N.V. has entered into a joint liability agreement with a bank and other group companies. Pursuant to this agreement, the entity at 31 December 2014 is jointly liable for commitments relating to bank guarantees for an aggregate amount of €200,000 with a maturity of more than one year after the end of the reporting year. The total guarantees of €200,000 are accounted by other group companies.

6. Shareholders' equity

The Company's authorised share capital amounts to €5.5 million and is divided into 550,000,000 ordinary shares with a nominal value of €0.01 each. All 407,686,599 shares outstanding at 31 December 2014 have been fully paid-up.

Movements in Shareholders' equity for 2014 and 2013 were as follows:

Amounts in €'000	2014	2013
Balance at 1 January	**5,010**	**(7,652)**
Net loss	(5,767)	(15,060)
Foreign currency translation	36	-
Share-based compensation	2,465	730
Bonuses settled in shares	450	189
Bond payments in shares	-	16,719
Shares/warrants issued for cash	14,004	9,688
Warrants exercised	13,633	394
Options exercised	3	2
Balance at 31 December	**29,834**	**5,010**

For a detailed movement schedule of equity for the years 2014 and 2013, please refer to the schedule consolidated statement of changes in equity. The main fluctuations in equity have been described in Note 19 to the consolidated financial statements.

7. Financial assets

Investments in subsidiaries are those investments with a positive equity value. In the event the equity value of a group company together with any long-term interests that, in substance, form part of our net investment in the group company, becomes negative, additional losses are provided for, and a liability is recognised, only to the extent that we have incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Movement of financial assets and the provision for subsidiaries for the years 2014 and 2013 was as follows:

Amounts in €'000	Investments in subsidiaries	Provision for subsidiaries	Net total
Balance at 1 January 2013	**-**	**(202,093)**	**(202,093)**
Share in results of investments	-	(3,409)	(3,409)
Exchange rate effects	-	683	683
Balance at 31 December 2013	**-**	**(204,819)**	**(204,819)**
Share in results of investments	-	8,329	8,329
Exchange rate effects	-	(2,057)	(2,057)
Balance at 31 December 2014	**-**	**(198,547)**	**(198,547)**

At year end 2014 and 2013, the provision for subsidiaries was offset with the following receivable balances from Pharming Group N.V.:

Amounts in €'000	2014	2013
Provision for subsidiaries	(198,547)	(204,819)
Receivable	214,146	207,040
Investment/ (provision)	**15,599**	**2,221**
Of which classified as provision for subsidiaries	-	-
Receivable from group companies	**15,599**	**2,221**

8. Derivative financial liabilities

The backgrounds of the derivative financial liabilities have been provided in Note 21 of the consolidated financial statements.

9. Trade and other payables

Amounts in €'000	2014	2013
Accounts payable	107	110
Taxes and social security	63	93
Deferred compensation due to related parties	478	390
Other payables	339	334
Balance at 31 December	**987**	**927**

The amount of deferred compensation due to related parties involves Members of the Board of Management and includes bonuses, holiday allowances and holiday rights.

10. Other results

Other results in 2014 and 2013 include costs of share-based compensation in the amount of respective €2,465,000 and €730,000, as disclosed in Note 24 of the consolidated financial statements. These charges include those related to Members of the Board of Management and employees.

11. Employee information

All employees of Pharming Group N.V. in both 2014 and 2013 were based in the Netherlands. The number of full-time equivalent employees in 2014 was 8 (2013: 8) and the number of employees at 31 December 2014 was 9 (31 December 2013: 8).

12. Related party transactions

Related parties disclosure relates entirely to the key management of Pharming, being represented by the Members of the Board of Management and the Board of Supervisory Directors. All direct transactions with Members of the Board of Management and Board of Supervisory Directors have been disclosed in Notes 25 and 26 of the Consolidated Financial Statements. At 31 December 2014, the Company owed a total amount of €478,000 to Members of the Board of Management with respect to their compensation (see Note 9 of the Company Financial Statements).

INDEPENDENT AUDITOR'S REPORT

To: the General Meeting and Board of Supervisory Directors of Pharming Group N.V.

REPORT ON THE FINANCIAL STATEMENTS 2014

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Pharming Group N.V. as at 31 December 2014, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements give a true and fair view of the financial position of Pharming Group N.V. as at 31 December 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2014 of Pharming Group N.V., Leiden ('the Company'). The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:
- the consolidated balance sheet as at 31 December 2014;
- the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:
- the company balance sheet as at 31 December 2014;
- the company statement of income for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the consolidated financial statements" section of our report.

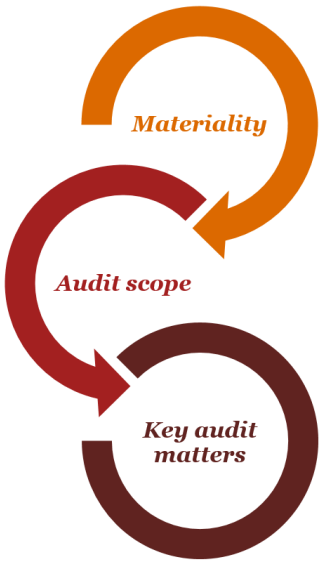
We are independent of Pharming Group N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands.

Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

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



Materiality

- Overall materiality: € 150,000 which represents 2.5% of the result before tax.

Audit scope

- The Dutch engagement team performed all the audit work, since the Company is predominantly Dutch based.
- Site visits were conducted at the external inventory holding locations, in the Netherlands, France and the United States, where inventory counts were undertaken.

Key audit matters

- Valuation of inventories
- Recognition of revenue
- Accounting for financial derivatives
- Development of the finance function
- Funding

Materiality

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

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

Overall group materiality	€ 150,000 (2013: € 106,500).
How we determined it	2.5% of the result before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. Since the Company is transforming itself from an R&D company to a more sales oriented company, we believe that the loss before tax is an important metric for the financial performance of the Company and therefore we applied a percentage of 2.5%.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons. Revenues recognized, in our view, will be an important parameter for estimating future returns for investors. Given the fact that developments in revenue are a key metric for stakeholders, we applied a lower specific materiality level of € 50,000 for revenue.
We agreed with the Audit Committee that we would report to them misstatements identified during our audit above € 7,500 (2013: € 9,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our audit

Pharming Group N.V. is the head of a group of entities. Accounting for the group's activities takes place at the headquarters in Leiden, the Netherlands and as a consequence, we were able to perform all of the audit work for the group at that location. The financial information of this group is included in the consolidated financial statements of Pharming Group N.V. Site visits were conducted at the external inventory holding locations, in the Netherlands, France and the United States, where inventory counts were undertaken.
By performing the procedures above, we believe we have obtained sufficient and appropriate audit evidence regarding the financial information of the group to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements. We have communicated the key audit matters to the Board of Supervisory Directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.
The key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
1. Valuation of inventories *See note 2.3 to the financial statements for the Company's disclosures of the related accounting policies, judgements and estimates and note 17 for further information.* The Company is transitioning from an R&D company to a more sales oriented company and is increasing inventory levels to cover possible future demand for its product. Due to limited historical sales related data, it is difficult for management to make robustly supported estimates concerning obsolescence of inventory. Furthermore, the estimation of the net realisable value is based on an allocation of inventories to the different markets with different prices, based on sales forecasts by management and commercial partners, and clinical programs. Other key parameters for the inventory valuation are expiration dates of the inventory and the costs of inventory. Valuation of inventories was important to our audit given the above-mentioned challenges requiring management to make estimates and exercise judgement, as well as the magnitude of the inventory balance at 31 December 2014.	We tested the expiration dates of the inventory based on the product release reports and tested cost of goods with underlying invoices and expenses incurred. We challenged the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are based on the existing contracts with its main commercial partners and whether these are in line with historical revenues to date. Furthermore, we read the Board minutes and joint steering committee minutes (with the two main commercial partners and the main production partner) to identify potential indicators for impairment.

Key audit matter	How our audit addressed the matter
2. Recognition of revenue *See note 2.3 to the financial statements for the Company's disclosures of the related accounting policies, judgements and estimates and note 5 and note 20 for further information.* Recognition of product revenue is based on the realised sales in different countries. Another revenue stream relates to upfront and milestone payments agreed upon in license contracts with commercial partners. Given the non-routine nature of the revenue streams, there is a risk of premature recognition of product revenue per 31 December 2014 as well as a risk of improper accounting for upfront payments and milestones received based on the license contracts. Revenue is considered an important parameter to assess the performance of the Company and therefore we considered it a key audit matter.	We assessed sales volumes by considering the reconciliation of the flow of goods. When having tested opening and closing inventories and production, this provides a reasonable basis of comparison to recorded sales. We also tested the revenue transactions in detail to verify that revenue is recognized in the appropriate period and that prices reconcile to the underlying contracts. We also obtained an understanding of the underlying contracts. Furthermore, we read the Board minutes and joint steering committee minutes (with the two main commercial partners) in order to identify information that could have an impact on revenue recognition. We tested the accounting for license contracts based on the conditions included in the applicable contracts. Furthermore, we verified licence fees against the realisation of the appropriate milestones. In addition we assessed the adequacy of related disclosures in the financial statements.
3. Accounting for financial derivatives *See note 2.3 to the financial statements for the Company's disclosures of the related accounting policies, judgements and estimates and note 22 for detailed disclosures.* In 2014, the Company recorded an amount of € 9.1 million related to non-cash items in its finance expenses related to warrants issued to investors in various private placements. These warrants have been granted as additional compensation to investors in relation to the issuance of shares. This was important to our audit as the calculation of the accounting entries for these warrants is susceptible to errors due to the volume of grants as well as the different dates on which the grants are exercised. Management hired an external valuation expert to perform the calculations.	We assessed the objectivity, independence and competence of the valuation expert. We evaluated and challenged the valuation reports related to these financial instruments and challenged the underlying assumptions and calculation model including volatility by means of recalculation together with the valuation expert in our team. We re-performed the calculation on a sample basis. We reviewed and tested the accounting of the underlying contracts as well as the exercises of the warrants. In addition we assessed the adequacy of related disclosures in the financial statements.

Key audit matter	How our audit addressed the matter
4. Development of the finance function *Refer to the risk factors included in the Management report and to the report of the Board of Supervisory Directors.* The functions of the CEO and CFO of the Company are concentrated within one person given the stage of development of the Company. Furthermore, the finance department is of a limited size and possibilities for segregation of duties are therefore constrained. There is also no internal audit department in place. As a result of the transformation and expected growth of the Company, the Board of Management and the Board of Supervisory Directors consider that an appropriately staffed and empowered finance function is important to the Company's ongoing development. Given the above-mentioned limitations, and the resultant impact on our audit, we considered this to be a key audit matter.	We evaluated the control environment and internal controls within the Company. Given the stage of development of the Company's internal control environment, the limited segregation of duties and the visibility of internal control procedures, we concluded that our reliance on the Company's internal controls is limited. As a consequence, we tailored our audit strategy in order to perform a substantive driven audit. We concur with the view of the Board of Management and the Board of Supervisory Directors that the finance function needs a more prominent role within the Company and within the Board of Management to establish an appropriate governance structure and to establish proper segregation of duties.
5. Funding *Refer to the paragraph going concern in the management report and note 3 going concern assessment.* Based on the nature of the Company and taking into account its stage of development, the Company incurred large development costs prior to its product being ready for sale. As a consequence, the Company required funding in order to be able to continue its operations. As the funding is not guaranteed, an inherent risk in relation to the Company as a going concern exists. Despite the Company's development into a more sales oriented company, funding from non-sales related sources is still required and we therefore considered this a key audit matter for our audit. As reflected in the management report and note 3 of the financial statements management concluded that the 2014 year-end cash balance of €34.2 million is expected to be sufficient to fund the Company for at least one year from the date on which the financial statements are signed by the Board of Management and the date of our opinion. Management also reflects on the possibility that actual cash inflows might be less than projected and/or actual cash outflows might be higher than projected. Due to the inherent nature of the business and its stage of development, additional funding might be required in the period beyond 12 months as per the date of signing these financial statements and the date of our opinion. For the longer term, management is projecting significant cash inflows from sales, mainly from the U.S. market.	We evaluated and challenged the Company's future cash flow forecasts, and the process by which they were prepared, and tested the underlying key assumptions such as expected cash inflow from product sales and cash outflow from purchases of inventory, R&D expenses and other operating expenses. We also assessed the worst case scenario analysis of management concerning the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would lead to alternative conclusions. Furthermore, we read the Board minutes and joint steering committee minutes (with the two main commercial partners and the main production partner) in order to understand the future plans and to identify potential contradictory information. Regarding revenues we challenged the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are based on the existing contracts and whether these are in line with the historical revenues to date from the two main commercial partners. The comparable historical data is limited since the product launch in the U.S. took place only recently. Additionally we checked the adequacy of the disclosures around funding.

Responsibilities of the Board of Management and the Board of Supervisory Directors

The Board of Management is responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, for the preparation and fair presentation of the company financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the Board of Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the consolidated financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the consolidated financial statements.

The Board of Supervisory Directors is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the consolidated financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all errors and frauds.
A more detailed description of our responsibilities is set out in the appendix to our report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Our report on the management report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management report and other information):

- We have no deficiencies to report as a result of our examination whether the management report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the management report, to the extent we can assess, is consistent with the consolidated financial statements.

Our appointment

We were appointed as auditors of Pharming Group N.V. on 18 June 2014 following the passing of a resolution by the shareholders at the annual meeting representing a period of engagement appointment of one year.

Utrecht, 18 March 2015

PricewaterhouseCoopers Accountants N.V.

A.C.M. van der Linden RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS 2014 OF PHARMING GROUP N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Board of Management.
- Concluding on the appropriateness of Board of Management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Supervisory Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Board of Supervisory Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Supervisory Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

OTHER FINANCIAL INFORMATION

For the year ended 31 December 2014

1. Appropriation of result

Article 25.1 of the Articles of Association reads as follows: 'The management board shall annually determine, subject to the approval of the Board of Supervisory Directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.'

2. Proposed appropriation of net loss

The Company proposes to forward the net loss for the year 2014 to the accumulated deficit. Anticipating the approval of the Financial Statements by the Shareholders at the Annual General Meeting of Shareholders, this proposal has already been reflected in the Financial Statements.

3. Events after the reporting year

For information on events after the reporting year we refer to note 33 of the consolidated financial statements.

GLOSSARY

AGM
Annual General Meeting of Shareholders.

AMI
Acute Myocardial Infarction, commonly known as a heart attack, results from the interruption of blood supply to a part of the heart causing heart cells to die. Heart attacks are the leading cause of death for both men and women worldwide.

Angioedema
See HAE.

BLA
In the US, pharmaceuticals are approved for marketing under the provisions of the Public Health Service (PHS) Act. The Act requires a firm, which manufactures a pharmaceutical for sale in interstate commerce to hold a license for the product. To commercialise a new biological product in the US, the FDA needs to approve a Biologics License Application (BLA). A BLA is a submission that contains specific information on the manufacturing processes, chemistry, pharmacology, clinical pharmacology and the therapeutic effects of the biologic product. If the information provided meets FDA requirements, the application is approved and a license is issued allowing the company to market the pharmaceutical. Biologics include amongst others monoclonal antibodies, growth factors, blood products and other proteins intended for therapeutic use.

BOM
The Board of Management of Pharming Group N.V.

C1INH
C1 esterase inhibitor or C1INH is a serine protease inhibitor protein present in human blood. C1INH is involved in the regulation of the first protein in the complement system (C1), which is part of the immune system. Insufficient C1 inhibitor activity or amounts can cause inflammation and HAE attacks.

China
The People's Republic of China.

CIS
Commonwealth of Independent States.

Clinical trials/studies
Clinical trials are tests on human individuals, either healthy individuals or patients, to evaluate safety and efficacy of new pharmaceutical products before they can be approved. Clinical trials required for regulatory approval typically range from Phase I to Phase III.

Code
Dutch Corporate Governance Code, applicable as of 1 January 2009.

COGS
Cost of Goods Sold.

Company
In this Annual Report the "Company" refers to Pharming Group N.V.

DGF
DGF or delayed graft function is a common complication affecting all solid organs in the post-transplant period and may be the result of Ischaemia-Reperfusion Injury (see IRI). DGF results in significant morbidity and mortality from early graft dysfunction and from decreased long-term graft survival. The condition also prolongs hospitalisation and requires substitute therapies for these patients, such as dialysis or ventilation support. DGF remains a critical unmet medical need despite improvements in immunosuppression, organ preservation and surgical technique. C1 inhibitor has been shown to improve early graft function in various models of organ transplantation. In the US alone, over 25,000 solid organs were transplanted in 2005, including kidney, liver, lung and heart transplants.

EMA
The European Medicines Agency (EMA) is the regulatory office for pharmaceuticals in the European Union and is responsible for approving new drugs prior to marketing of the product ensuring their safety and efficacy.

ERT
Enzyme Replacement Therapy.

EU
Europe.

Fabry's disease
Fabry's disease is a rare, genetic lysosomal storage disease typically occurring in male children. A deficiency in the alpha-galactosidase A (GLA) enzyme leads to excessive deposition of glycosphingolipids in endothelium, epithelium and smooth muscle cells. The progressive accumulation of glycosphingolipids in the lining of the blood vessels accounts for the associated clinical abnormalities of skin, eyes, kidneys, heart, brain and peripheral nervous system. Disease progression varies, but ultimately the disease is fatal.

FDA
The FDA or Food and Drug Administration is the regulatory office responsible for drug approval in the United States.

FIFO
First in, first out.

Gaucher's disease
Gaucher's disease is a genetic disease in which fatty substances (sphingolipids) accumulate in cells and certain organs. It is caused by a hereditary deficiency of the enzyme beta-glucocerebrosidase (GCase). When the enzyme is defective, glucosylceramide can collect in the spleen, liver, kidneys, lungs, brain, and bone marrow. The severity of the disease varies, but it is ultimately fatal.

GMP
GMP status or Good Manufacturing Practice is a term that is recognised worldwide for the control and management of manufacturing and quality control testing of foods and pharmaceutical products.

HAE
HAE or Hereditary Angioedema is a human genetic disorder caused by insufficient activity of the C1 inhibitor protein. HAE patients suffer from recurrent unpredictable acute attacks of painful and in some cases fatal swelling of soft tissues (edema), including regions of the skin, abdomen, the mouth or throat. Attacks can last up to five days when untreated. In the Western world, approximately 1 in 30,000 individuals suffers from Hereditary Angioedema, having an average of eight acute attacks per year.

HAEI
Hereditary Angioedema International (patient organisation).

IFRS, IAS and IASB
International Financial Reporting Standards (IFRS) along with International Accounting Standards (IAS) are a set of accounting standards issued by the International Accounting Standards Board (IASB).

IND
An IND (investigational new drug application) is the vehicle through which a sponsor advances to the next stage of drug development known as clinical trials (human trials) in the US.

IRI
Ischaemia-Reperfusion Injury (IRI) is a complication arising from lack of oxygen due to an interruption of the blood supply (ischaemia) resulting in tissue damage. This can occur in a transplanted organ, in the brain in case of stroke, and in the heart in case of myocardial infarction ('heart attack').

LTIP
Pharming's Long Term Incentive Plan.

MegaPharm
MegaPharm, Ltd.

NPD
New Product Development

Orphan Drug
A drug being developed to treat a rare disease (affecting less than 200,000 individuals in the US) can receive Orphan Drug designation from the FDA. This status is granted under the US Orphan Drug Act of 1983, which was established to encourage, support and protect the development of treatment for rare, but serious diseases. Orphan Drug status provides several advantages including market exclusivity for seven years, various financial incentives and a well-defined regulatory approval path. The EMA can grant a similar status to products being developed to treat rare diseases (affecting not more than 5 in 10,000 persons in Europe), namely Orphan Medicinal Product. This status is granted under European Parliament and Council Regulation (EC) No 141/2000 of 16 December, 1999, on Orphan Medicinal Products, which introduces incentives for Orphan Medicinal Products research, development and marketing, in particular by granting exclusive marketing rights for a ten-year period.

Pompe disease
Glycogen-storage disease type II (GSDII), also referred to as Pompe disease, is one of the rare, genetic lysosomal storage diseases. It results from the deficiency of alpha-glucosidase (GAA), leading to accumulation of glycogen in organs, particularly skeletal and respiratory muscles, liver and nerves. In the infantile onset form, also the muscles in the heart are affected. This form is marked by a progressive and rapidly fatal course. Juvenile and adult-onset forms are less progressive and typically not accompanied by cardiac disease. These patients experience muscle weakness and ultimately succumb to respiratory failure.

Protein
Proteins are large organic molecules, such as C1 inhibitor, fibrinogen and collagen, and form the basis to all living organisms. They are composed of one or more chains of amino acids joined together by peptide bonds. The length of the chains and sequence of amino acids is defined by genes, which are present in the DNA.

QA
Quality Assurance.

QC
Quality Control.

Recombinant
Recombinant refers to the combination of genetic material (DNA) from different biological sources. Pharming, like all biotechnology firms, uses recombinant technology to produce proteins such as recombinant human C1 inhibitor.

rhC1INH
Recombinant human C1 esterase inhibitor or rhC1INH is the active component of Ruconest. Natural C1 inhibitor DNA from a human source is used in Pharming's protein production technology to ensure expression of the C1 inhibitor protein. In addition to its use in treating HAE attacks, this product might also be useful in certain other clinical indications, such as the prevention of complications that sometimes arise after organ transplantation.

rhFVIII
Recombinant human Factor VIII is a recombinant form of the human blood clotting factor and is in early-stage development for treatment of Haemophilia A. Haemophilia A is a hereditary disorder caused by defects in the Factor VIII gene. Lack of functional Factor VIII diminishes the body's clotting ability, which in turn can lead to damaging or fatal bleeding episodes. On this project, Pharming has a service agreement with Renova Life.

Ruconest
Ruconest® is the global registered trade mark for Pharming's recombinant human C1 inhibitor. Human C1 inhibitor is a Protein involved in the regulation of the first protein in the complement system (C1), which is part of the immune system. Insufficient C1 inhibitor action or amounts in the blood plasma can cause inflammation and HAE attacks.

Salix
Salix Pharmaceuticals, Inc. (NASDAQ: SLXP).

Santarus
Santarus, Inc. This company was taken over by Salix Pharmaceuticals, Inc. in January 2014.

SEC
U.S. Securities and Exchange Commission.

SIPI
Shanghai Institute of Pharmaceutical Industry, a Sinopharm Company.

Sobi
Swedish Orphan Biovitrum AB (publ) (SS:SOBI).

Transgenic
An organism is called transgenic when its cells carry genetic material from another species in addition to its own genetic material. Pharming produces specific human proteins in the milk of transgenic rabbits carrying the human recombinant gene responsible for expressing that protein.

TRM
Transgenic Rabbit Models SASU.

US
The United States of America.

VWAP
Volume Weighted Average Price of shares.

APPENDIX:

PUBLICATIONS ON RUCONEST® 2014

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11. Li H, Riedl MA, Bernstein JA, Lumry WR, Reshef A, Moldovan D, Farkas H, Porebski G, Stobiecki M, Hardiman Y, Relan A, Cicardi M. Sustained Response Following Acute Treatment Of Hereditary Angioedema Attacks With Recombinant Human C1 Esterase Inhibitor Journal of Allergy and Clinical Immunology, Volume 133, Issue 2, Supplement, February 2014, Page AB37.

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