ANNUAL REPORT 2009

PHARMING

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PHARMING IN A NUTSHELL

PHARMING IN A NUTSHELL

MISSION AND VISION

Pharming is a biotech company that aims to address unmet medical needs by developing innovative protein therapeutics. These products are developed on the basis of Pharming's proprietary production technology. The Company's lead product candidate, Rhucin®, is the recombinant human C1 inhibitor (rhC1INH) protein for treatment of acute attacks of Hereditary Angioedema (HAE), a genetic disorder. The Company is also exploring applications of rhC1INH in the area of organ transplantation. In addition, the Company seeks to pursue the development of other products in its pipeline, including rhFIB (recombinant human fibrinogen), hLF (Pharming's human lactoferrin product) and rhCOL (recombinant human collagen), mainly through strategic alliances and partnerships with interested parties. Through the acquisition of DNage, the Company became also active in the field of ageing diseases through DNA repair. In the first quarter of 2010, it was announced that third party investors are being sought to finance the further development of DNage. As a result of such investments, Pharming expects to eventually retain a minority interest in DNage.

Pharming's mission is to be an international specialty pharmaceutical company focusing on the development and commercialization of therapeutic products, initially for specific rare diseases or other significant medical needs (orphan drug development), and secondly for larger indications with considerable market potential.

STRATEGY

Pharming intends to lower its risk profile by broadening and further developing its product pipeline and thus diversifying the risk of being dependent on one major product whose fortunes affect the share price. In addition, the Company is pursuing the development of its products through strategic alliances and partnerships.

Pharming's strategy to become an international specialty pharmaceutical company is based on three pillars:

1. Product development strategy: Pharming focuses on demonstrating early proof of concept for indications with high unmet medical need. Pharming is developing and intends to register itself those indications which fit with its capabilities and resources. For higher risk programs, or programs targeting larger indications, Pharming is pursuing strategic co-development partnerships.
2. Commercialization strategy: Pharming intends to form strategic partnerships to obtain access to other required competencies, such as marketing and sales. Pharming explores both partnering possibilities for commercialization of its products and the option of setting-up its own commercialization infrastructure.
3. Financing strategy: Pharming focuses on the aggressive development of selected products from its pipeline and as such on generating value both in the short-term and long- term. The Company is, for its long term existence, exploring opportunities to further improve its financial position. These include the identification of Private Equity and/or Venture Capital investors to participate in its wholly owned subsidiary DNage, identification of development and commercialization partnerships, such as the recently closed collaboration with Swedish Orphan Biovitrum for Rhucin, generating both upfront and regulatory milestone payments and future royalties from sales and in addition, financing by means of debt and/ or equity instruments.

TECHNOLOGY

Pharming has developed a transgenic technology platform, which is an effective means of producing complex human proteins efficiently, yielding high quality products. This platform is particularly useful for proteins whose production in other systems is not very efficient or which require very specific modifications, during the production, for them to be active.

PRODUCTS

Pharming is developing innovative products for the treatment of various specialty disorders, including genetic disorders, diseases associated with the immune system, and nutritional products. The Company continues to make progress in its product pipeline, with several products in clinical stage of development.

Product	Indication	Status
Rhucin®	Acute HAE	MAA under review with EMA
		Pre-BLA discussions
Recombinant human C1 inhibitor (rhC1INH)	AMR. in kidney transplantation	Preparing Phase II
	DGF in kidney transplantation	Preparing Phase II
Prodarsan®	Cockayne Syndrome	Preparing phase II
Human lactoferrin (hLF)	Nutritional applications	Commercialization
Recombinant human fibrinogen (rhFIB)	Fibrinogen deficiency	Pre-clinical
Recombinant human collagen type I (rhCOL)	Tissue repair	Research
Other DNage products	Ageing diseases	Research

Lead product candidate, Rhucin®, is the recombinant human C1INH protein for treatment of acute attacks of HAE, a genetic disorder. It has undergone an extensive development program including the development of a robust and high quality production process (in milk of rabbits), a high quality purification process yielding pure product with consistent specifications, a non-clinical program, a toxicology program, a clinical program involving hundreds of administrations in humans and various other development programs as required by the competent authorities. An application for market authorization in the European Union ("EU") was submitted in September 2009 and a final decision from the relevant committee can be expected in the third quarter of 2010. Pharming has initiated pre-BLA discussions with the FDA (US Food and Drug Administration) end of 2009. Based on the outcome of these discussions, during HY1 2010, Pharming will inform the market on the timing for the submission of the BLA (Biologics License Application).

The same product (rhC1INH) is also currently being developed for prevention and acute treatment of graft rejections associated with human organ transplantation (i.e. AMR. or Antibody-mediated rejection and DGF or Delayed graft function). In addition, rhC1INH will be further investigated in pre- clinical models for treatment of diseases caused by so-called ischemic reperfusion damage (including certain cardiovascular diseases) and macular degeneration. A product to treat congenital and/or acquired fibrinogen deficiency is in pre-clinical stage of development.

Human lactoferrin has been developed by the Company for use in human nutrition. The development of this product has been largely completed and further commercialization is now dependent on upscaling of production and commercial activities by (potential) partners. One such partnership in which the Company engaged during the course of 2008 was with Aslan Group of Turkey. Since initiation of this partnership several complications have hindered progress of the partnership. Alternative solutions are under evaluation.

In view of the Company's intention to separately finance its DNage business unit, the technology and products of this unit, albeit wholly owned in the period covered by this report, are being discussed separate from the other products under development within Pharming. Briefly, the technology platform owned by DNage is based on technology in the field of DNA-repair. The first product under development, based on this technology platform, is Prodarsan® which is being tested in a clinical program for the treatment of Cockayne Syndrome, one of several premature aging diseases caused by a genetic defect in DNA-repair.

SELECTED FINANCIAL DATA

The data below have been derived from Pharming's audited consolidated financial statements commencing at page 67 of this report.

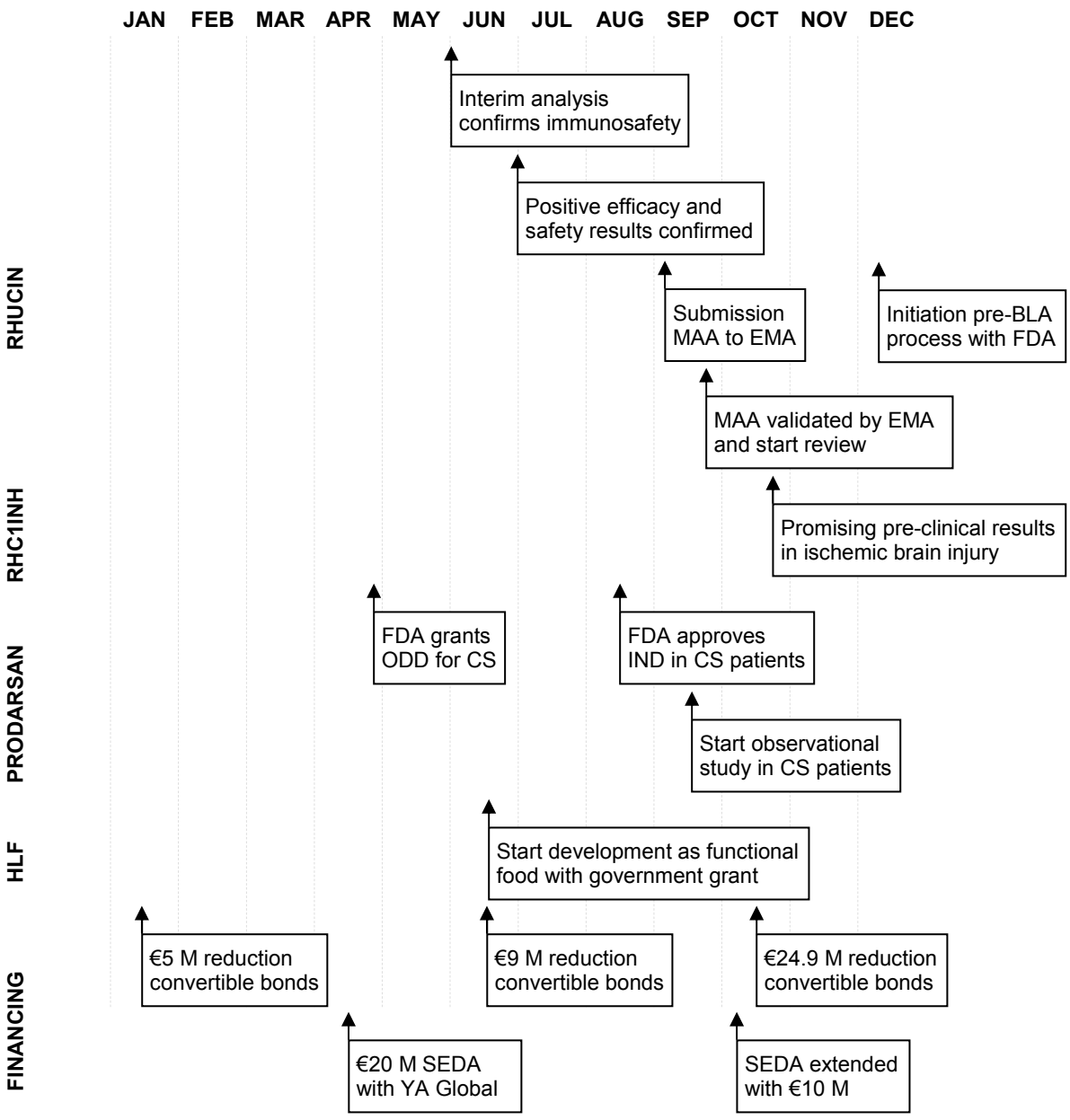
Amounts in €million (except per share data)	2009	2008
Balance sheet data		
Non-current assets *	27.1	31.0
Cash and marketable securities **	2.3	23.5
Other current assets	12.6	12.6
Total assets	42.0	67.1
Convertible bonds	9.5	35.7
Other liabilities	19.2	18.9
Total equity	13.3	12.5
Income data		
Grants and other income	1.1	0.7
Operational costs	(29.0)	(30.1)
Financial and other income and expenses	(4.2)	3.2
Net loss	(32.1)	(26.2)
Cash flow data		
Net cash used in operating activities	(24.3)	(21.9)
Net cash from/(used in) investment activities	4.2	(0.8)
Net cash from/(used in) financing activities	2.5	(18.8)
Other information		
Number of shares outstanding	154,501,037	97,429,854
Weighted average shares outstanding	116,177,686	91,657,617
Basic and diluted net loss per share (€)	(0.28)	(0.29)
Market capitalization	69.5	62.4
Number of employees	95	82

* excluding restricted cash

** net of bank overdrafts; year end 2009 cash excludes €7.5 million proceeds from early 2010 financing

KEY DEVELOPMENTS 2009

The development and filing of Rhucin for the treatment of acute HAE attacks has been key focus in 2009. Development of other products has progressed with limited resources.



EXPECTATIONS 2010

- Approval of Marketing Authorization Application for Rhucin from the European Medicines Agency in Q3
- First product sales for Rhucin in EU
- Clarity on the filing and review process for Rhucin in the USA for the treatment of acute attacks of Hereditary Angioedema in HY1
- Initiation clinical development of rhC1INH for applications in the field of transplant indications in 2010
- Implementation of third party financing strategy for DNage
- Additional commercialization agreement(s) for Rhucin
- Further improvement of the financial position by (combinations of) project-specific financing, licensing deals, loans and equity transactions

LETTER FROM THE CEO

LETTER FROM THE CEO

This first full year as CEO of Pharming has been a challenging year. However as result of the hard work during this year, 2010 now has the potential to become a transformational year, during which we can begin to reveal the true value of Pharming's impressive achievements.

In this context, we continue to have great confidence on the outcome of the ongoing review of the European filing for Rhucin. Based on this progress, we are delighted to enter into a European partnership with Swedish Orphan Biovitrum. This partnership represents a major step forward. Together with the already existing partnership with Esteve for Spain, Portugal and Greece, it will enable patients in the European Union to look forward to benefit from Rhucin treatments, as soon as possible after the approval of the Marketing Authorization Application.

Furthermore, it also provides Pharming with important third party validation of Rhucin and with additional funds from the upfront payment and the prospect of the milestone payment at regulatory approval. This means that two very strong marketing and distribution partners, experienced in marketing and selling Orphan Drugs are now committed to turning Rhucin into a commercial success in the entire European Union. In the meantime, we are evaluating our commercial strategy for other territories like North America, for which we are in discussions with a number of potential partners.

Key to our strategy remains the focus on demonstrating early proof of concept for indications with high unmet medical needs initially, followed by the development of our assets for larger indications. Rhucin/rhC1INH is a very good example of this approach. This means that we are now gearing up to start clinical studies with rhC1INH, based on recently published strong pre-clinical results and scientific insights, for the treatment of two different types of complications of kidney transplantation.

The stabilization and going forward, the necessary solidification of our financial situation remains a core concern for us. The cancellation of the vast majority of our 2007 Convertible Bonds under very difficult market circumstances represented a first but pivotal step during 2009. As a result of this challenging process and the lack of progress in the lactoferrin agreement with Aslan Group for Turkey and surrounding areas, the financial situation of the Company became rather critical during the course of 2009. The closing of the Yorkville Global Standby Equity Distribution Agreement (SEDA), from which we were able to draw more than €6.5 million, and some small private placements, enabled us to deliver on the reduction of the debt in October 2009. Some improvement in our financial situation was subsequently achieved, after closing a convertible debt financing of €7.5 million at the beginning of 2010.

During the further course of 2010, and beyond, such financial solidification will be driven, on one hand, by a more stringent focus on our most advanced assets, which will enable to control and reduce the cash burn rates going forward, exemplified by the initiation of identifying new investors for DNage. On the other hand, this solidification will come from access to additional funds, expected to come from a combination of income from upfront payments and milestones from existing partnerships for Rhucin, income from first sales of Rhucin, the access to the remaining €23.4 million of equity funding through our SEDA with Yorkville Global, and other additional alternative means of obtaining funding, including but not limited to other equity financing and/or debt financing instruments, for which we recently announced the engagement of two renowned investment banks Kempen & Co and Petercam Bank.

We are confident that on this basis we can continue to build our Company to bring our medicines to patients with potentially life threatening diseases and at the same time to bring long-term value to our shareholders.

Delivering results and value, would however be impossible without a good team of people. Hence, I would like to extend my gratitude by thanking all of our employees for their relentless and continued commitment. Their professionalism and hard work represents the very essence of the Company.

Last, but not least, the entire Pharming team thanks our loyal shareholders who stayed with us during this challenging year and with you, we look forward to a transformational 2010.

Sijmen de Vries

Leiden,
The Netherlands,
30 April 2010

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INFORMATION FOR SHAREHOLDERS AND INVESTORS

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. We organize analysts and press meetings and/or conference calls, when presenting our 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 our website. Audio casts of these conference calls and corporate presentations are made available on our 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. We regularly present at conferences and our corporate and scientific presentations are made available at our website as well.

MAJOR SHAREHOLDINGS

The table below presents information about the ownership of the Shares at December 31, 2009 for each existing shareholder of which Pharming is aware to beneficially own 5% or more of the Shares, or whose shareholding has recently diluted below 5%. This information is based on public notifications by such shareholders pursuant to the Disclosure of Major Holdings in Listed Companies Act 2006. The number of Shares as well as the percentage of Shares held by these shareholders to date may be different.

	Shareholding at notification date	Number of outstanding shares at notification date	Notification date
Lafferty Limited	9.97	97.429.854	09 December 2008
UBS AG	8.30	154.501.037	8 October 2009

Except as disclosed above, Pharming is not aware of any person who, as of the date of this Annual Report, directly or indirectly, has a beneficial interest in 5% or more of the Shares.
The shareholders listed above have the same voting rights as other holders of the Shares.

SHARE INFORMATION AND TRADING DATA

Pharming Group NV's shares are listed on NYSE Euronext NV Amsterdam (symbol: PHARM) since 1999. Pharming is included in the Small cap index (AScX) on Euronext Amsterdam, which consists of the top 25 actively traded small caps on Euronext Amsterdam, ranked on the basis of value of full year 2009 turnover of shares in Euros. The free float of Pharming is >80%, with most of the shares held by Dutch investors.

The Shares are traded under the following characteristics:
ISIN Code: NL0000377018
Common Code: 15661178
Amsterdam Security Code: 37701
The Shares are traded through the book-entry facilities of Euroclear Netherlands, only. The address of Euroclear Netherlands is: Herengracht 459-469, 1017 BS Amsterdam, the Netherlands.

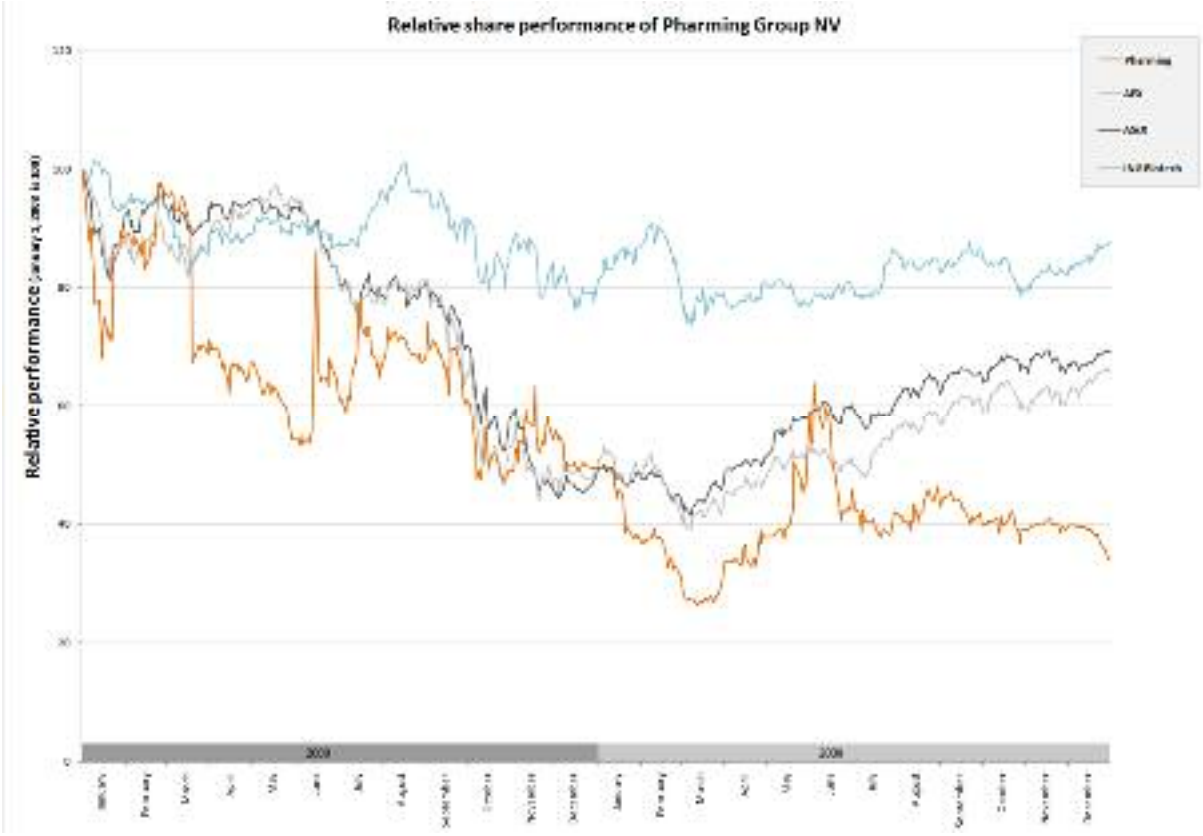
Fortis Bank (Nederland) NV is the Paying Agent with respect to the Shares. The address of Fortis Bank (Nederland) NV is: Rokin 55, 1012 KK Amsterdam, the Netherlands.

In the following table information per share and relevant trading data in 2009 compared to 2008 are depicted:

Amounts in €'000	**2009**	**2008**
Earnings per share	(0.28)	(0.29)
Dividend	-	-
Average daily trading volume	616,593	437,781
Highest closing price	0.84	1.31
Lowest closing price	0.35	0.62
Price at year-end (€)	0.45	0.64
Shares outstanding at year-end	154,501,037	97,429,854
Market capitalization	69.5	62.4

SHARE PERFORMANCE 2008 AND 2009

Relative share performance of Pharming Group NV compared to the AEX Index (NYSE Euronext Amsterdam), AScX and ING Biotech fund at closing prices in 2008 and 2009:



FINANCIAL CALENDAR FOR 2010

27 May 2010	Annual General Meeting of Shareholders at the Pharming headquarters in Leiden, the Netherlands at 14.00 CET
21 July 2010	Publication of second quarter 2010 financial results at 7.00 CET
21 October 2010	Publication of third quarter 2010 financial results at 7.00 CET

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Introduction

Pharming is aware of its responsibility towards its employees, shareholders, patients, animals and other stakeholders. Pharming is a listed company developing therapeutic products, which operates according to the regulations and generally accepted ethical and social standards. Pharming supports the development and implementation of activities to improve its corporate social responsibility.

Medical Need

Pharming is developing therapeutic products for specific rare diseases (orphan drug development) and other significant medical needs, for which no cure or sufficient treatment is available and patients, patient organizations and the medical community plea for therapies. Through development of the products currently in its pipeline, Pharming can offer (alternative) treatment and improve the quality of life and in some cases save lives. As such, we believe that Pharming makes a valuable contribution to the community.

Patient Safety

Pharmaceutical products need to be absolutely safe 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 there-off, are reported to the relevant authorities according to legal timelines, and result in appropriate actions such as updating investigator brochures and product labeling. 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. Pharming's laboratories comply with Good Laboratory Practice (GLP) guidelines and all production facilities and processes comply with regulatory Good Manufacturing Practice (GMP) guidelines. Pharming's Quality department is carrying out internal and external audits of processes, products and facilities on a regular basis. All these processes and guidelines have been accepted and implemented to improve and assure the quality of our products.

Whistleblowers' Procedure

Pharming has a whistleblowers' policy which is available on the Company's website. This policy describes the internal reporting procedures of suspected irregularities with regard to a criminal offence, a violation of laws and regulations, intentional provision of incorrect information to public bodies, a violation of rules of conduct applicable within Pharming or an intentional suppression, destruction or manipulation of information. Under the policy, insiders can report such suspected irregularities to the Chairman of the Audit Committee who will take action as deemed appropriate while maintaining confidentiality to protect the person who files the report.

Animal Code of Conduct and Animal Welfare Policy

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

Pharming has an Animal Code of Conduct in place, which focuses on the strict regulatory control of transgenic materials and animals in regard to the environment. It emphasizes the importance of carrying out its 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 and accordingly, Pharming carefully and continuously monitors the health and welfare of its animals.

Human Resources

We highly value our employees and therefore dedicate significant effort and resources to their development and well-being. In our 2009–2011 HR plan we outline three key goals:

- Create a culture that drives performance
- Ensure we have the right people at the right time in the right job
- Implement reliable HR services

In 2009, we worked on achieving these goals by building upon the existing management, leadership and reward systems in place throughout our organization.

In 2010, we will continue to focus on developing and achieving our three goals.

We are constantly seeking for ways to improve our HR systems. Employee involvement is one of the key items to achieve improvement. In 2009, management, employees and Works Council ('Ondernemingsraad') have started the development of an integrated system for function appraisal, career coaching, performance, assessment and compensation based on competencies and behaviors. This new career management design intends to stimulate a high-performance culture, introduce simplified tools and processes, link career management and performance management, provide transparency in internal career opportunities, increase talent visibility and employee engagement and at the same time increase ownership and accountability for career development with managers and employees. We plan to implement this new system in the course of 2010.

We do not only encourage our employees to develop in a professional way, but also on a personal level. Each employee has a budget for development of personal skills though the ultimate purpose is to explore these skills in its profession.

Work Environment

We develop our employee's talents and encourage and support them to maximize their achievements. Dedicated employees with a winning team spirit are essential to achieve our mission. Our target is to further develop our business through introduction of products that improve or save lives but at the same time we believe in improving our own employee's lives through offering a challenging work environment. We do this through investing in training and development opportunities for all employees; in doing so, Pharming not only encourages the development of function-related skills but also on personal ones since we believe this highly contributes to the maximalization of an employee's potential.

Employee Statistics

Pharming is a relatively small company with less than 100 employees. The majority of personnel is employed at Pharming's headquarters in Leiden and approximately thirty employees are working at the other locations in the Netherlands and the USA. The Company's business involves specific high-tech processes and technologies and requires the employment of medium to highly educated personnel. Some of the internal departments are occupied by only one person having specialist knowledge, skills and experience. Therefore, it is important to Pharming to retain and motivate personnel and attract top talent in a competitive and global environment. Despite the difficult year 2009, Pharming has been successful in retaining people. Also in attracting new employees we are proud that we can attach first class people to our organization. In 2009 we hired 24 (2008: 16) new employees while 11 (2008: 21) employees continued their careers outside Pharming. As per December 31, 2009, 95 people were employed. The weighted average full time equivalent (FTE) 2009 was 86.

Headcount as per December 31	**2009**	**2008**
Pharming Group NV	15	15
Pharming Technologies BV	45	41
Broekman Instituut BV	10	7
Pharming Healthcare Inc	12	12
DNage BV	13	7
Total	95	82

FTE	**2009**	**2008**
R&D	72	63
G&A	14	14
Total	86	76

Diversity

Diversity in the workplace is important for providing different viewpoints to better understand the needs of stakeholders. The Company values both gender and ethnic diversity and acts as an equal opportunity employer. At the end of 2009, 54% of our total workforce was female and 23% of the senior managers was female. End 2009, the Company employed people of 12 different nationalities. A large amount of our employees is relatively young: the average age is 37 with the vast majority of employees in the age brackets 26-30 and 36-40.

Employees at Pharming locations (end of 2009)		Years of employment at Pharming (end of 2009)		Male and female employees (end of 2009)		
Leiden	71%	< 2 years	42%	Male	in senior management positions	35%
Eindhoven	6%	2-5 years	30%	Male	in other than senior management positions	65%
Rotterdam	10%	5-10 years	16%	Female	in senior management positions	9%
DeForest, USA	11%	10-15 years	10%	Female	in other than senior management positions	91%
New Jersey, USA	2%	> 15 years	3%			

Compensation and Benefits

Pharming offers an attractive remuneration package. To focus management and staff on creation of sustainable added value, Pharming is offering compensation packages balanced through both short-term and long-term incentives such as bonuses, an option plan for all employees and, for a limited number of employees, a Long Term Incentive Plan (LTIP).

The bonus is linked to annual pre-determined targets for a limited group of managers. Employee options are granted to all employees on an annual basis based on number of criteria; in general, the options vest over a total period of 4 years based on continued employment and as such stimulate the participant to stay with Pharming. The Long Term Incentive Plan entitles participants to receive a number of shares after a 3 year period of employment but provided that the Company's share price compared to a group of 40 peers has developed favorably.

Health, Safety and Environment

Daily activities at the Company include working with all kind of materials that could harm employees and/or our environment. To create a work environment that is as safe as possible, we created our own internal Health and Safety position. A professional dedicated staff member is working on Health and Safety policies and monitors the implementation. For more complex issues and external professional is hired Safety is continuously monitored in everything we do. For that reason we pay significant attention to education and information.

In 2009, the total absence trough illness was 3.6% (locations in the Netherlands). The standard for comparable organizations in the Netherlands is 3%. In 2010, we will continue developing our Health and Safety policies to decrease the absence trough illness and vitalize our Company.

Internal Communication

Pharming's management and employees highly appreciate good internal communication as this is essential in creating a transparent and open working environment. The Company has a range of communication tools in place to inform its employees on the Company's activities and developments. These communication channels include the Pharming intranet, an internal newsletter, in-house brochures, departmental and general presentations and regular business and project updates for all employees.

Works Council

The Works Council is the body that by Dutch law represents the employees of the Dutch Pharming companies. Pharming's Board of Management believes in the dialogue with its employees and therefore considers the Works Council to be a valuable partner.

In 2009, the Works Council and the Board of Management held monthly meetings to discuss various subjects, including corporate strategy and financing, regulations on conditions of employment, the safety-health-and-welfare policy and pension scheme. In preparation of each of these meetings, both a Works Council meeting and a meeting of the Works Council with the Human Resources department were held.

MANAGEMENT OF THE COMPANY

MANAGEMENT OF THE COMPANY

MANAGEMENT STRUCTURE

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

MANAGEMENT POWERS AND FUNCTION

The Management Board 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 Supervisory Board. The Management Board is authorized to bind the Company towards third parties. On 22 April 2005, the Management Board adopted the current management board regulations which provide for certain duties, composition, procedures and decision-making of the Management Board.

The Supervisory Board is charged with supervising the policy of the Management Board and the general course of the Company's affairs and the enterprise connected therewith. The Supervisory Board assists the Management Board by rendering advice. In performing their duties, the Members of the Supervisory Board are obliged to act in the best interests of the Company and the enterprise connected therewith. On 14 October 2004, the Supervisory Board adopted the current supervisory board regulations, which provide for certain duties, composition, procedures and decision-making of the Supervisory Board.

The Members of the Management Board and the Members of the Supervisory Board are appointed at a general meeting of shareholders from nominations made by the Supervisory Board. If the nomination comprises two or more persons for each vacancy, the nomination shall be binding. In addition, the Supervisory Board is authorized to make a non-binding nomination for a vacancy, consisting of one person. If the Supervisory Board 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 Management Board and the Members of the Supervisory Board 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 Management Board may also be suspended or dismissed by a resolution of the Supervisory Board.

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 2009, the Management Board was composed of the following Members:

Name	Age	Position	Member since	Term
Mr. Sijmen de Vries	50	Chief Executive Officer	13 October 2008	Up to AGM in 2013
Mr. Bruno Giannetti	57	Chief Operations Officer	1 December 2006	Up to AGM in 2011
Mr. Rein Strijker	52	Chief Commercial Officer	11 November 2006	Up to AGM in 2011

On April 1, 2010, Mr. Rienk Pijpstra was appointed as Chief Medical Officer.

Sijmen de Vries, MD MBA (1959)
Chief Executive Officer
Nationality: Dutch
Date of initial appointment: October 13, 2008
Other current positions: Mr. de Vries holds non-executive directorships in two private life science companies, Midatech Group Ltd and Sylus Pharma Ltd.

Mr. de Vries is responsible for the overall management of the Company. 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 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 a Medical Degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

Bruno M. Giannetti, MD PhD (1952)
Chief Operations Officer
Nationality: Italian
Other current positions: Mr. Giannetti is the founder and president of CRM GmbH, a well established European Clinical Research Organization specialized in international pharmaceutical clinical research.

During 2009, Mr. Giannetti was responsible for the Company's operations including clinical development, medical affairs, research and development, regulatory and manufacturing activities, with focus on Rhucin. He has more than 25 years of experience in the pharmaceutical and biotech industry. Previously, he was the CEO of AM-Pharma BV (NL) and President and CEO of Verigen AG, Germany. 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, Germany. Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn.

Rein Strijker, PhD (1957)
Chief Commercial Officer
Nationality: Dutch
Date of initial appointment: November 11, 2006
Other current positions: Mr. Strijker holds no other corporate board positions. He is a member of the board of Biofarmind, the Dutch foundation of pharmaceutical biotechnology, member of the supervisory board of Biopartner Foundation Leiden, a member of the advisory board of the Leiden Bio Science Park and owner and general manager at Lark Technology Management Beheer BV. Until December 2006, he was a member of the supervisory board of MucoVax Holding BV.

In 2009, Mr. Strijker has been responsible for commercial development and finance. Until the acquisition by Pharming in 2006, he was the CEO of DNage BV, a company focusing on age related disorders and a Member of Pharming's Supervisory Board. Prior to DNage, Mr. Strijker has held management and R&D positions at Pharming and Genentech Inc. Mr. Strijker holds a PhD in Biochemistry from the Groningen State University.
As of March 2010, Mr. Strijker is focusing on the further development of Pharming's business unit DNage and the identification of new investors for DNage.

Rienk Pijpstra, MD MBA (1961)
Chief Medical Officer
Nationality: Dutch
Date of initial appointment: April 1, 2010
Other current positions: Mr. Pijpstra holds no other corporate board positions.

As of April 1, 2010, Mr. Pijpstra is responsible for medical governance at Pharming, and leads the clinical development, regulatory affairs, drug safety, and medical information teams. Before joining Pharming as Head of Development and Medical Director, Mr. Pijpstra held senior clinical positions at SmithKline Beecham and GSK in UK and USA, and he was the Chief Development Officer at Basilea Pharmaceuticals in Switzerland. Mr. Pijpstra received his MD and MBA from the University of Leuven.

COMPOSITION BOARD OF SUPERVISORY DIRECTORS

During 2009, the Supervisory Board was composed of the following Members:

Name	Age	Position	Member since	Term
Mr. J. Blaak	69	Chairman	23 May 2007	Up to AGM in 2011
Mr. J.H.L. Ernst	70	Member	15 April 2009	Up to AGM in 2014
Mr. K. Macleod	50	Member	26 April 2006	Up to AGM in 2010
Mr. J.B. Ward	71	Member	23 May 2007	Up to AGM in 2011
Mr. A. de Winter	57	Member	15 April 2009	Up to AGM in 2014

Mr. J. Blaak (1941)
Chairman, Member of the Remuneration Committee
Nationality: Dutch
Other current positions: Mr. Blaak holds board positions in non-listed companies in the life science industry, like FlexGen Holding BV and to-BBB Holding BV. He is also a parent/shareholder in VenGen Holding BV.

Mr. Blaak has held managerial positions with Hoogovens and Indivers NV and Interturbine Holding BV in the Netherlands, USA, 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. During the lifetime of the fund, MIP invested in several life sciences companies that became active in The Netherlands, including Centocor, Mogen and EuroCetus/Chiron. In several of the companies MIP invested in, Mr. Blaak was a board member. MIP merged with the ABN-AMR.O Venture Capital Group to form AlpInvest. Since 1989, Mr. Blaak is president and owner of Tailwind BV, a company investing mainly in early stage life science companies. He is an advisor to the Dutch Ministry of Economic Affairs for the Technopartner program and other innovative projects related to Entrepreneurship and Innovation. Mr. Blaak studied physics, mathematics and business economics at the Free University of Amsterdam and followed the Advanced Management Program of the Harvard Business School (AMP '81).

Mr. J.H.L. Ernst (1939)
Member, Member of the Audit Committee, Member of the Remuneration Committee
Nationality: German
Other current positions: Mr. Ernst is chairman of the supervisory board of Aeterna Zentaris Inc and member of the supervisory board of Solvay Pharmaceuticals SA.

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 1980, Mr. Ernst continued his career at Solvay and held several positions until he retired in 2004. Amongst other, he was 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.

Mr. K. Macleod (1960)
Member, Member of the Audit Committee
Nationality: British
Other current positions: Mr. Macleod holds no other board positions.

Mr. Macleod is a partner at Paul Capital Partners (UK) and is responsible for sourcing and evaluating European investment opportunities. Mr. Macleod brings a strong operational and financial background. Most recently, he was a Venture Partner at Schroder Ventures Life Sciences, where he was responsible for deal sourcing, evaluation and negotiation of pharmaceutical investment opportunities. Previously, Mr. Macleod held senior management positions over an impressive fifteen-year career at Serono Pharmaceuticals Ltd, Abbott Laboratories Inc and Beecham Pharmaceuticals. Mr. Macleod earned his PhD from the University of York and his BSc with honors in Biology from the University of Manchester, UK.

Mr. J.B. Ward (1938)
Member, Chairman of the Remuneration Committee
Nationality: British
Other current positions: Mr. Ward is chairman of Spirogen Ltd, Cellcentric Ltd and Immunobiology Ltd, a vaccine company in Cambridge, UK. Mr. Ward is also a member of the board of Cancer Research Technology Ltd.

Mr. Ward has a broad international network and experience in managing and financing biopharmaceutical companies. He has held senior management positions in the UK, USA and Singapore at several pharmaceutical and biotechnology companies, including Glaxo Group Research Ltd, Virus Research Institute Inc, Avant Immunotherapeutics Inc and KuDOS Pharmaceuticals Ltd. His most recent 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.

Mr. A. de Winter (1953)
Member, Chairman of the Audit Committee
Nationality: Dutch
Other current positions: Mr. de Winter holds no other board positions.

Mr. de Winter has extensive financial experience. He started his career at AMR.O 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 from 1998, Mr. de Winter was at NYSE Euronext, Amsterdam responsible for advising and admitting companies to the stock exchange in Amsterdam as Director Listing & Issuer Relations. As from January 2009, Mr. de Winter is an Associate Partner of First Dutch Capital, Amsterdam and since 2008 a member of the China and India working group at the Holland Financial Centre which is, *inter alia*, focused on attracting Chinese and Indian companies to a (cross) listing on the Euronext Amsterdam. As from February 2010, he is also an Associate Partner at Nederlandsche Participatie Exchange (NPEX), an innovative online trading platform for less liquid securities. Mr. de Winter has more than 28 years of experience in assisting companies with ordinary share listings as well as preferred shares, (convertible) bonds, warrants, investment funds (open/closed end), private equity and SPAC's (special purpose acquisition companies). He holds a law degree from Erasmus University, Rotterdam, specializing in corporate law.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board has appointed from among its Members an audit committee (the "Audit Committee") and a remuneration committee (the "Remuneration Committee").

The audit committee consists of Mr. de Winter (Chairman), Mr. Ernst and Mr. Macleod. The tasks performed by the audit committee include reviewing the scope of internal controls and reviewing the implementation by the Management Board of recommendations made by the auditors of Pharming.

The remuneration committee consists of Mr. Ward (Chairman), Mr. Ernst and Mr. Blaak. The remuneration committee advises the Supervisory Board with regard to salaries, grants and awards under incentive plans, benefits and overall compensation for officers of the Company. Ultimately the Supervisory Board decides upon remuneration of the Management Board. The remuneration of each of the Members of the Supervisory Board is determined by the general meeting of shareholders.

MANAGEMENT REPORT

MANAGEMENT REPORT

OPERATING REVIEW 2009

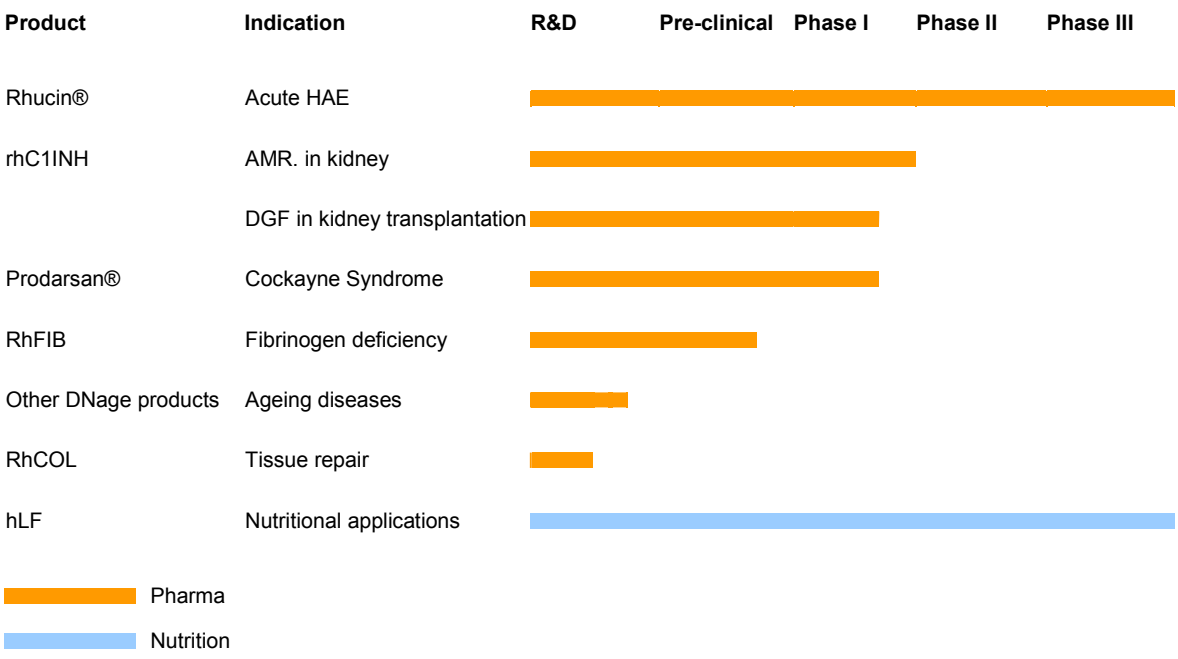
Pharming has made substantial progress on corporate and development targets previously stated in 2009 and is now at a transformational stage with the anticipated approval of its lead product, Rhucin and commercialization partnerships for Rhucin in major territories expected during 2010.

Several products are in or moving towards clinical development status. Clinical development of Rhucin for acute HAE attacks has been completed and Rhucin has been filed for marketing authorization with the European Medicines Agency (EMA, formerly EMEA) in September 2009. Another product close to commercialization is Pharming's hLF as a nutritional food supplement. Other products in the clinical stage of development are Prodarsan for Cockayne Syndrome (a premature ageing disease) and rhC1INH for the treatment of AMR. and DGF in kidney transplantation. Products in earlier stages of development include rhC1INH for reperfusion injury related indications and rhFIB for the treatment of fibrinogen deficiency. Pharming (through its subsidiary DNage) is also active in the field of identification and development of biomarkers in human ageing.

Key operating developments in 2009

- Submission of Marketing Authorization Application (MAA) for Rhucin with the European Medicines Agency in September
- Initiation of pre-BLA process (Biologics License Application) for Rhucin with US FDA in December
- Orphan Drug Designation (ODD) and IND (Investigational New Drug) granted for Prodarsan and clinical program for Cockayne Syndrome (CS) indication initiated
- Partnering discussions for Rhucin initiated in second half of 2009
- No progress on regional human lactoferrin agreement with Aslan Group

A summary of Pharming's products, their applications and development status is depicted in the overview below.



Rhucin for HAE

For the immediate future, the focus of the Company is first and foremost on the completion of its European and US regulatory filings of Rhucin for the treatment of acute HAE attacks. The current dossier includes results from over 400 administrations, including good evidence of efficacy and safety in repeated use and in severe laryngeal attacks while no significant immunogenic responses have been recorded. Pharming submitted the MAA for Rhucin to EMA early September 2009 and expects the CHMP opinion in Q3 2010 (Day 210 of the review procedure). The Company also initiated the pre-BLA process with the US FDA and will provide further updates on the upcoming US-filing during the first half of 2010.

Rhucin® or Pharming's recombinant human C1 esterase inhibitor has been developed for the treatment of acute attacks of Hereditary Angioedema. HAE is a human genetic disorder. Patients carry a mutation in the C1 esterase inhibitor gene (C1INH), which leads to a deficiency of functional C1INH protein. This protein regulates several inflammatory pathways in the body by inhibiting certain proteins (proteases) that are part of the human defense system. Deficiency of functional C1 inhibitor can result in an overreaction of the immune system. In fact, it leads to excessive activation of the complement system and other immunological and haemostatic pathways, which causes angioedema attacks. These attacks are characterized by acute painful and in some cases fatal swellings of soft tissues (edema), including regions of the skin, abdomen and the mouth and throat. Untreated HAE attacks may last up to five days. In the Western world, approximately 1 in 30,000 individuals suffers from this disease, having an average of seven acute attacks per year.

Administration of C1 inhibitor protein can normalize the immune response and stop these angioedema attacks. Rhucin, a recombinant human version of this protein, is produced with Pharming's transgenic technology: in milk from transgenic rabbits at high quantities, of high-grade and consistent quality. The product has Orphan Drug status for both prophylactic and acute treatment of Hereditary and Acquired Angioedema. Rhucin could provide a potentially safe and effective treatment for patients of HAE.

Pharming filed a MAA for Rhucin with the EMA in 2006. In March 2008, Pharming received a negative opinion. EMA's Committee for Medicinal Products for Human Use indicated that the dossier contained insufficient evidence with regard to safety and efficacy of Rhucin upon repeat use, potential allergic reactions and the risk/benefit ratio in severe attacks (especially of the larynx).

Based on the feedback of the EMA, Pharming has expanded the dossier on Rhucin substantially. By June 2009, over 400 administrations of Rhucin were analyzed, with more than half of them repeat treatments (up to as much as twenty five repeat treatments for one patient). There was no sign of any relevant safety issues with these repeat treatments, nor of induction of allergies. The efficacy was confirmed to be very good, including in patients with laryngeal attacks: over thirty laryngeal attacks were successfully treated with Rhucin. Pharming has submitted a new MAA for Rhucin to the EMA on 3 September 2009. Pharming expects to receive the final opinion from the EMA in the third quarter of 2010. This expectation is based on the Day 120 Consolidated List of Questions that was received from EMA at the end of January, containing no 'major concerns' and the subsequent fast turn-around of the questions by Pharming, as announced on 18 March 2010.

Pharming is also preparing for market authorization of Rhucin in the USA. The Company initiated the pre-BLA process with the FDA with a pre-BLA meeting held early December 2009. Pharming is continuing its discussions with the FDA and expects to provide further updates on the upcoming BLA filing timelines during the first half of 2010.

For the commercialization of Rhucin, Pharming has entered into three commercial agreements:

- In 2004, the Company signed an agreement with Laboratorios del Dr Esteve, SA ("Esteve") in Spain for the development, marketing and sales of Rhucin in Spain, Portugal and Greece;
- In 2008, Pharming signed an exclusive licensing and distribution agreement with Eczacibaşi Ilaç Pazarlama AS ("EIP"), a leading Turkish pharmaceutical company for the marketing and sales of Rhucin in Turkey. The commercial agreements with Esteve and EIP provide for the payment to Pharming of certain (undisclosed) milestones depending on progress in registration and commercialization as well as royalties on net sales and compensation for manufacturing costs incurred by Pharming;
- During the second half of 2009, partnering discussions for the remaining territories were initiated. These efforts led to an exclusive distribution partnership with Swedish Orphan Biovitrum for Iceland, Norway, Switzerland and all the territories of the European Union except Spain, Portugal and Greece, announced in April 2010. This distribution partnership provided Pharming with an undisclosed upfront payment and an undisclosed milestone payment at European approval. Swedish Orphan will buy finished product from Pharming for a transfer price that incorporates a progressive tiered royalty component based on annual net sales performance. Swedish Orphan Biovitrum will also have the option to participate in the development costs for subsequent indications and following regulatory approval also incorporate the commercialization of such indication.

Pharming continues its discussions with potential Rhucin licensing partners for the territories outside the European Union, Iceland, Norway, Switzerland and Turkey and initially focuses its discussions on the North American territory.

Pharming believes that Rhucin will be able to gain significant market penetration in the major markets even if competing products have been or will be approved for the same indication. This belief is based on strong data in the clinical studies where Rhucin, so far, has shown an excellent safety, quality and efficacy profile. Time to response after start of treatment is very short with almost all patients responding. No 'rebounding' of attacks has been observed.

Recombinant human C1 inhibitor for other indications than HAE

The development and filing of Rhucin for the treatment of acute HAE attacks has continued to be the key focus. Preparations for development of Rhucin in other larger indications have progressed with limited resources. Pharming expects to initiate the clinical phase of development of its C1 inhibitor product for applications in the field of transplant indications, like the treatment of antibody-mediated rejection in kidney transplantation, in the first half of 2010.

Despite all the technical advances that have been made during the last decades, rejection of transplanted organs remains a critical issue. Given the shortage of available organs and the high costs associated with transplantation, there is a need for new and safe products that reduce the risk of organ rejection. There is significant scientific evidence that rhC1NH can be used to prevent complications after organ transplantation. The protein C1 inhibitor is a key inhibitor of the classical complement system (part of the human immune system) and reduces the inflammatory reactions that lead to tissue damage, malfunctioning and often a total rejection of the transplanted organ. Therefore, the C1 inhibitor protein may play a significant role in improving transplantation success rates.

Two key situations, heavily impairing the success of transplantation, may arise following organ transplantation:

- AMR: Antibody-mediated rejection occurs when a transplant because of suboptimal histo-compatibility, is perceived by the recipient as a foreign body. The immune system is activated and the foreign body is attacked, which can lead to organ failure and immunological rejection of the organ. As the number of waiting recipients is outgrowing the number of available donors, transplantations with sub-optimal matching levels occurs increasingly. This results in relatively higher rejection rates. Treatment with rhC1INH may add to the suppression of the acute immunological reaction.
- DGF: Delayed graft function is a situation occurring immediately after transplantation. Lack of oxygen during the procedure may cause a delayed functioning of the transplanted organ. This can eventually result in improper functioning and rejection of the transplanted organ. As C1 inhibitor indirectly reduces inflammatory reactions, treatment of at risk patients with rhC1INH in an early stage of transplantation might reduce the incidence of DGF and ultimately enhance the transplantation success rates.

Proof of concept for AMR in kidney transplantation was confirmed in a pre-clinical primate model (published in a peer reviewed journal in March 2010). The FDA approved the IND for a clinical study in AMR in kidney transplantation. In this study, patients suffering from AMR will receive rhC1INH in addition to standard of care and compared with patients treated with standard of care only, consisting of a combination of non-specific treatments including plasmapheresis, steroids and intravenous immunoglobulin.

Reperfusion injury is a complication arising from oxygen shortage due to an interruption of the blood supply (ischemia) resulting in tissue damage. This can occur in the kidney in the case of transplantation, in the brain, in case of stroke, and in the heart, in case of myocardial infarction ('heart attack'). Pharming investigated and confirmed the efficacy of its rhC1INH in various pre-clinical reperfusion injury models, the most recent one, a swine model for DGF in kidney transplantation was published in a peer reviewed journal in February 2010. Pharming is preparing clinical investigations into its first reperfusion injury related indication - treatment/prevention of DGF following kidney transplantation.

In addition, additional indications, such as macula degeneration, an ophthalmologic disease leading to blindness (age-related *macula* degeneration or AMD) are being evaluated.

Pharming's rhC1INH has Orphan Drug status from the FDA for the prevention and/or the treatment of AMR and for treatment/prevention of DGF from the EMA.

Prodarsan and Other DNage Activities

In 2009, Pharming's wholly owned subsidiary DNage BV (DNage) made significant progress with its product Prodarsan for Cockayne Syndrome. The FDA granted Prodarsan ODD designation and accepted the IND for Prodarsan to allow the initiation of a clinical study in children suffering from Cockayne Syndrome. Under the IND, DNage initiated an observational study in CS patients. In order to conserve cash for the transgenic platform activities, Pharming recently decided to attract third party financing for DNage.

Prodarsan® - based on the DNage technology - is a mixture of small molecules that (in animal models) are able to delay the development of ageing diseases. It is thought to neutralize substances that cause DNA damage and so delay the accumulation of DNA damage and to trigger cellular responses that protect from premature ageing.

Ageing is a natural process but as a result of a DNA-repair defect, children with Cockayne Syndrome age prematurely and develop ageing-related diseases at very young ages. There is no cure and patient organizations and the medical community voice the need for therapies that will slow down this process, reduce the symptoms, and thus increase the quality of life.

DNage is now developing Prodarsan as a pharmaceutical for the treatment of Cockayne Syndrome. If successful, the DNage technology and products may provide new therapies for age-related disorders in elderly people as well. Although many age-related diseases (for example osteoporosis) are in fact not directly life-threatening; they rather impair the quality of life and put a high burden on the health care system. Delaying ageing-related diseases is therefore clinically highly relevant and will lead to a significant reduction in patient numbers.

In 2008, a Phase I study of single and multiple escalating doses of Prodarsan in healthy volunteers was completed. The results showed that Prodarsan is safe and well tolerated in clinically effective dosages. Pharming already demonstrated that Prodarsan has significant beneficial effects in animal models for premature ageing.

In August 2009, the FDA approved an IND application allowing the Company to progress its clinical program for development of Prodarsan for Cockayne Syndrome in the US. DNage also initiated an international observational study in CS patients in September 2009.

In 2009, Prodarsan received Orphan Drug status from the FDA for the treatment of Cockayne Syndrome.

DNage is also participating in several projects regarding the identification of novel biomarkers of human ageing and in the field of human ageing diseases in more general. Most of these projects are subsidized or paid for by government grants.

In order to conserve cash for the transgenic platform activities (mainly Rhucin/rhC1INH), Pharming has dedicated its Chief Commercial Officer, Mr. Strijker, to the development of DNage, also with a view to, attracting third party financing for DNage in the short to medium term.

Human lactoferrin

Lactoferrin is a protein naturally occurring in many human secretions including mother's milk, saliva and tears. The protein has unique anti-infective and anti-inflammatory properties and it plays an important role in the defense system of infants as well as adults, where it is active against a wide range of bacterial, fungal and viral pathogens.

Pharming is developing human lactoferrin for its first commercial application: an ingredient in foods and food supplements, targeted at people who will benefit from the use of hLF. The product also has potential for pharmaceutical applications (e.g. against systemic infections).

In 2008, Pharming and Aslan signed a broad license agreement for the manufacturing, marketing and distribution of food products containing hLF. The agreement is exclusive for Turkey, the Middle East, United Arab Emirates, Russia, Ukraine and several other countries in this region and includes a non-exclusive license to other parts of the world. Under the agreement, Pharming should receive up to €20.0 million from the agreement for the commercialization of hLF and royalties based on net sales.

Pharming and Aslan have been diligently pursuing the receipt of all the necessary approvals to start the activities in Turkey. These approvals have not yet been obtained and Aslan Group has therefore not started operations. As a result, Pharming has not yet received any of the milestones originally planned for 2009. It therefore has decided to identify other parties interested in setting up lactoferrin operations. Discussions with interested parties in Europe and Asia are currently ongoing.

As the commercial development of hLF (outside the US) is being pursued for which no GRAS status (Generally Recognized As Safe) is required, the procedure to obtain a GRAS status from the FDA has been terminated at the request of Pharming.

Other projects

Activities on the fibrinogen and collagen projects have been very limited in 2009, due to lack of resources and focus on Rhucin, Lactoferrin and Prodarsan.

Fibrinogen is a natural plasma protein involved in blood clotting. In combination with thrombin, it can form insoluble fibrin polymers (fibers) or clots. Fibrinogen is a very complex protein consisting of several subunits folded together in fixed ratios. Deficiency or low levels of active fibrinogen can result in uncontrolled bleeding and be life-threatening.

Pharming is developing recombinant human fibrinogen to provide an alternative to current plasma derived fibrinogen products. Pharming produces rhFIB in cow's milk using its protein production technology and patents and licenses for the production and purification of rhFIB. This results in a recombinant fibrinogen product of high-quality, in large quantities and at relatively low cost. Pharming's rhFIB has Orphan Drug status from the FDA for the treatment of bleeding in patients that are deficient in fibrinogen. In addition, rhFIB has the potential to address the significant market of acquired fibrinogen deficiency. This type of deficiency can arise as a result of genetic disorder or following profuse bleeding during surgery or traumatic injury. Development of rhFIB as an intravenously administered biopharmaceutical product is in pre-clinical stage.

Collagen is the most common protein in the human body and can be found in skin, bone, blood vessels and many other tissues. It provides tensile strength to these tissues and gives them structural integrity. Therefore, collagen has several applications in the field of biomaterials.

Pharming is developing recombinant human collagen type I (rhCOL) for use in various applications. This product can potentially overcome the disadvantages of collagen products derived from animal and human tissues as it is a natural human protein produced by recombinant technology. It can be manufactured in large quantities, with a consistent high quality, and at relatively low cost. rhCOL could thus provide an alternative to existing collagen products.

RESEARCH AND TECHNOLOGY

Pharming develops innovative therapeutics for several indications, with a focus on genetic disorders and ageing diseases. Pharming has technology platforms for the production, purification and formulation of its recombinant protein products and technology in the field of DNA repair (DNage technology). The Company has a large portfolio of patents issued and pending, supporting these technologies and products.

Transgenic production technology

There is a need in the industry for new means to produce the many (over 900) protein therapeutics in development. Pharming believes that its production technology offers significant competitive advantages and will enable the development of better, safer and more cost-effective therapeutic products.

After the discovery of DNA and recombinant DNA techniques in the past decades it became possible to transfer genes between different organisms, such as plants and bacteria. Scientists discovered how to transfer mammalian genes into the genetic material of other animals, and breed transgenic animals with specific (mixed) characteristics. Pharming's predecessor company GenPharm was founded to commercialize this innovative technology. The Company further improved this technology and made it fully compliant with regulatory guidelines that apply in the United States and Europe. Pharming is now able to produce complex human proteins in the mammary glands of genetically modified rabbits or cattle and purify the protein from milk for its therapeutic application.

Pharming develops tailor-made purification processes for each of its recombinant products to ensure the highest possible quantity, quality and purity. To separate the specific human protein from the other natural components in milk a cascade of (different) steps is required. These processes are developed by Pharming's R&D department and transferred in close cooperation with Pharming to CMO's (Contract Manufacturing Organization) for large-scale production in accordance with Good Manufacturing Practices ("GMP"). An example of such is the large-scale GMP purification of Rhucin from rabbit milk.

Both Pharming's upstream production process (milk production) and downstream processes (protein purification and fill and finish) at third party CMO's are GMP-approved and can be fully controlled. This production system includes several virus removal and inactivation steps and obviously there is no chance of transmission of human blood-borne agents. Pharming's protein production method thus has the advantage of delivering high quality complex human proteins in high quantities. In case of Rhucin, ten kilograms of purified product is produced by 135 rabbits (compared to 80,000 blood donors). To enable sufficient supplies of Rhucin after the respective market approvals, Pharming has been producing significant amounts of the product in its respective intermediate holding stages; milk, frozen at -80ºC and bulk Active Pharmaceutical Ingredient (API), as well as finished product (vials of Rhucin ready for injection). Pharming's upstream production capacity is also undergoing significant up-scaling in anticipation of the impending regulatory approvals.

DNage and the DNage technology

DNage is also using its premature ageing animal models to identify and develop biomarkers in human ageing. Biomarkers are changes in body function or composition which are in this case related to ageing and could predict the onset of age-related diseases. By measuring these biomarkers of human ageing, individuals with a high risk of developing age-related diseases or disabilities could be identified and treated in an early-stage. DNage is in particular studying the way in which osteoporosis and neurodegenerative diseases develop, in order to identify biomarkers and to find new ways for prevention and/or intervention of these diseases. In addition, biomarkers could serve as novel targets for therapeutic products to interfere with the progression of ageing diseases. For many elderly patients these diseases impair quality of life and increase their demands on the health care system. A delay in development of these diseases could alleviate patients' suffering and lead to a reduction in the total number of patients, reducing costs as well.

Research projects

Pharming has several research projects on products in early stage of development. These primarily include products in the area of ageing and tissue repair. Several of these early stage programs have been initiated and partnered with academic institutions and biotech companies.

Scientific Advisory Board

The scientific advisory board of Pharming (Scientific Advisory Board or SAB) advises the Company on new developments in science and technology which are relevant to Pharming's business. The SAB has no formal powers under the Articles of Association or Dutch law. While individual interactions with scientific advisors have contributed to the progress of several research programs, there were no plenary activities of the SAB during 2009. Given this development and as the terms of all of the SAB members end in April 2010, the SAB will not continue in its present form. Individual advisory agreements with experts in several fields will continue to be implemented if and when useful for the Company.

During 2009, the Scientific Advisory Board was composed of the following Members:

Name	Position
Douwe D. Breimer	Chairman
Jan Hoeijmakers	Member
Julia Polak	Member

Prof. dr. D.D. Breimer (1943) - Chairman

Professor Breimer is Professor of Pharmacology since 1975 and served as Rector Magnificus of Leiden University, the Netherlands from 2001 till 2007 and also as President from 2005 till 2007. Professor Breimer's research focuses on pharmacokinetics, pharmacodynamics, drug metabolism and drug delivery, using in vitro and animal models, as well as human clinical studies. He is (co)author of more than 500 scientific publications, has served on the editorial boards of numerous scientific journals and received several scientific distinctions among which are honorary doctorates of universities in Gent, Uppsala, Budapest, London, Pamplona, Tokyo and Montreal. As a founder of the Center for Human Drug Research (CHDR) in Leiden, he brings Pharming valuable insights into the drug development process. Furthermore, professor Breimer brings an extensive network of contacts in the field of academia and innovation, encompassing Dutch universities, the Dutch Organization of Scientific Research (NWO), as well as the European League of Research Universities (LERU) and the European Federation for Pharmaceutical Sciences (EUFEPS). He has served on the scientific advisory boards of a number of pharmaceutical companies in Europe and in the USA and is currently chairman of the board of directors of Life Sciences Partners in Amsterdam.

Prof. dr. J. Hoeijmakers (1951) - Member

Professor Hoeijmakers studied Biology at the Nijmegen University and did his PhD at the University of Amsterdam before joining the Erasmus University in Rotterdam to work on DNA repair in mammals. His team cloned the first of many subsequent human DNA repair genes, discovered the strong evolutionary conservation of DNA repair systems, elucidated the basis of several human repair syndromes, generated a large number of DNA repair mouse mutants that provided insight into the etiology of human repair syndromes and discovered a link between DNA damage, repair, transcription and ageing and an unexpected connection with longevity. This work led to the identification of a 'survival response' that promotes successful ageing. A new line of research explores the organization of DNA repair and transcription in living cells and intact organisms. Recently, his group generated the first mouse mutant with intrinsic defects in the biological clock. Professor Hoeijmakers plays a leading role in several national and international scientific organizations and his work has been awarded with important prizes such as the Louis Jeantet Prize for Medicine in Europe, the Dutch Spinoza award and the Advanced Scientist Award of the European Research Council. He has published over 300 papers in the field of genetics and DNA repair and his team owns several patents in genome stability. In 1993, he became the professor of Molecular Genetics and since 1999 he has been the head of the Department of Genetics, Erasmus Medical Centre in Rotterdam. As a founder of DNage, professor Hoeijmakers and his research team support Pharming's technology platform for DNA repair.

Prof. dr. Dame J. Polak (1939) - Member

Professor Dame Julia Polak is Professor of the Tissue Engineering and Regenerative Medicine Centre at Imperial College in London, UK. In addition to advising Pharming, she is a member of broad range of academic, medical and scientific research associations including the scientific advisory board of the Imperial College Institute of Biomedical Engineering and the Stem Cell Advisory Board Panel for the UK. Professor Polak is a council member of the Tissue Engineering Society International and the Academy of Medical Sciences and was also European editor of 'Tissue Engineering'. She is the author of 997 original papers, 126 review articles, editor/author of 26 books, owner of multiple patents and is one of the most highly cited researchers in the field of tissue engineering and regenerative medicine.

FINANCIAL REVIEW 2009

In 2009, Pharming has made considerable progress in its continuing efforts to strengthen its equity position while at the same time decreasing its liabilities and future interest payments. Pharming cleared the vast majority of its convertible debt from €49.9 million to €10.9 million while limiting its costs. Through a €30.0 million Standby Equity Distribution Agreement with YA Global and a short-term convertible debt financing of €7.5 million in early January 2010, Pharming created a financial platform from which it is confident to bring Rhucin through a successful regulatory review process.

Key financial developments in 2009

- €20.0 million Standby Equity Distribution Agreement ("SEDA") signed with YA Global Master SPV LTD ("YA Global") in April 2009, plus a €10.0 million extension in October 2009. Total financing under the SEDA received in 2009 of €6.6 million, with another €23.4 million available to date;
- €70.0 million convertible bonds (issued in 2007) reduced to €10.9 million at December 31, 2009 from €49.9 million at year end 2008;
- Decrease of operational costs from €30.1 million in 2008 to €28.9 million in 2009 as a result of €4.0 million lower non-cash impairment charges (€4.2 million in 2008; €0.2 million in 2009), which was offset with a €2.4 million increase of research and development costs driven by the submission of the EU Marketing Authorization Application for Rhucin® in September 2009, intensified efforts for the Rhucin program in North America and the clinical development of Prodarsan®;
- Net loss in 2009 of €32.1 million as compared to €26.2 million in 2008 primarily caused by the effect of a non-cash derivative profit of €4.9 million in 2008 and €1.6 million lower net interest income on cash and marketable securities;
- No milestones received to date from lactoferrin collaboration with Aslan Group AS (Aslan).

Key financial data **(in €million, except per share data) (unaudited)**	**Year ended**	
	December 31, 2009	**December 31, 2008**
Statement of financial position:		
Non-current assets (excluding restricted cash)	27.1	31.0
Cash and marketable securities, net of bank overdrafts (*)	2.3	23.5
Other current assets	12.6	12.6
Total assets	42.0	67.1
Convertible bonds	9.5	35.7
Other liabilities	19.2	18.9
Total equity	13.3	12.5
Statement of income:		
Grants and other income	1.1	0.7
Operational costs	(29.0)	(30.1)
Financial and other income and expenses	(4.2)	3.2
Net loss	(32.1)	(26.2)
Statement of cash flows:		
Net cash used in operating activities	(24.3)	(21.9)
Net cash from/(used in) investment activities	4.2	(0.8)
Net cash from/(used in) financing activities	2.5	(18.8)
Share data:		
Outstanding shares at the end of the year	154,501,037	97,429,854
Weighted average shares outstanding in the year	116,177,686	91,657,617
Basic and diluted net loss per share (€)	(0.28)	(0.29)

* Year end 2009 cash excludes €7.5 million proceeds from early 2010 financing

Discussion of financial transactions and financial position

In 2009, the Company entered into several equity transactions and convertible bond settlements.

Convertible bonds settlements and public offer

In the first half of 2009, Pharming entered into various agreements with several holders of bonds issued in 2007. Under these agreements, the Company successfully cancelled a total outstanding amount of €14.1 million nominal bonds in exchange for €1.0 million cash and issuance of 9.5 million shares. Subsequently, in October 2009 the Company successfully completed a public offer under which remaining bondholders were invited to exchange bonds (nominal value of €50,000 each) into cash and shares (€7,500 cash and 59,000 shares per bond). In total, bonds with a nominal value of €24.9 million (70% of €35.8 million bonds outstanding prior to the offer) were offered for conversion and subsequently the Company paid €3.7 million in cash and issued 29.3 million shares. The cash portion of the offer was, in addition to the SEDA with YA Global, funded by other investors through issuance of 5.1 million shares for total cash proceeds of €2.6 million.

Following these transactions, the outstanding nominal value of bonds was reduced from €49.9 million at year end 2008 to €10.9 million at December 31, 2009. As a result, annual interest payments of €4.8 million in 2008 were reduced by €2.9 million to €1.9 million in 2009 with a further decrease of €1.1 million to less than €0.8 million anticipated for 2010.

Standby Equity Distribution Agreement with YA Global
In April 2009, Pharming signed into a €20.0 million Standby Equity Distribution Agreement with YA Global. Under the terms of the April agreement, YA Global can invest a total of up to €20.0 million in a three year period. Pharming has the right, but not the obligation, to call the funds in regular tranches. In the second quarter of 2009, the Company started using the SEDA and called a total amount of €2.8 million in cash in exchange for the issuance of approximately 4.6 million Pharming shares, followed by another €3.8 million in cash in the second quarter in exchange for another 7.3 million shares issued.

On October 5, 2009, YA Global and Pharming announced that the original agreement has been extended with another €10.0 million, so the total facility amounts to €30.0 million of which €23.4 million is available as per today. At closing of the agreement in April, Pharming issued a one-off payment of 0.8 million commitment shares with another 0.4 million commitment shares paid upon extension of the agreement.

Discussion of results
In 2009, the Company's income increased from €0.7 million to €1.1 million. The increase stems from €0.3 million license fee income (2008: nil) and increased grant income (from €0.6 million in 2008 to €0.8 million in 2009) triggered by higher costs eligible for grants and improved facilities on grant programs by the Dutch government.

Operational costs decreased from €30.1 million in 2008 to €28.9 million in 2009. The €1.2 million decrease among others reflects €4.0 million lower non-cash impairment charges offset with a €2.4 million increase of research and development costs and a €0.3 million increase of general and administrative costs. Impairment charges in 2008 amounted to €4.2 million in relation to inventories (€1.3 million), goodwill (€1.1 million), ProBio assets (€1.0 million), manufacturing equipment (€0.7 million) and other items (€01. million); for 2009, total impairment charges of €0.2 million follow from the Company's review of recoverability of ProBio's assets. Costs of research and development increased from €22.1 million to €24.5 million, reflecting Pharming's submission of a Marketing Authorization Application (EU) for Rhucin in September 2009. At the same time, the Company has intensified the Rhucin development program in North America and the preparation of clinical trials of Prodarsan. Pharming's general and administrative costs increased from €3.3 million to €3.6 million, which largely reflects costs incurred with respect to the public offer to the bondholders as described earlier and including the issuance of a prospectus. Costs of share based compensation programs remained constant at €0.6 million.

Financial and other income and expenses for the years ended 2008 and 2009 were highly affected with non-cash valuation adjustments in relation to convertible bonds, marketable securities and deferred tax items as well as interest derived from cash and marketable securities. In total, net losses from these items in 2009 were €3.9 million compared to net profits of €3.2 million in 2008; the fluctuation is primarily caused by the effect of a non-cash derivative profit of €4.9 million in 2008 (€0.2 million in 2009), €1.6 million lower net interest income on cash and marketable securities and €0.8 million costs incurred in relation to various 2009 financing transactions.

In January 2010, Pharming entered into subscription agreements with non-disclosed institutional investors and issued 75 convertible bonds (the "Private Bonds") and 15 million warrants (the "Warrants") against an aggregate subscription price of €7.5 million, with a possibility to extend the debt with an additional €2.5 million. The interest on this debt is 9% per annum and is payable in up to four quarterly installments in shares or cash, such at the option of Pharming. The Private Bonds can be converted until 31 December 2010 into Shares. The Warrants may be exercised until 31 December 2012 by means of a cashless exercise. At the end of the first quarter 2010, as a result of meeting certain conditions in the convertible debt agreement, the initial maximum conversion price of the bonds and the initial exercise price of the warrants of €0.50 was reduced to €0.40 and bondholders received an additional number of 3,750,000 warrants, bringing the total number of warrants under the agreement to 18,750,000.

OUTLOOK 2010

The year 2010 is set to be a transformational year for Pharming. We are confident that we will be able to secure European approval for Rhucin. We also remain on track for BLA filing in the USA. After the closing of the European distribution agreement with Swedish Orphan Biovitrum, we continue discussions with a number of parties for commercialization of Rhucin territories outside of the European Union, Iceland, Norway, Switzerland and Turkey. In addition, we expect to secure additional financing in the first half of this year.

Summary of goals for 2010

- Approval of Marketing Authorization Application for Rhucin from the European Medicines Agency in Q3
- First product sales for Rhucin in EU
- Clarity on the filing and review process for Rhucin in the USA for the treatment of acute attacks of Hereditary Angioedema in HY1
- Initiation clinical development of rhC1INH for applications in the field of transplant indications in 2010
- Implementation of third party financing strategy for DNage
- Additional commercialization agreement(s) for Rhucin in HY1 2010
- Further improvement of the financial position by (combinations of) project-specific financing, licensing deals, loans and equity transactions

With two products in late stage development phase, the Company expects to receive income from product milestones and royalties in the near future. The Company also intends to obtain revenues from payments under future partnerships in respect of its products, government grants, licensing and partnerships using its technology, interest income as well as other miscellaneous income.

We have strong confidence that our product Rhucin will be accepted as a safe and efficacious product for treatment of attacks of Hereditary Angioedema. Similarly, we believe that the same molecule will become an important therapeutic product for the treatment of other diseases as well and we look forward to prepare for clinical development for new indications in the field of transplantation.

Given uncertainties in the current environment, Pharming is not providing guidance for the financial results in 2010. However, Pharming believes that the factors described below have had and are expected to continue to have a material effect on its operational results and financial condition.

From a financing perspective we look forward with confidence on the basis of:

- The recently announced European agreement with Swedish Orphan Biovitrum has brought an upfront payment and will bring an EMA approval milestone. In addition we can expect initial revenues from sales in the European Union towards the end of the year
- We are in constructive partnering discussions with potential commercialization partners for territories outside the European Union, Iceland, Norway, Switzerland and Turkey
- The separate financing of DNage, together with other measures will help to bring our cash burn rate down.
- We are able to draw another €23.4 million from the SEDA agreement with YA Global
- We are actively assessing additional financing options, including equity financing, to further solidify the financial situation to be able to continue operations well beyond 2010.

Hence we remain confident that we will be able to continue our operational efforts throughout 2010 and bring Rhucin through a successful regulatory review process this year.

STATEMENTS 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 January 1, 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 and that there are no indications that they will not continue to do so. The financial statements fairly represent the Company's financial condition and the results of the Company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

In view of all of the above, the Board of Management confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and results of the Company and the annual report includes a fair review of the position at the end of the reporting period and the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the Company faces.

We would like to thank all our shareholders, research collaborators, partners and employees for their help and support in 2009.

Sincerely,

The Board of Management

Sijmen de Vries **Bruno Giannetti** **Rienk Pijpstra** **Rein Strijker**

Leiden,
The Netherlands,
30 April 2010

CORPORATE GOVERNANCE AND RISK MANAGEMENT

CORPORATE GOVERNANCE AND RISK MANAGEMENT

On 10 December 2009, the Dutch Corporate Governance Code (as initially released on 9 December 2003) has been amended and restated, with retroactive effect per 1 January 2009. This amended and restated Corporate Governance Code (the "Code") contains principles and best practice provisions for the Board of Management, the Supervisory Board, shareholders and the general meeting of shareholders and audit and financial reporting. The Code *inter alia* applies to all companies whose registered offices are in the Netherlands and whose shares or depositary receipts for shares have been admitted to listing and to trading on a regulated market.

Companies to which the code applies are required to disclose in their annual reports whether or not they apply the provisions of the corporate governance code that relate to the management board or supervisory board and, if they do not apply, to explain the reasons why. The corporate governance code provides that if a company's general meeting of shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have applied the Code.

Pharming acknowledges the importance of good corporate governance and generally agrees with its basic provisions. Pharming fully supports the principles and best practice provisions of the corporate governance code and applies with the relevant best practice provisions of the Code, subject to the exceptions set out on page 49 and 50.

Group legal structure

The Company is a limited liability public company organized and existing under the laws of the Netherlands, with its headquarters and registered office at Darwinweg 24, 2333 CR Leiden, the Netherlands.

Except for its minority interest in MucoVax Holding BV, the Company is the ultimate parent company and owns hundred percent of all shares in the capital of the affiliated companies listed in Note 2 to the Financial Statements.

Articles of Association and amendment

The Articles of Association of the Company are posted on the Company's website. The Articles of Association of the Company were most recently amended on April 1, 2010. A resolution of the AGM (Annual General Meeting of Shareholders) to amend the Articles of Association or to dissolve the Company may only be adopted upon a proposal of the Board of Management which has been approved by the Supervisory Board.

Authorized capital, shares, warrants and options

As of April 1, 2010, the Company's authorized capital amounts to sixteen million Euros (€16,000,000). The authorized capital is divided into four hundred million (400,000,000) ordinary shares of four Eurocents (€0.04) each. On December 31, 2009, the issued share capital of the Company amounted to €77,250,518.50 consisting of 154,501,037 shares of fifty Eurocents (€0.50) each. Certain holders of convertible bonds issued by the Company on October 31, 2007 have converted their bonds into shares, as further specified in Note 13. Currently the number of registered shares amount to less than one percent of all issued ordinary shares. There are no cumulative preference shares or depositary receipts of shares issued by the Company or issued with its knowledge by any of its Shareholders. The Company has not vested or agreed to any pledges, usufruct, liens or other special voting rights with respect to any of the shares. Further information with respect to the shares, Option plans for the Board of Management, the Supervisory Board and for employees, options to and warrants on shares is provided in Note 25 to 27 to the Financial Statements.

Issuance of Shares or granting of Options

The Board of Management has the authority to issue shares or grant rights to subscribe for shares (so called options) if and insofar as the Board of Management has been designated by the AGM as the authorized corporate body for this purpose and subject to the approval of the Supervisory Board, all in accordance with the Articles of Association and Dutch company law. As per resolution of the AGM of April 15, 2009, the Board of Management has been granted such authorization to issue shares or grant of rights to subscribe for shares up to hundred percent of the authorized capital of the Company for a period of twelve months ending on May 23, 2010. A renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of May 27, 2010.

Pre-emptive rights

Under the Articles of Association, each holder of shares generally has a pre-emptive right to subscribe to its pro rata portion of any issue of shares or grant of options to subscribe for shares, except for certain issuances to employees and issuances for non-cash consideration. The Board of Management has the authority to restrict or exclude the rights of pre-emption for a period not exceeding five years, if and insofar as the Board of Management has been designated by the AGM as the authorized corporate body for this purpose and subject to the approval of the Supervisory Board. As per resolution of the AGM of April 15, 2009, the Board of Management has been granted such authorization for a period of twelve months ending on May 23, 2010. A renewal of this authorization for a period of twelve months will be submitted for approval to the AGM of May 27, 2010.

Repurchase of shares

Subject to the authorization of the AGM and the approval of the Supervisory Board and subject to certain conditions imposed by the Dutch company law, the Company may repurchase and acquire fully paid-up shares in its own share capital for consideration if: (i) the shareholders' equity of the Company less the acquisition price of such shares is not less than the sum of the Company's paid-up and called-up share capital and the reserves which must be maintained in accordance with Dutch law; and (ii) the aggregate nominal value of shares to be acquired and shares already held by the Company or pledged for the benefit of the Company, or which are held by a subsidiary of the Company, does not exceed one-tenth of the Company's issued share capital. As per resolution of the April 15, 2009, the Board of Management has been granted such authorization for a period of twelve months ending on May 23, 2010. A further renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of May 27, 2010. No voting rights may be exercised on shares held by the Company. The Board of Management may decide to transfer such shares. The Shareholders of the Company do not have a pre-emptive right on such transfers.

Insider trading of Shares

The Board of Management has adopted Insider trading regulations which were lastly amended per March 20, 2006 and which are posted on the Company's website. It is the Company's policy that all employees and consultants shall adhere to these regulations. The enforcement and compliance is monitored under the shared responsibility of the Company's Compliance Officer and the Company Secretary.

Change of Control

The Company has not entered into any agreement that will come into effect, change or terminate as a consequence of a change of control of the Company following a public offer on the shares as referred to the Act on the Financial Supervision, except for the convertible bonds as further described in Note 33 to the Financial Statements.

Board of Management and Supervisory Board
The management of the Company is entrusted to the Board of Management under the supervision of the Supervisory Board. The Board of Management, as well as any two Members of the Board of Management jointly, is authorized to bind the Company towards third parties.

During the year 2009, the composition of the Board of Management was as follows:
S. de Vries, Chief Executive Officer, appointed as of October 13, 2008 (appointed up to the AGM in 2013);
B.M.L. Giannetti, Chief Operations Officer, appointed as of December 1, 2006 (appointed up to the AGM in 2011);
R. Strijker, Chief Commercial Officer, appointed as of November 11, 2006 (appointed up to the AGM in 2011).

The Supervisory Board consisted of:
J. Blaak, Member, date of initial appointment: May 23, 2007 and Chairman as of April 16, 2008;
K. Macleod, Member, date of initial appointment: April 26, 2006;
J.B. Ward, Member, date of initial appointment: May 23, 2007;
J.H.L. Ernst, Member, date of initial appointment: April 15, 2009;
A. de Winter, Member, date of initial appointment: April 15, 2009.

All Members of the Board of Management are statutory directors of the Company. Remuneration and other employment conditions of the Board of Management Members are proposed by the Remuneration Committee and approved by the Supervisory Board. Mr. de Vries, Mr. Strijker and Mr. Giannetti are employed by the Company, all in accordance with the current remuneration policy set by the Supervisory Board. In 2009 the Board of Management consisted of Mr. de Vries, Mr. Giannetti and Mr. Strijker. Mr. de Vries is the Chairman of the Board of Management was primary responsibility for the long-term strategy and financing of the Company. Mr. Giannetti was responsible for the Company's operations, including clinical development, R&D, regulatory and manufacturing activities. Mr. Strijker was responsible for the general management of the DNage business and financial.

The Members of the Supervisory Board are selected by the Supervisory Board and appointed by the Annual General Meeting of Shareholders. In 2009 the Supervisory Board consisted of Mr. Blaak (Chairman), Mr. Macleod, Mr. Ward, Mr. Ernst (as of April 15, 2009) and Mr. de Winter (as of April 15, 2009). Mr. Macleod will resign on the AGM to be held on May 27, 2010.

In 2005, the Supervisory Board has approved and the Board of Management has subsequently adopted the Board of Management regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Management and which are posted on the Company's website. The Supervisory Board regulations are posted on the Company's website.

Certain important decisions from the Board of Management, as are listed in the Articles of Association, require the prior approval of the Supervisory Board. The Board of Management has delegated certain of its powers to designated functions within the Company, as described in the Company's Chart of Authority in force as of December 2008.

Related party transactions and conflict of interest
All direct transactions with Members of the Board of Management and Supervisory Board have been disclosed in accordance with the Code and are further described in Notes 26 and 27 to the Financial Statements.

In 2009, no material transactions have been taken place between Members of the Board of Management and the Company.

All current Members of the Board of Management are under contract by the Company. As part of the terms of their employment contract each Member of the Board of Management has undertaken not to compete with Company's activities. During the past year, no conflicts of interest were reported between Members of the Board of Management and the Company or its subsidiaries other than those referred to in this Annual Report.

All Supervisory Board Members are independent of the Company within the meaning of best practice provision III.2.2 of the Code. None of the Members are a member of the board of management of a listed company in the Netherlands. None are or were in the past employed by the Company and/or directly or indirectly represent a shareholder of the Company or a supplier or customer of the Company, except that Mr. Macleod is employed as a partner of Paul Capital Fund, a shareholder of the Company. None of the Members of the Supervisory Board provides any services outside his Board memberships or has any direct or indirect ties with the Company or any of its subsidiaries outside his Supervisory Board membership. The Supervisory Board regulations contain provisions with regard to potential conflicts of interest.

Mandates with third parties
No Member of the Board of Management is a member or chairman of the supervisory board of another listed company. Acceptance of more than two mandates as a supervisory board member or of a mandate as chairman of the supervisory board of a listed company requires the prior approval of the Supervisory Board. Other appointments of material importance need to be notified to the Supervisory Board. There have been no such notifications or appointments during the year 2009.

Loans or guarantees
As a matter of policy and as is reflected in the Board of Management and Supervisory Board regulations posted on the Company's website, the Company does not extend any loans or guarantees to the Members of the Board of Management or to the Members of the Supervisory Board.

Risk management and control
Pharming has in place an internal risk management and control system that provide a reasonable assurance that the financial reporting does not contain any errors of material importance. The complete internal risk management and control systems of the Company are regularly discussed by the Board of Management with the Supervisory Board and its Audit Committee and, in addition, procedures and controls are reviewed and areas requiring improvement are identified in audits from external parties. During the year 2009, the Board of Management and the Supervisory Board have identified areas where control systems could be improved. The areas pertain to relationships with external parties performing paid activities commissioned by the Company. Appropriate steps have been taken to improve such systems and have been implemented per 2009. It also has a whistleblowers' procedure, which is published on the Company's website. A Code of Conduct is in preparation and will be posted on the Company's website in the near future.

The Company has established an Innovation Management Committee (IMC) and a Project Evaluation Committee (PEC) to further strengthen the internal controls of the Company. The IMC and the PEC include managers from the product, research and manufacturing departments. The Chairman of the IMC is the Chief Operations Officer. The Chairman of the PEC is the Chief Medical Officer (appointed as per April 1, 2010). The Company has a Group Controller, a Compliance Officer, a General Counsel and a Company Secretary as well. In addition, key risk factors applicable to the Company were addressed at several of the Supervisory Board meetings in 2009. The Board of Management and the Supervisory Board have committed themselves to further developing the internal management and control systems. Further information concerning risk factors is provided in Note 34 to the Financial Statements.

Appointment of the external auditor

At the AGM held on April 18, 2009, PricewaterhouseCoopers was appointed as the Company's external auditor for a period of one year, expiring at the AGM of 2010. It is the intention to submit to the AGM to be held on May 27, 2010, the appointment of PricewaterhouseCoopers to become the Company's external auditor for a period expiring by the date of the next AGM.

Responsibility statement

The Board of Management declares that to the best of their knowledge, and in accordance with the 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.

Non-Compliance with the Code

The practices where the Company is not in compliance with the Code are the following:

Options for the Management Board (section II.2.4 of the Code)

With respect to section II.2.4 of the Code, the Company believes that its future success will depend in large part on the continued services of its Members of the Management Board and key employees. In view hereof, it is deemed essential that the Company is in a position to offer internationally competitive remuneration packages to qualified Members of the Management Board. In line with the recommendations of the Remuneration Committee and in line with industry practice, the options granted to Members of the Management Board to acquire shares in the capital of the Company will be a conditional remuneration component which becomes unconditional when a Member of the Management Board is still in the service of the Company at the end of the year. These options may be exercised within the first three years of granting. The Company considers the total compensation of the Members of the Management Board in line with international industry practice and significantly driven by long-term incentives, the potential values of which are fully dependent on value creation.

Profile Supervisory Board (section III.3.1)

The current Supervisory Board profile was adopted under and in compliance with the previously prevailing Corporate Governance Code. This profile has not been aligned with the more detailed requirements of this provision under the currently prevailing Corporate Governance Code.

Vice-Chairman Supervisory Board (section III.4.1 (f) and III. 4.4)
The size of the Supervisory Board and the committed participation of the Supervisory Board Members has meant that there has been no requirement for a vice-chairman.

Regulations governing ownership of and transactions in securities, other than issued by the Company, by the Management Board or the Supervisory Board Members (section III.6.5 of the Code)
The Company believes that Management Board and Supervisory Board Members should not be further limited by regulations in addition to commitments which are already applicable pursuant to Dutch law and regulations.

Granting of Shares or Rights to Shares to Supervisory Board Members (section III.7.1 of the Code)
The Company believes that, in today's biotech market, remuneration that includes restricted share options is deemed necessary, being customary practice, to attract excellent Supervisory Board Members in the biotech industry. As of 2008 Supervisory Board Members participate in the LTIP.

Follow in Real Time all the Meetings (section IV.3.1 of the Code)
Considering the Company's size, it would create an excessive burden to provide facilities that enable Shareholders to follow in real time all the meetings with analysts, presentations to analysts, presentations to investors referred to in the best practice provision. However, the Company will ensure that presentations are posted on the website immediately after the meetings in question. Meetings discussing financial results and other significant news will be announced and conducted in accordance with this provision.

Independent third party to hold proxies (section IV.3.12)
Given its size, the company does not believe it is appropriate at this time to appoint an independent third party to hold proxies. The Company does allow for shareholders to appoint their own independent third party proxies.

Outline policy on bilateral contacts with the shareholders (section IV.3.13)
This is a new requirement, introduced only by the implementation of the currently prevailing Code. The Company has not historically felt the requirement for such a policy and therefore did not comply. The Supervisory Board and Management Board will review this requirement at the earliest suitable opportunity.

Internal Auditor (sections III.5.4c+d and V.3.1-V.3.3 of the Code)
Due to the size of the Company, Pharming has not created a specific position for an internal auditor but it has provided for the assessment and testing of the risk management and control systems to be supported by the head of the Company's finance department, who is also the Company's Compliance Officer.

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SUPERVISORY BOARD REPORT

SUPERVISORY BOARD REPORT

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

The Supervisory Board (BOSD), 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 Code. The supervision of the Board of Management by the BOSD 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 enterprise.

The Supervisory Board determines, together with the Board of Management, the corporate governance structure of the Company and ensures compliance with the Dutch Corporate Governance Code and other (foreign) applicable rules and regulations. 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 as of page 56.

Composition and remuneration

At the AGM of April, 2009 Mr. J. Ernst and Mr. A. de Winter were appointed as Members of the Supervisory Board. The current composition of the Supervisory Board is as follows: Mr. Blaak (Chairman), Mr. Ward, Mr. Macleod, Mr. Ernst and Mr. de Winter.

The remuneration of the Members of the Supervisory Board is determined by the AGM. The annual remuneration of a Member of the Supervisory Board is €23,000. The Chairman receives €34,500 per annum. No current Member of the Supervisory Board holds shares in the Company. No loans or other financial commitments were made to any Member of the Supervisory Board on behalf of the Company. Pharming does not require its Supervisory Board Members to disclose any holdings in other listed and/or unlisted companies. Mr. Macleod is partner of Paul Capital, an investment firm that holds shares in Pharming.

Activities

The Supervisory Board met eleven times in 2009 of which five by teleconference. At each of these meetings all Members were present or participating. 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 Supervisory Board and its committees were discussed.

At the meetings of the Supervisory Board, the Company's financial and operational targets, strategy and accompanying risks were extensively discussed. Amongst other topics, a considerable amount of time was spent on discussing regulatory issues with regard to Rhucin and other products, the competitive landscape, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the annual budget and targets for 2010 and the operational and financial risks to which the Company is exposed.

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

- The Company's budget for 2010 is dependent, amongst other events, on the achievement of certain milestones. There is no certainty that these milestones will actually be achieved;
- The Company is largely dependent on the development of one key product for which regulatory filings in major markets will likely be submitted in 2010. However, the outcome of the registration process may be influenced by unpredictable events;
- 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 Company does not yet have a positive operational cash flow and therefore might be dependent on financial markets in the future;
- 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 minimize 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 department to monitor other corporate and contractual risks. The risks are further described in the corporate governance chapter commencing on page 45.

The quarterly financial statements are circulated to the full Supervisory Board in advance of every Audit Committee meeting. During the four Audit Committee meetings held in 2009, the financial statements were discussed with a special emphasis on the impact of IFRS related issues and the comparison of the budget with actuals and tax issues. In addition, the management letter from the external auditor was discussed. The Audit Committee in 2009 consisted of Mr. De Winter (Chairman), Mr. Ernst and Mr. Macleod. All meetings of the Audit Committee were also attended by the other Members of the Supervisory Board.

During the 2009 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met four times in 2009. The first and last meeting were convened to review and discuss the performance of the Board of Management relative to pre-agreed targets and to define targets for the coming year. During the first meeting the nomination of Mr. Ernst en Mr. de Winter as Members of the Supervisory Board was discussed as well. The remuneration packages, long term incentive plan and 2009 objectives were also discussed in the last meeting.

A report of the Remuneration Committee can be found on page 56-59.

Financial statements

The financial statements of Pharming Group NV for 2009, as presented by the Board of Management, have been audited by PricewaterhouseCoopers. Their report is included in this Annual Report on page 127. The Financial Statements are approved by the Supervisory Board and all Members (as well as the Members of the Board of Management) have signed these Statements. The Supervisory Board recommends the AGM to adopt the 2009 Financial Statements and to discharge the Board of Management and Supervisory Board from liability for their management and supervisory activities on behalf of the Company.

J. BLAAK **J.H.L. ERNST** **K. MACLEOD** **J.B. WARD** **A. DE WINTER**

Leiden,
The Netherlands,
30 April 2010

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee proposes the remuneration policy to the Supervisory Board 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 Supervisory Board 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 recognizes that the Company is increasingly competing in an international environment. The policy and its implementation are reviewed by the Remuneration Committee at least annually.

2009 Remuneration policy and structure

The remuneration policy for 2009 was approved in the Annual General Meeting of April 2009. The main items of this policy are:

- The remuneration of each Member of the Board of Management shall consist 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 advantages in kind such as health insurance and participation in a pension plan, as further specified in Note 26 to the Financial Statements;
- In general, employment contracts or management contracts, with Members of the Board of Management, provide for annual bonuses based on extraordinary performance and the achievement of predetermined objectives. These contracts currently include provisions for an individual bonus in cash of up to twenty five percent of the Member's gross annual salary (including holiday allowance). Other benefits, health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay will not 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 (including senior managers and Members of the Supervisory Board and the Scientific Advisory Board) are eligible to participate in the Company's Long Term Incentive Plan. Under the plan, participants will receive shares in the Company, the number of which is dependent upon the performance of the Pharming share price, during a three year period, compared to a peer group of small cap European Biotech Companies (see page 58).

Meetings and Composition

During the 2009 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met four times in 2009. The first and last meeting were convened to review and discuss the performance of the Board of Management relative to pre-agreed targets and to define targets for the coming year. During the first meeting the nomination of Mr. Ernst and Mr. de Winter as Members of the Supervisory board was also discussed. The remuneration packages, long term incentive plan and 2009 objectives were discussed in the last meeting

Remuneration Report 2009

Following the recommendations of the Remuneration Committee, the Supervisory Board decided to grant 1,000,000 of the available 1,000,000 stock options of the 2009 Option Plan (as approved by the AGM on April 15, 2009), in line with the achievement of the preset target by the Board of Management. The exercise price of these options is €0.50 and they will expire on October 31, 2014.To Mr. de Vries 500,000 options were granted, to Mr. Giannetti 250,000 options and 250,000 options to Mr. Strijker.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2009. The Remuneration Committee recognized that each Member of the Board of Management had contributed to positioning the Company for the future in particular by reducing the potential for a major problem with the convertible bonds issued in 2007 while minimizing the impact on current shareholder value. However, in the current economic downturn the Company remained short of capital.

Despite the fact that the Board of Management Members have achieved most of their personal objectives, in a situation where few of the public annual corporate objectives have been accomplished, and where the Company remains short of capital, the Remuneration Committee recommended and the Supervisory Board decided in January 2010 that it is inappropriate to award cash bonuses for 2009.

Following the recommendations of the Remuneration Committee, the Supervisory Board decided instead to make the payment of a bonus paid out in shares of the Company that recognizes the achievements over 2009 conditional on the completion of a substantial licensing partnership for Rhucin to be achieved by April 30, 2010. Should such a partnership be achieved with an associated upfront payment in cash into the Company, the Supervisory Board agreed that a bonus of up to 20% of base salary payable in shares valued at the Volume Weighted Average Price (VWAP) measured over the 5 trading days prior to the closing of such deal shall be paid to Mr. de Vries, Mr. Strijker and Mr. Giannetti.

The individual remuneration of the Members of the Board of Management was reviewed, also in the light of developments at other listed biotechnology companies in Europe. On this basis, the Remuneration Committee advised the Supervisory Board to increase the fixed salary of Mr. de Vries by €10,000 from February 1, 2010. No further increases were granted at this time.

Remuneration Policy 2010 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 in companies in comparable stage of development.

In this respect the Remuneration Committee foresees to significantly increase the target cash bonuses for the BOM (Board of Management) and certain selected members of senior management, in a step-wise manner over the coming years, triggered by future achievements that will drive the Company to financial sustainability on the basis of operating income.

For 2010, the Remuneration Committee will continue to implement of the compensation policy that was approved at the 2009 AGM with the modifications outlined below. Modifications listed as 1, 3, 4, 5 and 6 (to the extent relevant) are in the view of the Remuneration Committee covered by the current compensation policy. Shareholder approval for Modification 2 will be sought at the AGM 2010 to be held on May 27, 2010.

1. Fixed salary determined by the Supervisory Board.

2. Target bonus of up to 25% of annual salary, increasing to 40% of annual salary for the period after having received the regulatory approval for Rhucin in Europe payable on or before January 31, 2011 in cash and/or in shares valued at the VWAP measured over the 5 trading days prior to January 31, 2011. Payment of the bonus remains dependent on the achievement of pre-defined milestones which are a combination of corporate and personal milestones.

3. Share options dependent on defined parameters. The amounts and parameters are outlined below.

Description of proposed 2010 share option grants to the Board of Management:

	Nr of options	**Parameters**
Mr. Sijmen de Vries	750,000	In service at 1 November 2010
Mr. Bruno Giannetti	250,000	In service at 1 November 2010
Mr. Rein Strijker	250,000	In service at 1 November 2010

An option grant to Mr. Rienk Pijpstra for 250,000 options when in service at November 1, 2010 was approved at the Extraordinary General Meeting of Shareholders on March 30, 2010.

4. A Long Term Incentive Plan under which 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. In addition Members of the Supervisory Board qualify for participation. 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 40 European Small Cap (< €500 million) listed companies active in Life Sciences.

The reference group consists of the following companies:

Morphosys (DE)	Oncomethylome (BE)	AMT (NL)	Biotie Therapeutics (FI)
Addex (CH)	Oxford Instruments (UK)	GPC Biotech (DE)	Lifecycle Pharma (DK)
Prostrakan (UK)	Exonhit (FR)	Ark Therapeutics (UK/FI)	Newron (IT)
Medivir (SE)	Santhera (CH)	Hybrigenics (FR)	Octoplus (NL)
Transgene (FR)	Vernalis (UK)	Cytos (CH)	BioXell (IT)
Cellectis (DE)	Galapagos (BE)	Photocure (NO)	Devgen (BE)
Medigene (DE)	Ti-Genix (BE)	Innate Pharma (FR)	Oxford Biomedica (UK)
Thrombogenics (BE)	Biovitrum (SE)	Wilex (DE)	Renovo (UK)
Basilea (CH)	Neurosearch (DK)	Evotec (DE)	Alizyme (UK)
Ablynx (BE)	Bavarian Nordic (DK)	GW Pharma (UK)	Arpida (CH)

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% of maximum

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

At January 1, 2010, after two years of the three year period of the 2008-LTIP, Pharming ranked number 30 in this group. For the 2009 program, after one year of the three year period Pharming ranked number 31 in the group.

For 2010, the Supervisory Board, following the recommendation of the Remuneration Committee, has determined that the maximum number of shares that can be earned by each Board of Management Member is 100,000. Members of the Supervisory Board can earn a maximum of 30,000 shares. For the senior managers a pool of 400,000 shares will be created out of which a maximum of 40,000 shares can be awarded to each individual senior manager. If granted, restricted shares under this program will vest on January 1, 2013 depending on the conditions described above.

5. 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 Supervisory Board in the first meeting of the next year but in any case before or on the date of approval of the annual report.

6. During 2010, approximately 800,000 share options will expire with a strike price well above the current share price and will, likely, be struck off. Therefore, an amount of 1,500,000 share options have been added to the Employee Share Option Pool for distribution in 2010, amongst the employees (excluding Members of the Board of Management), according to the employee share option policy.

The Supervisory Board has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for 2010.

The main corporate objectives for 2010 for the Board of Management can be summarized as follows:

- Approval of Rhucin in the EU
- Clarity on the filing and review process for Rhucin in the USA for the treatment of acute HAE attacks
- First product sales in EU for Rhucin
- Portfolio management: focus on C1-inhibitor; execution of transplantation development plans
- Reduction of cash burn according to budget 2010
- Strengthening/stabilization of the financial foundation of the Company

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

The Corporate Governance chapter of this Annual Report and the Notes to the Financial Statements contain further details with regard to the remuneration of the Supervisory Board and the Board of Management, as well as the Company’s remuneration policy and pension schemes.

GLOSSARY

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AGM
Annual General Meeting of Shareholders of Pharming Group NV.

AMR
Antibody-mediated rejection occurs when a transplant because of suboptimal histo-compatibility, is perceived by the recipient as a foreign body. The immune system is activated and the foreign body is attacked, which can lead to organ failure and immunological rejection of the organ. As the number of waiting recipients is outgrowing the number of available donors, transplantations with sub-optimal matching levels occurs increasingly. This results in relatively higher rejection rates.

AScX
The Amsterdam Small cap Index is composed of the top 25 actively traded small cap companies on the NYSE Euronext stock exchange of Amsterdam. The companies in AScX are selected for the index based on value of full year 2008 turnover of shares in Euros. Pharming was included in the AScX on March 3, 2009.

Aslan
Aslan Group AS is established in 1978 and one of the leading family owned companies in Turkey (Istanbul). Aslan has a track record in several business areas. Nutrition and biotechnology is a newly established focus of Aslan in the fast growing market of Turkey and other countries in the region, including Russia, the Ukraine and the Middle East.

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 commercialize 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 medical affects 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. Biological products include amongst others monoclonal antibodies, growth factors, blood products and proteins intended for therapeutic use. The concerning FDA centre is the Center for Biologics Evaluation and Research (CBER).

BOM
The Board of Management of Pharming Group NV.

C1INH
C1 esterase inhibitor or C1INH is a serine protease inhibitor protein present in human blood serum. 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 action or amounts can cause inflammation and HAE attacks.

CHMP
The Committee for Medicinal Products for Human Use (CHMP) plays a vital role in the marketing procedures for medicines in the European Union. Amongst others, the CHMP is responsible for preparing the EMA's opinions on all questions concerning medicinal products for human use, in accordance with Regulation (EC) No 726/2004.

Clinical trial/studies
Clinical trials are tests on human individuals, ranging from healthy people to patients, to evaluate safety and efficacy of new pharmaceutical products before they can be approved. Clinical trials typically range from Phase I to Phase IV and even V.

CS or Cockayne Syndrome
CS is a premature ageing disease. Premature ageing diseases are a group of rare diseases caused by a genetic defect leading to deficient repair of DNA-damage. Patients suffering from these diseases develop multiple 'ageing-pathologies', normally associated with old age, early on in their lives. Generally, these patients have a strongly reduced quality of life and reduced life expectancy. CS is characterized (amongst other symptoms) by growth failure, mental retardation, hearing loss, a prematurely aged appearance (progeria) and premature death. The average lifespan of CS patients is 12.5 years and quality of life for these patients is seriously impaired. At present, there is neither a cure nor an effective therapy available for CS patients. Disease management consists of treating the symptoms as they arise and providing assistive devices

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

DNA
DNA or deoxyribonucleic acid is a large organic molecule which contains the genetic information for the development and functioning of living organisms. The DNA holds so-called genes, each of them carrying the instructions to generally construct one specific protein. All genes together are called the genome or 'blueprint'. The proteins made from this blueprint are responsible for the biochemical activity of the cell.

DNage
With the acquisition of the Dutch company DNage BV in 2006, DNage has become a wholly-owned subsidiary of Pharming Group NV. DNage is focusing on discovery and development of products for ageing diseases which are caused by DNA damage. DNage has active programs in the areas of osteoporosis, neurodegeneration (brain diseases), metabolic diseases and genetic diseases (premature ageing).

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.

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

FTE
Weighted average full time equivalent.

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

GRAS
The acronym GRAS stands for Generally Recognized As Safe. This designation is granted by the FDA to a chemical or substance added to food that is generally recognized, among experts, as having been adequately shown through scientific procedures to be safe under the conditions of their intended use.

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 and the mouth and 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 seven acute attacks per year.

hLF
Human lactoferrin is a natural protein that helps to fight and prevent infections. The protein is present in substantial quantities in mother's milk and plays an important role in the defense system of infants. The protein is also present in various body fluids and continues to play an important role against a wide range of bacterial, fungal and viral pathogens in adults. Pharming produces a recombinant version of the natural lactoferrin protein.

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).

IMC
Pharming's Innovation Management Committee.

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).

LTIP
Pharming's Long Term Incentive Plan.

MAA
A Marketing Authorization Application is a request for market approval in the European Union.

Management Board
The Board of Management of Pharming Group NV.

Option plan(s)
Options are the rights to subscribe for shares. Pharming has an Option plan in place both for the Board of Management and for employees.

Orphan Drug
A drug being developed to treat a rare disease (affecting less than 200,000 individuals in the USA) 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 five in ten thousand persons in Europe), namely Orphan Medicinal Product. This status is granted under European Parliament and Council Regulation (EC) No 141/2000 of December 16, 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.

PEC
Pharming's Project Evaluation Committee.

Pharming Group NV
Pharming Group NV (Pharming, the Company or we) is a biotech company based in Leiden, the Netherlands. The Company has facilities in the Netherlands and in the United States and employs approximately 90 people, of which more than eighty percent in R&D. Pharming's ordinary shares are listed in the Netherlands in the Small cap index (AScX) on NYSE Euronext Amsterdam, under the symbol 'PHARM'.

Prodarsan
Pharming's wholly-owned subsidiary DNage is developing Prodarsan® as a potential therapy for Cockayne Syndrome (CS). The product is a combination of small molecules formulated as an oral liquid and is believed to reduce the accumulation of DNA-damage, the underlying biochemical cause of CS.

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

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.

R&D
R&D is referring to Pharming's Research and Development activities.

rhC1INH
Recombinant human C1 esterase inhibitor or rhC1INH is the active component of Rhucin®. Natural C1 inhibitor DNA from a human source is used in Pharming's protein production technology to ensure expression of the C1 inhibitor protein. This product might be useful for certain indications, such as the prevention of complications that sometimes arise after organ transplantation.

rhCOL
rhCOL is short for Pharming's recombinant human collagen type I. Natural human collagen is a protein found in skin, bone, blood vessels and many other tissues. Existing medical products using biomaterials are based on collagen from human plasma or animal tissues. Pharming aims to substitute these products with its recombinant human collagen.

rhFIB
Human fibrinogen is a natural human plasma protein involved in blot clotting. Together with thrombin it can form insoluble fibrin polymers or clots. Deficiency or low levels of fibrinogen can result in uncontrolled bleeding, as can occur in case of trauma, surgery, liver disease, sepsis and cancer. Pharming is developing recombinant human fibrinogen (rhFIB) as a replacement therapy for patients with genetic and acquired deficiencies of fibrinogen.

Rhucin®
Rhucin® is the global trade mark for Pharming's recombinant human C1 inhibitor for the treatment of patients with acute HAE attacks. 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 can cause inflammation and HAE attacks.

SAB
The Scientific Advisory Board of Pharming Group NV.

SEDA
In April 2009, Pharming entered into a €20 million Standby Equity Distribution Agreement (SEDA) with Yorkville Advisors Global Master SPV LTD (Yorkville), which was extended in October 2009 by an additional €10 million to €30 million in total. Under the agreement, Pharming is entitled to request Yorkville to subscribe to and purchase newly issued shares in tranches of €0.4 million each, up to a total of €30 million at any time during the 36 months agreement, provided that the market price of the shares is at least 20% above the nominal value prior to the call. The proceeds to Pharming from future newly issued shares will equal 95% of the market price. Calculation of the market price is based on the volume weighted average price of Pharming shares over a period of five consecutive trading days following the date of Pharming's request notice to sell these new shares. Yorkville can either place these shares in the market or accumulate them up to a maximum holding in Pharming of 4.99% of the number of outstanding shares. Yorkville is committed not to short sell or enter into any hedging transactions related to the shares of Pharming.

Shareholder
A Shareholder is a holder of ordinary shares of Pharming Group NV. The shares are listed in the Netherlands in the Small cap Index on NYSE Euronext Amsterdam, under the symbol 'PHARM'.

Supervisory Board
The Board of Supervisory Directors of Pharming Group NV.

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 products in the milk of transgenic rabbits and cows carrying the human recombinant gene responsible for expressing that product.

VWAP
Volume Weighted Average Price of Pharming shares.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AMOUNTS IN €'000	NOTES	December 31, 2009	December 31, 2008	January 1, 2008
Goodwill	5	4,312	6,998	9,190
Intangible assets	6	17,585	18,051	18,981
Property, plant and equipment	7	5,240	5,896	7,098
Financial assets		-	-	200
Restricted cash	8	176	176	176
Non-current assets		**27,313**	**31,121**	**35,645**
Inventories	9	11,255	10,971	11,720
Other current assets	10	1,392	1,646	1,893
Restricted cash		-	-	10,180
Marketable securities	11	-	3,748	3,956
Cash and cash equivalents	8	15,923	33,250	98,023
Current assets		**28,570**	**49,615**	**125,772**
Total assets		**55,883**	**80,736**	**161,417**
Share capital	12	77,251	48,715	45,618
Share premium	12	187,708	183,980	182,243
Other reserves	12	10,422	7,403	4,417
Accumulated deficit	12	(262,068)	(227,565)	(201,360)
Total equity		**13,313**	**12,533**	**30,918**
Convertible bonds	13	-	35,122	53,214
Earn-out obligations	14	1,788	2,644	2,315
Deferred tax liability	15	4,276	3,940	3,940
Other non-current liabilities	16	236	307	412
Non-current liabilities		**6,300**	**42,013**	**59,881**
Bank overdrafts	8	13,761	13,640	47,069
Paul Royalty Fund		-	-	10,180
Convertible bonds	13	9,461	571	801
Trade and other payables	17	8,769	7,365	7,830
Earn-out obligations	14	4,208	4,508	4,634
Current portion of non-current liabilities	18	71	106	104
Current liabilities		**36,270**	**26,190**	**70,618**
Total equity and liabilities		**55,883**	**80,736**	**161,417**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31

AMOUNTS IN €'000	NOTES	2009	2008
Income from grants	19	761	629
License fees	19	335	-
Other	19	-	35
Income		**1,096**	**664**
Research and development	20	(24,525)	(22,085)
General and administrative	20	(3,570)	(3,301)
Impairment charges	21	(202)	(4,182)
Share-based compensation	25	(647)	(563)
Costs		**(28,944)**	**(30,131)**
Loss from operating activities		**(27,848)**	**(29,467)**
Settlement convertible bonds	13	2,829	5,604
Fair value gain derivative	13	243	4,947
Fair value result embedded derivative	11	785	-
Other interest income, net	22	426	2,022
Foreign currency results	23	125	195
Financial income		**4,408**	**12,768**
Effective interest convertible bonds	13	(5,427)	(8,161)
Interest on earn-out obligations	14	(1,530)	(1,345)
Other financial expenses	24	(1,327)	-
Financial expenses		**(8,284)**	**(9,506)**
Income taxes	15	(336)	-
Net loss		**(32,060)**	**(26,205)**
Attributable to Equity holders of the parent		**(32,060)**	**(26,205)**
Share information			
Basic and diluted net loss per share (€)		(0.28)	(0.29)
Weighted average shares outstanding		116,177,686	91,657,617
Number of shares outstanding at year-end		154,501,037	97,429,854

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

AMOUNTS IN €'000	NOTES	2009	2008
Payments of third party fees and expenses, including Value Added Tax		(20,052)	(19,454)
Net compensation paid to board members and employees		(3,885)	(4,122)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(3,043)	(2,813)
Other payments		(885)	(420)
Receipt of Value Added Tax		2,098	1,372
Interest received from cash and marketable securities		584	2,282
Receipt of grants		302	595
Other receipts		597	654
Net cash flows used in operating activities		**(24,284)**	**(21,906)**
Purchase of property, plant and equipment	7	(304)	(289)
Purchase of intangible assets	6	-	(525)
Divestment of available-for-sale financial assets	11	4,506	-
Net cash flows from/(used in) investing activities		**4,202**	**(814)**
Net proceeds of increase of share capital	12	9,230	1
Payment to Paul Royalty Fund	8	-	(10,075)
Payments convertible bonds	13	(4,745)	(3,800)
Payments of nominal interest convertible bonds	13	(1,928)	(4,844)
Payment of other financial liabilities	18	(85)	(92)
Net cash flows from/(used in) financing activities		**2,472**	**(18,810)**
Net decrease cash and cash equivalents		**(17,610)**	**(41,530)**
Exchange rate effects on cash and cash equivalents		162	6
Cash and cash equivalents at January 1		19,786	61,310
Cash and cash equivalents at December 31		**2,338**	**19,786**
Marketable securities at December 31	11	-	3,748
Total liquidities at December 31		**2,338**	**23,534**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31

AMOUNTS IN €'000	NOTES	2009	2008
Net loss for the year		(32,060)	(26,205)
Foreign currency translation		(73)	141
Fair value result embedded derivative	11,12	-	(208)
Fair value adjustment available-for-sale financial assets	12	-	35
Other comprehensive income, net of tax		**(73)**	**(32)**
Total recognized income and expense		**(32,133)**	**(26,237)**
Attributable to Equity holders of the parent		**(32,133)**	**(26,237)**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31

Amounts in €'000	NOTES	Number of shares	Share capital	Share premium	Currency translation
Balance at January 1, 2008		**91,235,178**	**45,618**	**182,243**	**(1,743)**
Total recognized income and expense		-	-	-	141
Share-based compensation		-	-	-	-
Reclassification derivative		-	-	-	-
Bonds converted	12,13	6,193,181	3,096	1,737	-
Options exercised	25	1,495	1	-	-
Balance at December 31, 2008		**97,429,854**	**48,715**	**183,980**	**(1,602)**
Reclassification fair value results		-	-	-	-
Total recognized income and expense		-	-	-	(73)
Share-based compensation		-	-	-	-
Commitment shares issued (non-cash)		1,200,000	600	-	-
Shares issued in exchange of cash		16,958,881	8,480	1,272	-
Bonds converted		38,912,302	19,456	2,456	-
Balance at December 31, 2009		**154,501,037**	**77,251**	**187,708**	**(1,675)**

Nominal value €0.50 per share.

The notes are an integral part of these financial statements.

Amounts in €'000	Share-based compensation	Net unrealized gains/(losses)	Other	Accumulated deficit	Total
Balance at January 1, 2008	**8,430**	**(2,270)**	**-**	**(201,360)**	**30,918**
Total recognized income and expense	-	(173)	-	(26,205)	(26,237)
Share-based compensation	563	-	-	-	563
Reclassification derivative	-	-	3,370	-	3,370
Bonds converted	-	-	(915)	-	3,918
Options exercised	-	-	-	-	1
Balance at December 31, 2008	**8,993**	**(2,443)**	**2,455**	**(227,565)**	**12,533**
Reclassification fair value results	-	2,443	-	(2,443)	-
Total recognized income and expense	-	-	-	(32,060)	(32,133)
Share-based compensation	892	-	-	-	892
Commitment shares issued (non-cash)	-	-	-	-	600
Shares issued in exchange of cash	-	-	-	-	9,752
Bonds converted	-	-	(243)	-	21,669
Balance at December 31, 2009	**9,885**	**-**	**2,212**	**(262,068)**	**13,313**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements
For the year ended December 31, 2009

1. Corporate information

The consolidated financial statements of Pharming Group NV, Leiden for the year ended December 31, 2009 were authorized for issue in accordance with a resolution of the Supervisory Board on April 30, 2010. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for May 27, 2010.

Pharming Group NV is a limited liability public company which is listed on Euronext Amsterdam, with its headquarters and registered office located at:
Darwinweg 24
2333 CR Leiden
The Netherlands

Pharming originally focused on the development, production and commercialization of human therapeutic proteins to be used in highly innovative therapies. The Company's products are aimed at treatments for genetic disorders and surgical and traumatic bleeding. Pharming's technologies include novel transgenic platforms for the production of biopharmaceuticals, as well as technology and processes for the purification and formulation of these biopharmaceuticals. In addition, the Company is active in the field of DNA repair through its 2006 acquisition of DNage.

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) for the financial year 2009 issued by the International Accounting Standards Board (IASB) as adopted by the European Union. In conformity with article 402 Book 2 of the Netherlands Civil Code, a condensed statement of income is included in the Pharming Group NV accounts.

The consolidated financial statements have been prepared under the historical cost convention; accounting policies applied are consisted with those for the financial statements of the financial year 2008 with the exception of those items discussed in Note 4.

Going Concern Assessment

The Board of Management of Pharming has, upon preparing and finalizing the 2009 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of these financial statements.

Pharming does not generate sufficient cash from commercial activities to meet its current working capital requirements and is currently, as has been the case since its incorporation, largely dependent on financing arrangements with third parties. The available net cash per the date of these financial statements amounts to approximately €3.2 million. Pharming's operational and capital expenditure requirements, plus semi-annual cash interest payments to bondholders, for the 12 months after the date of these financial statements are in the range of €20-22 million with the planned execution of certain activities, such as additional clinical trials for new indications and/or the (continued) development of certain products, depending on availability of sufficient funds to be generated. In addition, remaining convertible bond holders of €10.9 million nominal value as issued in 2007 may exercise their put option in October 2010, which would oblige Pharming to repay the principal amount of these outstanding bonds. As a result, the aggregated cash expected to be used in the 12 months following the date of these financial statements may increase to approximately €32 million.

To enable continued operations for a period of at least 12 months after the date of these financial statements, several sources available to raise additional working capital in the short and medium term future have been outlined below.

1. Pharming's first priority is to enter into license agreements in respect of Rhucin for the United States and territories not already covered through existing license agreements for the territories of Iceland, Norway, Switzerland, Turkey and the Europe Union. The Company is in discussions with a number of pharmaceutical companies regarding such agreements and is confident that these discussions will lead to at least one agreement in the next coming months, of which the United States is considered likely by the Board of Management. Such agreement will, inter alia, potentially result in a substantial upfront cash payment;
2. Conditional upon approval of the MAA for HAE by the EMA, Pharming expects to receive a substantial milestone payment from its European partner Swedish Orphan Biovitrum in the third quarter of 2010;
3. The Company also expects cash income from sales of Rhucin® inventories to license partners from the third quarter of this year;
4. As another main source of cash, the Company is reviewing possibilities to raise capital by means of a capital markets transaction, such as an issue of shares either through a private placement to a limited group of investors or a rights issue. Pharming believes that it is able to raise at least €15-30 million based on discussions which it has had with several investors. To this extent Pharming has engaged Kempen & Co and Petercam Bank to jointly lead such efforts. The success of a potential rights issue is difficult to predict due to uncertain factors such as the condition of the stock market;
5. Pharming may use the SEDA to cover any deficits in the finance of its operations. Under the terms of the SEDA, Yorkville can invest a total of up to €30.0 million in a three year period until April 2012. Pharming has the right, but not the obligation, to call the funds in regular tranches. Until the date of these financial statements, total cash received under the SEDA amounts to €6.6 million, resulting in €23.4 million funds still available. Pharming is entitled to call up to €0.4 million per tranche by issuing Shares at a 5% discount to the market price, provided the market price of the Shares is at least 20% above the nominal value of the Shares. Yorkville may also accept a single tranche exceeding €0.4 million. However, capital market transactions under item 4 may prohibit Pharming to execute transactions under the SEDA for a certain period of time;
6. In addition, the Company may also be able to attract project specific financing, for instance by issuing new shares in one or more of its subsidiaries. At the date of these financial statements, Pharming is reviewing the possibility to issue new shares in DNage to one or more professional investors, thereby accepting a less than 100% shareholding in DNage but for the purpose of significantly reducing its cash burn. Indications of interest have been received from certain family funds and other investors and the Company is confident that sufficient DNage-specific financing can be raised over the next few months to support its ongoing business for at least two years. With respect to DNage, the outcome of a transaction, if any, may have a material impact on – in particular - the carrying amounts of goodwill, intangible assets and earn-out obligations;
7. The Company in January 2010 entered into a convertible debt instrument under which it received €7.5 million in cash. The terms and conditions of the 2010 bonds would enable Pharming to attract another €2.5 million in cash under terms to be further negotiated;
8. Finally, the Company may be able to attract funds through divestment of individual assets or a group of assets. However, the outcome of such divestment activities is highly uncertain in view of current economic conditions in general and the relatively small market for available assets in particular. Additionally, the divestment of assets is subject to approval of bondholders.

In order to limit cash outflows, with respect to remaining bonds issued in 2007 the Company may renegotiate terms and conditions or settle the outstanding €10.9 million (plus accrued interest) through payment in shares or a combination of shares and cash. The outcome of such negotiations is dependent on the interest of the bondholders in such a transaction. Pharming also has the possibility to enter into one or more new debt transactions or financial instruments including a share component. The outcome of such negotiations may have a material impact on the carrying value of the convertible bonds as well as effective interest charges associated with the carrying value.

However, in case the Company is not able to attract sufficient additional cash from any or a combination of these items, it may ultimately enter into bankruptcy and/or sell all or a part of its assets. Such an event could have a material impact on the carrying value of, in particular, goodwill, intangible assets, property, plant and equipment as well as inventories.

Also, the Company's equity position of €13.3 million at December 31, 2009 decreased to €5.9 million (unaudited) at March 31, 2010. The outcome of all or a combination of the events above may significantly affect equity. Ultimately, equity may become negative in the course of 2010 or 2011 thereby reducing the number of alternative financing possibilities.

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.

Basis of consolidation
The consolidated financial statements include Pharming Group NV 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. Control also exists when the Company, directly or indirectly, owns half or less of the voting power of an entity but can clearly demonstrate it has power:
- over more than half of the voting rights by virtue of an agreement with other investors;
- to govern the financial and operating policies of the entity under a statute or an agreement;
- to appoint or remove the majority of the Members of the Board of Directors or equivalent governing body and control of the entity is by that board or body; or
- to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The financial statements of the subsidiaries are prepared for the same reporting period as Pharming Group NV, using the same accounting policies. Inter-company transactions, balances and unrealized gains and losses on transactions between group companies are eliminated.

Associates are investments in which significant influence on the financial and operational policies of the investee is exercised. Significant influence is assumed to exist if at least 20% of the voting stock is owned. These associates are accounted for through the equity method, whereby the investment is initially recognized at cost. Subsequent gains or losses in the net asset value of the associate are recognized in the statement of income. Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in companies in which Pharming does not control or have significant influence on the financial and the operational decisions are classified as (available-for-sale) financial assets. In accordance with IAS 39 (Financial instruments), these investments are carried at fair value.

The following table provides an overview of the investments at December 31, 2009:

Entity	Registered office	Investment %
Pharming BV	The Netherlands	100.00
Pharming Intellectual Property BV	The Netherlands	100.00
Pharming Technologies BV	The Netherlands	100.00
Broekman Instituut BV	The Netherlands	100.00
Pharming Healthcare, Inc	United States	100.00
DNage BV	The Netherlands	100.00
ProBio Inc	United States	100.00
MucoVax Holding BV	The Netherlands	1.95

3 Summary of significant accounting policies

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.

Goodwill, intangible assets and deferred tax liability

Goodwill, intangible assets and deferred tax liability resulting from acquisition DNage. The Company's acquisition of DNage in 2006 has resulted in the initial recognition of significant amounts of goodwill, intangible assets and deferred tax liabilities. At year end 2009, goodwill amounts to €4.3 million, intangibles from the DNage acquisition are €16.8 million and the deferred tax liability amounts to €4.3 million. The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated under 'Impairment of Assets'. The recoverable amounts of cash generating units have been determined based on a calculation of the greater of value-in-use and fair value less cost to sell. These calculations require the use of estimates which are disclosed in note 5.

The deferred tax liability is linked to the underlying carrying value of the intangible assets and as such highly depends on its value; as such, the realization of the future cash flows as well as developments of the applicable tax rate in the Netherlands may affect the carrying value of the deferred tax liability.

Convertible bonds

The holders of convertible bonds issued in 2007 are entitled to receive semi-annual interest payments of €0.4 million and to have the bonds redeemed at October 31, 2010. The remaining nominal value at December 31, 2009 amounts to €10.9 million. The likelihood of redemption in 2010 has been estimated based on the Board of Management's review of events and scenarios triggering such a redemption or partial redemption, but the ultimate outcome thereof may be different or significantly different from this estimate and accordingly the carrying value of the liability as well as the classification as a current liability may not reflect the actual outcome.

Earn-out obligations

Under the agreement with former DNage shareholders, the Company has to make payments to these former shareholders based on achievement of certain milestones relevant for clinical development and royalties based on milestone payments, upfront fees, license fees and royalties of certain DNage compounds. Payments of milestones and royalties to these former DNage shareholders depend on actual achievement of the event that triggers payment, for which the Board of Management continuously estimates the likelihood the event will take place, the timing thereof and the associated cash outflow. Earn-out obligations are discounted at a discount rate which may vary from time to time based on both external and internal factors with an impact on cost of capital.

Inventories

At year end 2009, the Company has capitalized rhC1INH product. The Company has planned for additional inventory investments after the end of the reporting period. These inventories are available for use in commercial, preclinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected preclinical and clinical programs for both the HAE project and other indications of the rhC1INH product as well as anticipation of market approval(s). 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.

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 recognized 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 average exchange rates for the year. The effects of translating these operations are taken directly to equity. On disposal of a foreign entity, the accumulated exchange difference is recognized in the statement of income as a component of the gain or loss on disposal. In general, the above-stated translation of foreign entities applies to the entities in the United States.

The €/US$ exchange rates applied at December 31, 2009 and 2008 amounted to €0.694 and €0.714 respectively.

Distinction between current and non-current

An asset is classified as current when it is expected to be realized (settled) within twelve months after the end of the reporting period. 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 period.

Intangible assets

General

Intangible assets acquired separately are measured on historical cost. The cost of intangible assets acquired in a business combination is measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the relevant expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The remaining amortization periods for intangible assets at December 31, 2009 are:

Category	**Description**	**Remaining amortization period**
DNage technology	Product, marketing, and distribution rights	Not amortized*
Transgenic technology	Patents and licenses	14 years
Rhucin for HAE (EU)	Development costs	Not amortized*
ProBio technology	Patents and licenses	Not applicable

** amortization starts after market launch*

Research and development costs

Research expenditure is recognized as an expense in the period in which it is incurred, An intangible asset arising from development expenditure on an individual project is recognized 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 amortization and accumulated impairment losses. Any expenditure capitalized is amortized 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.

Goodwill

Goodwill represents anticipated future economic benefits from assets that are not capable of being individually identified and separately recognized in a business combination. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

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 derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing 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 derecognized. 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:

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 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 of no more than five years in view of 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, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 (cash-generating units). Non-financial assets, other than goodwill, 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 realizable value. The Company has two inventory categories:
- batches rhC1INH. These batches are comprised of therapeutic product available for sales, clinical development and preclinical activities. Initial recognition is at cost, including skimmed milk used, external manufacturing fees and fill and finish costs incurred to bring the product in a saleable or useable position;
- skimmed milk. This item serves as a raw material for the batches rhC1INH. Valuation per unit skimmed milk is based on the total costs of the rabbit facilities and the actual production levels.

Net realizable 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. An allowance is provided for inventories if no future use or sale is expected before the expiration date.

Financial assets
Financial assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes and other securities. Purchases and sales of financial assets are recognized using settlement date accounting.

Financial assets are classified in the following four categories:
- Financial assets at fair value through profit or loss;
- • Loans and receivables;
- • Held-to-maturity investments; and
- • Available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. The Board of Management determines the classification of the financial assets at initial recognition and assesses the designation at every reporting date.

Financial assets at fair value through profit or loss
This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the Board of Management. In 2009, the Company identified that marketable securities acquired in 2005 (see note 11) include an embedded derivative. The derivative portion of the securities is classified as financial asset at fair value through profit and loss.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments not quoted in an active market and created by Pharming by providing money, goods or services directly to a debtor, other than:
- Those Pharming intends to sell immediately or in the short term, which are classified as held for trading; and
- Those for which Pharming may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables are carried at amortized cost, or cost if no maturity, less an allowance for uncollectibility. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Held-to-maturity investments
The Company currently holds no held-to-maturity investments.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories (financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables) in the scope of IAS 39 (Financial instruments: recognition and measurement). After initial recognition, available-for-sale financial assets such as the marketable securities in note 11 (but excluding the embedded derivative portion) are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the accumulated gain or loss previously reported in equity included in the statement of income.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arms length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

For the purpose of the statement of cash flows, investments and divestments in marketable securities have been presented as investing cash flows in view of the long-term nature of these items.

Impairment of financial assets
The Company assesses at each end of the reporting period 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. For available-for-sale financial assets, objective evidence of impairment includes a significant or prolonged decline in the fair value of the investment below its cost as well as other facts and circumstances such as the financial position of the asset as per (interim) financial information and credit ratings.

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 know 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.

Financial liabilities and borrowings
Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit and loss (derivative financial liabilities) or financial liabilities at amortized cost (borrowings and trade and other payables). All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process. Purchases and sales of financial liabilities are recognized using settlement date accounting.

For earn-out obligations associated with payment in cash or shares, interest is accrued and expensed in the statement of income based on the Company's discount rate taking into account the estimated remaining lifetime of the earn-out obligation and taking into account the likelihood of paying the earn-out item.

Derivative financial liabilities
Derivative financial liabilities are measured at fair value at each end of the reporting period with changes in the fair value recognized in the statement of income as they arise.

Other current assets and trade and other payables
Other current assets and trade and other payables are carried at amortized cost. If applicable, a provision is charged to the statement of income for other current assets with an expected recoverable amount below the net carrying value.

Derecognizing financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized 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 derecognizing of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Revenue recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company the amount can be reliably estimated and collectability of the benefits is reasonably assured.

Revenues from research and development contracts are recognized upon completion of milestones and/or other criteria such as the stage of completion. License fees and royalty income are recognized on an accruals basis in accordance with the substance of the relevant agreements.

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

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 recognized 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 the life sciences sector generally present governmental grants as income since these often are a significant source of income.

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 apply to overhead expenses and expenses incurred to commercialize products.

Interest expense is recognized as interest accrues, using the effective interest method. For the purpose of the consolidated statement of cash flows, interest expense 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.

Pension plan
For all Dutch employees with an indefinite employment contract and who have reached the age of 25 years, 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
In accordance with IFRS 2 Share-based payment an expense is recognized in the statement of income for options granted to Members of the Board of Management and employees under the respective Option plans (see Note 25 for characteristics of these plans) as well as options granted to consultants. Such an expense is based on the fair value of the option determined on grant date and is subsequently charged to the statement of income in accordance with the vesting schedule of the option. The Company credits share-based payment charges to equity. Share-based payment charges do not affect equity or cash flows in the year of expense or after since all transactions are equity-settled.

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, 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:
1. the exercise price of the option;
2. the expected time to maturity of the option;
3. the current price of the underlying shares;
4. the expected volatility of the share price;
5. the dividends expected on the shares;
6. the risk-free interest rate for the expected time to maturity of the option.

The fair value is determined using the Black-Scholes model, taking into account. 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 the 5 years prior to the date of grant. It is assumed no dividend payments are expected. Market conditions were not included in the fair value measurements.

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 over 48 months: 25% of the options vest one year after date of grant with the remaining 75% vesting in equal parts over the next 36 months. For valuation 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 managers, performance shares are granted free of charge. A maximum number of predetermined shares vest three years after the grant date 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. At reporting date, the costs of this Long Term Incentive Plan are based on the actual participants still in service and assumptions with respect to share price developments, the relative performance within the peer group, the expected departure number of Board Members and managers for the remaining period until vesting date and the estimated possibility of a change of control and the timing thereof.

Other share-based transactions
The Company from time to time issues options or warrants to third parties such as consultants under other agreements. Valuation of these items is similar as described for option plans, applying the same assumptions.

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 fulfillment 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 capitalized 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 lesser effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognized 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 lesser funds assets in use and effectively controlled by the Company. Such constructions qualify as a 'lease incentive', in which case the Company fully capitalizes the contribution of the lesser 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. This release in the statement of income therefore matches increased depreciation charges.

Taxes

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax rates and income tax laws used to compute the amount are those that enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred tax assets and liabilities are recognized 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 period and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled. Deferred tax assets, including assets arising from losses carried forward, are recognized 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 utilized. Deferred tax assets and liabilities are stated at face value.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax
Revenues, expenses and assets are recognized net of the amount of sales tax, except:
- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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 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.

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 that makes the Company's strategic decisions has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

Effect of new 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.

(a) New and amended standards adopted by the Company
The Company has adopted the following new and amended IFRSs as of 1 January 2009:
- IFRS 7 'Financial instruments – Disclosures' (amendment)
- IFRS 8 'Segment information'
- IAS 1 (revised). 'Presentation of financial statements'
- IAS 23 (revised), 'Borrowing costs'
- IFRS 2 (amendment), 'Share-based payment'

IFRS 7 (amendment), IFRS 8 and IAS 1 (revised) only affect presentation and disclosure requirements. IFRS 2 (amendment) does not affect the accounting for the Company's current share based payment plans. IAS 23 (revised) does not affect the Company's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2010 or later periods, but the Company has not early adopted them:

IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).
The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognized in profit or loss. The Company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009).
The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 38 (amendment), 'Intangible Assets'.
The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company's financial statements.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'.
The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Company will apply IFRS 5 (amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.

IAS 1 (amendment), 'Presentation of financial statements'.
The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009).
The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company will apply IFRIC 17 from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.

4. Restatement of prior period error and reclassification of comparative information

Restatement of prior period error

The statement of financial position at December 31, 2008 as presented in the 2009 financial statements has been adjusted to reflect the bank overdrafts of €13,640,000 netted off with cash and cash equivalents. As a result, cash and cash equivalents of €19,610,000 presented in the 2008 financial statements have been increased to €33,250,000 in the comparative statement of financial position and the bank overdrafts have been separately presented under current liabilities.

As required by International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the Company due to this error also restated the opening balance at January 1, 2008 and presented this in the consolidated statement of financial position. These restatements exclusively relate to the amount of cash and cash equivalents, net of restricted cash, in the amount of €50,954,000 as erroneously presented in the 2007 and 2008 financial statements; in the opening balance as per January 1, 2008 this line item has been presented as cash and cash equivalents of €98,023,000 and bank overdrafts in the amount of €47,069,000.

The reclassifications at December 31, 2008 and January 1, 2008 did not have an impact on the consolidated statement of income 2007 and 2008 or on the consolidated statement of consolidated cash flows for the years 2007 and 2008.

Reclassification of comparative information

In 2009 the Company identified that marketable securities acquired in 2005 (see Note 11) included an embedded derivative. In the financial years 2005-2008 the fair value changes of this embedded derivative were charged to the reserve for 'net unrealized gains/(losses)' within equity but should have been charged to the statement of income. The accumulated fair value losses were €2,235,000 at December 31, 2007 and €2,443,000 at December 31, 2008. In view of the immaterial impact (being a €208,000 loss), the comparative statement of income has not been adjusted but the year end 2008 balance of €2,443,000 was reclassified from 'net unrealized gains/(losses)' to 'accumulated deficit', both within equity.

Effectively 2009, the Company classifies depreciation and amortization charges on non-current assets to the main cost categories, being 'research and development' and 'general and administrative'. In the 2008 statement of income, total depreciation and amortization charges amounted to €1,421,000. The comparative statement of income in the 2009 financial statements has been adjusted to reflect the portion of these 2008 expenses related to research and development (€1,228,000) and to general and administrative (€193,000). Accordingly, the presented comparative research and development costs increased from €20,857,000 to €22,085,000 and the comparative general and administrative costs increased from €3,108,000 to €3,301,000.

5. Goodwill

Upon the acquisition of DNage in 2006, an amount of €9,190,000 was recognized as goodwill. This value did not change in 2006 and 2007.

Upon acquisition of DNage in 2006, the Company agreed, as more extensively explained in Note 14, to pay earn-outs to former DNage shareholders. In 2008 the Company deferred the expected achievement date of certain earn-out components and in addition, in view of the credit crunch, assessed the discount rate increased from 20% to 23%. The total effects of the deferred achievement date and the increased discount rate on the net present value of the liabilities, amounting to €1,142,000, have been charged to the original asset on which the earn-out obligations relates, being goodwill. Subsequently, at year end 2008 the Company performed an annual impairment test of the goodwill amount net of the described effects of the adjustments on earn-out obligations, being €8,048,000. In 2009, the achievement date of milestones was further deferred and as a result the net present value of earn-out obligations was decreased by €2,686,000 with a similar decrease of goodwill.

The purpose of the impairment test is to determine the recoverable amount of the underlying assets, being the cash generating unit of DNage. The total carrying amount of goodwill and intangible assets allocated to DNage amounts to €22,033,000. The recoverable amount was based on value in use. This calculation was based on a discounted cash flow methodology. In performing this test, internal projections of the DNage performance for a period of up to twenty years, which period reflects the patent-protected lives of the DNage products, are prepared and benchmarked to market information. In the opinion of Pharming the nature of the DNage business as reflected by the long-term development of products acquired as well as the lifetime of the underlying patents requires the use of projections covering a period for more than the common period of five years. The projections include assumptions about the timing of product launches, market size in terms of patients, market size in terms of revenues, market penetration, partner revenues, gross margin and the applicable discount rate. Given that the DNage activities are still in an early development stage, no past performance information is available and the information is primarily based on expectations of the Board of Management, benchmarked to market information where possible.

Movement for the years 2008 and 2009 was as follows:

Amounts in €'000	**2009**	**2008**
Balance at January 1	6,998	9,190
Adjustments earn-out obligations	(2,686)	(1,142)
Impairment charges	-	(1,050)
Balance at December 31	**4,312**	**6,998**

Net carrying value of the goodwill at year-end 2008 and 2009 consists of:

Amounts in €'000	**2009**	**2008**
Gross carrying value	9,190	9,190
Accumulated adjustments earn-out obligations	(3,828)	(1,142)
Accumulated impairment charges	(1,050)	(1,050)
Net carrying value	**4,312**	**6,998**

Impairment testing methodology and key assumptions

The purpose of the impairment test is to determine the recoverable amount of the underlying assets, being the cash generating unit of DNage, based on value in use. In performing this test, internal projects of the DNage performance for a period of up to twenty years, which period reflects the patent-protected lives of the DNage products, are prepared. In the opinion of Pharming the nature of the DNage business as reflected by the long-term development of products acquired as well as the lifetime of the underlying patents justify the use of projections covering a period for more than the common period of five years.

The valuation is based on based on the Company's most recent business plan applying a discounted future cash flow model. The key assumptions used to determine the recoverable goodwill amount are a pre-tax discount rate of 23.0%, a peak market share of 80% for Prodarsan with a chance to reach the market set at 50% with sales starting at the end of 2012.

Calculations of the recoverable amount show that there is no impairment as the recoverable amount exceeds the carrying value of €4.3 million. The Company believes that any reasonable possible change in the key assumptions would not decrease the recoverable amount to the extent that the related carrying amount would exceed the recoverable amount. Several sensitivity analyses on key assumptions were performed and the outcome indicated that the carrying amount would not exceed the recoverable amount.

6. Intangible assets

Movement of intangible assets per category for the financial years 2008 and 2009 was:

Amounts in €'000	DNage technology	Transgenic technology	Rhucin for HAE (EU)	ProBio technology	Total
At cost	16,770	2,476	-	2,816	22,062
Accumulated amortization charges	-	(1,622)	-	(800)	(2,422)
Accumulated impairment charges	-	-	-	(659)	(659)
Net book value at January 1, 2008	16,770	854	-	1,357	18,981
Investments at cost	-	525	-	-	525
Amortization charges	-	(298)	-	(194)	(492)
Impairment charges	-	-	-	(963)	(963)
Movement 2008	-	227	-	(1,157)	(930)
At cost	16,770	3,001	-	2,816	22,587
Accumulated amortization charges	-	(1,920)	-	(994)	(2,914)
Accumulated impairment charges	-	-	-	(1,622)	(1,622)
Net book value at December 31, 2008	16,770	1,081	-	200	18,051
Capitalization development at cost	-	-	48	-	48
Amortization charges	-	(314)	-	(33)	(347)
Impairment charges	-	-	-	(167)	(167)
Movement 2009	-	(314)	48	(200)	(466)
At cost	16,770	3,001	48	2,816	22,635
Accumulated amortization charges	-	(2,234)	-	(1,027)	(3,261)
Accumulated impairment charges	-	-	-	(1,789)	(1,789)
Net book value at December 31, 2009	**16,770**	**767**	**48**	**-**	**17,585**

In 2008, €175,000 was paid to Advanced Cell Technology Inc for transgenic technology patents and €350,000 to GTC Biotherapeutics Inc for an exclusive sublicense obtained to acquire key patents and technology on recombinant fibrinogen.

Until the end of 2009 the Company impaired a total amount of €1,789,000 for ProBio, of which €659,000 prior to 2008. In 2008, the Board of Management concluded that the commercial potential of ProBio had been further limited in view of the credit crunch and accordingly a €963,000 impairment charge was recognized; as a result of this, the amortization base of ProBio intangible assets decreased to €200,000 at the beginning of 2009 and total ProBio amortization charges decreased from €194,000 in 2008 to €33,000 in 2009. At year end 2009, the remaining carrying value of €167,000 was fully written off following an updated assessment of the commercial value.

In accordance with IAS 38.97, amortization of intangible assets with a finite useful life begins when the asset involved is available for use. For product lines this is the moment of market launch of the product involved. An amount of €16,770,000 relates to the intangible assets identified in the 2006 DNage acquisition, representing the fair value of product lines acquired. Since no market launch of the product lines has taken place yet, no amortization charges were incurred.

Effectively year end 2009 the Company has capitalized development costs in the amount of €48,000 in relation to Rhucin for HAE in the European Union.

Reference is made to Note 5 for a disclosure of the impairment test related to the assets of DNage.

7. Property, plant and equipment

Movement of property, plant and equipment for the financial years 2008 and 2009 is:

Amounts in €'000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Other	Total
At cost	849	5,620	2,517	1,019	1,515	11,520
Accumulated:						
Depreciation charges	(59)	(2,176)	(288)	(265)	(513)	(3,301)
Exchange rate effect	(224)	(871)	-	-	(26)	(1,121)
Net book value at January 1, 2008	**566**	**2,573**	**2,229**	**754**	**976**	**7,098**
Investments	-	108	-	-	181	289
Depreciation charges	(6)	(310)	(262)	(29)	(322)	(929)
Impairment charges	-	-	-	(680)	-	(680)
Exchange rate adjustment	28	87	-	-	3	118
Movement 2008	22	(115)	(262)	(709)	(138)	(1,202)
At cost	849	5,708	2,517	1,019	1,697	11,790
Accumulated:						
Depreciation charges	(64)	(2,466)	(550)	(294)	(835)	(4,209)
Impairment charges	-	-	-	(680)	-	(680)
Exchange rate effect	(197)	(784)	-	-	(24)	(1,005)
Net book value at December 31, 2008	**588**	**2,458**	**1,967**	**45**	**838**	**5,896**
Investments	-	187	7	-	115	309
Depreciation charges	(6)	(321)	(263)	(10)	(306)	(906)
Exchange rate adjustment	(15)	(42)	-	-	(3)	(60)
Movement 2009	(21)	(176)	(256)	(10)	(194)	(657)
At cost	849	5,895	2,524	1,019	1,589	11,876
Accumulated:						
Depreciation charges	(70)	(2,787)	(813)	(304)	(919)	(4,893)
Impairment charges	-	-	-	(680)	-	(680)
Exchange rate effect	(212)	(825)	-	-	(26)	(1,063)
Net book value at December 31, 2009	**567**	**2,283**	**1,711**	**35**	**644**	**5,240**

Land, land improvements and operational facilities relate to the cattle and rabbit farm facilities, which are both fully owned by Pharming. The leasehold improvements relate to office and laboratory investments in the Company's leased headquarters.

Manufacturing equipment is dedicated to the purification of rhC1INH with depreciation charges based on actual purification cycles. In 2008, among others following the negative EMA opinion on Rhucin, the Company decreased production levels. Since the manufacturing equipment had a remaining technical lifetime ending in 2010, the carrying value at December 31, 2008 was brought in line with the number of expected purification cycles in 2009 and 2010. The €680,000 difference between the prior carrying value was recognized as an impairment loss in the 2008 statement of income.

Investments in 2008 were fully paid in the financial year; of the 2009 investments of €309,000, items valued at €5,000 were unpaid at year end 2009 an accordingly €304,000 has been presented as an investment cash flow in the statement of cash flows.

8. Net cash position and analysis of cash flows

The overall net cash position at year-end 2008 and 2009 was as follows:

Amounts in €'000	2009	2008
Non-current restricted cash	176	176
Cash and cash equivalents	15,923	33,250
Bank overdrafts	(13,761)	(13,640)
Balance at December 31	**2,338**	**19,786**
Balance at January 1	19,786	61,310
Net decrease for the year	**(17,448)**	**(41,524)**

The balance of non-current restricted cash at year-end 2008 and 2009 relates to banker's guarantees issued with respect to lease commitments of the Company's headquarters, maturing after 2010.

The main cash flow statement items for the years 2008 and 2009 can be summarized as follows:

Amounts in €'000	2009	2008
Net cash flows used in operating activities	(24,284)	(21,906)
Net cash flows from/(used in) investing activities	4,202	(814)
Net cash flows from/(used in) financing activities	2,472	(18,810)
Exchange rate effects on cash and cash equivalents	162	6
Net decrease cash and cash equivalents	**(17,448)**	**(41,524)**

Pharming's net cash flows used in operating activities decreased from €21.9 million in 2008 to €24.3 million in 2009; the €2.4 million decrease primarily reflects a €1.7 million lower interest income in connection with decreased cash balances. Investing activities were largely affected by the 2009 divestment of marketable securities for a cash amount of €4.5 million compared to €0.5 million paid in 2008 for acquisition of intangible assets; excluding these one-time items, investment cash flows used remained constants at €0.3 million. The 2008 cash flows used in financing activities were largely caused by a final payment of €10.1 million to Paul Royalty Fund as agreed in 2007. In addition, the Company in 2009 generated €9.2 million in cash through the issuance of shares to investors compared to no equity transactions in 2008. Also, Pharming paid a total cash amount of €6.7 million to bondholders in 2009 compared to €8.6 million in 2008 with the €1.9 million decrease explained by lower interest payments of €2.9 million offset by €1.0 million increase of funds used to repurchase bonds (increase from €3.8 million in 2008 to €4.8 million in 2009).

9. Inventories

Inventories include batches rhC1INH and skimmed milk available for production of rhC1INH.

The composition of inventories at year-end 2008 and 2009 was:

Amounts in €'000	2009	2008
Batches rhC1INH	11,255	10,895
Skimmed milk	-	76
Balance at December 31	**11,255**	**10,971**

Batches rhC1INH are comprised of therapeutic product available for multiple purposes, including preclinical activities, clinical development and sales.

In 2009, the Company charged about €0.9 million (2008: €1.1 million) of rhC1INH inventories to research and development costs. Based on expected use of batches rhC1INH in future commercial, preclinical and clinical development and the approaching expiration dates of these inventories, finished product with a carrying value of €1,254,000 respectively €35,000 were written down to the statement of income 2008 respectively 2009 and recognized as an impairment charge. The major portion of inventories has expiration dates starting in the end of 2012; other inventories primarily have expiration dates in 2010 but are expected to be used before expiration.

10. Other current assets

The composition of other current assets at December 31, 2008 and 2009 was:

Amounts in €'000	2009	2008
Prepaid expenses	736	717
Value added tax	143	266
Accrued interest	63	182
Other receivables	450	481
Balance at December 31	**1,392**	**1,646**

The other current assets are, with the exception of the SEDA prepaid expense as described below, substantially short-term in nature (e.g. settled in 2010) with no indication of impairment at the end of the reporting period. Prepaid expenses at December 31, 2009 include an amount of €468,000 in relation to 1,200,000 shares issued to Yorkville Advisors at €0.50 per share or €600,000 in total (also see Note 12). The €600,000 is amortized proportionally over actual investments made by Yorkville Advisors out of the total €30.0 million maximum SEDA value. At year end 2009, the total investment amounted to €6.6 million so that €132,000 has been charged to the statement of income of 2009 (see Note 24). The Company expects it can and will utilize the remaining SEDA value of €23.4 million at the end of the reporting period and accordingly has maintained the €468,000 balance in the statement of financial position. The actual amortization of this €468,000 over the years 2010-2012 ultimately depends on the timing of the Company's future calls under the SEDA.

11. Marketable securities

Marketable securities relate to a €6.0 million investment in public loans issued in June 2005 by a financial institution. In 2009, the Company identified that the interest component of these marketable securities qualifies as an embedded derivative since interest would become variable in 2011 after carrying a fixed 6% interest over the first five years. Accordingly, the derivative portion of the securities should have been accounted for as a financial asset at fair value through profit and loss whereas in 2005-2008 fair value results were directly charged to shareholders' equity. Due to the limited effect on the comparative statement of income for 2008 (being €208,000), no adjustments were made to the comparative financial statements but instead the accumulated fair value changes at December 31, 2008 of €2,443,000 were reclassified from the unrealized result to accumulated deficit in 2009.

Pharming sold the entire investment in the fourth quarter of 2009 and accordingly accrued interest decreased from €360,000 in 2008 to €333,000 in 2009.

Movement of marketable securities for the financial years 2008 and 2009 was:

Amounts in €'000	2009	2008
Nominal value at January 1	6,000	6,000
Accumulated fair value result embedded derivative at January 1	(2,252)	(2,044)
Net carrying value at January 1	**3,748**	**3,956**
Accrued interest	333	360
Interest received	(360)	(360)
Fair value result embedded derivative	785	(208)
Divestment	(4,506)	-
Balance at December 31	**-**	**3,748**

12. Equity

The Company's authorized share capital amounts to €100.0 million and is divided into 200,000,000 ordinary shares with a nominal value of €0.50 each. All 154,501,037 shares outstanding at December 31, 2009 have been fully paid-up.

This note further describes the background of the main equity movements in 2008 and 2009.

Fair value adjustment available-for-sale financial assets

Net unrealized gains and losses relate to the fair value adjustments on the Company's available-for-sale financial assets, being the investment in MucoVax Holding BV and marketable securities (see Note 11). The investment in MucoVax Holding BV was fully impaired in 2008; as more extensively explained in Note 4, the accumulated fair value result of the marketable securities at December 31, 2008 was reclassified to accumulated deficit in 2009.

For 2008 and 2009 movements were:

Amounts in €'000	MucoVax Holding BV	Marketable securities	Total
Balance at January 1, 2008	(35)	(2,235)	(2,270)
Impairment charges	35	-	35
Fair value adjustment	-	(208)	(208)
Balance at December 31, 2008	**-**	**(2,443)**	**(2,443)**
Reclassification fair value results	-	2,443	2,443
Balance at December 31, 2009	**-**	**-**	**-**

Foreign currency effects

These results reflect the effect of translating US operations since their functional currency is different from the reporting currency.

Net loss after tax 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 supervisory board, 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 2009 of €31,805,000 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 from €227,565,000 at December 31, 2008 to €261,813,000 at year-end 2009, including the €2,443,000 effect of reclassified fair value results as disclosed in Note 4.

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 2008 and 2009 these transactions were valued at €563,000 respectively €647,000 (see Note 25); in addition, an amount of €245,000 was charged in 2009 in relation to 2,450,000 warrants issued in order to facilitate bond conversions (see Note 13).

Reclassification derivative

As per the original terms and conditions of the convertible bonds issued in 2007, the conversion price on April 30, 2008 was fixed at €2.64. The effect of this was that the fair value of the derivative as per April 30, 2008 in the amount of €3,370,000 had to be reclassified from non-current liabilities to equity. The classification and fair value of this item does not change in subsequent periods except for bond settlements prior to maturity in which the purchase of the bonds is (partially) allocated to the debt portion.

Issuance of shares for cash

In April 2009, the Company entered into a Standby Equity Distribution Agreement ('SEDA') with YA Global under which YA Global can invest a total of up to €20.0 million in a three year period, in return for which Pharming issues a number of shares based on the lowest volume weighted average price over a five day period minus a 5% discount. Upon closing of the SEDA, Pharming issued and transferred 800,000 Commitment Shares to YA Global valued at €0.50 per share. In October 2009, the SEDA was extended with a further €10.0 million and Pharming issued and transferred an additional 400,000 Commitment Shares valued at €0.50 per share to YA Global. In 2009, Pharming called a total amount of €6,600,000. In return, Pharming issued a total number of 11,871,669 shares to YA Global with a total fair value of €7,122,000. The €522,000 overall result of the transactions is based on the difference between the fair value of the shares issued and the cash received in the amount of €6,600,000 and has been recognized in Financial expenses (see Note 24). The total value of Commitment Shares in the amount of €600,000 has been capitalized. This amount is amortized in the statement of income in accordance with the nominal amount settled relative to the maximum investment of €30.0 million. At December 31, 2009, the total amortization charge amounted to €132,000 and has been recognized in Financial expenses (see Note 24).

In addition to the SEDA, Pharming in 2009 issued a total of 5,087,212 shares to various investors for a total cash consideration of €2,630,000.

Bonds converted

As disclosed in Note 13, the Company in 2008 issued 6,193,181 shares in relation to bonds converted with a total nominal value of €20,150,000. Of this nominal amount, €1,150,000 was fully converted at €2.64 per share into 435,606 shares. For a nominal amount of €19,000,000 settlement took place through converting 80% or €15,200,000 into 5,757,575 shares at €2.64 per share; the remaining 20% or €3,800,000 was paid in cash. In addition to these transactions, total accrued nominal interest of €31,000 was paid. The full conversion into 435,606 shares was based on the original terms and conditions of the bonds so that accordingly the reduction of the €804,000 net carrying value of the liability for these bonds was fully charged to equity without any amount recognized in the statement of income. This resulted in an increase of share capital of €217,000 with the remaining €587,000 charged to share premium. The actual fair value of the 435,606 shares upon transfer amounted to €340,000. The transactions partially in cash and partially in shares have, as permitted under the terms and conditions of the bonds, been separately negotiated with individual bondholders. The 5,757,575 shares issued have been charged to equity at their fair values (market price) upon transfer of €0.70 or a total value of €4,029,000, of which €2,879,000 to share capital and the remaining €1,150,000 to share premium. In addition, the €915,000 pro rata share of these bonds in the fair value of the derivative at April 30, 2008 of €3,370,000 (based on €70.0 million nominal bonds) was released to the statement of income.

In the first half of 2009, the Company entered into individual negotiations with bondholders under which bonds with a total nominal value of €14,050,000 were cancelled in exchange of a total of 9,530,302 shares with a fair value of €7,074,000 and €1,023,000 in cash (including €13,000 interest). In the second half of 2009, Pharming made a public offer to the remaining bondholders to exchange each €50,000 nominal bonds for €7,500 in cash and 59,000 shares. Nominal bonds offered in the deal of €24,900,000 were paid off in cash (€3,735,000) and through issuance of 29,382,000 shares valued at €0.505 per share or €14,838,000 in total. The €3,074,000 difference between the total consideration of €26,670,000 (€4,758,000 in cash and €21,912,000 in shares) and the net carrying value of these bonds, being €29,744,000, has been released to the statement of income and recognized in Financial income; net of a fair value amount of €245,000 charged in relation to 2,450,000 warrants issued in order to facilitate the conversions, the net profit on the conversion of bonds in 2009 amounted to €2,829,000. In addition, for bond settlements early 2009 the Company recognized a €243,000 gain on the fair value portion of the derivative as recognized in equity in 2008 since these specific transactions were assumed to relate to the debt portion.

13. Convertible bonds

Effectively October 31, 2007, Pharming issued convertible bonds for a gross amount of €70.0 million. Nominal interest due is 6.875% per year, paid semi-annually on April 30 and October 31, until the maturity date of October 31, 2012. Exclusive of total transaction fees and expenses of €2,988,000, the Company received a net amount in cash of €67,012,000.

Developments 2008

In accordance with the original terms and conditions of the bonds, at April 30, 2008 the conversion price became fixed at the minimum of €2.64 as a result of Pharming's average share price 15 days prior to this date. Until October 31, 2008, the €70.0 million nominal value was unchanged and the Company paid nominal interest of €2,406,250 on both April 30 and October 31 or a total of €4,812,500. Between October 31 and December 31, one bondholder converted bonds with a nominal value of €1,150,000 into 435,606 shares at the conversion price of €2.64 (plus €3,000 accrued interest paid) and other bonds with a nominal value of €19,000,000 were repurchased and cancelled for a cash consideration of €3,800,000 (plus €29,000 accrued interest paid) and a conversion of the remaining €15,200,000 into 5,757,575 shares at the conversion price of €2.64. Altogether, the Company brought down €20,150,000 nominal bonds for a total cash consideration of €3,800,000 (plus €32,000 interest) and issuance of 6,193,181 shares.

Developments 2009

In the first half year of 2009 the Company entered into individual negotiations with bondholders under which bonds with a total nominal value of €14,050,000 were cancelled in exchange of a total of 9,530,302 shares with a fair value of €7,074,000 and €1,023,000 in cash (including €13,000 interest). The €2,185,000 difference between the total consideration of €8,097,000 and the net carrying value of these bonds, being €10,282,000, has been released to the statement of income and recognized in Financial income. In addition, for certain bond settlements the Company recognized a €243,000 gain on the fair value portion of the derivative as recognized in equity in 2008.

In the third quarter of 2009, Pharming launched an offer on the remaining €35.8 million outstanding bonds, which offer entailed payment of 15% in cash and issuance of 59,000 shares for each €50,000 nominal bond outstanding. Bondholders representing €24.9 million nominal bonds accepted the offer in the fourth quarter of 2009, ultimately resulting in payment of €3,735,000 in cash and issuance of 29,382,000 shares valued at €0.505 per share or €14,838,000 in total.

Regular semi-annual interest payments for 2009 were €1,540,000 on April 30 and €375,000 on October 31. Nominal bonds outstanding at December 31, 2009 were €10,900,000. In view of the fact that these bondholders are entitled to have the bonds redeemed at October 31, 2010, the full carrying value at the end of the reporting period has been classified as current.

Accounting treatment

The terms and conditions of the bonds included the following paragraph: 'The initial conversion price is €4.40 per Share. The conversion price will be adjusted in several cases, including in the event that:

- the average price of the Shares in the 15 trading days before and including April 30, 2008 is €3.59 or lower. In that case, the conversion price shall be the average price of the Shares at that time multiplied by 1.23;
- the average price of the Shares in the 15 trading days before and including October 31, 2008 is less than the then-prevailing conversion price. In that case, the conversion price shall be reduced to the average price of the Shares at that time. In each case, the conversion price shall not be reduced below €2.64.'

In view of this conversion price reset mechanism, the ultimate number of shares to be issued upon any conversion upon initial recognition was variable and accordingly the convertible bonds included a derivative portion which should be measured at its fair value with subsequent changes in fair value recognized in the statement of income. The fair values of the derivative were:

- €21,708,000 at October 31, 2007;
- €7,403,000 at December 31, 2007;
- €3,370,000 at April 30, 2008.

At April 30, 2008, the conversion price became fixed at €2.64 and accordingly the balance of the derivative was reclassified to equity.

The movement of the interest-bearing part of the convertible bonds in 2008 and 2009 is as follows:

Amounts in €'000	2009	2008
Total balance at January 1	35,693	46,612
Effective interest accrued	5,427	8,161
Shares issued upon conversion bonds	(21,912)	(4,832)
Payments of nominal interest convertible bonds	(1,928)	(4,844)
Repayments convertible bonds	(4,745)	(3,800)
Transaction result bonds converted	(3,074)	(5,604)
Total balance at December 31	**9,461**	**35,693**
Current balance	(9,461)	(571)
Non-current balance interest-bearing part at December 31	**-**	**35,122**

The fair value and classification of the derivative portion in 2008 was:

Amounts in €'000	2008
Total balance at January 1	7,403
Fair value adjustment through statement of income	(4,033)
Reclassification to equity	(3,370)
Non-current balance derivative at December 31	**-**

14. Earn-out obligations

Upon acquisition of DNage in 2006, the Company agreed to pay the following earn-outs to former DNage shareholders:

- two separate €5.0 million milestones subject to achievement of certain milestones relevant for clinical development. Pharming at its sole discretion may decide to pay the milestones in Pharming shares at a price per share valued on the basis of the average closing price of the Pharming shares on twenty business days prior to achievement of the milestone;
- earn-out payments based on milestone payments, upfront fees, license fees and royalties received by Pharming in respect of a DNage compound during a period of ten years from the starting date of the commercial sale of a DNage product launched before November 21, 2016, the net sales of each commercial sale of a DNage product;
- certain earn-out payments in case of a commercial sale of a product combined of a DNage and a Pharming product.

The Company as per the 2006 acquisition date determined the discounted value of the earn-outs to be €5,575,000, taking into account the probability of paying any amounts to former DNage shareholders, the nominal amount to be paid and the timing thereof. This discounted value was fully charged to goodwill. Subsequent to initial measurement, the Company expensed non-cash interest based on the discount rate of 20%. In 2008 the Company deferred the expected achievement date of certain earn-out components; in addition the Company, in view of the credit crunch, assessed the discount rate increased from 20% to 23%. The 23% discount rate was maintained in 2009 but further deferrals of expected achievement dates were recognized. The effects of the deferred achievement dates and the increased discount rate have been charged to the original asset to which the earn-out obligations relate, being goodwill.

Movement of the earn-out obligations for 2008 and 2009 was:

Amounts in €'000	**2009**	**2008**
Total balance at January 1	7,152	6,949
Interest accrued	1,530	1,345
Goodwill adjustments	(2,686)	(1,142)
Total balance at December 31	**5,996**	**7,152**
Current balance	(4,208)	(4,508)
Non-current balance at December 31	**1,788**	**2,644**

15. Deferred tax

The net deferred tax liability at year end 2008 comprised a liability amount of €4,276,000 in relation to intangible assets recognized upon the acquisition of DNage in 2006 minus a €336,000 deferred tax asset. No value adjustments for these items have been recognized in 2008. In 2009, the Company has assessed the income tax position of DNage in relation to the fiscal unity with Pharming Group NV and concluded that future tax benefits are highly unlikely to occur. Accordingly, the €336,000 tax asset has been fully written down in 2009. The remaining net liability of €4,276,000 is expected to be settled more than 12 months after the end of the reporting period.

Income taxes for the years 2008 and 2009 were as follows:

Amounts in €'000	**2009**	**2008**
Current income taxes	-	-
Write-off deferred tax asset	(336)	-
Income taxes	**(336)**	**-**

Both in 2008 and 2009 no income tax items with a direct impact on equity or comprehensive income have been recognized.

The movement of deferred tax assets and deferred tax liabilities for the years 2008-2009 is as follows:

Amounts in €'000	**Deferred tax liability**	**Deferred tax asset**	**Net deferred tax liability**
Balance at January 1, 2008 and 2009	4,276	(336)	3,940
Write-off deferred tax asset (2009)	-	336	336
Balance at December 31, 2009	4,276	-	4,276

The tax position of the Dutch fiscal unity can be summarized as follows:

	€million	**Offsettable up to and inclusive**
Taxable losses up to and inclusive 2002	100,2	2011
Taxable losses 2003	24,0	2012
Taxable losses 2004	15,8	2013
Taxable losses 2005	15,0	2014
Taxable losses 2006	16,7	2015
Taxable losses 2007	35,7	2016
Taxable losses 2008	29,6	2017
Total taxable losses filed	237,0	

The tax position has been approved up to and inclusive the fiscal year 2006 (accumulated losses of €171.7 million); tax filings for the fiscal year 2007 and 2008 have been submitted but are subject to approval of the Dutch tax authorities. The tax filing for 2009 has not been submitted as per the date of these financial statements and therefore have not been included in the above table; however, no major differences are anticipated between the €31.8 million net loss for the year included in these financial statements and the tax filing so that the accumulated taxable losses of the Dutch fiscal unity at year end 2009 are estimated to be approximately €268.8 million.

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 realized in the near term. Accordingly, the Company did not record a deferred tax asset.

16. Other non-current liabilities

Other non-current liabilities are comprised of:

Amounts in €'000	2009	2008
Lease incentives	159	188
Financial lease	77	119
Balance at December 31	**236**	**307**

On July 1, 2006, the Company's ten year lease agreement for the new headquarters came into effect. As a part of the agreement the lesser invested €200,000 in leasehold improvements. Effectively January 1, 2007, a similar transaction took place in which another €85,000 was invested. The investments qualify as a lease incentive which implies that, for accounting purposes, the €285,000 investment as paid by third parties is capitalized under leasehold improvements in property, plant and equipment with a corresponding amount of €285,000 recognized as a lease incentive. The investment is fully depreciated on a straight-line basis during the remaining term of the lease agreement with a maximum of ten years; the accrued lease incentive is released in the statement of income in the same period to match the depreciation charges resulting from the investment capitalized.

Movement of the lease incentives for 2008 and 2009 was:

Amounts in €'000	2009	2008
Total balance at January 1	217	246
Released to statement of income	(29)	(29)
Total balance at December 31	**188**	**217**
Current portion at December 31 (Note 18)	(29)	(29)
Non-current at December 31	**159**	**188**

A financial lease agreement was entered into in September 2007, in relation to certain laboratory equipment. The contract has 60 monthly installments of €4,000 in which a total amount of €243,000 is repaid, consisting of €206,000 repayment of the investment and interest of €37,000. After this period, Pharming can buy the equipment for €2,000. At year end 2009, the net carrying amount of the asset involved as leased was €110,000 (2008: €151,000).

Movement and composition of the financial lease obligations for 2008 and 2009 was:

Amounts in €'000	2009	2008
Total balance at January	158	195
Interest expense accrued	10	12
Repayments	(49)	(49)
Total balance at December 31	**119**	**158**
Current portion at December 31 (Note 20)	(42)	(39)
Non-current at December 31	**77**	**119**

17. Trade and other payables

Trade and other payables at year-end 2008 and 2009 consist of:

Amounts in €'000	2009	2008
Accounts payable	5,098	2,496
Taxes and social security	120	130
Deferred compensation due to related parties	16	70
Other payables	3,535	4,669
Balance at December 31	**8,769**	**7,365**

The amount of deferred compensation due to related parties relates to Members of the Supervisory Board and Board of Management.

18. Current portion of non-current liabilities

The composition of the current portion of non-current liabilities at year-end 2008 and 2009 is as follows:

Amounts in €'000	2009	2008
Loan State of Wisconsin	-	38
Lease installments	42	39
Lease incentives	29	29
Balance at December 31	**71**	**106**

Background and movements of the lease installments and lease incentives have been provided in Note 16. Together with the final installments of a loan of the State of Wisconsin paid in 2009 for an aggregate cash amount of €36,000, aggregate repayment of financial liabilities in 2009 amounted to €85,000.

19. Income

Income for the financial years 2008 and 2009 can be split as follows:

Amounts in €'000	2009	2008
Grants	761	629
License fees	335	-
Other	-	35
	1,096	**664**

Grant income in 2009 increased in view of higher costs incurred eligible for grants. Income from license fees in 2009 relates to several installments on existing and new contracts with respect to products and use of the Company's technology.

20. Costs

Costs of research and development increased from €22.1 million in 2008 to €24.5 million in 2009, reflecting Pharming's submission of a Marketing Authorization Application (EU) for Rhucin in September 2009. At the same time, the Company has intensified the Rhucin development program in North America and the preparation of clinical trials of Prodarsan. Pharming's general and administrative costs increased from €3.3 million to €3.6 million, which largely reflects costs incurred with respect to the public offer to the bondholders as described in Note 13 and including the issuance of a prospectus.

This Note further discusses items included in Research and development costs and/or General and administrative costs.

Employee benefits for the financial years 2008 and 2009 comprised:

Amounts in €'000	**2009**	**2008**
Salaries	6,066	5,261
Social security costs	577	536
Pension costs	259	251
	6,902	**6,048**

Salaries include holiday allowances and, if applicable, cash bonuses and severance payments.

The number of employees for 2008 and 2009 per functional category was as follows (at weighted average full time equivalent factor):

	2009	**2008**
Research and development	72	63
General and administrative	14	14
	86	**77**

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

Inventories

In 2009, the Company expensed an amount of €0.9 million for batches of rhC1INH (2008: €1.1 million) in research and development expenses, exclusive of inventory impairment charges.

Depreciation and amortization charges

The following table shows the composition of depreciation and amortization charges:

Amounts in €'000	**2009**	**2008**
Property, plant and equipment	906	929
Intangible assets	347	492
	1,253	**1,421**

Amortization charges of intangible assets have been fully allocated to research and development costs in the statement of income; for property, plant and equipment, in 2009 an amount of €715,000 was charged to research and development costs (2008: €736,000) with the remaining €191,000 to general and administrative expenses (2008: €193,000).

Operating lease charges

For the year 2009, the Company charged approximately €0.8 million (2008: €0.8 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars. These non-cancellable leases have remaining terms of between one to five 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 period have been disclosed in Note 32.

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.

Auditor fees

Effectively 2009 PricewaterhouseCoopers Accountants NV succeeded Ernst & Young Accountants LLP as the Company's auditor.

Fees of PricewaterhouseCoopers Accountants NV incurred in relation to 2009 audit services were €94,000 with other services and audit-related services amounting to €123,000 (including prospectus). Altogether, fees incurred for services of PricewaterhouseCoopers Accountants NV were €217,000 in 2009. These expenses were charged to General and administrative expenses.

21. Impairment charges

The 2008 and 2009 impairment charges relate to:

Amounts in €'000	**2009**	**2008**
Inventories	35	1,254
Goodwill	-	1,050
Intangible assets	167	963
Property, plant and equipment	-	680
Available-for-sale financial assets	-	235
	202	**4,182**

Impairment charges on inventories follow from the Board of Management's assessment of the use of batches rhC1INH in future commercial, preclinical and clinical development. For certain batches such use is expected to be beyond the expiration dates so that their carrying value was fully written down for €1,254,000 in 2008 and €35,000 in 2009.

The 2008 goodwill impairment charge reflects the outcome of the annual impairment test to determine the recoverable amount of the underlying assets, being the cash generating unit of DNage, based on value in use. Reference is made to Note 5.

Impairment of intangible assets in both 2008 and 2009 relate to the ProBio assets. Reference is made to Note 6.

The impairment charges on property, plant and equipment relate to manufacturing equipment fully dedicated to the purification of rhC1INH. Reference is made to Note 7.

At year end 2007, the Company carried non-current (available-for-sale) financial assets of €200,000 for MucoVax. The €35,000 surplus of the total €235,000 investment over this fair value was considered as a temporary loss and recognized within equity under Net unrealized gains/ (losses). In December 2008, all managing and supervisory board members of MucoVax resigned following an unsuccessful refinancing and a MucoVax shareholder did not follow up on a financing guarantee earlier given. The Board of Management of Pharming subsequently reviewed options to recover the investment but concluded that, due to among others the legal complexity of the MucoVax case, it was highly unlikely that any future proceeds may be flowing into the Company. Accordingly it was decided to write down the entire €235,000 investment, of which €200,000 was processed through financial assets and the remaining €35,000 through a release from Net unrealized gains/(losses) in equity. Based on the status of MucoVax as per December 31, 2009, it has been decided to maintain a book value of €nil.

22. Other interest income, net

The composition of other net interest income in 2008 and 2009 was as follows:

Amounts in €'000	2009	2008
Interest income cash and cash equivalents	106	1,676
Interest income marketable securities	333	360
Interest expense financial lease	(10)	(12)
Interest expense loan State of Wisconsin	(3)	(2)
	426	**2,022**

23. 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 €195,000 in 2008 and €125,000 in 2009 included net profits of €6,000 respectively €162,000 in relation to revaluation of bank balances.

24. Other financial expenses

The composition of other financial expenses in 2008 and 2009 was as follows:

Amounts in €'000	2009	2008
Success fees	673	-
SEDA transaction result	522	-
Amortization Commitment Shares	132	-
	1,327	**-**

Success fees relate to expenses in relation to the public offer to bondholders in the fourth quarter of 2009. As described in Note 12, the SEDA transaction result relates to differences between the €7, 122,000 fair values of shares issued to YA Global and the €6,600,000 received in cash. In addition, the €132,000 amortization expense of Commitment Shares follows from shares issued to YA Global valued at €600,000; the value has been capitalized as a prepaid expense and is amortizated in accordance with the nominal amount settled relative to the maximum investment of €30.0 million.

25. 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'). In addition, option arrangements have been made with individual consultants. All these plans or arrangements are equity settled. The total expense recognized in 2009 for share based payment plans amounts to €647,000 (2008: €563,000).

Long Term Incentive Plan

At the AGM of April 16, 2008 a Long Term Incentive Plan was approved with an effective date of January 1, 2008. Under the LTIP, restricted shares are granted conditionally each year with shares vesting based on the performance of Pharming compared to a peer group of 40 other European biotech companies.

The reference group for the 2008 and 2009 program consists of the following companies:

Morphosys (DE)	Oncomethylome (BE)	AMT (NL)	Biotie Therapeutics (FI)
Addex (CH)	Oxford Instruments (UK)	GPC Biotech (DE)	Lifecycle Pharma (DK)
Prostrakan (UK)	Exonhit (FR)	Ark Therapeutics (UK/FI)	Newron (IT)
Medivir (SE)	Santhera (CH)	Hybrigenics (FR)	Octoplus (NL)
Transgene (FR)	Vernalis (UK)	Cytos (CH)	BioXell (IT)
Cellectis (DE)	Galapagos (BE)	Photocure (NO)	Devgen (BE)
Medigene (DE)	Ti-Genix (BE)	Innate Pharma (FR)	Oxford Biomedica (UK)
Thrombogenics (BE)	Biovitrum (SE)	Wilex (DE)	Renovo (UK)
Basilea (CH)	Neurosearch (DK)	Evotec (DE)	Alizyme (UK)
Ablynx (BE)	Bavarian Nordic (DK)	GW Pharma (UK)	Arpida (CH)

The vesting schedule will be as follows:
- ranking in the top 5% of the index: 100%
- ranking in the top 5-10 % of the index: 80% of maximum
- ranking in the top 10-20% of the index: 60% of maximum
- ranking in the top 20-30% of the index: 50% of maximum
- ranking in the top 30-50% of the index: 20% of maximum

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

An overview of the maximum number of shares granted in 2008 and 2009 and the number of shares forfeited under the LTIP regulations as per December 31, 2009 is as follows:

	Granted 2008	Granted 2009	Forfeited 2008-2009	Reserved December 31, 2009
Supervisory Board	60,000	60,000	(15,000)	105,000
Board of Management	180,000	225,000	-	405,000
Scientific Advisory Board	30,000	37,500	-	67,500
Senior Managers	225,000	390,000	(170,000)	445,000
Total	**495,000**	**712,500**	**(185,000)**	**1,022,500**

The fair value per share of the 2008 LTIP shares was €0.33 per share and the fair value per share of the 2009 LTIP shares is €0.19 per share. The Company expensed amounts of €73,000 in 2008 and €50,000 in 2009, net of forfeited rights.

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 Supervisory Board 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.

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.

On April 15, 2009 the AGM approved to reserve 1,000,000 conditional stock options with an exercise price of €0.50 to the Board of Management. Vesting of the conditional stock options per individual Member of the Board of Management was based on the requirement to be in service at November 1, 2009; since all Members met this criterium, the options fully vested in 2009. The fair value per option of €0.25 resulted in a total expense for 2009 of €250,000. In 2008, a total of 875,001 options for the Board of Management vested with an associated expense of €373,000.

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.

Consultancy options

In certain consultancy contracts it is agreed to compensate a consultant through granting of options. The terms and conditions of these options, including vesting conditions, are either based on pre-defined targets or are based on an agreed period of service.

An overview of activity in the number of options for the years 2008 and 2009 is as follows:

	2009		2008	
	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)
Balance at January 1	4,451,474	1.95	3,203,786	2.54
Granted under Board of Management Option plan	1,000,000	0.50	875,001	0.69
Granted under employee Option plan	1,169,700	0.52	581,390	0.92
Granted to consultants	15,000	0.50	20,000	2.78
Exercised	-	-	(1,495)	0.78
Expired	(1,379,398)	1.67	(20,406)	1.35
Forfeited	(84,385)	0.84	(206,802)	2.97
Balance at December 31	5,172,391	1.44	4,451,474	1.95

The weighted average share price for the 1,495 options exercised at €0.78 in 2008 was €0.90; no options were exercised in 2009. All options outstanding at December 31, 2009 are exercisable; 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 December 31, 2009 is 3.24 years with exercise prices ranging from €0.50 - €4.65.

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

	2009	2008
Expected time to maturity (employees)	2.5 years	2.5 years
Expected time to maturity (consultants)	2.5 years	2.5 years
Expected time to maturity (Board of Management)	5 years	5 years
Volatility (employees and consultants)	62-66%	65-76%
Volatility (Board of Management)	62%	65-76%
Risk-free interest rate (employees)	2.41-3.20%	3.16-5.24%
Risk-free interest rate (consultants)	n/a	n/a
Risk-free interest rate (Board of Management)	2.78%	4.26-4.48%

Share-based compensation

Share-based compensation for 2008 and 2009 can be summarized as follows:

Amounts in €'000	2009	2008
Board of Management options	250	373
Employee options	344	96
Consultancy options	3	21
Long Term Incentive Plan	50	73
	647	**563**

The decrease of Board of Management options expense in 2009 results from a lower fair value per option granted. Expenses for employee options incurred in 2008 and 2009 related to the vesting effect of options granted in the years 2004-2008 respectively 2005-2009. The increase of the employee options expenses in 2009 results from a 2008 profit of €354,000 in view of options forfeited by employees upon termination of their employment agreement, as well as a higher number of immediately vested options granted to employees in view of extraordinary performances. Long Term Incentive Plan expenses decreased in view of forfeited rights of participants leaving the Company in 2009.

26. Board of Management

Until October 13, 2008, F.J. Pinto served both as the Company's Chairman and as its Chief Executive Officer. Following the approval by the EGM on October 13, 2008, he was replaced as Chief Executive Officer by S. de Vries as a new Member of the BOM but accepted to continue his activities as a non-executive Chairman of the BOM. Mr. De Vries effectively started at November 3, 2008. Both B.M.L. Giannetti (Chief Operations Officer) and R. Strijker (Chief Commercial Officer) were executive Members of the BOM for the entire year 2008 and 2009.

F.J. Pinto resigned as a statutory director effectively October 13, 2008; the other Members of the BOM were statutory directors during their 2008 and 2009 employment. Mr. Pinto was not formally employed but hired through a privately owned company.

Compensation of the Members of the Board of Management for 2008 and 2009 was as follows:

Amounts in €'000	Year	Periodic remuneration	Cash bonus	Share-based payment (iii)	Post-employment benefits	Other (iv)	Total
Name							
B.M.L. Giannetti	2008	229	26	131	22	17	425
	2009	250	-	74	29	23	376
F.J. Pinto (i)	2008	323	18	42	-	-	383
R. Strijker	2008	229	17	28	28	11	313
	2009	250	-	74	22	12	358
S. de Vries (ii)	2008	58	-	205	2	5	270
	2009	350	-	130	17	52	549
Total	**2008**	**839**	**61**	**406**	**52**	**33**	**1,391**
Total	**2009**	**850**	**-**	**278**	**68**	**87**	**1,283**

(i) Until October 13, 2008
(ii) As of November 3, 2008
(iii) Total share-based payment 2009 relates to options of €250,000 (2008: €373,000) and Long Term Incentive Plan of €28,000 (2008: €33,000)
(iv) Other includes (lease) car compensation and, for S. de Vries, a 2009 contribution to other expenses (€24,000)

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

Name	January 1, 2009	Granted/ (forfeited) 2009	December 31, 2009	Exercise price (€)	Expiration date
B.M.L. Giannetti	140,000	-	140,000	3.05	May 22, 2012
	41,667	-	41,667	1.12	April 15, 2013
	250,000	-	250,000	0.62	October 12, 2013
	-	250,000	250,000	0.50	April 14, 2014
R. Strijker	110,000	(110,000)	-	1.34	May 17, 2009
	90,000	-	90,000	3.05	May 22, 2012
	41,667	-	41,667	1.12	April 15, 2013
	-	250,000	250,000	0.50	April 14, 2014
S. de Vries	500,000	-	500,000	0.62	October 12, 2013
	-	500,000	500,000	0.50	April 14, 2014
Total	**1,173,334**	**890,000**	**2,063,334**		

At year-end 2008 and 2009, Mr. Strijker held 182,241 shares. Mr. de Vries and Mr. Giannetti did and do not hold any shares in Pharming.

Loans or guarantees
During the year 2009, 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 December 31, 2009.

27. Supervisory Board

Remuneration
For both 2008 and 2009 the annual fee for the Chairman and other Members was €34,500 respectively €23,000. The aggregate 2009 remuneration of the Supervisory Board amounted to €113,000 (2008: €102,000).

Shares, options and warrants
Members of the Supervisory Board do not participate in an option plan but are eligible to receive shares under the Long Term Incentive Plan (Note 25). At year end 2009 none of the Supervisory Board Members in place held shares, options or warrants in the Company.

Loans or guarantees
During the year 2009, the Company has not granted loans or guarantees to any Member of the Supervisory Board. No loans or guarantees to Members of the Supervisory Board were outstanding at December 31, 2009.

28. Warrants

An overview of activity in the number of warrants for the year 2009 is as follows:

	Number	Weighted average exercise price
Balance at January 1, 2008	2,089,256	4.00
Expired without exercise	(1,389,256)	4.00
Balance at December 31, 2008	**700,000**	**4.00**
Issued	2,450,000	1.00
Balance at December 31, 2009	**3,150,000**	**1.67**

The weighted average remaining contractual life in years of the outstanding warrants at December 31, 2009 is 1.61 years. Warrants issued in 2009 relate to services provided in connection to the public offer to bondholders as discussed in Note 13; the Company charged €245,000 to the statement of income.

29. Operating segments

The Company's operations have been set up along two business units, being the recombinant protein business and the DNage business. These units are each headed by a Member of the Board of Management with separate reporting lines and separate financial statements. The recombinant protein business includes Pharming Group NV as the listed entity of the Pharming Group including the operating companies in the Netherlands and the United states. The DNage business relates to the cash-generating unit DNage BV.

Share-based compensation expenses, goodwill and earn-out obligations as well as adjustments thereto relating to the DNage business are recognized in the financial statements of Pharming Group NV and thus the recombinant proteins segment.

The following table presents key financial information by operating segment for the years ended December 31, 2008 and 2009 (statement of income: income/profits between brackets):

Amounts in €'000	**Recombinant proteins**	**DNage**	**Total**
Year ended December 31, 2009			
Statement of income:			
Income	(568)	(528)	(1,096)
Impairment charges	202	-	202
Share-based compensation	647	-	647
Settlement convertible bonds	(2,829)	-	(2,829)
Effective interest convertible bonds	5,427	-	5,427
Fair value gain derivative	(243)	-	(243)
Interest on earn-out obligations	1,530	-	1,530
Other financial expenses	1,327	-	1,327
Income taxes	-	336	336
Net loss	27,802	4,258	32,060
Statement of financial position:			
Segment assets	38,988	16,895	55,883
Segment liabilities	35,987	6,583	42,570
Investments in:			
Property, plant and equipment	279	30	309
Cash flows provided by/(used in):			
Operating activities	(21,140)	(3,144)	(24,284)
Investing activities	4,232	(30)	4,202
Financing activities	2,472	-	2,472
Year ended December 31, 2008			
Statement of income:			
Income	(179)	(485)	(664)
Impairment charges	4,182	-	4,182
Share-based compensation	563	-	563
Settlement convertible bonds	(5,604)	-	(5,604)
Effective interest convertible bonds	8,161	-	8,161
Fair value gain derivative	(4,947)	-	(4,947)
Interest on earn-out obligations	1,345	-	1,345
Net loss	24,090	2,115	26,205
Statement of financial position:			
Segment assets	63,961	16,775	80,736
Segment liabilities	61,359	6,844	68,203
Investments in:			
Property, plant and equipment	289	-	289
Intangible assets	525	-	525
Cash flows used in:			
Operating activities	(20,033)	(1,873)	(21,906)
Investing activities	(814)	-	(814)
Financing activities	(18,810)	-	(18,810)

Supplemental disclosure operating segments
Segment assets of Recombinant proteins at December 31, 2009 includes the carrying value of goodwill of €4,312,000 (December 31, 2008: €6,998,000) related to the acquisition of the DNage business unit.

Segment liabilities include earn-out obligations due by Pharming to former shareholders of DNage BV; at December 31, 2008 and December 31, 2009 these liabilities totalled €7,152,000 respectively €5,996,000. Interest on these earn-out obligations for 2008 and 2009 were €1,345,000 and €1,530,000 and charged to the Recombinant proteins business unit.

The main foreign assets of the Recombinant proteins business unit are the property, plant and equipment of Pharming Healthcare, Inc. in the United States. The carrying value of these assets at December 31, 2008 and December 31, 2009 amounted to €2,278,000 respectively €2,086,000.

30. Major Shareholders
At December 31, 2009, the following individual major Shareholders (owning more than 5% of outstanding shares) were known to the Company following notifications pursuant to the Disclosure of Major Holdings in Listed Companies Act 2006:
- Lafferty Limited (9.97%, status at December 9, 2008 when 97.429.854 shares were outstanding);
- UBS AG (8.30%, status at October 8, 2009 when 154.501.037 shares were outstanding).

31. 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 Supervisory Board.

All direct transactions with Members of the Board of Management and Supervisory Board have been disclosed in Notes 26 and 27 of these Financial Statements. At December 31, 2009, the Company owed a total amount of €16,000 to Members of the Board of Management and Supervisory Board with respect to their compensation.

In 2009, the Company was charged and paid for an amount of €1,000 by CRM Biometrics in relation to providing statistical services. Pharming's COO, Mr. Giannetti, indirectly holds a minority interest in CRM Biometrics. Mr. Giannetti did not and does not have any supervisory, management or other position within CRM Biometrics. No outstanding balances remained at December 31, 2009. Mr. Giannetti did not provide services to CRM Biometrics nor did he receive any payments from CRM Biometrics.

32. Commitments and contingencies

Operating lease commitments

The Company has entered into operating lease agreements for the rent of office and laboratory facilities as well as lease cars for employees.

Future minimum rentals payable under these non-cancellable leases at the end of 2008 and 2009 was as follows:

Amounts in €'000	**2009**	**2008**
Within one year	708	672
After one year but not more than five years	523	1,034
More than five years	-	-
	1,231	**1,706**

Material Agreements
At end of the reporting period, the Company had entered into several agreements with third parties under which Pharming has to pay cash in case goods or services have been provided or certain performance criteria have been met. In general, these relate to:
- the manufacturing of rhC1INH, including fill and finish activities;
- milestone payments for clinical trials and research and development activities.
Total potential payments under these agreements are about €2.3 million.

Repayment of government grants
Until 2002, the Company received income under two separate Dutch Government arrangements called Technisch Ontwikkelings Krediet (Technical Development Credit) for the development and commercialization of human lactoferrin and/or recombinant human collagen type I. In principle, all amounts received plus interest should be repaid to the extent that Pharming earns revenues from the commercialization of products. Repayments will be forgiven if the products do not materialize within a certain period.

Under the first arrangement, which bears 8% interest per annum, the repayment period ends at the end of 2009. Pharming has to repay 25% of realized net turnover for certain applications. At December 31, 2009, the total of grants and accrued interest under this arrangement amounted to €26.2 million.

For the second arrangement, which bears 4.9% interest per annum, the repayment period ends at the end of 2011. Pharming has to repay between 15% and 40% of realized net turnover for certain applications. As at December 31, 2009, the total of grants and accrued interest under this arrangement amounted to €4.2 million.

Following the 2008 agreement with Aslan Group AS on human lactoferrin the Company has entered into discussions with the Dutch government on the effects of this contract on the Technical Development Credit repayment clauses. These discussions include, among others, the interpretation of the amounts qualifying for repayment, the percentage to apply to these amounts as well as the timing of the repayments. Though the first arrangement formally ended in 2009, repayment of this item is also part of discussion, which as per the date of these financial statements are still in progress.

33. Convertible bonds
As disclosed in Note 13, the Company in 2008 raised €70.0 million gross through the issuance of convertible bonds (the 'Bonds') due October 31, 2012 (the 'Maturity Date'). The following paragraphs describe the main characteristics of the terms and conditions of the Bonds, including the attached conversion rights. For a more extensive and detailed description, reference is given to the listing particulars issued in relation to the Bonds on December 3, 2007.

The Bonds bear annual interest of 6.875%, payable semi-annually in arrear on April 30, and October 31, with the first interest payment on April 30, 2008. The principal amount, if not redeemed before the Maturity Date, will be repaid at nominal value including any accrued and unpaid interest on the Maturity Date. The Bonds constitute unsecured obligations of the Company and shall at all times rank pari passu and without preference among them. The payment obligations of Pharming under the Bonds shall rank at least equally with all its respective other present and future unsecured and unsubordinated obligations. The agreement with the bondholders also prevents Pharming to create any security upon any part of its assets or revenues as long as the Bonds are outstanding.

Pharming is entitled to redeem the Bonds in several cases, including at any time on or after November 14, 2010 if the price of Pharming's ordinary shares (the 'Shares') on each of at least 20 trading days in any period of 30 consecutive trading days is above a certain threshold.

Bondholders have the right to:
- convert any or all of the Bonds held by it into Shares against a conversion price. The conversion price became fixed at €2.64 on April 30, 2008;
- require Pharming to redeem the Bonds on October 31, 2010 or upon a change of control event.

Pharming has ensured that it will not incur or permit to subsist, directly or indirectly, any Restricted Obligations, where the aggregate amount of such Restricted Obligations outstanding from time to time exceeds €15.0 million. In this respect Restricted Obligations means obligations required to be classified and accounted for as 'trade and other payables' in the Company's consolidated statement of financial position, prepared in accordance with IFRS, less Excess Cash. 'Excess Cash' means the greater of:
(a) zero; and
(b) amounts required to be classified and accounted for as 'cash and cash equivalents' in the consolidated statement of financial position of the Issuer (prepared in accordance with IFRS) less €5.0 million.

34. 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 Company's financial risk policy covers all these risks but is, due to the current status of the Company, in particular aimed at minimizing the effects of the market risks. Due to the absence of commercial sales, the Company does not carry accounts receivable so that credit risks mainly apply to some advance payments, which are limited both in frequency and size, as well as the cash and cash equivalents. As further explained in the capital risk management paragraph, the absence of positive operational cash flows results in a continuing focus on the Company's liquidity status.

In general, the Board of Management is highly involved in the management of currency, interest, credit and liquidity risks and as such ultimately responsible for decisions taken in this field. Pharming does not use financial derivatives and does not enter into speculative positions.

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, equity and convertible bonds. Compared to last year there have been no significant changes in our 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$). The US$ is used to finance the local operations of US-based entities and make direct payment of US activities carried out through the Dutch entities. If deemed appropriate, taking into account market expectations on the development of the US$, US$ are acquired in advance to cover such forecasted US$ payments. So far, Pharming's foreign currency risk policy for the US$ has not included derivative agreements.

At December 31, 2009 the Company's net cash and cash equivalents, including restricted cash and bank overdrafts, amounted to €2.3 million. This net balance consists of net cash assets denominated in €for a total amount of €5.6 million and net cash liabilities in US$ for a total amount of US$ 4.8 million or €3.3 million (applying an exchange rate €to US$ at December 31, 2009 of 0.694 to 1).

The following sensitivity analysis of costs and revenues charged in US$ in 2008 and 2009, assumes an increase or decrease of the €/US$ exchange rate at the end of both years of 10%. The impact of a 10% increase at year-end 2008 and 2009 would have resulted in a lower loss from operating activities of €0.1 million in 2008 and €0.1 million in 2009. In addition to these effects, the foreign currency translation reserve would have decreased with €0.5 million in 2008 and increased with €0.2 million in 2009, so that the total net effect on equity would have been a decrease of €0.6 million in 2008 and an increase of €0.3 million in 2009. The impact of a 10% decrease of the US$ at year-end 2008 and 2009 would have resulted in a higher loss from operating activities of €0.1 million both in 2008 and 2009. In addition to these effects, the foreign currency translation reserve would have increased with €0.9 million in 2008 and decreased with €0.3 million in 2009, so that the total net effect on equity in 2008 and 2009 would have been an increase of €0.8 million respectively a decrease of €0.4 million.

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 minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing 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 marketable securities and those paid on financial 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 2009 was measured. Pharming concluded that no effect would have taken place on the carrying value of any item, including the liabilities in relation to the convertible bonds as the effective interest of 18.6% determined upon initial recognition will not change in case of market interest fluctuations.

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 December 31, 2009 is represented by the carrying amounts of cash and cash equivalents and other current assets.

At December 31, 2009 the carrying amounts of the cash and cash equivalents (including restricted cash, net of bank overdrafts) and the most recently available (early 2010) credit ratings are:

Amounts in €million	**Carrying Value**	**Standard & Poor's**	**Moody's**
Net cash held at selected institution	2.0	A+	Aa3
Other institutions	0.3		
Total at December 31, 2009	**2.3**		

Other current assets at December 31, 2009 amounted to €1.4 million. This includes about €0.2 million related to value added tax and accrued interest, both fully received in cash early 2010. The remaining balance of €1.2 million relates to prepaid expenses of €0.7 million and other receivables of which €0.5 million. No indication exists that receivables from third parties will not be settled or that prepaid expenses will not be set off against goods or services.

Based on the credit ratings of cash and cash equivalents (including restricted cash, net of bank overdrafts) as well as the position taken with respect to other current assets, the Company estimates that total maximum exposure to credit risk at the end of 2009 is about €1.2 million.

For the purpose of the Going Concern Assessment as included in Note 2, the Company has also assessed credit risks in relation to both current and potential sources of cash income anticipated from equity, debt and commercial agreements, including the SEDA with Yorkville. The assessment has been performed using various sources of both public and non-public information with respect to parties involved in these transactions as well as historical payment patterns, if available. Based on the outcome of this assessment, the Board of Management at the date of these financial statements has no indication that a significant credit risk applies to these (potential) cash income sources.

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 the absence of such cash flows, the Company primarily relies on financing cash flows as provided through the issuance of shares or incurring financial liabilities. Note 2 of these financial statements more extensively describe the Company's going concern assessment.

The following table presents the financial liabilities at year-end 2009, showing the remaining undiscounted contractual amounts due including nominal interest. Liabilities denominated in foreign currency have been converted at the exchange rate at December 31, 2009. Bank overdrafts can be settled with cash and cash equivalents and accordingly have not been included in this table, in which it has been assumed the convertible bonds are held to maturity in 2012 though the full nominal value has to be repaid in 2010 upon request of the bondholders (see Note 13). With respect to the earn-out obligations, of which the nature, timing and background has been disclosed in Note 14, the full nominal amounts due and the timing of payment have been estimated. Both for the convertible bonds and the earn-out obligations the amounts due may be settled through payment in shares, partially at the discretion of the Company.

Amounts in €'000	**2010**	**2011**	**2012**	**2013**	**2014**
Convertible bonds	-	-	10,900	-	-
Earn-out obligations	5,000	-	5,000	-	-
Trade and other payables	8,769	-	-	-	-
Other	48	48	32	-	-
Total	**13,817**	**48**	**15,932**	**-**	**-**

Fair value estimation

Effective 1 January 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 assets that are measured at fair value at year-end 2008 and 2009:

	December 31, 2009		December 31, 2008	
Amounts in €million	**Level 1**	**Total**	**Level 1**	**Total**
Financial assets at fair value through profit and loss	-	-	3,748	3,748-
Total assets	**-**	**-**	**3,748-**	**3,748-**

The fair value of financial instruments traded in active markets is based on quoted market prices at year-end. A market price is regarded active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The Company's financial assets at fair value through profit and loss related to marketable securities sold in 2009 (see Note 11). No liabilities were measured at fair value both at year end 2008 and 2009.

Fair value of financial instruments

In the following table the carrying amounts and the estimated fair values of financial instruments are disclosed:

	December 31, 2009		December 31, 2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets:				
Cash and cash equivalents, net of bank overdrafts (i)	2,338	2,338	19,786	19,786
Available-for-sale financial assets (ii)	-	-	3,748	3,748
Other current assets	1,392	1,392	1,646	1,646
Liabilities:				
Non-current liabilities (iii)	1,865	1,865	37,885	39,516
Trade and other payables	8,769	8,769	7,365	7,365
Current portion of non-current liabilities (iii)	13,711	13,975	5,156	5,156

(i) including restricted cash
(ii) marketable securities
(iii) includes convertible bond liabilities, earn-out obligations, financial lease obligations and the Loan State of Wisconsin, excludes deferred tax liabilities and non-cash lease incentives

The above fair values of financial instruments are based on internal calculations with the exception of marketable securities which (at year end 2009) were based on market prices. Available-for-sale financial assets, other current assets, cash and cash equivalents, trade and other payables and the current portion of non-current liabilities are stated at carrying amount, which approximates the fair value in view of the short maturity of these instruments. For non-current liabilities, the carrying values of earn-out obligations (based on an estimated cost of capital of 23% at year end 2008 and 2009), financial lease obligations and amounts due to the State of Wisconsin are also in line with their fair values. For the convertible bonds at year end 2008 and 2009, the fair values have been determined based on the carrying values adjusted for transaction fees.

35. Events after the reporting period

On January 5, 2010 the Company announced it had secured a convertible debt financing of €7.5 million. The financing has been structured in the form of a one year (non-listed) convertible debt instrument that is convertible into Pharming shares at €0.50. The debt has a coupon of 9% per annum and is subordinated to the existing €10.9 million convertible bond. In addition, 15 million warrants are being issued to investors with an exercise price of €0.50 and an expiration date of December 31, 2012. Pharming has access to an additional €2.5 million under this convertible debt agreement on mutually acceptable terms to investors and the Company. The convertible debt can be repaid in cash in whole or in part at the option of the investor if a commercialization deal for Rhucin materializes with an upfront payment in excess of an undisclosed amount. Under specific future conditions, the conversion price and exercise price of the warrants could be reduced according to the lowest five day volume weighted average share price along with a 5% discount following a notice of conversion. In April 2010 the Company paid the holders of these bonds a total of 407,475 Pharming shares for payment of interest over the first quarter of 2010. Further in April 2010, a total number of 2,835,708 shares were issued in exchange for aggregate conversions of €1.1 million as per the date of these financial statements. Accordingly, the number of shares outstanding as per the date of these financial statements increased from 154,501,037 at year end 2009 to 157,744,220.

On March 30, 2010 the Company's shareholders at an Extraordinary General Meeting of Shareholders approved to increase the authorized share capital of the Company from 200 million to 400 million while at the same time adjusting the nominal value per share from €0.50 to €0.04. In addition, the shareholders approved the appointment of senior director development Dr. R.R.D. (Rienk) Pijpstra MBA to the Board of Management as the Company's Chief Medical Officer effectively April 1, 2010.

A total number of 180,900 options granted to employees whereas 346,903 options expired or forfeited after the end of the reporting period. Including the effect of the above events and several other transactions, the composition and movement of the number of shares and potential shares to be issued between December 31, 2009 and the date of these financial statements is as follows:

	Issued/ reserved December 31, 2009	**Issued/ reserved 2010**	**Converted/ forfeited/ expired 2010**	**Issued/ reserved April 30, 2010**
Outstanding shares	154,501,037	3,243,183	-	157,744,220
Options	5,172,391	180,900	(346,903)	5,006,388
LTIP	1,022,500	-	-	1,022,500
Warrants	3,150,000	18,750,000*	-	21,900,000
Convertible bonds 2007	4,128,788	-	-	4,128,788
Convertible bonds 2010	-	18,750,000*	(2,835,708)	15,914,292
Total	**167,974,716**	**40,924,083**	**(3,182,611)**	**205,716,188**

* at maximum conversion or exercise price of €0.40

Above table does not include potential dilution under the SEDA nor the potential payment of two separate milestones of €5.0 million each to former shareholders of DNage as disclosed in Note 14. Pharming may decide to pay any milestones achieved either in cash or in Pharming shares at a price per share valued on the basis of the average closing price of the Pharming shares on twenty business days prior to achievement of the milestone.

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COMPANY FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION

For the year ended December 31 (after proposed appropriation of net loss)

AMOUNTS IN €'000	NOTES	2009	2008
Goodwill	3	4,312	6,998
Property, plant and equipment	4	712	855
Financial assets	5	6,050	9,302
Receivable from group companies	6	6,794	8,725
Non-current assets		**17,868**	**25,880**
Other current assets	7	943	834
Marketable securities	8	-	3,748
Cash and cash equivalents		15,779	26,658
Current assets		**16,722**	**31,240**
Total assets		**34,590**	**57,120**
Share capital	10	77,251	48,715
Share premium	10	187,708	183,980
Foreign currency translation	10	(1,675)	(1,602)
Other reserves	10	12,097	9,005
Accumulated deficit	10	(262,068)	(227,565)
Shareholders' equity		**13,313**	**12,533**
Provision for subsidiaries	**5**	**1,221**	**-**
Convertible bonds	10	-	35,122
Earn-out obligations	11	1,788	2,644
Other	14	77	119
Non-current liabilities		**1,865**	**37,885**
Bank overdrafts		2,926	118
Convertible bonds	10	9,461	571
Earn-out obligations	11	4,208	4,508
Trade and other payables	13	1,554	1,466
Current portion of non-current liabilities	14	42	39
Current liabilities		**18,191**	**6,702**
Total Shareholders' equity and liabilities		**34,590**	**57,120**

The notes are an integral part of these financial statements.

Company statement of income
For the year ended December 31

AMOUNTS IN €'000	2009	2008
Share in results of investments	(23,258)	(23,462)
Other results	(8,802)	(2,743)
Net loss	**(32,060)**	**(26,205)**

The notes are an integral part of these financial statements.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

Notes to the company financial statements
For the year ended December 31, 2009

1. General

Within the Pharming Group, the entity Pharming Group NV 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 are prepared in accordance with accounting principles generally accepted in the Netherlands.

Accounting policies applied are substantially the same as those used in the consolidated financial statements in accordance with the provisions of article 362-8 of Book 2 of the Netherlands Civil Code, except for investments in subsidiaries which are accounted for at net asset value in accordance with the equity method. In conformity with article 402 Book 2 of the Netherlands Civil Code, a condensed statement of income is included in the Pharming Group NV.

With reference to Note 4 of the consolidated financial statements, certain amounts in the comparative 2008 information have been restated.

3. Goodwill

The carrying amount of goodwill relates to the acquisition of DNage in 2006. Further details are provided in Note 5 of the consolidated financial statements.

4. Property, plant and equipment

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

Movement of property, plant and equipment for the financial years 2008 and 2009 is:

Amounts in €'000	**Leasehold Improvements**	**Other**	**Total**
At cost	740	494	1,234
Accumulated depreciation charges	(95)	(161)	(256)
Net book value at January 1, 2008	645	333	978
Investments	-	71	71
Depreciation charges	(76)	(118)	(194)
Movement 2008	(76)	(47)	(123)
At cost	740	491	1,231
Accumulated depreciation charges	(171)	(205)	(376)
Net book value at December 31, 2008	**569**	**286**	**855**
Investments	7	41	48
Depreciation charges	(77)	(114)	(191)
Movement 2009	(70)	(73)	(143)
At cost	747	489	1,236
Accumulated depreciation charges	(248)	(276)	(524)
Net book value at December 31, 2009	**499**	**213**	**712**

5. Financial assets and Provision for subsidiaries

Financial assets include those investments in group companies with a positive equity value as well as investments classified as available-for-sale with a fair value of at least nil. In the event the equity value of a group company together with any long-term interests that, in substance, form part of the our net investment in the group company, becomes negative, additional losses are provided for, and a liability is recognized, only to the extent that we have incurred legal or constructive obligations or made payments on behalf of the associate.

Movement of financial assets and the provision for subsidiaries for the years 2008 and 2009 was as follows:

Amounts in €'000	Investment in subsidiaries	Investments available-for-sale	Total financial assets	Provision for subsidiaries	Net total
Balance at January 1, 2008	12,521	200	12,721	(119,464)	(106,743)
Share in results of investments	(3,298)	-	(3,298)	(20,164)	(23,462)
Exchange rate translation	-	-	-	(354)	(354)
Impairment charges MucoVax	-	(200)	(200)	-	(200)
Reclassification	79	-	79	(79)	-
Balance at December 31, 2008	9,302	-	9,302	(140,061)	(130,759)
Share in results of investments	(4,258)	-	(4,258)	(19,000)	(23,258)
Exchange rate effects	-	-	-	284	284
Reclassification	1,006	-	1,006	(1,006)	-
Balance at December 31, 2009	6,050	-	6,050	(159,783)	(153,733)

At year end 2008 and 2009, the provision for subsidiaries was offset with the following receivable balances from Pharming Group NV:

Amounts in €'000	2009	2008
Provision for subsidiaries	(159,783)	(140,061)
Receivable	159,281	148,449
Net receivable	**502**	**8,388**
Of which classified as Provision for subsidiaries	(1,221)	-
Included in receivable from group companies	**719**	**8,388**

6. Receivable from group companies

Pharming Group NV as the parent entity of the group is responsible for obtaining financial resources in order to fund the operations of the other group entities. Since these entities currently have insufficient cash income to repay amounts funded by Pharming Group NV, this balance is substantially long-term in nature. It is assumed the amounts receivable from group companies will not be settled within one year after the end of the reporting period and accordingly they have been classified as a non-current asset.

Amounts in €'000	2009	2008
Receivable from investments in subsidiaries	6,075	337
Net investments (Note 5)	719	8,388
Total	**6,794**	**8,725**

7. Other current assets

Other current assets at year-end 2008 and 2009 comprised:

Amounts in €'000	2009	2008
Prepaid expense	617	144
Value added tax	143	266
Accrued interest	63	180
Other receivables	120	244
	943	**834**

The other current assets are, with the exception of the SEDA prepaid expense as described below, substantially short-term in nature (e.g. settled in 2010) with no indication of impairment at the end of the reporting period. Prepaid expenses at December 31, 2009 include an amount of €468,000 in relation to 1,200,000 shares issued to Yorkville Advisors at €0.50 per share or €600,000 in total (also see Note 12 of the consolidated financial statements). The €600,000 is amortized proportionally over actual investments made by Yorkville Advisors out of the total €30.0 million maximum SEDA value. At year end 2009, the total investment amounted to €6.6 million so that €132,000 has been charged to the statement of income of 2009. The Company expects it can and will utilize the remaining SEDA value of €23.4 million at the end of the reporting period and accordingly has maintained the €468,000 balance in the statement of financial position. The actual amortization of this €468,000 over the years 2010-2012 ultimately depends on the timing of the Company's future calls under the SEDA.

8. Marketable securities

Details on the background and marketable securities as well as the movement in carrying values for 2008 and 2009 have been provided in Note 11 of the consolidated financial statements.

9. Shareholders' equity

The Company's authorized share capital amounts to €100.0 million and is divided into 200,000,000 ordinary shares with a nominal value of €0.50 each. All 154,501,037 shares outstanding at December 31, 2009 have been fully paid-up.

Movements in Shareholders' equity for 2008 and 2009 were as follows:

Amounts in €'000	2009	2008
Balance at January 1	12,533	30,918
Net loss after tax	(32,060)	(26,205)
Share-based compensation	892	563
Reclassification derivative	-	3,370
Fair value of shares issued for bonds converted	21,912	4,833
Effect bonds converted on derivative	(243)	(915)
Fair value of shares issued for cash	9,752	-
Fair value of commitment shares issued	600	-
Exercise of options	-	1
Other movements	(73)	(32)
Balance at December 31	**13,313**	**12,533**

Legal reserve

Shareholders' equity of Pharming Group NV at December 31, 2009 includes a legal reserve with a negative amount of €1,675,000 with respect to a reserve for foreign currency translation.

For a detailed movement schedule of equity for the years 2008 and 2009, please refer to the schedule consolidated statement of changes in equity. The main fluctuations in equity have been described in Note 12 to the consolidated financial statements.

10. Convertible bonds
The main developments, including impact on the financial statements, of the convertible bonds issued in 2007 have been described in Note 13 of the consolidated financial statements.

11. Earn-out obligations
For a detailed description of earn-out obligations, please refer to Note 14 of the consolidated financial statements.

12. Other non-current liabilities
Other non-current liabilities relate to a financial lease agreement entered into in September 2007, in relation to certain laboratory equipment. The contract has 60 monthly installments of €4,000 in which a total amount of €243,000 is repaid, consisting of €206,000 repayment of the investment and interest of €37,000. After this period, Pharming can buy the equipment for €2,000. At year end 2009, the net carrying amount of the asset involved as leased was €110,000 (2008: €151,000).

Movement and composition of the financial lease obligations for 2008 and 2009 was:

Amounts in €'000	**2009**	**2008**
Total balance at January	158	195
Interest expense accrued	10	12
Repayments	(49)	(49)
Total balance at December 31	**119**	**158**
Current portion at December 31	(42)	(39)
Non-current at December 31	**77**	**119**

13. Trade and other payables

Trade and other payables consist of:

Amounts in €'000	**2009**	**2008**
Accounts payable	998	208
Deferred compensation due to related parties	16	70
Taxes and social security	28	52
Other payables	512	1,136
Balance at December 31	**1,554**	**1,466**

The amount of deferred compensation due to related parties relates to Members of the Supervisory Board and Board of Management.

14. Other results
Other results in 2008 and 2009 include costs of share-based compensation in the amount of €563,000 and €647,000 respectively, as disclosed in Note 22 of the consolidated financial statements. These charges include those related to Members of the Board of Management, employees and consultants who are not formally employed by Pharming Group NV. Since Pharming Group NV as the entity formally listed on the stock exchange grants these options, all expenses related to share-based compensation are born by Pharming Group NV.

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AUDITOR'S REPORT

AUDITOR'S REPORT

To the General Meeting of Shareholders of Pharming Group NV

Report on the financial statements

We have audited the accompanying financial statements of Pharming Group NV, Leiden as set out on pages 66 to 124. The Financial Statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated changes in equity and consolidated statement of 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 statement of financial position as at 31 December 2009, the company statement of income for the year then ended and the notes.

Management's responsibility

The Board of Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the management report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the ifnancial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pharming Group NV as at 31 December 2009, 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 and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of Pharming Group NV as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Emphasis of Matter
We draw attention to note 2 to the financial statements which indicates that the company is facing uncertainties in 2010 that significantly affect the liquidity and/or equity position of the company. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 30 April 2010
PricewaterhouseCoopers Accountants NV

A.C.M. van der Linden RA

OTHER FINANCIAL INFORMATION

For the year ended December 31, 2009

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 Supervisory Board, 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 2009 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 period
On January 5, 2010 the Company announced it had secured a convertible debt financing of €7.5 million. The financing has been structured in the form of a one year (non-listed) convertible debt instrument that is convertible into Pharming shares at €0.50. The debt has a coupon of 9% per annum and is subordinated to the existing €10.9 million convertible bond. In addition, 15 million warrants are being issued to investors with an exercise price of €0.50 and an expiration date of December 31, 2012. Pharming has access to an additional €2.5 million under this convertible debt agreement on mutually acceptable terms to investors and the Company. The convertible debt can be repaid in cash in whole or in part at the option of the investor if a commercialization deal for Rhucin materializes with an upfront payment in excess of an undisclosed amount. Under specific future conditions, the conversion price and exercise price of the warrants could be reduced according to the lowest five day volume weighted average share price along with a 5% discount following a notice of conversion. In April 2010 the Company paid the holders of these bonds a total of 407,475 Pharming shares for payment of interest over the first quarter of 2010. Further in April 2010, a total number of 2,835,708 shares were issued in exchange for aggregate conversions of €1.1 million as per the date of these financial statements. Accordingly, the number of shares outstanding as per the date of these financial statements increased from 154,501,037 at year end 2009 to 157,744,220.

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* at maximum conversion or exercise price of €0.40

Above table does not include potential dilution under the SEDA nor the potential payment of two separate milestones of €5.0 million each to former shareholders of DNage as disclosed in Note 14. Pharming may decide to pay any milestones achieved either in cash or in Pharming shares at a price per share valued on the basis of the average closing price of the Pharming shares on twenty business days prior to achievement of the milestone.

PHARMING GROUP NV

Telephone: +31 (0)71 52 47 400
Telefax: +31 (0)71 52 47 123
Email: info@pharming.com

Visiting address
Darwinweg 24
2333 CR Leiden
The Netherlands

Mailing address
PO Box 451
2300 AL Leiden
The Netherlands

ANNUAL REPORT 2009

This Annual Report may contain forward-looking statements that involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from the results, performance or achievements expressed or implied by these forward-looking statements.

This Annual Report is only available in English.

Copies of this Annual Report may be obtained free of charge at Pharming's headquarters in Leiden or at:

Marjolein van Helmond
Telephone: +31 (0)71 52 47 431
Mobile: +31 (0)6 109 299 54
Email: m.helmond@pharming.com.

Trade Register Leiden 28048592