Annual Report 2015

Pharming

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FORWARD-LOOKING STATEMENTS

This Annual Report 2015 of Pharming Group N.V. and its subsidiaries ("Pharming", the "Company" or the "Group") may contain forward-looking statements including without limitation those regarding Pharming's financial projections, market expectations, developments, partnerships, plans, strategies and capital expenditures.

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

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

HIGHLIGHTS OF 2015

OPERATIONAL HIGHLIGHTS

- Pharming and Salix Pharmaceuticals announced the first patient was treated in a clinical Phase II study of RUCONEST® for the prophylaxis of Hereditary Angioedema ("HAE") in January 2015. Salix was acquired by Valeant Pharmaceuticals International, Inc. ("Valeant") in April 2015.
- Mr. Jan Egberts and Mr. Paul Sekhri appointed to the Board of Supervisory Directors in April 2015.
- Initiation of the International HAE patient organisation's ("HAEi") Global Access Program for RUCONEST®, in May 2015.
- Announced a new distribution agreement with Cytobioteck S.A.S. in May 2015 for RUCONEST® in Colombia and Venezuela.
- The planned temporary shut-down of our manufacturing (sterile fill &finish) partner BioConnection in October created a need to build inventory to ensure no shortage before operations resume there again in Q2 2016.
- Released positive safety and clinical efficacy data in an ongoing open-label Phase II Paediatric study of RUCONEST® in June.
- Appointed Mr. Robin Wright as Chief Financial Officer and to the Board of Management at the EGM in October 2015.
- In October, the US Food and Drug Administration ("FDA") granted RUCONEST® a five-year extension (for a total of 12 years) to data exclusivity as a reference product (C1 esterase inhibitor [recombinant]), ensuring no further approvals of similar products (without full new biological entity development) until 2026.
- In December, the European Medicines Agency ("EMA") renewed the RUCONEST® European marketing authorization for an indefinite period of time.
- Also in December, Pharming's partner HyupJin Corporation obtained marketing authorization for RUCONEST® in South Korea.

FINANCIAL HIGHLIGHTS

- Revenues from product sales increased to €8.6 million (2014: €3.0 million) mainly as a result of a full year of sales in the US.
- Total revenues decreased to €10.8 million (including €2.2 million of license revenue) in 2015 from €21.2 million in 2014 (including €18.2 million in license revenue).
- Operating results slightly improved to a loss of €12.8 million from a loss of €13.1 million (excluding the one-off milestone payment of €16.0 million in 2014), in spite of a considerable increase in R&D activity.
- The net loss of €10.0 million improved significantly from a loss of €21.8 million in 2014, when compared excluding the one-off licensing income of €16.0 million in 2014.
- The equity position declined from €29.8 million in 2014 to €23.8 million in 2015, mainly due to the net loss.
- Inventories increased from €13.4 million in 2014 to €16.2 million in 2015, largely due to the need to cover the planned temporary shutdown of our fill & finish partner.
- The cash position including restricted cash decreased from €34.4 million at year-end 2014 to €31.8 million at year-end 2015. This was mainly due to cash outflows related to the increase of

inventories of RUCONEST®, a considerable increase in R&D activities and cash inflows of the straight debt facility of USD17 million (€15.5 million) at a fixed coupon of 7% per annum from Oxford Finance and Silicon Valley Bank in July 2015, as well as €0.5 million from the exercise of warrants. The debt facility was used to build inventories ahead of the planned temporary closure of the facility, which provides our fill & finish production, and to accelerate growth in R&D activities. The facility will be repaid over four years, starting in the second half of 2016.

AFTER THE YEAR END

Since 31 December 2015, the following additional events have occurred:

- Completion of full recruitment for the clinical Phase II study of RUCONEST® in prophylaxis of HAE, preliminary findings are now expected towards the end of the second quarter of 2016.
- Extension of our distribution agreement with Cytobioteck of Colombia, adding four Latin American countries – Argentina, Panama, Dominican Republic and Costa Rica – to the existing agreement which already covers Colombia and Venezuela. This extension reflects the good progress Cytobioteck is making with getting RUCONEST® approved in these countries to enable HAE patients in their region receive the best therapy.
- Positive CHMP opinions on EU label changes were received in February 2016: To eliminate IgE testing as a preliminary requirement for RUCONEST® prescription; and to allow approval for adolescent patients.

ABOUT PHARMING GROUP N.V.

Pharming is a specialty pharmaceutical company developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs. Pharming's lead product, RUCONEST® (conestat alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute Hereditary Angioedema ("HAE") attacks in patients in Europe, the US and rest of the world. The product is available on a named-patient basis in other territories where it has not yet obtained marketing authorization.

RUCONEST® is commercialized by Pharming in Austria, Germany and The Netherlands.

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

RUCONEST® is distributed in North America, Canada and Mexico by Valeant Pharmaceuticals International, Inc. (NYSE: VRX/TSX: VRX), following Valeant's acquisition of Salix Pharmaceuticals, Ltd.

RUCONEST® is distributed in Argentina, Colombia, Costa Rica, the Dominican Republic, Panama and Venezuela, by Cytobioteck.

RUCONEST® is distributed in South Korea by HyupJin Corporation and in Israel by Megapharm.

RUCONEST® is being investigated in a Phase II randomized, double blind placebo-controlled clinical trial for prophylactic treatment of HAE and is being evaluated for other indications as well. The Phase II study was fully recruited shortly after the year-end.

RUCONEST® is also being investigated in a Phase II clinical trial for the treatment of HAE in young children (2-13 years of age) and evaluated for various additional follow-on indications.

Pharming's technology platform includes a unique, GMP-compliant, validated process for the production of pure recombinant human proteins that has proven capable of producing industrial quantities of high quality recombinant human proteins in a more economical and less immunogenetic way compared with current cell-line based methods. Leads for enzyme replacement therapy ("ERT") for Pompe and Fabry's diseases are being optimized at present, with additional programs not involving ERT also being explored at an early stage at present.

Pharming has a long term partnership with the Shanghai Institute of Pharmaceutical Industry ("SIPI"), a Sinopharm company, for joint global development of new products, starting with recombinant human Factor VIII for the treatment of Haemophilia A. Pre-clinical development and manufacturing will take place to global standards at SIPI and are funded by SIPI. Clinical development will be shared between the partners with each partner taking the costs for their territories under the partnership.

Pharming has declared that the Netherlands is its "Home Member State" pursuant to the amended article 5:25a paragraph 2 of the Dutch Financial Supervision Act.

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

STRATEGIC FOCUS

Pharming is focused on the following activities:

- Commercialising its own products in the major markets, starting with RUCONEST®
- Where the product is partnered, assisting the partner to obtain the best value for RUCONEST® and patients by pursuing additional regulatory approvals and additional indications for the product
- In countries where Pharming is directly commercializing the product, ensuring that patients and their physicians are fully aware of the benefits of RUCONEST® compared to less effective or more complicated products
- Developing or acquiring new products which can be useful to the same physicians who treat HAE patients, or can help those patients further
- Developing new treatments for enzyme-deficient disorders such as Pompe disease and Fabry's disease.
- Developing new products through collaboration with SIPI, such as recombinant human Factor VIII for the treatment of Haemophilia A.
- Evaluating external opportunities to enhance the product range and pipeline to enable better value from Pharming's resources

COMMITMENT

Pharming is committed to:

- Producing good value for shareholders through an entrepreneurial culture with appropriate recognition and efficient management of opportunities and risks; and
- Communicating openly, consistently and in a timely manner to all internal and external stakeholders; and
- Operating to the highest standards of ethical, environmental and animal welfare standards; and
- Continuing to maintain the highest levels of social and corporate responsibility as a pharmaceutical company, an employer and a workplace.

CHIEF EXECUTIVE OFFICER'S STATEMENT

2015 was the year that Pharming started to move forward again, after a long period of reconsolidation and transition.

Starting in January with the commencement of a randomised double-blind Phase II clinical trial for RUCONEST® in prophylaxis of HAE, we have relaunched Pharming as a company engaged in developing new products. The costs of this study are being shared 50:50 with our US commercialization partner Valeant. Prophylaxis of HAE is potentially a larger market than the more urgent acute attack market, and we believe that there is a good chance RUCONEST® may demonstrate strong effects in this indication too. Based on a rigorous clinical development with regards to parameters such as response rates, relapse rate (breakthrough attacks) and safety risks, Ruconest has in the meanwhile established itself as a very effective treatment for acute attacks of HAE, with very fast, effective and sustainable resolution of these painful and frightening episodes for patients with no reported related serious adverse drug reactions.

As the one and only, licensed recombinant product with its zero risk safety profile with regards to the transmission of blood borne human pathogens, Ruconest also avoids many of the concerns, complications and costs, such as recommended vaccinations for Hepatitis A and B for patients treated with plasma derived therapies and mandatory testing of plasma pools (regulatory requirements in both EU and USA) for blood-borne infections like Hepatitis A, B, C, HIV and Parvovirus, a list, which likely continues to be extended given the increased threat of (re)-emerging pathogens entering the plasma pools used for the manufacturing of plasma derived therapies.

We are proud of the fact that by now more than 12,000 attacks of HAE have been successfully treated with RUCONEST® and that the very low rate of adverse events observed and documented in clinical trials continues to be confirmed. Recently, as a further testament to RUCONEST®'s safety profile, the CHMP issued a positive opinion to no longer requiring Rabbit Allergy testing prior to usage of RUCONEST®, a pre-cautionary requirement that was originally part of the EU label.

HAE can strike at almost any time. RUCONEST® works by restoring the normal level of the protein which sufferers are unable to produce effectively, ensuring that the processes which would otherwise allow an

attack to continue are stopped. Because it is fast and effective, RUCONEST® works well in all types of attack, and is now being investigated to see if it can be used to prevent attacks occurring in the first place. A serious HAE attack can be fatal, and in any event will render a patient unable to do much for three or four days, so if RUCONEST® can prevent such attacks from occurring so often, patients will be able to get some of their quality of life back and spend less time in hospital in severe attack cases.

Sales of RUCONEST® grew well in 2015. This was most strongly seen in the USA, where initially Salix Pharmaceuticals (until its acquisition in April) and thereafter Valeant Pharmaceuticals have continued to roll out RUCONEST® to patients. The changes in sales organisations caused by this acquisition have impacted the speed of growth, but the overall result was still positive for Pharming.

We have strengthened our Board of Supervisory Directors, adding Mr. Paul Sekhri and Mr. Jan Egberts to the board. Paul has been a very successful CEO of biotechnology companies for many years, including his current position at Lycera Corp. Prior to this, Paul held senior roles at Sanofi and at Teva Pharmaceutical Industries Ltd. Jan was previously CEO of OctoPlus NV, a specialty pharmaceuticals firm which was acquired by Dr. Reddy's Laboratories Ltd in 2013, and more recently the CEO of Agendia Inc., a molecular diagnostics company. Jan was previously also Chief Executive Officer of NovaDel Pharmaceuticals Inc., where he developed a portfolio of pre-clinical and clinical compounds, gaining FDA approval for two compounds.

In July we were able to strengthen our resources by taking out a $17 million non-dilutive straight debt finance facility with Oxford Finance and Silicon Valley Bank. This facility was used to build inventories ahead of the discontinuation of our fill & finish production and to accelerate growth in R&D activities. The facility will be repaid over four years, starting in the second half of 2016. This was a milestone for the Company, which previously had to ask many times for help from shareholders to continue. Such debt, on conservative and secure terms, allows us to improve returns for shareholders through leverage.

In September, we appointed Robin Wright as Chief Financial Officer. He has extensive senior level experience as a CFO of public companies in both the pharmaceutical and biotechnology industries. He is a qualified chartered accountant and was previously CFO of Sweden-based Karolinska Development AB (KDEV: SS) and at Orexo AB (ORX: SS), also in Sweden. Prior to this, he worked in investment banking. He has completed over 165 global license and M&A transactions as well as many financing transactions within the pharma/biotech sector.

Later in the year, the FDA in the United States granted an extension for RUCONEST® data exclusivity until 2026. This should enable us to bring our next generation products to market and develop sales under the "extended umbrella" of revenues from RUCONEST®.

As a result of these changes and the continuing growth in RUCONEST®, we are now in a position to move forward, adding new revenue-generating products and opportunities to our arsenal in 2016 and beyond. We intend to increase our own commercial activities, with additional territories and products as opportunities arise to do so, and to continue to develop our pipeline to produce the next generation of therapies. We expect to announce the full pipeline development program including the anticipated timings of the clinical trial steps in the second quarter, once our program leads have been optimized.

Since the year end, we have had further developments. In January we announced that the Phase II clinical trial of RUCONEST® in prophylaxis of HAE was fully recruited, and we now expect the preliminary outcome from that study in the end of the second quarter of 2016. We have also extended our agreement with Cytobioteck to an additional four Latin American countries, reflecting the good start that they have made in bringing RUCONEST® to patients in Colombia and Venezuela.

With a solid base built in 2015, and strong opportunities becoming available already, we look forward to an even more positive year in 2016, with strong inflection points from the Phase II prophylaxis study and from increasing sales of RUCONEST®.

As in every year, the support and hard work of our employees makes Pharming what it is. I would like to take this opportunity to thank all Pharming employees as well as all of our investors, partners and debt providers for their ongoing support and commitment throughout 2015, and enabling us to create the platform for growth. I look forward to continuing the upward story of Pharming in 2016, with increased sales, a new exciting pipeline and new opportunities for enhanced shareholder value.

Leiden, 23 March 2016
Sijmen de Vries
Chief Executive Officer and Chairman of the Board of Management
Pharming Group N.V.

MANAGEMENT REPORT

OPERATING REVIEW 2015

Regional market and product overview

USA

For a second year running, our US partner changed in 2015. In April, after a successful first quarter growing sales, our partner Salix was acquired by Valeant Pharmaceuticals Inc. The transition was executed smoothly, with sales activity initially unchanged for several months. Within the collaboration, Pharming continued to run the development of the HAE prophylaxis indication for RUCONEST®, and Valeant took on the assessment of RUCONEST® for acute pancreatitis.

Later in the year the sales force was reduced as Valeant decided to concentrate on the high-prescribing clinics within HAE. At the same time, the number of medical services liaisons was reduced. These changes caused an interruption in the sales growth of RUCONEST® after strong growth in the first two quarters. Following recent re-adjustments of the sales force by Valeant, a more reliable sales pattern is emerging.

The US market for acute and prophylactic treatment of HAE continued to expand in 2015, and is now estimated by most observers as between $1.2 billion and $1.3 billion. The market leader is Cinryze® from Shire, a plasma derived C1- inhibitor, which is only approved for prophylactic use as it failed in clinical trials for acute treatment. Data protection for Cinryze® expires in 2016.

The acute segment is estimated at approximately $700 million, led by Firazyr® from Shire and Berinert® from CSL Behring. Berinert is also a plasma derived C1- inhibitor, whereas Firazyr® only blocks the bradykinin pathway and as result of that suffers from the frequent need for patients to take two or three rounds of Firazyr® therapy within 24 hours to stop an HAE attack because the attack rebounds. The opposite is one of the biggest selling points for RUCONEST®, which, as C1- inhibitor (enzyme replacement therapy) blocks all pathways for the disease and is dosed at a level sufficient to be effective first time in virtually all patients.

Valeant has taken over the obligations of Salix with respect to the license agreement for RUCONEST® for the USA, Canada and Mexico. This includes a tiered supply price regime in which Valeant pays Pharming initially 30% of net sales, with this percentage rising to a maximum of 40% depending on the amount of net sales achieved in each year. At the same time, increased sales of RUCONEST® allow Pharming to take advantage of economies of scale in its own production process, widening the profit margin for Pharming as sales increase. In addition, Valeant pays 50% of the costs of additional clinical development agreed for RUCONEST®, for which they will also have commercial rights in the same territory. Valeant will be required to pay Pharming an undisclosed milestone upon approval of RUCONEST® for prophylaxis of HAE, and sales milestones up to USD45 million upon achievement of certain aggregate sales targets in the year in which those targets are achieved.

Europe

The commercialization of RUCONEST® by SOBI in the EU and other European states continues to progress, albeit more slowly. Sales growth has been good in Eastern Europe, but the entrenched positions of competing products in Western Europe continues to be the main obstacle to full potential.

Pharming has made progress in direct commercialization of Germany, Austria and the Netherlands through its own sales force, also against deeply entrenched competition, with sales starting to come through in those territories now.

The RucoVitae™ patient care program, offered by Pharming to all eligible HAE patients in Austria, Germany and Netherlands, continues to be a differentiating factor in the treatment of HAE, with some physicians transferring care of their HAE patients, treated with RUCONEST, completely to the program once they have experience of how well it works for the patient.

China

Our collaboration with Shanghai Institute of Pharmaceutical Industry ("SIPI") continues to progress well. In 2015 we completed the transfer of our technology to SIPI, who are planning to produce from a brand new facility in Pudang near Shanghai, where the facility has been able to produce new transgenic animals that produce recombinant human C1- esterase inhibitor under Pharming's EMA and FDA compliant quality assurance and quality control processes, ensuring that their output will be exactly the same product as RUCONEST and thereby meet standards for the production of biological drugs in the EU and USA, in addition to meeting the stringent Chinese CFDA standards for biological development.

The collaboration includes full development and commercialization rights for RUCONEST® in China. The full RUCONEST® manufacturing process and quality system has been transferred to the Pudang facility, enabling manufacture for China but also allowing SIPI to supply Pharming with RUCONEST® in the future. This will help to improve our margins further.

The first new product being developed jointly is Factor VIII for Haemophilia A, which is at the lead optimisation stage. Haemophilia A is a X-Chromosome-linked hereditary disorder caused by defects in the Factor VIII gene that leads to lower levels than normal of the Factor VIII protein. Lack of functional Factor VIII protein diminishes the body's blood-clotting ability, which in turn leads to damaging or even fatal bleeding episodes. By the time this product is ready, it is expected that the global market for Factor VIII will be around $6.5 billion. At present, only around 50% of the estimated medical need for Factor VIII can be supplied by existing means, so a new up scalable source will go a long way to meet this need in the rest of the developed world as well as in China and other countries where the need is still unmet.

Other markets

RUCONEST® approval was obtained in South Korea in December 2015 through our partner there HyupJin.

In Turkey, our partner Eczacibaşi Ilac Pazarlama A.S. has been struggling to obtain regulatory approval, and it may be necessary for Pharming to take over that territory in 2016, or to find a different partner for Turkey.

In Israel, RUCONEST® is being marketed by our local partner Megapharm.

In April 2015 we agreed a distribution deal with Cytobioteck SAS, a leading Colombian pharmaceutical company. This agreement produced initial sales on a named-patient compassionate use basis already in 2015. Early in 2016 we agreed to extend this distribution agreement to four additional countries: Argentina, Costa Rica, the Dominican Republic and Panama.

HAEi Global Access Programme ("HAEi- GAP")

Following a request from the international HAE patient organisation (HAEi) we entered into an agreement with Clinigen PLC (A UK based public Company specialised in execution of name patient based global access programmes), to make RUCONEST® the first therapy available under the HAEi- GAP. This

programme seeks to ensure that in countries where no adequate HAE therapies are approved, all eligible HAE patients can, through their treating physicians, have access to safe and effective treatment for their HAE. In the meantime, several request were received and the initial treatments were started.

Pharming is fully confident in the ability of its partners to commercialise RUCONEST® successfully in all their territories, but it should be noted that Pharming depends on the success of its commercial partners to market its product in those territories. Pharming is therefore exposed indirectly to risks suffered by its chosen partners. We continue to believe that RUCONEST® is the best option for many HAE patients and we continue to support all our commercialization partners wherever possible.

Development of RUCONEST®

RUCONEST® for Hereditary Angioedema (HAE)

RUCONEST® was originally developed for the treatment of acute attacks of HAE. HAE is a rare genetic disorder in which the patient is unable to manufacture a fully-functioning version of C1 esterase inhibitor, a protein which is responsible for stopping inflammatory attacks and associated swelling in the body. These attacks when uncontrolled result in local swelling (EDEMA) which may present as abdominal pains, airway swelling and obstruction, peripheral swelling or skin swelling. These attacks are painful and disabling, and attacks obstructing the airway can be fatal. Estimates of the occurrence of the disease vary between 1 in 10,000 to 1 in 50,000, depending on the heredity of the population. Acute attacks usually begin to be noticed in childhood or adolescence, but due to the disorder's rarity, the condition is often not correctly diagnosed for several years.

The frequency of HAE attacks varies between patients, from extreme cases with several attacks per week to milder cases with a few attacks per year. A typical patient has around 8 treated attacks per year and takes steroid prophylaxis treatment.

Abdominal attacks cause abdominal swelling and vomiting, potentially leading to misdiagnosis and unnecessary surgery, and swelling of the skin can lead to disfigurement, disability and pain. Untreated, attacks can last between 48 and 120 hours. Additional information about the condition can be found on the international HAE patient's association website at www.HAEi.org .

Biochemical pathways for development of HAE attacks

The pathways through which the condition can develop include the Bradykinin pathway, the intrinsic coagulation pathway and the Kallikrein pathway. Administration of C1 esterase inhibitor to an adequate dose of 50 units* per kilogram can stop all attacks of HAE, as it blocks all the various pathways effectively. Other therapies, such as those blocking only the Bradykinin or Kallikrein pathways, can have a good effect on the symptoms, but the condition can also find a way to develop through one of the other pathways, meaning that the patient suffers a renewal or relapse in up to 30% of the attacks, despite having taken such a remedy. Response rates (the number of patients who respond to a therapy as a percentage of all patients given that therapy), when comparing published data, are generally also much lower than for some of the C1 esterase inhibitor therapies, as the response depends on which pathway the condition is progressing through at the time and whether the molecule given can stop that pathway.

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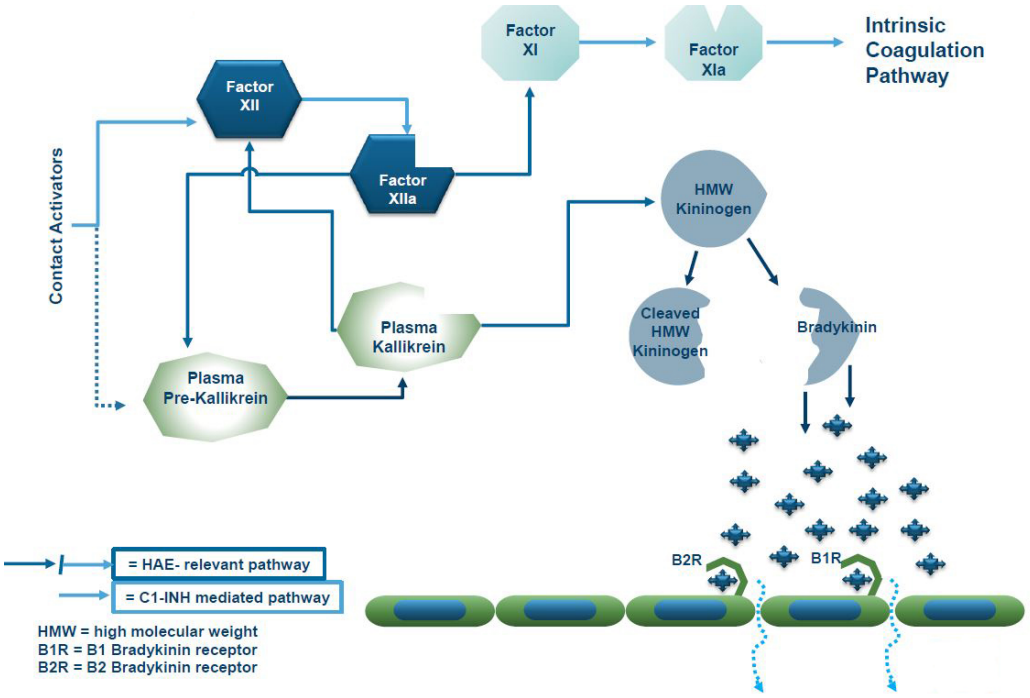


Source: "Target levels of functional C1 inhibitor in Hereditary Angioedema". Allergy, C. E. Hack, A. Relan, E. S. van Amersfoort & M. Cicardi

Subcutaneous RUCONEST®

It is clear from patient feed- back that, in the absence of any other factors, patients prefer a subcutaneous injectable product to a slow intravenous injectable product, because of the lower level of training and care needed to make the injection safely and effectively. Accordingly, the Company is developing a new subcutaneous formulation of RUCONEST® to enable patients to benefit from its power and efficacy in a more convenient form. Early experiments have shown that a good formulation of RUCONEST® suitable for subcutaneous delivery is possible, and this project is now fully active. The new form of RUCONEST® will need to be tested in a clinical setting, which is expected to be starting in early 2017.

Additional indications for RUCONEST®

HAE in children

Pharming is conducting an open-label Phase II study evaluating RUCONEST® for the treatment of acute attacks of HAE in paediatric patients. This study has been agreed with the European Medicines Agency Paediatric Committee and will enrol approximately 20 patients aged 2 up to 13. If successful, this study would broaden the label for RUCONEST® in Europe and would extend the regulatory exclusivity period, which are both valuable benefits. Currently, RUCONEST® has regulatory exclusivity in Europe until 2025.

As reported during the year, as at June 1st, 2015, 8 children had been treated on demand for 28 HAE attacks at 50 IU/kg body weight (up to a maximum of 4200 IU). The efficacy endpoints measured were time to onset of relief and to minimal symptoms, assessed by the patient (assisted by their parent), using a visual analogue scale (VAS) and by physicians using an Investigator Score. Median time to beginning of relief was 60 minutes as determined by the patients and the investigators. Using the VAS, 93% of patients

had onset of relief within 2 hours. No related serious adverse events, including hypersensitivity reactions, were reported.

Prophylaxis of HAE

In acute HAE, each individual HAE attack is treated. In prophylaxis therapy, the patient is given the drug on a regular basis with the aim of preventing attacks occurring or reducing the frequency of breakthrough attacks that do occur. In the US, the size of the prophylactic indication is significant, with the only drug approved specifically for that indication, Cinryze® marketed by Shire PLC, having sales of more than $600 million in 2015.

In an open label study in 2012 to evaluate the prophylactic effect of once-weekly administration of RUCONEST, positive data - at least as good as those for published for Cinryze® - were observed in 25 HAE patients. The patients included in this study had a history of frequent HAE attacks (mean 0.9 attacks/week). During the 8 week RUCONEST® treatment period, the mean frequency of HAE attacks was reduced by more than 50% to 0.4 attacks/ week, using one dose of RUCONEST® per week. The repeated administrations were generally safe and well-tolerated.

The current Phase II study is a randomized, double-blind placebo-controlled cross-over study in 30 patients with three arms: placebo, one dose of RUCONEST® per week and two doses of RUCONEST® per week. The study reported full recruitment shortly after the year end and is expected to report its preliminary outcome in Q2 2016. A positive outcome is likely to enable Pharming to move to a confirmatory Phase III study beginning early in 2017.

Ischaemia Reperfusion Injury (IRI)

IRI is a complication arising from tissue damage caused by lack of oxygen during an interruption of blood supply (ischaemia) until the tissue is supplied with blood again (reperfusion).

This can occur in traumatic injury involving Haemorrhagic shock, organs prior to and during transplantation, in the brain as a result of stroke and in the heart as a result of myocardial infarction (a main type of 'heart attack'). It has been shown in various preclinical models that C1 esterase inhibitor can reduce the extent and effects of IRI in such cases. These indications, although they are all unmet medical needs, are extremely difficult to study in a clinical setting, and so Pharming is working with different potential partners to find a way to explore the use of RUCONEST® to help patients with these problems.

These include an ongoing discussion with the US Army Institute of Surgical Research into the options available to evaluate RUCONEST® for some of these indications.

Delayed Graft Function (DGF)

DGF, a form of IRI, is a serious and costly complication in the clinical transplantation setting. When DGF occurs, it necessitates the use of dialysis and leads to prolonged hospitalization, which results in adverse long term outcomes and significantly higher costs. As demonstrated with a preclinical model, donor pre-treatment with rhC1INH prior to transplantation could potentially represent a novel approach to addressing some of the limitations of current strategies to reduce the impact of DGF. Current interventions focus on activities that occur after the organ is harvested from the donor (e.g. cold storage or machine perfusion of the organ). The study was conducted by Dr Luis Fernandez of the University of Wisconsin, who showed that RUCONEST® pre-treatment of harvested organs significantly reduced the incidence of DGF in transplant operations. The mechanism of action was the inhibition of the complement cascade inflammatory response pathway.

Acute Pancreatitis (AP)

AP is an acute inflammatory disorder of the pancreas for which there are currently no approved medical therapies. With well over 300,000 hospitalisations per year in the US (and still increasing), AP now represents the single most frequent gastrointestinal cause of hospital admissions. AP starts as a local process in the pancreas and can eventually result in systemic activation of the contact and complement inflammatory cascades, leading to organ failure and death in severely-affected patients.

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

Our US partners have previously had discussions with the FDA on a pre-IND briefing package for a Phase II clinical study. Valeant has been evaluating the opportunity in AP and will carry on the next steps in development work for this indication. Such a study program would be considerably more expensive than some of the other studies proposed in indications as outlined above, although the medical need is greater, and it is unlikely that Pharming would go ahead with this indication without Valeant.

Pipeline development

Our Chief Scientific Officer; Mr. Perry Calias, was hired in late 2014. Mr. Calias is highly skilled in development of Enzyme Replacement Therapies (ERT) and opened a small R&D office in Boston, Massachusetts.

This group initiated the prioritisation of the assets acquired from TRM in 2014, taking into account develop-ability, unmet medical need and commercial potential of the acquired assets. Mr. Calias left the company in early 2016 after setting up a sound R&D function in France and Netherlands for Pharming. This R&D team is now continuing formal work on two major projects in Pompe disease and Fabry's disease, with others in early stage development.

Pompe disease

Pompe disease (also known as Acid Maltase Deficiency or Glycogen Storage Disease type II) is an inherited muscular myopathy disorder caused by the build-up of a complex sugar called glycogen in the body's cells. It affects around 1 in 40,000 people in general, varying within different ethnic groups. The accumulation of glycogen in certain organs and tissues, especially muscles, impairs their ability to function normally. Mutations in the GAA gene cause Pompe disease. The GAA gene provides instructions for producing an enzyme called acid alpha-glucosidase (also known as acid maltase). This enzyme is active in lysosomes, which are structures that serve as recycling centre's within cells. The enzyme normally breaks down glycogen into a simpler sugar called glucose, which is the main energy source for most cells. Mutations in the GAA gene prevent acid alpha-glucosidase from breaking down glycogen effectively, which allows this sugar to build up to toxic levels in lysosomes. This build-up damages organs and tissues throughout the body, particularly the muscles, leading to the progressive signs and symptoms of Pompe disease.

The current treatment for Pompe disease is replacement of acid alpha-glucosidase derived from Chinese hamster ovary (CHO) cell lines, which leads to mixtures of the protein with different glycosylation patterns when the cell lines are scaled up. Some versions of the protein in the mixture can cause serious

immunogenetic effects, and are very difficult to eliminate with CHO cell line production methods, resulting in products that carry a so called "Black Box Warning" for immunogenicity. Pharming's technology, however, leads to recombinant proteins with very good purity and characterization. Pharming has produced and studied a version of acid alpha-glucosidase produced with its technology before, in a Phase II study performed in partnership with Genzyme in 2001. This study appeared to show that the material derived from Pharming's technology was efficacious. No immunogenetic findings were reported. Unfortunately, Pharming's financial difficulties at that time meant that we could not pursue the program and so it was handed over to Genzyme in 2002, who decided to carry on with the CHO cell product alone. Difficulties scaling up this material have led to two very similar recombinant CHO-cell derived acid alpha-glucosidase products each of which has, as outlined above, a "Black Box Warning" for immunogenicity.

Pharming is currently evaluating a new recombinant acid alpha-glucosidase from its own technology, which we intend to bring into the clinic as soon as possible. A full description of the clinical trial strategy and product will be announced later in 2016 once the material has been optimised and initial production established. The market for Pompe disease is currently around $750-900 million per year.

Fabry's disease

Fabry's disease (also known as Anderson-Fabry disease, angiokeratoma corporis diffusum, and alpha-galactosidase A deficiency) is a rare genetic lysosomal storage disease, caused by an X-chromosome mutation of the GLA gene. Fabry's disease can cause a wide range of systemic symptoms. It is a form of sphingolipidosis, as it involves dysfunctional metabolism of sphingolipids. Fabry's disease affects around 1 in 40,000 men and 1 in 60,000 women and is less dependent on ethnicity than Pompe Disease.

The GLA gene provides instructions for making an enzyme called α-galactosidase A. This enzyme is also active in lysosomes as in Pompe disease. α-galactosidase A normally breaks down a fatty substance called globotriaosylceramide (GL3).

Mutations in the GLA gene alter the structure and function of the enzyme, preventing it from functioning properly and breaking down this substance effectively. As a result, GL3 builds up in cells throughout the body, particularly cells lining blood vessels in the skin and cells in the kidneys, heart, and nervous system. The progressive accumulation of this substance damages cells, leading to the varied signs and symptoms of Fabry's disease. GLA gene mutations that result in an absence of α-galactosidase A activity lead to the classic, severe form of Fabry's disease. Mutations that decrease but do not eliminate the enzyme's activity usually cause the milder, late-onset forms of Fabry's disease that affect only the heart or kidneys.

There is only one currently approved therapy in the USA, which is Fabrazyme® (agalsidase beta, a CHO cell derived recombinant version of the missing enzyme) from Genzyme. This product carries approximately a 1% chance of anaphylactic shock and many patients develop antibodies against the drug, which is indicative of the body reacting against the drug. In the EU, Shire also has a therapy, Replagal (agalsidase alpha) which is a variant of agalsidase beta. This product is not approved in the USA.

On the basis of our experience with similarly highly glycosylated proteins, such as RUCONEST and the past experience with alpha-glucosidase for Pompe disease, as outlined above, Pharming's technology should enable us to produce a recombinant version of the original human enzyme α-galactosidase A, which may be better tolerated and more effective than the current CHO cell based recombinant versions, although this will have to be proved in a clinical trial program. As for Pompe disease, we will announce the full clinical strategy for this program once we have optimised the protein derived from our technology and established consistent manufacture of the drug substance. The market for Fabry's disease is currently around $600-800 million per year.

FINANCIAL REVIEW 2015

The financial objectives for 2015 were focused on:

- Ensuring that the pace of research and development costs was in line with the development of sales of RUCONEST®
- Ensuring that the company had sufficient financial resources for its needs without recourse to further dilutions for shareholders.

Both of these objectives were achieved. For 2016, the objectives remain similar:

- Ensuring that the pace of research and development costs continues in line with the development of sales of RUCONEST® so that cash resources are sufficient for the company's needs
- Ensuring that any opportunities for new development projects or products are captured on a financial basis that is optimized for shareholders.

Financial summary

Amounts in €m, except per share data	2015	2014	% Change	2014 Excluding one-off milestone €16.0m	%Underlying Change
Income statement					
Revenue	10.8	21.2	(49%)	5.2	108%
Gross profit	6.0	17.8	(66%)	1.8	233%
Operating result	(12.8)	2.9	(541%)	(13.1)	2%
Net result	(10.0)	(5,8)	(72%)	(21.8)	54%
Balance sheet					
Cash and marketable securities	31.8	34.4			
Share information					
Earnings per share before dilution (€)	(0.024)	(0.015)			

Revenues and gross profit

Revenues decreased to €10.8 million (including €2.2 million of license revenue) in 2015 from €21.2 million (including €18.2 million in license revenue) in 2014. The 2014 figure included a €16.0 million milestone from our US partner following the FDA approval of RUCONEST®. Both years include other license income, reflecting a portion of earlier license fee payments from partners including SOBI, Salix and SIPI which have been allocated across a number of financial years in accordance with accounting guidelines.

During 2015, it emerged that a significant number of patients in the US were subject to government-imposed discounting arrangements, which offer members of certain health insurance schemes such as government departments or ex-military personnel special drug purchase rates. As a result of the discount claims made already by these patients and a provision for later claims which may be made by other patients in these schemes, Valeant has been obliged to reduce recorded revenue by these chargeback amounts. Pharming has recognized these chargebacks and provisions for later claims mainly in the fourth

quarter results, with a one-off adjustment reflecting the reduced royalty payments from Valeant of €0.7 million (2014: nil). As the product goes forward, these patients will become easier to identify and as more historical data will become available in the coming quarters based on the reimbursements, the estimates by Valeant around realized revenues and discounts will be further substantiated.

Revenues from product sales to Pharming increased to €8.6 million (2014: €3.0 million) mainly as a result of a full year's sales in the US (€6.3 million, up from €0.3 million in 2014) and sales for RUCONEST® in Europe and the Rest of World ("RoW") of €2.3 million, reflecting an approximately 9% increase in underlying market sales in the EU and the initial sales realized RoW. The EU revenues from sales were lower than the €2.7 million realized in 2014, which were positively affected as result of building of inventories by SOBI in early 2014.

Costs of product sales in 2015 to Pharming amounted to €4.8 million, up from €3.4 million in 2014, reflecting the increased levels of sales in the US.

In 2015, the Company reversed €0.2 million of impairment costs of inventories (2014: addition of €0.6 million). Impairment costs relate to costs of goods exceeding the anticipated sales price of the product in certain markets.

Gross profit decreased from €17.8 million in 2014 to €6.0 million in 2015, but increased by 233% (from €1.8 million in 2014 to €6.0 million in 2015) after adjusting for the large one-off milestone payment of €16.0 million in 2014. The main reasons for this increase were increased sales in the US and the changing product mix between the US, EU and RoW regions in 2015.

Operating costs

Operating costs increased from €15.0 million in 2014 to €19.0 million in 2015. This increase reflected the increased R&D costs as operations were restored enabling Pharming to develop new pipeline programs, and the added cost of new personnel to handle the new pipeline programs and the increased production volumes and marketing and sales costs, mainly as result of initiation of direct commercialization of RUCONEST® by Pharming in Austria, Germany and Netherlands.

R&D costs within these figures increased to €14.2 million from €11.7 million in 2015. It is important to note the changes in mix in these activities. In 2014, the majority of R&D cost was incurred in the clinical approval process for RUCONEST® in acute HAE and the clinical trial program for prophylaxis of HAE. In 2015, the costs have mainly been divided between harmonizing the new Discovery R&D team developed from the assets acquired from TRM in 2014 and developing the two new major pipeline programs and the ongoing clinical trial programme for prophylaxis of HAE.

General and administrative costs increased to €3.7 million from €3.3 million in 2014. The increase is mainly related to the increase of the (non-cash) share based compensation.

Marketing and sales costs of €1.1 million reflect Pharming's direct commercialization activities in Germany, Austria, the Netherlands and RoW (outside Europe and US).

Operating result

The operating result improved slightly to a loss of €12.8 million from a loss of €13.1 million in 2014 (excluding the one-off milestone in 2014), in spite of a considerable increase in R&D activity in 2015.

Financial income and expenses

The 2015 net gain on financial income and expenses was €2.9 million, compared with a net loss of €8.6 million a year earlier. This is mainly due to a gain on revaluation of warrants of €3.4 million (2014: loss of €9.1 million), exchange gains of €0.3 million and interest and other costs of debt financing of €0.8 million.

Net result

As a result of the above items, the net loss increased from €5.8 million in 2014 to €10.0 million in 2015. Excluding the effect of the one-off license (milestone) income of €16.0 million in 2014, the underlying movement was a reduction in net loss from €21.8 million in 2014 to €10.0 million in 2015.

Inventories

Inventories increased from €13.4 million in 2014 to €16.2 million in 2015, largely due to the need to cover a planned temporary shutdown at our fill & finish partner for RUCONEST®. The facility is open again and production will resume during 2Q 2016.

Cash and cash equivalents

The total cash and cash equivalent position (including restricted cash) decreased from €34.4 million at year-end 2014 to €31.8 million at year-end 2015, mainly related to increased R&D spend, increased inventories of RUCONEST® and the taking out of a straight debt facility of USD17 million (€15.6 million) at a fixed coupon of 7% per annum from Oxford Finance and Silicon Valley Bank in July 2015, as well as €0.5 million income from the exercise of warrants.

The principal elements of cash flow were the operating loss of €12.8 million (2014: operating profit of €2.9 million), increase in inventories €2.8 million, increase in trade receivables of €1.7 million, reduction in trade and other payables of €0.8 million and cash inflow from debt financing of €15.5 million.

Equity

The equity position declined from €29.8 million in 2014 to €23.8 million in 2015, mainly due to the net loss. It should be noted that the Company continues to hold an amount of deferred license fee income (year-end 2015: €10.0 million) related to non-refundable license fees received in 2010-2013 which are released to the Profit & Loss over the life of the license agreements involved.

Performance of Pharming shares

During 2015, the Pharming stock price fluctuated around an average price of €0.31 per share. The year-end price was €0.28 (2014: €0.39), with a high of €0.40 and a low of €0.24 in October 2015.

New issues of stock were only made to investors during the year related to warrants, of which 3,405,128 were exercised.

OUTLOOK 2016

For the remainder of 2016, the Company expects:

- Investment in the production of RUCONEST® in order to ensure continuity of supply to the growing markets in the US, Europe and the rest of the world.
- Investment in the clinical trial program for RUCONEST® in prophylaxis of HAE and the development of a sub-cutaneous version of RUCONEST®.
- We will also continue to invest carefully in the new pipeline programs in Pompe disease and Fabry's disease, and other new development opportunities and assets as these occur. To this end, we will be expanding in a modest way at our R&D centre at Evry in France, and in our milk production sites in the Netherlands.
- Increasing selected marketing activity where this can be profitable for Pharming, such as in our current territories of Austria, Germany and the Netherlands.
- We will continue to support all our marketing partners in order to enable the maximization of the sales and distribution potential of RUCONEST® for patients in all territories, as we continue to believe that RUCONEST® represents the fastest, most effective, most reliable and safest therapy option available to HAE patients.

No financial guidance for 2016 is provided.

Although the requirement to produce quarterly reports has been discontinued under the new EU Transparency Directive and the Amended Transparency Directive Implementation Act, Pharming intends to continue to provide quarterly operating and financial reports on a voluntary basis.

GOING CONCERN

Pharming's 2015 financial statements have been drawn up on the basis of a going concern assumption.

The 2015 year-end cash balance of €31.8 million is expected to fund the Company for more than one year from the date of the report. The receipts from commercial supply of product to our partners in the USA, Europe, the Middle East, Latin America, South Korea and Israel and proceeds from direct sales in Austria, Germany and the Netherlands will further support our financial reserves.

Pharming has a history of operating losses and anticipates that it will continue to incur losses until such quantities of RUCONEST® are being sold (directly or by our partners) that the proceeds to Pharming from such sales become sufficient to meet our operating costs.

Presently, no assurance can be given both on the timing and size of future profits and whether profitability can be achieved on this basis. We remain confident that the development of RUCONEST® will enable this situation to occur, however.

In addition, in the event that the Company needs to raise capital by issuing additional shares, shareholders' equity interests may be diluted as to voting power, and their interests as to value will depend on the price at which such issues are made.

SUMMARY OF GOALS FOR 2016

- Achievement of (internal) market share/sales targets for RUCONEST®, in the US by Valeant Pharmaceuticals.
- Achievement of (internal) market share/sales targets for RUCONEST® in Europe and other territories by our partners SOBI, HyupJin, Cytobioteck and MegaPharm and by direct commercialisation in Austria, Germany and the Netherlands.
- Completion of the Phase II randomised clinical trial of RUCONEST® for the prophylaxis of HAE and continued development on the basis of positive results if these are achieved.
- Prioritisation of new development projects and release in due course of the new products' clinical strategy and development plans.
- Development of the Company's visibility amongst institutional investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

No guidance on total revenues from sales/ operational results is provided for 2016.

STATEMENT OF THE BOARD OF MANAGEMENT

On the basis of the above and in accordance with best practice II.1.5 of the Dutch Corporate Governance Code effective as of 1 January 2009, and Article 5:25c of the Financial Markets Supervision Act, the Board of Management confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and confirms that these controls functioned properly in the year under review. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

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

Leiden, 23 March 2016

The Board of Management

The original copy has been signed by the Board of Management

MANAGEMENT STRUCTURE

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

MANAGEMENT POWERS AND FUNCTION

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

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

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

The members of the Board of Management and the members of the Board of Supervisory Directors may at any time be suspended or dismissed by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital. The members of the Board of Management may also be suspended by a resolution of the Board of Supervisory Directors. If in the aforementioned cases, the quorum of one third of the Company's issued share capital is not met, a new meeting will be convened in which a nomination can be rejected or a dismissal or suspension can be resolved by a majority of the votes cast.

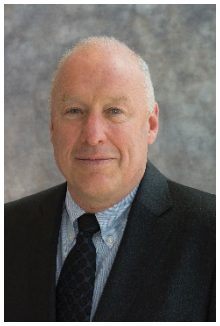
COMPOSITION BOARD OF MANAGEMENT

During 2015, the Board of Management was composed of the following members:

Name	Position	Member since	Term
Mr. Sijmen de Vries	Chief Executive Officer	13 October 2008	Up to AGM in 2017
Mr. Bruno Giannetti	Chief Operations Officer	1 December 2006	Up to AGM in 2017
Mr. Robin Wright	Chief Financial Officer	29 October 2015	UP to AGM in 2020

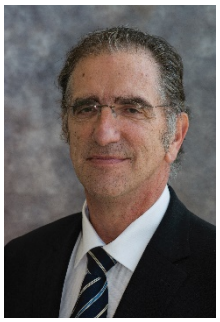
Sijmen de Vries, MD MBA (1959)

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



During 2015, Mr. De Vries was responsible for the overall management of the Company including financial accounting, investor relations and IT. Mr. De Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joined Pharming from Switzerland-based 4-Antibody where he was CEO. Mr. De Vries has also been CEO of Morphochem AG and prior to this he worked at Novartis Pharma and Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc where he held senior business and commercial positions. Mr. De Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

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



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

During 2015, Mr. Giannetti was responsible for the Company's operations including research and development and manufacturing activities as well as medical governance and non-clinical and clinical development, regulatory affairs, drug safety, and medical information teams. He has more than 25 years of experience in the pharmaceutical and biotech industry. Previously, he was the President and founder of CRM Clinical Trials GmbH (now Topcro GmbH), CEO of AM-Pharma B.V. and President and CEO of Verigen AG. He has served as senior management consultant for pharmaceutical R&D projects at Coopers & Lybrand (in Switzerland and the UK). Mr. Giannetti was also worldwide Vice-President Marketing and Medical Information at Immuno, Austria and Head of Clinical Research at Madaus AG. Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn and has been appointed visiting Professor at the Pharmaceutical Faculty of the University of Seville (Spain).

Robin Wright, BA FCA (1964)

Title:	Chief Financial Officer
Nationality:	British
Date of initial appointment:	28 October 2015
Other current board positions:	Mr. Wright holds no other board positions.

Mr. Wright is responsible for the financial management, accounting and investor relations activities of the company within the CFO role. He has extensive senior level experience as a CFO of public companies in both the pharmaceutical and biotechnology industries. He is a qualified accountant and joins Pharming from Sweden-based Karolinska Development AB (publ.) (KDEV: SS), where he was CFO and Head of Business Development. Mr. wright was also CFO and Head of Business Development at Orexo AB (publ.) (ORX: SS) in Sweden. Prior to this, he worked in private equity and corporate finance advisory roles, including long periods at Citibank Salomon Smith Barney and Barclays de Zoete Wedd. He has completed over 165 global license and M&A transactions as well as many financing transactions within the pharma/biotech sector. Mr. Wright holds a BA degree in Chemistry from Oxford University and is a Fellow of the Institute of Chartered Accountants in England and Wales in the UK.

COMPOSITION BOARD OF SUPERVISORY DIRECTORS

During 2015, the Board of Supervisory Directors was composed of the following Members:

Name	Position	Member since	Term
Mr. Jaap Blaak	Chairman	23 May 2007	Up to AGM in 2019
Mr. Juergen Ernst	Vice Chairman	15 April 2009	Up to AGM in 2017
Mr. Barrie Ward	Member	23 May 2007	Up to AGM in 2019
Mr. Aad de Winter	Member	15 April 2009	Up to AGM in 2017
Mr. Paul Sekhri	Member	30 April 2015	Up to AGM in 2019
Mr. Jan Egberts	Member	30 April 2015	Up to AGM in 2019

Jaap Blaak, MSc (1941)

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

Mr. Blaak has held executive positions with Hoogovens, Indivers N.V. and Interturbine Holding B.V. in the Netherlands, U.S. Germany and Singapore. In 1983, he got involved with the foundation of the MIP Equity Fund, one of the largest venture capital groups in Europe, and was appointed CEO in 1986. MIP made several investments in Life Science companies and was the driving force behind the BioScience Park in Leiden. Later on MIP merged with the ABN AMRO Venture Capital Group to form Alpinvest. Mr. Blaak has been an advisor to the Dutch Ministry of Economic Affairs for the Biopartner and Technopartner Program and other innovative projects related to Entrepreneurship and Innovation.

Mr. Blaak holds an MSc in Physics and Business Economics from the Free University in Amsterdam and followed the Advanced Management Program of the Harvard Business School (AMP '81).

Juergen H.L. Ernst, MBA (1939)

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

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

J. Barrie Ward, PhD (1938)

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

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

Aad de Winter, LLM (1953)

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

Mr. De Winter has extensive financial experience. He started his career at AMRO Bank in 1980. He worked in the areas of capital markets, investment banking and institutional investor relationship management. In 1990, Mr. De Winter became senior Advisor Corporate and Institutional Finance at NIBC (formerly 'De Nationale Investerings Bank').

As of 1998, Mr. De Winter was at NYSE Euronext (now Euronext), Amsterdam responsible for advising and admitting companies to the stock exchange in Amsterdam as Director Listing & Issuer Relations. As of January 2009 until July 2015, Mr. De Winter was an Associate Partner at First Dutch Capital, Amsterdam and from 2008 to end of 2013, he was a member of the China and India working group at the Holland Financial Centre which was, inter alia, focused on attracting Chinese and Indian companies to a (cross) listing on the Euronext Amsterdam. Since 2010 he is an Associate Partner at Nederlandsche Participatie Exchange (NPEX), an innovative online financing and trading platform for securities of SME companies. Mr. De Winter has more than three decades of experience in assisting companies with stock exchange listings for various capital markets instruments.

He holds a law degree from Erasmus University, Rotterdam, specialising in corporate law.

Paul Sekhri (1958)

Title:	Member
Nationality:	American
Date of initial appointment:	30 April 2015
Other current board positions:	Mr. Sekhri is a board member of Lycera Corp.

Mr. Sekhri (1958) has 30 years of operational experience in life sciences with in-depth knowledge of multinational pharmaceutical and biotechnology markets and products. Mr. Sekhri is currently President and Chief Executive Officer of Lycera Corp., a biopharmaceutical company developing breakthrough medicines to treat cancer and autoimmune disease. Prior to joining Lycera, Mr. Sekhri was Senior Vice

President, Integrated Care at Sanofi, where he led the creation of innovative solutions and business models to meet patient needs. Previously, he served as Group Executive Vice President, Global Business Development and Chief Strategy Officer at Teva Pharmaceutical Industries Ltd. Mr. Sekhri has held positions in small biopharmaceutical companies, large and small pharmaceutical companies, and venture capital/private equity firms, including TPG, Cerimon Pharmaceuticals, Ariad Pharmaceuticals and Novartis AG. Mr. Sekhri completed postgraduate studies in clinical anatomy and neuroscience at the University of Maryland, School of Medicine and received his BSc degree from the University of Maryland. In addition to his board position with Lycera, he currently serves on several public and private boards including Enumeral Holdings, Inc., Pharming Group N.V., Nivalis Therapeutics, Inc., and Veeva Systems, Inc.; as well as several non-profit boards including, Caramoor Music and Arts Center, Young Concert Artists, Inc., the TB Alliance, the Cancer Research Institute, and is a member of the Patrons Council of Carnegie Hall where he served as a member of the Board of Trustees from 2010-2012.

Jan Egberts, MD, MBA (1958)

Title:	Member
Nationality:	Dutch
Date of initial appointment:	30 April 2015
Other current board positions:	Mr. Egberts is a board member of Agendia Inc. and supervisory board member of CHDR, Implanet SA and Lead Pharma.

Mr. Egberts has over 25 years of executive experience in the pharmaceutical and medical device sectors, most recently as Chief Executive Officer at Agendia inc., a molecular diagnostics company. Prior to this, Mr. Egberts was Chief Executive Officer of Octoplus N.V., a specialty pharmaceutical company, which was acquired by Dr. Reddy's Laboratories Ltd. In 2013. Mr. Egberts also served as a senior healthcare advisor for 3i Group plc, a private equity firm, and as President, Chairman and Chief Executive Officer of Novadel Pharmaceuticals Inc., where he developed a portfolio of pre-clinical and clinical compounds, gaining FDA approval for two compounds. In addition, Mr. Egberts has held multiple business development and general management positions at Johnson & Johnson, Merck & co. and Mölnlycke Health Care. Mr. Egberts graduated from Erasmus University Medical School in the Netherlands and he obtained his MBA from Stanford after which he worked as a management consultant for McKinsey & Cco. Mr. Egberts continues to serve on the supervisory board of CHDR (Center for Human Drug Research) and Implanet SA.

BOARD OF SUPERVISORY DIRECTORS: COMMITTEES

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

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

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

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

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

CORPORATE GOVERNANCE AND RISK MANAGEMENT

CORPORATE GOVERNANCE

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

RISK MANAGEMENT AND CONTROL

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

A summary of the risks that could prevent Pharming from realising its objectives is included in the section 'Risk factors' of this report.

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

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

An effective system of (internal) controls and procedures is maintained and this includes:

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

The Company maintains records and procedures designed to:

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

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

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

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

With respect to the financial reporting risks reference is made to the 'Statements of the Board of Management' in this report. Refer to the 'Notes to the consolidated financial statements' under '29. Financial risk management'.

Risk factors

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

To determine if a risk is acceptable, the Board of Management has set a risk appetite, which is the level of risk the Company deems acceptable to achieve her objectives. The risk appetite is based upon our strategic goals, our business principals, our policies and procedures, and taking into consideration the highly regulated markets we operate in. Our risk appetite differs per risk type:

- Strategic risks: we aim to deliver on our strategic ambitions and priorities, and are willing to accept reasonable risks to achieve this.
- Operational risks: we face operational challenges which require an appropriate level of management attention. The overall objective is to avoid risks that could negatively impact on our goal to achieve operational efficiency, while ensuring our quality standards are unaffected.
- Financial risks: our financial strategy is focused on a strong financial position and creating long-term value of our shareholders.

- Legal and regulatory risks, compliance: we strive to be fully compliant with our code of conduct and national and international laws and regulations of the markets in which we operate and do not accept deviations.

Commercial risk

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

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

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

Our strategy for the commercialisation has been mainly to partner or out-license our products to third parties. We have established partnerships for the most important markets, the United States of America and Europe, to Valeant and SOBI, respectively, although we also have our own commercialisation activities in the Netherlands, Germany and Austria. Therefore, the commercial success of our lead product RUCONEST® is dependent to a significant extent on the capabilities of these partners to distribute and sell our product in their sales regions. In the event of partner's poor commercial performance, Pharming incurs the risk of decreasing its market share. The Company maintains intensive communications with Valeant and SOBI to improve their capabilities for commercial success. In case of commercial diligence provisions are not met, the Company has dispute and resolution processes and possibilities to terminate or adjust contracts.

Our products may not gain market acceptance.

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

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

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

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

Development of additional indications of HAE.

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

Pharming faces significant margin pressure.

With the increasing pressure on healthcare costs in general and pharmaceuticals pricing in particular, the importance of a competitive COGS (Cost of Goods Sold) increases. This applies in particular to low-risk development projects such as fast followers and biosimilars. In most cases the Pharming platform should be able to deliver lower COGS than current competing cell-based systems.

On the other hand, Pharming will only be able to provide good margins, if the sales will achieve certain volumes triggering a decrease of COGS.

Pharming's supplies of RUCONEST® are dependent on third parties.

Pharming has entered into (downstream) manufacturing and supply agreements for the production of rhC1INH (conestat alfa), the drug substance of RUCONEST®, namely with Sanofi Chimie S.A. (Sanofi) and BioConnection (BC) (formerly with Merck Sharpe & Dohme). The BC production site temporary shut-down from October 2015 till Q2 2016, as result of the take-over of the facility by BC from Merck Sharpe & Dohme. The shut-down created a need to build up inventory and could have an impact on our inventory and sales levels.

Risk-mitigation actions – Commercial Risk.

Pharming has established partnerships in the most important geographical areas with partners, capable of commercialising RUCONEST® in their local markets. The North-American market, which we believe is the most important one, has been partnered with Santarus, which was acquired by Salix in January 2014 and in April 2015 acquired by Valeant. Valeant is a company with an excellent commercialisation track record. The European market has been partnered with SOBI.

SOBI has a specialised sales team that works closely with the physicians that treat the HAE patients in order to gain market acceptance for our product.

Pharming initiated commercialisation in Austria, Germany and the Netherlands in 2014, and these activities are now starting to result in sales.

The issue of reimbursement mainly affects the European market. SOBI is addressing this on a country-by-country basis, and reimbursement has been obtained in the majority of the EU countries. In the US, the product, once approved, will have to be covered under the various reimbursement programmes that are applicable for various groups of US citizens. This can result in adjustments to sales as a result of discounts which are required by law for certain special interest groups such as Medicare patients or armed forces veterans, and these discounts can take some time to be applied. Where there are a lot of such patients, it is sometimes necessary to make provisions for such discounts to be claimed, and the result can be an adjustment to sales.

Information on sales progression and marketing and sales planning and execution will be exchanged on a regular basis with our commercial partners through Joint Steering Committees.

To ensure the development of prophylaxis HAE Pharming carefully evaluates the development costs and risks together with our US partner Valeant. Correct execution of the clinical trial programme will be closely monitored.

Continuous evaluation and implementation of improvements in both up-stream and down-stream manufacturing processes should reduce the COGS and the margin pressure.

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

Macro risks

The macroeconomic environment is volatile.

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

High profile failures of biotech companies alters the investment environment.

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

Risk-mitigation actions – Macro risks.

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

Research

Pipeline is dependent on C1 franchise.

Up to now, the pipeline has been dependent on C1 franchise as this was the only product available.

Any negative finding on the properties, efficacy or safety of the rabbit derived rhC1INH may have a vital impact on the Company's existence.

Pipeline is early stage.

Since 2011 the Pipeline Team Pharming has been focusing on identifying potential projects with a relatively short development time based on the assumption that the main advantage of a potential new product as compared to existing alternatives on the market should derive from the advantages provided

by the Company's proprietary rabbit platform including a significant commercial upside due to lower cost of goods.

Risk-mitigation actions – Research risks.

The Company is looking to reduce risk by diversifying the pipeline, including searching for new projects or products in areas where core competence and know-how are already available in the Company, and where commercialisation of such new products is synergistic with the existing channels through which the Company's product is sold.

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

- Improvement of rabbit lines - Transgenic rabbits for Factor VIII, alpha-glucosidase and acid α-galactosidase have been produced to the required standard for initial testing and production, although improvements are still being made to ensure the best standards of animal care. To this extent, the Company has established early-stage programs for the further development of therapies against the diseases of Pompe and Fabry's.
- Ongoing evaluation of new projects in enzyme replacement therapy and in other biological and small molecule orphan indication therapies is aimed at identifying appropriate additional candidates.

Financial risks

Finance organisation.

Between 2012 and the third quarter of 2015, the Chief Financial Officer (CFO) role within the Company was combined with the position of the CEO. As the Company has developed further, its financial complexity has been increasing thus requiring strengthening of its financial functions to create more balance and control in both management and operations.

The Company is dependent on access to external funding.

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

Pharming's development of new products cannot be financed yet with the cash inflows from product revenues and therfore depends on external funding.

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

Exposure to foreign exchange rate changes.

Foreign exchange rates are determined by supply and demand for currencies. Supply and demand, in turn, are influenced by factors in the economy, foreign trade, and the activities of international investors. Pharming's prime currency is the Euro and the foreign currency exposure is in USD.

The financial team in the company monitors currency rates and financial publications to keep informed of potential changes.

Our commercialisation contracts specify prices in Euros. Our milestone payments and future sales revenues from Valeant are in USD.

We are discussing how to control the volatility of the foreign currency USD through the receipt of the USD20 million milestone and recently receipt of the USD17 million of the straight debt facility from Oxford and SVB.

The intention is to control future risks of a stronger USD and increasing cash inflow of USD from revenues. Possible tools are to change the prime currency from EUR to USD to avoid future exchange differences and/or hedging, these will be investigated.

Risk-mitigation actions – Financial risks.

This year we appointed Robin Wright, FCA, as an experienced public company CFO to strengthen the financial function within Pharming, including membership of the Board of Management. Mr Wright has many years' experience as a public company chief financial officer and in addition will bring his experience of M&A, licensing and financing transactions to the Company.

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

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

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

- the achievement of the Company's objectives;
- the corporate strategy and the risks inherent in the business activities;
- the structure and operation of the internal risk management and control systems;
- the financial reporting process;
- compliance with primary and secondary regulations;
- the Company-shareholder relationship; and
- corporate social responsibility issues that are relevant to the Company.

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

COMPOSITION AND REMUNERATION

In 2015 the composition of the Board of Supervisory Directors was as follows: Mr. Blaak (Chairman), Mr. Ward, Mr. Ernst, Mr. De Winter. At the 2015 AGM, Mr. Egberts and Mr. Sekhri were elected as new members of the Board of Supervisory Directors.

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

For 2015 the annual compensation was as follows:

- Board of Supervisory Directors: Chairman €50,000 and Member €36,000;
- Audit Committee: Chairman €9,000 and Member €3,000;
- Remuneration Committee: Chairman €6,000 and Member €3,000; and
- an additional compensation of €1,000 per day is paid in case of extraordinary activities.

No current member of the Board of Supervisory Directors holds shares in the Company; however, the members of the Board of Supervisory Directors do participate in the Company's LTIP. No loans or other financial commitments were made to any member of the Board of Supervisory Directors on behalf of the Company. In the view of the Board of Supervisory Directors, best practice provision III.2.1 of the Code has been fulfilled by the Company and all members of the Board of Supervisory Directors consider themselves

independent, within the meaning of the Code. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies.

ACTIVITIES

The Board of Supervisory Directors met 9 times in 2015. The individual presence of the Supervisory Directors is reflected in the following schedule:

Date	4 March	18 March	29 April	30 April	28 July
Extra participants	CEO/COO/Staff	CEO/COO/Staff	CEO/COO/Staff		CEO/COO/Staff
Mr. Blaak	✓	✓	✓	✓	✓
Mr. Ernst	✓	✓*	✓	✓	✓
Mr. Ward	✓	✓*	✓	✓	-
Mr. De Winter	✓	✓	✓	✓	✓
Mr. Egberts	n/a	n/a	n/a	✓	-
Mr. Sekhri	n/a	n/a	n/a	✓	-

Date	29 July	27 October	28 October	17 December
Extra participants	CEO/COO/Staff	CEO/COO/ Staff	CEO/COO/Staff	CEO/COO/CFO/Staff
Mr. Blaak	✓	✓	✓	✓
Mr. Ernst	✓	✓	✓	✓
Mr. Ward	-	✓	✓	✓
Mr. De Winter	✓	✓	✓	✓
Mr. Egberts	-	✓	✓	✓
Mr. Sekhri	-	✓	✓	✓

** Joined by teleconference call*

The Board of Management attended these meetings except when the composition, performance, remuneration of the Board of Management and the self-evaluation of the members of the Board of Supervisory Directors and its committees were discussed and voting took place.

The Board of Supervisory Directors has received from each of the committees a report of its deliberations and findings.

As part of good governance, the Board of Supervisory Directors conducts a self-evaluation annually. These evaluations cover two parts; one part is the work of the Board of Supervisory Directors in relation to key objectives of the Company and the second part is the structure of the Board of Supervisory Directors to ensure that the members bring the correct skills and background knowledge for the benefit of the Company. The annual self-evaluation took place after the BOSD meeting of 28 October 2015 on the basis of a questionnaire completed by all members.

At the meetings of the Board of Supervisory Directors, the Company's financial and operational targets, strategy and accompanying risks, the latter always formulated in an appropriated Risk Assessment document, were extensively discussed. Amongst other topics, a considerable amount of time was spent on discussing commercialisation and regulatory issues with regard to RUCONEST®, the competitive landscape, partnerships, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the targets for 2015 and the operational and financial risks to which the Company is exposed.

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

- The Company's progress on the achievement of objectives. There is no certainty that these objectives will actually be achieved;
- The Company does not yet have a positive operational cash flow and therefore will be dependent on financial markets for funding;
- The Company is largely dependent on the success of one key product; RUCONEST® in one market, the US. In other markets, the outcome of any registration process is uncertain and may be influenced by unpredictable events;
- The Company is almost entirely dependent on third party commercial performance for the receipts of proceeds from sales;
- The Company is active on a niche market for an orphan drug product with at least three competitors;
- The timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.
- Pipeline development of other indications, products and production locations.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimise the Company's exposure. Financial risks are actively monitored by the finance department, whose findings are discussed with the Board of Management on a monthly basis or whenever deemed necessary. The finance department also maintains a close working relationship with the legal counsel and company secretary to monitor other corporate and contractual risks. The risks are further described in the 'Corporate governance and risk management' chapter in this report. Due to the current size of the Company, there is no internal auditor function within the organization.

AUDIT COMMITTEE

The Audit Committee in 2015 consisted of Mr. De Winter (Chairman), Mr. Ernst, and Mr. Ward.

During the four Audit Committee meetings held in 2015, the financial statements were discussed with a special emphasis on complex transactions and the impact of IFRS related issues. In addition, the external Auditor's audit plan 2015, its management letter and board report were discussed. The main topics discussed related to revenue recognition, the valuation of inventories, the development of the finance function and funding.

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

Date	4 March	29 April	29 July	27 October
Extra participants	CEO/COO/Staff/PwC /Mr. Blaak	CEO/COO/ Staff/PwC /Mr. Blaak	CEO/COO/Staff/PwC /Mr. Blaak	CEO/COO/ Staff/PwC /Mr. Blaak
Mr. Ernst	✓	✓	✓	✓
Mr. Ward	✓	✓	-	✓
Mr. De Winter	✓	✓	✓	✓

PwC = PricewaterhouseCoopers Accountants N.V.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee consisted of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. During 2014, it was decided to include Corporate Governance as a mandatory and separate topic during every meeting of the Board of Supervisory Directors, and this was continued during 2015. The Corporate Governance Committee did not meet outside the Board of Supervisory Directors meetings during 2015.

REMUNERATION COMMITTEE

A report of the Remuneration Committee can be found on pages 41-47.

FINANCIAL STATEMENTS

The Financial statements of Pharming Group N.V. for 2015, as presented by the Board of Management, have been audited by PricewaterhouseCoopers Accountants N.V. Their report is included in this Annual Report on pages 114-123.

The Financial statements were unanimously approved by the Board of Supervisory Directors and the Board of Management has signed these Statements.

The Board of Supervisory Directors recommends the Annual General Meeting of shareholders to adopt the 2015 Financial statements and to discharge the Board of Management and the Board of Supervisory Directors from liability for their management and supervisory activities on behalf of the Company.

Leiden, 23 March 2016

The Board of Supervisory Directors

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

REPORT OF THE REMUNERATION COMMITTEE

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

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

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

2015 REMUNERATION POLICY AND STRUCTURE

The remuneration policy for 2015 was a continuation of the 2014 policy and was approved in the Annual General Meeting of June 2014. The main items of this policy are:

- The remuneration of each member of the Board of Management consists of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long-term incentives by way of shares and/or options to shares in the Company and benefits in kind such as health insurance and participation in a pension plan, as further specified in note 23 to the Financial Statements. In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/or extraordinary performance and/or the achievement of predetermined objectives. These contracts have included provisions for an individual bonus in cash or shares of up to 60% (for the CEO) and up to 50% for the other member(s) of the gross annual salary (including holiday allowance). Other benefits, such as health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay cannot exceed the member's gross annual salary. The notice period for each member is two months;
- Members of the Board of Management as well as other key individuals are eligible to participate in the Company's Long Term Incentive Plan (LTIP). Under the plan, participants receive shares in the Company, the number of which is dependent upon the performance of the Company share price, during a three-year period, compared to a peer group of European biotech companies (see page 46).

MEETINGS AND COMPOSITION

During the 2015 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met twice in 2015. The individual presence of its Members is reflected in the following schedule:

Date	29 April	18 December
Extra participants	Mr. De Winter/CEO	Mr. De Winter/CEO
Mr. Blaak	✓	✓
Mr. Ernst	✓	✓
Mr. Ward	✓	✓

During these meetings the performance of the Board of Management in general and its individual members in particular were reviewed and discussed relative to pre-agreed targets and to define targets for the coming year. The remuneration packages, long-term incentive plan and achievements versus 2015 objectives were also discussed and agreed in the last meeting.

REMUNERATION REPORT 2015

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

The exercise price of these options, on a tranche by tranche basis, shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting. For the second tranche of 3,840,000 (2,400,000 options for Mr. de Vries and 1,440,000 options for Mr. Giannetti) this resulted in a strike price of €0.341; being the VWAP measured over the 20 trading days prior to 30 April 2015. The stock options will expire on 17 June 2019.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2015. The Remuneration Committee recommended and the Board of Supervisory Directors concurred that the Board of Management had to a major extent met the corporate and personal objectives set for 2015 and contributed to positioning the Company for the future in particular by the following accomplishments:

- Increased the value of the RUCONEST® franchise through support of our existing partners, through geographical expansion of partnerships and the implementation of direct commercialisation in Austria, Germany and the Netherlands;
- Built the C1 inhibitor franchise by progressing the development of C1 inhibitor in indications beyond acute HAE attacks;
- Initiated the development of the new pipeline projects according to plan;
- Operated within agreed budgets at the department and company level;
- Created a basis for long-term sustainability through rationalisation of the current portfolio and concurrently broaden the portfolio with new projects, through a rational process of commercially led asset evaluations;
- Improved the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided therefore that both Mr. Giannetti and Mr. De Vries had achieved 75% of the corporate and personal objectives that had been set to determine their individual bonus award.

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

The share component of the 2015 bonus payments was valued at the volume weighted average price (VWAP) measured over the 20 trading days prior to 31 January 2016 (€0.261). A detailed overview of the compensation of the members of the Board of Management can be found in note 23 of this Annual Report.

The individual remuneration of the members of the Board of Management was reviewed and it was decided that, taking into account their individual performance, market developments and the timing of the previous review (01 August 2014), the Committee would recommend to the Board of Supervisory Directors to increase the base salaries of both Mr de Vries and Mr. Giannetti by 5% as from 01 January 2016.

REMUNERATION POLICY 2016 AND THE FUTURE

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

For 2016, the Remuneration Committee will continue to implement the compensation policy as approved at the 2010 AGM. All remuneration elements described below are consistent with and covered by the current compensation policy.

- Fixed salary determined by the Board of Supervisory Directors.
- Target bonus in cash and/ or shares percentage to be adopted

In accordance with the compensation policy approved at the 2010 AGM, the basis for the annual cash bonus shall be continued without any changes compared to 2015:

- CEO: to a maximum of 60% of annual salary.
- Other Board of Management members: to a maximum of 50% of annual salary.

The issuance of any share-based bonus component for the cash bonus 2016 shall be valued at the VWAP measured over the 20 trading days prior to 31 January 2017. Payment of the bonus remains dependent on the achievement of pre-defined milestones, which are a combination of corporate and personal milestones.

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

The Board of Supervisory Directors has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for 2016.

The main corporate objectives for 2016 for the Board of Management can be summarised as follows:

- Increase the value of the RUCONEST® franchise through direct commercialisation where applicable and possible, support of our existing partners and through geographical expansion by securing new partnerships;

- Build the C1 inhibitor franchise by progressing the development of C1 inhibitor in indications beyond acute HAE attacks;
- Develop the new pipeline projects according to plan;
- Operate within agreed budgets at the department and company level;
- Create a basis for long-term sustainability by broadening the portfolio with new projects, through a rational process of commercially led asset evaluations;
- Drive Shareholder Value by improving the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

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

Share options dependent on defined parameters.

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

In the light of these expectations and in order to improve the longer-term alignment of interests of the shareholders and Board of Management, it was decided and approved by the Annual General Meeting at 18 June 2014, that share options should no longer be given annually but to grant share options in 2014 onward to the Board of Management that will vest in equal tranches over a five-year period going forward.

This implied that the approved 2015 option grants for the Board of Management are covering the period 2015-2019, with annual vesting of tranches as outlined below. No additional options are therefore now granted.

Description of the approved 2015 option grants, covering the period 2015-2019 and the division of the annually vesting tranches to the Board of Management:

	Number of options Grant 2014 for period 2014-2018	
Mr. Sijmen de Vries	12,000,000	
	Annual vesting tranches	Parameters
	2,400,000	Vested (strike price €0.505)
	2,400,000	Vested (strike price €0.341)
	2,400,000	In service at 31 January 2017
	2,400,000	In service at 31 January 2018
	2,400,000	In service at 31 January 2019

	Number of options Grant October 2014 for period 2014-2018	
Mr. Bruno Giannetti	7,200,000	
	Annual vesting tranches	Parameters
	1,440,000	Vested (strike price €0.505)
	1,440,000	Vested (strike price €0.341)
	1,440,000	In service at 31 January 2017
	1,440,000	In service at 31 January 2018
	1,440,000	In service at 31 January 2019

With the election of Mr. Robin Wright to the Board of Management at the EGM held on 28 October 2015, 1,000,000 options were granted to Mr. Wright with a strike price of €0.355 (being the 20 day VWAP prior to 28

October 2015). In addition, the following options will be proposed in the Annual General Meeting at 25 May 2016 to grant to Mr. Wright.

	Number of options Grant for period 2016-2019	
Mr. Robin Wright	4,000,000	
	Annual vesting tranches	Parameters
	1,000,000	In service at 31 January 2017
	1,000,000	In service at 31 January 2018
	1,000,000	In service at 31 January 2019
	1,000,000	In service at 31 January 2020

It is proposed to reserve an additional 3,500,000 options for the Staff option pool during 2016.

The strike price of the 2016 share options grants for the Board of Management (being the third tranche of 2,400,000 options for Mr. Sijmen de Vries and the third tranche of 1,440,000 options for Mr. Bruno Giannetti) and the additional Staff option pool options for 2016 shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders (25 May 2016). Going forward the strike price of the options will be set each year at a value equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders.

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

The Long Term Incentive Plan (LTIP)

Under this LTIP, restricted shares are granted conditionally to the Board of Management and certain eligible managers each year with a target value of 30% of annual salary.

These shares will vest after three years provided that the share price has increased (i.e. increased total shareholder value). The number of shares vested will be based on the relative performance of the share price compared to a group of 31 European Small Cap (< €500 million) listed companies active in Life Sciences over the preceding 36 months.

The reference group consists of the following companies:

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

The vesting schedule will be as follows:

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

LTIP 2013 expired without pay-outs

At 1 January 2016, after three years of the three-year period of the 2013 LTIP, the Pharming share price increased from €0.25; the closing price at 31 December 2012, to €0.282; the closing price at 31 December 2015. With this result, compared to the reference group, Pharming reached a rank of 18 out of 32, which translates into a score more than 50% from the top of the reference group. As a result, none of the allocated shares have vested.

The allocations under the 2014 and 2015 LTIP still have one and two years respectively to run. The minimum share prices (hurdles) for the 2014 and 2015 allocations to qualify for (part-)vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €0.143, being the closing price 31 at December 2013 for the LTIP 2014 and (2) €0.389, being the closing price at 31 December 2014 for the LTIP 2015.

LTIP 2016

For 2016, the Board of Supervisory Directors, following the recommendation of the Remuneration Committee, has determined that the number of shares (calculated at the closing price of 31 December 2015 of €0.282) shall be equal to 30% of each of the Board of Management's 2016 base salaries.

This results in the following allocations:

Board of Management: Mr. S. de Vries 482,151 shares, Mr. B.M. Giannetti 314,955 shares, Mr. R. Wright 287,234 shares.

Senior managers: For a selected group of senior managers, 1,400,000 shares are available. A maximum number of 100,000 shares per senior manager can be allocated.

The Annual General Meeting of 18 June 2014 approved the reinstallation of LTIP participation for members of the Board of Supervisory Directors. At the Annual General Meeting of 2016, the following allocations of LTIP shares will be proposed:

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION

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

Our Corporate Social Responsibility pillars at a glance:

Social sustainability	Economic sustainability	Environmental sustainability
Patient safety is our highest priority Pleasant and inspiring working environment Optimization of our employees' talents and capacities Offer treatments for specific diseases and conditions	Plan to achieve a positive return on investment at all times Effective corporate governance as a guiding principle for all our actions, to prevent corruption and intensify stakeholder involvement	Animal Care Code of Conduct & welfare policy Minimization of the impact of all our operations on the environment Provide traceability of our entire supply chain

Medical need

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

Patient safety

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

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

regulatory current Good Manufacturing Practice (cGMP) guidelines and are warranted by Pharmacovigilance.

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

Code of Conduct

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

Whistle-blowers procedure

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

Health and safety

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

Animal Care Code of Conduct and welfare policy

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

Pharming has an Animal Care Code of Conduct in place, which focuses on the strict regulatory control of transgenic materials and animals in regard to the environment and continuous wellbeing of the animals.

Our Animal Care Code of Conduct emphasises the importance of carrying out our activities with transgenic animals in a consistent and safe manner, and in conformity with the laws and regulations in force in the countries of operation.

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

Environment and traceability of supply chain

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

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

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

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

Human resources

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

Pharming is operating in a fast-paced environment. Our organisation and thus our employees need to keep up with increasing internal and external changes. The biggest internal challenge in 2015 was to evolve further into a commercially focused company. New (commercial) departments were set up which brought new and provocative ideas and insights. Our Research and development department expanded from 39 average FTE to 53 average FTE.

In our business field, there has been a lot of movement during 2014. Several take-overs and management buy-outs took place. As a relatively small biotech company, it is of great importance to be aware of our Unique Selling Points and strengths.

Together with an external specialist consultancy, our HR department started a project on creating a company culture that fits our small and entrepreneurial Company. This has been an efficient and pleasant way to create awareness for the internal and external changes and employee satisfaction. We aim to provide a motivating working environment to increase (cross-functional) collaboration, encourage employees to take ownership and responsibility and coach employees by improving management skills.

Employee participation

In 2015, Pharming's workforce exceeded 50 employees in The Netherlands. Elections were held to form a workers representative advisory council. Two employees showed interest in participating in a Works Council, where at least five employees are needed to form a Works Council body. Pharming was therefore not able to form a new Works Council.

We do believe employee participation is valuable and we will continue encouraging this participation.

International human resources management

Our sphere of activity is continuously expanding globally. International management and long-distance leadership has become more important and will get a bigger role in our management approach in the coming years.

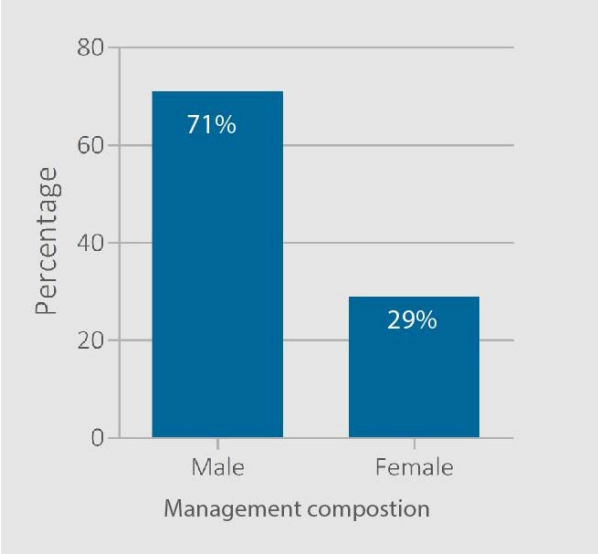
Employee statistics

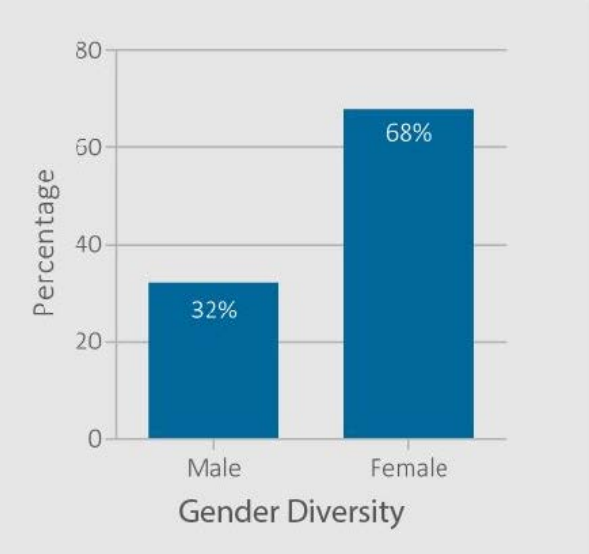
At 31 December 2015, 79 people (75.3 FTE) were employed (2014: 57). During 2015, the Company hired 26 new employees (2014: 14) and 4 employees left the Company (2014: 7).

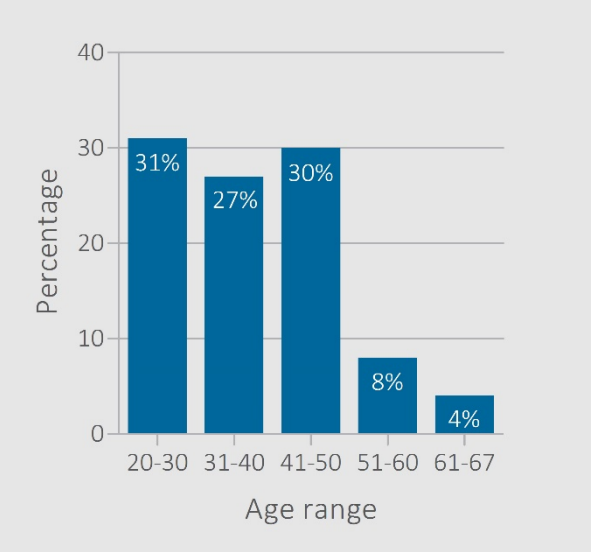
The majority of staff are employed at Pharming's headquarters in Leiden, with approximately thirty employees working at other locations in the Netherlands, the USA, Germany and France. The Company's business involves specific high-tech processes and technologies and requires the employment of highly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

Headcount at 31 December	2015	2014	2013
G&A	12	9	8
Manufacturing	27	19	16
R&D	40	29	20
Total	**79**	57	44

Diversity







Providing equal opportunities

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

Performance management cycle

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

INFORMATION FOR SHAREHOLDERS AND INVESTORS

GENERAL

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

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

Activities in 2015 for shareholders and investors included:

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

SHARE INFORMATION

Pharming Group N.V.'s shares are listed on Euronext Amsterdam (symbol: PHARM) since 1999.

The shares (ISIN Code: NL0010391025) are only traded through the book-entry facilities of Euroclear Nederland. The address of Euroclear Nederland is: Herengracht 459-469, 1017 BS Amsterdam, the Netherlands.

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

FINANCIAL CALENDAR FOR 2016

18 May 2016	Publication of first quarter 2016 financial results at 07.00 CET.
25 May 2016	Annual General Meeting of shareholders *Location:* Hotel Holiday Inn, Haagse Schouwweg 10, 2332 KG Leiden, The Netherlands at 14.00 CET.
28 July 2016	Publication of first six months 2016 financial results at 07.00 CET.
27 October 2016	Publication of first nine months 2016 financial results at 07.00 CET.

Financial statements

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December

Amounts in € '000	Notes	2015	2014
Product sales	5	8,621	2,996
License fees	5	2,207	18,190
Revenues	5	**10,828**	**21,186**
Costs of sales	7	**(4,800)**	**(3,427)**
Gross profit		**6,028**	**17,759**
Other income	6	**147**	**105**
Research and development		(14,180)	(11,663)
General and administrative		(3,744)	(3,324)
Marketing and sales		(1,085)	-
Costs	7	**(19,009)**	**(14,987)**
Operating result		**(12,834)**	**2,877**
Fair value gain (loss) on revaluation derivatives	8	3,380	(9,106)
Other financial income and expenses	9	(503)	462
Financial income and expenses		**2,877**	**(8,644)**
Result before income tax		**(9,957)**	**(5,767)**
Income tax expense	10	-	-
Net result for the year		**(9,957)**	**(5,767)**
Attributable to:			
Owners of the parent		(9,957)	(5,767)
Total net result		**(9,957)**	**(5,767)**
Basic earnings per share (€)	30	(0.024)	(0.015)

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

Amounts in € '000	Notes	2015	2014
Net result for the year		(9,957)	(5,767)
Currency translation differences	16	30	45
Items that may be subsequently reclassified to profit or loss		30	45
Other comprehensive income, net of tax		30	45
Total comprehensive income for the year		(9,927)	(5,722)
Attributable to:			
Owners of the parent		(9,927)	(5,722)

The notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

Amounts in € '000	Notes	2015	2014
Intangible assets	11	724	777
Property, plant and equipment	12	5,661	5,598
Restricted cash	13	200	200
Non-current assets		6,585	6,575
Inventories	14	16,229	13,404
Trade and other receivables	15	3,220	1,554
Cash and cash equivalents	13	31,643	34,185
Current assets		51,092	49,143
Total assets		57,677	55,718
Share capital	16	4,120	4,077
Share premium	16	283,396	282,260
Legal reserves	16	66	36
Accumulated deficit	16	(263,743)	(256,530)
Shareholders' equity		23,839	29,843
Loans and borrowings	17	11,757	-
Deferred license fees income	18	7,808	10,022
Finance lease liabilities	19	798	965
Other liabilities		-	15
Non-current liabilities		20,363	11,002
Loans and borrowings	17	3,047	-
Deferred license fees income	18	2,207	2,200
Derivative financial liabilities	20	953	4,266
Trade and other payables	21	7,005	7,781
Finance lease liabilities	19	263	626
Current liabilities		13,475	14,873
Total equity and liabilities		57,677	55,718

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

		Attributable to owners of the parent		
Amounts in € '000	Notes	Number of shares	Share capital	Share Premium
Balance at 1 January 2014		334,655,224	3,346	254,901
Result for the year			-	-
Other comprehensive income for the year			-	-
Total comprehensive income for the year			-	-
Share-based compensation	16, 22	-	-	-
Bonuses settled in shares	16	963,066	10	440
Shares issued for cash	16, 20	30,000,000	300	13,704
Warrants exercised/ issued	16, 25	42,012,059	420	13,213
Options exercised	16	56,250	1	2
Total transactions with owners, recognized directly in equity		73,031,375	731	27,359
Balance at 31 December 2014		407,686,599	4,077	282,260
Result for the year			-	-
Other comprehensive income for the year			-	-
Total comprehensive income for the year			-	-
Share-based compensation	16, 22	-	-	-
Bonuses settled in shares	16	523,813	5	168
Shares issued for cash	16, 20	-	-	-
Warrants exercised/ issued	16, 25	3,405,128	34	949
Options exercised	16	356,250	4	19
Total transactions with owners, recognized directly in equity		4,285,191	43	1,136
Balance at 31 December 2015		411,971,790	4,120	283,396

The notes are an integral part of these financial statements.

		Attributable to owners of the parent		
Amounts in € '000	Notes	Legal reserves	Accumulated Deficit	Total Equity
Balance at 1 January 2014		-	(253,237)	5,010
Result for the year		-	(5,767)	(5,767)
Other comprehensive income for the year		36	9	45
Total comprehensive income for the year		36	(5,758)	(5,722)
Share-based compensation	16, 22	-	2,465	2,465
Bonuses settled in shares	16	-	-	450
Shares issued for cash	16, 20	-	-	14,004
Warrants exercised/ issued	16, 25	-	-	13,633
Options exercised	16	-	-	3
Total transactions with owners, recognized directly in equity		-	2,465	30,555
Balance at 31 December 2014		36	(256,530)	29,843
Result for the year		-	(9,957)	(9,957)
Other comprehensive income for the year		30	-	30
Total comprehensive income for the year		30	(9,957)	(9,927)
Share-based compensation		-	2,744	2,744
Bonuses settled in shares	16, 22	-	-	173
Shares issued for cash	16	-	-	-
Warrants exercised/ issued	16, 20	-	-	983
Options exercised	16, 25	-	-	23
Total transactions with owners, recognized directly in equity		-	2,744	3,923
Balance at 31 December 2015		66	(263,743)	23,839

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

Amounts in € '000	Notes	2015	2014
Receipts from license partners, including product sales		8,504	18,544
Receipt of value added tax		1,287	971
Interest received		141	185
Other receipts		19	283
Payments of third party fees and expenses, including value added tax		(11,253)	(7,851)
Payments of manufacturing expenses		(8,811)	(10,124)
Net compensation paid to (former) board members and (former) employees		(3,772)	(2,472)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(2,531)	(2,109)
Other payments		(6)	-
Net cash flows used in operating activities		**(16,422)**	**(2,573)**
Purchases of property, plant and equipment	12	(898)	(154)
Acquisition of business	27	-	(500)
Net cash flows used in investing activities		**(898)**	**(654)**
Proceeds of equity and warrants issued	16	483	19,375
Proceeds of loans from banks	17	15,524	-
Repayments of loans from banks	17	(359)	-
Payments of transaction fees and expenses	17	(608)	(697)
Payments of finance lease liabilities	19	(678)	(682)
Net cash flows from financing activities		**14,362**	**17,996**
Increase (decrease) of cash	13	**(2,958)**	**14,769**
Exchange rate effects		416	464
Cash and cash equivalents at 1 January		34,385	19,152
Total cash at 31 December	13	**31,843**	**34,385**
Of which restricted cash	13	200	200
Cash and cash equivalents at 31 December	13	**31,643**	**34,185**

The notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Pharming Group N.V., Leiden for the year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Board of Supervisory Directors on 23 March 2016. The financial statements are subject to approval of the Annual General Meeting of shareholders, which has been scheduled for 25 May 2016.

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

Darwinweg 24

2333 CR Leiden

The Netherlands

Pharming is a specialty pharmaceutical company developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs. Pharming's lead product, RUCONEST® (constant alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute Hereditary Angioedema ("HAE") attacks in patients in Europe, the US and RoW.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with international financial reporting standards (IFRS) and IFRS interpretations committee (IFRS IC) interpretations applicable to companies reporting under IFRS as endorsed by the European Union and valid as of the balance sheet date. The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of financial statements in conformity with IFRS and book 2 title 9 of the Dutch Civil Code requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.3.

2.2 Basis of consolidation

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

An entity is considered effectively controlled if the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting year as Pharming Group N.V., using

the same accounting policies. Intercompany transactions, balances and unrealized gains and losses on transactions between group companies are eliminated.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The following table provides an overview of the investments at 31 December 2015:

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

2.3 Significant accounting judgments and estimates

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

Inventories

At year-end 2015, the Company has capitalised batches of RUCONEST® as well as skimmed milk with an aggregate carrying value of €16.2 million. These inventories are available for use in commercial, pre-clinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected sales as well as pre-clinical and clinical programmes for both HAE project and other indications of the rhC1INH product. In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected remaining shelf life of the product involved. Due to the early stage commercialisation cycle of RUCONEST® the actual cash proceeds from these product sales are currently difficult to predict in terms of volumes, timing and reimbursement amounts. In addition, further inventory investments and execution of pre-clinical and clinical activities are subject to availability of sufficient financial resources.

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

Derivative instruments presented as financial liabilities

Derivative instruments which are not equity instruments under IAS 32, IAS 39 and IFRS 13 and other standards, such as warrants to acquire Pharming shares which have a cashless exercise option, are presented as financial liabilities.

All Pharming warrants are essentially the commitment to issue a fixed number of shares for a fixed amount of cash, but the possibility of cashless exercise (where a holder decides to accept fewer shares so as to avoid paying the relevant amount of cash, thus resulting in a number of shares to issued which can vary downward from the original number) requires that such warrants are treated as financial liabilities. As such, these derivative instruments are initially recognized at fair value and subsequently revalued at fair value through profit or loss with changes in the fair value recognized in the statement of income as they arise. Such revaluations do not represent the actual liability to issue shares, which is unchanged, but a notional market value of the instrument as if a new instrument with the same terms were issued on the measurement date. The revaluations are not cash movements or capable of being realized, and any accumulated revaluation total is returned to the profit & loss account (if a loss) or added to equity (if a gain) upon the extinction of the instrument through exercise or expiry, resulting in a net nil balance. These revaluation amounts do not represent any aspect of the performance of Pharming as a company, and are accordingly presented as a separate line under Financial Income and Expenditure.

As at 31 December 2015, the Company has presented such derivative instruments as financial liabilities with a carrying value of €1.0 million. The revaluation shown in the profit & loss account represents the notional adjustment necessary to reflect the market values of similar warrant rights as if they were issued on the measurement date (31 December 2015) with the same terms and are based on models using assumptions with respect to, inter alia, the exercise of the warrants on or before maturity dates as well as (historical) volatility. Actual share price developments may trigger exercise of these warrants at a different time than assumed in the model, or result in their expiry unexercised, and may also result in the issue of shares to warrant holders at a time when the Pharming share price is higher or lower than anticipated at 31 December 2015. As a result, the difference between the open market value of shares transferred to warrant holders upon exercise and the carrying value at year-end 2015 as charged to the statement of income may be material, but will be a non-cash movement to profit & loss or equity as described above.

A sensitivity analysis on the possible effects has been included in note 29 of these consolidated financial statements.

Revenue

Revenue from product sales is recognised when risks and rewards of ownership are transferred to the buyer. Recognition of product sales to the US is based on monthly sales and inventory reports and quarterly royalty reports received from our partner Valeant. Calculated rebates and chargebacks are estimates based on the royalty reports. Actual rebates and chargebacks can differ from these estimates.

In 2010 - 2013, license fee payments were received according to the license agreements with partners. These license fees relate to the sales rights of RUCONEST®, have therefore been recognized as deferred revenue, and are released over the expected life of the license.

In 2014 the Company's revenue also included a one-off non-refundable milestone payment of €16.0 million following market approval of RUCONEST® by the US FDA in 2014, which was recognized as

revenue in that year as it related to activities required to achieve the milestone and not subsequent activity. In 2015 no milestone payments have been received.

Property, plant and equipment

At year-end 2015, Pharming has property, plant and equipment with a carrying value of €5.7 million. These assets are dedicated to the production of RUCONEST® inventories (€4.2 million) and other corporate purposes (€1.5 million). It is assumed these asset groups will continue to be used in ongoing production, research and development or general and administrative activities over its anticipated lifetime. The carrying value of these assets may be impaired in the future in case of a decision to cancel and/or defer certain activities.

2.4 Accounting policies

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (generally euros) using exchange rates prevailing at the date of the transaction. Transactions executed in foreign currencies are translated at the exchange rate at the date of transaction.

The resulting transaction gains or losses are 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 weighted average exchange rates for the year. The effects of translating these operations are taken directly to other comprehensive income within equity. On disposal of a foreign entity, the accumulated exchange difference is recognized in the statement of income as a component of the gain or loss on disposal. The above-stated translation of foreign entities applies to the entity in the United States. The €/USD exchange rates applied at 31 December 2015 amounted to € 0.917 (31 December 2014: € 0.823).

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 year. Liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

Intangible assets

Intangible assets acquired separately are measured at historical cost. The cost of intangible assets acquired in a business combination is recognized and 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.

The remaining amortization periods for intangible assets at 31 December 2015 are:

Category	Description	Amortization period	
		Total	Remaining
Transgenic technology	Patents and licenses	6 to 10 years	Not applicable*
RUCONEST® for HAE (EU)	Development costs	10 years	5 years
New product leads**	Development costs	Not yet in use	Not yet in use

* Intangible assets with carrying value at 31 December 2015 of €nil.

** Regarding Pompe and Fabry's disease

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.

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:

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

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

Impairment of assets

Assets that have an indefinite useful life are not subject to 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. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

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

- finished goods: consists of batches of RUCONEST®. These batches comprise therapeutic product available for sales, clinical development and pre-clinical activities. Initial recognition is at cost, including raw materials used, external manufacturing and testing fees incurred to bring the product in a saleable or useable condition.
- work in progress: semi-finished goods consisting of drug substance.

- raw materials: consists of skimmed milk serving as a raw material for the batches of RUCONEST®. Valuation per unit skimmed milk is based on the total costs of the rabbit facilities and the normal production levels.

Costs are determined using the first-in first-out (FIFO) method. Net 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, or, in case the products will be used for a clinical trial, the net realizable value is the reimbursement we expect to receive from partners in this trial. The costs of inventories are recognized as expense and included in costs of product sales if related to the sale of products. If related to the use in a clinical trial the expenses are included in the operating costs.

A provision is provided for inventories if no future use or sale is expected before the expiration date.

Financial assets

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

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

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

Impairment of financial assets

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

Trade and other receivables

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

Cash and cash equivalents

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

Equity

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

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

Financial liabilities and borrowings

Financial liabilities within the scope of IAS39 are classified as either financial liabilities at fair value through profit or 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; transaction costs related to the issue of a compound financial instrument are allocated to the liability and equity components of the instruments in proportion to the allocation of proceeds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. 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.

Provisions

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

Derivative financial liabilities

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

Trade and other payables

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

Revenue recognition

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

License fees and royalties

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

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

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

Milestones are considered substantive if all of the following conditions are met:

- The milestone payments are non-refundable under the terms of the agreement;
- Achievement of the milestone involved a degree of risk and was not reasonably assured at the inception of the agreement;
- Substantial effort is involved in achieving the milestone;
- The amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and
- A reasonable amount of time passed between the upfront license fee payment and the first milestone payment as well as between each subsequent milestone payment.
- If any of these conditions are not met, the Company recognized the proportionate amount of the milestone payment upon receipt as revenue that corresponds with the percentage of work already completed. The remaining portion of the milestone payment would be deferred and recognized as revenue as performance obligations are completed.

- Royalties on license agreements are recognized in accordance with the substance of the agreement.
- Product Sales
- Revenues from product sales are recognized when:
- The significant risks and rewards of ownership of the products have been transferred to the buyer;
- The Company does not retain either managerial involvement to the degree usually associated with ownership or effective control over the products sold;
- The amount of revenue and the costs (to be) incurred in the transaction can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the Company.

Costs of product sales

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

Other income

Pharming receives certain grants which support the Company's research efforts in defined research and development projects. These subsidies generally provide for reimbursement of approved costs incurred as defined in various grants. Subsidies are 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 grant under other income in the statement of income in order to enable comparison of its statement of income with companies in the life sciences sector. Companies in this sector generally present governmental grants as income since these often are a significant source of income.

Interest income

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

Operating costs and finance expenses

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

Interest expense is recognized as interest accrues, using the effective interest method.

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

Short-term employee benefits

The Company does not provide any benefits based on financial measurement of the statement of income. Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Pension plan

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

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

Share-based payment

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

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

Long Term Incentive Plan

For a limited number of board members and officers, performance shares are granted free of charge. A maximum number of predetermined shares vest three years after the grant date, provided that the participant to the long term incentive plan is still in service (continued employment condition), with actual shares to be transferred based on the relative achievement of Pharming's share price compared to a peer group. The maximum number of shares immediately vests upon a change of control.

The fair value is determined using Monte Carlo simulation. The costs of the LTIP are recognized in the income statement during the vesting period. The fair value at the grant date includes the market performance condition (relative total shareholder return performance) but excludes the three-year service condition.

Leases

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

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

Lease agreements in which the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are 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 lessor funds' assets in use and effectively controlled by the Company. Such constructions qualify as a 'lease incentive', in which case the Company fully capitalises the contribution of the lessor in property, plant and equipment with a corresponding increase in liabilities. The investment is depreciated in accordance with the accounting policies for property, plant and equipment, with the accrued lease incentive released to operational lease charges in the statement of income throughout the lease agreement period and on a straight-line basis.

Deferred income tax

Deferred tax assets, including assets arising from losses carried forward, are 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 utilised. 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 year and are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets and liabilities are stated at face value. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Cash flow statement

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

Earnings per share

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Board of Management, which makes the Company's strategic decisions, has been identified as the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments.

2.5 Effect of new and forthcoming accounting standards

The IASB and IFRS IC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. Pharming has introduced standards and interpretations that became effective in 2015. The adoption of these standards and interpretations did not have a material effect on the Company's financial performance or position.

Effect of new accounting standards

No new standards and interpretations became effective as of 1 January 2015 which impact the amounts reported in these consolidated financial statements.

Effect of forthcoming accounting standards

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements.

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

IFRS 15, 'revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount,

timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the Use and obtain the benefits from the good or service. The standard replaces IAS 18 'revenue' and IAS 11 'construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is assessing the impact of IFRS 15 in 2016.

IFRS 16, 'Leases' defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Company is assessing the impact of IFRS 16 in 2016.

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

3. GOING CONCERN ASSESSMENT

The Board of Management of Pharming has, upon preparing and finalising the 2015 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of signing these financial statements.

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

- Cash and cash equivalents of approximately €27.8 million as per the date of publication of these financial statements;
- The projected, however undisclosed sales revenues for the period involved, related to the markets in which the Company already has market approval;
- The Company's operating cash outflows, its investments in (in)tangible assets as well as its financing payments for one year after the end of the financial statements. The cash outflow is expected to increase as a result of the increase in production, development costs, more investments and repayment of the loans.
- Pharming has not taken into account other potential sources of cash income, including but not limited to the following:
- Proceeds from the exercise of warrants or options outstanding as per the date of these financial statements (see note 25);
- Capital raised by means of an additional capital markets transaction, such as non-dilutive (debt) financing, issuance of equity or a combination thereof. The timing and proceeds from such a transaction are subject to, for instance, market conditions (e.g. the share price in relation to the nominal value per share), availability of assets to secure debt transactions as well as approvals of boards and/or shareholders (e.g. To issue additional shares); and
- Receipts from existing or new license partners.

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

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

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

Overall, based on the outcome of this assessment, these financial statements have been prepared on a going concern basis. Notwithstanding their belief and confidence that Pharming will be able to continue as a going concern, the board of management emphasizes that the actual cash flows for various reasons may ultimately (significantly) deviate from their projections.

Therefore, in a negative scenario (actual cash inflows less than projected and/or actual cash outflows higher than projected) the going concern of the Company could be at risk in the period beyond 12 months as per the date of these financial statements.

4. SEGMENT INFORMATION

The Board of Management is the chief operating decision-maker. The Board of Management considers the business from both a geographic and product perspective. From a product perspective, the Company's business is almost exclusively related to the recombinant human C1 esterase inhibitor business. From a geographic perspective, the Company is operating in three main segments: the US, Europe and Rest of the world (RoW). The Board of Management primarily measures revenues to assess the performance of the operating segments. Costs and assets are not allocated to the geographic segments.

Total revenues per geographic segment for the financial year 2015 and 2014 are:

Amounts in € '000	2015	2014
US	7,458	17,420*
Europe	2,822	3,476
RoW	548	290
Total revenues	**10,828**	**21,186**

*Including milestone payment of €16.0 million

5. REVENUES

Amounts in € '000	2015	2014
Product sales	8,621	2,996
License fees	2,207	18,190
Total	**10,828**	**21,186**

Product sales relate to supplies of RUCONEST® to partners for the US market (Valeant) and the EU market (SOBI) and own direct sales in the EU market and RoW. The product sales significantly increased due to higher sales in the US market of €6.3 million in the first full year of sales.

In 2015, the Company's income from license fees includes an amount of €2.2 million related to deferred revenue (2014: €2.2 million). In 2014 the Company's income from license fees also included a milestone payment of €16.0 million from Salix following market approval of RUCONEST® by the US FDA in 2014.

6. OTHER INCOME

Other income related to grants exclusively and amounted to €0.1 million in 2015 (€0.1 million in 2014). Grants in both years reflect an annual payroll tax deduction granted by the Dutch government for a range of certain research and development activities.

7. EXPENSES BY NATURE

Cost of product sales are in 2015 and 2014:

Amounts in € '000	2015	2014
Cost of product sales	(5,000)	(2,853)
Inventory impairments	200	(574)
Total	**(4,800)**	**(3,427)**

Cost of product sales in 2015 amounted to €5.0 million (2014: €2.9 million) and relates to actual supplies. Inventory impairments related to inventories designated for commercial activities amounted to a reversal of €0.2 million in 2015 (2014: addition of €0.6 million). The impairment stems from the valuation of the inventories against lower net realisable value.

Costs of research and development increased to €14.2 million in 2015 from €11.7 million in 2014. The €2.5 million increase primarily stems from an increase of costs associated with clinical and regulatory activities in relation to new market approvals and new product development.

Pharming's general and administrative costs increased to €3.7 million in 2015 from €3.3 million in 2014; the increase mainly stems from the share-based compensation (non-cash).

The share-based compensation has been described in note 22 of the consolidated financial statements.

In 2015, Pharming started with own direct sales and marketing activity and expensed €1.1 million.

Employee benefits

Amounts in € '000	2015	2014
Salaries	(5,854)	(4,195)
Social security costs	(579)	(458)
Pension costs	(364)	(300)
Share-based compensation	(2,744)	(2,465)
Total	**(9,541)**	**(7,418)**

Salaries include holiday allowances and cash bonuses.

The number of employees

Weighted average full time equivalent	2015	2014
Research and development	52	40
General and administrative	9	7
Marketing and sales	1	-
Total	**62**	**47**

The weighted average number of employees working outside the Netherlands was 11 (2014: 3).

Employee benefits are charged to research and development costs or general and administrative costs or marketing and sales costs based on the nature of the services provided.

Inventories

In 2015, the Company incurred expenses of €0.3 for batches of RUCONEST® (2014: €1.0) for research and development and a reversal of €0.2 million for the release of impairment charges (2014: €0.6 million).

Depreciation and amortisation charges

Amounts in € '000	Notes	2015	2014
Property, plant and equipment	12	(493)	(425)
Intangible assets	11	(53)	(97)
Total		**(546)**	**(522)**

The increase of depreciation charges of property, plant and equipment in 2015 as compared to 2014 stems from new investments. For property, plant and equipment, in 2015 an amount of €0.4 million was charged to research and development costs (2014: €0.3 million) and €0.1 million to general and administrative expenses (2014: €0.1 million).

Amortisation charges of intangible assets have been fully allocated to research and development costs in the statement of income

Operating lease charges

For the year 2015, the Company charged €0.9 million (2014: €0.7 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars.

These non-cancellable leases at 31 December 2015 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 year have been disclosed in note 28. Allocations of the operating lease charges to research and development costs or general and administrative expenses have been based on the nature of the asset in use.

Independent auditor fees

Fees of PricewaterhouseCoopers Accountants N.V. incurred in relation to 2015 and 2014 audit services were as followed:

Amounts in € '000	2015	2014
Audit of the financial statements	(166)	(119)
Extra audit procedures	-	(7)
Total	**(166)**	**(126)**

8. FAIR VALUE GAIN (LOSS) ON REVALUATION DERIVATIVES

Amounts in € '000	2015	2014
Revaluation warrants	2,854	1,012
Revaluation warrants exercised	526	(10,118)
Total	**3,380**	**(9,106)**

In 2015, the Company incurred a gain (non-cash) through the fair value calculations of the derivatives compared to 2014. Refer to note 20 for the Derivative financial liabilities.

9. OTHER FINANCIAL INCOME AND EXPENSES

Amounts in € '000	2015	2014
Interest income	119	180
Interest expenses	(124)	(175)
Foreign currency results	276	457
Other financial expenses	(774)	-
Total	**(503)**	**462**

Interest income

Interest income from cash has decreased compared to previous year as a result of a decrease of interest rates and cash position.

Interest expenses

Interest expenses from financial leases has decreased compared to 2014 as a result of redemption of the various finance arrangements entered into 2011.

Foreign currency results

These results primarily follow from the revaluation of bank balances denominated in foreign currencies, mainly US Dollars, 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.

Other financial expenses

Other financials expenses relate to the amortised costs from loans and borrowings.

10. INCOME TAXES

No current or deferred income taxes applied to the statement of income in both 2014 and 2015 and no other tax items apply to either equity or comprehensive income in both years. The Dutch fiscal unity at year-end 2015 has approximately €172 million of taxable losses that can be offset in the years 2016-2024. Besides the fiscal unity, the Company has taxable losses in foreign investments of total €10 million that can be offset in the years 2016 – 2035.

The board of management has considered the Company's history of losses and concluded that it is not probable that the benefits of these tax loss carry forward will be realised in the near term. Accordingly, the Company did not record a deferred tax asset.

11. INTANGIBLE ASSETS

Amounts in € '000	Transgenic technology	RUCONEST® for HAE (EU)	ProBio technology*	New product leads	Total
At cost	2,651	528	2,816	-	5,995
Accumulated:					
Amortisation charges	(2,572)	(167)	(1,027)	-	(3,766)
Impairment charges	(35)	-	(1,789)	-	(1,824)
Carrying value at 1 January 2014	**44**	**361**	**-**	**-**	**405**
Amortisation charges	(44)	(53)	-	-	(97)
Impairment charges	-	-	-	-	-
Assets acquired	-	-	-	469	469
Movement 2014	**(44)**	**(53)**	**-**	**469**	**372**
At cost	2,651	528	2,816	469	6,464
Accumulated:					
Amortisation charges	(2,616)	(220)	(1,027)	-	(3,863)
Impairment charges	(35)	-	(1,789)	-	(1,824)
Carrying value at 31 December 2014	**-**	**308**	**-**	**469**	**777**
Amortisation charges	-	(53)	-	-	(53)
Impairment charges	-	-	-	-	-
Assets expired	-	-	-	-	-
Movement 2015	**-**	**(53)**	**-**	**-**	**(53)**
At cost	2,651	528	-	469	3,648
Accumulated:					
Amortisation charges	(2,616)	(273)	-	-	(2,889)
Impairment charges	(35)	-	-	-	(35)
Carrying value at 31 December 2015	**-**	**255**	**-**	**469**	**724**

(*) In 2015, the Company eliminated all intangible assets of ProBio technology due to expiration of the assets.

The Company has capitalised development costs in the amount of €0.5 million in relation to RUCONEST® for HAE in the European Union. Following market launch of the product in 2010 the amortisation of the asset has started and no more development costs have been capitalised. In 2014, the Company acquired assets from transgenic rabbit models, for a total amount of €0.5 million which is recognised as intangible assets regarding development costs of two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease. As a result of this transaction Pharming has a gain in their time-to-market for these two product leads. The assets are recorded at fair value, related to the development costs that Pharming avoids or saves by acquiring these assets.

The development costs are not available for use until completion. Amortisation will start after completion which is not expected within five years. Please refer to note 27 business combinations.

12. PROPERTY, PLANT AND EQUIPMENT

Amounts in € '000	Land and land improvements	Operational facilities	Leasehold Improvement	Manufacturing equipment	Other	Total
At cost	27	1,882	1,969	5,102	1,344	10,324
Accumulated depreciation	-	(1,376)	(1,460)	(210)	(1,050)	(4,096)
Carrying value at 1 January 2014	**27**	**506**	**509**	**4,892**	**294**	**6,228**
Investments	-	64	-	-	121	185
Depreciation charges	-	(129)	(203)	(516)	(93)	(941)
Revaluation manufacturing equipment	-	-	-	126	-	126
Movement 2014	**-**	**(65)**	**(203)**	**(390)**	**28**	**(630)**
At cost	27	1,946	1,969	5,228	1,465	10,635
Accumulated depreciation	-	(1,505)	(1,663)	(726)	(1,143)	(5,037)
Carrying value at 31 December 2014	**27**	**441**	**306**	**4,502**	**322**	**5,598**
Investments	-	371	-	-	527	898
Divestments	-	-	-	-	(4)	(4)
Depreciation charges	-	(144)	(203)	(363)	(147)	(857)
Depreciation of divestments	-	-	-	-	2	2
Revaluation manufacturing equipment	-	-	-	24	-	24
Movement 2015	**-**	**227**	**(203)**	**(339)**	**378**	**63**
At cost	27	2,317	1,969	5,252	1,988	11,553
Accumulated depreciation	-	(1,649)	(1,866)	(1,089)	(1,288)	(5,892)
Carrying value at 31 December 2015	**27**	**668**	**103**	**4,163**	**700**	**5,661**

Depreciation charges on manufacturing equipment of €0.4 million in 2015 (2014: €0.5 million) are charged to the value of inventories and accordingly an amount of €0.5 million of total 2015 depreciation charges have been charged to the statement of income (2014: €0.4 million).

At year-end 2015, the carrying value of the assets hired under a financial lease arrangement – and thus with a restricted title - was €1.4 million (31 December 2014: €1.5 million) and related to manufacturing equipment.

13. RESTRICTED CASH, CASH AND CASH EQUIVALENTS

Amounts in € '000	2015	2014
Non-current restricted cash	200	200
Current restricted cash	-	-
Cash and cash equivalents	31,643	34,185
Balance at 31 December	**31,843**	**34,385**
Balance at 1 January	34,385	19,152
Exchange rate effects on cash	416	464
Increase (decrease) of cash	**(2,958)**	**14,769**

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

14. INVENTORIES

Inventories include batches RUCONEST® and skimmed milk available for production of RUCONEST®.

Amounts in €'000	2015	2014
Finished goods	11,397	7,023
Work in progress	3,232	5,044
Raw materials	1,600	1,337
Balance at 31 December	**16,229**	**13,404**

The inventory valuation at 31 December 2015 is stated net of a provision of €0.5 million (2014: €1.7 million) to write inventories down to their net realisable value.

Changes in the adjustment to net realisable value:

Amounts in € '000	2015	2014
Balance at 1 January	(1,691)	(1,690)
Reversal of (addition to) impairment for the year	247	(574)
Related to costs of product sales	548	573
Related to operating costs	434	-
Balance at 31 December	**(462)**	**(1,691)**

In 2015, the reversal of €0.2 million was based on adjusted sales forecasts. The impaired amount related to operating costs (€0.4 million) was used for IMP drugs in clinical studies.

Cost of inventories included in the cost of product sales in 2015 amounted €5.0 million (2014: €2.9 million). The main portion of inventories at 31 December 2015 has expiration dates starting beyond 2018 and is expected to be sold or used before expiration.

15. TRADE AND OTHER RECEIVABLES

Amounts in € '000	2015	2014
Trade receivables	2,106	701
Prepaid expenses	227	144
Value added tax	298	151
Other receivables	589	558
Balance at 31 December	**3,220**	**1,554**

In 2015, trade receivables increased significantly to €2.1 million as result of the royalties of US sales 2015 of €1.9 million compared to €0.3 million at year end 2014. The other receivables are related to the reimbursement of the Prophylaxis trial expenses of €0.5 million from partner Valeant. Trade and other receivables at 31 December 2015 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

16. SHAREHOLDER EQUITY

The Company's authorised share capital amounts to €5.5 million and is divided into 550,000,000 ordinary shares with a nominal value of €0.01 each. All 411,971,790 shares outstanding at 31 December 2015 have been fully paid-up. Other reserves include those reserves related to currency translation, share-based compensation expenses and other equity-settled transactions. This note further describes the background of the main equity movements in 2015 and 2014.

Private placement

In 2014, Pharming entered into a private placement of €14.7 million for which it issued 30,000,000 shares against €0.49 representing the average closing price of the shares over the last five trading days preceding the placement. In addition, the Company issued 21,000,000 warrants with an exercise period of 2 years and an exercise price of €0.57 to the investors. The transaction costs for this placement amounted to €0.7 million.

Adjustment share capital

In 2014 the Company's shareholders approved the increase of the share capital from €4.5 million to €5.5 million. The increase has been due to the granted staff option pool for the period 2014-2018 and potential future capital raises. The overall effect of the adjustment on shareholders' equity was €nil.

Renamed other reserves into legal reserves

In 2015, the Company renamed the other reserves to legal reserves.

In 2014, the Company reallocated the other reserves to the accumulated deficit as a result of a change in the nature of these not recordable free reserves. As of 31 December 2014 the legal reserves concern the currency translation differences of foreign investments.

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

Net loss and accumulated deficit

Article 25.1 of the articles of association reads as follows: 'the management board shall annually determine, subject to the approval of the board of supervisory directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.' the board of management has proposed to forward the net loss for the year 2015 of €10.0 million to the accumulated deficit. Anticipating the approval of the financial statements by the shareholders at the AGM, this proposal has already been reflected in the financial statements and accordingly accumulated deficit has increased to €263.7 million at year-end 2015.

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 2015 these transactions were valued at €2.7 million and for 2014 at €2.5 million (see note 22).

Bonuses settled in shares

The Company in 2015 issued 523,813 shares to members of the board of management and various managers in lieu of bonuses with an aggregate value of €0.2 million. In 2014 a total of 963,066 shares were issued to pay off bonuses of €0.5 million.

Warrants exercised

In 2015, a total of 3,405,128 warrants were exercised in exchange for 3,405,128 shares. The Company received a cash amount of €0.5 million in connection with these exercises and derecognised their Fair values prior to exercise of in total €0.5 million.

In 2014, a total of 42,012,059 warrants were exercised in exchange for 42,012,059 shares. The Company received a cash amount of €4.6 million in connection with these exercises.

Options exercised

In 2015, a total of 356,250 options were exercised in exchange for 356,250 shares and in 2014, a total of 56,250 options were exercised in exchange for 56,250 shares.

17. LOANS AND BORROWINGS

On 20 July 2015, the Company entered into a straight debt financing with Oxford Finance LLC and Silicon Valley Bank (the Lenders).

Under the terms and conditions of the agreement, the Lenders provide USD17 million (net €15.5 million) secured senior debt funding against 48 months' promissory notes with a 7.02% fixed interest per annum. The initial 12 months of the notes are interest payments only, followed by monthly re-payment of the notes in a 36 months' straight amortization scheme. In 2015 the total amount of interest was €0.8 million.

As further consideration for the facility, the Lenders have received a 3.95% warrant coverage (2,315,517 warrants) with a strike price of €0.29, representing the average closing price of Pharming shares over the last ten days prior to the closing date, and a final payment on maturity (1 July 2019) of 9% of the principal sum. Other facility fees of €0.6 million have been deferred from the original loans.

The Company, and her subsidiaries, have pledged all the receivables, moveable assets and intellectual property rights as security to the Lenders.

After initial recognition at fair value, the carrying amount of the loan is restated at each reporting date.

In case of a change in the underlying cash flows, the carrying amount of the loan is restated to the net present value of the underlying cash flows discounted at the effective interest rates of 12.2 and 13.1%.

The Loans for 2015 can be summarised as follows:

Amounts in € '000	2015
Loans from banks	14,804
Current portion of the long-term loans due within one year	(3,047)
Non-current portion of long-term loans	11,757

The remaining lifetimes of the loans are no longer than 5 years.

18. DEFERRED LICENSE FEES INCOME

In 2010, the Company entered into a distribution agreement for RUCONEST® with SOBI under which a €3.0 million upfront payment and a €5.0 million milestone payment were received in cash. The €8.0 million is released to the statement of income in accordance with the remaining lifetime of the agreement following market approval for RUCONEST® in October 2010 and subsequent start of supplies. In both 2015 and 2014 €0.8 million was released from this agreement.

In 2010 Pharming received an upfront payment of USD15.0 million or €11.7 million in cash from Santarus, Inc. With respect to a RUCONEST® license agreement for recombinant human C1 inhibitor in the US, Canada and Mexico. Since the Company has to perform clinical, regulatory and commercial activities, the amount is released to the statement of income over the full lifetime of the agreement as of its effective date. Accordingly, an amount of €1.1 million in license fees income was recognised as revenues from license fees in both 2015 and 2014.

In 2014 a milestone payment of USD20.0 million (€16.0 million) was received for first commercial sale in the US of RUCONEST® and the receipt of the launch supplies by our partner Salix and was fully recognised as revenue.

In 2013, Pharming received an upfront payment of €1.1 million in cash from the Shanghai Institute of Pharmaceutical Industry (SIPI) with respect to a strategic collaboration in China for the development, manufacturing and commercialisation of new products at SIPI, funded by SIPI up to IND stage, based on the Pharming technology platform. In addition, Pharming has also granted SIPI an exclusive license to commercialise RUCONEST® in China. In 2015 €0.3 million was recognized as revenue from this agreement (2014: €0.3 million).

Amounts in € '000	2015	2014
Total balance at 1 January	12,222	14,422
Revenues from deferred license fees	(2,207)	(2,200)
Total balance at 31 December	**10,015**	**12,222**
Current balance at 31 December	(2,207)	(2,200)
Non-current balance at 31 December	**7,808**	**10,022**

The revenues from deferred license fees are the release of upfront payments of €2.2 million (2014: €2.2 million). The slightly increase of the revenues from deferred license fees is caused by the release of the upfront payment from Megapharm.

19. FINANCE LEASE LIABILITIES

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

Amounts in € '000	2015	2014
Total balance at 1 January	1,591	1,973
Revaluation of finance lease liabilities	24	126
Interest expense accrued	124	175
Payments of finance lease liabilities	(678)	(683)
Total balance at 31 December	**1,061**	**1,591**
Current balance at 31 December	(263)	(626)
Non-current balance at 31 December	**798**	**965**

Pharming has entered into a finance lease arrangement related to an existing manufacturing agreement, in which a service provider invested into certain assets exclusively in use by the Company but operated by the service provider. The Company will reimburse the service provider an aggregate amount of €2.8 million over the lifetime of the agreement through payments of a variable service fee charge based on the realised production.

The amount of the net present value of the investment of €1.8 million has been presented as manufacturing equipment with a simultaneous increase of finance liabilities. An estimated 11.0% annual interest charge applies to this agreement. The service provider is and will remain to be the legal owner of the assets in use. The fair value of the finance lease obligations approximates their carrying amount. No arrangements have been entered into for contingent rental payments.

Future minimum lease payments under finance leases as at 31 December 2015 and 2014 are as follows:

	2015		2014	
Amounts in € '000	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	281	263	657	626
After one year but not more than five years	1,088	798	1,126	808
More than five years	-	-	281	157
Total balance at 31 December	**1,369**	**1,061**	**2,064**	**1,591**

At year-end 2015, the carrying value of the assets involved as leased was €1,4 million (2014: €1,5million) and related to manufacturing equipment.

20. DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities relate to financial instruments and include warrants issued in relation to the issue of equity and the loans in 2015.

Derivative financial liabilities recognised in 2015 related to 2,315,517 warrants issued in relation with the Loan and Security Agreement with Oxford Finance LLC and Silicon Valley Bank amounting USD17.0 million.

Following the exercise of 3,405,128 warrants in 2015, the Company derecognised their fair values prior to exercise of in total €0.5 million.

Derivative financial liabilities recognised in 2014 related to 21,000,000 warrants issued in

relation with the April 2014 private placement amounting to €5.5 million. Following the exercise of 42,012,059 warrants in 2014, the Company derecognised their fair values prior to exercise of in total €14.5 million.

Movement of derivative financial liabilities for 2015 and 2014 can be summarised as follows:

Amounts in € '000	Notes	2015	2014
Balance at 1 January		4,266	4,147
Initial recognition upon issue		590	5,544
Fair value losses (gains) derivatives	8	(3,380)	9,106
Exercise of warrants	16	(523)	(14,531)
Balance at 31 December		**953**	**4,266**

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

21. TRADE AND OTHER PAYABLES

Amounts in € '000	2015	2014
Accounts payable	1,016	2,943
Taxes and social security	187	130
Deferred compensation due to related parties	434	478
Other payables	5,368	4,230
Balance at 31 December	**7,005**	**7,781**

The amount of deferred compensation due to related parties involves members of the board of management and includes bonuses, holiday allowances and holiday rights.

The increase in other payables and decrease in accounts payable are related to the manufacturing expenses.

22. SHARE-BASED COMPENSATION

The Company has a long term incentive plan and two option plans in place: one for the board of management and one for employees ('the option plans'). All these plans or arrangements are equity settled. The total expense recognised in 2015 for share-based payment plans amounts to €2.7 million (2014: €2.5 million).

Models and assumptions

The costs of option plans are measured by reference to the fair value of the options at the grant date of the option.

IFRS 2 describes a hierarchy of permitted valuation methods for share-based payment transactions. If possible, an entity should use market prices at measurement date to determine the fair value of its equity instruments. If market prices are unavailable, as is the case with Pharming's option plans and long term incentive plan, the entity shall estimate the fair value of the equity instruments granted. A valuation technique should be used to estimate the value or price of those equity instruments as it would have been at the measurement date in an arm's length transaction between knowledgeable, willing parties.

The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments and shall incorporate all factors and assumptions that knowledgeable market participants would consider in setting the price.

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

- The exercise price of the option;
- The expected time to maturity of the option;
- The current price of the underlying shares;
- The expected volatility of the share price;
- The dividends expected on the shares;
- The risk-free interest rate for the expected time to maturity of the option.

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

For the long term incentive plan, the following elements of Pharming and/or the peer group are included in order to determine the fair value of long term incentive plan share awards, using Monte Carlo simulation:

- Start and end date of performance period;
- The grant date;
- The share prices;
- Exchange rates;
- Expected volatilities;
- Expected correlations;
- Expected dividend yields;
- Risk free interest rates.

Volatilities are based on the historical end-of-month closing share prices over the 3 years.

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

Long Term Incentive Plan

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

The reference group for the 2012-2015 programmes consists of the following 31 companies:

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

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

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

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

An overview of the maximum number of LTIP shares granted in 2013-2015 and in total as well as the fair value per share award is as follows:

Participant category	2013	2014	2015	Total
Board of Supervisory Directors	-	525,000	725,000	1,250,000
Board of Management	793,200	1,497,062	550,334	2,840,596
Senior managers	370,000	800,000	1,095,000	2,265,000
Total	**1,163,200**	**2,822,062**	**2,370,334**	**6,355,596**
Fair value per share award (€)	0.022	0.088	0.267	

The following table provides an overview of LTIP shares granted, forfeited or not vested in 2013-2015 as well as the number of LTIP shares reserved at 31 December 2015:

Participant category	Granted	Forfeited	Not vested	Reserved at December 2015
Board of Supervisory Directors	1,250,000	-	-	1,250,000
Board of Management	2,840,596	-	(793,200)	2,047,396
Senior managers	2,265,000	(150,000)	(220,000)	1,895,000
Total	**6,355,596**	**(150,000)**	**(1,013,200)**	**5,192,396**

The 2013 shares did not vest at the end of the vesting period (31 December 2015). LTIP shares reserved at 31 December 2015 relate to the 2014 and 2015 shares available for participants still in service at the end of 2015. The Company expensed amounts of €0.2 million in 2015 compared to €0.1 million in 2014.

Main characteristics of the option plans

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

Pharming may grant options to a member of the board of management or an employee:

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

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

Option plan Board of Management

Article 2.1 of the option plan for the board of management 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 board of management reads as follows: 'in case of the termination of the membership of a participant of the board of management, except for retirement and death,

Pharming at its sole discretion is entitled to decide that the options of the participant shall lapse if the conditions set out in the option granting letter have not been fulfilled at the time of the termination of the membership of the board of management.'

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

At the AGM of 18 June 2014 the two members of the board of management were granted a total of 19,200,000 options for the period 2014-2018 with annual vesting conditions for the period 2015-2019. The exercise price of the granted options for the first tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.505, having fair values of €0.177 - €0.366.

Vesting of the second tranche of the granted options in 2015 per individual member of the board of management was based on the requirement to be in service at 31 January 2016.

For the options of S. de Vries (12,000,000 options valued at grant date for €3,542,400 in total) and B.M. Giannetti (7,200,000 options valued at grant date for €2,125,440 in total), Pharming expensed a total amount of €1,591,808 in 2015 (2014: €2,030,277).

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 lapsed. The number of options to be cancelled decreases for each month that the employment continued for more than one year as of that date of grant by 1/48 of the number of options granted of that date of grant.'

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

In 2015 the Company granted 3,977,225 options to employees with a weighted average exercise price of €0.344; fair values for options granted in 2015 were €0.065 - €0.237.

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

An overview of activity in the number of options for the years 2015 and 2014 is as follows:

	2015 Number	2015 Weighted Average Exercise Price (€)	2014 Number	2014 Weighted Average Exercise Price (€)
Balance at 1 January	37,534,551	0.481	8,825,431	0.515
Expired	(483,206)	1.712	(201,951)	5.111
Exercised	(356,250)	0.063	(56,250)	0.063
Granted under plan for:				
Board of Management	1,000,000	0.335	19,200,000	0.505
Employees	2,977,225	0.344	9,768,581	0.505
Forfeited under plan for:				
Board of Management	-	-	-	-
Employees	(236,159)	0.504	(1,260)	0.337
Balance at 31 December	40,436,161	0.455	37,534,551	0.481

In 2015, 356,250 options have been exercised with an average exercise price of €0.063 and in 2014 56,250 options have been exercised with an average exercise price of €0.063.

All options outstanding at 31 December 2015 are exercisable with the exception of the options granted to the Board of Management and employees still in service.

The 2014 share options for the board of management vest annually, first of five tranches is 3,840,000 options at 31 January 2015, for the period 2014-2018 under the condition the board members are still in service at vesting date.

For the employees the vesting period and conditions are similar, except the annually vesting date, starting at 1 September 2015 with the first of four tranches. For employees' subsequent sale of the shares is subject to the vesting conditions of the option. The weighted average remaining contractual life in years of the outstanding options at 31 December 2015 is 3.3 years (2014: 4.0 years).

Exercise prices of options outstanding at 31 December 2015 and the exercise values are in the following ranges:

Exercise prices in €	Number	Total range exercise value in €'000
0.063 - 0.099	6,004,050	499
0.100 - 0.999	33,376,684	16,272
1.000 – 1.999	1,055,202	1,625
2.000 – 4.999	225	1
5.000 – 6.100	-	-
Balance at 31 December	**40,436,161**	**18,397**

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

	2015	2014
Expected time to maturity (employees)	3.6 years	2.5 years
Expected time to maturity (board of management)	3.0 years	2.6 years
Volatility (employees)	90 - 102%	93 - 103%
Volatility (board of management)	90%	92 - 103%
Risk-free interest rate (employees)	0.02 - 0.21%	0.25 - 0.43%
Risk-free interest rate (board of management)	-0.05 - 0.10%	0.31 - 0.64%

The range of assumptions used in the Monte Carlo simulation to determine the fair value of long term incentive plan share awards at grant date were:

	2015	2014
Volatilities	15-196%	27-97%
Risk-free interest rates	-0.10 – 1.22%	0.29-2.11%
Dividend yields	0.00%	0.00%

Share-based compensation	2015	2014
Board of Management options	1,698	2,030
Employee options	786	327
Long term incentive plan	303	108
Balance at 31 December	**2,787**	**2,465**

The decrease of Board of Management options expense in 2015 compared to 2014 results mainly from a higher number of options vested and the fact that the fair value of the 2015 options are less than the previous year. The increased employee option expense reflects the higher fair value of the options granted in 2014 and the higher number of options granted.
Long term incentive plan expenses increased due to the effects of a higher fair value of the share awards and a higher number of awards.

23. BOARD OF MANAGEMENT

Mr. S. de Vries (Chief Executive Officer) and Mr. B.M. Giannetti (Chief Operations Officer) have been members of the Board of Management for the entire years 2015 and 2014.

In October 2015, the Company appointed Mr. R. Wright as Chief Financial Officer of the Company and nominated him to the Board of Management.

The members of the Board of Management are statutory directors.

Remuneration

Compensation of the members of the Board of Management for 2015 and 2014 was as follows:

Amounts in € '000	Year	Base salary	Bonus (i)	Share-based payment (ii)	Post-employment benefits (iii)	Other (iiii)	Total
S. de Vries	2015	432	194	1,055	76	32	1,789
	2014	423	201	1,307	58	32	2,021
B.M. Giannetti	2015	282	106	636	72	25	1,121
	2014	278	113	786	63	18	1,258
R. Wright*	2015	44	-	7	2	-	53
Total	2015	758	300	1,698	150	57	2,963
	2014	701	314	2,093	121	50	3,279

* remuneration as of appointment.

(i) Bonuses are related to the achievement of the corporate and personal objectives. Refer to the report of the Remuneration Committee for the review of the performance and the extent the goals have been met.
(ii) Share-based payments are long term benefits and for 2015 relates to options of €1.6 million (2014: €2.0 million) and long term incentive plan of €0.1 million (2014: €0.1 million).
(iii) Post-employment benefits increased due to compensation in pension earnings due to the change in maximum earnings of €0.1 million per annum.
(iiii) Includes lease- and car compensation and other related expenses.

Shares

At 31 December 2015, the members of the Board of Management held the following number of shares:

Member	Shares held
B.M. Giannetti	568,297
S. de Vries	1,161,784
R. Wright	150,000
Total	1,880,081

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

Options

The following table gives an overview of movements in number of option holdings of the individual members of the Board of Management in 2015 and 2014, the exercise prices and expiration dates:

	1 January 2014	Granted 2014	Granted 2015	Forfeited/ Expired 2014-2015	31 December 2015	Exercise Price (€)	Expiration date
B.M. Giannetti							
	25,000	-	-	(25,000)	-	5.00	14 Apr 2014
	25,000	-	-	(25,000)	-	4.01	26 May 2015
	227,500	-	-	-	227,500	1.54	10 May 2016
	243,750	-	-	-	243,750	0.56	13 May 2017
	1,625,000	-	-	-	1,625,000	0.09	14 May 2018
	-	7,200,000	-	-	7,200,000	0.505	17 Jun 2019
	2,146,250	7,200,000	-	(50,000)	9,296,250		
S. de Vries							
	50,000	-	-	(50,000)	-	5.00	14 Apr 2014
	75,000	-	-	(75,000)	-	4.01	26 May 2015
	350,000	-	-	-	350,000	1.54	10 May 2016
	375,000	-	-	-	375,000	0.56	13May 2017
	2,500,000	-	-	-	2,500,000	0.09	14 May 2018
	-	12,000,000	-	-	12,000,000	0.505	17 Jun 2019
	3,350,000	12,000,000	-	(125,000)	15,225,000		
R. Wright	-	-	1,000,000	-	1,000,000	0.335	28 Oct 2020
In service: 31 December 2015	5,496,250	19,200,000	1,000,000	(175,000)	25,521,250		

Loans or guarantees

During the year 2015, no loans or guarantees have been granted to members of the Board of Management. No loans or guarantees to members of the Board of Management were outstanding at 31 December 2015.

24. BOARD OF SUPERVISORY DIRECTORS

Remuneration

The remuneration is based on the position an individual has in the Board of Supervisory Directors (BOSD), the Audit Committee (AC) and the Remuneration Committee (RC). For both 2015 and 2014 the annual compensation is as follows:

BOSD: chairman €50,000 and member €36,000;

AC: chairman €9,000 and member €3,000; and

RC: chairman €6,000 and member €3,000.

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

Compensation of the members of the Board of Supervisory Directors for 2015 and 2014 was as follows:

Amounts in € '000	Year	BOSD	AC	RC	Extraordinary	Share-Based Payment	Total
J. Blaak	2015	50	-	3	-	13	66
	2014	44	-	3	-	4	51
J.H.L. Ernst	2015	36	3	3	5	11	58
	2014	31	3	3	2	4	43
J.B. Ward	2015	36	3	6	-	11	56
	2014	31	3	6	-	4	44
A. de Winter	2015	36	9	-	-	11	56
	2014	31	9	-	-	4	44
P. Sekhri	2015	36	-	-	-	9	45
J. Egberts	2015	36	-	-	-	9	45
Total	**2015**	**230**	**15**	**12**	**5**	**64**	**326**
	2014	**137**	**15**	**12**	**2**	**16**	**182**

Shares, options and warrants

Members of the Board of Supervisory Directors do not participate in an option plan. In 2015 a total of 725,000 LTIP shares were granted at the AGM, held on 30 April 2015.

The following table gives an overview of movements in number of LTIP shares of the individual members of the Board of Supervisory Directors:

Amounts in € '000	Year	Granted	Forfeited	Not vested	Reserved at December 2015
J. Blaak	2015	150,000	-	-	150,000
	2014	150,000	-	-	150,000
J.H.L. Ernst	2015	125,000	-	-	125,000
	2014	125,000	-	-	125,000
J.B. Ward	2015	125,000	-	-	125,000
	2014	125,000	-	-	125,000
A. de Winter	2015	125,000	-	-	125,000
	2014	125,000	-	-	125,000
P. Sekhri	2015	100,000	-	-	100,000
J. Egberts	2015	100,000	-	-	100,000
Total	2015	725,000	-	-	725,000
	2014	525,000	-	-	525,000

Loans or guarantees

During the year 2015, the Company has not granted loans or guarantees to any member of the board of supervisory directors. No loans or guarantees to members of the Board of Supervisory Directors were outstanding at 31 December 2015.

25. WARRANTS

An overview of activity in the number of warrants for the years 2015 and 2014 is as follows:

	2015 Number	2015 Weighted Average Exercise Price (€)	2014 Number	2014 Weighted Average Exercise Price (€)
Balance at 1 January	26,392,736	0.481	47,404,795	0.113
Issued	2,315,517	0.29	21,000,000	0.57
Exercised	(3,405,128)	0.135	(42,012,059)	0.111
Expired	-	-	-	-
Balance at 31 December	25,303,125	0.51	26,392,736	0.481

The weighted average of the remaining contractual life in years of the outstanding warrants at 31 December 2015 is 1.35 years.

In 2015, the Company issued a total of 2,315,517 warrants with an exercise price of €0.29 in connection with the Loan Secured Agreement of the lenders Oxford Finance LLC and Silicon Valley Bank.

In 2014, the Company issued a total of 21,000,000 warrants with an exercise price of €0.57 in connection with the April 2014 private placement.

Overall, the number of outstanding warrants at 31 December 2015 consisted of:

Warrant prices in €	Number
0.093175	50,000
0.135	1,937,608
0.29	2,315,517
0.57	21,000,000
5.000 – 6.100	-
Balance at 31 December	25,303,125

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

26. RELATED PARTY TRANSACTIONS

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

Amounts in € '000	2015	2014
Salaries and other short-term employee benefits	1,377	1,231
Post-employment benefits	150	121
Share-based compensation	1,762	2,109
Total	3,289	3,461

All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in notes 23 and 24 of these financial statements. At 31 December 2015, the Company owed a total amount of €0.4 million (2014: €0.5 million) to members of the Board of Management and Board of Supervisory Directors.

27. BUSINESS COMBINATIONS

In 2014, Pharming signed the deed of transfer for the acquisition of certain assets from transgenic rabbit models SASU, a French company in liquidation for a total amount of €0.5 million. The Company acquired both tangible and intangible assets related to the research and operation of rabbit milk-based products.

Besides this transfer of assets, the Company also hired former key employees of TRM. As a result of this transaction the Company has a gain in their time-to-market for two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease.

The following table summarises recognised amounts of identifiable assets acquired:

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

The fair value of the development costs is based on the costs the Company would have made for these two product leads in one year for further developing. The costs expensed to the income statement in 2014 related to this acquisition amounted to €0.1 million.

28. COMMITMENTS AND CONTINGENCIES

The Company has lease agreements for the rent of office and laboratory facilities, as well as lease cars for employees. Due to an extended lease agreement for the head office in Leiden, the total commitments as per 31 December 2015 increased to €4.8 million (2014: €1.1 million).

Amounts in € '000	2015	2014
Within one year	1,556	732
After one year but not more than five years	2,851	416
More than five years	350	-
Total	**4,757**	**1,148**

Operating lease charges of €0.9 million were taken to the profit and loss in 2015 (2014: €0.7 million).

Material agreements

At end of 2015 the Company had several agreements with third parties related to the manufacturing of RUCONEST. In these agreements certain minimum volumes are committed. Total potential liabilities under these agreements are approximately €54 million (2014: €63 million), of which €7 million for 2016 and €47 million for 2017-2020.

29. FINANCIAL RISK MANAGEMENT

General

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

Capital risk management

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

Currency risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies, in particular of the United States dollar (USD). Certain milestone payments and sales of RUCONEST® in the US are being and will be received in USD. Repayments of the loans are carried in USD. Some direct payments of US activities are carried in USD through the Dutch entities. At 31 December 2015 the Company's cash and cash equivalents, including restricted cash, amounted to €31.8 million. This balance consists of cash

assets denominated in € for a total amount of €14.3 million and cash assets in USD for a total amount of USD19.1 million or €17.5 million (applying an exchange rate EUR to USD at 31 December 2015 of 0.917 to 1). The USD cash balance will mainly be used for the repayment of the loans. We performed a sensitive analysis by applying an adjustment to the spot rate at year-end. A 10 percent strengthening or weakening of the euro versus US dollar has a hypothetical result of respectively a loss or gain of €0.2 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 minimising the interest rate risks associated with the financing of the Company and thus at the same time optimising the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease liabilities. The Company performed a sensitivity analysis in which the effect of a 1% interest increase or 1% interest decrease on the carrying value of the financial instruments at year-end 2015 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be less than €0.1 million.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge obligations. Pharming manages credit risk exposure through the selection of financial institutions having a high credit rating, using credit rating reports issued by institutions such as standard & poor's and Moody's. The exposure to credit risk at 31 December 2015 is represented by the carrying amounts of cash and cash equivalents and trade and other receivables.

The carrying amounts of the cash and cash equivalents (including restricted cash) as per 31 December 2015 amounted to €31.8 million and was held through financial institutions with a BBB+ and a -A rating from standard & poor's, a2 ratings from Moody's and A ratings from Fitch.

Trade and other receivables at 31 December 2015 amounted to €3.2 million. As per the date of these financial statements these amounts have largely been settled, including receipts in cash and receipt of goods and services in exchange of prepaid expense items. Based on the credit ratings of cash and cash equivalents (including restricted cash) as well as the position taken with respect to trade and other receivables, the Company estimates that total maximum exposure to credit risk at the end of 2015 is less than €0.1 million.

Liquidity risk

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

The following table presents the financial liabilities at year-end 2015, showing the remaining undiscounted contractual amounts due including nominal interest. Liabilities denominated in foreign currency have been converted at the exchange rate at 31 December 2015. The derivative financial liabilities relate to the fair value of warrant rights which can be exercised by warrant holders throughout the remaining lifetime.

Amounts in €'000	2016	2017	2018	2019	2020	Total	Total 2015-2019
Trade and other payables	6,818	-	-	-	-	6,818	7,651
Derivative financial liabilities	953	-	-	-	-	953	4,266
Loans and borrowings	3,047	4,541	4,025	2,947	-	14,560	-
Finance lease liabilities	263	236	212	190	148	1,049	1,434
Total	**11,081**	**4,777**	**4,237**	**3,137**	**148**	**23,380**	**13,351**

Fair value estimation

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

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the liabilities that are measured at fair value at year-end 2015 and 2014:

	2015		2014	
Amounts in € '000	Level 3	Total	Level 3	Total
Financial liabilities at fair value through profit or loss	953	953	4,266	4,266
Balance at 31 December	953	953	4,266	4,266

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

	2015	2014
Expected time to maturity of warrants in issue	1.4 years	1.8 years
Volatility	73 - 83%	92 - 102%
Risk-free interest rate	-0.11 - 0.97%	0.23 - 0.27%

As per note 2.3 (significant accounting judgments and estimates) the Company has performed a sensitivity analysis which demonstrates the potential possible effects in the event that derivative financial liabilities are settled for shares at a fair value price different from the exercise value. The following table provides an overview of the effect on the statement of income assuming the 25,303,125 warrants outstanding at 31 December 2015 with a total fair value of €1.0 million and an exercise value of €12.9 million are exercised with the fair value per share upon exercise ranging between €0.004 and €0.212 while applying a number of different intervals.

Impact on statement of income if 25,303,125 warrants outstanding at year-end 2015 are exercised at an assumed fair value per share between €0.050 and €1.000:

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

Fair value per share upon exercise in €	Exercise value in €'000	Actual fair value warrants in €'000	Fair value warrants at 31 December 2015 in €'000	Additional profit/(loss) in €'000
0.010	12,907	253	953	700
0.050	12,907	1,265	953	(312)
0.100	12,907	2,530	953	(1,577)
0.150	12,907	3,795	953	(2,842)
0.200	12,907	5,060	953	(4,107)
0.300	12,907	7,590	953	(6,637)
0.400	12,907	10,121	953	(9,168)
0.500	12,907	12,652	953	(11,699)
0.750	12,907	18,977	953	(18,024)
1.000	12,907	25,303	953	(24,350)

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

Amounts in € '000	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents, including restricted cash	31,843	31,843	34,385	34,385
Assets held for sale	-	-	-	-
Trade and other receivables	2,922	2,922	1,403	1,403
Liabilities:				
Loans and borrowings	14,804	14,804	-	-
Finance lease liabilities	1,061	1,061	1,591	1,591
Trade and other payables	6,818	6,818	7,651	7,651
Derivative financial liabilities	953	953	4,266	4,266

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

30. EARNINGS PER SHARE AND FULLY-DILUTED SHARES

Basic earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year. For 2015 and 2014, the basic loss per share is:

	2015	2014
Net loss attributable to equity owners of the parent (in €'000)	(9,957)	(5,767)
Weighted average shares outstanding	408,680,289	393,145,998
Basic loss per share (in €)	(0.024)	(0.015)

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 and warrants issued. There is no difference in basic and diluted net loss per share recorded by the Company because the impact of the arrangements referred to is anti-dilutive in all periods.

Fully-diluted shares

The composition of the number of shares and share rights outstanding as well as authorised share capital as per 31 December 2015 and the date of these financial statements is provided in the following table.

Movements between 31 December 2015 and 23 March 2016:

	31 December 2015	Shares issued	Other	23 March 2016
Shares	411,971,790	484,555	-	412,456,345
Warrants	25,303,125	-	-	25,303,125
Options	40,436,161	-	-	40,436,161
LTIP	5,192,396	-	-	5,192,396
Issued	**482,903,472**	**484,555**	**-**	**483,388,027**
Available for issue	67,096,528	(484,555)	-	66,611,973
Authorised share capital	**550,000,000**	**-**	**-**	**550,000,000**

31. EVENTS AFTER THE REPORTING YEAR

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

COMPANY STATEMENT OF INCOME

For the year ended 31 December

Amounts in € '000	Notes	2015	2014
License fees		264	264
Revenues		**264**	**264**
Research and development		(3,943)	(2,515)
General and administrative		(3,636)	(3,239)
Marketing and sales		(73)	-
Costs		**(7,652)**	**(5,754)**
Operating result	10	**(7,388)**	**(5,490)**
Fair value gain (loss) on revaluation derivatives		3,380	(9,106)
Other financial income and expenses		(434)	500
Financial income and expenses		**2,946**	**(8,606)**
Result before income tax		**(4,442)**	**(14,096)**
Income tax expense		**-**	-
Net result for the year		**(4,442)**	**(14,096)**
Share in result of investments		(5,515)	8,329
Total net result		**(9,957)**	**(5,767)**

The notes are an integral part of these financial statements.

COMPANY BALANCE SHEET

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

Amounts in € '000	Notes	2015	2014
Intangible assets		469	469
Property, plant and equipment	3	585	194
Financial assets	7	17,652	15,599
Non-current assets		**18,706**	**16,262**
Trade and other receivables	4	516	303
Cash and cash equivalents	5	21,993	19,195
Current assets		**22,509**	**19,498**
Total assets		**41,215**	**35,760**
Share capital	6	4,120	4,077
Share premium	6	283,396	282,260
Legal reserves	6	66	36
Accumulated deficit	6	(263,743)	(256,530)
Shareholders' equity	6	**23,839**	**29,843**
Loans and borrowings		11,757	-
Deferred license fees income		136	400
Non-current liabilities		**11,893**	**400**
Loans and borrowings		3,047	-
Deferred license fees income		264	264
Derivative financial liabilities	8	953	4,266
Trade and other payables	9	1,219	987
Current liabilities		**5,483**	**5,517**
Total shareholders' equity and liabilities		**41,215**	**35,760**

The notes are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. General

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

2. Summary of significant accounting policies

The Company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands. The accounting policies applied are the same as those used in the consolidated financial statements in accordance with the provisions of article 362-8 of book 2 of the Dutch Civil Code, except for investments in subsidiaries which are accounted for using the equity method.

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

3. Property, plant and equipment

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

Amounts in € '000	Leasehold improvements	Operational facilities	Other	Total
At cost	747	-	372	1,119
Accumulated depreciation charges	(554)	-	(340)	(894)
Carrying value at 1 January 2014	**193**	**-**	**32**	**225**
Investments	-	-	62	62
Depreciation charges	(77)	-	(16)	(93)
Movement 2014	(77)	-	46	(31)
At cost (*)	747	-	434	1,181
Accumulated depreciation charges (*)	(631)	-	(356)	(987)
Carrying value at 31 December 2014	**116**	**-**	**78**	**194**
Investments	-	371	154	525
Depreciation charges	(77)	(32)	(25)	(134)
Movement 2015	(77)	339	129	391
At cost	747	372	588	1,707
Accumulated depreciation charges	(708)	(33)	(381)	(1,122)
Carrying value at 31 December 2015	**39**	**339**	**207**	**585**

4. Trade and other receivables

Amounts in € '000	2015	2014
Prepaid expenses	193	134
Value added tax	298	151
Other receivables	25	18
Balance at 31 December	**516**	**303**

Trade and other receivables at 31 December 2015 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

5. Restricted cash, cash and cash equivalents

Amounts in € '000	2015	2014
Current restricted cash	-	-
Cash and cash equivalents	21,993	19,195
Balance at 31 December	**21,993**	**19,195**

The holding company Pharming Group N.V. has entered into a joint liability agreement with a bank and other group companies. Pursuant to this agreement, the entity at 31 December 2015 is jointly liable for commitments relating to bank guarantees from other group companies for an aggregate amount of €0.4 million with a maturity of more than one year after the end of the reporting year.

6. Shareholders' equity

The Company's authorised share capital amounts to €5.5 million and is divided into 550,000,000 ordinary shares with a nominal value of €0.01 each. All 411,971,790 shares outstanding at 31 December 2015 have been fully paid-up.

Movements in shareholders' equity for 2015 and 2014 were as follows:

Amounts in € '000	2015	2014
Balance at 1 January	29,843	5,010
Net loss	(9,957)	(5,767)
Foreign currency translation	30	45
Share-based compensation	2,744	2,465
Bonuses settled in shares	173	450
Shares/warrants issued for cash	-	14,004
Warrants exercised	983	13,633
Options exercised	23	3
Balance at 31 December	**23,839**	**29,843**

For a detailed movement schedule of equity for the years 2015 and 2014, please refer to the consolidated statement of changes in equity.

7. Financial assets

Movement of financial assets and the provision for investments for the years 2015 and 2014 was as follows:

Amounts in € '000	Investments in subsidiaries	Provision for investments	Net total
Balance at 1 January 2014	**-**	(204,819)	(204,819)
Share in results of investments	-	8,329	8,329
Exchange rate effects	-	(2,057)	(2,057)
Balance at 31 December 2014	**-**	**(198,547)**	**(198,547)**
Share in results of investments	-	(5,515)	(5,515)
Exchange rate effects	-	(2,068)	(2,068)
Balance at 31 December 2015	**-**	**(206,130)**	**(206,130)**

At year-end 2015 and 2014, the provision for subsidiaries was off-set with the following receivable balances from Pharming Group N.V.:

Amounts in € '000	2015	2014
Provision for investments	(206,130)	(198,547)
Receivable	223,782	214,146
Investment	**17,652**	**15,599**
Of which classified as provision for investments	-	-
Receivable from group companies	**17,652**	**15,599**

8. Derivative financial liabilities

The backgrounds of the derivative financial liabilities have been provided in note 20 of the consolidated financial statements.

9. Trade and other payables

Amounts in € '000	2015	2014
Accounts payable	337	107
Taxes and social security	93	63
Deferred compensation due to related parties	434	478
Other payables	355	339
Balance at 31 December	**1,219**	**987**

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

10. Operating results

Other results in 2015 and 2014 include costs of share-based compensation in the amount of respective €2.7 million and €2.5 million, as disclosed in note 22 of the consolidated financial statements. These charges include those related to members of the Board of Management and employees.

11. Employee information

All employees of Pharming Group N.V. in both 2015 and 2014 were based in the Netherlands. The average number of full-time equivalent employees in 2015 was 9 (2014: 8) and the number of employees at 31 December 2015 was 12 (31 December 2014: 9).

12. Related party transactions

Related parties' disclosure relates entirely to the key management of pharming, being represented by the members of the Board of Management and the Board of Supervisory Directors. All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in notes 23 and 24 of the consolidated financial statements. At 31 December 2015, the Company owed a total amount of €0.4 million to members of the Board of Management with respect to their compensation (see note 9 of the company financial statements).

13. Commitments and contingencies

The Company has lease agreements for the rent of office and laboratory facilities, as well as lease cars for employees. Due to a new lease agreement for the R&D site in France, the total commitments as per 31 December 2015 increased to €0.8 million (2014: €0.1 million).

Amounts in € '000	2015	2014
Within one year	722	60
After one year but not more than five years	123	48
More than five years	-	-
Total	845	108

Operating lease charges of €0.2 million were taken to the profit and loss in 2015 (2014: €nil).

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS 2015

Our opinion

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Pharming Group N.V. as at 31 December 2015 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- The accompanying company financial statements give a true and fair view of the financial position of Pharming Group N.V. as at 31 December 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we audited:

We have audited the accompanying financial statements 2015 of Pharming Group N.V., Leiden ('the Company'). The financial statements include the consolidated financial statements of Pharming Group N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The accompanying consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2015;
- The following statements for 2015: the consolidated statement of income and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- The notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company balance sheet as at 31 December 2015;
- The company statement of income for the year then ended; and
- The notes, comprising a summary of the accounting policies and other explanatory information.

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

The basis for our opinion

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

We are independent of Pharming Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

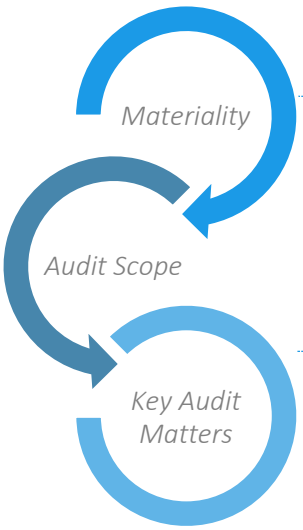
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context:

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

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a bio-pharmaceutical company. We included specialists in the areas of financial instruments, share based payments and IT in our team.



Materiality

- Overall materiality: €400,000 which represents 4% of the result before tax.

Audit Scope

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

Key Audit Matters

- Valuation of inventories
- Recognition of revenue
- Development of the finance function
- Funding

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibility for the audit of the financial statements'. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

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

Overall Group materiality	€400,000 (2014: €150,000).
How we determined it	4% of the result before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the accompanying financial statements. Since the Company is transforming itself from a research and development company to a more sales oriented company in the past two years, we believe that the result before tax (for 2014 and 2015 a loss) is an important metric for the financial performance of the Company for which we applied a percentage of 4.0%.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. We agreed with the audit committee that we would report to them misstatements identified during our audit above €20,000 (2014: €7,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

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

Key audit matters

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

provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
Valuation of inventories *See note 2.3 to the financial statements for the Company's disclosures of the related accounting policies, judgements and estimates and note 14 for further information.* The Company has been increasing inventory levels to cover future demand for its product expected by management. Due to limited historical sales related data, it is difficult for management to make robustly supported estimates concerning obsolescence of inventory taking into account the expiration dates of the inventory. Furthermore, the estimation of the net realisable value is based on an allocation of inventories to the different markets with different prices, based on sales forecasts by management and commercial partners, and clinical programs. Valuation of inventories was important to our audit given the level of judgement, as well as the magnitude of the inventory balance at 31 December 2015 of € 16.2 million including a provision of € 0.5 million (2014: € 13.4 million including a provision of € 1.7 million).	We challenged the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are based on the existing contracts with its main commercial partners and whether these are in line with historical revenues to date. We tested the expiration dates of the inventory based on the product release reports and tested cost of goods with underlying invoices and expenses incurred. Furthermore, we read the board minutes and the available written communication, with the two main commercial partners and the main production partner, such as communication around sales forecasts and production forecasts, to identify potential indicators for impairment.
Recognition of revenue *See note 2.3 to the financial statements for the Company's disclosures of the related accounting policies, judgements and estimates and note 5 and note 18 for further information.* Recognition of product revenue is based on realised sales in different countries. Recognition of product sales to the U.S. is based on a percentage of the revenue recognized by the commercial partner. On a quarterly basis the commercial partner reports its sales and inventory reports. The supply price of products sold by Pharming to the commercial partner is subject to rebates and chargebacks to be	We assessed sales volumes by auditing the reconciliation of the flow of goods based on external delivery documents as well as inventory observations. We tested the revenue transactions in detail to verify that revenue is recognized in the appropriate period and that pricing conditions reconcile to the underlying contract as well as to sales and inventory reports received from the

provided by the commercial partner to the payers of the products (insurance companies). These rebates and chargebacks are finally settled after the reporting date and therefore have to be partly estimated on the reporting date. Pharming recognises revenue based on quarterly confirmations by the commercial partner. Actual rebates and chargebacks can differ from the estimates. Revenue is considered an important parameter to assess the performance of the Company and therefore we considered it a key audit matter.	commercial partner in the U.S. We obtained an understanding of the estimations made around rebates and chargebacks and the maximum bandwidth of this estimation compared to the materiality level used in our audit. We also checked whether the outstanding recievable per year-end from the U.S. partner related to product sales has been received in 2016. Furthermore, we read the board minutes and the available written communication with the sales partner in order to identify information that could have an impact on revenue recognition. In addition, we assessed the adequacy of related disclosures in the financial statements.
Development of the finance function *Refer to the risk factors included in the management report and to the report of the Board of Supervisory Directors.* Between 2012 and the third quarter of 2015, the Chief Financial Officer (CFO) role within the Company was combined with the position of the CEO. As the Company has developed further, its financial complexity has been increasing thus requiring strengthening of its financial functions to create more balance and control in both management and operations. Therefore, in the fourth quarter of 2015 a CFO has been appointed. Furthermore, the finance department is of a limited size and possibilities for segregation of duties have been constrained until the third quarter of 2015. The Company is working on enhancements of the framework of internal controls including sufficient segregation of duties in 2016. Given the above-mentioned limitations, and the resulted impact on our audit, we considered this to be a key audit matter.	We evaluated the control environment and internal controls within the Company. Given the stage of development of the Company's internal control environment, the limited segregation of duties and the visibility of internal control procedures, we concluded that our reliance on the Company's internal controls is limited. As a consequence, we increased the level of detail of our audit amongst others by increasing the sample sizes for revenue testing and expense testing.

Funding *Refer to the paragraph going concern in the management report and note 3 going concern assessment.* Pharming does not yet generate enough cash from product revenues to meet its current working capital requirements and is partially dependent on financing arrangements with third parties. The ability of Pharming to attract external funding is dependent on external market conditions and the Company's ability to generate cash inflows from product revenues. As the funding is not guaranteed, an inherent risk in relation to the Company continuing as a going concern exists. As reflected in the management report and note 3 of the financial statements, management concluded that the 2015 year-end cash balance of €31.6 million is expected to be sufficient to fund the Company for at least one year from the date on which the financial statements are signed by the Board of Management and the date of our auditor's report. Management also reflects on the possibility that actual cash inflows might be less than projected and/or actual cash outflows might be higher than projected. Due to the nature of the business and its stage of development, additional funding might be required in the period beyond 12 months as per the date of signing these financial statements and the date of our auditor's report. For the longer term, management is projecting increasing cash inflows from sales, mainly from the U.S. market.	We evaluated and challenged the Company's future cash flow forecasts, and the process by which they were prepared, and tested the underlying key assumptions such as expected cash inflow from product sales and cash outflow from purchases of inventory, R&D expenses and other operating expenses. Regarding revenue expectations, we challenged the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are in line with the historical revenues to date from the two main commercial partners. The comparable historical data is limited since the product launch in the U.S. took place at the end of 2014. We also assessed an alternative scenario analysis of management using the low end of revenue forecasts and accompanying key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would lead to alternative conclusions. Furthermore, we read the board minutes and available written communication with the two main commercial partners and the main production partner in order to understand the future plans and to identify potential contradictory information. Additionally, we checked the adequacy of the disclosures around funding.

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

The management is responsible for:

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

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

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

Our responsibilities for the audit of the Financial Statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the management report and the other information:

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

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

Our appointment

We were appointed as auditors of Pharming Group N.V. on 30 April 2015 following the passing of a resolution by the shareholders at the annual meeting representing a period of engagement appointment of one year. We have been the auditors of Pharming Group N.V. for a total period of uninterrupted engagement appointments of 7 years.

Utrecht, 23 March 2016

PricewaterhouseCoopers Accountants N.V.

A.C.M. van der Linden RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2015 OF PHARMING GROUP N.V.

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

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

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

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

Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of Group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

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

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

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

OTHER FINANCIAL INFORMATION

For the year ended 31 December 2015

1. Appropriation of result

Article 25.1 of the articles of association reads as follows: 'the management board shall annually determine, subject to the approval of the board of supervisory directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.'

2. Proposed appropriation of net loss

The company proposes to forward the net loss for the year 2015 to the accumulated deficit. Anticipating the approval of the financial statements by the shareholders at the annual general meeting of shareholders, this proposal has already been reflected in the financial statements.

3. Events after the reporting year

For information on events after the reporting year, we refer to note 31 of the consolidated financial statements.

Leiden, 23 March 2016

The Board of Management

The original copy has been signed by the Board of Management

GLOSSARY

AGM

Annual General Meeting of shareholders.

Angioedema

See HAE.

BOM

The Board of Management of Pharming Group N.V.

C1INH

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

Clinical trials/studies

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

Code

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

COGS

Cost of Goods Sold.

Company

In this Annual Report the “Company” refers to Pharming Group N.V. and its subsidiaries.

DGF

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

EMA

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

ERT

Enzyme Replacement Therapy.

EU

Europe.

Fabry's disease

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

FDA

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

FIFO

First in, first out.

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.

Group

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HAE

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

HAEi

Hereditary Angioedema International (patient organisation).

IFRS, IAS and IASB

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

IND

An IND (Investigational New Drug Application) is the vehicle through which a sponsor advances to the next stage of drug development known as clinical trials (human trials) in the US.

IRI

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

LTIP

Pharming's Long-Term Incentive Plan.

Orphan drug

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

Pompe disease

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

Protein

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

QA

Quality Assurance.

QC

Quality Control.

Recombinant

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

RHC1INH

Recombinant Human C1 Esterase Inhibitor or RHC1INH is the active component of RUCONEST. Natural C1 inhibitor DNA from a human source is used in pharming's protein production technology to ensure expression of the C1 inhibitor protein. In addition to its use in treating HAE attacks, this product might also be useful in certain other clinical indications, such as the prevention of complications that sometimes arise after organ transplantation.

RHFVIII

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

RUCONEST®

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

Salix

Salix Pharmaceuticals Ltd. (NASDAQ: SLXP). This company was acquired by Valeant Pharmaceuticals International Inc. in April 2015.

Santarus

Santarus, Inc. This company was acquired by Salix Pharmaceuticals, Ltd. in January 2014.

SEC

Securities and Exchange Commission in the United States.

SIPI

Shanghai Institute of Pharmaceutical Industry, a Sinopharm Company.

SOBI

Swedish Orphan Biovitrum Ab (Publ) (SS: SOBI).

Transgenic

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

TRM

Transgenic Rabbit Models SASU.

US

The United States of America.

Valeant

Valeant Pharmaceuticals International Inc. (NASDAQ: VRX).

VWAP

Volume Weighted Average Price of shares.

APPENDIX

Publications on RUCONEST® 2015:

1. Recombinant replacement therapy for hereditary angioedema due to C1 inhibitor deficiency.

   Moldovan D, Bernstein JA, Cicardi M.

   Immunotherapy. 2015;7(7):739-52. doi: 10.2217/imt.15.44. Epub 2015 Aug 7.

2. Recombinant human C1 esterase inhibitor in the management of hereditary angioedema.

   Riedl M.

   Clin Drug Investig. 2015 Jul;35(7):407-17. doi: 10.1007/s40261-015-0300-z.

3. Recombinant human-C1 inhibitor is effective and safe for repeat hereditary angioedema attacks.

   Li HH, Moldovan D, Bernstein JA, Reshef A, Porebski G, Stobiecki M, Baker J, Levy R, Relan A, Riedl M.

   J Allergy Clin Immunol Pract. 2015 May-Jun;3(3):417-23. doi: 10.1016/j.jaip.2014.12.013. Epub 2015 Feb 11.

4. Conestat alfa (RUCONEST): first recombinant c1 esterase inhibitor for the treatment of acute attacks in patients with hereditary angioedema.

   Cruz MP.

   P T. 2015 Feb;40(2):109-14.

5. Recombinant human C1 esterase inhibitor for the treatment of hereditary angioedema due to C1 inhibitor deficiency (C1-INH-HAE).

   Sabharwal G, Craig T.

   Expert Rev Clin Immunol. 2015 Mar;11(3):319-27. doi: 10.1586/1744666X.2015.1012502. Epub 2015 Feb 10. Review.

6. Elevated D-dimers in attacks of hereditary angioedema are not associated with increased thrombotic risk.

   Reshef A, Zanichelli A, Longhurst H, Relan A, Hack CE.

   Allergy. 2015 May;70(5):506-13. doi: 10.1111/all.12587. Epub 2015 Feb 23.

7. Successful prophylaxis with recombinant human C1 inhibitor in a patient with hereditary angioedema.

   Farkas H, Kohalmi KV, Veszeli N, Zotter Z, Varga L.

   Ann Allergy Asthma Immunol. 2015 Jan;114(1):64-5. doi: 10.1016/j.anai.2014.10.002. Epub 2014 Nov 6.