



PHARMING

Annual Report 2013

PHARMING ANNUAL REPORT 2013

2013 highlights

Operational

- Ruconest® continues roll- out across Europe.
 - Roll- out begun to accelerate and in- market sales started trending upwards during the last months of the year following reimbursement in Central and Eastern European markets. In-market sales are expected to significantly increase during 2014.
- Certification by the European Medicines Agency (EMA) for the up-scaled downstream manufacturing site at Sanofi Chimie for the production process of Ruconest® will enable significant future reductions in the cost of manufacturing.
- Restructuring to reduce cash-burn completed, leading to significantly reduced cost basis of operations.
- Ruconest® Biologics License Application (BLA) for the treatment of acute attacks of Hereditary angioedema (HAE) submitted to the Food and Drug Administration (FDA) and accepted for review by the FDA under the new Prescription Drug User Fee Act (PDUFA) V 12 months review process.
- Received US\$5 million milestone payment from US partner Santarus for acceptance of BLA for review by the FDA.
- Entered into strategic collaboration with Shanghai Institute of Pharmaceutical Industry (SIPI) to develop new products using the Pharming technology platform.
- Positive results from the Ruconest® US pivotal trial for the treatment of acute attacks of HAE (study 1310) accepted for publication in peer reviewed journal.

Financial

- Revenues and other income from continuing operations decreased to €7.0 million (2012: €10.9 million).
 - Decrease mainly as a result of lower license fees: 2012 included a €7.9 million milestone from US partner Santarus, while 2013 included a €3.8 milestone from Santarus.
- Costs of product sales decreased to €0.5 million in 2013 (2012: €1.1 million).
- Inventory impairments decreased to €0.6 million in 2013 (2012: €3.1 million).
- Operating costs excluding cost of sales and inventory impairments decreased to €12.8 million (2012: €24.1 million).
- Net loss decreased to €15.1 million (2012: €24.1 million).
 - Included net loss from financial income and expenses of €8.1 million (2012: net loss €6.6 million).
- Raised €28.6 million gross new funds (net €26.7 million, 2012: net €12.4 million).
 - €16.4 million convertible bond (net €15.1 million).
 - €12.0 million of equity in a private placement in October 2013 (net €11.4 million).
 - €0.2 million issue of warrants (net €0.2 million, 2012: net €0.4 million).
- Year-end cash and cash equivalents (including restricted cash) of €19.2 million (2012: €6.3 million).

About Pharming Group N.V.

Pharming Group N.V. is developing innovative products for the treatment of unmet medical needs. Ruconest® (conestat alfa) is a Recombinant human C1 esterase inhibitor approved for the treatment of angioedema attacks in patients with HAE in all 27 EU countries plus Norway, Iceland and Liechtenstein, and is distributed in the EU by Swedish Orphan Biovitrum (Sobi). Ruconest® is partnered with Salix Pharmaceuticals Inc. (NASDAQ: SLXP) in North America and a Biologicals License Application (BLA) for Ruconest® is under review by the U.S. Food and Drug Administration. The product is also being evaluated for various follow-on indications. Pharming has a unique GMP compliant, validated platform for the production of recombinant human proteins that has proven capable of producing industrial volumes of high quality recombinant human protein in a more economical way compared to current cell based technologies. In July 2013, the platform was partnered with Shanghai Institute of Pharmaceutical Industry (SIPI), a Sinopharm Company, for joint global development of new products. Pre-clinical development and manufacturing will take place at SIPI and are funded by SIPI. Pharming and SIPI initially plan to utilise this platform for the development of recombinant human Factor VIII (rhFVIII) for the treatment of Haemophilia A. Pharming shares are listed at the NYSE/ Euronext Amsterdam (PHARM). Additional information is available on the Pharming website, www.pharming.com.

Strategic focus

Pharming's strategic focus is aimed at:

- Generating value from its lead product Ruconest® for treating acute HAE attacks by:
 - obtaining marketing authorisation in the US on the basis of a Biological License Application (BLA) for Ruconest®, which is under review in the US;
 - preparing for the US commercial launch;
 - generating sales in the other countries covered by our commercial partners; and
 - broadening the application of Ruconest® to other indications in order to grow the potential market for the product.
- Leveraging the inherent value of its biologicals technology platform through development of new compounds under strategic collaborations, such as with Shanghai Institute of Pharmaceutical industry (SIPI), and pro-actively evaluating external opportunities.

Pharming is committed to:

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

CEO's statement

2013 was a year of considerable progress for Pharming during which great strides forward were made on several fronts. During the first half of the year, following a strategic re-emphasis on collaborative development efforts and out-sourcing of non-core activities, we implemented a downsizing of the organisation and executed a successful financing by means of the January €16.4 million short term convertible bond.

On an operational front, of particular note was the completion of the submission of the Ruconest® Biologics License Application (BLA) for the treatment of acute attacks of Hereditary angioedema (HAE), which subsequently received acceptance for review by the Food and Drug Administration (FDA). We also received European Medicines Agency (EMA) approval for the up-scaled downstream manufacturing process at Sanofi Chimie, as well as closing a strategic collaboration with Shanghai Institute of Pharmaceutical Industry (SIPI).

Each of these important milestones marked the conclusion of longstanding projects, some taking years of work, perseverance and dedication by Pharming's staff. Furthermore, these achievements are important steps towards attaining our goal of achieving self-sustaining profitability while simultaneously developing a new pipeline through collaboration with partners, and further expansion of the Ruconest® franchise driven by the development of new indications.

The strategic collaboration with SIPI is the cornerstone for these new product development plans. All pre-clinical and manufacturing development for new products of mutual interest will take place at the new dedicated SIPI facility in Shanghai and will be financed by SIPI. After Pharming obtains INDs from the US and EU authorities and SIPI obtains a clinical trial permit from the Chinese authorities, clinical development for those compounds will be, as far as is possible, aligned between SIPI's Chinese clinical development requirements and Pharming's "rest of the world" clinical development requirements. In addition, SIPI will be responsible for world-wide manufacturing and will supply Pharming on a cost plus basis. Furthermore, each of the parties will pay the other royalties on sales in their respective territories of 4%.

This collaboration will therefore enable SIPI to deliver affordable, world-class biologics to the rapidly growing Chinese market. As the first project, SIPI and Pharming are planning to develop rhFVIII for the treatment of Haemophilia A.

The acceptance of the BLA for review by the FDA initiated an intense period of interactions between Pharming and our US partner (Santarus initially, then Salix Pharmaceuticals after the acquisition of Santarus by Salix in January 2014) and the BLA review team of the FDA Center for Biologics Evaluation and Research. The review is carried out under the 12 month process of the new Prescription Drug User Fee Act (PDUFA) V rules. This FDA review is now well under way, albeit the FDA extended the review period by 3 months, from 16 April 2014 to 16 July 2014, shortly after receiving our mid February (major) amendment to the BLA.

The prospect of Ruconest® becoming available to treat HAE patients in the US, the world's largest pharmaceuticals market, represents a realistic opportunity for Pharming to become a truly commercially driven operation in the near-term.

During 2013 we also saw a number of institutional investors investing in Pharming. These institutional investors supported and enabled us to significantly strengthen our balance sheet by means of a private placement of €12 million in October, as a result we were able to significantly invest in building up inventory for a US launch and ensure that we have sufficient working capital to finance the operations through to the commercial launch of Ruconest® in the US.

Our strengthened balance sheet in turn provided increasing confidence in the investment case for Pharming towards the end of the year, which, in the first months of 2014, led to a significant upwards correction of our market capitalisation. This correction in turn led to the completion of the April 2014 sub 10% private placement yielding €14 million net proceeds, which now enables us to look towards accelerated investments in building the inherent value of Ruconest® and our technology platform, as well as evaluating options to potentially become more directly engaged in Ruconest® commercialisation efforts together with partners in certain territories.

Ruconest® is commercialised in Europe, the Balkans, North Africa and the Middle East by our partner, Stockholm based Sobi. The roll out of Ruconest® is progressing slower than anticipated; however during the course of the final months of 2013, as result of obtaining reimbursement in several Central and Eastern European countries such as Poland, Slovakia and Bulgaria, in-market sales begun to increase. During 2014, this in-market sales trend will also start to drive more significant in-market sales revenue during 2014.

Towards the end of the year it became clear that the Israeli authorities were coming to the final part of their review and we obtained the marketing authorisation and reimbursement for Israel. Our commercialisation partner Megapharm Ltd. is preparing to launch Ruconest® shortly. The review of Ruconest® by the Turkish authorities is also coming to its final stage and a decision on the application is anticipated during the second half of 2014.

The plans to develop Ruconest® for prophylaxis of HAE together with our US partner Santarus, and the plans to develop Ruconest® for acute pancreatitis by Santarus were progressed through the initiation of dialogues with the FDA during 2013. After completion of the acquisition of Santarus by Salix in January 2014, these discussions were progressed with Salix. We expect to start the clinical development programmes for prophylaxis of HAE in the second half of 2014 and for Salix to proceed with the initiation of a clinical Phase II study for acute pancreatitis in the not too distant future.

As result of the achievements of 2013, we look forward with confidence to an exciting 2014, which should deliver increasing Ruconest® sales in the EU and an expected commercial launch and roll- out of Ruconest® in the US.

I would like to thank all of our employees, investors and partners for their ongoing commitment and support during 2013 and for keeping faith in Pharming's potential during what were often highly uncertain times. I look forward to the continued delivery on our challenging objectives during what promises to be yet another very busy year in the continuing transition of Pharming.

Sijmen de Vries

Leiden
The Netherlands
28 April 2014



Management report

OPERATING REVIEW 2013

Highlights:

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During the year, the following two important multi-year projects achieved significant milestones:

1. Up-scaled manufacturing process approved:

On 28 March, we announced the EMA approval for the up-scaled downstream manufacturing (purification) process at Sanofi Chimie (Aramon, France). With this production process we are now able to produce high volumes of Ruconest® and also achieve very significant savings in the cost of goods for Ruconest®, once production volumes increase and economies of scale, a unique strength of our proprietary production platform compared to our competition, are achieved.

2. The BLA for Ruconest® for the treatment of acute attacks of HAE was submitted and accepted for review:

The submission of the BLA on 17 April for Ruconest® and the subsequent acceptance for review by the FDA represented yet another major step forward. The acceptance of the BLA for review also triggered the payment of a US\$5 million milestone by our US partner Santarus and meant that the FDA set an initial PDUFA date for 16 April 2014 for a 12 months review cycle under the new PDUFA V guidelines, which was extended in February 2014 by a standard three months to 16 July 2014.

Management report continued

Regional Market and Product overview

USA

The transition as result of the acquisition of Santarus by Salix Pharmaceuticals (NASDAQ: SLXP) in January 2014 was executed smoothly. Salix took over the task of regulatory agent to the FDA from Santarus. Salix engaged in regulatory discussions with regards to the development path of Ruconest® in prophylaxis in HAE and the Santarus plan for development of Ruconest® for acute pancreatitis.

The US market for HAE (acute and prophylaxis) continued to expand during 2013 and is now estimated at almost US\$900 million, mainly driven by the growth of Shire's Firazyr in the treatment of acute attacks and an increased estimate of Berinert sales. We estimate the acute segment now at US\$450+ million (based on Shire, and Dyax SEC filings and estimates of US Berinert sales). We firmly believe that entry into the US market, which is also associated with a US\$20 million milestone payment from Salix upon first commercial sale in the US, will accelerate our transition from a development focused company to a commercially driven organisation.

In addition to the milestone payment due upon first commercial sales, Salix will be required to pay one-time performance milestones if they achieve certain aggregate net sales levels of Ruconest®.

Furthermore, as consideration for the licenses and rights granted under the license agreement, and as compensation for the commercial supply of Ruconest®, Salix will pay Pharming a tiered supply price based on a percentage of net sales of Ruconest®, which starts at 30% of net sales, increasing to a maximum of 40% depending on the amount of annual net sales. The consideration is subject to reduction in certain events. Both parties also agreed to extend the partnership by exploring certain additional indications.

EU

The commercialisation of Ruconest® by Sobi in the EU continues to progress; although this was not reflected in our sales to Sobi in 2013, as result of relatively high inventory levels at Sobi at the beginning of 2013. Reimbursement was gained in various Central and Eastern European markets, resulting in growth to significant market shares in these (small) markets. As a result of these increasing sales levels we expect that our sales to Sobi in 2014 will significantly increase compared to 2013.

China

The strategic collaboration with Shanghai Institute of Pharmaceutical Industry (SIPI) a Sinopharm Company, effectuated on 29 June 2013, represented an important step forward towards building a pipeline of new products using our technology platform. Under the collaboration our entire technology platform, quality assurance and quality control (QA/QC) processes, and production system is being transferred to the SIPI Shanghai facilities. Pharming and SIPI intend to develop new compounds from this facility. SIPI will fund the pre-clinical and manufacturing development; Pharming will obtain IND clearance from the EU and USA authorities, which will enable SIPI to obtain a clinical trial permit for China. SIPI will have commercialisation rights for China and its territories. Pharming will have commercialisation rights ex-China. SIPI will supply Pharming at a "cost – plus" basis. Both parties will pay each other (reciprocal) royalties of 4% on net sales in their respective territories. The first new compound to be jointly developed is rhFVIII for the treatment of Haemophilia A. Haemophilia A is an X chromosome linked hereditary disorder caused by defects in the Factor VIII (FVIII) gene that leads to lower levels of the functional FVIII protein. Lack of functional FVIII diminishes the body's clotting ability, which in turn can lead to damaging or fatal bleeding episodes. The global rhFVIII market was worth over US\$4 billion in 2011 with 90% of sales in the developed markets and very high unmet medical needs in the developing markets, such as China. In addition, only approximately 50% of the world-wide estimated Haemophilia A market can currently be supplied with appropriate FVIII therapy. Hence, there is still a high unmet medical need in this field and the rhFVIII market is estimated to grow to US\$6.5 billion in 2020.

Management report continued

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

Other Markets

Towards the end of the year it became clear that the Israeli approval and reimbursement were imminent. This was confirmed in January 2014 and our partner Megapharm is now getting ready to launch Ruconest® in Israel.

The Turkish Ministry of Health materially completed all of their review activities and our Turkish partner, EIP Eczacıbaşı Ilac Pazarlama A.S., is expecting approval in the course of 2014.

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




Ruconest® commercial partners





	● Canada, US, Mexico
	● Albania, Algeria, Andorra, Austria, Bahrain, Belgium, Bosnia Herzegovina, Bulgaria, Greece, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Iceland, Iran, Iraq, Ireland, Italy, Jordan, Kosovo, Kuwait, Latvia, Lebanon, Lithuania, Luxemburg, Malta, Macedonia Morocco, Montenegro, Moldavia, Netherlands, Norway, Oman, Poland, Portugal, Qatar, Romania, Saudi Arabia, Slovakia, Slovenia, Syria, Spain, Sweden, Switzerland, Tunisia, United Arab Emirates, United Kingdom and Yemen.
	● Israel
	● Turkey
	● Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand
	● Republic of Korea
	● China

Management report continued

Product commercialisation and pipeline

	Indication	R&D	Pre Clinical	Phase I	Phase II	Phase III	Registration	Market
Ruconest®								
Ruconest® (rhC1INH) (Europe)	 Hereditary Angioedema	[Progress bar from R&D to Market]						
Ruconest® (rhC1INH) (USA)	 Hereditary Angioedema	[Progress bar from R&D to Registration]						
New Projects								
rhFactor VIII	 Haemophilia A	[Progress bar from R&D to Pre Clinical]						

	Pre Clinical	Clinical (Phase II/III)	Registration	Market
Ruconest® Additional Indications				
Prophylaxis of Hereditary Angioedema		[Progress bar from Pre Clinical to Market]		
Acute Pancreatitis		[Progress bar from Pre Clinical to Market]		
Delayed Graft Function (Kidney)		[Progress bar from Pre Clinical to Market]		
Other IRI Indications		[Progress bar from Pre Clinical to Market]		

DEVELOPMENT OF RUCONEST

Ruconest® for Hereditary Angioedema (HAE)

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

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

Management report continued

Administration of C1 inhibitor protein can stop these angioedema attacks. Ruconest® is a recombinant version of the human protein C1 inhibitor (C1INH) which demonstrates best-in-class efficacy (confirmed in Study 1310). It is produced through Pharming's proprietary technology in milk of transgenic rabbits. Ruconest® offers higher purity and batch consistency compared to plasma derived C1 inhibitors and no risk of human virus transmission. The 50 U/kg dose studied and approved in the EU and Israel and under review with the US-FDA and the Turkish MoH restores C1INH function to physiological levels and is a highly effective treatment of acute HAE attacks.

ADDITIONAL INDICATIONS OF RUCONEST®

HAE in children

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

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

Prophylaxis in HAE

Ruconest® has been developed as treatment for acute HAE. In acute therapy, each individual attack is treated. In prophylaxis therapy, the patient receives the drug on a regular basis with the intention of preventing or reducing the frequency of attacks. In the US, the market size of prophylactic therapy segment in HAE is significant. Cinryze (previously marketed by Viropharma, now Shire), which is only approved for this indication, had US sales in 2013 of approximately US\$400 million.

Following the results of our encouraging open label exploratory study (OPERA) with Ruconest® in HAE prophylaxis, in 2013 we engaged in discussions with FDA to obtain regulatory guidance towards obtaining a label for the prophylaxis of HAE. These discussions were initiated with our US commercial partner Santarus, and we are now working with Salix (who acquired Santarus in the end of 2013) to carry these plans forward. We anticipate beginning a clinical study in the prophylactic indication in the second half of 2014.

Ischaemia Reperfusion Injury

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

In 2013, we received additional positive data on the use of Ruconest® to decrease the damage caused by IRI. Dr. Luis Fernandez and his colleagues from the University of Wisconsin presented data from a primate model showing that Ruconest® could significantly reduce the complication of delayed graft function when given to donors prior to kidney transplantation. In addition, Dr. Thierry Hauet and colleagues from the University of Poitiers showed that Ruconest® was also effective in reducing IRI in a pig model when given to recipient animals prior to kidney transplantation. The results from this study will be presented at the World Transplant Congress in San Francisco in July 2014.

Management report continued

In addition to the work in transplantation, Pharming is continuing its collaboration with the US Army Institute of Surgical Research (US Army) to evaluate the potential for Ruconest® to reduce IRI in haemorrhagic shock, a serious complication of civilian and military traumatic injuries. Further results are expected this year and we are exploring options, together with the US Army, on how to move the development of Ruconest® forward in this important indication. Together, the data provide strong support to evaluate Ruconest® in clinical conditions with IRI, such as transplantation and acute myocardial infarction. During the course of 2014, we anticipate refining our development plans to study Ruconest® in these indications with significant unmet medical need.

Acute Pancreatitis

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

Based on the broad anti-inflammatory properties of C1 esterase inhibitor (C1INH), plasma-derived C1INH (pdC1INH) and recombinant C1INH (rhC1INH) have been studied in a variety of clinical conditions and animal models of numerous conditions involving contact and complement system activation with a vascular/capillary leak component. These studies have included models of pancreatitis, sepsis, and thermal injury. On the whole, this experience suggests 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.

In 2013, Santarus began exploring clinical and regulatory strategies to evaluate Ruconest® for the treatment of AP. This included discussions with FDA on a pre-IND briefing package for a Phase II clinical study. Salix is now evaluating the opportunity in AP further and will carry on the next steps in development work in this indication.

Management report continued

FINANCIAL REVIEW 2013

The financial objectives for 2013 were focussed on:

- Accessing capital to ensure that the Company had sufficient resources to fund the operations while the BLA process with the US FDA is ongoing and to provide working capital to build up a stock of finished goods to prepare for further commercialization;
- Reduction of the cash burn of the Company.

Key Financial developments in 2013

- Revenues and other income from continuing operations decreased to €7.0 million (2012: €10.9 million).
 - Decrease mainly as a result of lower license fees: 2012 included a €7.9 million milestone from US partner Santarus, while 2013 included a €3.8 milestone from Santarus.
- Costs of product sales decreased to €0.5 million in 2013 (2012: €1.1 million).
- Inventory impairments decreased to €0.6 million in 2013 (2012: €3.1 million).
- Operating costs excluding cost of sales and inventory impairments decreased to €12.8 million (2012: €24.1 million).
- Net loss decreased to €15.1 million (2012: €24.1 million).
 - Included net loss from financial income and expenses of €8.1 million (2012: net loss €6.6 million).
- Raised €28.6 million gross new funds (net €26.7 million, 2012: net €12.4 million).
 - €16.4 million convertible bond (net €15.1 million).
 - €12.0 million of equity in a private placement in October 2013 (net €11.4 million).
 - €0.2 million issue of warrants (net €0.2 million, 2012: net €0.4 million).
- Year-end cash and cash equivalents (including restricted cash) of €19.2 million (2012: €6.3 million).

GROSS PROFIT/(LOSS)

Revenues and other income from continuing operations decreased to €7.0 million, from €10.9 million in 2012. The decrease is mainly a result of the fact that Pharming received a \$5 million (€3.8 million) milestone from US partner Santarus in 2013 while the Company received a \$10 million (€7.9 million) milestone in 2012. Other license fee income increased to €2.1 million from €1.9 million in 2012 as a result of the upfront payment of our Chinese partner SIPI. Other license fee income reflects the release of accrued deferred license revenues following receipt of in total €21 million upfront and milestone payments in 2010 and 2013. The 2013 revenues from product supplies to Sobi amounted to €0.9 million (2012: €0.8 million). Cost of product sales in 2013 amounted to €0.5 million (2012: €1.1 million). In 2013 the Company incurred €0.6 million (2012: €3.1 million) of inventory impairments related to cost of goods exceeding the sales revenue for the product while in 2012 it related to ageing of stocks of finished products.

Management report continued

OPERATING COSTS

Operating costs from continuing operations decreased to €12.8 million from €24.1 million in 2012. The decrease is a result of the combined effect of reduced costs for clinical studies, cost reductions following the reorganization that was completed in the first half of 2013, reduced inventory impairments and implementation of stringent cost control measures. A provision of €1.2 million was created in 2012, from which the restructuring costs in 2013 were paid.

Research and development costs decreased to €10.2 million from €19.6 million in 2012 and General and administrative costs decreased to €2.5 million in 2013 from €3.2 million in 2012. There were no impairment charges in 2013 (2012: €1.3 million).

FINANCE INCOME AND EXPENSES

The 2013 net loss on financial income and expenses was €8.1 million, compared to a €6.6 million net loss on financial income and expenses in 2012. The 2013 financial expenses included settlement losses of the convertible bonds in the amount of €4.6 million and effective interest of the convertible bond of €3.2 million.

NET RESULT

As a result of the above items, the net loss decreased by €9.0 million to €15.1 million in 2013 (2012: €24.1 million). The net loss per share for 2013 amounted to €0.071 (2012: €0.330).

CASH FLOWS

Total cash and cash equivalents (including restricted cash) increased by €12.9 million from €6.3 million at year end 2012 to €19.2 million at the end of 2013. The increase follows from net cash outflows from operations of €8.3 million with net cash inflows from financing activities amounting to €21.1 million and net cash inflows from investing activities amounting to €0.2 million. Net cash flows from financing activities mainly follow from the 16.4 million convertible bond transaction of January 2013 and the October 2013 equity issue of €12.0 million.

FINANCING

In 2013, the Company had proceeds of €16.4 million from the issue of convertible bonds announced in January 2013. Furthermore, in October 2013, €12.0 million was raised in a private placement. In addition, €0.2 million was raised as a result of warrant exercises.

EQUITY

Since the private placement in October 2013, the Company's equity position is positive again (€5.0 million), after it had become negative late 2011. In addition, it should be noted that the Company has a significant amount of deferred license fee income (2013: €14.4 million) regarding non-refundable license fees received in 2010 and 2013 that, under IFRS, will be recognized in the statement of income over the term of the license agreements involved.

Management report continued

Performance of Pharming shares

During 2013 our stock price was adversely impacted by the necessary funding activities we executed, especially in the first half of the year. The initial institutional investors that took positions in excess of 3% started to support the stock and we were therefore very pleased that, supported by these initial institutional investors, a private placement of €12 million had been completed in October. This private placement contributed to the funds needed to continue the investment in the necessary build-up of inventory for a US launch and the projected funds needed to deal with FDA review process.

During 2013, as in 2012, Pharming continued to focus the majority of its resources on Ruconest®, whilst investment in other projects was terminated, except for some early stage feasibility work, including rhFactor VIII for the treatment of Haemophilia A. The emphasis on cost containment continued and a new more commercially focused pipeline prioritisation process was put in place to evaluate potential new projects.

OUTLOOK

Recently, in order to create the financial basis to accelerate investments in building the inherent value of the Ruconest® franchise and our technology platform, including options to potentially participate in the commercialisation of Ruconest®, in defined territories, with partners, the Company successfully completed a private placement of €14.7 million gross proceeds with selected institutional investors.

In anticipation of the Ruconest® launch in the US, the Company is investing in purification of sufficient quantities of Ruconest®, out of the existing bulk inventory buffers (frozen milk).

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

GOING CONCERN

Pharming's 2013 financial statements have been drawn up on the basis of a going-concern assumption.

The 2013 year-end cash balance of €19.2 million, the net proceeds of €4.3 million as result of the exercise of warrants during the first months of the year and the net proceeds of €14 million from the April 2014 private placement are expected to fund the Company for at least one year from the date of the report. The receipt, subject to FDA approval of the Ruconest®, BLA, of the US\$20 million milestone upon first commercial sale in the US from our US partner Salix Pharmaceuticals will further increase our financial reserves.

Pharming has a history of operating losses and anticipates that it will continue to incur losses until such quantities of Ruconest®, are sold, that the proceeds to Pharming from such sales have become sufficient to off-set our losses. Presently, no assurance can be given both on the timing and size of future profits and if profitability can ever be achieved on this basis.

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

Management report continued

Summary of goals for 2014

- Approval of the BLA filing for Ruconest® for acute attacks of HAE in the US.
- Commercial launch of Ruconest®, in the US.
- Initiation of a randomized clinical trial of Ruconest® for the prophylaxis of HAE.
- Increase sales of Ruconest® in Europe and other territories under the EMA product approval.
- Leverage the embedded value of the transgenic technology platform by initiation of new projects.
- Develop the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

Except for the guidance on revenues from (ex-US) sales of €3 million, Pharming is not providing guidance for the financial results in 2014.

Management report continued

STATEMENTS OF THE BOARD OF MANAGEMENT

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

The Board of Management declares that to the best of their knowledge and in accordance with applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the Management Report incorporated in this Annual Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and certain risks associated with the expected development of the group. For a detailed description of the risk factors, we refer to page 22 of this report.

We would like to thank all our shareholders, research collaborators and partners for their help and support in 2013. We are especially grateful for the continued support of our employees.

Sincerely,

The Board of Management

The original copy has been signed by the Board of Management

Leiden,
The Netherlands,
28 April 2014

Management of the Company

Management Structure

Pharming has a two-tier board structure, consisting of a Board of Management (Raad van Bestuur) and a Board of Supervisory Directors (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. On 22 April 2005, the Management Board adopted the current management board regulations which provide for certain duties, composition, procedures and decision-making of the 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. On 14 October, 2004, the Board of Supervisory Directors adopted the current supervisory board regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Supervisory Directors.

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

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

Management of the Company continued

Composition board of management

During 2013, the Board of Management was composed of the following members:

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

Sijmen de Vries, MD MBA (1959)

Chief Executive Officer

Nationality: Dutch

Date of initial appointment: 13 October 2008

Other current board positions: Mr. De Vries holds non-executive directorships in two private life science companies, Midatech Group Ltd and Sylus Pharma Ltd.

During 2013, 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)

Chief Operations Officer

Nationality: Italian

Date of initial appointment: 1 December 2006

Other current board positions: Mr. Giannetti was until 1 December 2013 president of CRM Clinical trials GmbH, a well established European Clinical Research Organisation specialised in international pharmaceutical Clinical research. At that date, the CRM business was sold and the company's name changed to Topcro GmbH. In the course of this change Mr. Giannetti resigned from his position as president of Topcro GmbH.

During 2013, 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 CEO of AM-Pharma BV (NL) and President and CEO of Verigen AG, Germany. He has served as senior management consultant for pharmaceutical R&D projects at Coopers & Lybrand (in Switzerland and the UK). Mr. Giannetti was also worldwide Vice-President Marketing and Medical Information at Immuno, Austria and Head of Clinical Research at Madaus AG, Germany. Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn and has recently been appointed visiting Professor at the Pharmaceutical Faculty of the University of Seville (Spain).

Management of the Company continued

Composition Board of Supervisory Directors

During 2013, the Board of Supervisory Directors was composed of the following Members:

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

Jaap Blaak, MSc (1941)

Chairman, member of the Remuneration Committee

Nationality: Dutch

Date of initial appointment: 23 May 2007

Other current board positions: Mr. Blaak held board positions in non-listed companies in the life science industry, like Centocor BV, FlexGen Holding BV and to-BBB Holding BV. He is also a co-founder/shareholder in VenGen Holding BV.

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

Juergen H.L. Ernst, MBA (1939)

Vice Chairman, member of the Audit, Corporate Governance and Remuneration Committees

Nationality: German

Date of initial appointment: 15 April 2009

Other current board positions: Mr. Ernst is chairman 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 other, he was member of the board of Pharmaceutical Division, CEO of Health Divisions, General Manager Pharmaceutical Sector and supervisory director and member of the Executive Committee. Mr. Ernst holds an ISMP Degree from Harvard University and an MBA from the University of Cologne.

J. Barrie Ward, PhD (1938)

Member, Chairman of the Corporate Governance and Remuneration Committees and member of the Audit Committee

Nationality: British

Date of initial appointment: 23 May 2007

Other current board positions: Mr. Ward is chairman of Cellcentric Ltd and board member of BergenBio AS and ADC Therapeutics sarl.

Management of the Company continued

Mr. Ward has a broad international network and experience in managing and financing biopharmaceutical companies. He has held senior management positions in the UK, USA and Singapore at several pharmaceutical and biotechnology companies, including Glaxo Group Research Ltd, Virus Research Institute Inc, Avant Immunotherapeutics Inc and KuDOS Pharmaceuticals Ltd and board positions at Cancer Research Technology Ltd and Spirogen sarl. 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, LL.M (1953)

Member, Chairman of the Audit Committee and member of the Corporate Governance Committee

Nationality: Dutch

Date of initial appointment: 15 April 2009

Other current board positions: Mr. De Winter holds no other board positions.

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

Board of Supervisory Directors Committees

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

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

The Remuneration Committee consists of Mr. Ward (Chairman), Mr. Ernst and Mr. Blaak. The Remuneration Committee advises the Board of Supervisory Directors with regard to salaries, grants and awards under incentive plans, benefits and overall compensation for officers of the Company. 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 for compliance with the Dutch Corporate Governance Code.

Corporate governance and risk management

Corporate Governance

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

Risk management and control

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

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

- Annual objective setting by the Board of Supervisory Directors and evaluation of realized 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 subsequent follow-up on achievements of targets set; and
- A whistleblowers' procedure, which is published on the Company's website.

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

- Regular meetings of the Audit Committee with each of the Board of Management and the external auditors to discuss the financial results and the controls and procedures, and
- Audits of internal controls and procedures by the external auditors reported in their Management letters.

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; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Corporate governance and risk management continued

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.

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 on page 16 of the Annual Report.

RISK FACTORS

In the description of the risk factors below we focus on the risks we consider the main threats to achievement of our strategic goals. Although many risk factors can be identified, 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.

Clinical & Regulatory Risk

Pharming may not obtain all regulatory approvals for its lead product Ruconest®

The process of undertaking and completing pre-clinical studies and clinical trials, and obtaining regulatory approvals, takes several years and requires the expenditure of substantial cash resources. There can be no assurance that applicable regulatory approvals for the Company's products will be granted in a timely manner, or at all.

The regulatory approval process is costly and lengthy and we may not be able to successfully obtain all required regulatory approvals. Negative or inconclusive study results (either pre-clinical or clinical) could result in Pharming stopping the development of a product or technology or requiring additional clinical trials or other testing and could have significant detrimental consequences for Pharming's business and financial position and results.

Once a product receives regulatory approval, such approval can nonetheless be subject to limitations with regard to the indications for which it may be marketed. The approval may also be given subject to conditions, such as additional proof of the product's effectiveness and safety. Even after approval is granted, the product, its manufacturer and the manufacturing facilities are subject to ongoing scrutiny and regular inspections by the relevant agencies. If previously unknown problems are discovered in connection with the product, the manufacturer or the manufacturing facilities, this can result inter alia in restrictions on use and withdrawal of the product from the market and may adversely affect Pharming's business, financial position and results.

Risk-mitigating actions

Following approval of Ruconest® in the European Union in 2010, Pharming also requested the Food and Drug Administration to approve the product in the United States of America, by means of submitting a BLA for Ruconest®. The FDA did not accept the BLA for review until such time that Pharming had provided additional clinical trial results for Ruconest®, after which Pharming initiated a new clinical study. Formal input from the FDA was incorporated in the design of this study, under the SPA (Special Protocol Assessment) rules, which study was successfully completed in November 2012.

Corporate governance and risk management continued

Based on the additional data generated in this study, a new BLA was filed on 17 April 2013. The FDA is now expected to conclude the review of the BLA by 16 July 2014

Together with its US partner Salix, Pharming has a highly skilled multidisciplinary team in place to ensure that any questions posed by the FDA during the review process can be answered effectively and efficiently. Furthermore, Pharming has robust quality systems and processes in place to ensure that the product and its production processes meet the required specifications. These systems are designed such that they meet the requirements set by the regulatory authorities. In addition, the Company has engaged experienced industry experts to assist the Salix/Pharming team in this process.

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 Company will face competition from these and existing products used to treat HAE attacks. In Europe, two other non-recombinant C1 inhibitor products and one product using another mechanism of action have been approved in the EU, each for the treatment of acute HAE attacks. In the US one non-recombinant 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 non-recombinant C1 inhibitor product for preventive treatment of HAE attacks. As a consequence, Pharming may not obtain a sufficient market penetration with Ruconest® to allow it to become profitable.

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

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

Our products may not gain market acceptance

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

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

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

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

Corporate governance and risk management continued

Pharming's supplies of Ruconest® are dependent on third parties

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

Risk-mitigating actions

Pharming has established partnerships in the most important geographical areas with partners, capable of commercializing 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 end of 2013. Salix (and Santarus) are companies with an excellent commercialization track record. The European market has been partnered with Sobi.

Sobi has a specialized sales team that works closely with the physicians that treat the HAE patients in order to gain market acceptance for our product. Salix is in the process of preparing for a US launch.

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

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.

Financial Risk

The Company is dependent on access to external funding

Pharming does not yet generate sufficient cash from product revenues to meet its current working capital requirements and is, as has been the case since its incorporation, partially dependent on financing arrangements with third parties. The ability of Pharming to attract external funding is (inter alia) dependent on the external market conditions (equity and/or debt), the approval by the FDA of Ruconest® and the Company's ability to generate cash inflows from development of sufficient revenues from sales in the European Union (EU) through its commercialisation partner Sobi.

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

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

Corporate governance and risk management continued

Risk-mitigating actions

Pharming's cash balance of €30 million at the date of this document ensures that the Company has a cash runway that lasts until Q3 2016, even if the milestone of US\$ 20 million from Salix, following 3 months or first commercial sale after FDA approval, would not be met. This projection is based on Pharming's internal cash flow projections, which may deviate significantly from actual cash flows. If the milestone would be met, and Pharming receives the \$20 million from Salix, then the cash runway would be extended significantly. In addition to the existing cash resources and the potential receipt of the milestone as described above, Pharming is evaluating different options to meet its working capital requirements, as these would increase because of the manufacture of finished goods to be sold.

Board of Supervisory Directors

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

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

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

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 as of page 29.

Composition and remuneration

In 2013 the composition of the Board of Supervisory Directors was as follows: Mr. Blaak (Chairman), Mr. Ward, Mr. Ernst and Mr. De Winter.

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

For 2013 the annual compensation was as follows (unchanged from 2012):

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

No current member of the Board of Supervisory Directors holds shares in the Company. 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 Directors, best practice provision III.2.1 of the Code has been fulfilled and all Board of Supervisory Directors members consider themselves independent, within the meaning of best practice provision III.2.2 of the Code. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies.

Board of Supervisory Directors continued

Activities

The Board of Supervisory Directors met 5 times in 2013, the individual presence of the Supervisory Directors is reflected in the following schedule:

Date	28 February	06 March	15 May	31 July	06 November
Extra participants	CEO/ COO Staff	CEO/ Staff	CEO/ COO Staff	CEO/ Staff	CEO/ COO Staff
Mr. Blaak	✓	✓ *	✓	✓	✓
Mr. Ernst	✓	✓ *	✓	✓	✓ *
Mr. Ward	✓	✓ *	✓	✓	✓
Mr. De Winter	✓	✓	✓	✓	✓

* Joined by teleconference call

At each of these meetings all Members were present. The Board of Management attended these meetings except when the composition, performance, remuneration of the Board of Management and the self-evaluation of the members of the Board of Supervisory Directors and its committees were discussed.

The Board of Supervisory Directors has received from each of the committees a report of its deliberations and findings. As part of good governance, the Board of Supervisory Directors conducts a self-evaluation annually. These evaluations cover two parts; one part is the work of the Board of Supervisory Directors in relation to key objectives of the Company and the second part is the structure of the Board of Supervisory Directors to ensure that the members bring the correct skills and background knowledge for the benefit of the Company.

At the meetings of the Board of Supervisory Directors, the Company's financial and operational targets, strategy and accompanying risks were extensively discussed. Amongst other topics, a considerable amount of time was spent on discussing regulatory issues with regard to Ruconest®, the competitive landscape, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the targets for 2013 and the operational and financial risks to which the Company is exposed.

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

- The Company's progress on the achievement of certain milestones. There is no certainty that these milestones will actually be achieved.
- The Company does not yet have a positive operational cash flow and therefore will be dependent on financial markets and/or partnership revenues for funding.
- The Company is largely dependent on the development of one key product; Ruconest® in one market, the US, however, the outcome of any registration process is uncertain and may be influenced by unpredictable events.
- The Company is dependent on the availability and commitment of key employees.
- The Company is active on a niche market for an orphan drug product with at least three competitors.
- The timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimise the Company's exposure. Financial risks are actively monitored by the finance department, whose findings are discussed with the Board of Management on a monthly basis or whenever deemed necessary. The finance department also maintains a close working relationship with the legal officer and company secretary to monitor other corporate and contractual risks. The risks are further described in the corporate governance chapter commencing on page 21.

Board of Supervisory Directors continued

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	28 February	06 March	15 May	31 July	06 November
Extra participants	CEO/ COO Staff/ PwC Mr. Blaak	CEO/ Staff PwC* Mr. Blaak*	CEO/ Staff PwC* Mr. Blaak	CEO/ Staff PwC Mr. Blaak	CEO/ COO Staff/ PwC Mr. Blaak
Mr. Ernst	✓	✓ *	✓	✓	X
Mr. Ward	✓	✓ *	✓	✓	✓
Mr. De Winter	✓	✓	✓	✓	✓

* Joined by teleconference call
PwC PricewaterhouseCoopers

During the five Audit Committee meetings held in 2013, the financial statements were discussed with a special emphasis on complex transactions and the impact of IFRS related issues. In addition, the audit plan and the audit findings of the external auditor were discussed. The Audit Committee in 2013 consisted of Mr. De Winter (Chairman), Mr. Ernst, and Mr. Ward. All meetings of the Audit Committee were also attended by the other member of the Board of Supervisory Directors, Mr. Blaak, and by the auditors.

The Corporate Governance Committee consisted of Mr. Ward (Chairman), Mr Ernst and Mr. De Winter but did not meet during 2013. However, at every Board of Supervisory Directors' meeting, various topics of Corporate Governance were discussed.

All material transactions with parties that held more than 10% of the shares of the Company at the time of the transaction have been approved by the Board of Supervisory Directors.

A report of the Remuneration Committee can be found on pages 29-34.

Financial statements

The Financial Statements of Pharming Group N.V. for 2013, 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 113-114.

The Financial Statements were approved by the Board of Supervisory Directors and all its members (as well as the members of the Board of Management) have signed these Statements.

The Board of Supervisory Directors recommends the General Meeting of Shareholders to adopt the 2013 Financial Statements and to discharge the Board of Management and Supervisory Board from liability for their management and supervisory activities on behalf of the Company.

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

Leiden,
The Netherlands,
28 April 2014

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.

2013 Remuneration policy and structure

The remuneration policy for 2013 was a continuation of the 2012 policy and was approved in the Annual General Meeting of May 2013. 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 24 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 forty percent, of the member's 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 33).

Meetings and Composition

During the 2013 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met twice in 2013. The individual presence of its Members is reflected in the following schedule:

Date	28 February	15 May
Extra participants	Mr. De Winter	Mr. De Winter
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 2013 objectives were also discussed and agreed in the last meeting.

Report of the remuneration committee continued

Remuneration Report 2013

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant all of the available 4,125,000 stock options of the Board of Management Option Plan (as approved by the AGM on 15 May 2013), in line with the achievement of the present target for the Board of Management. The exercise price of these options is €0.087. The stock options will expire on 14 May 2018. To Mr. De Vries 2,500,000 stock options were granted, and to Mr. Giannetti 1,625,000 stock options were granted.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2013. The Remuneration Committee recommended and the Board of Supervisory Directors concurred that the Board of Management had met the corporate and personal objectives set for 2013 and contributed to positioning the Company for the future in particular by the following accomplishments:

- Conclusion of an additional regional commercialisation agreement for Ruconest®.
- Succeeded in raising additional funds during the year, still under challenging circumstances.
- Timely filing of the Ruconest® BLA to the FDA.
- Achieved acceptance for review of the BLA by the FDA as planned, which triggered a US\$5 million milestone payment from US partner Santarus.
- Leveraging the rabbit platform by closing a significant strategic collaboration with Shanghai Institute for Pharmaceutical Industry (SIPI)
- Successful completion of the upscaling and technology transfer of the Ruconest® production to Sanofi Chimie, resulting in a significant reduction of the Cost of Goods and in addition, enabling additional future substantial economies of scale
- Achievement of a significant reduction of the cost basis as result of the successful completion of the downsizing of the organization and the associated company cost structure.
- Increased the Company's visibility with investors, resulting in various institutional investors accumulating reportable (>3%) ownership positions in the Company.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided therefore that both Mr. Giannetti and Mr. De Vries should be granted 100% of the corporate and personal objectives that had been set to determine their individual bonus pay-out.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to (i) pay out the regular bonus 50% in cash and 50% in shares and (ii) to make the pay-out of half of the cash component and the entire share based component conditional on the receipt of the FDA approval for the Ruconest® BLA.

The share component of the 2013 bonus payments was valued at the volume weighted average price (VWAP) measured over the 20 trading days prior to 31 January 2014 (€0.271). A detailed overview of the compensation of the members of the Board of Management can be found in note 24 of the annual report.

The individual remuneration of the members of the Board of Management was reviewed. In the light of the fact that all milestones were achieved in 2013 and in the light of developments at other listed biotechnology/specialty pharmaceutical companies in Europe and considering that the base salaries of the Board of Management have not been increased for over three years; the Remuneration Committee advised the Board of Supervisory Directors to increase the base salaries, subject to having received approval for the Ruconest® BLA by the FDA.

Following this recommendation the Board of Supervisory Directors decided to increase the base salary for Mr. de Vries by 9% from €396,000 to €431,640 and for Mr. Giannetti by 6.0% from €266,000 to €281,960, effective from the date of receipt FDA approval of Ruconest®.

Report of the remuneration committee continued

Remuneration Policy 2014 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 2014, the Remuneration Committee will continue to implement the compensation policy approved at the 2010 AGM. All remuneration elements described below are consistent with and covered by the current compensation policy. As usual shareholder approval will be sought at the AGM to be held on 18 June 2014, for the proposed number of share options to be granted to the Board of Management and for the Staff option pool.

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

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

In accordance with the compensation policy approved at the 2010 AGM, the basis for the annual cash bonus shall be adapted as follows and effective from the date of receipt of the FDA approval of Ruconest®:

CEO: to a maximum of 60% of annual salary.

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

The issuance of any share based bonus component for the cash bonus 2014 shall be valued at the VWAP measured over the 20 trading days prior to 31 January 2015. 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 2014.

The main corporate objectives for 2014 for the Board of Management can be summarised as follows:

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

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

Report of the remuneration committee continued

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

From 2014 forward, the Board of Management has the expectation that, following a considerable period of significant dilution of the share capital necessary to maintain the operations, such further highly dilutionary financings should not appear on the agenda going forward. In the light of these expectations and in order to improve the longer-term alignment of interests of the shareholders and Board of Management, the Remuneration Committee recommended that share option should no longer be given annually but rather grant share options in 2014 to the Board of Management that will vest in equal tranches over a five-year period going forward.

This implies that the 2014 option grants for the Board of Management and Staff pool will cover the period 2014-2018, with annual vesting of tranches as outlined below.

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

	Number of options Grant 2014 for period 2014-2018	
Mr. Sijmen de Vries	12,000,000	
Mr. Bruno Giannetti	7,200,000	
	<u>Annual vesting tranches</u>	<u>Parameters</u>
Mr. Sijmen de Vries	2,400,000	In service at 31 January 2015
	2,400,000	In service at 31 January 2016
	2,400,000	In service at 31 January 2017
	2,400,000	In service at 31 January 2018
	2,400,000	In service at 31 January 2019
Mr. Bruno Giannetti	1,440,000	In service at 31 January 2015
	1,440,000	In service at 31 January 2016
	1,440,000	In service at 31 January 2017
	1,440,000	In service at 31 January 2018
	1,440,000	In service at 31 January 2019

It is proposed to reserve 11,232,000 options for the Staff option pool for granting during 2014 for the period 2014-2018, under similar annual vesting conditions.

The strike price of the 2014 share options grant for the Board of Management (being the first tranche of 2,400,000 options for Mr. Sijmen de Vries and the first tranche of 1,440,000 options for Mr. Bruno Giannetti) and the Staff option pool shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting (18 June 2014). 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.

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

Report of the remuneration committee continued

4. The Long Term Incentive Plan (LTIP)

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

The reference group consists of the following companies:

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

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

LTIP 2011 expired without pay-outs

At 1 January 2014, after three years of the three-year period of the 2011-LTIP, the Pharming share price has not increased over the period. As a result none of the allocated shares have vested.

The allocations under the 2012 and 2013 LTIP still have one and two years respectively to run. The minimum share prices (hurdles) for the 2012 and 2013 allocations to qualify for (part-) vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €0.82, being the closing price at 31 December 2011 for the LTIP 2012 and (2) €0.25, being the closing price 31 at December 2012 for the LTIP 2013.

LTIP 2014

For 2014, 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 2013 of €0.143) shall be equal to 30% of each of the Board of Management's 2014 base salaries.

Report of the remuneration committee continued

In addition to this, in order to be able to attract and retain members of the Board of Supervisory Directors with relevant industry experience in a competitive and global environment and in line with global pharmaceutical/ biotech industry practice, the Board of Supervisory Directors proposes to re-install the participation of the members of the Board of Supervisory Directors in the LTIP.

This results in the following allocations:

Mr. S. de Vries 905,538 shares, Mr. B.M.L. Giannetti 591,524 shares.

For a selected group of senior managers 800,000 shares are available. A maximum amount of 100,000 shares per senior manager can be allocated.

For the Board of Supervisory Directors the following allocations are proposed;

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

Shareholder approval will be sought at the AGM to be held on 18 June 2014, for the proposed allocation of shares to the Board of Supervisory Directors.

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

Corporate social responsibility

Introduction

Pharming takes its obligation to behave in a sustainable, safe and responsible manner, very seriously. Pharming is aware of its responsibility towards all stakeholders, including employees, shareholders, patients, animals, the environment, as we develop important new therapeutic products to address rare and life threatening human diseases.

Medical Need

Pharming is developing therapeutic products for specific rare diseases (orphan drug development) and other significant medical needs. Through development of the 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 labeling. In the most extreme cases a safety concern can result in suspension of enrolment in a clinical trial or withdrawal of the product from the market.

Clinical studies are carried out in compliance with legal and regulatory requirements and according to Good Clinical Practice (GCP) guidelines. Pharming's laboratories comply with Good Laboratory Practice (GLP) guidelines and all production facilities and processes comply with regulatory Good Manufacturing Practice (GMP) guidelines. Pharming's Quality department conducts internal and external audits of processes, products and facilities on a regular basis. All these processes and guidelines have been implemented to improve and assure the quality of our products.

Code of Conduct

Pharming endeavors 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 behavioral standards, which have been stated in a set of general principles referred to as the Code of Conduct. This Code of Conduct has been designed to provide guidance on acting in accordance with the Company's high level of principles and standards as this is of the utmost importance for Pharming's reputation. The Code of Conduct is available on the Company's website.

Whistleblowers' procedure

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

Corporate social responsibility continued

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 significant attention to education and information on all aspects of Safety.

Animal Care Code of Conduct and Welfare Policy

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

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

Special attention is given to the strict separation of transgenic and non-transgenic materials and animals. In addition, the Company follows strict procedures to prevent the prohibited release of transgenic animals, their semen or any other reproductive transgenic material into nature.

Pharming is largely dependent on its transgenic animals and highly values animal health and welfare. The Company has an Animal Welfare Policy, which amongst others, imposes that Pharming will not develop products with unacceptable adverse effects on animal health and welfare. Accordingly, Pharming carefully and continuously monitors the health and welfare of its animals.

Environment and trace-ability of supply chain

As a biotechnology company that manufactures and develops bio-pharmaceuticals, 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 captured under our highly detailed and fully cGMP compliant (industry standards) Q&A systems. All supplier and contractors are audited on a regular basis. All elements of our operations are inspected by various specialized governmental agencies on a regular basis. As per the international bio-pharmaceutical regulations, the entire supply chain is fully traceable. Our staff are permanently trained and have to be re-qualified 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 Q&A group prior to engagement.

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

Corporate social responsibility continued

Human Resources

Pharming recognizes that our staff represents a key factor to the success of the company. Pharming is committed to attracting, developing and retaining the best talent to fill each and every job in the company.

The downsizing of the Dutch operations was completed in 2013. Immediately after completion of the downsizing, we started on focusing and implementing the new strategic vision, which is embodied by the strategic product development collaboration with SIPI in Shanghai, but also in the way we worked together with our US partner Santarus in the structured evaluation, prioritization and planning of new development opportunities for our Ruconest® franchise.

Another example of the changing ways in which we work is the regular use of third party specialized contractors/ consultants that help, often in temporary team settings, to manage the peaks in work-load and the need for highly specialized expertise for limited periods, mainly as result of regulatory demands.

To be able to continue to attract the best talent in the industry Pharming has been increasing the number of management positions that have performance related variable payment opportunities as part of their total compensation package.

To be able to manage the complex cross-functional processes of (partly out-sourced) pharmaceutical development and manufacturing, Pharming is also internally increasing the emphasis on (temporary) and project-based teamwork.

To support the development of the project management skills and the management- and teamwork skills that are necessary, an HR initiative "Encourage to Change" was launched and will be implemented throughout the organization in 2014

Employee Statistics

As a relatively small company, Pharming employs a diversified team in gender, generations and culture.

As per 31 December 2013, the majority of staff is employed at Pharming's headquarters in Leiden; with approximately fifteen employees working at other locations in the Netherlands and in the US. The Company's business involves specific high-tech processes and technologies and requires the employment of highly skilled and motivated personnel. Therefore, it is important for Pharming to create an attractive work environment that retains and motivates personnel and attracts talent in a competitive and global environment.

During 2013, the Company hired 11 new employees (2012: 6) and 27 employees left the Company, of which 23 as last phase of the restructuring. As per 31 December 2013, 44 people (40 FTE) were employed. (2012: 61).

Headcount per 31 December 2013	2013	2012	2011
G&A	8	14	16
Manufacturing	20	19	19
R&D	16	28	44
Total	44	61	79

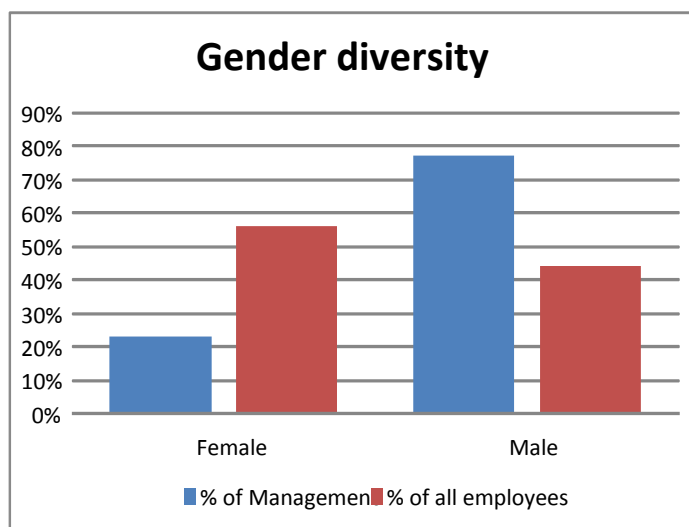
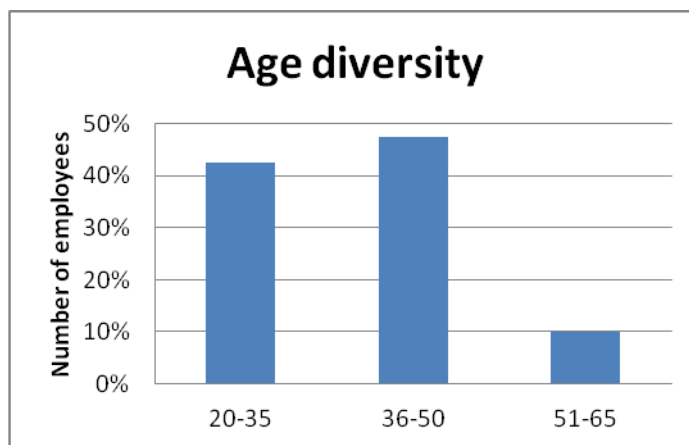
Corporate social responsibility continued

Diversity

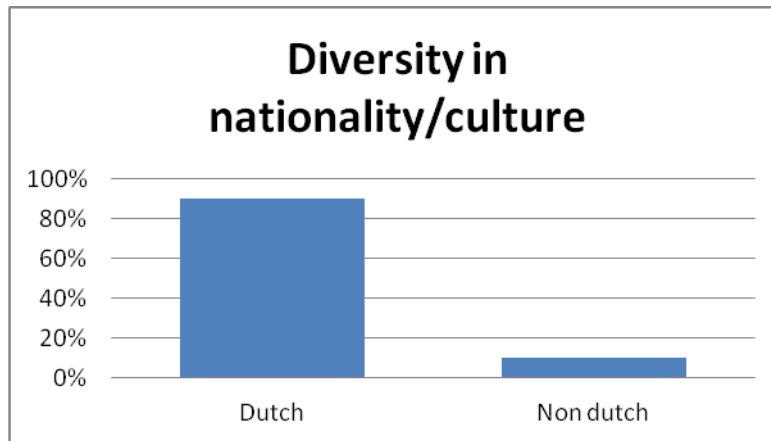
Part of the corporate HR strategy is that Pharming wants to have effective balance between permanent and contract staff. Contract staff is necessary in areas in which Pharming needs highly skilled and specialized personnel but not on a full time contract or to accommodate peak demands for such skills over a limited period of time. As a consequence Pharming decided to hire several ‘permanent’ contractors in key positions, so as to ensure highly qualified people for a small organization. Therefore Pharming decided to include those permanent contractors in the overall diversity numbers.

Headcount per 31 December	Permanent staff	Contract staff
G&A	8	2
Manufacturing	20	-
R&D	17	3
Total	45	5

Generations, gender and culture



Corporate social responsibility continued



We value and support diversity – of culture, gender and age – in our organization. The relatively low number of women in senior management positions has been and remains a point for attention. However, as a small and highly specialized organization, 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 organization.

Works Council

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

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 regularly presents at conferences and corporate and scientific presentations are made available at the Company's website.

Activities in 2013 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; and
- 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 NYSE Euronext N.V. Amsterdam (symbol: PHARM) since 1999. The Shares (ISIN Code: NL0010391025) are traded through the book-entry facilities of Euroclear Netherlands, only. The address of Euroclear Netherlands is: Herengracht 459-469, 1017 BS Amsterdam, the Netherlands.

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, 1000 EA Amsterdam, Netherlands.

Information for Shareholders and Investors continued

FINANCIAL CALENDAR FOR 2014

15 May 2014	Publication of first quarter 2014 financial results at 07.00 CET.
18 June 2014	Annual General Meeting of Shareholders Location: Hotel Holiday Inn, Haagse Schouwweg 10, 2300 PA Leiden, the Netherlands at 14.00 CET.
31 July 2014	Publication of first six months 2014 financial results at 07.00 CET.
30 October 2014	Publication of first nine months 2014 financial results at 07.00 CET.

Glossary

AGM

Annual General Meeting of Shareholders.

AMI

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

AMR

Antibody-mediated rejection occurs when a transplant, because of suboptimal histo-compatibility, is perceived by the recipient as a foreign body. The immune system is activated and the foreign body is attacked, which can lead to organ failure and immunological rejection of the organ.

BLA

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

BOM

The Board of Management of Pharming Group N.V.

C1INH

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

China

The People's Republic of China.

Clinical trial/studies

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

Glossary continued

DGF

DGF or delayed graft function is a common complication affecting all solid organs in the post-transplant period. DGF results in significant morbidity and mortality from early graft dysfunction and from decreased long-term graft survival. The condition also prolongs 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 in numerous models of organ transplantation to improve early graft function. 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.

EU

Europe.

FDA

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

GMP

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

HAE

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

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).

Glossary continued

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).

IRI

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

LTIP

Pharming's Long Term Incentive Plan.

MegaPharm

MegaPharm, Ltd.

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 five in ten thousand persons in Europe), namely Orphan Medicinal Product. This status is granted under European Parliament and Council Regulation (EC) No 141/2000 of 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.

Protein

Proteins are large organic molecules, like 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 sequence of these 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.

Glossary continued

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. This product might be useful for certain indications, such as the prevention of complications that sometimes arise after organ transplantation.

rhFVIII

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

Ruconest®

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

Salix

Salix Pharmaceuticals, Inc.

Santarus

Santarus, Inc.

SEC

U.S. Securities and Exchange Commission.

SIPI

Shanghai Industry of Pharmaceutical Industry.

Sobi

Swedish Orphan Biovitrum International AB.

SPA

A Special Protocol Assessment (SPA) is a declaration from the FDA that an uncompleted Phase III trial's design, Clinical endpoints, and statistical analyses are acceptable for FDA approval.

Transgenic

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

Glossary continued

USA/US

The United States of America.

US Army

US Army Institute of Surgical Research.

VWAP

Volume Weighted Average Price of shares.

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December

Amounts in €'000	Notes	2013	2012
Intangible assets	4	405	535
Property, plant and equipment	5	6,228	7,128
Restricted cash	6	176	732
Non-current assets		6,809	8,395
Inventories	7	4,763	2,101
Assets held for sale	8	-	242
Trade and other receivables	9	860	524
Restricted cash	6	2,008	309
Cash and cash equivalents	6	16,968	5,273
Current assets		24,599	8,449
Total assets		31,408	16,844
Share capital	10	3,346	10,092
Share premium	10	254,901	231,866
Other reserves	10	14,874	14,144
Accumulated deficit	10	(268,111)	(263,754)
Shareholders' equity	10	5,010	(7,652)
Deferred license fees income	11	12,222	13,495
Finance leases liabilities	12	1,207	1,961
Other liabilities		44	72
Non-current liabilities		13,473	15,528
Deferred license fees income	11	2,200	1,936
Derivative financial liabilities	13	4,147	1,215
Restructuring provision	14	-	1,232
Trade and other payables	15	5,812	3,690
Finance lease liabilities	12	766	895
Current liabilities		12,925	8,968
Total equity and liabilities		31,408	16,844

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December

Amounts in €'000	Notes	2013	2012
Continuing operations:			
License fees	16	5,903	9,815
Product sales	16	941	798
Revenues		6,844	10,613
Costs of product sales	18	(533)	(1,126)
Inventory impairments	18	(579)	(3,141)
Gross profit/(loss)		5,732	6,346
Income from grants	17	106	250
Other income		106	250
Research and development	18	(10,232)	(19,571)
General and administrative	18	(2,518)	(3,229)
Impairment charges	19	-	(1,257)
Costs		(12,750)	(24,057)
Loss from operating activities		(6,912)	(17,461)
Fair value gain derivatives	13	-	1,283
Financial income		-	1,283
Effective interest convertible bonds	13	(3,178)	(2,353)
Settlement convertible bonds	13	(4,555)	(2,757)
Result equity working capital facility	10	-	(673)
Recycling equity translation reserve	10	-	(1,384)
Other interest expenses, net	20	(107)	(242)
Foreign currency results	21	(214)	(218)
Fair value loss derivatives	13	(12)	-
Other financial expenses	22	(82)	(288)
Financial expenses		(8,148)	(7,915)
Net loss from continuing operations		(15,060)	(24,093)
Net profit from discontinued operations		-	-
Net loss		(15,060)	(24,093)
Attributable to:			
Net loss from continuing operations		(15,060)	(24,093)
Net profit from discontinued operations		-	-
Owners of the parent		(15,060)	(24,093)
Share information:			
Weighted average shares outstanding	32	213,007,959	72,977,269
Basis loss per share (€), of which:		(0.071)	(0.330)
From continuing operations (€)		(0.071)	(0.330)

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	2013	2012
Net loss for the year		(15,060)	(24,093)
Currency translation differences	10	-	65
Items that may be subsequently reclassified to profit or loss		-	65
Other comprehensive income, net of tax		-	65
Total comprehensive income for the year		(15,060)	(24,028)
Attributable to:			
Equity owners of the parent		(15,060)	(24,028)

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	2013	2012
Receipts from license partners	11	5,626	9,069
Receipt of Value Added Tax		882	1,163
Interest received		49	18
Receipt of grants		145	72
Other receipts		300	829
Payments of third party fees and expenses, including Value Added Tax		(9,948)	(14,941)
Net compensation paid to (former) board members and (former) employees		(3,136)	(3,285)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(2,211)	(2,983)
Other payments		-	(212)
Net cash flows used in operating activities	6	(8,293)	(10,270)
Proceeds of sale of assets	5, 6	262	722
Purchase of property, plant and equipment	6	(21)	(614)
Deconsolidation of DNage		-	-
Net cash flows from investing activities	6	241	108
Proceeds of equity and warrants issued	6, 10	12,178	5,340
Proceeds of convertible bonds issued	6, 10	16,023	8,000
Repayments of convertible bonds	6	(4,746)	-
Payments of transaction fees and expenses	10	(1,485)	(931)
Payments of finance lease liabilities	12	(881)	(838)
Net cash flows from financing activities	6	21,089	11,571
Increase/(decrease) of cash	6	13,037	1,409
Exchange rate effects	6	(199)	(160)
Cash and cash equivalents at 1 January	6	6,314	5,065
Cash and cash equivalents at 31 December	6	19,152	6,314

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

Amounts in €'000	Notes	Attributable to owners of the parent			
		Number of shares	Share Capital	Share Premium	Other reserves
Balance at 1 January 2012		51,011,647	20,405	224,495	12,325
Loss for the year		-	-	-	-
Other comprehensive income for the year					65
Total comprehensive income for the year		-	-	-	65
Recycling equity translation reserve	10	-	-	-	1,384
Share-based compensation	10, 23	-	-	-	370
Bonuses settled in shares	10	395,021	157	117	-
Bond payments in shares	10, 13	21,018,200	5,432	4,492	-
Shares/warrants issued for cash	10	25,876,845	2,588	2,157	-
Warrants exercised	10, 27	2,617,197	262	605	-
Adjustment nominal value per share	10	-	(18,752)	-	-
Total transactions with owners, recognized directly in equity		49,907,263	(10,313)	7,371	1,754
Balance at 31 December 2012		100,918,910	10,092	231,866	14,144
Loss for the year		-	-	-	-
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	-	-
Share-based compensation		-	-	-	730
Bonuses settled in shares	10, 23	1,003,977	10	135	-
Bond payments in shares	10	127,369,530	2,894	13,825	-
Shares issued for cash	10, 13	102,841,903	1,029	8,703	-
Warrants exercised	10	2,483,404	24	370	-
Options exercised	10	37,500	-	2	-
Adjustment nominal value per share	10	-	(10,703)	-	-
Total transactions with owners, recognized directly in equity		233,736,314	(6,746)	23,035	730
Balance at 31 December 2013		334,655,224	3,346	254,901	14,874

The notes are an integral part of these financial statements.

Amounts in €'000	<u>Attributable to owners of the parent</u>		Non-controlling interest	Total Equity
	Accumulated deficit	Total		
Balance at 1 January 2012	(258,413)	(1,188)	-	(1,188)
Loss for the year	(24,093)	(24,028)	-	(24,028)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	(24,093)	(24,028)	-	(24,028)
Recycling equity translation reserve	-	1,384	-	1,384
Share-based compensation	-	370	-	370
Bonuses settled in shares	-	274	-	274
Bond payments in shares	-	9,924	-	9,924
Shares/warrants issued for cash	-	4,745	-	4,745
Warrants exercised	-	867	-	867
Adjustment nominal value per share	18,752	-	-	-
Total transactions with owners, recognized directly in equity	18,752	17,564	-	17,564
Balance at 31 December 2012	(263,754)	(7,652)	-	(7,652)
Loss for the year	(15,060)	(15,060)	-	(15,060)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	(15,060)	(15,060)	-	(15,060)
Share-based compensation	-	730	-	730
Bonuses settled in shares	-	145	-	145
Bond payments in shares	-	16,719	-	16,719
Shares issued for cash	-	9,732	-	9,732
Warrants exercised	-	394	-	394
Options exercised	-	2	-	2
Adjustment nominal value per share	10,703	-	-	-
Total transactions with owners, recognized directly in equity	10,703	27,722	-	27,722
Balance at 31 December 2013	(268,111)	5,010	-	5,010

The notes are an integral part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2013

1. Corporate information

The consolidated financial statements of Pharming Group N.V., Leiden for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the Board of Supervisory Directors on 28 April 2014. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for 18 June 2014.

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

Darwinweg 24
2333 CR Leiden
The Netherlands

Pharming focuses on the development, production and commercialization of human therapeutic Proteins to be used in highly innovative therapies. The Company's products are aimed at treatments for genetic disorders and surgical and traumatic bleeding. Pharming's technologies include novel transgenic platforms for the production of biopharmaceuticals, as well as technology and processes for the purification and formulation of these biopharmaceuticals.

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) for the financial year 2013 issued by the International Accounting Standards Board (IASB) as adopted by the European Union. In conformity with article 402 Book 2 of the Netherlands Civil Code, a condensed statement of income is included in the Pharming Group N.V. accounts.

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated in this summary of significant accounting policies.

2.2 Basis of consolidation

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

Notes to the consolidated financial statements continued

An entity is considered effectively controlled if the Company, directly or indirectly, has more than half of the voting power in the entity, unless it can be clearly demonstrated that such ownership does not constitute control.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting year as Pharming Group N.V., using the same accounting policies.

Intercompany transactions, balances and 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 2013:

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

2.3 Significant accounting judgments and estimates

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

Notes to the consolidated financial statements continued

Property, plant and equipment

Pharming at year end 2013 has property, plant and equipment with a carrying value of €6.2 million. These assets are dedicated to the production of Ruconest® inventories (€4.9 million) and other corporate purposes (€1.3 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.

Inventories

At year end 2013, the Company has capitalized batches of Ruconest® as well as skimmed milk with an aggregate carrying value of €4.8 million. The Company has planned for additional inventory investments after the end of the reporting year. These inventories are available for use in commercial, pre-clinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected pre-clinical and clinical programs for both the HAE project and other indications of the rhC1INH product as well as anticipation of market approval(s). In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected lifetimes of the product involved.

Due to the early stage commercialization 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.

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.

The Company at year end 2013 has presented derivative financial liabilities with a carrying value of €4.1 million. These liabilities represent the fair values of warrant rights and are based on models using assumptions with respect to, amongst others, the exercise of the warrants on or before maturity dates as well as (historical) volatility. Actual share price developments may trigger exercise of these warrants on a different moment than anticipated in the model and also cause transfer of assets to warrant holders under conditions that are (much) more or (much) less favorable than anticipated at 31 December 2013. As a result, the difference between the value of assets transferred to warrant right holders upon exercise and the carrying value at year end 2013 as charged to the statement of income may be material.

Share price developments may also result in the warrants expiring unexercised while the fair value of warrants unexercised may fluctuate (significantly) until expiration. Fair value changes of warrant rights unexercised between 31 December 2013 and subsequent reporting dates are charged to the statement of income. A sensitivity analysis on the possible effects has been included in Note 31 of these consolidated financial statements.

Notes to the consolidated financial statements continued

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 €/US\$ exchange rates applied at 31 December 2013 amounted to € 0.726 (31 December 2012: € 0.759).

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

General

Intangible assets acquired separately are measured on 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.

Notes to the consolidated financial statements continued

The remaining amortization periods for intangible assets at 31 December 2013 are:

Category	Description	Remaining amortization period
Transgenic technology	Patents and licenses	1 years
Ruconest® for HAE (EU)	Development costs	7 years
ProBio technology	Patents and licenses	Not applicable*

* *intangible assets with carrying value at 31 December 2013 of €nil.*

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:

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

Notes to the consolidated financial statements continued

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 carried at the lower of cost and net realizable value. The Company has two inventory categories:

- batches Ruconest®. These batches are comprised of therapeutic product available for sales, clinical development and pre-clinical activities. Initial recognition is at cost, including skimmed milk used, external manufacturing fees and fill and finish costs incurred to bring the product in a saleable or useable position;
- skimmed milk. This item serves as a raw material for the batches Ruconest®. Valuation per unit skimmed milk is based on the total costs of the rabbit facilities and the normal production levels.

Costs are determined applying the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. An allowance is provided for inventories if no future use or sale is expected before the expiration date.

Financial assets

Financial assets 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.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Notes to the consolidated financial statements continued

Available-for-sale financial assets

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

For investments where there is no active market, fair value is based on the agreed sales price.

Impairment of financial assets

The Company assesses at each end of the reporting year whether there is any objective evidence that a financial asset or a group of financial assets, other than those carried at fair value through profit or loss, is impaired, which is deemed the case if there is objective evidence as a result of one or more events that has occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For available-for-sale financial assets, objective evidence of impairment includes a significant or prolonged decline in the fair value of the investment below its cost as well as other facts and circumstances.

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 IAS 39 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.

Notes to the consolidated financial statements continued

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 expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognizing of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

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 amortized 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.

Notes to the consolidated financial statements continued

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 recognizes 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 on an accrual basis 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.

Other income

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

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

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.

Notes to the consolidated financial statements continued

Costs

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

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

Short-term employee benefits

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

Pension plan

For all Dutch employees with an indefinite employment contract and who have reached the age of 21 years, the Company participates in defined contribution pension plans with an independent insurance company. Defined contributions are expensed in the year in which the related employee services are rendered.

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

Share-based payment

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 equity or cash flows in the year of expense since all transactions are equity-settled.

Pharming's employee Option plan states that an employee is entitled to exercise the granted options immediately with a maximum exercise period of five years, but can only transfer the shares acquired upon exercise according to a sliding scale of up to 48 months. 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.

Notes to the consolidated financial statements continued

Leases

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

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

Lease agreements in which the 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 capitalizes 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.

Taxes

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 utilized. 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 realized 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.

Notes to the consolidated financial statements continued

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 is computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans, warrants issued and convertible loan agreements.

Segment reporting

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

2.5 Effect of new and forthcoming accounting standards

The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. Pharming has introduced standards and interpretations that became effective in 2013. 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 2013 which impact the amounts reported in these consolidated financial statements.

Effect of forthcoming accounting standards

The following new standards and amendments to existing standards are not yet applied by the Company.

IFRS 9, 'Financial Instruments: Classification and Measurement', applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard represents the first phase in the work of the IASB to replace IAS 39. Since the standard has not yet been endorsed by the European Union, it is uncertain when it needs to be applied by the Company. The uncertainty with respect to the subsequent phases of the project makes it impossible to quantify the impact of the new standard on the Company's financial position or performance.

New IFRIC interpretations are not expected to have a material effect on the consolidated financial statements.

Notes to the consolidated financial statements continued

3. Going concern assessment

The Board of Management of Pharming has, upon preparing and finalizing the 2013 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of signing these financial statements.

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

- cash and cash equivalents of approximately €30.0 million as per the date of these financial statements; which includes the proceeds of:
 - the exercise of warrants; during the first months of 2014, the exercise of warrants has provided an additional inflow of cash of €4.3 million
 - the private equity placement of €14.7 million (€14.04 million net proceeds after subtraction of transaction fees) with existing institutional investors at 22 April 2014.
- the projected, however undisclosed sales revenues for the period involved, related to the markets in which the Company already has market approval;
- the Company's operating cash outflows, its investments in (in)tangible assets as well as its financing payments for one year after the end of the financial statements; The cash outflow is expected to increase as a result of the increase in production.

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

- the anticipated receipt of US\$20.0 million in cash from our US partner Salix following market approval of Ruconest® by the U.S. FDA in the course of 2014 (payment triggered upon the earlier of first commercial sale of Ruconest® in the US or 90 days following receipt of U.S. FDA approval);
- under the Equity Working Capital Facility of €10.0 million, the Company has received €4.9 million pursuant to tranches executed in 2012 (see Note 10) and has the ability, if and when needed, to utilize the remaining balance of €5.1 million until expiration of the Equity Working Capital Facility on 1 August 2014. The timing and proceeds from future tranches is subject to various parameters that are partially or entirely beyond control of the Company, including but not limited to (i) the share trading volumes, and (ii) the share price development, and (iii) the calls made by investors subsequent to the issue of draw down shares;
- proceeds from the exercise of warrants or options outstanding as per the date of these financial statements (see Note 32);
- capital raised by means of an additional capital markets transaction, such as non-dilutive (debt) financing, issuance of equity or a combination thereof. The timing and proceeds from such a transaction are subject to, for instance, market conditions (e.g. the share price in relation to the nominal value per share), availability of assets to secure debt transactions as well as approvals of boards and/or shareholders (e.g. to issue additional shares); and
- receipts from existing or new license partners, other than cash proceeds of US\$20.0 million following market approval of Ruconest® by the U.S. FDA.

Notes to the consolidated financial statements continued

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 emphasizes 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 following uncertainties (individually or combined) have been identified:

- receipt of US marketing authorization by the U.S. FDA and the subsequent receipt of US\$20.0 million from our US partner Salix (payment triggered upon the earlier of first commercial sale of Ruconest® in the US or 90 days following receipt of U.S. FDA approval); and/or
- the commercial success of Ruconest® in the US.

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.

Notes to the consolidated financial statements continued

4. Intangible assets

Movement of intangible assets per category for the financial years 2013 and 2012 was:

Amounts in €'000	Transgenic technology	Ruconest® for HAE (EU)	ProBio technology	Total
At cost	3,001	528	2,816	6,345
Accumulated:				
Amortization charges	(2,480)	(62)	(1,027)	(3,569)
Impairment charges	-	-	(1,789)	(1,789)
Carrying value at 1 January 2012	521	466	-	987
Amortization charges	(121)	(54)	-	(175)
Impairment charges	(35)	-	-	(35)
Assets held for sale	(242)	-	-	(242)
Movement 2012	(398)	(54)	-	(452)
At cost (*)	2,651	528	2,816	5,995
Accumulated:				
Amortization charges (*)	(2,493)	(116)	(1,027)	(3,636)
Impairment charges	(35)	-	(1,789)	(1,824)
Carrying value at 31 December 2012	123	412	-	535
Amortization charges	(79)	(51)	-	(130)
Impairment charges	-	-	-	-
Assets held for sale	-	-	-	-
Movement 2013	(79)	(51)	-	(130)
At cost (*)	2,651	528	2,816	5,995
Accumulated:				
Amortization charges (*)	(2,572)	(167)	(1,027)	(3,766)
Impairment charges	(35)	-	(1,789)	(1,824)
Carrying value at 31 December 2013	44	361	-	405

(*) the Company in 2012 eliminated assets held for sale at accumulated costs of €350,000 and accumulated depreciation of €108,000.

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

The Company at year-end 2012 intended the sale of intangible assets with a net carrying value of €242,000. These assets were subsequently presented as assets held of sale (Note 8); the transaction was completed in 2013 for a cash consideration received by the Company of US\$350,000. In addition, Pharming discontinued the use of certain intangible assets linked to the assets to be disposed with a net carrying value of €35,000 and subsequently posted an impairment charge.

Notes to the consolidated financial statements continued

5. Property, plant and equipment

Movement of property, plant and equipment for the financial year 2012 was:

Amounts in €'000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Other	Total
At cost	849	5,834	2,524	6,322	1,607	17,136
Accumulated:						
Depreciation charges	(82)	(3,095)	(1,339)	(304)	(1,190)	(6,010)
Impairment charges	-	-	-	(715)	-	(715)
Exchange rate effect	(152)	(670)	-	-	(22)	(844)
Carrying value at 1 January 2012	615	2,069	1,185	5,303	395	9,567
Investments	-	50	-	-	45	95
Divestments	(601)	(101)	-	-	-	(702)
Depreciation charges	(3)	(223)	(263)	(46)	(128)	(663)
Impairment charges	-	(1,198)	-	-	(24)	(1,222)
Exchange rate effect	16	36	-	-	1	53
Movement 2012	(588)	(1,436)	(263)	(46)	(106)	(2,439)
At cost	27	1,882	2,524	5,607	1,253	11,293
Accumulated:						
Depreciation charges	-	(1,249)	(1,602)	(350)	(964)	(4,165)
Carrying value at 31 December 2012	27	633	922	5,257	289	7,128

Land, land improvements and operational facilities included a Dutch-based rabbit farm and, based in the US and operated through Pharming Healthcare, Inc., cattle farm facilities. At the end of the second quarter of 2012, the Company – following a comprehensive review of its strategic options including cost containment measures – decided to close the cattle facilities and to dismiss 10 employees (see Note 14 for a further explanation of termination benefits paid). The Company subsequently sold the cattle facilities for an amount below the net carrying value.

Notes to the consolidated financial statements continued

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

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

Depreciation charges on manufacturing equipment of €164,500 in 2013 (2012: €46,000) are charged to the value of inventories and accordingly an amount of €626,000 of total 2013 depreciation charges have been charged to the statement of income (2012: €617,000).

At year end 2013, the carrying value of the assets hired under a financial lease arrangement – and thus with a restricted title – was €3,616,000 (31 December 2012: €3,860,000) of which €3,541,000 in relation to manufacturing equipment (31 December 2012: €3,757,000) and €75,000 related to other property, plant and equipment (31 December 2012: €103,000).

Notes to the consolidated financial statements continued

6. Restricted cash, cash and cash equivalents, cash flows

The overall net cash position at year-end 2013 and 2012 was as follows:

Amounts in €'000	2013	2012
Non-current restricted cash	176	732
Current restricted cash	2,008	309
Cash and cash equivalents	16,968	5,273
Balance at 31 December	19,152	6,314
Balance at 1 January	6,314	5,065
Exchange rate effects on cash	(199)	(160)
Increase/ (decrease) cash	13,037	1,409

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

The main cash flow statement items for the years 2013 and 2012 are:

Amounts in €'000	2013	2012
Net cash flows used in operating activities	(8,293)	(10,270)
Net cash flows from investing activities	241	108
Net cash flows from financing activities	21,089	11,571
Increase/(decrease) cash	13,037	1,409

Pharming's net cash flows used in operating activities decreased from €10.3 million in 2012 to €8.3 million in 2013; the €2.0 million decrease primarily reflects the decrease in costs of research and development and the decrease of income from license fees.

The 2012 net cash flows from investing activities of €0.1 million primarily reflect payment of investment in property, plant and equipment of €0.6 million (of which €0.5 million in relation to 2011 investments in manufacturing assets), net of the proceeds of sale of assets in the amount of €0.7 million. The 2013 net cash flows from investing activities, amounting to €0.2 million stem from the proceeds of sale of assets in the amount of €0.2 million.

Net cash flows from financing activities in 2013 of €21.1 million stem from the proceeds of Bonds 2013 issued (€16.0 million), shares issued under the private equity placement (€12.0 million), the exercise of warrants (€0.2 million), repayments of convertible bonds (€4.7 million), net of €0.9 million in relation to payment of finance leases and €1.5 million for transaction fees and expenses.

Notes to the consolidated financial statements continued

7. Inventories

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

The composition of inventories at year-end 2013 and 2012 was:

Amounts in €'000	2013	2012
Batches Ruconest®	3,450	661
Skimmed milk	1,313	1,440
Balance at 31 December	4,763	2,101

The total net carrying value of inventories in 2013 increased from €2.1 million to €4.8 million. The €2.7 million net increase reflects investments in new inventories of €4.5 million, costs of product sales of €0.5 million and €0.6 million of inventory impairments.

The major portion of inventories at 31 December 2013 has expiration dates starting beyond 2017 and is expected to be sold or used before expiration. Inventories carried at net realisable value to €3.1 million at year end 2013 (2012: €0.7 million).

8. Assets held for sale

Pharming at year-end 2012 intended the sale of intangible assets with a net carrying value of €242,000 (Note 4) and accordingly these assets were presented as assets held of sale. The Company closed a transaction in 2013 and received a cash amount of US\$350,000 or approximately €262,000.

9. Trade and other receivables

The composition of trade and other receivables at 31 December 2013 and 2012 was:

Amounts in €'000	2013	2012
Trade receivables	211	-
Prepaid expenses	245	117
Value added tax	121	36
Other receivables	283	371
Balance at 31 December	860	524

Trade and other receivables at 31 December 2013 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

Notes to the consolidated financial statements continued

10. Shareholders' Equity

The Company's authorized share capital amounts to €4.5 million and is divided into 450,000,000 ordinary shares with a nominal value of €0.01 each. All 334,655,224 shares outstanding at 31 December 2013 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 2013 and 2012.

Reverse share split

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

October 2013 €12,000,000 private placement

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

Adjustment nominal value per share

On 14 May 2012 the Company's shareholders approved a reduction of the nominal value per share from €0.04 to €0.01 with 625,082,077 shares outstanding as per the date of the adjustment. The reduction is made due to losses incurred and accordingly the amount of share capital has been decreased with €18,752,000 with a corresponding decrease of accumulated deficit. The overall effect of the adjustment on shareholders' equity was €nil.

Net loss and Accumulated deficit

Accumulated deficit at the beginning of 2013 amounted to €263,754,000 and decreased with €10,703,000 following the reduction of the nominal value per share from €0.10 to €0.01 subsequent to the reverse share split.

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 2013 of €15,060,000 to the accumulated deficit. Anticipating the approval of the financial statements by the Shareholders at the AGM, this proposal has already been reflected in the Financial Statements and accordingly accumulated deficit has increased to €268,111,000 at year-end 2013.

At the beginning of 2012, the accumulated deficit amounted to €258,413,000 and decreased with €18,752,000 to €239,661,000 following the adjustment of the nominal value per share from €0.04 to €0.01 as described above. In addition, in 2012, the accumulated deficit increased with the net loss of €24,093,000.

Recycling equity translation reserve

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

Notes to the consolidated financial statements continued

Subsequent to the Company transferring its US assets in 2012 (see Note 4), Pharming's negative foreign currency translation reserve within equity of €1,384,000 was recycled to the statement of income and charged to financial expenses. Overall, this did not have an impact on equity.

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 2013 these transactions were valued at €730,000 and for 2012 at €370,000 (see Note 23).

Bonuses settled in shares

The Company in 2013 issued 1,003,977 shares to members of the Board of Management and various managers in lieu of bonuses with an aggregate value of €253,000. In 2012 a total of 395,021 shares were issued to pay off bonuses of €274,000.

Bond payments in shares

In January 2013, the Company issued short-term private bonds ('Bonds 2013', as further explained in Note 13) of €16.4 million carrying 8.5% annual interest. On 1 October 2013, the seventh and final installment of the Bonds 2013 took place. Five installments were repaid in Pharming shares, for which a total number of 127,369,531 shares were issued, and two installments were repaid in cash.

In February 2012, Pharming issued private bonds ('Bonds 2012', as further explained in Note 13) of €8.4 million carrying 8.5% annual interest. An advance payment of 2 million shares valued at €1,503,000 was made in 2011. Pharming in the course of 2012 fully redeemed the nominal value plus interest of the Bonds 2012 through the issue of an additional 21,018,200 shares with an aggregate fair value of €9,924,000.

Warrants exercised

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

In 2012 a total of 2,925,959 warrants were exercised, of which 2,405,126 warrants were exercised in exchange for the issue of 2,405,126 shares against receipt of cash; the Company received a cash amount of €423,000. In addition, a total of 520,833 warrants were exercised cashless; a total of 212,071 shares with an exercise value of €29,000 were transferred to the warrant holder and in return the warrant holder forfeited the other 308,762 warrants with a (profit) value of €29,000.

Shares/warrants issued for cash

On 1 August 2012, the Company secured an Equity Working Capital Facility with institutional investors of up to €10.0 million for a two year term. Pharming has the option to draw in tranches in exchange for ordinary shares in the capital of the Company and retains control of the timing and amount of any funds draw down. The investors have the option to purchase up to 600% of the amount during a 15 trading days pricing period; the total amount of cash paid for such shares to Pharming will depend on the total number of shares called by the investors and the development of the Volume Weighted Average Price ('VWAP') of the shares going forward during this 15 trading days pricing period; the investors subsequently withhold a 12.5% discount on the applicable price. Upon concluding the agreement, the investors received 1,650,000 warrants; an additional number of warrants are issued if an individual investor has exceeded 25%, 50% and 75% of their proportionate share in the total facility amount of €10.0 million (a maximum of 1,650,000 warrants in total is available for all investors for the 25% as well as the 50% and the 75% threshold). The agreement includes provisions for re-pricing of the warrants under certain defined conditions.

Notes to the consolidated financial statements continued

In 2012, the Company has drawn three tranches under the Equity Working Capital Facility. The following table provides an overview of the values paid and received by the Company as well as their recognition in these financial statements:

Number of shares issued		25,876,845
Number of initial warrants issued		1,650,000
Fair value of initial warrants issued (€'000)		198
Number of additional warrants issued		2,750,550
Fair value of additional warrants issued (€'000)		424
	€'000	€'000
Value of shares at applicable VWAP	5,623	
Fair value of shares issued	<u>6,296</u>	6,296
Result charged to statement of income	(673)	
Cash received	4,916	
Value of shares at applicable VWAP	<u>5,623</u>	
Discount 12.5%	(707)	
Fair value of additional warrants issued	(424)	
Other transaction fees and expenses	<u>(420)</u>	
Total items charged to share premium		<u>(1,551)</u>
Directly charged to equity		4,745

The €198,000 fair value of the initial warrants has been capitalized as a prepaid expense and is subsequently amortized within financial expenses (further see Note 22).

Notes to the consolidated financial statements continued

11. 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 2013 and 2012 another €0.8 million was released from this agreement.

Pharming in 2010 received an upfront payment of US\$15.0 million or €11.7 million in cash from Santarus, Inc. with respect to a Ruconest® license agreement for recombinant human C1 inhibitor in the US, Canada and Mexico. Since the Company has to perform clinical, regulatory and commercial activities, the amount is released to the statement of income over the full lifetime of the agreement as of its effective date. Accordingly, an amount of €1.1 million in license fees income was recognized as revenues from license fees in both 2013 and 2012. In 2013 an upfront payment of US\$5.0 million or €3.8 million was received for acceptance of the BLA file by the FDA and is fully charged to the revenues.

Pharming received an upfront payment of €1.1 million in cash from the Shanghai Institute of Pharmaceutical Industry (SIPI) with respect to a strategic collaboration in China for the development, manufacture and commercialization 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 commercialize Ruconest® (conestat alfa) in China. In 2013 €0.1 million was released from this agreement.

Amounts in €'000	2013	2012
Total balance at 1 January	15,431	17,367
Receipt of upfront and milestone payments in cash	4,894	-
Revenues from deferred license fees	(5,903)	(1,936)
Total balance at 31 December	14,422	15,431
Current balance at 31 December	(2,200)	(1,936)
Non-current balance at 31 December	12,222	13,495

Aggregate receipts from license partners in 2013 as per the consolidated statement of cash flows amounted to €4,894,000 (2012: €9,069,000) of which €1,060,000 of upfront and milestone payments have been recognized as deferred license fees income (2012: €nil) and €3,834,000 as milestone payments (€7,820,000 in 2012; the 2012 amount is US\$10,000,000 as per date of actual receipt of the cash). The revenues from deferred license fees are the release of upfront payments of €2,068,000 and the immediately recognition of the receipt of the milestone from Santarus of €3,834,000 (\$5,000,000) as revenue. In 2012 the releases of upfront payments were €1,936,000.

12. Finance lease liabilities

Certain of the Company's property, plant and equipment items are subject to finance leases. These leases mainly relate to manufacturing equipment in which significant investments were made prior to 2012.

Notes to the consolidated financial statements continued

Movement and composition of the finance lease liabilities for 2013 and 2012 was:

Amounts in €'000	Note	2013	2012
Total balance at 1 January		2,856	3,433
Amortization of finance lease liabilities		(200)	-
Interest expense accrued	20	198	261
Payments of finance lease liabilities	6	(881)	(838)
Total balance at 31 December		1,973	2,856
Current balance at 31 December		(766)	(895)
Non-current balance at 31 December		1,207	1,961

Pharming has entered into a number of finance lease arrangements, of which two are material:

- the first arrangement entails a straight-forward financial lease agreement relating to manufacturing and other equipment under which assets valued at €2,059,000 were acquired and for which the Company in 2011 received an amount of €618,000 for investment items under this agreement already paid in 2010. The lease is repaid through a first installment of €261,500 followed by 35 monthly equal installments of €57,700 per month. Ownership of the assets will be transferred to Pharming free of charge after payment of the final installment. In connection with the agreement the Company has issued a banker's guarantee to the lessor that due to payment of monthly installments decreases with €20,500 a month throughout the lifetime of the agreement. At 31 December 2013 the remaining amount of this banker's guarantee is €556,000. The Company pays 7.7% interest per annum; and
- under an existing manufacturing agreement a service provider invested into certain assets exclusively in use by the Company but operated by the service provider. The Company will reimburse the service provider an aggregate amount of €2,814,000 over the lifetime of the agreement through payments of a variable service fee charge based on the realised production. The amount of the net present value of the investment of €1,805,000 has been presented as manufacturing equipment with a simultaneous increase of finance liabilities. An estimated 11.0% annual interest charge applies to this agreement. The service provider is and will remain to be the legal owner of the assets in use.

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

Notes to the consolidated financial statements continued

Future minimum lease payments under finance leases as at 31 December 2013 and 2012 are as follows:

Amounts in €'000	2013		2012	
	Minimum pay-ments	Present value of payments	Minimum payments	Present value of payments
Within one year	810	766	937	895
After one year but not more than five years	1,127	813	1,326	1,321
More than five years	792	394	825	640
	2,729	1,973	3,088	2,856

At year end 2013, the carrying value of the assets involved as leased was €3,616,000 (2012: €3,860,000) of which €3,541,000 in relation to manufacturing equipment (2012: €3,757,000) and €75,000 related to other property, plant and equipment (2012: €103,000).

13. Derivative financial liabilities

Derivative financial liabilities relate to financial instruments and include warrants issued in relation to the issue of equity and/or (convertible) bonds as well as conversion rights for holders of convertible bonds.

Bonds 2013

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

In connection to the issue of the Bonds 2013 the Company also incurred transaction fees and expenses of €950,000 in total which has been allocated to the Bonds 2013 and the derivative financial liabilities based on their relative weight in the €16.0 million as received and accordingly an amount of €868,000 was charged to the carrying value of the convertible bonds and €82,000 to financial expenses (further see Note 22).

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

Notes to the consolidated financial statements continued

Movements of the Bonds 2013 were as follows:

	Note	€'000
Received in cash	6	16,023
Fair value of warrants issued		(1,161)
Fair value of conversion right		(223)
Transaction fees and expenses		<u>(868)</u>
Carrying value initial recognition		13,771
Effective interest convertible bonds		3,178
Settlements convertible bonds		4,555
Fair value of shares issued in 2013	10	(16,758)
Cash repayments	10	<u>(4,746)</u>
Carrying value at 31 December 2013		-

Bonds 2012

Following an announcement in December 2011, the Company in February 2012 issued €8.4 million private convertible bonds ('Bonds 2012') carrying 8.5% annual interest. An advance payment of 2 million shares valued at €1,503,000 was made in 2011; the amount was capitalized within Trade and other receivables at 31 December 2011 and posted within equity (see Note 9 and Note 10) with the advance payment subsequently charged to the Bonds 2012 in 2012.

In connection to the issue of the Bonds 2012 the Company also incurred transaction fees and expenses of €624,000 in total, of which €95,000 had been paid in 2011 and €529,000 was paid in 2012. The amount of €624,000 has been allocated to the derivative financial derivatives and the Bonds 2012 based on their relative weight in the €8.0 million as received and accordingly an amount of €90,000 as charged to the derivative financial liabilities was charged to financial expenses (further see Note 22) with the remaining €534,000 charged to the carrying value of the Bonds 2012.

For accounting purposes, the convertible bond portion was initially recognized at the aggregate value of the value received minus the fair value of the derivative financial liabilities and the portion of transaction fees and expenses allocated to the convertible bond. (Pre)Payments of the monthly installment plus interest could take place either in cash or shares; the Company (until maturity in July 2012) decided to pay in shares exclusively and as a result of certain conditions in the agreements this has resulted in transfer of shares for a value higher than if such a repayment had taken place in cash. Accordingly, a transaction loss of €2,757,000 was incurred in 2012.

Notes to the consolidated financial statements continued

Movements of the Bonds 2012 in the financial year 2012 were as follows:

	Note	€'000
Received in cash	6	8,000
Fair value of warrants issued		(1,045)
Fair value of conversion right		(103)
Transaction fees and expenses		<u>(535)</u>
Carrying value initial recognition		6,317
Effective interest convertible bonds		2,353
Settlements convertible bonds		2,757
Advance payment in shares 2011	10	(1,503)
Fair value of shares issued in 2012	10	<u>(9,924)</u>
Carrying value at 31 December 2012		-

Derivative financial liabilities

Derivative financial liabilities recognized in 2013 related to 16,349,999 warrants issued in relation to the Bonds 2013 and conversion rights on Bonds 2013 with the initial fair value of these items upon recognition amounting to €1,161,000 and €223,000. Furthermore, derivative financial liabilities include the initial fair value of the 25,641,026 warrants issued in connection with the October 2013 private placement amounting to €1,754,000, as well as changes in the fair value of the warrants resulting from adjustments of their exercise prices. Following the exercise of 2,483,404 warrants in 2013, the Company derecognized their fair values prior to exercise of in total €213,000.

Derivative financial liabilities recognized in 2012 related to 3,871,748 warrants issued in relation to the Bonds 2012, 4,400,550 warrants in relation to the Equity Working Capital Facility (Note 10) and conversion rights on Bonds 2012 with the initial fair value of these items upon recognition amounting to €1,045,000, €622,000 and €103,000 or €1,770,000 in total. Following the exercise of in total 2,925,959 warrants in 2012, the Company derecognized their fair values prior to exercise of in total €443,000.

Movement of derivative financial liabilities for 2013 and 2012 can be summarized as follows:

Amounts in €'000	2013	2012
Total balance at 1 January	1,215	1,171
Initial recognition upon issue	3,136	1,770
Derecognition fair values upon exercise of warrants	(216)	(443)
Fair value losses (gains) derivatives	12	(1,283)
Total balance at 31 December	4,147	1,215

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

Notes to the consolidated financial statements continued

14. Restructuring provision

In the second quarter of 2012 Pharming announced the closure and subsequent sale of the US cattle facilities (see Note 5). A total of 10 employees were dismissed in connection with this. Compensation packages for all employees were completely paid off in the second half of 2012 and no remaining liabilities remain at the end of 2012.

The Company on 2 August 2012 announced a restructuring plan involving its Dutch-based operations and which resulted in the intended dismissal of employees in the Netherlands. A social plan was agreed upon with the Company's Works Council. Late 2012 the Dutch authorities rejected the request filed for the collective redundancies and therefore Pharming entered into individual agreements. In addition to compensation offered, the employees involved were also relieved from work for a limited number of months and for which regular compensation benefits were paid by Pharming. As a result, the Company in 2012 provided for a total amount of €1,242,000 and of which €1,232,000 was scheduled for payment in 2013.

Movement of the restructuring provision was as follows:

Amounts in €'000	Note	2013	2012
Total balance at 1 January		1,232	-
Termination benefits restructuring US operations	18	-	129
Termination benefits restructuring Dutch operations	18	-	954
Exempt from work	18	-	298
Other items		13	24
Payments		(1,245)	(173)
Total balance at 31 December		-	1,232
Current balance at 31 December		-	(1,232)
Non-current balance at 31 December		-	-

Notes to the consolidated financial statements continued

15. Trade and other payables

Trade and other payables at year-end 2013 and 2012 consist of:

Amounts in €'000	2013	2012
Accounts payable	4,027	1,126
Taxes and social security	184	207
Deferred compensation due to related parties	390	409
Other payables	1,211	1,948
Balance at 31 December	5,812	3,690

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

16. Revenues

Revenues for the financial years 2013 and 2012 can be split as follows:

Amounts in €'000	2013	2012
License fees	5,903	9,815
Product sales	941	798
	6,844	10,613

In 2013 the Company's income from license fees also included an amount of €2,069,000 released; other license fees income of €3,834,000 are largely associated with the receipt of a US\$5.0 million milestone from Santarus, Inc. following acceptance of the BLA file by the FDA.

Product sales relate to supplies of Ruconest® inventories to Sobi following Market Approval in the European Union in October 2010. The Company for its 2013 and 2012 product sales revenues was fully dependent on this customer since no market approvals had yet been obtained in territories outside the European Union.

17. Other income from grants

Other income related to grants exclusively and amounted to €105,750 in 2013 and €250,000 in 2012. Grants in both years reflect an annual payroll tax deduction granted by the Dutch government for a range of certain research and development activities. In addition, the Company in 2012 recognized income for a one-time grant from the Dutch government.

Notes to the consolidated financial statements continued

18. Expenses by nature

Cost of product sales in 2013 amounted to €0.5 million (2012: €1.1 million) and relates to actual supplies as well as anticipated price adjustments on future supply of Ruconest® inventories to Sobi.

Inventory impairments related to inventories designated for commercial activities amounted to €0.6 million in 2013 (2012: €3.1 million). The 2013 impairment stems from the valuation of the inventories against lower net realisable value.

The 2012 impairment charges stem from the write-off of inventories approaching expiration date prior to sale to or by Sobi.

Costs of research and development decreased to €10.2 million in 2013 from €19.6 million in 2012. The €9.4 million decrease primarily stems from a decrease of costs associated with clinical and regulatory activities in relation to the US registration and the effect of the restructuring in 2012.

Pharming's general and administrative costs decreased to €2.5 million in 2013 from €3.2 million in 2012; the decrease largely stems from the restructuring in 2012.

This Note further discusses items included in Research and development costs and/or General and administrative costs. The share-based compensation has been described in Note 23 of the consolidated financial statements.

Employee benefits for the financial years 2013 and 2012 comprised of:

Amounts in €'000	2013	2012
Salaries	(3,242)	(5,243)
Termination benefits	-	(1,297)
Exempt from work	-	(298)
Social security costs	(422)	(580)
Pension costs	(359)	(494)
	(4,023)	(7,912)

Salaries include holiday allowances and cash bonuses. Termination benefit expenses in 2012 include €1,083,000 in relation to the restructuring provision (Note 14) and €177,000 in relation to the termination of the agreement with R.R.D. Pijpstra (Note 24). The amount expensed for exempt from work involves 2012 and 2013 expenses for employees relieved from work (Note 14).

The number of employees for 2013 and 2012 per functional category was as follows (at weighted average full time equivalent factor):

	2013	2012
Research and development	33	54
General and administrative	10	14
	43	68

Notes to the consolidated financial statements continued

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

Inventories

In 2013, the Company expensed nil for batches of Ruconest® (2012: €1.3 million) in research and development expense, €0.6 million for impairment charges (2012: €3.1 million) and nil of other expenses (2012: €0.3 million).

Depreciation and amortization charges

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

Amounts in €'000	Note	2013	2012
Property, plant and equipment	5	(626)	(617)
Intangible assets	4	(130)	(175)
		(756)	(792)

The increase of depreciation charges of property, plant and equipment in 2013 as compared to 2012 stems from the investments of €91,000.

Amortization charges of intangible assets have been fully allocated to research and development costs in the statement of income; for property, plant and equipment, in 2013 an amount of €529,000 was charged to research and development costs (2012: €517,000) and €97,000 to general and administrative expenses (2012: €100,000).

Operating lease charges

For the year 2013, the Company charged €0.7 million (2012: €0.8 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars. These non-cancellable leases at 31 December 2013 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 30.

Allocations of the operating lease charges to Research and development costs or General and administrative expenses have been based on the nature of the asset in use.

Independent auditor fees

Fees of PricewaterhouseCoopers Accountants N.V. incurred in relation to 2013 audit services were €115,000 (2012: €100,000); in relation to 2012 additional services €9,000 and other audit-related services €15,000 were invoiced in 2013 (2012: €33,000).

Altogether, fees incurred for services of PricewaterhouseCoopers Accountants N.V. were €139,000 in 2013 (2012: €133,000). These items were charged to General and administrative expenses for €128,000 and in equity for €11,000.

Notes to the consolidated financial statements continued

19. Impairment charges

The following table shows the composition of impairment charges:

Amounts in €'000	Note	2013	2012
Property, plant and equipment	5	-	(1,222)
Intangible assets	4	-	(35)
		-	(1,257)

In 2012, Pharming sold its US based cattle facilities resulting in an impairment charge of €1,222,000. The 2012 impairment charge of €35,000 of intangible assets related to a disposal of certain assets.

20. Other interest expenses, net

The composition of other net interest expenses in 2013 and 2012 was as follows:

Amounts in €'000	Note	2013	2012
Interest expense financial leases	12	(198)	(261)
Interest income cash and cash equivalents		91	19
		(107)	(242)

Decreased interest expenses from financial leases in 2013 compared to 2012 stems from redemption of the various finance arrangements entered into the course of 2011.

21. Foreign currency results

These results primarily follow from the revaluation of bank balances denominated in foreign currencies and the timing of foreign currency payments against the actual exchange rate as compared to the original exchange rate applied upon the charge of fees or expenses. Net exchange rate losses of €214,000 in 2013 included net losses of €199,000 in relation to revaluation of cash and cash equivalents; in 2012, exchange rate losses amounted to €218,000 of which €160,000 in relation to cash and cash equivalents.

Notes to the consolidated financial statements continued

22. Other financial expenses

The composition of other financial expenses in 2013 and 2012 was as follows:

Amounts in €'000	Note	2013	2012
Costs related to issue of derivative financial liabilities	13	(82)	(90)
Amortization expenses warrants	10	-	(198)
		(82)	(288)

Costs related to issue of derivative financial liabilities include the portion of the total transaction fees of Bonds 2013 and Bonds 2012 allocated to the derivative financial liabilities.

Amortization expense of warrants in 2012 follow from the 16,500,000 warrants issued upon concluding the Equity Working Capital Facility. The fair value of these warrants amounted to €198,000 and these were initially amortized in line with the cash received under the instrument as a percentage of the maximum investment of €10.0 million. The Company accordingly amortized €97,000; the remaining €101,000 was expensed at year-end 2012 following a review of the future use of the Equity Working Capital Facility.

23. 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 recognized in 2013 for share based payment plans amounts to €730,000 (2012: €370,000).

Notes to the consolidated financial statements continued

Models and assumptions

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

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

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

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

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

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

Volatilities are based on the historical end-of-month closing share prices over the 3 years (Long Term Incentive Plan). 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 40 other European biotech companies.

Notes to the consolidated financial statements continued

The reference group for the 2011-2013 programs consists of the following 31 companies:

Main location	Number	Company names
Belgium	3	Ablynx, Galapagos, Ti-Genix
Denmark	2	Bavarian Nordic, Neurosearch
Finland	1	Biotie Therapeutics
France	5	Cellectis, Exonhit, Hybrigenics, Innate Pharma, Transgene
Germany	6	Evotec, Genmab, Medigene, Morphosys, Veloxis, Wilex
Italy	1	Newron
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex, Basilea, Cytos, Santhera
United Kingdom	7	Allergy Therapeutics, Ark Therapeutics, GW Pharma, 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

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

An overview of the maximum number of LTIP shares granted in 2011-2013 and in total as well as the fair value per share award is as follows:

Participant category	Granted			Total
	2011	2012	2013	
Board of Management	158,695	415,610	793,200	1,367,505
Senior Managers	50,000	100,000	370,000	520,000
Total	208,695	515,610	1,163,200	1,887,505
Fair value per share award (€)	0.50	0.13	0.022	

Notes to the consolidated financial statements continued

The following table provides an overview of LTIP shares granted, forfeited or not vested in 2011-2013 as well as the number of LTIP shares reserved at 31 December 2013:

Participant category	Total 2011-2013			Reserved at 31 December 2013
	Granted	Forfeited	Not vested	
Board of Management	1,367,505	(236,313)	(95,797)	1,035,395
Senior Managers	520,000	(40,000)	(50,000)	430,000
Total	1,887,505	(276,313)	(145,797)	1,465,395

The 2011 shares did not vest at the end of the vesting period (31 December 2013). LTIP shares reserved at 31 December 2013 relate to the 2012 and 2013 shares available for participants still in service at the end of 2013. The Company expensed amounts of €127,000 in 2013 compared to €99,000 in 2012.

Main characteristics of the Option plans

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

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

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

The option exercise price is the price of the Pharming shares on the stock exchange on the trading day prior to the date of grant or on the trading day prior to the meeting of the Board of Supervisory Directors during which it was resolved to grant options. Options can be exercised at any time within five years following the date of grant. Unexercised options shall be deemed cancelled and shall cease to exist automatically after five years. Exercise of options is subject to compliance with laws and regulations in the Netherlands.

Option plan Board of Management

Article 2.1 of the Option plan for the BOM states: 'The Board of Supervisory Directors may, at its sole discretion, (i) grant Options to any Member (ii) define the conditions attached to the Options which need to be fulfilled before the Options can be exercised (iii) determine the criteria for the granting of the Options. The compensation committee of Pharming will propose (i) the criteria for the granting of Options, (ii) whether the criteria for granting an Option have been met by a potential Participant and (iii) the number of Options to be granted. The Options will at all times be granted under the condition that the granting of such Options will be approved by the general meeting of shareholders of Pharming.' Article 4.4 of the Option plan for the BOM reads as follows: 'In case of the termination of the membership of a Participant of the Board of Management, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse if the conditions set out in the Option Granting Letter have not been fulfilled at the time of the termination of the membership of the Board of Management.'

Notes to the consolidated financial statements continued

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

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

At the AGM of 14 May 2012 the four members of the BOM were granted a total of 1,143,750 options with an exercise price of €0.558 and a fair value of €0.24. Only the options of Mr. S. de Vries (375,000 options, valued at €90,000) and Mr. B.M.L. Giannetti (243,750 options, valued at €59,000) vested, as the two other members left the Company in the course of 2012.

Option plan employees

Article 2.1 of the Option plan for employees states: 'Pharming may grant Options to any Employee. The criteria for the granting of the Options will be determined by the Board of Supervisory Directors of Pharming, at its sole discretion. The Board of Management will propose (i) whether the criteria for granting an Option have been met by a potential Participant and (ii) the number of Options to be granted. Article 4.4 of the employee Option plan deals with the vesting scheme of employee options and reads as follows: 'In case of the termination of the employment of a Participant, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse. The following schedule shall apply for the cancellation:

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

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

In 2013 the Company granted 2,333,775 options (2012: 422,725 options) to employees with a weighted average exercise price of €0.063 (2012: €0.82); fair values for options granted in 2013 were €0.02 (2012: €0.50).

Notes to the consolidated financial statements continued

An overview of activity in the number of options for the years 2013 and 2012 is as follows:

	2013		2012	
	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)
Balance at 1 January	2,542,210	1.979	1,942,464	3.143
Expired	(131,881)	7.604	(49,504)	29.01
Exercised	(37,500)	0,063	-	-
<u>Granted under plan for:</u>				
Board of Management	4,125,000	0.092	1,143,750	0.56
Employees	2,333,775	0.063	42,273	0.82
<u>Forfeited under plan for:</u>				
Board of Management	-	-	(525,000)	0.56
Employees	(6,173)	1.010	(11,773)	1.59
Balance at 31 December	8,825,431	0.515	2,542,210	1.979

In 2013, 37,500 options have been exercised with an average exercise price of €0.063 while in 2012 no options were exercised. All options outstanding at 31 December 2013 are exercisable with the exception of the 4,125,000 options granted to the Board of Management and which vested as per 1 January 2014 and are thus exercisable as of that date. 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 2013 is 3.8 years (2012: 3.3 years).

Exercise prices of options outstanding at 31 December 2013 and the exercise values are in the following ranges:

Exercise prices in €	Number	Total range exercise value in €'000
0.063 - 0.099	6,416,550	525
0.100 - 0.999	915,299	598
1.000 – 1.999	1,090,479	1,690
2.000 – 4.999	183,062	612
5.000 – 6.100	220,041	1,123
	8,825,431	4,548

Notes to the consolidated financial statements continued

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

	2013	2012
Expected time to maturity (employees)	2.5 years	2.5 years
Expected time to maturity (Board of Management)	5 years	5 years
Volatility (employees)	82%	75%
Volatility (Board of Management)	78%	60%
Risk-free interest rate (employees)	0.21 - 0.42%	1.20%
Risk-free interest rate (Board of Management)	0.34%	1.06%

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:

	2013	2012
Volatilities	26-100%	22-167%
Risk-free interest rates	0.15-2.00%	0.26-1.43%
Dividend yields	0.00%	0.00%

Share-based compensation

Share-based compensation for 2013 and 2012 can be summarized as follows:

Amounts in €'000	2013	2012
Board of Management options	660	149
Employee options	24	122
Long Term Incentive Plan	46	99
	730	370

The increase of Board of Management options expense in 2013 compared to 2012 results mainly from a higher number of options vested although the fair value of the 2013 options is lower than in the previous year. The decreased employee option expense reflects the lower fair value of the options granted in 2013 which is partially offset by the higher number of options granted. Long Term Incentive Plan expenses decreased due to the combined effect of a lower fair value of the share awards and a higher number of awards.

24. Board of Management

S. de Vries (Chief Executive Officer) and B.M.L. Giannetti (Chief Operations Officer) have been members of the Board of Management for the entire years 2013 and 2012. In 2012 the Board of Management initially also comprised K.D. Keegan (Chief Financial Officer) and R.R.D. Pijpstra (Chief Medical Officer) who both stepped down as per 1 September 2012; R.R.D. Pijpstra resigned from the Board of Management as of 19 June 2012. The members of the Board of Management are statutory directors.

Notes to the consolidated financial statements continued

Compensation of the Members of the Board of Management for 2013 and 2012 was as follows:

Amounts in €'000	Year	Base salary	Extra tax (I)	Bonus	Share-based payment (II)	Post-employment benefits	Termination benefits (III)	Other (IV)	Total
S. de Vries	2013	396	42	150	420	71	-	30	1,109
	2012	396	31	198	113	64	-	36	838
B.M.L. Giannetti	2013	266	16	80	275	84	-	25	746
	2012	266	13	80	77	57	-	15	508
K.D. Keegan	2013	-	-	-	-	-	-	-	-
	2012	169	4	-	6	14	-	10	203
R.R.D. Pijpstra	2013	-	-	-	-	-	-	-	-
	2012	147	-	-	11	23	177	12	370
Total	2013	662	58	230	695	155	-	55	1,855
	2012	978	48	278	207	158	177	73	1,919

- I. In 2013, the Company is required to pay an additional one-off amount of tax to the Dutch government. The employer tax due is 16% of the surplus of an individual employee's fiscal income in 2013 over €150,000 based on actual payments in 2013.
- II. Share-based payments for 2013 relates to options of €660,000 (2012: €149,000) and Long Term Incentive Plan of €35,000 (2012: €58,000).
- III. Effective 19 June 2012 the Company and R.R.D. Pijpstra entered into an agreement as a result of which he resigned from the Management Board with immediate effect and as an employee as of 1 September 2012; his base salary until such date remained €17,000 gross per month and has been fully reflected in the above table. The agreement entitles Rienk Pijpstra to receive a maximum gross amount of €177,000, of which €29,000 was paid upon termination of the employment as per 1 September 2012 and €74,000 was paid upon receipt of US\$10.0 million from Santarus following achievement of the milestone related to successful completion of Study 1310. In 2013 Pharming paid €74,000 upon receipt of US\$5.0 million from Santarus following acceptance of the BLA for review by the FDA.
- IV. Includes (lease) car compensation and, for S. de Vries, other expenses.

Notes to the consolidated financial statements continued

The following table gives an overview of movements in number of option holdings of the individual members of the Board of Management in 2013 and 2012, the exercise prices and expiration dates:

	1 January 2012	Granted 2012	Granted 2013	Forfeited/ expired 2013	31 December 2013	Exercise price (€)	Expiration date
B.M.L. Giannetti	4,167	-	-	(4,167)	-	11.20	15 April 2013
	25,000	-	-	(25,000)	-	6.20	12 October 2013
	25,000	-	-	-	25,000	5.00	14 April 2014
	25,000	-	-	-	25,000	4.01	26 May 2015
	227,500	-	-	-	227,500	1.54	10 May 2016
	-	243,750	-	-	243,750	0.56	13 May 2017
	=	=	<u>1,625,000</u>	=	<u>1,625,000</u>	0.09	14 May 2018
	306,667	243,750	1,625,000	(29,167)	2,146,250		
S. de Vries	50,000	-	-	(50,000)	-	6.20	12 October 2013
	50,000	-	-	-	50,000	5.00	14 April 2014
	75,000	-	-	-	75,000	4.01	26 May 2015
	350,000	-	-	-	350,000	1.54	10 May 2016
	-	375,000	-	-	375,000	0.56	13 May 2017
	=	=	<u>2,500,000</u>	=	<u>2,500,000</u>	0.09	14 May 2018
	525,000	375,000	2,500,000	(50,000)	3,350,000		
<i>In service at 31 December 2013</i>	831,667	618,750	4,125,000	(79,167)	5,496,250		
K.D. Keegan	35,000	-	-	-	35,000	1.85	September 30, 2015
	250,000	-	-	-	250,000	1.54	May 10, 2016
	=	<u>281,250</u>	=	<u>(281,250)</u>	=	0.56	May 13, 2017
	285,000	281,250	-	(281,250)	285,000		
R.R.D. Pijpstra	4,000	-	-	(750)	3,250	6.00	May 31, 2014
	3,000	-	-	-	3,000	5.30	October 19, 2014
	25,000	-	-	-	25,000	3.76	March 29, 2015
	227,500	-	-	-	227,500	1.54	May 10, 2016
	=	<u>243,750</u>	=	<u>(243,750)</u>	=	0.56	May 13, 2017
	259,500	243,750	-	(244,500)	258,750		
<i>Left in 2012</i>	544,500	525,000	-	(525,750)	543,750		
Total	1,376,167	1,143,750	4,125,000	(604,917)	6,040,000		

Notes to the consolidated financial statements continued

At 31 December 2013, the members of the Board of Management held the following number of shares:

	Shares held
B.M.L. Giannetti	296,377
S. de Vries	663,219
Total	959,596

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

Loans or guarantees

During the year 2013, 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 2013.

25. 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 2013 and 2012 the annual compensation is as follows:

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

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

Notes to the consolidated financial statements continued

Compensation of the Members of the Board of Supervisory Directors for 2013 and 2012 was as follows:

Amounts in €'000	Year	BOSD	AC	RC	Extra-ordinary	Share-based payment	Total
J. Blaak	2013	44	-	3	-	-	47
	2012	44	-	3	-	2	49
J.H.L. Ernst	2013	31	3	3	-	-	37
	2012	31	3	3	3	2	42
J.B. Ward	2013	31	3	6	-	-	40
	2012	31	3	6	-	2	42
A. de Winter	2013	31	9	-	-	-	40
	2012	31	9	-	-	2	42
Total	2013	137	15	12	-	-	164
	2012	137	15	12	3	8	175

Shares, options and warrants

Members of the Board of Supervisory Directors do not participate in an option plan nor in the Long Term Incentive Plan in 2013.

Loans or guarantees

During the year 2013, 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 2013.

26. Income taxes

No current or deferred income taxes applied to the statement of income in both 2012 and 2013 and no other tax items apply to either equity or comprehensive income in both years.

The Dutch fiscal unity at year end 2013 has approximately €187 million of taxable losses that can be offset in the years 2014-2023. The Board of Management has considered the Company's history of losses and concluded that it is not probable that the benefits of these tax loss carry forward will be realized in the near term. Accordingly, the Company did not record a deferred tax asset.

Notes to the consolidated financial statements continued

27. Warrants

An overview of activity in the number of warrants for the years 2013 and 2012 is as follows:

	2013		2012	
	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)
Balance at 1 January	7,897,174	0.180	520,833	1.100
Issued	41,991,025	0.199	10,302,300	0.669
Exercised	(2,483,404)	0.072	(2,925,959)	0.169
Expired	-	-	-	-
Adjustments to exercise price	-	(0.089)	-	(0.702)
Balance at 31 December	47,404,795	0.113	7,897,174	0.180

The weighted average remaining contractual life in years of the outstanding warrants at 31 December 2013 is 4.46 years.

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

Overall, the number of outstanding warrants at 31 December 2013 is comprised of 5,413,770 warrants with an exercise price of €0.071675, 16,349,999 warrants with an exercise price of €0.071675 and 25,641,026 warrants with an exercise price of €0.135.

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 favorable 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.

Notes to the consolidated financial statements continued

28. Operating segments

The consolidated statement of financial position at year end 2013 and year end 2012, as well as the statement of income for both 2013 and 2012 exclusively related to the recombinant proteins business.

Supplemental disclosure operating segments

The main foreign assets of the recombinant proteins business unit related to the property, plant and equipment of Pharming Healthcare, Inc. in the United States. The carrying value of these assets at 1 January 2012 amounted to €1,960,000. Following sale of these assets in 2012 the Company received an amount of €722,000 in cash and posted impairment charges of €1,222,000; the carrying value at year-end 2012 amounted to €nil.

29. 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 24 and 25 of these Financial Statements. At 31 December 2013, the Company owed a total amount of €390,000 to Members of the Board of Management with respect to their compensation.

30. Commitments and contingencies

Operating lease commitments

The Company has entered into operating lease agreements for the rent of office and laboratory facilities, ending in 2016, as well as lease cars for employees (agreements in place at year end 2012 expiring in 2013-2016).

Future minimum rentals payable under these non-cancellable leases at the end of 2013 and 2012 was as follows:

Amounts in €'000	2013	2012
Within one year	662	673
After one year but not more than five years	995	1,648
More than five years	-	-
	1,657	2,321

Notes to the consolidated financial statements continued

Material Agreements

At end of the reporting year, the Company had entered into several agreements with third parties under which Pharming has to pay cash in case goods or services have been provided or certain performance criteria have been met. In general, these relate to:

- the manufacturing of Ruconest®, including fill and finish activities; and
- milestone payments for research and development activities, including clinical trials.

Total potential liabilities under these agreements are approximately €88 million, of which €12 million is for 2014, €52 million for 2015-2018 and €24 million beyond 2018.

31. Financial risk management

General

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

Capital risk management

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

Currency risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies, in particular of the United States dollar (US\$). The US\$ is used to make direct payment of US activities carried out through the Dutch entities.

At 31 December 2013 the Company's cash and cash equivalents, including restricted cash, amounted to €19.2 million. This balance consists of cash assets denominated in € for a total amount of €15.4 million and cash assets in US\$ for a total amount of US\$5.2 million or €3.8 million (applying an exchange rate € to US\$ at 31 December 2013 of 0.726 to 1), of which \$3.5 million is subject of derivative agreements.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pharming's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and 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 2013 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be less than €0.1 million.

Notes to the consolidated financial statements continued

Credit risk

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

The maximum exposure to credit risk at 31 December 2013 is represented by the carrying amounts of cash and cash equivalents, assets held for sale and trade and other receivables.

The carrying amounts of the cash and cash equivalents (including restricted cash) as per 31 December 2013 amounted to €19.2 million and was held through financial institutions with an A-A+ rating from Standard & Poor's, an A2 rating from Moody's and an A+ rating from Fitch.

Trade and other receivables at 31 December 2013 amounted to €0.9 million. As per the date of these financial statements these amounts have largely been settled, including receipts in cash and receipt of goods and services in exchange of prepaid expense items. Altogether approximately €0.9 million of various items are subject to receipts of cash, goods or services after the end of these financial statements with no indication that such an event will not take place.

Based on the credit ratings of cash and cash equivalents (including restricted cash) as well as the position taken with respect to trade and other receivables, the Company estimates that total maximum exposure to credit risk at the end of 2013 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 2013, 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 2013. The derivative financial liabilities relates to the fair value of warrant rights which can be exercised by warrant holders throughout the remaining lifetime.

Amounts in €'000	2014	2015	2016	2017	2018
Trade and other payables	5,812	-	-	-	-
Derivative financial liabilities	4,147	-	-	-	-
Finance lease liabilities	766	246	215	186	167
Restructuring provision	-	-	-	-	-
Total	10,725	246	215	186	167

Notes to the consolidated financial statements continued

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 2013 and 2012:

Amounts in €'000	2013		2012	
	Level 3	Total	Level 3	Total
Financial liabilities at fair value through profit or loss	4,147	4,147	1,215	1,215
Total liabilities	4,147	4,147	1,215	1,215

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:

	2013	2012
Expected time to maturity of warrants in issue	4.5 years	4.5 years
Volatility	75 - 84%	70 - 72%
Risk-free interest rate	0.78 - 1.31%	0.619 - 0.720%

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 47,404,795 warrants outstanding at 31 December 2013 with a total fair value of €4,147,000 and an exercise value of €5,373,000 are exercised with the fair value per share upon exercise ranging between €0.050 and €1.000 while applying a number of different intervals.

Notes to the consolidated financial statements continued

Impact on statement of income if 47,404,795 warrants outstanding at year-end 2013 are exercised at an assumed fair value per share between €0.050 and €1.000:

Fair value per share upon exercise in €	Exercise value in €'000	Actual fair value warrants in €'000	Fair value warrants at 31 December 2013 in €'000	Additional profit/(loss) in €'000
0.050	5,373	853	4,147	(3,294)
0.100	5,373	2,370	4,147	(1,777)
0.150	5,373	4,124	4,147	(23)
0.200	5,373	6,020	4,147	1,873
0.300	5,373	9,908	4,147	5,761
0.400	5,373	13,984	4,147	9,837
0.500	5,373	18,156	4,147	14,009
0.750	5,373	28,727	4,147	24,580
1.000	5,373	39,488	4,147	35,341

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

Amounts in €'000	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents, including restricted cash	19,152	19,152	6,314	6,314
Assets held for sale	-	-	242	266
Trade and other receivables	860	860	524	524
Liabilities:				
Finance lease liabilities	1,973	1,973	2,856	2,856
Trade and other payables	5,812	5,812	3,690	3,690
Derivative financial liabilities	4,147	4,147	1,215	1,215
Restructuring provision	-	-	1,232	1,232

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

Notes to the consolidated financial statements continued

32. Earnings per share and fully-diluted shares

Earnings per share

Basic earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year, being 213,045,535 for 2013 and 72,977,269 for 2012. For 2013 and 2012, the basic loss per share is:

	2013	2012
Net loss attributable to equity owners of the parent (in €'000)	(15,060)	(24,093)
Weighted average shares outstanding	213,007,959	72,977,269
Basic loss per share (in €)	(0.071)	(0.330)

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

Fully-diluted shares

The composition of the number of shares and share rights outstanding as well as authorized share capital as per 31 December 2013 and the date of these financial statements is provided in the following tables.

Movements between 31 December 2013 and 28 April 2014:

	31 December 2013	Shares issued	Other	28 April, 2014
Shares	334,655,224	30,000,000	39,948,526	404,603,750
Warrants	47,404,795	21,000,000	(39,929,776)	28,475,019
Options	8,825,431	-	(172,754)	8,652,677
LTIP	1,465,395	-	-	1,465,395
Issued	392,350,845	51,000,000	(154,004)	443,196,841
Available for issue	57,649,155	(51,000,000)	154,004	6,803,159
Authorized share capital	450,000,000	-	-	450,000,000

Notes to the consolidated financial statements continued

With respect to the 2014 movements of outstanding shares and share rights, further reference is given to Events after the reporting year in Note 33.

33. Events after the reporting year

From 1 January 2014 until the date of these financial statements, 18,750 options were exercised whereas 154,004 options expired and nil options were forfeited; all these option movements took place under the employee option plan.

During the first months of 2014 Pharming received an additional inflow of cash of €4.3 million from the exercise of warrants.

On 22 April 2014 Pharming entered into a “sub 10%” private equity placement of €14.7 million (€14.04 million net proceeds after subtraction of transaction fees) with existing institutional investors.

The placement is priced at €0.49 per share, which is the average closing price of the shares over the last five trading days. A total of 30,000,000 shares, representing 8% of the outstanding share capital, will be issued to the investors. In addition the investors received 21,000,000 warrants with a strike price of €0.57. The exercise period of the warrants is two years.

Company financial statements

COMPANY STATEMENT OF FINANCIAL POSITION

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

Amounts in €'000	Notes	2013	2012
Property, plant and equipment	3	225	317
Financial assets	7	2,221	-
Non-current assets		2,446	317
Trade and other receivables	4	280	213
Restricted cash	5	1,452	62
Cash and cash equivalents	5	6,837	6,066
Current assets		8,569	6,341
Total assets		11,015	6,658
Share capital	6	3,346	10,092
Share premium	6	254,901	231,866
Foreign currency translation	6	-	-
Other reserves	6	14,874	14,144
Accumulated deficit	6	(268,111)	(263,754)
Shareholders' equity	6	5,010	(7,652)
Provision for subsidiaries	7	-	11,604
Finance leases liabilities		-	3
Deferred license fees income		664	-
Non-current liabilities		664	3
Derivative financial liabilities	8	4,147	1,215
Restructuring provision	9	-	179
Trade and other payables	10	1,191	1,306
Finance lease liabilities		3	3
Current liabilities		5,341	2,703
Total shareholders' equity and liabilities		11,015	6,658

The notes are an integral part of these financial statements.

COMPANY STATEMENT OF INCOME

For the year ended 31 December

Amounts in €'000	Notes	2013	2012
Share in result of investments	7	(3,409)	(12,865)
Other results	11	(11,651)	(11,228)
Net loss		(15,060)	(24,093)

The notes are an integral part of these financial statements.

Notes to the Company financial statements

For the year ended 31 December 2013

1. General

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

2. Summary of significant accounting policies

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

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

3. Property, plant and equipment

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

Movement of property, plant and equipment for the financial years 2013 and 2012 is:

Amounts in €'000	Leasehold improvements	Other	Total
At cost	747	472	1,219
Accumulated depreciation charges	(402)	(413)	(815)
Carrying value at 1 January 2012	345	59	404
Investments	-	13	13
Depreciation charges	(77)	(23)	(100)
Movement 2012	(77)	(10)	(87)
At cost (*)	747	485	1,232
Accumulated depreciation charges (*)	(479)	(436)	(915)
Carrying value at 31 December 2012	268	49	317
Investments	-	4	4
Divestment (*)	-	(117)	(117)
Depreciation charges	(75)	(21)	(96)
Depreciation of divestments (*)	-	117	117
Movement 2013	(75)	(17)	(92)
At cost	747	372	1,119
Accumulated depreciation charges	(554)	(340)	(894)
Carrying value at 31 December 2013	193	32	225

Notes to the Company financial statements continued

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

4. Trade and other receivables

Trade and other receivables at year-end 2013 and 2012 comprised:

Amounts in €'000	2013	2012
Prepaid expenses	138	111
Value added tax	121	36
Other receivables	21	66
Balance at 31 December	280	213

Trade and other receivables at 31 December 2013 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

The overall cash position at year-end 2013 and 2012 was as follows:

Amounts in €'000	2013	2012
Current restricted cash	1,452	62
Cash and cash equivalents	6,837	6,066
Balance at 31 December	8,289	6,128

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

The holding company Pharming Group N.V. has entered into a joint liability agreement with a bank and other group companies. Pursuant to this agreement, the entity at 31 December 2013 is jointly liable for commitments relating to bank guarantees for an aggregate amount of €732,000 of which €176,000 with a maturity of more than one year after the end of the reporting year and €556,000 with a maturity of less than one year after the end of the reporting year.

The total guarantees of €732,000 are accounted by other group companies.

Notes to the Company financial statements continued

6. Shareholders' equity

The Company's authorized share capital amounts to €4.5 million and is divided into 450,000,000 ordinary shares with a nominal value of €0.01 each. All 334,655,224 shares outstanding at 31 December 2013 have been fully paid-up.

Movements in Shareholders' equity for 2013 and 2012 were as follows:

Amounts in €'000	2013	2012
Balance at 1 January	(7,652)	(1,188)
Net loss	(15,060)	(24,093)
Foreign currency translation	-	65
Recycling equity translation reserve	-	1,384
Share-based compensation	730	370
Bonuses settled in shares	189	274
Bond payments in shares	16,719	9,924
Shares/warrants issued for cash	9,688	4,745
Warrants exercised	394	867
Options exercised	2	-
Balance at 31 December	5,010	(7,652)

For a detailed movement schedule of equity for the years 2013 and 2012, please refer to the schedule consolidated statement of changes in equity. The main fluctuations in equity have been described in Note 10 to the consolidated financial statements.

7. Provision for subsidiaries

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 the our net investment in the group company, becomes negative, additional losses are provided for, and a liability is recognized, only to the extent that we have incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Notes to the Company financial statements continued

Movement of financial assets and the provision for subsidiaries for the years 2013 and 2012 was as follows:

Amounts in €'000	Investments in subsidiaries	Provision for subsidiaries	Net total
Balance at 1 January 2012	-	(189,568)	(189,568)
Share in results of investments	-	(12,865)	(12,865)
Exchange rate effects		340	340
Balance at 31 December 2012	-	(202,093)	(202,093)
Share in results of investments	-	(3,409)	(3,409)
Exchange rate effects	-	683	683
Balance at 31 December 2013	-	(204,819)	(204,819)

At year end 2013 and 2012, the provision for subsidiaries was offset with the following receivable balances from Pharming Group N.V.:

Amounts in €'000	31 December 2013	31 December 2012
Provision for subsidiaries	(204,819)	(202,093)
Receivable	207,040	190,489
Investment/ (provision)	2,221	(11,604)
Of which classified as Provision for subsidiaries	-	(11,604)
Receivable from group companies	2,221	-

8. Derivative financial liabilities

The backgrounds of the derivative financial liabilities have been provided in Note 13 of the consolidated financial statements.

9. Restructuring provision

The backgrounds of the restructuring provision have been provided in Note 14 of the consolidated financial statements. The amount presented in the company statement of financial position exclusively relates to the employees in service by the parent entity.

Notes to the Company financial statements continued

10. Trade and other payables

Trade and other payables consist of:

Amounts in €'000	2013	2012
Accounts payable	110	151
Taxes and social security	93	129
Deferred compensation due to related parties	390	409
Other payables	598	617
Balance at 31 December	1,191	1,306

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

11. Other results

Other results in 2013 and 2012 include costs of share-based compensation in the amount of respective €730,000 and €370,000, as disclosed in Note 23 of the consolidated financial statements. These charges include those related to Members of the Board of Management and employees.

12. Employee information

All employees of Pharming Group N.V. in both 2013 and 2012 were based in the Netherlands. The number of full-time equivalent employees in 2013 was 8 (2012: 13) and the number of employees at 31 December 2013 was 8 (31 December 2012: 12).

13. 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 24 and 25 of the Consolidated Financial Statements. At 31 December 2013, the Company owed a total amount of €390,000 to Members of the Board of Management with respect to their compensation (see Note 10 of the Company Financial Statements).

Independent auditor's report

To the General Meeting of Shareholders of Pharming Group N.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of Pharming Group N.V., Leiden as set out on pages 47 to 112. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2013, the company statement of income for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management's responsibility

The Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union 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. Furthermore, the Board of Management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pharming Group N.V. as at 31 December 2013, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Pharming Group N.V. as at 31 December 2013, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Independent auditor's report continued

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, 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 under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Utrecht, 28 April 2014

PricewaterhouseCoopers Accountants N.V.

A.C.M. van der Linden RA

OTHER FINANCIAL INFORMATION

For the year ended 31 December 2013

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 2013 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

From 1 January 2014 until the date of these financial statements, 18,750 options were exercised whereas 154,004 options expired and nil options were forfeited; all these option movements took place under the employee option plan.

During the first months of 2014 Pharming received an additional inflow of cash of €4.3 million from the exercise of warrants.

On 22 April 2014 Pharming entered into a "sub 10%" private equity placement of €14.7 million (€14.04 million net proceeds after subtraction of transaction fees) with existing institutional investors.

The placement was priced at €0.49 per share, which was the average closing price of the shares over the last five trading days. A total of 30,000,000 shares, representing 8% of the outstanding share capital, were issued to the investors. In addition the investors received 21,000,000 warrants with a strike price of €0.57. The exercise period of the warrants is two years.

APPENDICES

Appendix 1 2013 Publications on Ruconest®

Reshef A, Moldovan D, Obtulowicz K, Leibovich I, Mihaly E, Visscher S, Relan A. Recombinant human C1 inhibitor for the prophylaxis of hereditary angioedema attacks: a pilot study. *Allergy*. 2013 Jan;68(1):118-24.

Riedl MA, Levy RJ, Suez D, Lockey RF, Baker JW, Relan A, Zuraw BL. Efficacy and safety of recombinant C1 inhibitor for the treatment of hereditary angioedema attacks: a North American open-label study. *Ann Allergy Asthma Immunol*. 2013 Apr;110(4):295-9.

Hack CE, Relan A, Baboeram A, Oortwijn B, Versteeg S, van Ree R, Pijpstra R. Immunosafety of recombinant human C1-inhibitor in hereditary angioedema: evaluation of IgE antibodies. *Clin Drug Investig*. 2013 Apr;33(4):275-81.

Danobeitia J, Zitur L, Van Amersfoort E, D'Alessandro A, Oortwijn B, Ma X, Capuano S, Brunner J, Torrealba J, Fernandez L. Complement Blockade Prevents Delayed Graft Function in a Non-Human Primate Model of Kidney Allo-Transplantation. *Am J Transplant*. 2013 May;13(S5):66.

Riedl M, Moldovan D, Levy R, Baker J, Obtulowicz K, Grivcheva-Panovska V, McNeil D, Andrejevic S, Reshef A, Farkas H, Li H, Bernstein J, Davis A, Lockey R, Lumry W, Wedner H, Craig T, Gower R, Shriov T, Relan A, Cicardi M. Recombinant human C1 inhibitor for treatment of acute attacks of hereditary angioedema: a randomised, double-blind, placebo-controlled clinical trial. *Allergy*. 2013 Sep;68(s97):443.

Li H, Moldovan D, Bernstein JA, Reshef A, Porebski G, Stobiecki M, Baker JW, Levy RJ, Hardiman Y, Relan A, Cicardi M, Riedl MA. Efficacy and Safety of Recombinant Human C1 Esterase Inhibitor for Acute Attacks of Hereditary Angioedema: An Open-Label Study. *Ann Allergy Asthma Immunol*. 2013 Nov;111(5):A92.

Farrell C, Hayes S, Relan A, van Amersfoort ES, Pijpstra R, Hack CE. Population pharmacokinetics of recombinant human C1 inhibitor in patients with hereditary angioedema. *Br J Clin Pharmacol*. 2013 Dec;76(6):897-907.