PHARMING

Annual Report **2011**

2011 Highlights

Financial

- Revenues and other income from continuing operations increased to €3.2 million (2010: €1.1 million)
- Operating costs from continuing operations excluding cost of sales and inventory impairments decreased to €18.2 million (2010: €22.2 million)
- Net profit from financial income and expenses of €0.7 million (2010: net loss €16.5 million)
- Net loss from continuing operations decreased to €17.8 million (2010: €37.7 million)
- Net profit from discontinued operations of €0.6 million (2010 net loss: €18.7 million)
- The overall net loss significantly decreased to €17.2 million (2010: €56.4 million)
- Raised €3.2 million of new funds through a private placement and concluded a €8.4 million convertible bond financing
- Year-end cash and cash equivalents (including restricted cash) of €5.1 million*

**Excludes the cash proceeds from the convertible bond (€8.0 million gross) and €1.1 million outstanding as part of the Sobi extension agreement*

Operational

- Expansion of the geographical coverage for Ruconest® through a new agreement with Megapharm and an extension of the agreement with Sobi to include territories in the Balkans, North Africa and the Middle East
- Awarding of rights to market Ruconest® in Spain, Portugal, Greece and Andorra to Sobi, following an agreement with Esteve to return the rights
- Regulatory progress in the US back on track after the FDA's 2011 refusal to file letter
  - Study 1310 continued to progress under a Special Protocol Assessment (SPA) from the FDA
- Signing of service agreement for the development of transgenic rabbits producing Factor VIII with Renova Life represented the first step towards potentially unlocking the value inherent in Pharming's transgenic platform
- Enhancements of the intellectual property portfolio including extension of the protection of Pharming's Core Technology Platform in the US to 2027 and granting of a broad patent relating to C1 inhibitor use in indications associated with ischaemia reperfusion injury, providing protection until 2028
- Completion of the technology transfer to a second downstream manufacturing site for the production process of Ruconest®, opening up the possibility to significantly reduce costs of goods

Our strategic focus

- Pharming's commercial focus is primarily aimed at specialty pharmaceutical markets. We cover the entire value chain through internal expertise and external collaborations
- To expand our current portfolio, we will build on the C1 inhibitor franchise, further validate and leverage the inherent value of our transgenic platform, and pro-actively evaluate external opportunities
- International collaborations with leading academic and research institutions will continue to position Pharming at the forefront of innovative science

Pharming is also 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

About Pharming Group N.V.

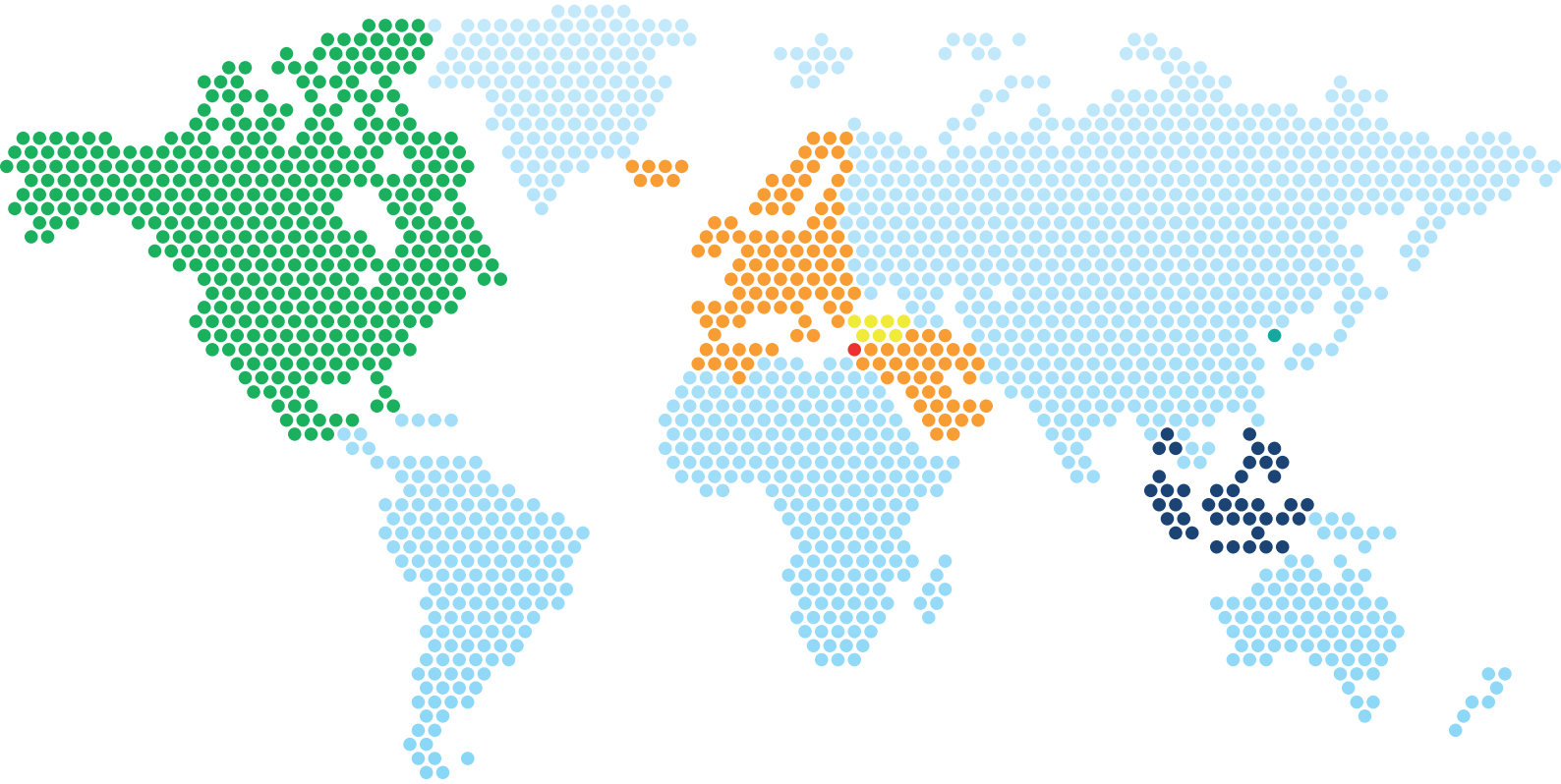
Pharming Group N.V. is developing innovative products for the treatment of unmet medical needs. Ruconest® (Rhucin® in non-European territories) is a recombinant human C1 inhibitor approved for the treatment of angioedema attacks in patients with HAE in all 27 EU countries plus Norway, Iceland and Liechtenstein, and is distributed in the EU by Sobi. The rights to distribute Ruconest® in the Balkan region, Middle East and North Africa are also held by Sobi

Rhucin® is partnered with Santarus in North America. Pharming is currently conducting a Phase III clinical trial to achieve registration in the US. The product is also under evaluation for indications in the areas of transplantation and ischaemia reperfusion injury

The commercial attractiveness of the Company stems from its innovative platform for the production of protein therapeutics and its extensive technology and processes know-how for the purification and formulation of these products. Pharming has an agreement with Renova Life to assess the feasibility of developing recombinant human Factor VIII (rhFVIII) for the treatment of Haemophilia A patients

Pharming shares are listed at the NYSE/ Euronext Amsterdam (PHARM). Additional information is available on the Pharming website, www.pharming.com

Ruconest®/Rhucin® commercial partners



SANTARUS, INC.	sobi SWEDISH ORPHAN BIOVITRUM	MegaPharm We Know The Way	Eczacıbaşı	Transmedic	HYUPJIN Corporation
Canada	Albania, Algeria, Andorra,	Israel	Turkey	Brunei	Republic of Korea
US	Austria, Bahrain, Belgium,			Indonesia	
Mexico	Bosnia Herzegovina,			Malaysia	
	Bulgaria, Greece, Croatia,			Philippines	
	Cyprus, Czech Republic,			Singapore	
	Denmark, Estonia, Finland,			Thailand	
	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.				

Contents

CEO's Statement

2011 was an eventful year for Pharming, marked by the start of the commercial roll-out of our first product, Ruconest®, following the receipt of the European marketing authorisation, at the end of October 2010, for the treatment of acute attacks of Hereditary Angioedema (HAE).

HAE is a genetic disorder in which the patient is deficient in, or lacks a functional plasma protein C1 inhibitor, resulting in an overreaction of the immune system. The disease is characterised by unpredictable and debilitating episodes of intense swelling of the extremities, face, trunk, genitals, abdomen and upper airway, which may last up to five days when untreated. In addition to the life-threatening nature of the disease in the case of laryngeal attacks, quality of life for affected individuals may be seriously impaired. It is estimated that between 1 in 10,000 and 1 in 50,000 individuals suffer from HAE with an average of approximately eight acute attacks per year (in conjunction with steroid prophylaxis. Without steroid treatment, the average rate of attacks in these patients would be much higher).

Ruconest® is commercialised in Europe by our partner, Swedish Orphan Biovitrum International AB (Sobi). In August 2011, Pharming granted Sobi additional exclusive distribution rights to Ruconest® in Spain, Portugal, Greece and Andorra. Sobi will now distribute Ruconest® in all 27 EU countries, Norway, Iceland and Switzerland. Also in August we agreed an extension with Sobi to include new territories in the Balkans, North Africa and the Middle East. The roll out of Ruconest® is progressing, although gaining market access across Europe has generally been slower than we initially expected, reflecting the process of obtaining national, regional and local listings and reimbursements (this is a challenge faced by the entire industry and is not unique to Pharming). Nonetheless, we anticipate that Ruconest® will be available in all of the major European markets by the end of this year.

During 2011 and in early 2012, we continued bringing Ruconest® to HAE patients in additional territories through the following agreements: a commercial partnership with Megapharm for the commercialisation of Ruconest® in Israel; a distribution agreement for Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand with Singapore based Transmedic Pte, signed in February 2012 and a distribution agreement for the Republic of Korea with Seoul based Hyupjin Corporation, signed in March 2012.

With regard to US regulatory approval, 2011 began in a challenging manner for Pharming, when the Food and Drug Administration (FDA) requested that the Rhucin® Biologics License Application (BLA) include results from an additional ongoing Phase III study prior to reviewing the BLA. Together with our US partner Santarus Inc, our team used the Special Protocol Assessment (SPA) process to reach agreement with the FDA on the requirements for a BLA file. Recruitment to this trial (Study 1310) is now well underway and we hope to bring you news of a successful completion, as announced previously, in the third quarter of this year.

Furthermore, towards the end of the year we took another step towards leveraging the potential of our transgenic platform beyond the C1 Inhibitor franchise when we signed a service agreement with Renova Life to assess the feasibility of developing recombinant human Factor VIII.

Throughout the year we have stringently contained our operational costs. Our stated prioritisation of the C1-inhibitor franchise coupled with this cost containment was exemplified by the spin-out and subsequent discontinuation of funding of DNage in January 2011.

The completion of the technology transfer to a second downstream manufacturing site for the production of Ruconest® will provide significant saving potential in the manufacturing costs of the product. We expect receiving approval for the up-scaled production process in Europe by early 2013.

The challenging market conditions witnessed in 2010 persisted throughout 2011, where the tepid global recovery, ongoing sovereign debt crisis in Europe, fears over an economic slowdown in China after years of extraordinary growth and political turmoil in the Arab countries combined to significantly suppress global equity markets. Furthermore, this continuing uncertainty in the macroeconomic environment once again made financing biotechnology companies a very difficult prospect. Despite this, we succeeded in raising sufficient capital; albeit, the depressed market environment did impact on our financing options and unfortunately necessitated more dilution of our share capital than we had previously anticipated. In July we completed a financing of €3.2 million, adding new US based specialist investors and in December we entered into a financing of €8.4 million by means of a private convertible bond with specialised investors, including those investors that contributed to the July financing.

These 2011 financing efforts should enable the company to finance itself through to the upcoming value inflection points. The funds from the latter transaction enabled us to extend our cash runway beyond the anticipated read out of Study 1310 and the associated milestones from our US partner Santarus: US$10.0 million for positive study results and US$5.0 million for the acceptance of the BLA for review by the FDA.

The latter part of this year should therefore see further progress in our transition from a late-stage development company to an emerging pharmaceutical business. This transformation will be driven by the abovementioned cash milestones associated with successful read out of Study 1310 and BLA acceptance, cash inflows from our commercialisation partner Sobi, as the European roll-out continues to gather momentum and milestones from business development initiatives if we can successfully bring ongoing discussions to a close.

The past year presented a number of very significant challenges for Pharming which, I am proud to say, we successfully overcame. With this in mind I would like to thank our employees, investors and partners for their ongoing commitment and support.

We now look forward to a new year with renewed optimism and I hope to update you on our progress throughout what promises to be a very important year for Pharming.

Sincerely,

Sijmen de Vries

Leiden,
The Netherlands,
April 2, 2012

Management report

OPERATING REVIEW

2011 was a period of unprecedented volatility in global markets. Pharming has not been immune from the major negative aftershocks of these significant global events. Our share price, along with those of many European companies, has been negatively impacted. Such events highlight that Pharming is not immune to macroeconomic risks that can impact upon our ability to finance the Company.

However, we have been fortunate in that we continue to attract investors who recognise the potential of Pharming's platform and are willing to finance Pharming's key development programmes, thereby providing the funds required to enable read out of our ongoing US clinical study. This trial is required for the regulatory submission in the US and importantly, is associated with two milestones worth a combined US$15.0 million from our US partner, Santarus. This trial has been agreed by a SPA procedure, whereby the FDA has agreed that the design of the trial, including patient numbers and primary and secondary endpoints are adequate to support licensure of the product. The European Medicines Agency previously accepted that efficacy and safety of Ruconest® has been demonstrated in two placebo controlled clinical trials. Although Pharming is exposed to the risks inherent in drug development, we believe we have mitigated the risk as much as possible, and we remain confident that the trial will read out positively.

We have made progress in achieving our aim of extending the geographical reach of Rhucin®/Ruconest®. The geographical coverage of our commercial agreement with Sobi was extended when we granted them the rights to Spain, Portugal, Greece and Andorra after reaching a mutual decision with Esteve to terminate our commercialisation agreement. We also granted Sobi rights to new territories in the Balkans, North Africa and the Middle East and added Megapharm Ltd. as our commercial partner in Israel. Furthermore in 2012, distribution agreements were signed with Transmedic Pte. accessing the markets of Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand and Hyupjin Corporation to cover the Republic of Korea.

The commercialisation of Ruconest® in the Sobi territories continues to progress; although gaining market access is taking longer than we initially envisaged, primarily as a result of reimbursement negotiations at the national, regional and local level. Pharming remains fully confident in the ability of all of our partners to successfully commercialise Ruconest®/ Rhucin® across global territories. However, Pharming depends on its commercial partners to market its product in the various territories. Pharming is also indirectly exposed to the risks of its chosen partners. We continue to believe that Rhucin® is a valuable addition to the therapeutic options available to HAE patients and we continue to support our commercialisation partners in their endeavours.

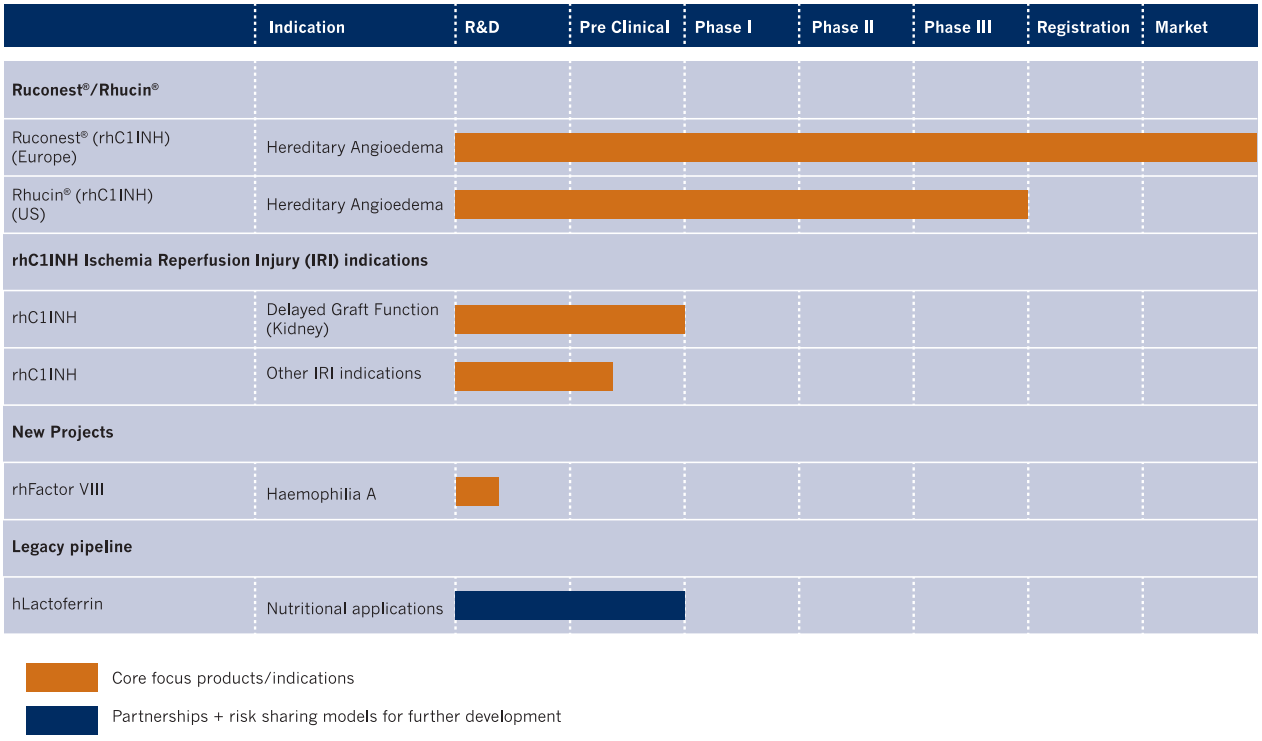
Pharming has delivered on the majority of its 2011 targets and we are confident that the Company will continue to progress in its transition to a commercially focused organisation. We have addressed the issues raised by the FDA's refusal to file letter (an example of the high regulatory risks that drug development companies face). That setback has resulted in a delay in the approval process for Rhucin® in the US, but we believe that Study 1310 will complete by the third quarter of 2012. This transition from a development focused company to a commercially driven organisation may not always be recognised by the market but we believe that we are building the appropriate base for Pharming to deliver considerable value to its shareholders post the anticipated successful readout of Study 1310 and associated significant milestones payments. In this respect, we recognise the need for additional projects in the pipeline beyond our C1 inhibitor franchise; the announcement of the collaboration with Renova Life to initiate a Factor VIII feasibility study represented the next step, and we are actively discussing possible risk and reward sharing structures with potential partners.

During 2011, Pharming continued to focus the majority of its resources on Ruconest®/ Rhucin®, whilst investment in other projects was minimised; mainly aiming at completion of ongoing experiments. The emphasis on cost containment continued and a new more commercially focused pipeline prioritisation process was put in place to evaluate potential new projects.

Key operating developments in 2011

- SPA Agreement reached with the FDA regarding the requirements to support regulatory approval for Rhucin®
- Expansion of the geographical coverage for Ruconest® through new commercialisation agreements with Megapharm for Israel and an extension of the agreement with Sobi to include Spain, Portugal, Greece and Andorra, as well as territories in the Balkans, North Africa and the Middle East
- A renewed emphasis on starting new projects following the validation of our proprietary platform: the signing of a service agreement for the development of transgenic rabbits to produce Factor VIII with Renova Life represented the first step towards potentially unlocking the value inherent in Pharming's transgenic platform
- Enhancements of the intellectual property portfolio,
  - Extension of the protection of Pharming's Core Technology Platform in the US to 2027
  - Granting of a broad patent relating to C1 inhibitor use in indications associated with ischaemia reperfusion injury was granted, providing protection until 2028
- Technology transfer to an additional downstream production site for Ruconest/rhC1INH, thus increasing the flexibility of production and reducing both the related costs and risks.

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



Management report *continued*

Ruconest®/Rhucin® for Heredity Angioedema
Pharming's recombinant human C1 esterase inhibitor (rhC1INH) Rhucin® has been developed for the treatment of acute attacks of HAE.

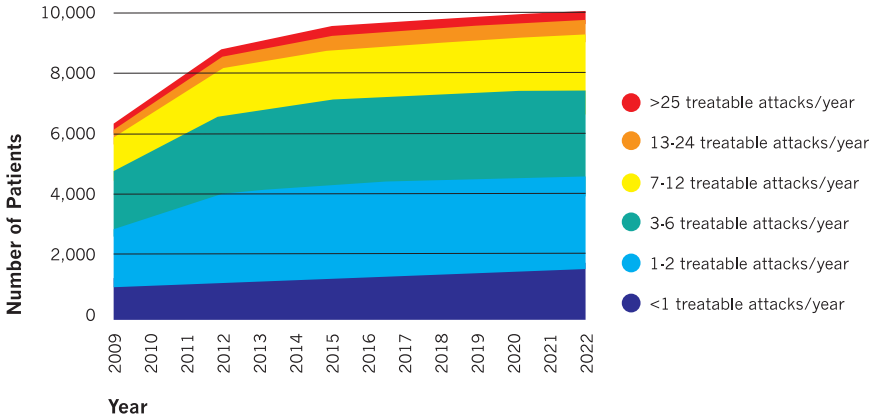
HAE is a rare genetic deficiency of C1 inhibitor activity resulting in recurrent attacks of local swelling (edema), which may present as abdominal pains, airway obstruction or swelling of the skin. These attacks are painful and disabling and attacks obstructing the airway can be fatal. Estimates of HAE 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 against a background of 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.

Administration of C1 inhibitor protein can stop these angioedema attacks. Ruconest®/Rhucin® is a recombinant version of the human protein C1 inhibitor (C1INH). Ruconest®/Rhucin® is produced through Pharming's proprietary technology in milk of transgenic rabbits. Ruconest®/Rhucin® offers higher purity and batch consistency and no risk of human virus transmission. The 50 U/kg dose studied and approved in the EU restores C1INH function to physiological levels and is a highly effective treatment of acute HAE attacks.

Ruconest® in Europe
In 2010 the European Commission granted Marketing Authorisation for the treatment of acute angioedema attacks under the name Ruconest®.

Sobi has continued its rollout of Ruconest® and the drug is now available in seventeen countries. We anticipate the completion of roll out in all the major European markets by the fourth quarter of 2012.

Diagnosed HAE Patients - Attack Frequency



Source: Leerink Swann Research

The market access process continues across European markets using the various country specific procedures to obtain reimbursements and to make the product administratively available under the various national and regional healthcare systems.

Rhucin® in the USA
In December 2010, Pharming filed a BLA with the US FDA. On 28 February, 2011 the FDA requested that the Rhucin® BLA incorporate results from the ongoing double blind placebo controlled study C1-1310. FDA indicated that the previously conducted studies evaluating Rhucin® for the treatment of acute attacks of HAE did not provide data for a sufficient number of subjects to support the proposed dose of 50 U/kg and lacked prospective validation of the visual analogue scale used in measuring the clinical effects of Rhucin®.

In August 2011, Pharming announced that the FDA agreed, under the SPA process, that the design, clinical endpoints and statistical analyses of the ongoing clinical study with Rhucin® are adequate to support a BLA. Following discussions with the FDA Pharming implemented the Agency's recommended changes to the study protocol, including modification of the primary endpoint and an increase in the number of patients to approximately 75. The protocol was also changed to allow the introduction of open-label doses of Rhucin® as a rescue medication. The study is expected to be completed by the third quarter of 2012.

Ruconest/ Rhucin commercialisation
For the commercialisation of Ruconest®/Rhucin®, Pharming, as per the date of these financial statements, has entered into seven commercial agreements:

- In 2004, the Company signed an agreement with Laboratorios del Dr Esteve, SA (Esteve) in Spain for the development, marketing and sales of Ruconest® in Spain, Portugal, Greece and Andorra; In August 2011, Pharming announced that it has reached mutual agreement with Esteve to return the rights to market Ruconest® in Spain, Portugal, Greece and Andorra. Sobi took up the exclusive distribution rights in these countries

- In 2008 the Company signed a commercialisation agreement with Eczacibaşi Ilaç Pazarlama AS (EIP), a leading Turkish pharmaceutical company for the marketing and sales of Ruconest® in Turkey

- In April 2010, an exclusive distribution partnership with Swedish Orphan Biovitrum International AB (STO: SOBI) for Iceland, Norway, Switzerland and all the territories of the European Union except Spain, Portugal, Greece and Andorra was signed. This distribution partnership provided Pharming with a total €8.0 million of milestone payments as received in 2010. Sobi also received the option to participate in the development costs for subsequent indications and following regulatory approval also incorporate the commercialisation of such indication. In August 2011, Pharming announced an extension of the existing agreement with Sobi to include new territories in the Balkans, North Africa and the Middle East for the commercialisation of Ruconest®

- In September 2010, Pharming entered into an exclusive commercialisation partnership with Santarus, Inc. (NASDAQ: SNTS). This partnership covers Canada, Mexico and the United States of America. Under this agreement Pharming received an upfront payment of US$15.0 million (€11.7 million) in 2010 and is eligible to receive an additional US$35.0 million payable based on the achievement of certain clinical and commercial milestones, of which US$10.0 million will be payable upon the positive conclusion of the ongoing Phase III study and US$5.0 million for the acceptance of the BLA for review by the FDA. Under the same agreement, a further US$45.0 million may be received upon reaching certain levels of aggregate net sales levels of Rhucin®. The amount of each such sales based milestone payments varies upon the level of net sales in a calendar year. The maximum amount of all such milestone payments to Pharming would be US$45.0 million, assuming net sales exceeded US$500.0 million in a calendar year. Pharming will supply Rhucin® to Santarus for a tiered transfer price that includes a significant royalty equivalent

- In June 2011, Pharming entered into a commercialisation agreement with MegaPharm Ltd, a privately owned Israeli pharmaceutical company, for the treatment of acute attacks of HAE

Management report *continued*

- In February 2012, Pharming entered into a commercialisation partnership with Transmedic Pte, a privately owned Singapore pharmaceutical company, for the commercialisation of Ruconest® in Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand for the treatment of acute HAE attacks in patients

- In March 2012, the Company entered into an agreement with Hyupjin Corporation, a Seoul based Korean specialty pharma company, to commercialise Ruconest® for the treatment of acute attacks of HAE in the Republic of Korea.

Pharming believes that Ruconest®/Rhucin®'s efficacy and safety profile gives the product a significant competitive advantage over competing treatments and, over time, will result in the product achieving significant market penetration in major global markets. We have partnered with commercially oriented companies that are committed to making Ruconest®/Rhucin® a commercial success; this has brought significant cash milestones to Pharming which have contributed to financing the Company through difficult market conditions. Further potential payments are due upon attaining certain clinical and commercial milestones.

Throughout 2011 and in early 2012, the following peer reviewed scientific and academic publications on recombinant human C1 inhibitor (Ruconest®/Rhucin®) were published:

rhC1INH: a new drug for the treatment of attacks in hereditary angioedema caused by C1-inhibitor deficiency. Varga L, Farkas H., Expert Rev Clin Immunol. 2011 Mar;7(2):143-53.

A review of Hereditary Angioedema and Recombinant Human C1 Inhibitor Treatment. Relan A, Caballero T, Triggiani M, Bork K; Eur J Gastroenterol Hepatol. 2011;7(2):129-32

Conestat alfa for the treatment of angioedema attacks. Davis B, Bernstein JA; Ther Clin Risk Manag. 2011;7:265-73.

Target levels of functional C1-inhibitor in hereditary angioedema. Hack CE, Relan A, van Amersfoort ES, Cicardi M.; Allergy. 2012 Jan;67(1):123-30.

Recombinant C1-inhibitor: effects on coagulation and fibrinolysis in patients with hereditary angioedema. Relan A, Bakhtiari K, van Amersfoort ES, Meijers JC, Hack CE; BioDrugs. 2012 Feb 1;26(1):43-52.

ADDITIONAL DEVELOPMENT OF RUCONEST®/RHUCIN®

HAE in children
In February 2012, we announced that we had started an open-label Phase II clinical study evaluating the Ruconest/Rhucin 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 Paediatric Committee and will assess the pharmacokinetic, safety, and efficacy profiles of Ruconest® at a dose of 50 U/kg in paediatric HAE patients in support of a paediatric indication for treatment of HAE attacks. Pharming expects to enrol approximately 20 patients, aged from 2 to 13 years. This study, if successful, will broaden the label for our marketed drug, 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 into 2026.

Prophylaxis in HAE
Rhucin® is currently being 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 intent to prevent or reduce the frequency of attacks. The market size of prophylactic therapy in HAE is significant. In the USA, Viropharma's Cinryze is only approved for this indication. ViroPharma guided for net revenue from US Cinryze sales in 2012 to be US$310 to US$330 million.

Following the encouraging results of the open-label exploratory study (OPERA), we are currently evaluating this opportunity with our partner, Santarus.

Ischaemia Reperfusion Injury
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'). Rhucin® has shown in various pre-clinical models that it can limit the extent of the ischaemia reperfusion injury.

As announced in December 2011, the United States Patent and Trademark Office (USPTO) granted the Company US Patent 8,071,532, covering a method of preventing, reducing or treating IRI by administering recombinant C1 inhibitor (Ruconest®/ Rhucin®). The broad claims in the patent provide protection until 2028. This is Pharming's first patent granted on IRI in the US, and represents a significant milestone in the continuing development of the Company's C1 inhibitor franchise in additional indications associated with IRI such as Delayed Graft Function (DGF) after transplantation. Lack of oxygen during the procedure may cause a delayed functioning of the transplanted organ, improper functioning in the longer term and, eventually, in the rejection of the transplanted organ.

As result of the pre-clinical results to date and the granting of the patent, we now focus on evaluating the use of Ruconest®/Rhucin® in IRI related indications, including DGF and Acute Myocardial Infarction (AMI). Those indications are commercially attractive markets that are associated with high unmet medical need.

Antibody Mediated Rejection
In 2011, Pharming continued to evaluate other potential indications for Ruconest®/Rhucin® (rhC1INH). These included a proof of concept (POC) study, initiated in 2010 (together with our North American partner Santarus) to explore the benefits of Rhucin®/Ruconest® in the treatment of Antibody Mediated Rejection (AMR) after Kidney transplantation.

Management report *continued*

Following a pipeline review to evaluate its investments in its R&D portfolio, Pharming decided that alternative development programmes potentially offer a better return on investment compared to continuing the AMR clinical study based on progress to date. Despite the strong scientific rationale, clinical practice has improved over the trial period with the consequence that the apparent incidence of AMR has significantly decreased. The relative lack of patient availability would have extended this trial and increased the costs of such a trial considerably. Together with our partner, Santarus, Pharming concluded that this change decreased the medical need and decided to terminate the trial in February 2012.

This decision was supported by our internal analysis of its commercial attractiveness, relative to ongoing evaluations of other development opportunities, including continuing evaluation of Rhucin®/Ruconest® for other potentially commercially attractive indications, such as IRI related indications and promising new platform derived projects like recombinant human Factor VIII (rhFVIII).

Human lactoferrin, human fibrinogen, human collagen
Pharming completed a Phase I food safety trial to demonstrate the safety of different doses of recombinant human Lactoferrin after oral administration over a period of two weeks. Out-licensing discussions were initiated during the course of 2011 with the scope to find partners interested in further developing the lactoferrin/fibrinogen/collagen franchise.

DNage
As result of the re-focusing on development of the C1-inhibitor franchise, Pharming decided to spin-off DNage in 2010. To support DNage in finding additional funding to function as an independent entity, Pharming provided a bridge loan for a maximum amount of €1.2 million. DNage was unable to secure such additional funding and its shareholders decided to put DNage into voluntary liquidation at the end of January 2011.

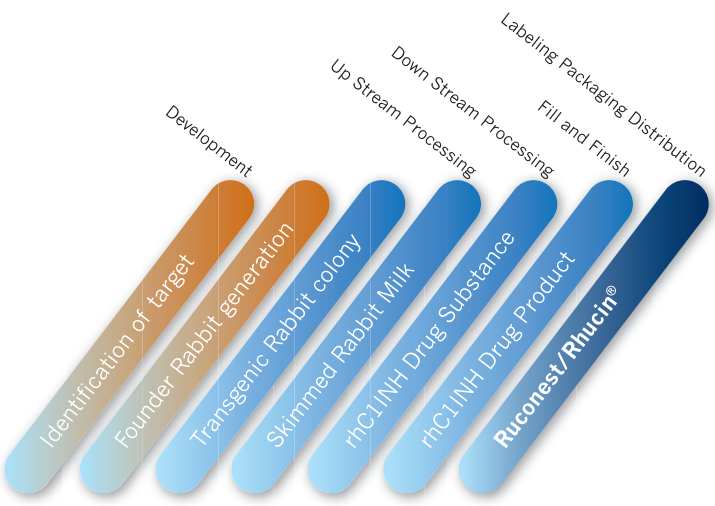
RESEARCH AND TECHNOLOGY

Pharming is involved in the production, purification and formulation of recombinant protein products. The Company has a large portfolio of patents issued and pending, supporting these technologies and products.

Transgenic production technology
Pharming's production platform is based on the expression of human proteins in the milk of transgenic mammals. This technology enables the development of more complex therapeutic proteins, in a cost effective manner.

Pharming develops purification processes to separate the specific human proteins from the other natural components in milk, thereby ensuring to achieve competitive yields of high quality and purity. These processes are subsequently transferred to Contract Manufacturing Organisations (CMOs) for large-scale production in accordance with Good Manufacturing Practices (GMP).

Overview



Pharming's production processes are GMP-compliant and have passed inspections by the relevant authorities. To meet sales expectations, Pharming has built up an adequate inventory of finished product and product intermediates and is in the process of scaling up its manufacturing capacity and qualifying a second supplier.

Expanding the pipeline beyond the C1 franchise

With validation secured from the approval of the first product from our transgenic platform, we will now seek to initiate new projects on this platform. Our transgenic platform remains the only technology that to date can deliver recombinant versions of certain complex human proteins in an economically viable way: this is a result of the low cost of capital investment required to start up a suitable founder herd and the fact that the herd is easily scalable. The validation provided by the EU approval of Ruconest® and its manufacture significantly reduces the regulatory risk associated with our transgenic platform.

In 2011, Pharming started a review process to define new projects for this platform. The emphasis of this review was to highlight indications that had a high unmet medical need, required therapeutic intervention using biologics and were assessed to be commercially attractive. The first indication that was reviewed was the production of 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 lead 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 recombinant human FVIII 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 market can currently be supplied with appropriate FVIII therapy. Hence, there is still a high unmet medical need in this field and the recombinant human FVIII market is estimated to grow to US$6.5 billion in 2020.

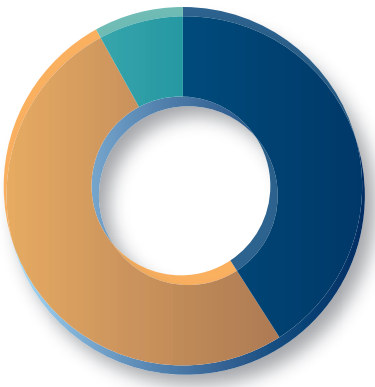
As the first step in assessing if Pharming can successfully develop such a therapeutic, it has signed a service agreement with Renova Life, Inc, (RLI) a biotechnology company based in Maryland, USA. The agreement covers the development and supply of founder transgenic rabbits from RLI to Pharming. The founder rabbits will enable Pharming to start the commercial production breeding process.

Hemophilia A: a therapeutic overview

Hemophilia	A
Factor Deficiency	VIII
Genetic Defect	Absence of protein
Rate of male births	1 in 5,000-10,000
Severe vs. moderate/mild	60% vs 40%
Inhibitor rate	20%
Prophylaxis dosing frequency	3x/wk
Severe patients dose	20-40 IU/kg
Moderate patients dose	15-20 IU/kg
Prophylaxis rate (U.S.)	~40%
Bleeds per year	6-12 bleeds/year

Source: Citi Investment Research and Analysis

Estimated Global rFVIII Market (2014) by Region



	($MM)
US	2015
Western Europe, Canada, Japan	2540
Emerging markets	354

Source: Citi Investment Research and Analysis

Management report *continued*

FINANCIAL REVIEW 2011

The past year has focused on accessing capital to ensure that the Company had sufficient resources to continue to develop Ruconest® through the readout of Study 1310. To that end, Pharming extended the agreement with Sobi to include additional territories and gained a commitment from Sobi worth €1.5 million. In addition, the Company undertook two financings in the Capital Markets, raising €11.6 million from specialist US investors.

Key financial developments in 2011

- Revenues and other income from continuing operations increased to €3.2 million (2010: €1.1 million)
- Operating costs from continuing operations excluding cost of sales and inventory impairments decreased to €18.2 million (2010: €22.2 million)
- Net profit from financial income and expenses in 2011 of €0.7 million (2010 net loss: €16.5 million)
- Net loss from continuing operations decreased to €17.8 million (2010: €37.7 million)
- Net profit from discontinued operations in 2011 of €0.6 million (compared to a net loss from discontinued operations in 2010 of €18.7 million)
- The overall net loss significantly decreased to €17.2 million (2010: €56.4 million)
- Raised €3.2 million of new funds through a private placement and concluded an €8.4 million convertible bond financing
- Year-end cash and cash equivalents (including restricted cash) of €5.1 million. This excludes the cash proceeds from the convertible bond (€8.0 million gross) and €1.1 million outstanding as part of the Sobi extension agreement

GROSS PROFIT/(LOSS)

Revenues and other income from continuing operations increased to €3.2 million (2010: €1.1 million), largely reflecting a revenue increase from €0.6 million in 2010 to €3.0 million in 2011. The revenue increase includes the full year effect of license fee revenues of €1.9 million (2010: €0.5 million) and product supplies to Sobi of €1.1 million (2010: €0.1 million). Cost of product sales in 2011 amounted to €1.8 million (2010: €0.1 million). In 2011 the Company incurred €1.7 million inventory impairments related to production issues triggered by a one-off event. The Company is investigating various possibilities to fully recover these costs.

OPERATING COSTS

Operating costs from continuing operations decreased to €18.2 million (2010: €22.2 million). The reduction is mainly a result of decreasing R&D costs from €18.3 million in 2010 to €13.8 million in 2011. This reflects 2010 impairment charges on R&D inventories, the continued prioritisation of R&D expenditure towards Study 1310, minimal expenditure on other projects and an increased focus on cost containment in our US business.

FINANCE INCOME AND EXPENSES

Net profit from financial income and expenses in 2011 was €0.7 million compared to a net loss in 2010 of €16.5 million. These items in 2010 were largely driven by the interest charges and settlement charges of various debts incurred in 2010 and earlier years.

NET RESULT

Net loss from continuing operations decreased to €17.8 million (2010: €37.7 million). The net profit from discontinued operations in 2011 of €0.6 million compared to a net loss from discontinued operations in 2010 of €18.7 million. The effects of discontinued operations relate to the liquidation of the DNage business in early 2011, with 2010 losses largely driven by €20.7 million (non-cash) impairment charges on goodwill and intangible assets. The overall net loss significantly decreased from €56.4 million in 2010 to €17.2 million in 2011.

CASH FLOWS

Net cash flows used in operating activities increased from €3.2 million in 2010 to €16.9 million in 2011. However, cash inflows in 2010 were augmented by one off upfront and milestone payments paid by Santarus and Sobi of €19.7 million and in 2010 payments with respect to the discontinued DNage business of €2.9 million (2011: €nil). Thus, on a comparable basis, operating cash outflows decreased by €3.1 million in 2011 compared to 2010.

Year-end cash and cash equivalents (including restricted cash) amounted to €5.1 million. This amount excludes the cash proceeds from the convertible bond (€8.0 million gross) and €1.1 million outstanding as part of the Sobi extension agreement, the former amount having been received in early 2012 and the latter partially received early 2012 and partially due by end of the second quarter 2012.

FINANCING

Throughout 2011, the Company raised €3.2 million of new funds through a private placement and signed a convertible bond financing (€8.0 million gross proceeds) subject to shareholder approval in 2012 (which has been obtained through an Extraordinary General Meeting of Shareholders held on 3 February, 2012).

EQUITY

In late 2011 the Company announced that it had entered negative equity. The negative equity position has in itself no immediate impact on the execution of the Pharming's business plan, nor does it imply that the Company is legally required to issue new share capital. An Extraordinary General Meeting (EGM) was held on 3 February, 2012 and the authorised share capital increased to 805 million shares. Pharming is continuously reviewing its financial and liquidity position and has various options to improve its equity standing under International Financial Reporting Standards (IFRS). Most notably, the Company highlights that the negative equity position was mainly caused by not instantly fully recognising the €19.7 million upfront payments and milestones received from Sobi and Santarus as equity (in accordance with IFRS) and that it expects to receive two development milestones associated with the successful readout of Study 1310 (US$10.0 million) and acceptance of the BLA filing by the FDA (US$5.0 million). Under IFRS, Pharming expects to be able to recognise these milestones immediately and thus augment the equity position.

Management report *continued*

OUTLOOK

The most important activity in the near term continues to be the ongoing pivotal clinical trial (Study 1310) which is required for US regulatory approval for Rhucin®. This study remains on track and we anticipate readout by the third quarter of 2012. If successful we anticipate submitting a BLA approximately three months thereafter. These events are associated with large milestones payments which will have a significant impact on the Company's future growth. On successful achievement of the primary endpoint of the Phase III clinical study, the Company is eligible to receive a US$10.0 million milestone payment from Santarus and a further US$5.0 million at the acceptance of the BLA by the FDA.

We remain focused on supporting our commercialisation partners in facilitating the rollout of Ruconest® across the licensed territories and look forward to continued progress over the coming quarters. Discussions are on-going with several parties regarding the potential commercialisation of Rhucin®/Ruconest® in other territories of the world, such as South America, other South-East Asian countries and Japan. Such deals are important in increasing the geographical coverage of our Hereditary Angioedema (HAE) franchise. In the first quarter of 2012 we signed two distribution contracts with Transmedic Pte in South- East Asia and Hyupjin Corporation in the Republic of Korea and we hope to be able to update you on additional deals over the coming quarters.

Following the validation of our transgenic platform with the EU approval of Ruconest®, we have received multiple requests regarding the potential licensing of the platform, and/ or co-development collaborations to produce complex proteins. These discussions are at an early stage and focus on significant indications which already have protein therapeutics on the market. The attractiveness of our platform appears to be its scalability, low upfront capital investments in manufacturing and its flexibility associated with manufacturing costs. We do envisage moving forward with new platform projects with partners and are currently exploring such possibilities. In 2011 we took the important initial step of signing an agreement with Renova Life to produce rabbits for the production of recombinant Factor VIII.

In 2011 we prioritised our pipeline and decided to out-license our non-core programmes. Discussions are ongoing with potential partners for lactoferrin and fibrinogen.

Summary of goals for 2012

- Build the C1 Inhibitor franchise by focusing on the US regulatory pathway
- Increase the value of the Rhucin®/Ruconest® franchise through geographical expansion by leveraging existing and/or securing new partnerships
- Leverage the embedded value of the transgenic technology platform through identification and initiation of new projects
- Continue to operate within budget
- Improve the Company's visibility amongst investors and other market participants (both buy- and sell- side analysts and financial press and trade press journalists)

We have started 2012 with a pro-forma cash position of €14.2 million. This cash provides sufficient runway to the read out of our pivotal US clinical trial which, if successful, triggers a milestone payment of $10.0 million, as well as US$5.0 million on the acceptance of the BLA for review by the FDA.

From a commercial perspective, Ruconest® is now approved in the EU and should be on sale in all the major markets by year end.

Given the ongoing, significant market uncertainties, Pharming is not providing guidance for the financial results in 2012.

STATEMENT OF THE BOARD OF MANAGEMENT

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

The Board of Management declares that to the best of 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.

We would like to thank all our shareholders, research collaborators, partners and employees for their help and support in 2011.

Sincerely,

The Board of Management

The original copy has been signed by the Board of Management

Leiden,
The Netherlands,
April 2, 2012

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.

Composition Board of Management
During 2011, 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 2013
Mr. Bruno Giannetti	Chief Operations Officer	1 December, 2006	Up to AGM in 2015
Mr. Rienk Pijpstra	Chief Medical Officer	1 April, 2010	Up to AGM in 2014
Mr. Karl Keegan	Chief Financial Officer	1 October, 2010	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 2011, Mr. De Vries was responsible for the overall management of the Company. Mr. De Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joined Pharming from Switzerland-based 4-Antibody where he was CEO. Mr. De Vries has also been CEO of Morphochem AG and prior to this worked at Novartis Pharma and Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals Plc where he held senior business and commercial positions. Mr. De Vries holds 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 is the founder and president of CRM GmbH, a well established European Clinical Research Organisation specialised in international pharmaceutical clinical research.

During 2011, Mr. Giannetti was responsible for the Company's operations including research and development and manufacturing activities. 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.

Management of the Company *continued*

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

During 2011, Mr. Pijpstra was responsible for medical governance at Pharming and led the non-clinical and clinical development, regulatory affairs, drug safety, and medical information teams. Mr. Pijpstra held senior clinical positions at SmithKline BeechamPlc and GlaxoSmithKline Plc in the UK and USA, and he was the Chief Development Officer at Basilea Pharmaceuticals AG in Switzerland. Mr. Pijpstra received his MD degree and MBA from the University of Leuven.

Karl D. Keegan, PhD MSc (1967)
Chief Financial Officer
Nationality: Irish
Date of initial appointment: 1 October, 2010
Other current board positions: Mr. Keegan holds no other board positions.

During 2011, Mr. Keegan was responsible for financial and financing activities, investor relations and IT systems. Dr. Keegan has worked in the healthcare industry for over 15 years, most recently as the CFO of Minster Pharmaceuticals Plc. Prior to Minster, Dr. Keegan worked at Canaccord Adams as Managing Director and UK Head of Equity Research and Global Head of Life Sciences Research and as a biotechnology analyst at several investment banks including Banc of America, UBS and Dresdner Kleinwort Benson. Prior to his financial career, he worked within the pharmaceutical industry at SmithKline Beecham Pharmaceuticals Plc. Mr. Keegan holds MPhil and PhD degrees in Pharmacology from the University of Cambridge and an MSc (Finance) from the London Business School.

Composition Board of Supervisory Directors
During 2011, 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 2013
Mr. Barrie Ward	Member	23 May, 2007	Up to AGM in 2015
Mr. Aad de Winter	Member	15 April, 2009	Up to AGM in 2013

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 holds board positions in non-listed companies in the life science industry, like FlexGen Holding BV and to-BBB Holding BV. He is also a 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 merged with the ABN-AMRO Venture Capital Group to form AlpInvest. Since 1989, Mr. Blaak is president and owner of Tailwind BV, a company investing mainly in early stage life science companies. He has been an advisor to the Dutch Ministry of Economic Affairs, Agriculture and Innovation for the Biopartner and Technopartner Program and other innovative projects related to Entrepreneurship and Innovation. Mr. Blaak holds a 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 1980, Mr. Ernst continued his career at Solvay and held several positions until he retired in 2004. Amongst other, he was member of the board of Pharmaceutical Division, CEO of Health Divisions, General Manager Pharmaceutical Sector and supervisory director and member of the Executive Committee. Mr. Ernst holds an ISMP Degree from Harvard University and an MBA from the University of Cologne.

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 Spirogen Ltd, Cellcentric Ltd and Immunobiology Ltd, a vaccine company in Cambridge, UK. Mr. Ward is also a member of the board of Cancer Research Technology Ltd.

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

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

Mr. De Winter has extensive financial experience. He started his career at AMRO Bank in 1980. He worked in the areas of capital markets, investment banking and institutional investor relationship management. In 1990, Mr. De Winter became senior Advisor Corporate and Institutional Finance at NIBC (formerly 'De Nationale Investerings Bank'). As of 1998, Mr. De Winter was at NYSE Euronext, 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 since 2008 a member of the China and India working group at the Holland Financial Centre which is, inter alia, focused on attracting Chinese and Indian companies to a (cross) listing on the Euronext Amsterdam. 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
Pharming wishes to draw attention to its 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 is available 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 a 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 strategic evaluations of our business;
- Periodic operational review meetings of the Management Board with the Executive Management Group
- Monthly updates to the Supervisory Board reviewing developments in the areas of operations, research and development, business development, clinical development, and investor relations, In addition a monthly overview of the financial position is provided;
- Quarterly review of the financial position and prospects as part of the meetings of the Management Board with the Supervisory Board;
- A planning and control cycle consisting of annual, quarterly and monthly procedures, including subsequent follow-up on achievements of targets set;
- A risk assessment plan; and
- There is also a whistleblowers' procedure, which is published on the Company's website.

An effective system of (internal) controls and procedures is maintained;
- An Audit Committee that meets regularly with each of the Management Board and the external auditors; and
- Management letters and audit reports provided by our external auditor.

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. Management assessed the effectiveness of the Company's internal control over financial reporting as of 31 December, 2011. Based on its assessment and those criteria, Management concluded that the Company maintained effective internal control over financial reporting as of 31 December, 2011.

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.

The risks listed below do not necessarily comprise all risks faced by the Company, but take into account those which are known to the Company and which the Company considers material. Additional risks and uncertainties not presently known to Pharming or that the Company currently deems immaterial may also have a material adverse effect on its business, results of operations or financial condition and could negatively affect the price of the Shares.

With respect to the financial reporting risks reference is made to the Statements of the Board of Management on page 19 of the Annual Report.

RISK FACTORS

Clinical & Regulatory Risk

Pharming may not obtain all regulatory approvals for its products
The process of undertaking and completing pre-clinical studies and clinical trials, and obtaining regulatory approvals, may take 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. Any failure or delay in commencing or completing clinical trials for our products could severely harm our business.

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, financial position, results of operations, prospects and market price of the Shares.

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, results of operations, prospects and market price of the Shares.

Pharming relies on third parties to conduct pre-clinical and clinical trials
Pharming does not have the ability to independently conduct pre-clinical and clinical trials for product candidates. Pharming must rely on third parties, such as contract research organisations, medical institutions, clinical investigators and contract laboratories to conduct the pre-clinical and clinical trials. Pharming has entered into agreements with third parties to conduct these trials for and on behalf of Pharming. The Company remains responsible that each of the pre-clinical and clinical trials is conducted in accordance with its general investigation plan and protocol. Moreover, the European Medicines Agency (EMA) and the FDA require the Company to comply with regulations and standards, commonly referred to as good clinical practices, for conducting, recording and

reporting the results of pre-clinical and clinical trials to ensure that data and reported results are credible and accurate and that trial participants are adequately protected. The reliance on third parties does not relieve Pharming of these responsibilities and requirements. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, or the third parties need to be replaced or if the quality or accuracy of the date they obtain is compromised due to the failure to adhere to our pre-clinical and clinical protocols or regulatory requirements or for other reasons, the pre-clinical or clinical trials may be extended, delayed, suspended or terminated and Pharming may not be able to obtain regulatory approval for, or successfully commercialise, product candidates.

Regulatory standards are constantly developing and the failure to comply with applicable regulatory requirements would have serious consequences for the Company

The industry in which Pharming operates is highly regulated and the applicable regulatory requirements vary considerably in the different geographic markets in which Pharming operates. These regulations are subject to change and development and future regulatory standards relating to, inter alia, biotechnology-derived products may be imposed that are distinct from those currently employed. The Company cannot guarantee that it will be able to meet such standards as they evolve and are implemented.

In addition to changing regulatory requirements, the failure of the Company to comply with applicable regulatory requirements could result in, among other things, injunctions, product recalls, product seizures, fines, and criminal prosecution.

The development of Pharming's early stage products face a long product development cycle
The development of a therapeutic drug up to marketing approval by the competent authority is a lengthy process. During this time a research project must proceed through pre-clinical and several clinical stages of development, as well as the regulatory approval process. The consequence of this lengthy process and the uncertainties in connection with the research and development of pharmaceuticals is that only a small fraction of initial product candidates ultimately receive regulatory approval. In addition to its lead product Rhucin and its other products in development, Pharming seeks to discover products in a number of long-term research projects for which clinical trials have not been initiated yet. A failure to develop additional products successfully and within a reasonable time frame could have significant detrimental consequences for Pharming's business, financial position, result of operations, prospects and market price of the Shares.

Commercial Risk

Pharming faces and expects to remain confronted with intense competition in the various markets for its products
Several other companies develop products for the treatment of 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, three other non-recombinant C1 inhibitor products and one product using another mechanism of action have been approved, each for the treatment of acute HAE attacks. In the USA 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 Rhucin to allow it to become profitable. For its other products under development, Pharming is also exposed to the risk that a competitor may bring a product with similar effects to the market faster than the Company does.

Even if the Company successfully introduces Rhucin or another of its future products new technologies from competitors can make Rhucin or any other products under development and Pharming's technology obsolete. Several competitors are active in the market for therapeutic products with more resources and significantly greater experience in, amongst others, obtaining regulatory approvals. The above events may have a material adverse effect on Pharming's business, financial position, and results of operations, prospects and market price of the Shares.

Corporate governance and risk management *continued*

Pharming's future success may depend upon the ability to enter into partnerships with third parties
Our strategy for the commercialisation of some of our products, in particular those for larger indications, is to partner or out-license such products to third parties. If we are not able to locate, and enter into favourable agreements with, suitable third parties we may have difficult commercialising the relevant products. The process of establishing partnerships is difficult, time-consuming and involves significant uncertainty. Our ability to predict the success of any partnership we may enter into is limited due to (amongst others) the complexity and uncertainty of these arrangements.

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.

Pharming relies on single source suppliers for the provision of essential materials incorporated in certain product candidates
For some of the essential materials incorporated into product candidates, Pharming relies on a single supplier. Any disruption in the supply of these materials could adversely affect its ability to successfully complete the clinical trials and other studies of its product candidates, delay submissions of the regulatory applications or adversely affect its ability to commercialise its product candidates in a timely and/or commercially manner, or at all.

The success of Pharming is highly dependent on public, market and governmental acceptance of its transgenic technology, development methods and products
Development methods and technologies which Pharming uses include, among others, nuclear transfer technology and genetic modification. These and other activities have been, and may in the future be, the subject of debate and negative publicity. In the past, organisations and individuals have tried to stop genetic modification through different ways of putting pressure on companies relating to these activities, including by use of media campaigns. These actions may have a material adverse effect on Pharming's business, financial position, operational performance, prospects and market price of the Shares.

Furthermore, the Company needs the market to accept its products in order to be able to commercialise them. Market acceptance is dependent on the opinions of the medical community, partners and competitors about numerous factors including the safety and efficacy of the relevant products. Any failure to obtaining market acceptance may also have a material adverse effect on Pharming's business, financial position, results of operations, prospects and market price of the Shares.

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 the Company's products by third parties like the government health administration authorities, private health insurers and other organisations for the development of the products and/or technology. 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. Not obtaining, or obtaining insufficient reimbursement from these parties may have an adverse effect on Pharming's business, financial position, results of operations, prospects and market price of the Shares.

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 and thereby adversely affect Pharming's business, financial position, results of operations, prospects and market price of the Shares.

Pharming is highly dependent on its ability to obtain and hold rights to proprietary technology and to develop its technology and products without infringing the proprietary rights of third parties and to protect its proprietary technology
Patents, trade secrets and other proprietary rights are critical to Pharming's business. The Company has to protect its products and technology through patenting and licensing and at the same time develop its products without infringing the proprietary rights of third parties. The patent positions of pharmaceutical companies are highly uncertain and involve complex legal and factual questions, and the breadth of claims that will be allowed by patent authorities cannot be predicted with certainty. Pharming has several patent applications pending in the USA, Europe, Japan and in other countries. It is not certain that these pending patent applications will result in patent issues, that these patents will afford adequate protection or that the existing patents will not be challenged. The success of Pharming also depends, in part, on the ability of its licensors to obtain, maintain and enforce their intellectual property rights to the extent required by Pharming to develop and commercialise its products.

The Company seeks protection of its other proprietary know-how through confidentiality and other agreements with employees and third parties. No assurance can be given that these agreements offer an adequate protection or that equivalent or superior know-how is not independently developed by competitors.

Pharming operates in an industry sector that has a relative high risk of facing litigation
Pharming participates and will participate in an industry that has been subject to significant product liability, intellectual property claims and other litigation. Pharming cannot be certain that it was the first to invent the subject matter of its patent applications and patents, that it was the first to apply for such a patent, or that technologies or products used by Pharming will not infringe third party intellectual property rights or that existing patents remain valid and enforceable. Pharming may face litigation or other legal proceedings concerning its intellectual property. These processes are time consuming and can be very costly. In the event of an unfavourable ruling in patent or intellectual property litigation Pharming could be subject to significant liabilities to third parties, be required to cease developing, manufacturing or selling the affected products or technology or be required to in-license the disputed rights from third parties and thereby adversely affect Pharming's business, financial position, results of operations, prospects and market price of the Shares. Although Pharming does not believe that there is any material litigation or other proceedings pending or threatened, it cannot be excluded that it will face such claims in the future or that such claims, although not considered material, will impose on Pharming considerable costs or will consume significant management resources. In addition it cannot be excluded that Pharming will be confronted with claims which are raised with the main aim of exploiting the nuisance value of publicly raised claims. In order to prevent infringement of third party intellectual property rights, Pharming may need to acquire licenses for patents held by third parties to re-establish or maintain its freedom to operate, possibly on unfavourable terms.

Pharming's future supplies of Rhucin are dependent on third parties
Pharming has entered into (downstream) manufacturing and supply agreements for the production of rhC1INH, the drug substance of Ruconest®/Rhucin®, namely with Sanofi Chimie S.A. (Sanofi) and Merck Sharp & Dohme B.V. (MSD). Pharming may have to develop and/or contract additional (upstream) manufacturing capabilities and may have to contract additional (downstream) manufacturing capacity. It is uncertain whether and to what extent Pharming will be able to develop such capabilities or enter into such partnerships or agreements on a timely basis and on acceptable terms. Even if a partnership or agreement has been concluded, the possibility exists that these partners fail to live up to the agreements made with them or that Pharming is unable to maintain such agreements.

Personnel Risk

Pharming is dependent on its ability to recruit and retain management and key employees
Pharming depends to a large degree on the performance and expertise of its management and technical personnel. Competition for qualified employees is intense in the fields in which Pharming is engaged and there is no guarantee that qualified employees will not leave Pharming. The loss of one or more of these employees could lead to significant delays in product development and thus negatively influence Pharming's business activities. Pharming's continued success depends moreover on recruiting and retaining highly qualified employees in the future, especially in management and in the area of research and development. The loss of individual employees or failure to attract new highly qualified employees could have significant detrimental consequences for Pharming's business and financial position.

Corporate governance and risk management *continued*

Financial Risk

The Company is dependent on external funding in the near future
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) and the Company's ability to generate cash inflows from development of sufficient revenues from sales in the European Union (EU) through its commercialisation partners, especially through its main EU partner Swedish Orphan Biovitrum International AB (Sobi) and the approval by the US Food and Drug Administration (the FDA) of its lead product, the therapeutic protein recombinant human C1 inhibitor (Rhucin®/Ruconest®) and subsequent revenues generated from sales through its commercialisation partner Santarus, Inc. (Santarus) for the treatment of acute attacks of Hereditary Angioedema (HAE) for marketing in the United States of America (USA), Canada and Mexico and the ability to leverage its transgenic platform through commercialisation deals.

Pharming has a history of operating losses and no assurance can be given both on the timing and size of future profits. We have a history of operating losses and anticipate that we will continue to incur losses for the foreseeable future. We have thus far incurred losses in each year since incorporation. These losses have arisen mainly from costs incurred in research and development of our products and general and administrative expenses.

The amount and timing of any expenditure required to implement our business strategy and continue the development of our products will depend on many factors, some of which are out of our control, including but not limited to:
- scope, rate of progress, results and cost of our pre-clinical and clinical trials and other research and development activities;
- terms and timing of any collaborative, licensing and other arrangements that we may establish;
- higher cost, slower progress than expected to develop products and delays in obtaining regulatory approvals;
- number and characteristics of products that we pursue;
- cost and timing of establishing sales, marketing and distribution capabilities;
- timing, receipt and amount of sales or royalties, if any, from our potential products, or any upfront or milestone payments during their development phase;
- the cost of preparing, filing, prosecuting, defending and enforcing any intellectual property rights; and
- the extent to which we acquire or invest in businesses, products or technologies.

No assurance can be given that we will achieve profitability in the future. Furthermore, if our products fail in clinical trials or do not gain regulatory approval, 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. Our inability to obtain additional funds necessary to operate the business could materially and adversely affect the market price of our shares and all or part of an investment in our shares could be lost. In addition, to the extent we raise capital by issuing additional shares, shareholders' equity interests would be diluted.

Exchange rate fluctuations could negatively affect our financial condition
Pharming is based in the Netherlands, but sources materials, products and services from several countries outside the EU-territory which are paid in local currencies. Subject to commercialisation of Rhucin® in the US or in other countries outside the EU and the US, Pharming will also receive payments in US dollars or possibly in other currencies. As a result, Pharming's business and share price will be affected by fluctuations in foreign exchange rates between the euro and these foreign currencies, including the US dollar, which may have a significant impact on Pharming's reported results of operations and cash flows from year to year.

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 34.

Composition and remuneration
In 2011 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. For 2010 the annual compensation for the Chairman was €34,500 and €23,000 for other members. As of 2011 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 2011 the annual compensation was as follows:
– 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.
– 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. 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 four times in 2011. At each of these meetings all Members were present or participating by teleconference. 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.

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 Rhucin®/Ruconest®, the competitive landscape, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the annual budget and targets for 2011 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 annual budget is dependent, amongst other events, on the achievement of certain milestones. There is no certainty that these milestones will actually be achieved;
- The Company is largely dependent on the development of one key product
- The key product depends on regulatory filings for all markets. However, the outcome of the registration processes in all markets may be influenced by unpredictable events.
- The Company is dependent on the availability and commitment of key employees;
- The Company is active on a niche market for an orphan drug product with at least three competitors;
- The Company does not yet have a positive operational cash flow and therefore might be dependent on financial markets in the future;
- The timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to 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 department to monitor other corporate and contractual risks. The risks are further described in the corporate governance and risk management section commencing on page 25.

The quarterly financial statements are circulated to the full Board of Supervisory Directors in advance of every Audit Committee meeting. During the four Audit Committee meetings held in 2011, the financial statements were discussed with a special emphasis on the impact of IFRS related issues. In addition, the management letter from the external auditor was discussed. The Audit Committee in 2011 consisted of Mr. De Winter (Chairman), Mr. Ernst and Mr. Ward. All meetings of the Audit Committee were also attended by the other members of the Board of Supervisory Directors and by the auditors.

The Corporate Governance Committee in 2011 consisted of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. During 2011, the Corporate Governance Committee held one formal meeting, during which the Corporate Governance structure of the Company was evaluated and during which self-evaluation of the BOSD was performed. During all BOSD meetings various topics of Corporate Governance were discussed.

A report of the Remuneration Committee can be found on page 34-38.

Financial statements
The financial statements of Pharming Group N.V. for 2011, as presented by the Board of Management, have been audited by PricewaterhouseCoopers Accountants N.V. Their report is included in this Annual Report on page 98. The Financial Statements are approved by the Board of Supervisory Directors and all 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 2011 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.

Sincerely,

The Board of Supervisory Directors

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

Leiden,
The Netherlands,
April 2, 2012

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.

2011 Remuneration policy and structure
The remuneration policy for 2011 was approved in the AGM of May 2011. The main items of this policy are:

- The remuneration of each member of the Board of Management consists of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long term incentives by way of shares and/or options to shares in the Company and benefits in kind such as health insurance and participation in a pension plan, as further specified in Note 25 to the Financial Statements;
- In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/ or extraordinary performance and/ or the achievement of predetermined objectives. These contracts have included provisions for an individual bonus in cash or shares of up to 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 37).

Meetings and Composition
During the 2011 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met twice in 2011. 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 2011 objectives were also discussed and agreed in the last meeting.

Remuneration Report 2011
Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant 10,550,000 of the available 10,550,000 stock options of the Board of Management Option Plan (as approved by the AGM on 11 May, 2011), in line with the achievement of the preset target for the Board of Management. The exercise price of these options is €0.1540. The stock options will expire on 10 May, 2016. To Mr. De Vries 3,500,000 stock options were granted, to Mr. Keegan 2,500,000 stock options and to Mr. Giannetti and Mr. Pijpstra 2,275,000 stock options each.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2011. The Remuneration Committee recognised that despite continued turbulent times, the BOSD were of the opinion that the Board of Management had met the majority of the corporate and personal objectives set for 2011 and contributed to positioning the Company for the future in particular by the following accomplishments:

- Conclusion of additional regional commercialisation agreements for Ruconest®
- Succeeded to raise additional funds during the year, with improved terms and conditions under continued increasingly challenging circumstances
- Response/ recovery from the Refusal to File (RTF) letter received from the US Food and Drug Administration (FDA); by achieving an expeditious Special Protocol Assessment (SPA) with the FDA for the 1310 study
- Execution of the technology transfer for the downstream production to Sanofi, de- risking the supply chain and enabling to achieve the associated potential decrease in manufacturing costs for Ruconest®
- Leveraging the rabbit platform by reviewing various potential disease indications and formulating a new project (Factor VIII) in haemophilia A
- Reduced operating cost and operated within the budget
- Increased the Company's visibility with investors

Despite this, on an overall level, also given the regulatory set- back suffered by the FDA decision to issue a Refusal to File in February 2011, the Board of Management in general and the individual members in particular have in 2011 partially succeeded in achieving their objectives.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided therefore that Mr. Giannetti and Mr. Pijpstra should be granted 60%, Mr. De Vries 70% and Mr. Keegan 80% 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 also decided to pay out the bonus in its entirety in shares, as the financial position of the Company still needs further solidification and also to further align management's interests with those of shareholders. The shares were, as published in the Annual Report 2010, valued at the VWAP measured over the 5 trading days prior to 31 January, 2012 (€0.0696 per share).

The individual remuneration of the members of the Board of Management was reviewed, in the light of certain agreed milestones that were achieved in 2011 and in the light of developments at other listed biotechnology/ specialty pharmaceutical companies in Europe. On this basis, the Remuneration Committee advised the Board of Supervisory Directors to not change the fixed salaries of the members of the Board of Management from 1 January, 2012, except for an increase of Mr. Keegan's salary from €213,000 by €40,000 to €253,000 per annum.

Report of the remuneration committee *continued*

Remuneration Policy 2012 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 2012, 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 14 May, 2012, for the proposed number of share options to be granted to the Board of Management.

1. Fixed salary determined by the Board of Supervisory Directors

2. Target bonus of up to 40% of annual salary in cash and/or in shares
The issuance of share based bonus component shall be valued at the VWAP measured over the 20 trading days prior to 31 January, 2013. 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 2012.

The main corporate objectives for 2012 for the Board of Management can be summarised as follows:

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

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

3. Share options dependent on defined parameters

Description of proposed 2012 share option grants to the Board of Management:

	Nr of options	Parameter
Mr. Sijmen de Vries	3,750,000	In service at 1 January, 2013
Mr. Bruno Giannetti	2,437,500	In service at 1 January, 2013
Mr. Rienk Pijpstra	2,437,500	In service at 1 January, 2013
Mr. Karl Keegan	2,812,500	In service at 1 January, 2013

It is proposed to reserve 3,750,000 options for the staff option pool for distribution during 2012. The strike price of the 2012 share options shall be equal to the VWAP measured over the 20 trading days prior to the date of the AGM 2012 (14 May, 2012).

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. The number of shares vested will be based on the relative performance of the share price compared to a group of 33 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)	AMT Pharma (NL)	Addex (CH)
Allergy Therapeutics (UK)	Ark Therapeutics (UK/FI)	Basilea (CH)
Bavarian Nordic (DK)	Biotie Therapeutics (FI)	Cellectis (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)	Octoplus (NL)
Oxford Biomedica (UK)	Photocure (NO)	Renovo (UK)
Santhera (CH)	Ti-Genix (BE)	Transgene (FR)
Veloxis Pharmaceuticals (DE)	Vernalis (UK)	Wilex (DE)

The vesting schedule will be as follows:

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

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

Report of the remuneration committee *continued*

LTIP 2009 expired without pay-outs

At 1 January, 2012, after three years of the three year period of the 2009-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 2010 and 2011 LTIP still have one and two years respectively to run.

LTIP 2012

For 2012, 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, 2011 of €0.082) shall be equal to 30% of each of the Board of Management's 2012 base salaries.

This results in the following allocations:
Mr. S. de Vries 1,448,780 shares, Mr. K.D. Keegan 925,610 shares, Mr. B.M.L. Giannetti 973,170 shares, Mr. R.R.D. Pijpstra 808,537 shares. For a selected group of senior managers 1,000,000 shares are available. A maximum amount of 200,000 shares per senior manager can be allocated.

In the light of the financial position of the Company during 2011, the Board of Supervisory Directors and the Board of Management have decided not to change the Long Term Share based Compensation elements for 2012.

The Corporate Governance section 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.

The Board of Supervisory Directors has evaluated the variable components of the remuneration of each member of the Board of Management using scenario analyses.

Corporate social responsibility

Introduction
Pharming is committed to conducting business in a sustainable, safe and responsible way. As a publicly listed company developing therapeutic products, Pharming is aware of its corporate social responsibility towards its employees, shareholders, patients, animals and other stakeholders.

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 and improve the quality of life and in some cases save lives. As such, we believe that Pharming makes a valuable contribution to the community.

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

Clinical studies are carried out in compliance with legal and regulatory requirements and according to Good Clinical Practice (GCP) guidelines. 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 accepted and implemented to improve and assure the quality of our products.

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

Corporate social responsibility *continued*

Whistleblowers' procedure
Pharming has a whistleblowers' policy which is available on the Company's website. This policy describes the internal reporting procedures of suspected irregularities with regard to a criminal offence, a violation of laws and regulations, intentional provision of incorrect information to public bodies, a violation of rules of conduct applicable within Pharming or an intentional suppression, destruction or manipulation of information.

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

Pharming has an Animal Code of Conduct in place, which focuses on the strict regulatory control of transgenic materials and animals in regard to the environment. It emphasises the importance of carrying out its activities with transgenic animals in a consistent and safe manner and in conformity with the laws and regulations in force in the countries of operation. Special attention is given to the strict separation of transgenic and non-transgenic materials and animals. In addition, the Company follows strict procedures to prevent the prohibited release of transgenic animals, their semen or any other reproductive transgenic material into nature.

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

Human Resources
Our social policy is aimed on deploying satisfied employees who wish to develop their talents and use these talents to create and maintain a high-level and innovative working environment.

Our Human Resources Department works in partnership with managers and their teams, with individual employees and with other groups to provide programmes and services that create a work environment of employee empowerment and involvement in the business.

During 2011, the Human Resources Department investigated organisational culture and leadership styles. With this research, a baseline was set with regard to the organisational culture which best suits the current organisational position. Besides, the corresponding leadership styles were defined and placed in competency-sets. This project will continue during the coming year.

Supporting employees during the liquidation process of DNage was a very important task at the beginning of 2011. By providing the necessary information on a regular basis and taking into account both the organisational interests as well as the employee interests, we provided the best support possible.

Pharming's recruitment policy has been revised and tightened. There is more focus on strategic and long term organisational needs. This implies a more intense process before actually recruiting staff.

Employee Statistics
As a relatively small company, Pharming employs a diversified team in gender, age and nationality. The majority of personnel is employed at Pharming's headquarters in Leiden and approximately thirty employees are working at other locations in the Netherlands and in the USA. The Company's business involves specific high-tech processes and technologies and requires the employment of medium to highly educated personnel. Some of the internal departments are occupied by only one person having specialist knowledge, skills and experience. Therefore, it is important for Pharming to retain and motivate personnel and attract top talent in a competitive and global environment.

The headcount decreased during 2011. The Company hired 5 new employees (2010: 8). In addition to 11 employees that left the Company as result of DNage going into voluntary liquidation, 10 employees (2010: 8) left the Company. As per 31 December, 2011, 79 people were employed (2010: 95). The weighted average full time equivalent (FTE) 2011 was 75 (2010: 78).

Headcount as per 31 December	**2011**	**2010**
Pharming Group N.V.	14	16
Pharming Technologies B.V.	42	44
Broekman Instituut B.V.	11	12
Pharming Healthcare, Inc.	11	11
DNage B.V.	-	11
Pharming Intellectual Property B.V.	1	1
Total	**79**	**95**

Excluding DNage, the FTE for 2010 and 2011 were as follows:

FTE	**2011**	**2010**
R&D	60	62
G&A	15	16
Total	**75**	**78**

Corporate social responsibility *continued*

Diversity
At the end of 2011, 56% (2010: 57%) of our total workforce was female. A large amount of our employees is relatively young: the average age is 38 (2010: 38) with the vast majority of employees in the age brackets 36-40 and 41-45.

Years of employment at Pharming (end of 2011)

< 2 years	15%
2-5 years	47%
5-10 years	19%
10-15 years	8%
> 15 years	11%

Male and female employees (end of 2011)

Male	in senior management positions	34%
	in other than senior management positions	66%
Female	in senior management positions	5%
	in other than senior management positions	95%

Health, Safety and Environment
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. We have internal standard operating procedures to protect our people and the environment from any harm. All employees receive training for safety and against 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. In 2011, we started up a Health and Safety risk assessment inventory. Safety is continuously monitored in everything we do. For that reason we pay significant attention to education and information on all aspects of Safety.

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

In 2011, the 5 year term of the Works Council ended and a new Works Council, again consisting of 5 members, was installed. During 2011, the Works Council and the Board of Management held monthly meetings to discuss various subjects, including corporate strategy and financing, regulations on conditions of employment and health and safety policies.

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 2011 for shareholders and investors included:
- A full presentation of our annual results to financial journalists and analysts, including audio commentary, Q&A sessions and posting on our website
- Various additional conference calls with analysts, investors and providers of finance
- Regular road show meetings with potential and existing shareholders and sell side analysts
- Timely updates in the Investor Relations section of our website
- A new "in the news" section on our website to provide additional updates aside from press releases

SHARE INFORMATION AND TRADING DATA

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

The Shares are traded under the following characteristics:
ISIN Code: NL0000377018
Common Code: 15661178
Amsterdam Security Code: 37701
The Shares are traded through the book-entry facilities of Euroclear Netherlands. 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, the Netherlands.

In the following table information per share and relevant trading data in 2011 compared to 2010 are depicted:

	2011	2010
Earnings per share (€)	(0.04)	(0.19)
Dividend per share (€)	-	-
Average daily trading volume in shares	5,813,787	5,481,808
Highest closing price (€)	0.213	0.499
Lowest closing price (€)	0.080	0.159
Price at year-end (€)	0.082	0.207
Shares outstanding at year-end	510,116,470	436,261,010
Market capitalisation at 31 December (€ million)	41.8	90.3

FINANCIAL CALENDAR FOR 2012

26 April, 2012	Publication of first quarter 2012 financial results at 07.00 CET
14 May, 2012	Annual General Meeting of Shareholders at the Pharming headquarters in Leiden, the Netherlands at 14.00 CET
23 August, 2012	Publication of second quarter 2012 financial results at 07.00 CET
1 November, 2012	Publication of third quarter 2012 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 affects of the biologic product. If the information provided meets FDA requirements, the application is approved and a license is issued allowing the company to market the pharmaceutical. Biological products include amongst others monoclonal antibodies, growth factors, blood products and proteins intended for therapeutic use. The concerning FDA centre is the Center for Biologics Evaluation and Research (CBER).

BOM
The Board of Management of Pharming Group 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.

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

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

CMO
A Contract Manufacturing Organisation (CMO) is an organisation that provides clients from the pharmaceutical industry with comprehensive services from drug development through manufacture.

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 USA alone, over 25,000 solid organs were transplanted in 2005, including kidney, liver, lung and heart transplants.

DNage
With the acquisition of the Dutch company DNage BV in 2006, DNage was a wholly-owned subsidiary of Pharming Group N.V. DNage focused on discovery and development of products for ageing diseases which are caused by DNA damage. Due to funding issues, DNage was put into voluntary liquidation in January 2011.

EGM
Extraordinary General Meeting of Shareholders.

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

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

FTE
Weighted average full time equivalent.

G&A
General and Administrative activities.

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, between 1 in 10,000 and 1 in 50,000 individuals suffers from HAE, having an average of seven acute attacks per year.

HAEI
Hereditary Angioedema International (patient organisation).

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

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

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.

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

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

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

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

Pharming Group N.V.
Pharming Group N.V. (Pharming, the Company or we) is a biotech company based in Leiden, the Netherlands. The Company has facilities in the Netherlands and in the United States and employs approximately 80 people, of which almost eighty percent in R&D. Pharming's ordinary shares are listed on NYSE Euronext Amsterdam, under the symbol 'PHARM'.

POC
A Proof of Concept (POC) is a study to verify that a concept or theory has the potential of being used.

Glossary *continued*

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.

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

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

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

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.

Rhucin®
Rhucin® 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.

RLI
Renova Life, Inc.

Ruconest®
Ruconest® is the global registered trade mark for Pharming's recombinant human C1 inhibitor.

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

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.

Supervisory Board
The Board of Supervisory Directors of Pharming Group N.V.

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

VWAP
Volume Weighted Average Price of shares.

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended December 31

Amounts in €'000	Notes	2011	2010
Intangible assets	6	987	1,163
Property, plant and equipment	7	9,567	6,702
Restricted cash	8	979	176
Non-current assets		**11,533**	**8,041**
Inventories	9	6,580	9,013
Trade and other receivables	10	2,495	9,932
Restricted cash	8	309	-
Cash and cash equivalents	8	3,777	10,302
Current assets		**13,161**	**29,247**
Total assets		**24,694**	**37,288**
Share capital	11	20,405	17,450
Share premium	11	224,495	219,220
Other reserves	11	12,325	15,407
Accumulated deficit	11	(258,413)	(241,213)
Shareholders' equity		**(1,188)**	**10,864**
Non-controlling interest	11	-	(764)
Total equity		**(1,188)**	**10,100**
Deferred license fees income	12	15,431	17,342
Finance leases liabilities	14	2,215	32
Other liabilities		101	130
Non-current liabilities		**17,747**	**17,504**
Deferred license fees income	12	1,936	1,936
Derivative financial liabilities	15	1,171	573
Trade and other payables	16	3,810	7,130
Finance leases liabilities	14	1,218	45
Current liabilities		**8,135**	**9,684**
Total equity and liabilities		**24,694**	**37,288**

The notes are an integral part of these financial statements.

Consolidated financial statements *continued*

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31

Amounts in €'000	Notes	2011	2010
Continuing operations:			
License fees	17	1,936	465
Product sales	17	1,063	108
Revenues		**2,999**	**573**
Costs of product sales	19	(1,814)	(92)
Inventory impairments	19	(1,716)	-
Gross profit/(loss)		**(531)**	**481**
Income from grants	18	196	515
Other income		**196**	**515**
Research and development	19	(13,830)	(18,307)
General and administrative	19	(3,262)	(3,209)
Impairment charges	20	(35)	-
Share-based compensation	24	(1,039)	(636)
Costs		**(18,166)**	**(22,152)**
Loss from operating activities		**(18,501)**	**(21,156)**
Fair value gain derivatives	15	1,026	-
Financial income		**1,026**	**-**
Fair value loss derivative	15	-	(7,659)
Effective interest convertible bonds	15	-	(3,644)
Anti-dilution provisions	11	-	(2,905)
Interest on earn-out obligations	13	-	(777)
Other interest expenses, net	21	(213)	(88)
Foreign currency results	22	(49)	(843)
Other financial expenses	23	(106)	(596)
Financial expenses		**(368)**	**(16,512)**
Net loss from continuing operations		**(17,843)**	**(37,667)**
Net profit/(loss) from discontinued operations	4	643	(18,700)
Net loss		**(17,200)**	**(56,367)**
Attributable to:			
Net loss from continuing operations		(17,843)	(37,667)
Net profit/(loss) from discontinued operations		739	(12,548)
Owners of the parent		**(17,104)**	**(50,215)**
Net loss from continuing operations		-	-
Net profit/(loss) from discontinued operations		(96)	(6,152)
Non-controlling interest		**(96)**	**(6,152)**
Share information:			
Weighted average shares outstanding		470,223,995	266,313,183
Number of shares outstanding at year-end		510,116,470	436,261,010
Basic and diluted net loss per share from continuing operations (€)		(0.038)	(0.141)
Basic and diluted net profit/(loss) per share from discontinued operations (€)		0.002	(0.048)
Basic and diluted net loss per share (€)		**(0.036)**	**(0.189)**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31

Amounts in €'000	**2011**	**2010**
Net loss for the year	(17,200)	(56,367)
Foreign currency translation	65	163
Other comprehensive income, net of tax	**65**	**163**
Total recognized income and expense	**(17,135)**	**(56,204)**
Attributable to:		
Equity owners of the parent	(17,039)	(50,052)
Non-controlling interest	(96)	(6,152)

The notes are an integral part of these financial statements.

Consolidated financial statements *continued*

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

Amounts in €'000	Notes	2011	2010
Receipts from license partners	12	814	20,355
Receipt of Value Added Tax		1,162	1,519
Interest received		1	78
Receipt of grants		384	367
Other receipts		240	414
Payments of third party fees and expenses, including Value Added Tax		(12,663)	(18,583)
Net compensation paid to board members and employees		(3,790)	(3,817)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(3,078)	(3,002)
Interest paid		·	(100)
Other payments		·	(389)
Net cash flows used in operating activities	**8**	**(16,930)**	**(3,158)**
Purchase of property, plant and equipment	7	(1,058)	(909)
Deconsolidation of DNage		(40)	·
Net cash flows used in investing activities	**8**	**(1,098)**	**(909)**
Proceeds of equity and warrants issued	11	13,198	18,240
Proceeds of convertible bonds issued	15	·	7,500
Receipt from financial lease transaction	14	618	·
Payments of transaction fees and expenses		(369)	(1,146)
Payments convertible bonds	15	·	(10,900)
Payments of nominal interest convertible bonds	15	·	(750)
Payments of finance lease liabilities	14	(790)	(49)
Net cash flows from financing activities	**8**	**12,657**	**12,895**
Increase/(decrease) cash	**8**	**(5,371)**	**8,828**
Exchange rate effects on cash	8	(42)	(688)
Cash at January 1	8	10,478	2,338
Cash at December 31	**8**	**5,065**	**10,478**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31

Amounts in €'000	Notes	Number of shares	Share capital	Share premium	Other reserves
Balance at January 1, 2010		**154,501,037**	**77,251**	**187,708**	**10,422**
Total recognized income and expense		·	·	·	163
Share-based compensation	11, 24	·	·	·	636
Settlement DNage B.V.	11	5,000,000	200	800	·
Interest payments settled in shares	11, 15	515,086	21	158	·
Bonuses settled in shares	11	847,585	33	136	·
Anti-dilution shares issued	11	14,147,789	566	2,339	·
Shares issued in exchange of cash	11	114,260,818	4,570	8,548	·
Bonds converted	11, 15	47,710,616	1,908	8,969	·
Warrants exercised	11	23,429,022	937	4,049	·
Agreement Socius CG II, Ltd.	11	75,849,057	3,034	6,513	4,186
Adjustment nominal value per share	11	·	(71,070)	·	·
Balance at December 31, 2010		**436,261,010**	**17,450**	**219,220**	**15,407**
Total recognized income and expense		·	·	·	65
Deconsolidation of DNage B.V.	4, 11	·	·	·	·
Share-based compensation	11, 24	·	·	·	1,039
Bonuses settled in shares	11	515,837	21	82	·
Shares/warrants issued in exchange of cash	11	29,000,000	1,160	304	·
Warrants exercised	11	24,339,623	974	4,186	(4,186)
Advance shares	11	20,000,000	800	703	·
Balance at December 31, 2011		**510,116,470**	**20,405**	**224,495**	**12,325**

The notes are an integral part of these financial statements.

Consolidated financial statements *continued*

Amounts in €'000	Accu-mulated deficit	Total	Non-controlling interest	Total equity
Balance at January 1, 2010	**(262,068)**	**13,313**	**-**	**13,313**
Total recognized income and expense	(50,215)	(50,052)	(6,152)	(56,204)
Share-based compensation	-	636	-	636
Settlement DNage B.V.	-	1,000	5,388	6,388
Interest payments settled in shares	-	179	-	179
Bonuses settled in shares	-	169	-	169
Anti-dilution shares issued	-	2,905	-	2,905
Shares issued in exchange of cash	-	13,118	-	13,118
Bonds converted	-	10,877	-	10,877
Warrants exercised	-	4,986	-	4,986
Agreement Socius CG II, Ltd.	-	13,733	-	13,733
Adjustment nominal value per share	71,070	-	-	-
Balance at December 31, 2010	**(241,213)**	**10,864**	**(764)**	**10,100**
Total recognized income and expense	(17,200)	(17,135)	-	(17,135)
Deconsolidation of DNage B.V.	-	-	764	764
Share-based compensation	-	1,039	-	1,039
Bonuses settled in shares	-	103	-	103
Shares/warrants issued in exchange of cash	-	1,464	-	1,464
Warrants exercised	-	974	-	974
Advance shares	-	1,503	-	1,503
Balance at December 31, 2011	**(258,413)**	**(1,188)**	**-**	**(1,188)**

Notes to the consolidated financial statements

For the year ended December 31, 2011

1. Corporate information

The consolidated financial statements of Pharming Group N.V., Leiden for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Supervisory Directors on April 2, 2012. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for May 14, 2012.

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 as 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. 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 2011 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 consolidated financial statements have been prepared under the historical cost convention; accounting policies applied are consistent with those for the financial statements of the financial year 2010.

Going Concern Assessment

The Board of Management of Pharming has, upon preparing and finalizing the 2011 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of these financial statements.

Pharming does not expect to generate sufficient cash from product sales to meet its cash requirements for one year after the date of these financial statements. In addition, under the existing commercialization agreement with Santarus, Inc. the Company is entitled to receive US$10.0 million upon successful completion of the C1-1310 Study and US$5.0 million upon acceptance by the U.S. FDA of the subsequent BLA filing; in case the Company does not successfully complete the C1-1310 Study or does not finish it in time (as per the date of these financial statements the receipt of the US$10.0 milestone is anticipated to take place in the third quarter of 2012), the cash inflows from operating activities on which the Pharming business plan is based will, provided no other cash resources as described further in this Going Concern Assessment have been made available, be insufficient. Therefore, and next to the Company's ability to generate additional cash inflows from existing and new licensing partners, Pharming for its cash requirements is also dependent on financing arrangements with third parties to finance its ongoing operations.

To enable continued operations for a period of at least 12 months after the date of these financial statements, several sources to raise or conserve cash in addition to product sales and license agreements have been outlined below:

1. Pharming may raise capital by means of a 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). Any failure to successfully complete the C1-1310 Study, at all or within the anticipated time (third quarter of 2012), may (severely) hamper the possibility to enter into a capital markets transaction;
2. 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; and
3. Finally, the Company may be able to attract funds through divestment of individual assets or a group of assets. However, the outcome of such divestment activities is uncertain in view of economic conditions in general and the relatively small market for such specific assets in particular.

This indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Notes to the consolidated financial statements *continued*

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

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

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

An entity is considered effectively controlled if the Company, directly or indirectly, has more than half of the voting power in the entity, unless it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the Company, directly or indirectly, owns half or less of the voting power of an entity but can clearly demonstrate it has power:
- over more than half of the voting rights by virtue of an agreement with other investors;
- to govern the financial and operating policies of the entity under a statute or an agreement;
- to appoint or remove the majority of the Members of the Board of Directors or equivalent governing body and control of the entity is by that board or body; or
- to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting period 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.

Associates are investments in which significant influence on the financial and operational policies of the investee is exercised. Significant influence is assumed to exist if 20%-50% of the voting stock is owned. These associates are accounted for through the equity method, whereby the investment is initially recognized at cost. Subsequent gains or losses in the net asset value of the associate are recognized in the statement of income. Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in companies in which Pharming does not control or have significant influence on the financial and the operational decisions are classified as (available-for-sale) financial assets. In accordance with IAS 39 (Financial instruments), these investments are carried at fair value. 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 December 31, 2011:

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.	The Netherlands	51.00
Pharming Healthcare, Inc.	United States	100.00
ProBio, Inc.	United States	100.00

3. Summary of significant accounting policies

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

Property, plant and equipment
Pharming at year end 2011 has property, plant and equipment with a net carrying value of €9.6 million. These assets are dedicated to the production of Rhucin inventories (€6.1 million), the US cattle facilities (€2.0 million) and other corporate purposes (€1.5 million). It is assumed these asset groups will continue to be used in ongoing production, research and development or general and administrative activities over its anticipated lifetime. The carrying value of these assets may be impaired in 2012 (or the years beyond) in case of a decision to cancel and/or defer certain activities, as per the going concern assessment in Note 2.

Inventories
At year end 2011, the Company has capitalized rhC1INH product and milk with an aggregate net carrying value of €6.6 million. The Company has planned for additional inventory investments after the end of the reporting period. These inventories are available for use in commercial, preclinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected preclinical and clinical programs for both the HAE project and other indications of the rhC1INH product as well as anticipation of market approval(s). In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected lifetimes of the product involved.

As per the going concern assessment in Note 2, due to the early stage commercialization cycle of Rhucin 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 preclinical and clinical activities are subject to availability of sufficient financial resources.

Derivative financial liabilities
The Company at year end 2011 has presented derivative financial liabilities with a carrying value of €1.2 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 at a different moment than anticipated in the model and also cause transfer of assets to warrant holders under conditions that are (much) more or (much) less favourable than anticipated at December 31, 2011. As a result, the difference between the value of assets transferred to warrant right holders upon exercise and the carrying value at year end 2011 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 December 31, 2011 and subsequent reporting dates are charged to the statement of income.

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. In general, the above-stated translation of foreign entities applies to the entities in the United States. The €/US$ exchange rates applied at December 31, 2011 amounted to €0.773 (2010: €0.748).

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

Notes to the consolidated financial statements *continued*

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.

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

The amortization periods applied and remaining amortization periods for intangible assets at December 31, 2011 are:

Category	Description	Amortization period	Remaining amortization period
Transgenic technology	Patents and licenses	10-15 years	3-11 years
Rhucin for HAE (EU)	Development costs	10 years	9 years
ProBio technology	Patents and licenses	6 years	Not applicable*

* intangible assets with carrying value at December 31, 2011 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.

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

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

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

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

The depreciation periods for property, plant and equipment are:

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

Depreciation charges for manufacturing equipment are based on actual use of the equipment involved, which is expected to take place in a period of no more than five years in view of technical expiration. Assets under construction involves assets not ready for use and thus these are not depreciated until the item is ready for use and reclassified to the applicable category of assets in use. Other property, plant and equipment apply to laboratory and office equipment, furniture, hardware and software.

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

Inventories
Inventories are carried at the lower of cost and net realizable value. The Company has two inventory categories:
- batches rhC1INH. These batches are comprised of therapeutic product available for sales, clinical development and preclinical activities. Initial recognition is at cost, including skimmed milk used, external manufacturing fees and fill and finish costs incurred to bring the product to a saleable or useable position;
- skimmed milk. This item serves as a raw material for the batches rhC1INH. Valuation per unit skimmed milk is based on the total costs of the rabbit facilities and the actual production levels.

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 recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

Notes to the consolidated financial statements *continued*

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

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

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

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

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

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

Impairment of financial assets
The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired, which is deemed the case if there is objective evidence as a result of one or more events that has occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For available-for-sale financial assets, objective evidence of impairment includes a significant or prolonged decline in the fair value of the investment below its cost as well as other facts and circumstances such as the financial position of the asset as per (interim) financial information and credit ratings.

Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments (maturity less than 3 months) readily convertible to 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 flows, cash and cash equivalents are net of outstanding bank overdrafts.

Financial liabilities and borrowings
Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit 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. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process. Purchases and sales of financial liabilities are recognized using settlement date accounting.

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

Derivative financial liabilities
Derivative financial liabilities are initially recognised 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 receivables and trade and other payables
Trade and other receivables and trade and other payables are initially carried at amortized cost and subsequently measured at the lower of cost and net receivable or net payable amount with changes in carrying value charged to the statement of income.

Derecognizing financial assets and liabilities

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements *continued*

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 over 48 months: 25% of the options vest one year after date of grant with the remaining 75% vesting in equal parts over the next 36 months. For 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 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.

Other share-based transactions
The Company from time to time issues options or warrants to third parties such as consultants under other agreements. If the fair value of the services received cannot be estimated reliably, the valuation of these items is similar as described for option plans, applying the same assumptions.

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

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

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

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

Taxes

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

Deferred income tax
Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled. Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred tax assets and liabilities are stated at face value.

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

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

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

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.

Effect of new accounting standards
The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. Pharming has introduced standards and interpretations that became effective in 2011. The adoption of these standards and interpretations did not have a material effect on the group's financial performance or position.

The amendment to IAS 24, 'Related Party Transactions', clarifies the definitions of a related party. Furthermore, the amendment introduces an exemption for transactions with government and government controlled entities. The adoption of the amendment had no material effect on Pharming's financial position or performance.

The amendment to IAS 32, 'Financial Instruments: Presentation', alters the definition of a financial liability and enables the classification of certain rights issues, options and warrants as equity instruments. The adoption of the amendment had no effect on Pharming's financial position or performance.

The amendment to IFRIC 14, 'Prepayments of a Minimum Funding Requirement', addresses the interaction between minimum funding requirements and early payments to cover such requirements. It permits a prepayment of future service costs to be recognized as a pension asset. The adoption of the amendment had no material effect on Pharming's financial position or performance.

Notes to the consolidated financial statements *continued*

The IASB's annual improvement projects resulted in minor amendments to several existing standards. These amendments were implemented on their respective effective dates and did not have a significant impact on the financial statements.

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

IFRS 7, 'Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements', requires additional disclosures about financial assets that have been transferred but not derecognized. Furthermore, the amendment requires disclosures about continuing involvement in derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011 and has no impact on Pharming's financial position or performance because it only affects disclosures.

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 Pharming. The remaining uncertainty with respect to the subsequent phases of the project makes it impossible to quantify the impact of the new standard on Pharming's financial position or performance.

IFRS 10, 'Consolidated Financial Statements', establishes a single control model that applies to all entities, including special purpose entities. Management will have to determine which entities meet the new criteria for control and therefore have to be consolidated. The standard becomes effective for annual periods beginning on or after January 1, 2013 but has not yet been endorsed by the European Union, which means that its introduction may be delayed.

IFRS 11, 'Joint Arrangements', removes the option to apply proportionate consolidation for joint ventures and mandates the use of the equity method for jointly controlled entities that meet the definition of a joint venture. The introduction of this new standard will not impact Pharming's financial position or performance. The standard becomes effective for annual periods beginning on or after January 1, 2013 but has not yet been endorsed by the European Union, which means that its introduction may be delayed.

IFRS 12, 'Disclosure of Involvement with Other Entities', provides disclosure requirements with respect to interests in subsidiaries, joint arrangements, associates and structured entities. It is the complement of the two new standards discussed in the preceding paragraphs and will become effective at the same time as these standards.

IFRS 13, 'Fair Value Measurement', becomes the single source of guidance in IFRS for all fair value measurements. The standard becomes effective for annual periods beginning on or after January 1, 2013 but has not yet been endorsed by the European Union, which means that its introduction may be delayed. The impact of this standard on Pharming's financial position and performance is being assessed but is not expected to be material because the standard further clarifies requirements that already exist.

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

4. Discontinued operations and reclassification of comparative information

DNage B.V.
On January 31, 2011 the shareholders of DNage B.V., an entity in which Pharming as per that date had a 51% interest, decided to put DNage into voluntary liquidation. Due to this decision Pharming effectively lost control and accordingly the DNage operations have been deconsolidated as of that date. Results following deconsolidation have been presented as a result from discontinued operations in the statement of income of 2011. The comparative results for 2010 have been restated to the effect that all income and expenses related to the DNage operations also have been included in a single line item as a result from discontinued operations. For the full year 2010 results as presented in the Annual Report 2010, this implies that the original €1,191,000 of other income (from grants) decreased by €676,000 to €515,000 with costs of research and development decreasing by €2,852,000 from €21,159,000 to €18,307,000 and general and administrative costs decreasing by €104,000 from €3,313,000 to €3,209,000. In addition, 2010 impairment charges on goodwill allocated to the DNage operations (€3,926,000), impairment charges on DNage intangibles (€16,770,000) and the resulting release of deferred tax liabilities (€4,276,000) have been presented as a result from discontinued operations. The overall net effect of these items was a €18,700,000 loss.

In 2011, DNage until deconsolidation as per January 31, 2011 incurred a net loss of €196,000, of which €100,000 was born by Pharming and €96,000 by other DNage shareholders. Following deconsolidation of the negative equity of DNage and including minor other movements, a profit of €839,000 was posted as a result from discontinued operations. Altogether, the net profit from discontinued operations amounted to €643,000 of which a net profit of €739,000 was attributable to owners of the parent and a net loss of €96,000 to non-controlling interest.

The discontinuing operations of DNage did not affect the statement of financial position for the year ended December 31, 2010 or the consolidated statement of cash flows for the year 2010. Disclosure notes related to the statement of income (Notes 18-20) have been adjusted to the effect that the 2010 comparative amounts exclude DNage operations and employee numbers. DNage has been declared bankrupt on February 22, 2011. As per the date of these financial statements, Pharming formally still owns 51% of DNage.

Other comparative information
For a limited number of items, the 2010 presentation in the statement of financial position has been adjusted in order to improve transparency and taking into account materiality. Most notably, the current portion of lease-incentives has no longer been presented as a combined item in the statement of financial position (with finance lease liabilities) but as a component of trade and other payables, while at the same time finance lease liabilities are separately presented in view of various significant finance lease arrangements entered into in 2011.

5. Goodwill

Upon the acquisition of DNage in 2006, an amount of €9,190,000 was recognized as goodwill.

Until 2010 the Company charged accumulated adjustments of €3,828,000 lowering the amount of earn-out obligations (see Note 13) to goodwill, followed by another €386,000 in 2010. In May 2010 the Company reached an agreement with the former shareholders of DNage which entailed that all earn-out obligations would be settled through issuance of 5 million Pharming shares plus transfer of 49% shares in DNage. At the same time it was agreed that Pharming would provide DNage with a maximum amount of bridge funding for a limited period while DNage would secure new investors to fund its operations. These efforts were unsuccessful and accordingly the shareholders of DNage decided to put DNage into voluntary liquidation in January 2011. As a result of these developments, the remaining goodwill of €3,926,000 could not be recovered and thus the balance was fully impaired in 2010. Such impairment charge brings the carrying value in line with the fair value of the cash generating unit DNage less costs to sell; in the absence of investors the fair value was deemed to be €nil with costs to sell not being applicable. The 2010 impairment charges of €3,926,000 have been presented as a result from discontinued operations in the comparative statement of income for 2010.

Movement for the years 2010 and 2011 was as follows:

Amounts in €'000	**2011**	**2010**
Balance at January 1	-	4,312
Adjustments earn-out obligations	-	(386)
Impairment charges	-	(3,926)
Balance at December 31	**-**	**-**

Net carrying value of the goodwill at year-end 2010 and 2011 consists of:

Amounts in €'000	**2011**	**2010**
Gross carrying value	-	9,190
Accumulated adjustments earn-out obligations	-	(4,214)
Accumulated impairment charges	-	(4,976)
Net carrying value	**-**	**-**

Notes to the consolidated financial statements *continued*

6. Intangible assets

Movement of intangible assets per category for the financial years 2010 and 2011 was:

Amounts in €'000	DNage technology	Transgenic technology	Rhucin for HAE (EU)	ProBio technology	Total
At cost	16,770	3,001	48	2,816	22,635
Accumulated amortization charges	-	(2,234)	-	(1,027)	(3,261)
Accumulated impairment charges	-	-	-	(1,789)	(1,789)
Net carrying value at January 1, 2010	**16,770**	**767**	**48**	**-**	**17,585**
Capitalization development at cost	-	-	480	-	480
Amortization charges	-	(123)	(9)	-	(132)
Impairment charges	(16,770)	-	-	-	(16,770)
Movement 2010	**(16,770)**	**(123)**	**471**	**-**	**(16,422)**
At cost	16,770	3,001	528	2,816	23,115
Accumulated amortization charges	-	(2,357)	(9)	(1,027)	(3,393)
Accumulated impairment charges	(16,770)	-	-	(1,789)	(18,559)
Net carrying value at December 31, 2010	**-**	**644**	**519**	**-**	**1,163**
Amortization charges	-	(123)	(53)	-	(176)
Movement 2011	**-**	**(123)**	**(53)**	**-**	**(176)**
At cost	-	3,001	528	2,816	6,345
Accumulated amortization charges	-	(2,480)	(62)	(1,027)	(3,569)
Accumulated impairment charges	-	-	-	(1,789)	(1,789)
Net carrying value at December 31, 2011	**-**	**521**	**466**	**-**	**987**

In accordance with IAS 38.97, amortization of intangible assets with a finite useful life begins when the asset involved is available for use. For product lines this is the moment of market launch of the product involved. Until 2010 an amount of €16,770,000 related to the intangible assets identified in the 2006 DNage acquisition, representing the fair value of product lines acquired. In May 2010 the Company reached an agreement with the former shareholders of DNage which entailed that all earn-out obligations would be settled through issuance of 5 million Pharming shares plus transfer of 49% shares in DNage. At the same time it was agreed that Pharming would provide DNage with a maximum amount of bridge funding for a limited period while DNage would secure new investors to fund its operations. These efforts were unsuccessful and accordingly the shareholders of DNage decided to put DNage into voluntary liquidation in January 2011. As a result of these developments, market launch of these product lines was not possible, the remaining carrying value of €16,770,000 could not be recovered and thus the balance was fully impaired in 2010. Such impairment charge brings the carrying value in line with the fair value of the assets concerned less costs to sell; in the absence of investors the fair value was deemed to be €nil with costs to sell not being applicable. The 2010 impairment charges of €16,770,000 have been presented as a result from discontinued operations in the comparative statement of income for 2010.

Effective year end 2009 the Company has capitalized development costs in the amount of €48,000 in relation to Rhucin for HAE in the European Union. In 2010 another €480,000 was capitalized prior to the Marketing Authorization. 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 carrying value of the ProBio technology is €nil at both year-end 2010 and 2011. The assets involved are maintained and in use with very limited expenses incurred; due to the limited commercial potential the carrying values are in line with future proceeds anticipated.

7. Property, plant and equipment

Movement of property, plant and equipment for the financial years 2010 and 2011 is:

Amounts in €'000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Assets under construction	Other	Total
At cost	849	5,895	2,524	1,019	-	1,589	11,876
Accumulated:							
Depreciation charges	(70)	(2,787)	(813)	(304)	-	(919)	(4,893)
Impairment charges	-	-	-	(680)	-	-	(680)
Exchange rate effect	(212)	(825)	-	-	-	(26)	(1,063)
Net carrying value at January 1, 2010	**567**	**2,283**	**1,711**	**35**	**-**	**644**	**5,240**
Investments	-	47	-	-	2,054	38	2,139
Depreciation charges	(6)	(267)	(263)	-	-	(303)	(839)
Exchange rate adjustment	41	117	-	-	-	4	162
Movement 2010	**35**	**(103)**	**(263)**	**-**	**2,054**	**(261)**	**1,462**
At cost (1)	849	5,714	2,524	1,019	2,054	1,339	13,499
Accumulated:							
Depreciation charges (1)	(76)	(2,826)	(1,076)	(304)	-	(933)	(5,215)
Impairment charges	-	-	-	(680)	-	-	(680)
Exchange rate effect	(171)	(708)	-	-	-	(22)	(901)
Net carrying value at December 31, 2010	**602**	**2,180**	**1,448**	**35**	**2,054**	**384**	**6,702**
Investments	-	120	-	-	3,249	288	3,657
Deconsolidation DNage	-	-	-	-	-	(20)	(20)
Depreciation charges	(6)	(269)	(263)	-	-	(257)	(795)
Impairment charges	-	-	-	(35)	-	-	(35)
Exchange rate adjustment	19	38	-	-	-	-	57
Other movements	-	-	-	5,303	(5,303)	-	-
Movement 2011	**13**	**(111)**	**(263)**	**5,268**	**(2,054)**	**11**	**2,865**
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)
Net carrying value at December 31, 2011	**615**	**2,069**	**1,185**	**5,303**	**-**	**395**	**9,567**

(1) in 2010, the Company eliminated fully depreciated assets no longer in use from accumulated costs and accumulated depreciation charges with an effect of €516,000

Land, land improvements and operational facilities relate to the cattle and rabbit farm facilities, which are both fully owned by Pharming. The leasehold improvements relate to office and laboratory investments in the Company's leased headquarters. Manufacturing equipment is dedicated to the purification of rhC1INH with depreciation charges based on actual purification cycles.

Assets under construction relate to investments in the production capacity with Sanofi Chimie. The equipment in 2011 became available for use and accordingly was reclassified to manufacturing equipment. Subsequently, the €35,000 net carrying value of previously in use but obsolete manufacturing equipment was fully impaired.

Notes to the consolidated financial statements *continued*

Total 2010 investments of €2,139,000 included €1,235,000 unpaid at year end 2010 so that, including a remaining 2009 investment of €5,000 paid in 2010, an aggregate payment of €909,000 was presented in the 2010 consolidated statement of cash flows. In 2011, the remaining unpaid 2010 investment of €1,235,000 was financed by a third party through a finance lease arrangement which also triggered a refund of €618,000 paid for investments carried out in 2010. The 2011 investments of €3,657,000 included an amount of €2,079,000 also covered through various finance lease arrangements, an amount of €520,000 unpaid at year end 2011 and €1,058,000 was paid presented as an investment cash flow for 2011.

At year end 2011, the net carrying amount of the assets hired under a financial lease arrangement – and thus with a restricted title - was €3,949,000 (2010: €69,000) of which €3,790,000 in relation to manufacturing equipment (2010: €nil) and €159,000 related to other property, plant and equipment (2010: €69,000).

8. Restricted cash, cash and cash equivalents, cash flows

The overall net cash position at year-end 2010 and 2011 was as follows:

Amounts in €'000	**2011**	**2010**
Non-current restricted cash	979	176
Current restricted cash	309	-
Cash and cash equivalents	3,777	10,302
Balance at December 31	**5,065**	**10,478**
Balance at January 1	10,478	2,338
Net increase/(decrease) cash	**(5,413)**	**8,140**

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 2010 and 2011 can be summarized as follows:

Amounts in €'000	**2011**	**2010**
Net cash flows used in operating activities	(16,930)	(3,158)
Net cash flows used in investing activities	(1,098)	(909)
Net cash flows from financing activities	12,657	12,895
Exchange rate effects on cash	(42)	(688)
Net increase/(decrease) cash	**(5,413)**	**8,140**

Pharming's net cash flows used in operating activities increased from €3.2 million in 2010 to €16.9 million in 2011; the €13.7 million increase primarily reflects aggregate receipts from license fees of €19.7 million in 2010 versus less than €0.1 million in 2011. This decreased income was, amongst others, offset by a €2.9 million decrease of cash outflows from the DNage business following discontinuation of the operations early 2011.

The 2010 and 2011 investments of €0.9 million and €1.1 million primarily reflect payments in relation to manufacturing assets as disclosed in Note 7.

In 2010, aggregate net cash flows from financing activities reflect €18.2 million net proceeds raised through issue of equity and €7.5 million raised through issuance of private convertible bonds whereas cash payments to bondholders increased to €11.7 million (including €10.9 million repayment of the final outstanding bond notes) and payment of transaction fees and expenses related to various 2009 and 2010 financing transactions of €1.1 million on aggregate. The 2011 net cash flows from financing activities of €12.7 million include the early 2011 receipt of €9.0 million from Socius CG II, Ltd. following a year-end 2010 investment, the subsequent receipt of €1.0 million from the exercise of warrants by Socius CG II, Ltd., the €3.2 million proceeds of an equity and warrants issue and €0.6 million received under a finance lease agreement; these receipts were offset by €0.8 million in finance lease payments and €0.4 million in transaction fees and expenses in relation to 2011 financing transactions.

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

The composition of inventories at year-end 2010 and 2011 was:

Amounts in €'000	2011	2010
Batches rhC1INH	4,924	8,221
Skimmed milk	1,656	792
Balance at December 31	**6,580**	**9,013**

In 2011, the Company reversed 2010 impairment charges on batches rhC1INH for a total amount of €1.0 million and subsequently charged €0.7 million (2010: €1.0 million) of rhC1INH inventories to research and development costs based on use in (pre)clinical activities and €1.8 million (2010: €0.1 million) as cost of product sales. The Company has entered into commitments to purify skimmed milk batches after the end of the reporting period; accordingly, the internal costs of these batches were credited to research and development costs in the statement of income for an amount of €0.9 million (2010: €0.8 million).

Based on the expected use of batches rhC1INH assigned to future preclinical and clinical development, as well as the expiration dates of these inventories, finished product with a carrying value of €0.1 million were written down to the statement of income 2011 (2010: €2.1 million) and charged to research and development expenses. In addition, the Company in 2011 impaired an amount of €1.7 million (2010: €nil) due to a one-off event decreasing the value of inventories designated for commercial activities; various possibilities are investigated to recover the amount, which has been charged to cost of revenues. The major portion of remaining inventories has expiration dates starting at mid 2013 and is expected to be sold or used before expiration. Inventories carried at net realisable value amount to €1.8 million at year end 2011 (2010: €3.4 million).

10. Trade and other receivables

The composition of trade and other receivables at December 31, 2010 and 2011 was:

Amounts in €'000	2011	2010
Receivable Socius CG II, Ltd.	-	9,034
Advance payment in shares	1,503	-
Trade receivables	353	-
Prepaid expenses	206	126
Value added tax	116	87
Other receivables	317	685
Balance at December 31	**2,495**	**9,932**

Trade and other receivables at December 31, 2011 are substantially short-term in nature and have largely been settled as per the date of these financial statements. The advance payment in shares has been further described in Note 11.

Notes to the consolidated financial statements *continued*

11. Equity
The Company's authorized share capital amounts to €22.0 million and is divided into 550,000,000 ordinary shares with a nominal value of €0.04 each. All 510,116,470 shares outstanding at December 31, 2011 have been fully paid-up.

Other reserves include those reserves related to currency translation, share-based compensation expenses and other equity-settled transactions. 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.

This note further describes the background of the main equity movements in 2010 and 2011.

Adjustment nominal value per share
On March 30, 2010 the Company's shareholders at an Extraordinary General Meeting of Shareholders approved to reduce the nominal value per share from €0.50 to €0.04 with 154,501,037 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 by €71,070,000 with a corresponding increase of accumulated deficit. The overall effect of the adjustment on shareholders' equity therefore was €nil.

Net loss and Accumulated deficit
Accumulated deficit at the beginning of 2010 amounted to €262,068,000 and decreased by €71,070,000 to €190,998,000 following the adjustment of the nominal value per share from €0.50 to €0.04 as explained above.

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 2011 of €17,200,000 to the accumulated deficit. Anticipating the approval of the financial statements by the Shareholders at the AGM, this proposal has already been reflected in the Financial Statements and accordingly accumulated deficit has increased from €241,213,000 to €258,413,000 at year-end 2011.

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 2010 these transactions were valued at €636,000 and for 2011 at €1,039,000 (see Note 24).

Settlement DNage B.V., Deconsolidation DNage B.V. and Non-controlling interest
In May 2010 the Company reached an agreement with the former shareholders of DNage which entailed that all earn-out obligations (see Note 13) would be settled through issuance of 5 million Pharming shares plus transfer of 49% shares in DNage. The Pharming shares upon issuance had a fair value of €0.20 and accordingly an aggregate amount of €1,000,000 was charged to shareholders' equity. The €5,387,000 difference between the total carrying value of the earn-out obligations as per the settlement date in the amount of €6,387,000 and the €1,000,000 fair value of the Pharming shares has been allocated to the non-controlling interest within equity. The non-controlling interest was valued at 49% of the net asset value of DNage. Due to net losses incurred by DNage subsequent to the settlement (in view of impairment charges on intangible assets minus release of deferred tax liabilities), the non-controlling interest was charged with €6,152,000 and accordingly has been presented as a negative amount of €764,000 at year end 2010.

As disclosed in Note 4, the Company lost control of DNage B.V. as of January 31, 2011 and accordingly the non-controlling interest amount of €764,000 was deconsolidated.

Interest payments settled in shares
Early 2010 Pharming issued private bonds for a gross cash amount of €7.5 million carrying 9% annual nominal interest. Interest was due quarterly in cash or shares. The Company decided to pay off the quarterly nominal interest, based on 9% annual nominal interest and only for remaining outstanding bonds (€7.5 million at the end of the first quarter and €1.1 million at the end of the second quarter), in shares. The aggregate nominal interest paid off through issuance of 515,086 shares amounted to €179,000.

Bonuses settled in shares
The Company in 2010 issued 847,585 shares to members of the Board of Management and various managers in lieu of bonuses with an aggregate value of €169,000. In 2011 a total of 515,837 shares were issued to pay off bonuses of €103,000.

Anti-dilution shares issued
In the fourth quarter of 2009 the Company settled public convertible bonds with an aggregate nominal value of €24,900,000 through payment of €3,735,000 in cash and issuance of 29,382,000 shares. In addition, these bondholders received anti-dilution protection for as long as at least €7.0 million of the public bonds were outstanding. This period ended after final repayment of the outstanding bonds as per October 31, 2010. The shares and share rights issued through various equity and debt transactions prior to October 31, 2010 triggered an aggregate issue of 14,147,789 shares in relation to the anti-dilution protection offered with an aggregate fair value of €2,905,000.

Shares/warrants issued in exchange of cash
In 2009, the Company entered into a Standby Equity Distribution Agreement ('SEDA') with YA Global under which YA Global can invest a total of up to €30.0 million in a three year period, in return for which Pharming issues a number of shares based on the lowest volume weighted average price over a five day period minus a 5% discount. In 2010 Pharming called a total amount of €2,250,000 in return for which a total of 14,260,818 shares were issued with a total fair value of €2,378,000. The €128,000 difference between the fair value of the shares issued and the cash received has been charged to Financial expenses (see Note 23). Pharming did not make a call under the SEDA in 2011.

In 2010, the Company issued 100,000,000 shares to investors for an aggregate value of €12,000,000 in cash; due to fees withheld from the gross proceeds a net amount of €11,160,000 was received; additional fees and expenses associated with the 2010 issue amounted to €420,000 and have been fully paid in 2010. Altogether, total fees and expenses of €1,260,000 have been charged to share premium in 2010.

Pharming in the third quarter of 2011 issued 29,000,000 shares to investors for an amount of €0.11 per share or €3,190,000 in total and granted the investors the right to receive 20,300,000 warrants with an exercise price of €0.11 per share and subject to shareholder approval; both the number of warrants as well as the exercise price is adjusted subject to various events taking place and accordingly the warrants qualified as a financial instrument, which value including transaction costs allocated to the liability (€1,726,000) was subtracted from the €3,190,000 receipt in order to arrive at the equity portion of the transaction (being €1,464,000).

Bonds converted
Early 2010 Pharming issued private bonds for a gross cash amount of €7.5 million carrying 9% nominal interest with a maturity date of December 31, 2010. The initial maximum conversion price of €0.50 decreased in various stages through an adjustment of the nominal value per share from €0.50 to €0.04 as well as the subsequent issue of 100 million shares at a gross price of €0.12 per share. The holders of these public bonds ultimately converted the entire €7.5 million nominal value plus accrued nominal interest of €96,250 as per the conversion date for an aggregate number of 47,710,616 shares with a total fair value of €10,877,000.

Warrants exercised
Upon issuance of €7.5 million private convertible bonds early 2010 the Company issued 15,000,000 warrants with an initial exercise price of €0.50 to the holders of the private bonds. Due to several adjustment mechanisms in the original issue conditions, the final number of warrants issued to the bondholders ultimately increased to 58,780,445 whereas the maximum conversion price decreased to €0.12. The warrants are exercised cashless, which implies that a theoretical profit (based on a contractually agreed reference price) on a part of warrants exercised is forfeited in order to pay for shares transferred to the exercising party without any consideration (in cash or other assets). In 2010, bondholders exercised 53,572,112 warrants of which 30,143,090 used as payment on the 23,429,022 shares issued at an exercise price of €0.12. The aggregate fair value of the shares issued amounted to €4,986,000.

In 2011 a total of 24,339,623 warrants with an exercise price of €0.212 or €5,160,000 in total were exercised by Socius CG II, Ltd. (see further in this Note). The Company received a cash amount of €974,000 representing the nominal value of the shares issued with a simultaneous reclassification of the remaining €4,186,000 exercise value from other reserves within equity to share premium.

Agreement Socius CG II, Ltd.
In December 2010 the Company entered into an agreement with Socius CG II, Ltd. under which Pharming issued debts notes with a nominal value of €12,000,000 carrying nominal interest of 10% per annum over a four year period. The issuance of these debt notes triggered 24,339,623 warrants granted to Socius CG II, ltd. with a two year exercise period and an exercise price of €0.212, on aggregate reflecting an exercise value of €5,160,000 of which the nominal value per share of €0.04 due in cash upon exercise (€974,000 on aggregate) and the remaining €4,186,000 paid through issuance of interest-free debt notes Socius CG II, to the Company. Socius CG II, Ltd. also obtained the right to subscribe for shares up to €16,080,000, which right they immediately exercised and therefore in 2010 received 75,849,057 shares valued at €0.212 each. Payment of the shares issued was settled in cash (€3,034,000 for the nominal value of €0.04 per share) and through issuance of debt notes Socius to Pharming (€13,046,000) carrying 0.65% nominal interest per annum over a four year period.

Notes to the consolidated financial statements *continued*

In relation to the transaction, Socius was entitled to receive a €1,170,000 commission fee from Pharming while Pharming in addition incurred aggregate transaction costs from various advisers of €130,000.

The debt notes mutually issued after four years have, including accrued nominal interest, an identical carrying value while the mutual debts are offsettable throughout the entire lifetime with no interest paid or received . As a result, the overall 2010 effect of the transaction is – in substance – an equity issue with the following impact on equity:

- the 75,849,057 shares issued at nominal value of €0.04 were forwarded to share capital in 2010 (€3,034,000);
- the €0.172 intrinsic value of the 24,339,623 warrants was charged to other reserves equity in 2010 (€4,186,000, reclassified to share premium upon exercise in 2011 with cash received upon exercise of €974,000 forwarded to share capital);
- the total commission fees and transaction costs of €1,300,000 were charged to share premium in 2010;
- the residual value of the transaction was charged to share premium in 2010 (€7,814,000).

Overall, the net increase of equity in 2010 amounted to €13,733,000.

Socius transferred a net amount of €4,830,000 in 2010 (being €6,000,000 minus €1,170,000 commission fees); the remaining €9,034,000 was classified as a receivable within trade and other receivables at year end 2010 with the full balance received in cash early 2011.

Advance shares

On December 23 2011, the Company announced it had entered into an agreement with various investors under which convertible bonds were issued but subject to an increase of share capital anticipated to take place in 2012. On February 3, 2012 the Company held an Extraordinary General Meeting of Shareholders in which the shareholders approved the increase of authorized share capital from 550 million to 805 million shares. This event triggered the immediately release of €8.0 million in cash to Pharming, which amount was held in escrow by an independent law firm at December 31, 2011. The Company issued the convertible bonds (Bonds 2012) with a nominal value of €8.4 million carrying 8.5 percent interest per annum and to be repaid in six equal monthly tranches of €1.4 million between February and July 2012. The investors have the right to convert outstanding Bonds 2012 at a fixed conversion price of €0.12; the Company has the option to repay in either cash or shares. In addition, the investors received 38,717,484 warrants with an exercise price of €0.12 per warrant.

Following the 2011 agreement, the Company issued 20,000,000 shares to the investors as an advance payment for any future share issue in case of repayment in shares. These shares were valued at the anticipated settlement amount of €1,503,000 in total and posted as a receivable (see Note 10) with a similar amount posted in equity.

12. Deferred license fees income

In 2010, the Company entered into a distribution agreement for Ruconest with Swedish Orphan Biovitrum International AB 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. An amount of €133,000 in license fees income was released as revenues from license fees in 2010. In 2011 another €800,000 was released from this agreement.

Pharming in 2010 received an upfront payment of US$15.0 million or €11,692,000 in cash from Santarus, Inc. with respect to a Rhucin 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 €332,000 in license fees income was recognised as revenues from license fees in 2010 and €1,136,000 in 2011.

In 2011 the Company received a license fee amount of €25,000 from MegaPharm Ltd.

Amounts in €'000	**2011**	**2010**
Total balance at January 1	**19,278**	**-**
Receipt of upfront and milestone payments in cash	25	19,742
Revenues from license fees	(1,936)	(465)
Total balance at December 31	**17,367**	**19,278**
Current balance	(1,936)	(1,936)
Non-current balance at December 31	**15,431**	**17,342**

Aggregate receipts from license partners in 2011 as per the consolidated statement of cash flows amounted to €814,000 (2010: €20,355,000) of which €25,000 from upfront and milestone payments recognised as deferred license fees income (2010: €19,742,000), €nil (2010: €235,000) from 2009 license fee revenues, €710,000 (2010: €108,000) from product sales and €79,000 (2010: €270,000) from reimbursement of research and development costs.

13. Earn-out obligations

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

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

The Company as per the 2006 acquisition date determined the discounted value of the earn-outs to be €5,575,000, taking into account the probability of paying any amounts to former DNage shareholders, the nominal amount to be paid and the timing thereof. This discounted value was fully charged to goodwill. Subsequent to initial measurement, the Company expensed non-cash interest based on a discount rate ranging from 20% to (in 2009 and 2010) 23%. Both in 2009 and 2010 deferrals of expected achievement dates were recognized, resulting in decreases of the liabilities with a corresponding decrease of the original asset to which the earn-out obligations relate, being goodwill.

In May 2010 the Company reached an agreement with the former shareholders of DNage which entailed that all earn-out obligations would be settled through issuance of 5 million Pharming shares plus transfer of 49% shares in DNage. The Pharming shares upon issuance had a fair value of €0.20 and accordingly an aggregate amount of €1,000,000 was charged to shareholders' equity. The €5,387,000 difference between the total carrying value of the earn-out obligations as per the settlement date in the amount of €6,387,000 and the €1,000,000 fair value of the Pharming shares was allocated to the non-controlling interest within equity in 2010. The non-controlling interest was valued at 49% of the net asset value of DNage.

Notes to the consolidated financial statements *continued*

Movement of the earn-out obligations for 2010 and 2011 was:

Amounts in €'000	2011	2010
Total balance at January 1	**-**	**5,996**
Interest accrued	-	777
Goodwill adjustments	-	(386)
Payment in 5,000,000 shares Pharming Group N.V.	-	(1,000)
Payment in 49% shares of DNage B.V.	-	(5,387)
Total balance at December 31	**-**	**-**

14. 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 in both 2010 and 2011.

Movement and composition of the finance lease liabilities for 2010 and 2011 was:

Amounts in €'000	2011	2010
Total balance at January 1	**77**	**119**
Initial recognition new finance lease arrangements	3,932	-
Interest expense accrued	214	7
Payments of finance lease liabilities	(790)	(49)
Total balance at December 31	**3,433**	**77**
Current portion at December 31	(1,218)	(45)
Non-current at December 31	**2,215**	**32**

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 months of which 27 installments remain at year end 2011. 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 December 31, 2011 the remaining amount of this banker's guarantee is €1,050,000. 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 a variable service fee charge based on minimum annual production levels and accordingly the net present value of the investment in the amount 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 the legal owner of the assets in use.

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

Future minimum lease payments under finance leases as at December 31, 2010 and 2011 are as follows:

	2011		2010	
Amounts in €'000	**Minimum payments**	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	1,311	1,218	49	45
After one year but not more than five years	2,051	1,676	33	32
More than five years	1,120	539	-	-
	4,482	**3,433**	**82**	**77**

At year end 2011, the net carrying amount of the assets involved as leased was €3,949,000 (2010: €69,000) of which €3,790,000 in relation to manufacturing equipment (2010: €nil) and €159,000 related to other property, plant and equipment (2010: €69,000).

15. Convertible bonds and derivative financial liabilities

Convertible bonds movements including effective interest on convertible bonds relate to financial instruments issued in 2007 ('Bonds 2007') and 2010 ('Bonds 2010') with derivative financial liabilities resulting from warrants issued in connection with the Bonds 2010 and warrant rights granted in relation to a 2011 investment ('Private placement 2011').

Bonds 2007

Effective October 31, 2007, Pharming issued convertible bonds for a gross amount of €70.0 million. Nominal interest due was 6.875% per year, paid semi-annually on April 30 and October 31, until the maturity date of October 31, 2012. Exclusive of total transaction fees and expenses of €2,988,000, the Company received a net amount in cash of €67,012,000. Until 2010 an aggregate nominal value of €59.1 million Bonds 2007 had been cancelled in exchange for cash and shares so that, at the start of 2010, the outstanding Bonds 2007 had decreased to a nominal value of €10.9 million. Both on April 30, 2010 and October 31, 2010 the Company paid semi-annual interest of €375,000 or €750,000 in total. Effective October 31, 2010 the remaining outstanding Bonds 2007 of €10,900,000 were redeemed in cash following exercise of a put option. Altogether, an effective interest expense of €2,189,000 was charged to the 2010 statement of income.

Bonds 2010 and derivative financial liability

On January 5, 2010 the Company secured a (non-listed) convertible debt financing of €7.5 million ('Bonds 2010') maturing at December 31, 2010 and carrying 9% nominal interest per year with holders entitled to convert their bonds including nominal interest throughout the entire lifetime of the agreement at maximum conversion price of €0.50. In addition, 15 million warrants were issued to the bondholders with an exercise price of €0.50 and an expiration date of December 31, 2012.

Under specific conditions, the conversion price of the Bonds 2010 and the exercise price of the warrants could be reduced below €0.50 while additional warrants would be issued. The initial maximum conversion price of €0.50 decreased in various stages through an adjustment of the nominal value per share from €0.50 to €0.04 as well as the subsequent issue of 100 million shares at a gross price of €0.12 per share. Due to these adjustment mechanisms in the original issue conditions, the final number of warrants issued to the bondholders ultimately increased to 58,780,445 whereas the maximum conversion price decreased to €0.12.

The holders of the Bonds 2010 ultimately converted the entire €7.5 million nominal value plus accrued nominal interest of €96,250 as per the conversion date for an aggregate number of 47,710,616 shares with a total fair value of €10,877,000. Warrants were exercised cashless, implying that a theoretical profit (based on a contractually agreed reference price) on a part of warrants exercised is forfeited in order to pay for shares transferred to the exercising party without any consideration (in cash or other assets). In 2010, bondholders exercised 53,572,112 warrants of which 30,143,090 used as payment on the 23,429,022 shares issued at an exercise price of €0.12. The aggregate fair value of the shares issued amounted to €4,986,000. At December 31, 2010 a total of 5,208,333 warrants with an exercise price of €0.12 were outstanding.

Interest on the Bonds 2010 was due quarterly in cash or shares. The Company decided to pay off the quarterly nominal interest, based on 9% annual nominal interest and only for remaining outstanding bonds (€7.5 million at the end of the first quarter and €1.1 million at the end of the second quarter), in shares. The aggregate nominal interest paid off through issuance of 515,086 shares amounted to €179,000.

Notes to the consolidated financial statements *continued*

Due to the underlying mechanisms of the bonds and the warrants, the bonds qualify for recognition as a financial liability including a conversion option (since payment would take place either in cash or a variable number of shares) and the warrants as a derivative financial liability. The fair value of the conversion option and the warrants have been determined both as per the issue date of the Bonds 2010 as well as December 31, 2010 and December 31, 2011; the fair value upon issue was initially charged to the carrying value of the Bonds 2010 which subsequently accrues effective interest over the anticipated lifetime of the outstanding Bonds 2010. Results from conversions and exercises of warrants have been charged to the derivative which has been reassessed to a fair value of €573,000 at December 31, 2010 and €156,000 at December 31, 2011; the 2011 decrease of €417,000 has been charged to the statement of income (Fair value gain derivatives). At December 31, 2011 a total of 5,208,333 warrants with an exercise price of €0.11 (adjusted from €0.12 to €0.11 following issue of shares at €0.11, as per the paragraph 'Private placement 2011' further in this Note) were still outstanding; the exercise price was further reduced to €0.06 on February 3, 2012 following an approval of the Pharming shareholders to increase the Company's authorized share capital from 550 million to 805 million. Anticipating this decision, the fair value determined at December 31, 2011 already reflected this expected reduction

Private placement 2011
Pharming in the third quarter of 2011 issued 29,000,000 shares to investors for an amount of €0.11 per share or €3,190,000 in total and granted the investors the right to receive 20,300,000 warrants with an exercise price of €0.11 per share and subject to shareholder approval; both the number of warrants as well as the exercise price is adjusted subject to various events taking place and accordingly the warrant rights qualified as a financial instrument. The fair value upon initial recognition was €1,624,000 and decreased to €1,015,000 at December 31, 2011; the 2011 decrease of €609,000 has been charged to the statement of income (Fair value gain derivatives). Following the involvement of these investors in the fourth quarter December issue of Bonds 2012, the exercise price of the 20,300,000 warrant rights was decreased to €0.06. Shareholder approval was obtained through an Extraordinary General Meeting of Shareholders held on February 3, 2012 so that the warrants were officially granted after the end of the reporting period and thus not included in outstanding warrants at December 31, 2011 (see Note 28).

The overall values and movement of the various financial liabilities in 2010 then can be presented as follows:

Amounts in €'000	December 31, 2010	Fair value derivative January 5, 2010	Movement 2010	Carrying value Bonds 2010
Fair value conversion option	-	808	808	(808)
Fair value warrants	573	2,615	2,042	(2,615)
Total fair value/result	**573**	**3,423**	**2,850**	**(3,423)**
Cash received				7,500
Carrying value Bonds 2010 at issue date				**4,077**
Effective interest accrued				1,456
Shares issued upon conversion bonds			(5,523)	(5,354)
Payments of nominal interest Bonds 2010 in shares				(179)
Warrants exercised charged to derivative			(4,986)	-
Carrying value Bonds 2010 at December 31, 2010				**-**
Fair value loss derivative			**(7,659)**	

The total derivative loss of €7,659,000 relates to the exercised warrants plus the fair value of outstanding warrants at December 31, 2010 of €573,000 and the exercised conversion options.

The movement of the Private placement 2011 warrants rights as well as interest-bearing part of the Bonds 2007 and Bonds 2010 (plus related conversion option and warrants) in 2010-2011 is as follows:

Amounts in €'000	2011	2010
Total balance at January 1	**573**	**9,461**
Of which:		
· Bonds	·	9,461
· Warrants and warrant rights	573	·
· Conversion rights	·	·
Movements		
Cash proceeds 2010 issuance of bonds (incl. conversion options and warrants)	·	7,500
Fair value warrant rights issued pursuant to Private placement 2011	1,624	·
Effective interest accrued	·	3,644
Fair value movement conversion options, warrants and warrant rights	(1,026)	7,659
Payments of nominal interest bonds 2007 in cash	·	(750)
Payments of nominal interest bonds 2010 in shares	·	(179)
Repayments bonds 2007 in cash	·	(10,900)
Shares issued upon conversion 2010 bonds	·	(10,877)
Shares issued to settle warrants	·	(4,986)
Total balance at December 31	**1,171**	**573**
Of which:		
· Bonds	·	·
· Warrants and warrant rights	1,171	573
· Conversion rights	·	·

16. Trade and other payables

Trade and other payables at year-end 2010 and 2011 consist of:

Amounts in €'000	2011	2010
Accounts payable	2,048	2,939
Taxes and social security	114	145
Deferred compensation due to related parties	400	314
Other payables	1,248	3,732
Balance at December 31	**3,810**	**7,130**

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

Notes to the consolidated financial statements *continued*

17. Revenues

Revenues for the financial years 2010 and 2011 can be split as follows:

Amounts in €'000	2011	2010
License fees	1,936	465
Product sales	1,063	108
	2,999	**573**

The 2010 and 2011 income from license fees is related to the portion of deferred license fees income released from upfront and milestone payments of distribution agreements entered into with Swedish Orphan Biovitrum International AB and Santarus, Inc. Further background of the amounts received and the associated release of revenues is provided in Note 12.

Product sales relate to supplies of Rhucin inventories to Swedish Orphan Biovitrum International AB following Market Approval in the European Union in October 2010. The Company for its 2010 and 2011 product sales revenues was fully dependent on this customer since no market approvals have yet been obtained in territories outside the European Union.

18. Other income
Other income related to grants exclusively and amounted to €515,000 in 2010 and €196,000 in 2011. The 2010 grant income was highly affected by a one-time grant.

19. Costs of product sales, inventory impairments, research and development, general and administrative
Cost of product sales in 2011 amounted to €1.8 million (2010: €0.1 million) and relates to actual supplies as well as anticipated price adjustments on future supply of Rhucin inventories to Swedish Orphan Biovitrum International AB as of October 2010.

Inventory impairments related to inventories designated for commercial activities amounted to €1.7 million in 2011 (2010: €nil) and follow from production-related events beyond control of the Company.

Costs of research and development decreased from €18.3 million in 2010 to €13.8 million in 2011. The €4.5 million decrease primarily stems from lower inventory impairment charges (€0.1 million in 2011 compared to €2.1 million in 2010), the 2010 capitalization of €0.5 million development costs for Rhucin in 2010 (see Note 6) along with an increased focus on cost containment in our US business.

Pharming's general and administrative costs remained fairly constant at €3.2 million and €3.3 million in 2010 and 2011 respectively.

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

Employee benefits for the financial years 2010 and 2011 comprised:

Amounts in €'000	2011	2010
Salaries	5,631	5,882
Social security costs	559	562
Pension costs	491	278
	6,681	**6,722**

Salaries include holiday allowances, cash bonuses and severance payments.

The number of employees for 2010 and 2011 per functional category was as follows (at weighted average full time equivalent factor):

	2011	2010
Research and development	60	62
General and administrative	15	16
	75	**78**

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

Inventories
In 2011, the Company reversed 2010 impairment charges on batches rhC1INH for a total amount of €1.0 million and subsequently charged €0.7 million (2010: €1.0 million) of rhC1INH inventories based on use in (pre)clinical activities and €0.1 million (2010: €2.1 million) for impairment charges, both in research and development costs.

Impairment charges on inventories in 2010 and 2011 follow from the Board of Management's assessment of the use of batches rhC1INH in future commercial, preclinical and clinical development. For certain batches such use is expected to be beyond the expiration dates so that their carrying value was fully written down for €2.1 million in 2010 and €0.1 million in 2011.

Depreciation and amortization charges

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

Amounts in €'000	**2011**	**2010**
Property, plant and equipment	795	839
Intangible assets	176	132
	971	**971**

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 2011 an amount of €636,000 was charged to research and development costs (2010: €653,000) and €159,000 to general and administrative expenses (2010: €186,000).

Operating lease charges
For the year 2011, the Company charged €0.7 million (2010: €0.7 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars. These non-cancellable leases at December 31, 2011 have remaining terms of between one to five years and generally include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The expected operating lease charges after the end of the reporting period have been disclosed in Note 31.

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

Auditor fees
Fees of PricewaterhouseCoopers Accountants N.V. incurred in relation to 2011 audit services were €97,000 (2010: €95,000) with other services and audit-related services amounting to €nil (2010: €108,000, including activities related to the issuance of a prospectus). Altogether, fees incurred for services of PricewaterhouseCoopers Accountants N.V. were €97,000 in 2010 (2010: €203,000). These items were charged to General and administrative expenses.

20. Impairment charges
The 2011 impairment charges of €35,000 relate to the net carrying value of obsolete manufacturing equipment for which no further use is anticipated (see Note 7).

Notes to the consolidated financial statements *continued*

21. Other interest expenses, net

The composition of other net interest expenses in 2010 and 2011 was as follows:

Amounts in €'000	2011	2010
Interest income/(expense) cash and cash equivalents	1	(81)
Interest expense financial leases	(214)	(7)
	(213)	**(88)**

Decreasing interest income on cash and cash equivalents reflect the general economic circumstances as a result of which interest rates have decreased substantially. Increased interest expenses from financial leases follow from various finance arrangements entered into in the course of 2011.

22. 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 €843,000 in 2010 included net losses of €688,000 in relation to revaluation of cash and cash equivalents; in 2011, exchange rate losses amounted to €49,000 of which €42,000 was in relation to cash and cash equivalents.

23. Other financial expenses

The composition of other financial expenses in 2010 and 2011 was as follows:

Amounts in €'000	2011	2010
SEDA transaction result	-	128
Amortization Commitment Shares	-	468
Costs related to issue of derivative financial liabilities	106	-
	106	**596**

As described in Note 11, the SEDA transaction result in 2010 relates to differences between the €2,378,000 fair values of shares issued to YA Global and the €2,250,000 received in cash.

Amortization expense of Commitment Shares relate to charges following the 2009 issue to YA Global of 1,200,000 Commitment Shares valued at €0.50 each or €600,000 in 2009. This amount was initially carried as a prepaid expense and amortized in line with actual investments made by YA Global relative to the maximum SEDA investment of €30.0 million. In 2009 and 2010 YA Global paid €6,600,000 and €2,250,000 respectively and accordingly Pharming incurred amortization charges of €132,000 and €45,000. At year end 2010 the Company estimated that further use of the SEDA prior to expiration of the facility in the second quarter of 2012 was deemed unlikely and the remaining prepaid amount of €423,000 was therefore fully expensed, which together with the €45,000 pro rate charges resulted in total 2010 amortization charges of €468,000. Pharming in 2011 did not make a call under the SEDA.

Costs related to issue of derivative financial liabilities include the portion of the total transaction fees allocated to the derivative financial liability recognised in 2011 (see Note 11 and Note 15).

24. Share-based compensation

The Company has a Long Term Incentive Plan and two option plans in place: one for the Board of Management and one for employees ('the Option plans'). In exceptional cases option arrangements have been made with individual consultants. All these plans or arrangements are equity settled. The total expense recognized in 2011 for share based payment plans amounts to €1,039,000 (2010: €636,000).

Models and assumptions

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

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

The 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:

1. start and end date of performance period;
2. the grant date;
3. the share prices;
4. exchange rates;
5. expected volatilities;
6. expected correlations;
7. expected dividend yields;
8. 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 and risk-free interest rates (depending on the currency) are downloaded from Bloomberg.

Long Term Incentive Plan

At the AGM of April 16, 2008 a Long Term Incentive Plan was approved with an effective date of January 1, 2008. Under the LTIP, restricted shares are granted conditionally each year with shares vesting based on the 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 2009-2011 programs consists of the following companies:

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

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

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

An overview of the maximum number of LTIP shares granted in 2009-2011, the fair value per share and the number of shares forfeited or not vested as well as reserved as per December 31, 2011 is as follows:

	Granted 2009	Granted 2010	Granted 2011	Not vested/ Forfeited 2009-2011	Reserved December 31, 2011
Board of Supervisory Directors	60,000	120,000	-	(60,000)	120,000
Board of Management	225,000	300,000	1,586,954	(225,000)	1,886,954
Scientific Advisory Board	37,500	-	-	(37,500)	-
Senior Managers	390,000	400,000	500,000	(510,000)	780,000
Total	**712,500**	**820,000**	**2,086,954**	**(832,500)**	**2,786,954**
Fair value per share award (€)	0.19	0.19	0.05		

The Company expensed amounts of €50,000 in 2009, €132,000 in 2010 and €113,000 in 2011. The 2009 shares did not vest.

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.'

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

In 2010 an aggregate number of 1,600,000 conditional stock options were granted to individual members of the BOM, of which:
- 250,000 options with an exercise price of €0.376 to R.R.D. Pijpstra at an EGM held on March 30, 2010. The fair value of these options was €0.19 with a total fair value of €47,500;
- 1,000,000 options with an exercise price of €0.401 at the AGM held on May 27, 2010. The fair value of these options was €0.21 with a total fair value of €210,000. These options were granted to S. de Vries (750,000 with a total fair value of €157,500) and B.M.L. Giannetti (250,000 with a total fair value of €52,500); and
- 350,000 options with an exercise price of €0.185 to K.D. Keegan at an EGM held on October 1, 2010. The fair value of these options was €0.09 with a total fair value of €31,500.

Vesting of the conditional stock options per individual Member of the Board of Management was based on the requirement to be in service at November 1, 2010; since all Members met this criterion, the options fully vested in 2010 and a total expense of €289,000 was incurred.

At the AGM of May 11, 2011 the four members of the BOM were granted a total of 10,550,000 options with an exercise price of €0.154 and a fair value of €0.08. Vesting of the conditional stock options per individual Member of the Board of Management was based on the requirement to be in service at January 1, 2012; since all Members met this criterion, the Company in 2011 incurred a total expense of €844,000 of which €280,000 for S. de Vries (3,500,000 options), €200,000 for K.D. Keegan (2,500,000 options) and €182,000 (2,275,000 options) for both B.M.L. Giannetti and R.R.D. Pijpstra.

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 2011 the Company granted 2,862,600 options (2010: 765,125 options) to employees with a weighted average exercise price of €0.088 (2010: €0.272); fair values for options granted in 2011 ranged from €0.05 to €0.07 (2010: €0.09 to €0.18).

Consultancy options
In certain consultancy contracts it is agreed to compensate a consultant through granting of options. The terms and conditions of these options, including vesting conditions, are either based on pre-defined targets or are based on an agreed period of service. No consultancy options have been granted in 2010 and 2011.

Notes to the consolidated financial statements *continued*

An overview of activity in the number of options for the years 2010 and 2011 is as follows:

	Number	2011 Weighted average exercise price (€)	Number	2010 Weighted average exercise price (€)
Balance at January 1	**6,673,077**	**0.844**	**5,172,391**	**1.439**
Granted under Board of Management Option plan	10,550,000	0.154	1,600,000	0.350
Granted under Employee Option Plan	2,862,600	0.088	765,125	0.272
Expired	(363,175)	3.635	(831,082)	3.074
Forfeited	(297,859)	0.279	(33,357)	0.616
Balance at December 31	**19,424,643**	**0.314**	**6,673,077**	**0.844**

No options have been exercised in 2010 and 2011. All options outstanding at December 31, 2011 are exercisable with the exception of the 10,550,000 options granted to the Board of Management and which vested as per January 1, 2012 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 December 31, 2011 is 3.82 years.

Exercise prices of options outstanding at December 31, 2011 and the exercise values are in the following ranges:

Exercise prices in €	Number	Total range exercise value in €'000
0.086 - 0.095	2,662,600	234
0.154 - 0.230	11,480,175	1,805
0.350 - 0.560	3,428,940	1,602
0.600 - 0.940	1,235,634	880
1.120 - 3.420	617,294	1,584
	19,424,643	**6,105**

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

	2011	2010
Expected time to maturity (employees)	2.5 years	2.5 years
Expected time to maturity (Board of Management)	5 years	5 years
Volatility (employees)	78%	71-76%
Volatility (Board of Management)	64%	58-61%
Risk-free interest rate (employees)	1.68-1.93%	1.43-2.00%
Risk-free interest rate (Board of Management)	2.87%	1.97-2.65%

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:

	2011	2010
Volatilities	28-109%	37-143%
Risk-free interest rates	0.87-3.67%	0.70-3.21%
Dividend yields	0.00%	0.00%-3.63%

Share-based compensation

Share-based compensation for 2010 and 2011 can be summarized as follows:

Amounts in €'000	2011	2010
Board of Management options	844	289
Employee options	82	215
Long Term Incentive Plan	113	132
	1,039	**636**

The increase of Board of Management options expense in 2011 results from a higher number of options granted but this effect was offset with lower fair values. The decreased employee option expense primarily reflects the effect of options granted in 2010 with an accelerated vesting condition (in view of various major company targets being achieved) and the higher fair value of such options, as compared to a higher number of options granted in the second half of 2011 as well as a lower fair value of these options. Long Term Incentive Plan expenses primarily decreased due to the effect of lower fair values.

25. Board of Management

S. de Vries (Chief Executive Officer) and B.M.L. Giannetti (Chief Operations Officer) have been a member of the Board of Management for the entire year 2010 and 2011. The following changes in the composition of the Board of Management took place in 2010:

- R.R.D. Pijpstra was appointed as Chief Medical Officer effective April 1, 2010. Prior to this appointment he had been an employee of the Company as of June 1, 2009;
- R. Strijker (Chief Commercial Officer) resigned from the Board of Management at the AGM of May 27, 2010;
- K.D. Keegan started as Chief Financial Officer as of September 1, 2010 and was appointed as member of the Board of Management effective October 1, 2010.

Members of the Board of Management are statutory directors.

Compensation of the Members of the Board of Management for 2010 and 2011 was as follows:

Amounts in €'000	Year	Periodic remuneration	Bonus (vi)	Share-based payment (i)	Post-employment benefits	Other (ii)	Total
Name							
B.M.L. Giannetti	2010	250	82	70	30	20	452
	2011	266	64	199	64	15	608
K.D. Keegan (iii)	2010	63	20	32	3	11	129
	2011	213	68	204	20	15	520
R.R.D. Pijpstra (iv)	2010	205	55	50	15	15	340
	2011	221	53	193	26	18	511
R. Strijker (v)	2010	104	13	7	10	6	140
S. de Vries	2010	350	117	169	23	82	741
	2011	396	111	299	64	36	906
Total	**2010**	**972**	**287**	**328**	**81**	**134**	**1,802**
	2011	**1,096**	**296**	**895**	**174**	**84**	**2,545**

(i) Total share-based payment 2011 relates to options of €844,000 (2010: €289,000) and Long Term Incentive Plan of €51,000 (2010: €39,000)
(ii) Other includes (lease) car compensation, a rent allowance for K.D. Keegan (2010 only) and, for S. de Vries, contributions to relocation (2010 only) and other expenses
(iii) Compensation as of September 1, 2010: base salary 2010 of €188,000
(iv) Compensation as of January 1, 2010: base salary January-March 2010 of €191,000 increased to €210,000 for remainder of 2010 after appointment to the Board of Management
(v) Compensation 2010 until resignation from Board of Management on May 27, 2010: base salary of €250,000
(vi) The 2010 bonus was paid equally in cash and shares (50%); the 2011 bonus was paid entirely in shares

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 place at December 31, 2011, the exercise prices and expiration dates:

Name	January 1, 2011	Granted 2011	December 31, 2011	Exercise price (€)	Expiration date
B.M.L. Giannetti	140,000	-	140,000	3.050	May 22, 2012
	41,667	-	41,667	1.120	April 15, 2013
	250,000	-	250,000	0.620	October 12, 2013
	250,000	-	250,000	0.500	April 14, 2014
	250,000	-	250,000	0.401	May 26, 2015
	-	2,275,000	2,275,000	0.154	May 10, 2016
K.D. Keegan	350,000	-	350,000	0.185	September 30, 2015
	-	2,500,000	2,500,000	0.154	May 10, 2016
R.R.D. Pijpstra	40,000	-	40,000	0.600	May 31, 2014
	30,000	-	30,000	0.530	October 19, 2014
	250,000	-	250,000	0.376	March 29, 2015
	-	2,275,000	2,275,000	0.154	May 10, 2016
S. de Vries	500,000	-	500,000	0.620	October 12, 2013
	500,000	-	500,000	0.500	April 14, 2014
	750,000	-	750,000	0.401	May 26, 2015
	-	3,500,000	3,500,000	0.154	May 10, 2016
Total	**3,351,667**	**10,550,000**	**13,901,667**		

The 70,000 options held by R.R.D. Pijpstra expiring in 2014 were granted under the employee option plan in 2009.

At December 31, 2011, the members of the Board of Management hold the following number of shares:

Name	Shares
B.M.L. Giannetti	188,095
K.D. Keegan	31,369
R.R.D. Pijpstra	124,056
S. de Vries	252,071
Total	**595,591**

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

Loans or guarantees
During the year 2011, no loans or guarantees have been granted to Members of the Board of Management. No loans or guarantees to Members of the Board of Management were outstanding at December 31, 2011.

26. Board of Supervisory Directors

Remuneration
For 2010 the annual compensation for the BOSD Chairman was €34,500 and €23,000 for other BOSD Members. Members of the Board of Supervisory Directors participated in the Long Term Incentive Plan for the year 2009 (covering the years 2009-2011) and the year 2010 (covering the years 2010-2012).

The members of the Board of Supervisory Directors no longer participate in the Long Term Incentive Plan from 2011 onwards; share entitlements from earlier years have been maintained. As of 2011 the annual 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 2011 the annual compensation is as follows:
- BOSD: Chairman €44,000 and Member €31,000;
- AC: Chairman €9,000 and Member €3,000; and
- RC: Chairman €6,000 and Member €3,000.

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

Compensation of the Members of the Board of Supervisory Directors for 2010 and 2011 was as follows:

Amounts in €'000	Year	BOSD	AC	RC	Share-based payment	Total
Name						
J. Blaak	2010	35	-	-	5	40
	2011	44	-	3	3	50
J.H.L. Ernst	2010	23	-	-	2	25
	2011	31	3	3	2	39
K. Macleod (i)	2010	9	-	-	1	10
J.B. Ward	2010	23	-	-	5	28
	2011	31	3	6	3	43
A. de Winter	2010	23	-	-	2	25
	2011	31	9	-	2	42
Total	**2010**	**113**	**-**	**-**	**15**	**128**
	2011	**137**	**15**	**12**	**10**	**174**

(i) Compensation 2010 until resignation from Board of Supervisory Directors on May 27, 2010

No extraordinary activities have been charged in 2011.

Shares, options and warrants
Members of the Board of Supervisory Directors do not participate in an option plan but are eligible to receive shares under the Long Term Incentive Plan for the year 2010 (covering the years 2010-2012); as of 2011 members of the Board of Supervisory Directors are no longer participating in the Long Term Incentive Plan. At year end 2011 none of the Board of Supervisory Directors Members in place held shares, options or warrants in the Company.

Loans or guarantees
During the year 2011, 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 December 31, 2011.

Notes to the consolidated financial statements *continued*

27. Income taxes
At January 1, 2010 the Company carried a deferred tax liability of €4,276,000 in relation to €16,770,000 intangible assets recognized upon the acquisition of DNage in 2006. Following the impairment of these assets in 2010 the deferred tax liabilities were fully released in 2010; the €4,276,000 profit item has been presented as a result from discontinued operations in the comparative statement of income for 2010. No current income taxes applied to the statement of income in both 2010 and 2011 and no other tax items apply to either equity or comprehensive income in both years.

Income taxes for the years 2010 and 2011 were as follows:

Amounts in €'000	2011	2010
Current income taxes	-	-
Release deferred tax liability	-	4,276
Income taxes	**-**	**4,276**

Both in 2010 and 2011 no income tax items with a direct impact on equity or comprehensive income have been recognized.

The Dutch fiscal unity at year end 2011 has approximately €167.0 million of taxable losses that can be offset in the years 2012-2020. Unless offset with taxable profits, at least €15.0 million per year will be forfeited in the years 2012-2010 with €24.0 million in 2012 and an average amount of €15.8 million in the years 2013-2015. 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.

28. Warrants
An overview of activity in the number of warrants for the years 2010 and 2011 is as follows:

	Number	Weighted average exercise price (€)
Balance at January 1, 2010	**3,150,000**	**1.667**
Issued	83,120,068	0.147
Exercised	(53,572,112)	0.120
Balance at December 31, 2010	**32,697,956**	**0.337**
Expired	(3,150,000)	1.667
Exercised	(24,339,623)	0.212
Adjustment to exercise price	-	(0.010)
Balance at December 31, 2011	**5,208,333**	**0.110**

The weighted average remaining contractual life in years of the outstanding warrants at December 31, 2011 is 1 year. Warrants issued in 2010 relate to 58,780,445 issued to the holders of Bonds 2010 as disclosed in Note 15 and 24,339,623 issued to Socius CG II, Ltd. as explained in Note 11. In 2011, the exercise price of the 5,208,333 warrants remaining at year end had been decreased from €0.12 to €0.11 following the 2011 issue of shares at €0.11.

29. Operating segments
Until January 31, 2011 the Company's operations were set up along two business units, being the recombinant protein business and the DNage business. These units had separate reporting lines and separate financial statements. The recombinant protein business included Pharming Group N.V. as the listed entity of the Pharming Group including the operating companies in the Netherlands and the United States. The DNage business related to the cash-generating unit DNage B.V. Following discontinuation of the DNage operations the consolidated statement of financial position at year end 2011 exclusively relates to the recombinant proteins unit while no investments and no DNage cash flows apply for 2011. Both the 2010 and 2011 statement of income reflects a result of discontinued operations, which relate to the DNage entity as discussed in Note 4.

The following table presents key financial information by operating segment for the years ended December 31, 2010 and 2011:

Amounts in €'000	Recombinant proteins	DNage	Total
Year ended December 31, 2011			
Statement of income:			
Revenues	2,999	-	2,999
Other income	196	-	196
Impairment charges	(35)	-	(35)
Share-based compensation	(1,039)	-	(1,039)
Fair value gain derivatives	1,026	-	1,026
Other financial expenses	(368)	-	(368)
Discontinued operations	-	643	643
Net loss	(17,843)	643	(17,200)
Statement of financial position:			
Segment assets	24,694	-	24,694
Segment liabilities	25,882	-	25,882
Investments in:			
Property, plant and equipment	3,657	-	3,657
Cash flows provided by/(used in):			
Operating activities	(16,930)	-	(16,930)
Investing activities	(1,098)	-	(1,098)
Financing activities	12,657	-	12,657

Amounts in €'000	Recombinant proteins	DNage	Total
Year ended December 31, 2010			
Statement of income:			
Revenues	573	-	573
Other income	515	-	515
Share-based compensation	(636)	-	(636)
Fair value loss derivative	(7,659)	-	(7,659)
Effective interest convertible bonds	(3,644)	-	(3,644)
Anti-dilution provisions	(2,905)	-	(2,905)
Interest on earn-out obligations	(777)	-	(777)
Other financial expenses	(1,527)	-	(1,527)
Discontinued operations	-	(18,700)	(18,700)
Net loss	(37,667)	(18,700)	(56,367)
Statement of financial position:			
Segment assets	36,980	308	37,288
Segment liabilities	25,319	1,869	27,188
Investments in:			
Property, plant and equipment	2,139	-	2,139
Cash flows provided by/(used in):			
Operating activities	(247)	(2,911)	(3,158)
Investing activities	(909)	-	(909)
Financing activities	12,895	-	12,895

Supplemental disclosure operating segments
The main foreign assets of the Recombinant proteins business unit are the property, plant and equipment of Pharming Healthcare, Inc. in the United States. The carrying value of these assets at December 31, 2010 and December 31, 2011 amounted to €2,069,000 and €1,960,000 respectively.

Notes to the consolidated financial statements *continued*

In 2010 and 2011, the Recombinant proteins business unit charged inventory impairments of €2.1 million and €0.1 million respectively with both items charged to research and development costs.

30. Related party transactions
Related-parties disclosure relates entirely to the key management of Pharming, being represented by the Members of the Board of Management and the Board of Supervisory Directors.

All direct transactions with Members of the Board of Management and Board of Supervisory Directors have been disclosed in Notes 25 and 26 of these Financial Statements. At December 31, 2011, the Company owed a total amount of €400,000 to Members of the Board of Management with respect to their compensation.

31. 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 2011 expiring in 2012-2014).

Future minimum rentals payable under these non-cancellable leases at the end of 2010 and 2011 was as follows:

Amounts in €'000	2011	2010
Within one year	713	735
After one year but not more than five years	2,285	2,684
More than five years	-	325
	2,998	**3,744**

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

Total potential payments under these agreements are approximately €131 million, of which €9 million is for 2012, €41 million for 2013-2016 and €81 million beyond 2016.

32. 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 finance the local operations of US-based entities and make direct payment of US activities carried out through the Dutch entities. If deemed appropriate, taking into account market expectations on the development of the US$, US$ are acquired in advance to cover such forecasted US$ payments. So far, Pharming's foreign currency risk policy for the US$ has not included derivative agreements.

At December 31, 2011 the Company's cash and cash equivalents, including restricted cash, amounted to €5.1 million. This balance consists of cash assets denominated in €for a total amount of €4.2 million and cash assets in US$ for a total amount of US$1.1 million or €0.9 million (applying an exchange rate €to US$ at December 31, 2011 of 0.773 to 1).

The following sensitivity analysis of costs and revenues charged in US$ in 2010 and 2011, assumes an increase or decrease of the €/US$ exchange rate at the end of both years of 10%. The impact of a 10% increase at year-end 2010 and 2011 would have resulted in a lower loss from operating activities of €0.1 million in both 2010 and 2011. In addition to these effects, the foreign currency translation reserve would have decreased with €1.9 million in 2010 and with €0.9 million in 2011, so that the total net effect on equity would have been a decrease of €1.8 million in 2010 and of €0.8 million in 2011. The impact of a 10% decrease of the US$ at year-end 2010 and 2011 would have resulted in a higher loss from operating activities of €0.1 million in both 2010 and 2011. In addition to these effects, the foreign currency translation reserve would have decreased with €1.2 million in 2010 and with €1.0 million in 2011, so that the total net effect on equity in 2010 and 2011 would have been a decrease of €1.3 million and €1.1 million respectively.

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 2011 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be less than €0.1 million.

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

The maximum exposure to credit risk at December 31, 2011 is represented by the carrying amounts of cash and cash equivalents and trade and other receivables.

At December 31, 2011 the carrying amounts of the cash and cash equivalents (including restricted cash) and the most recently available credit ratings are:

Amounts in €million	Carrying value	Standard & Poor's	Moody's
Net cash held at selected institution 1	3.0	A+	Aa3
Net cash held at selected institution 2	1.9	A	Aa3
Other institutions	0.2		
Total at December 31, 2011	**5.1**		

Trade and other receivables at December 31, 2011 amounted to €2.5 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 €0.1 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 2011 is less than €0.1 million.

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

Notes to the consolidated financial statements *continued*

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 2 of these financial statements more extensively describe the Company's going concern assessment.

The following table presents the financial liabilities at year-end 2011, showing the remaining undiscounted contractual amounts due including nominal interest. Liabilities denominated in foreign currency have been converted at the exchange rate at December 31, 2011. Trade and other payables exclude €29,000 non-cash lease incentives released to the statement of income in 2012. 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	2012	2013	2014	2015	2016
Trade and other payables	3,781	-	-	-	-
Derivative financial liabilities	1,171	-	-	-	-
Finance lease liabilities	1,311	1,006	474	292	280
Total	**6,263**	**1,006**	**474**	**292**	**280**

Fair value estimation
Effective 1 January 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

No assets were measured at fair value at year end 2010. As per December 31, 2011 the Company carried an amount of €1,503,000 in trade and other receivables relating to 20,000,000 advance shares paid (see Note 11). This value has been based on the quoted price (level 1) of the Pharming shares over a certain period with the actual settlement in 2012 being fairly in line with this value.

The following table presents the liabilities that are measured at fair value at year-end 2010 and 2011:

	December 31, 2011		December 31, 2010	
	Level		Level	
Amounts in €'000	3	Total	3	Total
Financial liabilities at fair value through profit or loss	1,171	1,171	573	573
Total liabilities	**1,171**	**1,171**	**573**	**573**

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:

	2011	2010
Expected time to maturity of warrants in issue	1.0 year	2.0 years
Expected time to maturity of warrants to be issued	4.5 years	-
Volatility	79%	59%
Risk-free interest rate	1.42%	1.55%

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

Amounts in €'000	December 31, 2011 Carrying value	December 31, 2011 Fair value	December 31, 2010 Carrying value	December 31, 2010 Fair value
Assets:				
Cash and cash equivalents, including restricted cash	5,065	5,065	10,478	10,478
Trade and other receivables	2,495	2,495	9,932	9,932
Liabilities:				
Finance lease liabilities	3,433	3,433	77	77
Trade and other payables	3,810	3,810	7,130	5,355
Derivative financial liabilities	1,171	1,171	573	573

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.

33. Earnings per share and fully-diluted shares

Earnings per share
Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period, being 266,313,183 for 2010 and 470,223,995 for 2011. For 2010 and 2011, the basic earnings per share are:

	2011	2010
Net loss attributable to equity owners of the parent (in €'000)	(17,104)	(50,215)
Weighted average shares outstanding	470,223,995	266,313,183
Basic earnings (loss) per share (in €)	(0.04)	(0.19)

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 outstanding and share rights issued as per December 31, 2011 and the date of these financial statements is as follows:

	December 31, 2011	Movements 2012 Bonds 2012	Movements 2012 Other	April 2, 2012
Outstanding shares	510,116,470	47,437,000	3,950,211	561,503,681
Issued	**510,116,470**	**47,437,000**	**3,950,211**	**561,503,681**
Warrants	5,208,333	38,717,484	20,300,000	64,225,817
Conversion rights, net of payments	-	35,000,000	-	35,000,000
Options	19,424,643	-	360,271	19,784,914
Long Term Incentive Plan	2,786,954	-	-	2,786,954
Reserved	**27,419,930**	**73,717,484**	**20,660,271**	**121,797,685**
Total	**537,536,400**	**121,154,484**	**24,610,482**	**683,301,366**

With respective to the 2012 movements of outstanding shares and share rights, further reference is given to Note 34 (Events after the reporting period).

Notes to the consolidated financial statements *continued*

34. Events after the reporting period

On February 3, 2012 the Company held an Extraordinary General Meeting of Shareholders in which the shareholders approved the increase of authorized share capital from 550 million to 805 million shares. This approval triggered the grant of 38,717,484 warrants with an exercise price of €0.12 per warrant to the Bonds 2012 investors as well as the subsequent receipt of €8.0 million in cash pursuant to the Bonds 2012 agreement. The investors have the right to convert the remaining outstanding €4.2 million principal of the Bonds 2012 into shares at a conversion price of €0.12 per share, leading to an additional potential dilution of 35,000,000 shares. Up to the date of these financial statements, Pharming has issued 67,437,000 shares to holders of Bonds 2012 of which 20,000,000 advance shares in 2011 and the remaining 47,437,000 in 2012. In addition, 20,300,000 warrants with an adjusted exercise price of €0.06 per warrant were issued to the investors involved in the second quarter 2011 investment. Following this transaction, the exercise price of 5,208,333 warrants outstanding at year end 2011 in relation to the Bonds 2010 with an exercise price of €0.11, was also reduced to €0.06.

In March 2012 the Company issued an aggregate number of 3,950,211 shares in lieu of 2011 bonuses, of which 2,631,450 shares to the members of the Board of Management. From January 1, 2012 until the date of these financial statements, Pharming also granted 422,500 options whereas 62,229 options expired, both under the employee option plan.

Company financial statements

COMPANY STATEMENT OF FINANCIAL POSITION

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

Amounts in €'000	Notes	2011	2010
Property, plant and equipment	3	404	538
Investments in subsidiaries	4	-	282
Receivable from group companies	5	-	2,143
Non-current assets		**404**	**2,963**
Trade and other receivables	6	1,919	9,259
Restricted cash	7	62	-
Cash and cash equivalents	7	4,360	9,714
Current assets		**6,341**	**18,973**
Total assets		**6,745**	**21,936**
Share capital	8	20,405	17,450
Share premium	8	224,495	219,220
Foreign currency translation	8	(1,449)	(1,514)
Other reserves	8	13,774	16,921
Accumulated deficit	8	(258,413)	(241,213)
Shareholders' equity		**(1,188)**	**10,864**
Provision for subsidiaries	**4**	**5,479**	**9,304**
Finance leases liabilities		6	32
Non-current liabilities		**6**	**32**
Derivative financial liabilities	9	1,171	573
Trade and other payables	10	1,243	1,118
Finance leases liabilities		34	45
Current liabilities		**2,448**	**1,736**
Total Shareholders' equity and liabilities		**6,745**	**21,936**

COMPANY STATEMENT OF INCOME

For the year ended December 31

Amounts in €'000		2011	2010
Share in results of investments	4	(12,154)	(17,095)
Other results	11	(5,046)	(33,120)
Net loss		**(17,200)**	**(50,215)**

The notes are an integral part of these financial statements.

Notes to the company financial statements

For the year ended December 31, 2011

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 at net asset value. 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 2010 and 2011 is:

Amounts in €'000	**Leasehold Improvements**	**Other**	**Total**
At cost	747	489	1,236
Accumulated depreciation charges	(248)	(276)	(524)
Net carrying value at January 1, 2010	**499**	**213**	**712**
Investments	-	12	12
Depreciation charges	(77)	(109)	(186)
Movement 2010	**(77)**	**(97)**	**(174)**
At cost (*)	747	447	1,194
Accumulated depreciation charges (*)	(325)	(331)	(656)
Net carrying value at December 31, 2010	**422**	**116**	**538**
Investments	-	25	25
Depreciation charges	(77)	(82)	(159)
Movement 2011	**(77)**	**(57)**	**(134)**
At cost	747	472	1,219
Accumulated depreciation charges	(402)	(413)	(815)
Net carrying value at December 31, 2011	**345**	**59**	**404**

(*) in 2010, the Company eliminated fully depreciated assets no longer in use from accumulated costs and accumulated depreciation with an effect of €54,000.

4. Investments in subsidiaries and 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 associate.

Movement of financial assets and the provision for subsidiaries for the years 2010 and 2011 was as follows:

Amounts in €'000	Investment in subsidiaries	Provision for subsidiaries	Net total
Balance at January 1, 2010	**6,050**	**(159,783)**	**(153,733)**
Investments in cash	35	-	35
Share transferred to third parties	(5,387)	-	(5,387)
Share in results of investments	(487)	(16,608)	(17,095)
Exchange rate effects	(724)	-	(724)
Reclassification	795	(795)	-
Balance at December 31, 2010	**282**	**(177,186)**	**(176,904)**
Share in results of investments	-	(12,154)	(12,154)
Exchange rate effects	(510)	-	(510)
Reclassification	228	(228)	-
Balance at December 31, 2011	**-**	**(189,568)**	**(189,568)**

At year end 2010 and 2011, the provision for subsidiaries was offset with the following receivable balances from Pharming Group N.V.:

Amounts in €'000	2011	2010
Provision for subsidiaries	(189,568)	(177,186)
Receivable	184,089	168,404
Net payable	**(5,479)**	**(8,782)**
Of which classified as Provision for subsidiaries	(5,479)	(9,304)
Included in receivable from group companies	**-**	**522**

5. Receivable from group companies

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

Amounts in €'000	2011	2010
Receivable from investments in subsidiaries	-	1,621
Net investments (Note 4)	-	522
Total	**-**	**2,143**

Notes to the company financial statements *continued*

6. Trade and other receivables

Trade and other receivables at year-end 2010 and 2011 comprised:

Amounts in €'000	2011	2010
Receivable Socius CG II, Ltd.	-	9,034
Advance payment in shares	1,503	-
Prepaid expenses	177	94
Value added tax	116	73
Other receivables	123	58
	1,919	**9,259**

Trade and other receivables at December 31, 2011 are substantially short-term in nature and have largely been settled as per the date of these financial statements. The advance payment in shares has been further described in Note 11 of the consolidated financial statements.

7. Restricted cash, cash and cash equivalents
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 December 31, 2011 is jointly liable for commitments relating to bank guarantees for an aggregate amount of €1,288,000 of which €979,000 with a maturity of more than one year after the end of the reporting period and €309,000 with a maturity of less than one year after the end of the reporting period. An amount of €62,000 with a maturity less than one year after the end of the reporting period has been issued on behalf of the holding company and thus this balance has been presented as current restricted cash in the company statement of financial position.

8. Shareholders' equity
The Company's authorized share capital amounts to €22.0 million and is divided into 550,000,000 ordinary shares with a nominal value of €0.04 each. All 510,116,470 shares outstanding at December 31, 2011 have been fully paid-up.

Movements in Shareholders' equity for 2010 and 2011 were as follows:

Amounts in €'000	2011	2010
Balance at January 1	10,864	13,313
Net loss	(17,200)	(50,215)
Share-based compensation	1,039	636
Fair value of shares issued for bonds converted	-	10,877
Shares issued upon settlement DNage B.V.	-	1,000
Shares issued in lieu of interest and bonuses	103	348
Issuance of anti-dilution shares pursuant to anti-dilution provisions	-	2,905
Exercise of warrants	974	4,986
Shares and warrants issued to Socius CG II, Ltd.	-	13,733
Fair value of shares issued for cash	1,464	13,118
Advance shares	1,503	-
Foreign currency translation	65	163
Balance at December 31	**(1,188)**	**10,864**

Legal reserve
Shareholders' equity of Pharming Group N.V. at December 31, 2011 includes a legal reserve with a negative amount of €1,449,000 with respect to a reserve for foreign currency translation.

For a detailed movement schedule of equity for the years 2010 and 2011, please refer to the schedule consolidated statement of changes in equity. The main fluctuations in equity have been described in Note 11 to the consolidated financial statements.

9. Derivative financial liabilities
The backgrounds of the derivative financial liabilities have been provided in Note 15 of the consolidated financial statements.

10. Trade and other payables

Trade and other payables consist of:

Amounts in €'000	**2011**	**2010**
Accounts payable	266	197
Deferred compensation due to related parties	400	314
Taxes and social security	48	52
Other payables	529	555
Balance at December 31	**1,243**	**1,118**

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 2010 and 2011 include costs of share-based compensation in the amount of €636,000 and €1,039,000 respectively, as disclosed in Note 24 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 2010 and 2011 were based in the Netherlands. The number of full-time equivalent employees in 2011 was 12 (2010: 14) and the number of employees at December 31, 2011 was 14 (December 31, 2010: 16).

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 25 and 26 of the Consolidated Financial Statements. At December 31, 2011, the Company owed a total amount of €400,000 to Members of the Board of Management with respect to their compensation (see Note 10).

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 2011 of Pharming Group N.V., Leiden as set out on pages 47 to 97. 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 2011, the consolidated statement of income, the 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 2011, 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 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 2011, 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 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Emphasis of uncertainty with respect to the going concern assumption
We draw attention to note 2 to the consolidated financial statements which indicates that the company does not expect to generate sufficient cash from commercial activities to meet its working capital requirements for one year after the date of these financial statements and therefore is partially dependent on financing arrangements with third parties to finance its ongoing operations. This condition, along with other matters as set forth in note 2, indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 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.

Amsterdam, April 2, 2012
PricewaterhouseCoopers Accountants N.V.

A.C.M. van der Linden RA

OTHER FINANCIAL INFORMATION

For the year ended December 31, 2011

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 2011 to the accumulated deficit. Anticipating the approval of the Financial Statements by the Shareholders at the Annual General Meeting of Shareholders, this proposal has already been reflected in the Financial Statements.

3. Events after the reporting period
On February 3, 2012 the Company held an Extraordinary General Meeting of Shareholders in which the shareholders approved the increase of authorized share capital from 550 million to 805 million shares. This approval triggered the grant of 38,717,484 warrants with an exercise price of €0.12 per warrant to the Bonds 2012 investors as well as the subsequent receipt of €8.0 million in cash pursuant to the Bonds 2012 agreement. The investors have the right to convert the remaining outstanding €4.2 million principal of the Bonds 2012 into shares at a conversion price of €0.12 per share, leading to an additional potential dilution of 35,000,000 shares. Up to the date of these financial statements, Pharming has issued 67,437,000 shares to holders of Bonds 2012 of which 20,000,000 advance shares in 2011 and the remaining 47,437,000 in 2012. In addition, 20,300,000 warrants with an adjusted exercise price of €0.06 per warrant were issued to the investors involved in the second quarter 2011 investment. Following this transaction, the exercise price of 5,208,333 warrants outstanding at year end 2011 in relation to the Bonds 2010 with an exercise price of €0.11, was also reduced to €0.06.

In March 2012 the Company issued an aggregate number of 3,950,211 shares in lieu of 2011 bonuses, of which 2,631,450 shares to the members of the Board of Management. From January 1, 2012 until the date of these financial statements, Pharming also granted 422,500 options whereas 62,229 options expired, both under the employee option plan.

PHARMING

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