PHARMING

Annual Report **2010**

2010 Highlights

Financial

- Income up from €1.1 million in 2009 to €1.8 million
- Operating expenses decreased by 13% to €24.5 million compared to €28.1 million for 2009
- Raised €19.7 million of new funds from partnering agreements and €37.8 million from equity related transactions
- Capital structure improved with debt settled and equity added
- Year-end cash and cash equivalents were €10.5 million (pro-forma €20.5 million after receipt of final tranches of Socius investment), up from €2.3 million in 2009

Operational

- Commercialization deal agreed for Ruconest™ with SOBI for 24 EU countries plus Norway, Iceland and Switzerland
- European launch of Ruconest™ - first sales recorded in late December (Norway and Denmark)
- Commercialization deal agreed with Santarus Inc for Rhucin® in North America

Our Strategic Objectives

- Pharming is commercially focused primarily on the specialty pharmaceutical market, covering the entire value chain with our 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 fosters an entrepreneurial culture through appropriate recognition and efficient management of opportunities and risks
- We will communicate in a timely, transparent and consistent manner to all internal and external stakeholders
- Pharming maintains a high level of social and corporate responsibility. We operate to high ethical, environmental and animal welfare standards

About Pharming Group NV

Pharming Group NV is developing innovative products for the treatment of unmet medical needs. Pharming creates value, for the benefit of all Pharming stakeholders, both internal and external, primarily through application of its core expertise in the development and scalable manufacture of biological medicines. Pharming's commercial focus is primarily aimed at the specialty pharmaceutical market, covering the entire value chain with our internal expertise and external collaborations.

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. The product is also under development for follow-on indications, i.e. antibody-mediated rejection (AMR) and delayed graft function (DGF) following kidney transplantation.

Pharming shares are listed at the NYSE/ Euronext Amsterdam (PHARM). Pharming is a member of the AMX (mid-cap) index, as of March 21, 2011. Pharming had been included in the AScX (small cap) index from March 21, 2010 to March 21, 2011.

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

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CEO's Statement

2010 marked the beginning of a transformational period in Pharming's evolution as the company accomplished the most significant steps yet in its transition from a late-stage development company to an emerging pharmaceutical business. This commercial phase is led by our lead product Rhucin® (recombinant human C1 esterase inhibitor, rhC1INH).

During 2010 Pharming received European Marketing Authorization for Ruconest™ for the treatment of acute angioedema attacks in patients with Hereditary Angioedema (HAE). In Q4 2010, Ruconest™ was launched and in December the first sales were made in Norway and Denmark. As well as providing validation of our proprietary drug platform, the approval and launch of Ruconest™ was historically significant as we became the first Dutch company to bring a "home grown" biological drug to market. The product is being commercialised by Pharming's partner, Swedish Orphan Biovitrum (SOBI) with which we have an exclusive 10 year distribution agreement, under which SOBI will distribute Ruconest™ in 24 countries of the European Union (EU) and Norway, Iceland, Liechtenstein and Switzerland. Roll out of Ruconest™ across these territories is progressing well and we look forward to updating you on further progress throughout 2011.

Notwithstanding the FDA's decision not to accept our Biologics License Application (BLA) for review in February 2011, regulatory development for Rhucin® in North America made good progress throughout 2010. In addition, in September we announced the signing of a commercialization agreement with Santarus, Inc (Santarus) for Rhucin® in North America.

As well as ensuring that we now have excellent partners in place to maximize the future commercial potential of Ruconest™/ Rhucin®, our major partnering agreements with SOBI for the EU and with Santarus for North America have provided us with solid funding from upfront payments and milestones received and still to be earned.

HAE is a genetic disorder in which the patient has deficient or insufficient functional plasma protein C1 inhibitor, resulting in an overreaction of the immune system. The disease is characterized 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. Approximately one in 30,000 individuals (1:10,000 – 1:50,000) suffers from HAE with an average of approximately eight acute attacks per year. As a treatment of acute attacks of HAE, Rhucin® offers unsurpassed efficacy with an excellent safety profile.

In 2010 we significantly strengthened our management team and Board by appointing Mr Karl Keegan as Chief Financial Officer and Mr Rienk Pijpstra, previously Head of Development and Medical Director, as Chief Medical Officer.

Our stated prioritization of the rhC1INH franchise and stringent cost containment, exemplified by the spin-out of DNage[1], led to a decrease in our cash burn during 2010. In parallel to this, in a difficult market environment the final repayments of the last tranche of the original €70 million 2007 convertible debt facility were met. The building of a solid financial platform remains a priority for us. Ongoing reduction of the cash burn through cost containment has had positive impacts in 2010 and will continue through 2011.

In the face of challenging market conditions, which made financing biotechnology companies a difficult prospect, Pharming succeeded in raising more than €38 million from a private bond and equity transactions in 2010. The latter financing was completed with Socius Capital Group which has invested €16.1m in Pharming. Given the ongoing unpredictability of the financial markets, this funding has given us a strong base on which to seek further financing, ideally of a non-dilutive nature. From a position of financial strength, we can progress our development pipeline and investigate other opportunities for growth.

The great strides Pharming made throughout 2010 were recognized in December when we received the Award for Best Biotechnology Company for 2010 by the World Technology Network (WTN) at the World Technology Summit (November 30-December 1, 2010) in New York City. The award was in recognition of Pharming's "innovative work on the production of life enhancing drugs derived from Pharming's transgenic platform". Needless to say, we were very pleased to have our employees and our research recognised in this way.

With our first product approval providing validation for our proprietary therapeutic protein platform, strong partnerships in place and an improving financial position, we look forward to expanding the distribution of Rhucin®/Ruconest™ and conducting further exploratory studies for the future development of additional biological medicines. I believe that Pharming is now in the healthiest shape in its history and has the financial resilience to weather any setbacks we are likely to encounter. I look forward to continued progress during 2011.

Finally, I would like to thank our employees, investors and partners for their ongoing support and interest.

Sijmen de Vries

Leiden,
The Netherlands,
30 March 2011

[1] Pharming discontinued the funding of DNage in January 2011

Management report

OPERATING REVIEW 2010

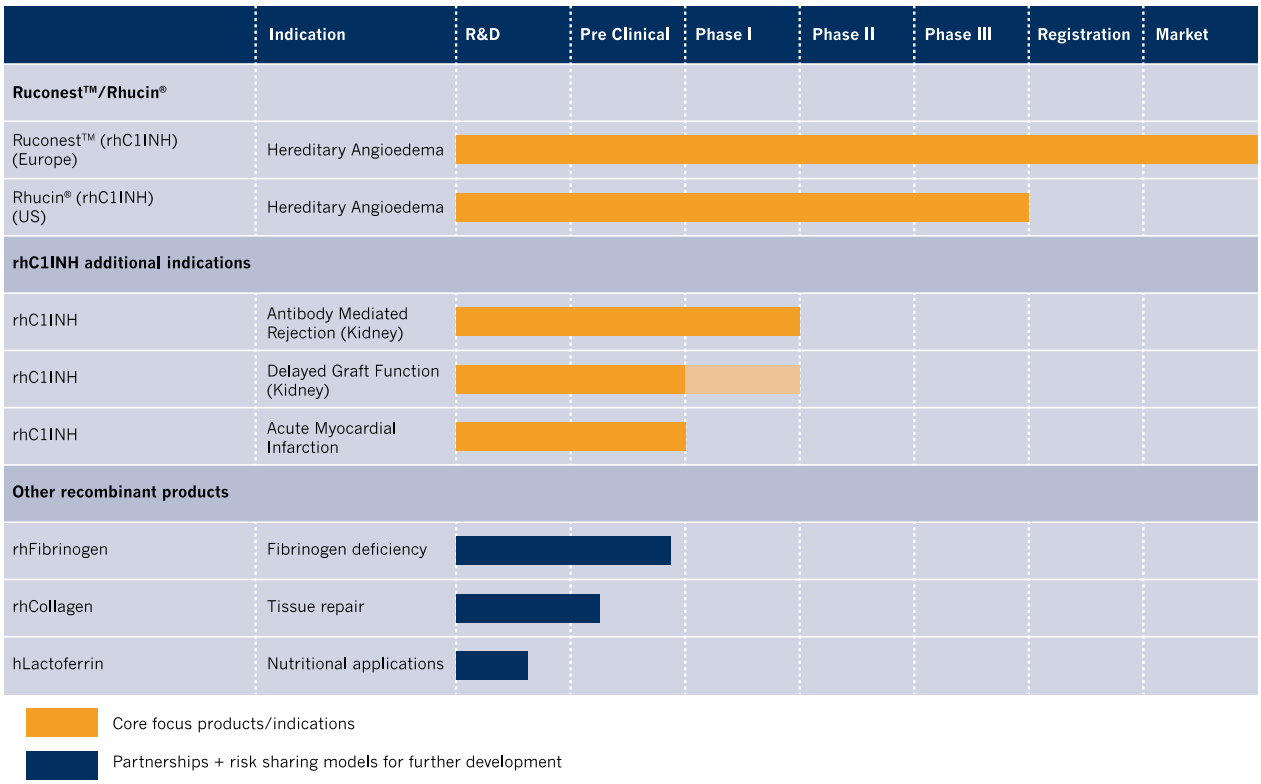
Pharming has delivered on its corporate and development targets for 2010, which was a transformational year as the Company moves from a development led organization towards a commercially focused one. The Company has gained its first major product approval, for Ruconest™ in the EU, appointed strong commercialization partners in key markets and substantially improved its capital structure and bolstered its balance sheet compared to previous years.

During 2010 Pharming focused its resources first and foremost on Rhucin®/Ruconest™ whilst investment in other projects was minimized (completion of ongoing experiments). This focus on key deliverables also resulted in the spin-out of DNage earlier in the year and was associated with a significant decrease in our operating cash outflows.

Key operating developments in 2010

- Completion of a commercialisation partnership for the 24 EU countries plus Norway, Iceland, Liechtenstein and Switzerland with SOBI
- Completion of a commercialization partnership with Santarus for North America (US, Canada and Mexico)
- Granting of the Marketing Authorization Application (MAA) for Ruconest™ by the European Medicines Agency (EMA)
- Clearance of the last €10.9 million of the original €70 million convertible debt from 2007
- EU launch of Ruconest™ by SOBI
- Submission of the BLA with the US FDA
- Significant financing transactions throughout the year (Q1 private bond, Q2 equity offer, Q3 equity proceeds from SEDA & Q4 equity transaction with Socius)

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



Rhucin®/Ruconest™ for Hereditary Angioedema

Pharming's rhC1INH, Rhucin®/Ruconest™, has been developed for the treatment of acute attacks of HAE, 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 fewer than one attack per year, with an estimated average of eight treated acute attacks per year. Swelling of the throat can have the most serious complications, since obstruction of the airway can be fatal. Abdominal attacks can 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 esterase inhibitor can stop these angioedema attacks. Rhucin® is a recombinant version of the human protein C1 inhibitor. Rhucin® is produced through Pharming's proprietary technology, utilizing the milk of transgenic rabbits. Rhucin® offers higher purity and an improved safety profile (no risk of human virus transmission). The 50U/kg dose studied and approved in the EU restores C1INH function to physiological levels and thus provides optimal efficacy in the treatment of acute HAE attacks.

On 28 October 2010 the European Commission granted Marketing Authorisation for the treatment of acute angioedema attacks under the name Ruconest™. The roll-out of Ruconest™ by Swedish Orphan Biovitrum (SOBI) has commenced, first sales have been booked and the various country specific procedures to obtain reimbursement and/or make the product administratively available under the various healthcare systems have been set in motion, or will be set in motion in the near future. EU roll-out generally takes approximately 12 months.

Pharming announced on 28 December, 2010 that it filed a BLA with the FDA to obtain market authorization of Rhucin® in the USA. The FDA subsequently refused to review the application prior to completion of an additional double blind placebo controlled study. In Q4 2010, Pharming had already started an international Phase IIIb study (Study 1310) in the event of the FDA requesting such information. The first patient in this study was treated in February 2011.

For the commercialization of Rhucin®, Pharming has to date entered into four commercial agreements:

- In 2004, the Company signed an agreement with Laboratorios del Dr Esteve, SA (Esteve) in Spain for the development, marketing and sales of Rhucin® in Spain, Portugal, Greece and Andorra; and in 2008 signed a similar agreement with Eczacibasi Ilaç Pazarlama AS ("EIP"), a leading Turkish pharmaceutical company for the marketing and sales of Rhucin® in Turkey.

- In April 2010, an exclusive distribution partnership with SOBI for Iceland, Norway, Switzerland and all the territories of the European Union except Spain, Portugal and Greece was signed. This distribution partnership provided Pharming with a total €8.0 million of milestone payments as received in 2010. SOBI buys finished product from Pharming for a transfer price that incorporates a progressive tiered royalty component based on annual net sales performance. SOBI will also have the option to participate in the development of subsequent indications, which will provide them with commercialization rights following regulatory approval of such indications.

- In September 2010, Pharming entered into an exclusive commercialization partnership with Santarus. This partnership covers Canada, Mexico and the United States of America. Under the agreement Pharming received an upfront payment of US$15.0 million (€11.7 million) in 2010 and is eligible to receive an additional US$30.0 million payable based on achieving certain clinical and commercial milestones 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 payment 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 exceed 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.

Pharming and its partners SOBI and Santarus believe that Rhucin® will, over time, gain significant market penetration in targeted markets, even if competing products have been or will be approved for the same indication.

Management report *continued*

Recombinant human C1 inhibitor for other indications

At the end of 2010 Pharming initiated a Phase II study (together with its North American partner Santarus) to investigate the effects of Rhucin®/Ruconest™ in the treatment of Antibody Mediated Rejection (AMR) after kidney transplantation.

Further pre-clinical work to prepare for clinical development in ischemic reperfusion injury related indications such as Delayed Graft Function (DGF) in Kidney Transplantation and Myocardial Infarction is ongoing.

Despite the technical advances that have been made during the last few decades, rejection of transplanted organs remains a critical issue. Given the shortage of available organs and the high costs associated with transplantation, there is a need for new products that reduce the risk of organ rejection. There is significant scientific and pre-clinical evidence that Rhucin®/Ruconest™ could be used to treat complications after organ transplantation in the following two clinical situations:

- AMR: Antibody-mediated rejection occurs when a transplant 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. Treatment with rhC1INH is expected to suppress the acute immunological reaction.

- DGF: Delayed graft function is a situation occurring immediately after transplantation. Ischemic reperfusion injury, occurring primarily as result of a lack of oxygen during the procedure, may cause a delayed functioning of the transplanted organ and can eventually result in the rejection of the transplanted organ. Treatment of at risk patients with Rhucin®/Ruconest™ is expected to reduce the incidence of DGF and to enhance the transplantation success rates.

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

Reperfusion injury is a complication arising from oxygen shortage due to an interruption of the blood supply (ischemia) resulting in tissue damage. This can occur in a transplanted organ, in the brain, in case of stroke, and in the heart, in case of myocardial infarction ('heart attack'). Pharming investigated and confirmed the efficacy of Rhucin®/Ruconest™ in various pre-clinical reperfusion injury models. The most recent one, a pre-clinical model for DGF in kidney transplantation was published in a peer reviewed journal in February 2010.

Rhucin® has Orphan Drug status in the US for the prevention and/or the treatment of AMR and for treatment/prevention of DGF from the EMA.

Prodarsan and other DNage Activities

As result of the strategic and financial 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 it was put into liquidation at the end of January 2011.

Human lactoferrin, human fibrinogen, human collagen

Towards the end of 2010 an internal taskforce was formed with the objective of out-licensing, or partnering these projects in the course of 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. Now that its technology platform has been validated by the approval in Europe, Pharming has started a review process to define new projects for this platform.

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

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.

FINANCIAL REVIEW 2010

2010 marked the beginning of a transformational period in Pharming's evolution as the Company made the most significant steps yet in its transition from a late-stage development company to an emerging pharmaceutical business, especially with regard to improving its financial position. Pharming cleared the remaining portion of its convertible debt of €10.9 million and entered into a number of financing transactions throughout the year including the private bond in Q1 2010, the equity offering in Q2 2010, some draw-downs from the Yorkville Associates SEDA in Q3 and an equity financing arrangement with Socius Capital in Q4 2010. As well as guaranteeing that we now have excellent partners in place to maximize the future commercial potential of Ruconest™/ Rhucin®, our partnering agreements with SOBI for the EU and with Santarus for North America have provided us with much needed funding from upfront payments and milestones.

Key financial developments in 2010

- Revenues and other income of €1.8 million for the period (2009 €1.1 million)
- Received approximately €20.0 million upfront and milestone payments through commercialization agreements with SOBI and Santarus. As stated previously the latter agreement has additional milestones totaling US$35.0 million (US$30.0 million for achieving certain clinical and commercial milestones and US$5.0 million at BLA acceptance 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®
- Operating costs excluding cost of sales and impairment charges decreased by 20% to €23.0 million in 2010 (2009: €28.7 million). This reduction was mainly a result of research and development costs decreasing to €21.2 million (2009: €24.5 million). The operating cash outflows for 2010 included €2.9 million (2009: €3.1 million) associated with the DNage business unit which will not recur in 2011
- Primarily due to significant (non- cash) impairment charges of €22.8 million (2009: €0.2 million), of which €20.7 million related to goodwill and intangibles associated with the voluntary liquidation of DNage, the operating loss increased to €44.1 million (2009: €27.8 million)
- During the year Pharming raised €37.8 million in gross proceeds from various equity related agreements
- Throughout the year the capital structure improved as debt was settled and equity added
- At year-end 2010 cash and cash equivalents (including restricted cash) were €10.5 million (2009: €2.3 million) with an additional year end 2010 receivable from Socius of €9.0 million and proceeds of €0.93 million, from the exercise of warrants, both of which were received in January 2011 and March 2011, respectively

Management report *continued*

Key financial data

(in €million, except per share data) (unaudited)	Year ended December 31 2010	Year ended December 31 2009
Statement of financial position:		
Non-current assets (excluding restricted cash)	7.9	27.1
Cash and cash equivalents, net of bank overdrafts	10.5	2.3
Other current assets	18.9	12.6
Total assets	37.3	42.0
Deferred license fees income	19.3	-
Convertible bonds	-	9.5
Other liabilities	7.9	19.2
Total equity	10.1	13.3
Statement of income:		
Revenues and other income	1.8	1.1
Impairment charges	(20.7)	(0.2)
Other operating costs	(25.2)	(28.7)
Financial and other income and expenses	(12.3)	(4.2)
Total net loss	(56.4)	(32.1)
Net loss attributable to minority interest	6.2	-
Net loss attributable to equity owners of the parent	(50.2)	(32.1)
Statement of cash flows:		
Net cash used in operating activities	(3.2)	(24.3)
Net cash from/(used in) investment activities	(0.9)	4.2
Net cash from financing activities	12.9	2.5
Share data:		
Outstanding shares at the end of the year	436,261,010	154.501,037
Weighted average shares outstanding in the year	266,313,183	116,177,686
Basic and diluted net loss per share (€)	(0.19)	(0.28)

Discussion of financial transactions and financial position

In 2010, the Company entered into several financial transactions.

Convertible debt financing

In January 2010, Pharming secured convertible debt financing of €7.5 million, which was structured as one year (non-listed) convertible debt instrument that is convertible into Pharming shares at €0.50. The debt had a coupon of 9% per annum. In addition, 15 million warrants were issued to investors with an exercise price of €0.50 and an expiration date of December 31, 2012.

Settlement of earn-outs with former shareholders of DNage
In Q2 2010 the Company announced the initiation of the spin-off process of DNage. The first step in the process included the settlement of earn-out obligations towards former DNage shareholders and was finalized in Q3 2010.

As a result:
- Pharming issued 5,000,000 shares for a total value of €1.0 million
- Pharming issued new shares of DNage to the effect that 51% was held by Pharming and the remaining 49% was held by third parties. The value of the 49% interest as per settlement date was approximately €4.9 million;
- The milestone earn-outs previously due by Pharming were fully cleared. As per the settlement date these had a carrying value of €6.4 million, with the €0.5 million difference to the total value transferred to former DNage shareholders of €5.9 million charged to the non-controlling interest (representing the share of the beneficiaries in the goodwill and the equity value of DNage as per settlement date)

The second step of the spin-off process would be attracting funds from new investors in the DNage entity.

In the second half of 2010, the Company financed the operations of DNage through the (maximum) bridge funding facility of €1.2 million. In view of various uncertainties with respect to the timing and extent of additional external financing for DNage, Pharming in Q3 2010 incurred €2.1 million impairment charges to the statement of income in order to bring down the carrying value of goodwill to the anticipated recovery amount.

In January 2011 the DNage shareholders decided to put DNage into voluntary liquidation and accordingly the remaining carry value of the goodwill (€1.8 million) as well as the intangible assets representing the minimum discounted cash flows from DNage product lines (€16.8 million) were fully impaired. These Q4 2010 charges were partially offset with a similar release of a deferred tax liability in the amount of €4.3 million.

Overall, the DNage business unit in 2010 contributed an amount of €18.7 million or about one third of the consolidated net loss for 2010 of €56.4 million.

Private placement
In the second quarter of 2010 Pharming received €12.0 million gross from existing and new shareholders in an equity offer by means of a private placement at €0.12 per share with institutional investors and qualifying investors who subscribe for a minimum amount of €50,000.

Based on the €0.12 issue price of the private placement, the number of warrants granted in connection with the January 2010 private bonds, ultimately increased to approximately 59 million. Furthermore, the applicable conversion prices of the bonds and the private bonds as well as the exercise price of the warrants was lowered from €0.50 to €0.12.

Yorkville Advisors Stand- by Equity Distribution Agreement (SEDA)
Under the existing SEDA, during August, Pharming raised €2.25 million in cash for the issuance of 14,260,818 shares.

Investment from Socius Capital Group
In December 2010, Pharming entered into an equity agreement with Socius Capital to raise €16.1 million. As part of the agreement Pharming issued debt notes with a nominal value of €12.0 million, carrying nominal interest of 10% per annum over a four year period. Socius exercised its right to subscribe for shares up to €16.1 million. Payment of these shares by Socius is part settled in cash and partly through issuance of debt notes from Socius to Pharming which carry 0.65% interest per annum over a four year period. After four years, the nominal values of the debt notes issued by Pharming and Socius (including accrued nominal interest) are equal; and the mutual debts are off-settable.

Management report *continued*

The structure of the agreement is, in substance, an all equity agreement (including the warrants as the number and exercise price are both fixed) so that the overall accounting treatment in 2010 is as follows:

- €4.8 million received in cash and €9.0 million carried in other current assets as a receivable at nominal value (the €9.0 million was received in January 2011) for the 75,849,057 shares issued, the warrants issued and the residual value of the transaction (e.g. fees and expenses) are all charged within equity
- Overall, the net increase of equity amounts to €13.7 million

Discussion of results

2010 revenues of €0.6 million include the portion of upfront and milestone payments received from new partnerships with Santarus and SOBI as well as first product sales following market launch of Ruconest™. In Q2 2010, the Company entered into a distribution agreement with SOBI under which a €3.0 million upfront payment was received. The Company received a further €5.0 million Market Approval milestone payment in Q4 2010 on receipt of the Marketing Authorization approval for Ruconest™ in Europe. These cash receipts are not recognized as revenues immediately but deferred and released to the statement of revenue over the ten year lifetime of the agreement.

Pharming also received an upfront payment of US$15.0 million (€11.7 million) from Santarus with respect to a license agreement for Rhucin® in the US, Canada and Mexico. A similar accounting treatment applies to this upfront payment as to the payment the Company received from SOBI at the start of the agreement.

Operational costs decreased in 2010 compared to 2009, with 2010 research and development costs reduced significantly by 22% to €19.1 million (2009: €24.5 million), the decrease stems mainly from various costs savings as 2009 costs included significant DNage costs (€4.4 million) and costs associated with the EMA filing for Ruconest™. Our general and administrative costs were €3.3 million, slightly below last year (2009: €3.6 million).

The most significant item in the consolidated statement of income for 2010 is the high level of impairment charges. These relate overwhelmingly to the impairment of goodwill and intangible assets of DNage. In the second half of 2010, the Company financed the operations of DNage through the (maximum) bridge funding facility of €1.2 million.

In January 2011, a significant majority of DNage shareholders voted to put DNage into voluntary liquidation and accordingly the remaining carry value of the goodwill (€1.8 million) as well as the intangible assets representing the minimum future discounted cash flows from DNage product lines (€16.8 million) were fully impaired. These Q4 2010 charges were partially offset with a similar release of a deferred tax liability, which has been linked to the value of the intangible assets, in the amount of €4.3 million. Additional impairment charges of €2.1 million in Q4 2010 relate to inventories.

The financial income and expenses in 2009 and 2010 are mainly non-cash and are primarily driven by transactions with bondholders and Yorkville Associates, anti-dilution share rights triggered by timing of securities issues as well as the interest on earn-out obligations in relation to DNage.

OUTLOOK 2011

Summary of goals for 2011

- Increase the value of the Rhucin® / Ruconest™ franchise through geographical expansion by leveraging existing and/or securing new partnerships
- Build the C1 Inhibitor franchise by focusing on the US regulatory progress and progressing the development of the C1 inhibitor in indications beyond HAE, such as AMR, DGF and other reperfusion injury related diseases
- Leverage the embedded value of the transgenic technology platform through formulation and initiation of new projects
- Execute the planned improvements in Cost of Goods of Ruconest™/ Rhucin®
- Operate within agreed budgets
- Create basis for long term sustainability and strategy through rationalization of the current portfolio and concurrently broaden the portfolio 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)

We have started 2011 from a relatively solid financial situation, with a pro-forma cash position of €20.5 million. From a commercial perspective, Ruconest™ is now approved in the EU and will be rolled out by our partner SOBI throughout the region during 2011. Along with the prospect of additional payments of US$30 million from our US partner Santarus for the achievement of certain clinical and commercial milestones, as well as US$5 million on the acceptance of the BLA for review by the FDA, we may secure further milestone payments from future partnership agreements in countries outside of the EU and North America.

In light of these opportunities, and the fact that the proceeds from the Socius equity transaction in December 2010 have provided us with the majority of our financing needs, we emphasize that our aim of further solidifying our financial position is therefore focused on identifying non-dilutive sources of financing.

On this basis we will continue to execute on our plans and are aiming to bring the Company to financial sustainability.

Given the ongoing, significant market uncertainties, Pharming is not providing guidance for the financial results in 2011.

Management report *continued*

STATEMENTS OF THE BOARD OF MANAGEMENT

On the basis of the above and in accordance with best practice II.1.5 of the Dutch corporate governance code effective as of January 1, 2009, and Article 5:25c of the Financial Markets Supervision Act the Board of Management confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the Company's financial condition and the results of the Company's operations and provide the required disclosures.

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

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

We would like to thank all our shareholders, research collaborators, partners and employees for their help and support in 2010.

Sincerely,

The Board of Management


Sijmen de Vries


Bruno Giannetti


Rienk Pijpstra


Karl Keegan

Leiden,
The Netherlands
30 March 2011

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 authorized to bind the Company towards third parties. On 22 April 2005, the Management Board adopted the current management board regulations which provide for certain duties, composition, procedures and decision-making of the 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 authorized to make a non-binding nomination for a vacancy, consisting of one person. If the Board of Supervisory Directors fails to submit the nominations in time, the General Meeting of Shareholders has the authority to appoint any person it chooses. Notwithstanding the foregoing, the General Meeting of Shareholders may at all times, by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital, deprive the nominations of their binding effect. The General Meeting of Shareholders may adopt or reject a non-binding nomination by a resolution adopted with a majority of the votes cast.

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

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

Management of the Company *continued*

COMPOSITION OF THE BOARD

During 2010, the Board of Management was composed of the following members:

Name	Age	Position	Member since	Term
Mr. Sijmen de Vries	51	Chief Executive Officer	October 13, 2008	Up to AGM in 2013
Mr. Bruno Giannetti	58	Chief Operations Officer	December 1, 2006	Up to AGM in 2011
Mr. Rienk Pijpstra	49	Chief Medical Officer	April 1, 2010	Up to AGM in 2014
Mr. Karl Keegan	44	Chief Financial Officer	October 1, 2010	Up to AGM in 2015
Mr. Rein Strijker	53	Chief Commercial Officer	November 11, 2006	Resigned on May 25, 2010

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

During 2010, 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 a Medical Degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

Bruno Giannetti, MD PhD (1952)
Chief Operations Officer
Nationality: Italian
Date of initial appointment: December 1, 2006
Other current positions: Mr. Giannetti is the founder and president of CRM GmbH, a well established European Clinical Research Organization specializing in international pharmaceutical clinical research.

During 2010, Mr. Giannetti was responsible for the Company's operations such as research 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.

Rienk Pijpstra, MD MBA (1961)
Chief Medical Officer
Nationality: Dutch
Date of initial appointment: April 1, 2010
Other current positions: Mr. Pijpstra was a member of the Supervisory Board of DNage B.V. from 2010 to February 2011.

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

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

Mr. Keegan joined Pharming on September 1, 2010 and was appointed to the Board of Management on October 1, 2010. As of October 1, 2010, Mr. Keegan is responsible for financial and financing activities and investor relations. Mr. Keegan has worked in the healthcare industry for over 15 years, most recently as the CFO of Minster Pharmaceuticals. Prior to Minster, Mr. 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. Mr. Keegan holds a PhD in Pharmacology from the University of Cambridge and a Masters in Finance from the London Business School.

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

In 2010, Mr. Strijker was responsible the overall management of DNage and the identification of new investors for DNage. Until the acquisition by Pharming in 2006, he was the CEO of DNage BV, a company focusing on age related disorders and a Member of Pharming's Supervisory Board. Prior to DNage, Mr. Strijker has held management and R&D positions at Pharming and Genentech Inc. Mr. Strijker holds a PhD in Biochemistry from the Groningen State University. On May 25, 2011 Mr. Strijker resigned from the Board of Management of the Company.

Management of the Company *continued*

COMPOSITION BOARD OF SUPERVISORY DIRECTORS

During 2010, the Board of Supervisory Directors was composed of the following Members:

Name	Age	Position	Member since	Term
Mr. J. Blaak	70	Chairman	23 May 2007	Up to AGM in 2011
Mr. J.H.L. Ernst	71	Member	15 April 2009	Up to AGM in 2013
Mr. K. Macleod	51	Member	26 April 2006	Until 27 May 2010
Mr. J.B. Ward	72	Member	23 May 2007	Up to AGM in 2011
Mr. A. de Winter	58	Member	15 April 2009	Up to AGM in 2013

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

Mr. Blaak has held managerial positions with Hoogovens and Indivers NV and Interturbine Holding BV in the Netherlands, USA, Germany and Singapore. In 1983, he was involved with the foundation of the MIP Equity Fund, one of the largest venture capital groups in Europe, and was appointed CEO in 1986. During the lifetime of the fund, MIP invested in several life sciences companies that became active in The Netherlands, including Centocor, Mogen and EuroCetus/Chiron. In several of the companies MIP invested in, Mr. Blaak was a board member. MIP merged with the ABN-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 is an advisor to the Dutch Ministry of Economic Affairs for the Technopartner program and other innovative projects related to Entrepreneurship and Innovation. Mr. Blaak studied physics, mathematics and business economics at the Free University of Amsterdam and followed the Advanced Management Program of the Harvard Business School (AMP '81).

Mr. J.H.L. Ernst (1939)
Member, member of the Audit, Corporate Governance and Remuneration Committees
Nationality: German
Other current positions: Mr. Ernst is Chairman of the supervisory board of Aeterna Zentaris Inc.

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

Mr. K. Macleod (1960)
Member (until 27 May 2010), member of the Audit Committee (until 27 May 2010)
Nationality: British
Other current positions: Mr. Macleod holds no other board positions.

Mr. Macleod did not stand for re-election after finishing his term that ended at the AGM in 2010. Mr. Macleod is a partner at Paul Capital Partners (UK) and is responsible for sourcing and evaluating European investment opportunities. Mr. Macleod brings a strong operational and financial background. Most recently, he was a Venture Partner at Schroder Ventures Life Sciences, where he was responsible for deal sourcing, evaluation and negotiation of pharmaceutical investment opportunities. Previously, Mr. Macleod held senior management positions over an impressive fifteen-year career at Serono Pharmaceuticals Ltd, Abbott Laboratories Inc and Beecham Pharmaceuticals. Mr. Macleod earned his PhD from the University of York and his BSc with honors in Biology from the University of Manchester, UK.

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

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

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

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

BOARD OF SUPERVISORY DIRECTORS COMMITTEES

The Board of Supervisory Directors has appointed from among its members an Audit Committee and a Remuneration Committee. In 2010, the Board of Supervisory Directors appointed from among its members a Corporate Governance Committee.

The Audit Committee consists of Mr. de Winter (Chairman), Mr. Ernst, Mr. Macleod (until May 27, 2010) and Mr. Ward (as per May 27, 2010). 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. Ultimately 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 corporate governance.

Corporate governance and risk management

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

Except for its majority interest of 51% in DNage BV (put into voluntary liquidation as per January 31, 2011 and declared bankrupt as per February 22, 2011), the Company is the ultimate parent company and owns 100% of all shares in the capital of the affiliated companies listed in Note 2 to the Financial Statements.

As a Dutch listed company, Pharming is obliged to clarify in its annual report the extent to which it complies with the regulations and the best practices provision of the Dutch Corporate Governance Code applicable as of January 1, 2009 (the "Code") in so far they affect the Management Board and the Board of Supervisory Directors and, if they do not apply, to explain the reasons why. The Code provides that if a company's General Meeting of Shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have applied the Code.

Pharming acknowledges the importance of good corporate governance and generally agrees with its basic provisions. Pharming fully supports the principles and best practice provisions of the Code and applies with the relevant best practice provisions of the Code, subject to the exceptions set out on page 27 and 28.

Articles of Association and amendment
The Articles of Association of the Company are posted on the Company's website. The Articles of Association of the Company were most recently amended on October 28, 2010. A resolution of the General Meeting of shareholders to amend the Articles of Association or to dissolve the Company may only be adopted upon a proposal of the Board of Management which has been approved by the Board of Supervisory Directors.

Authorized capital, shares, warrants and options
As of October 28, 2010, the Company's authorized capital amounts to twenty million Euros (€20,000,000). The authorized capital is divided into five hundred million (500,000,000) ordinary shares with a nominal value of four Eurocents (€0.04) each. On December 31, 2010, the issued share capital of the Company amounted to €77,250,518.50 consisting of 436,261,010 shares of twenty Eurocents (€0.207) each. Currently the number of registered shares amount to less than 1% of all issued ordinary shares. There are no cumulative preference shares or depositary receipts of shares issued by the Company or issued with its knowledge by any of its shareholders. The Company has not vested or agreed to any pledges, usufruct, liens or other special voting rights with respect to any of the shares. Further information with respect to the shares, Option plans for the Board of Management, the Board of Supervisory Directors and for employees, options to and warrants on shares is provided in Note 25 to 28 to the Financial Statements.

Corporate governance and risk management *continued*

Issuance of Shares or granting of Options
The Board of Management has the authority to issue shares or grant rights to subscribe for shares (so called options) if and insofar as the Board of Management has been designated by the General Meeting of Shareholders as the authorized corporate body for this purpose and subject to the approval of the Board of Supervisory Directors, all in accordance with the Articles of Association and Dutch company law. As per resolution of the Annual the General Meeting of Shareholders ("AGM") of May 27, 2010, the Board of Management has been granted such authorization to issue shares or grant of rights to subscribe for shares up to hundred percent of the authorized capital of the Company for a period of twelve months ending on May 27, 2011. A renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of May 11, 2011.

Pre-emptive rights
Under the Articles of Association, each holder of shares generally has a pre-emptive right to subscribe to its pro rata portion of any issue of shares or grant of options to subscribe for shares, except for certain issuances to employees and issuances for non-cash consideration. The Board of Management has the authority to restrict or exclude the rights of pre-emption for a period not exceeding five years, if and insofar as the Board of Management has been designated by the General Meeting of Shareholders as the authorized corporate body for this purpose and subject to the approval of the Board of Supervisory Directors. As per resolution of the AGM of May 27, 2010, the Board of Management has been granted such authorization for a period of twelve months ending on May 27, 2011. A renewal of this authorization for a period of twelve months will be submitted for approval to the AGM of May 11, 2011.

Repurchase of shares
Subject to the authorization of the General Meeting of Shareholders and the approval of the Board of Supervisory Directors and subject to certain conditions imposed by the Dutch company law, the Company may repurchase and acquire fully paid-up shares in its own share capital for consideration if: (i) the shareholders' equity of the Company less the acquisition price of such shares is not less than the sum of the Company's paid-up and called-up share capital and the reserves which must be maintained in accordance with Dutch law; and (ii) the aggregate nominal value of shares to be acquired and shares already held by the Company or pledged for the benefit of the Company, or which are held by a subsidiary of the Company, does not exceed one tenth of the Company's issued share capital. As per resolution of the May 27, 2010, the Board of Management has been granted such authorization for a period of twelve months ending on May 27, 2011. A further renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of May 11, 2011. No voting rights may be exercised on shares held by the Company. The Board of Management may decide to transfer such shares. The shareholders of the Company do not have a pre-emptive right on such transfers.

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

Change of control
The Company has not entered into any agreement that will come into effect, change or terminate as a consequence of a change of control of the Company following a public offer on the shares as referred to the Act on the Financial Supervision.

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

During the year 2010, the composition of the Board of Management was as follows:
S. de Vries, Chief Executive Officer, appointed as of October 13, 2008 (appointed up to the AGM in 2013);
B.M.L. Giannetti, Chief Operations Officer, appointed as of December 1, 2006 (appointed up to the AGM in 2011);
R. Strijker, Chief Commercial Officer, appointed as of November 11, 2006 (resigned on May 25, 2010);
R. Pijpstra, Chief Medical Officer, appointed as of April 1, 2010 (appointed up to the AGM in 2014);
K. Keegan, Chief Financial Officer, appointed as of October 1, 2010 (appointed up to the AGM in 2015).

During the year 2010, the composition of the Board of Supervisory Directors was as follows:
J. Blaak, Member, date of initial appointment: May 23, 2007 and Chairman as of April 16, 2008 (appointed up to the AGM in 2011);
K. Macleod, Member, date of initial appointment: April 26, 2006 (appointed up to the AGM in 2010)
J.B. Ward, Member, date of initial appointment: May 23, 2007 (appointed up to the AGM in 2011);
J.H.L. Ernst, Member, date of initial appointment: April 15, 2009 (appointed up to the AGM in 2013);
A. de Winter, Member, date of initial appointment: April 15, 2009 (appointed up to the AGM in 2013).

All members of the Board of Management are statutory directors of the Company. Remuneration and other employment conditions of the Board of Management Members are proposed by the Remuneration Committee and approved by the Board of Supervisory Directors. Mr. de Vries, Mr. Giannetti, Mr. Pijpstra and Mr. Keegan are employed by the Company and Mr. Strijker by DNage BV. The remuneration of members of the Board of Management is in accordance with the current remuneration policy set by the Board of Supervisory Directors. In 2010 the Board of Management consisted of Mr. de Vries, Mr. Giannetti and Mr. Strijker. Mr. Strijker resigned on May 25, 2010 as member of the Board of Management of the Company. Mr. de Vries is the Chairman of the Board of Management and has primary responsibility for the long term strategy and financing of the Company. Mr. Giannetti was responsible for the clinical development (until 01 April 2010), research and manufacturing activities. Mr. Pijpstra was responsible for pre-clinical and clinical development, drug safety, medical information and regulatory affairs. Mr. Keegan was responsible for financial and financing activities and investor relations. Mr. Strijker was responsible for the general management of the DNage business.

The members of the Board of Supervisory Directors are selected by the Board of Supervisory Directors and appointed by the General Meeting of Shareholders. In 2010 the Board of Supervisory Directors consisted of Mr. Blaak (Chairman), Mr. Ward, Mr. Macleod, Mr. Ernst and Mr. de Winter. Mr. Macleod has resigned as per the AGM of May 27, 2010.

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

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

Corporate governance and risk management *continued*

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

In 2010, no material transactions have taken place between Members of the Board of Management and the Company.

All current Members of the Board of Management are under contract by the Company. As part of the terms of their employment contract each Member of the Board of Management has undertaken not to compete with Company's activities. During the past year, Mr. Pijpstra served on the Board of Supervisory Directors of DNage BV after the spin-off by Pharming. No conflicts of interest were reported between Members of the Board of Management and the Company or its subsidiaries.

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

Mandates with third parties
No Member of the Board of Management is a member or chairman of the Board of Supervisory Directors of another listed company. Acceptance of more than two mandates as a Board of Supervisory Directors member or of a mandate as chairman of the Board of Supervisory Directors of a listed company requires the prior approval of the Board of Supervisory Directors. Other appointments of material importance need to be notified to the Board of Supervisory Directors. There have been no such notifications or appointments during the year 2010.

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

Risk management and control
Pharming has in place an internal risk management and control system that provide a reasonable assurance that the financial reporting does not contain any errors of material importance. The complete internal risk management and control systems of the Company are regularly discussed by the Board of Management with the Board of Supervisory Directors and its Audit Committee and, in addition, procedures and controls are reviewed and areas requiring improvement are identified in audits from external parties. It also has a whistleblowers' procedure, which is published on the Company's website. A new Code of Conduct is in preparation and will be posted on the Company's website in the near future. A new risk assessment is also in progress.

The Company has in place an Operations Management Team (OMT) and a Project Evaluation Committee (PEC) to further strengthen the internal controls of the Company. The OMT and the PEC include managers from the product, research and manufacturing departments. The Chairman of the OMT is the Chief Operations Officer. The Chairman of the PEC is the Chief Medical Officer.

The Company has a Group Controller, also acting as Compliance Officer, and a General Counsel also acting as Company Secretary. In addition, key risk factors applicable to the Company were addressed at several of the Board of Supervisory Directors meetings in 2010. The Board of Management and the Board of Supervisory Directors have committed themselves to further developing the internal management and control systems. For this reason a Corporate Governance Committee has been appointed, consisting of Mr. Ward (Chairman), Mr. de Winter and Mr. Ernst. Further information concerning risk factors is provided in Note 32 to the Financial Statements.

Appointment of the external auditor
At the AGM held on May 27, 2010, PricewaterhouseCoopers was appointed as the Company's external auditor for a period of one year, expiring at the AGM in 2011. It is the intention to submit to the AGM to be held on May 11, 2011, the appointment of PricewaterhouseCoopers to become the Company's external auditor for a period expiring by the date of the next AGM.

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

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

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

Profile Board of Supervisory Directors (section III.3.1)
The current Board of Supervisory Directors profile was adopted under and in compliance with the previously prevailing Corporate Governance Code. This profile has not been aligned with the more detailed requirements of this provision under the currently prevailing Corporate Governance Code.

Corporate governance and risk management *continued*

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

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

Granting of Shares or Rights to Shares to Board of Supervisory Directors Members (section III.7.1 of the Code)
The Company believes that, in today's biotechnology market, remuneration that includes restricted share options is deemed necessary, being customary practice, to attract excellent Board of Supervisory Directors members with industry experience. From 2008 the Board of Supervisory Directors members could participate in the LTIP but as of 2011 the Board of Supervisory Directors members decided to withdraw their participation in the LTIP.

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

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

Outline policy on bilateral contacts with the shareholders (section IV.3.13)
This is a requirement, introduced only by the implementation of the currently prevailing Code. The Company has not historically felt the requirement for such a policy and therefore did not comply.

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

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 January 1, 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 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 on pages 32 to 35

Composition and remuneration
In 2010 the composition of the Board of Supervisory Directors was as follows: Mr. Blaak (Chairman), Mr. Ward, Mr. Macleod, Mr. Ernst and Mr. de Winter. Mr. Macleod has resigned at the AGM of May 27, 2010.

The remuneration of the members of the Board of Supervisory Directors is determined by the General Meeting of Shareholders. In 2010 the annual remuneration of a member of the Board of Supervisory Directors was €23,000 and €34,500 for the Chairman of the Board of Supervisory Directors. 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. Mr. Macleod is partner of Paul Capital, an investment firm that holds shares in the Company.

Activities
The Board of Supervisory Directors met seven times in 2010. At each of these meetings all Members were present or participated 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.

Board of supervisory directors *continued*

During its meetings, the Board of Supervisory Directors paid special attention to the following risks:
- The Company's performance for 2011 and beyond is dependent, amongst other events, on the achievement of certain milestones. There is no certainty that these milestones will actually be achieved;
- The Company is largely dependent on the development of one key product for which and regulatory filings in major markets. However, the outcome of the regulatory process may be influenced by unpredictable events;
- The Company is dependent on the availability and commitment of key employees;
- The Company is active in a niche market for an orphan drug product with at least three competitors;
- The Company does not yet have a positive operational cash flow and therefore might be dependent on financial markets in the future;
- The timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimize the Company's exposure. Financial risks are actively monitored by the Board of Management in general and the finance department in particular, whose findings are discussed within the Board of Management on a monthly basis or whenever deemed necessary. The finance department also maintains a close working relationship with the legal department to monitor other corporate and contractual risks. The risks are further described in the corporate governance chapter commencing on page 23.

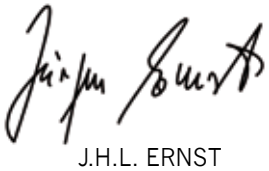
The quarterly financial statements are circulated to the full Board of Supervisory Directors in advance of every Audit Committee meeting. During the four Audit Committee meetings held in 2010, the financial statements were discussed with a special emphasis on the impact of IFRS related issues and the comparison of the budgeted cash flows with actuals. In addition, the management letter from the external auditor was discussed. The Audit Committee in 2010 consisted of Mr. De Winter (Chairman), Mr. Ernst, Mr. Macleod (until May 27, 2010) and Mr. Ward (as per May 27, 2010). All meetings of the Audit Committee were also attended by the other members of the Board of Supervisory Directors.

During the 2010 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met four times in 2010. 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 nomination of Mr. Pijpstra and Mr. Keegan as members of the Board of Management Board was discussed as well. The remuneration packages, long term incentive plan and 2011 objectives were also discussed and agreed in the last meeting.

A report of the Remuneration Committee can be found on page 32-35.

Financial statements
The financial statements of Pharming Group NV for 2010, as presented by the Board of Management, have been audited by PricewaterhouseCoopers. Their report is included in this Annual Report. 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 2010 Financial Statements and to discharge the Board of Management and the Board of Supervisory Directors from liability for their management and supervisory activities on behalf of the Company.

J. BLAAK



J.H.L. ERNST

J.B. WARD

A. DE WINTER

Leiden,
The Netherlands,
30 March 2011

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

2010 Remuneration policy and structure
The remuneration policy for 2010 was approved in the Annual General Meeting of May 2010. 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 26 to the Financial Statements;

- In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on extraordinary performance and/ or the achievement of predetermined objectives. These contracts have included provisions for an individual bonus in cash of up to twenty five percent, which became forty percent upon regulatory approval for Ruconest™ in Europe, 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 can not exceed the member's gross annual salary. The notice period for each Member is two months;
- Members of the Board of Management as well as other key individuals 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 35).
- During 2010, in line with corporate governance guidelines, the Board of Supervisory Directors have decided to withdraw their participation in the LTIP.

Meetings and Composition
During the 2010 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met four times in 2010. 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 nomination of Mr. Pijpstra and Mr. Keegan as members of the Board of Management Board was discussed. The remuneration packages, long term incentive plan and achievements versus 2010 objectives were also discussed and agreed in the last meeting.

Remuneration Report 2010
Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant 1,600,000 of the available 1,600,000 stock options of the 2010 Option Plan (as approved by the EGM on March 30, 2010 for Mr. Pijpstra, by the AGM on May 27, 2010 for Mr. de Vries and Mr. Giannetti and by the EGM on October 01, 2010 for Mr. Keegan), in line with the achievement of the preset target by the Board of Management. The exercise price of these options is €0.376 for Mr. Pijpstra, €0.401 for Mr. de Vries and Mr. Giannetti and €0.185 for Mr. Keegan. The stock options of Mr. Pijpstra will expire on March, 29, 2015. The stock options of Mr. de Vries and Mr. Giannetti will expire on May 26, 2015. The stock options of Mr. Keegan will expire on September 30, 2015. To Mr. de Vries 750,000 stock options were granted, to Mr. Keegan 350,000 stock options and to Mr. Giannetti and Mr. Pijpstra 250,000 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 2010. The Remuneration Committee recognized that despite turbulent times each member of the Board of Management had contributed to positioning the Company for the future in particular by the following accomplishments:
- Ruconest™ approved and launched in the EU;
- Creation of a solid financial basis for 2011 as result of income generated by partnerships, timely financing activities and clearance of Convertible Debt 2007;
- Significant reduction of operating expenses, ahead of budget;
- Focused operations: successful spin-out of DNage; and
- BLA submission in December 2010.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided that the Board of Management, both individually and collectively succeeded in achieving most, but not all of the corporate and personal objectives that had been set.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to pay out the bonus 50% in cash and 50% in shares, as the financial position of the Company, although significantly improved during 2010, still needs further solidification and also further aligns management's interests with those of shareholders. The shares were valued at the VWAP measured over the 5 trading days prior to January 31, 2011 (Euro 0.198/ 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 2010 and in the light of developments at other listed biotechnology/ specialty pharma companies in Europe. On this basis, the Remuneration Committee advised the Board of Supervisory Directors to increase the fixed salary of all members of all Board of Management from January 1, 2011. Mr. de Vries salary will be increased by €46,000 to €396,000 per annum, Mr. Giannetti by €15,000 to €265,000 per annum, Mr. Pijpstra by €11,000 to €221,000 per annum and Mr. Keegan by €25,500, to € 213,000 per annum. At the same time Mr. Keegan's net rental allowance of €12,000 per annum was cancelled.

Remuneration Policy 2011 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.

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

Report of the remuneration committee *continued*

For 2011, the Remuneration Committee will continue to implement the compensation policy approved at the 2010 AGM. Remuneration elements described below under 1, 2, 3 (partly), and 4 are covered by the current compensation policy. As usual shareholder approval will be sought at the AGM to be held on May 11, 2011, for the proposed number of share options to be granted to the Board of Management and for the Staff option pool.

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

2. Target bonus of up to 40% of annual salary in cash and/or in shares valued at the VWAP measured over the 5 trading days prior to January 31, 2012. 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 2011.

The main corporate objectives for 2011 for the Board of Management can be summarized as follows:

- Increase the value of the Rhucin®/ Ruconest™ franchise through geographical expansion by securing leveraging existing and/or securing new partnerships
- Build the C1 Inhibitor franchise by focusing on US regulatory progress and progressing the development of C1 inhibitor in indications beyond HAE, such as AMR, DGF and other reperfusion injury related diseases
- Leverage the embedded value of the transgenic technology platform through formulation and initiation of new projects
- Execute the planned improvements in Cost of Goods of Ruconest™/ Rhucin®
- Operate within agreed budgets
- Create a basis for long term sustainability through rationalization of the current portfolio and concurrently broaden the portfolio 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. The amounts and parameters are outlined below.

Description of proposed 2011 share option grants to the Board of Management:

	Nr of options	**Parameters**
Mr. Sijmen de Vries	3,500,000	In service at 01 January 2012
Mr. Bruno Giannetti	2,275,000	In service at 01 January 2012
Mr. Rienk Pijpstra	2,275,000	In service at 01 January 2012
Mr. Karl Keegan	2,500,000	In service at 01 January 2012

It is proposed to reserve 3,500,000 options for the staff option pool for distribution during 2011.

4. The Long Term Incentive Plan under which restricted shares are granted conditionally to the Board of Management and certain eligible managers each year with a target value of 30% of annual salary. These shares will vest after three years provided that the share price has increased (i.e. increased total shareholder value. The number of shares vested will be based on the relative performance of the share price compared to a group of 35 European Small Cap (< €500 million) listed companies active in Life Sciences.

The reference group consists of the following companies:

Morphosys (DE)	Genmab (DE)	AMT (NL)	Oxford Biomedica (UK)
Addex (CH)	ImmuPharma (UK)	Biotie Therapeutics (FI)	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)	Renovo (UK)
Cellectis (DE)	Galapagos (BE)	Photocure (NO)	
Medigene (DE)	Ti-Genix (BE)	Innate Pharma (FR)	
Thrombogenics (BE)	Allergy Therapeutics (UK)	Wilex (DE)	
Basilea (CH)	Neurosearch (DK)	Evotec (DE)	
Ablynx (BE)	Bavarian Nordic (DK)	GW Pharma (UK)	

The vesting schedule will be as follows:

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

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

At January 1, 2011, after three years of the three year period of the 2008-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 2009 and 2010 LTIP still have one and two years respectively to run.

For 2011, the Board of Supervisory Directors, following the recommendation of the Remuneration Committee, has determined that the amount of shares calculated at the closing price of 31 Dec 2010 (€0.207) shall be equal to 30% of each of the Board of Management's 2011 base salaries.

This results in the following allocations:
Mr. S. de Vries 573,913 shares, Mr. K. Keegan 308,695 shares, Mr. B. Giannetti 384,057 shares, Mr. R Pijpstra 320,289 shares. For a selected group of senior managers 500,000 shares are available. A maximum amount of 125,000 shares per senior manager can be allocated.

The Board of Supervisory Directors and Management Board have agreed to review the Long Term Share based Compensation elements during 2011, with a view to developing a new LTIP plan during 2011.

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

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

Medical Need
Pharming is developing therapeutic products for specific rare diseases (orphan drug development) and other significant medical needs. 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 strictly defined and 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 internally as well as by various external independent supervisory and oversight committees such as ethical committees and independent data monitoring committees (where applicable) and the regulatory authorities. The risk benefit of the products in each indication under development or marketed is continuously evaluated. Findings, and Pharming's interpretation there-off, are reported to the relevant authorities according to legal timelines, and result in appropriate actions such as updating investigator brochures and product labeling. In the most extreme cases a safety concern can result in suspension of enrolment in a clinical trial or withdrawal of the product from the market.

Clinical studies are carried out in compliance with legal and regulatory requirements and according to Good Clinical Practice (GCP) guidelines. All external laboratories comply with either Good Laboratory Practice (GLP) or Good Manufacturing Practice (GMP) guidelines. All internal and external production facilities and processes comply with regulatory Good Manufacturing Practice (GMP) guidelines. Pharming's quality assurance and control department is reviewing internal procedures and processes and carrying out internal and external audits of processes, products and facilities on a regular basis. All these processes and guidelines are implemented to assure that we meet all of the regulatory standards required for our products.

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

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. To ensure this, a new Code of Conduct, formally describing a wide variety of ethical and behavioural standards, to which the Pharming Board of Supervisory Directors, the Board of Management and all its employees and consultants will subscribe to, is in preparation and will be posted on the Company's website in the near future

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

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

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

Human Resources
Our people are a main source of competitive advantage for Pharming and we remain committed to dedicating significant amounts of time and resource to their growth, development and well-being.
During 2010, a project team consisting of a delegation of the Board of Management, Works Council, employees and Human Resources updated and improved the current pension plan, which dated back to 2000. The objective of this project was to create an up to date and market conforming pension plan for employees, whilst at the same time taking into account the financial position of the Company.

Based on this, and helped by the significantly increased transparency in the financial services industry over the last few years, which led to significantly improved cost structures for pension plans, we were able to create a revised and market conforming pension plan, whilst limiting the increase in financial burden for the Company.

Work Environment
We develop our employees' talents and encourage and support them to maximize their achievements. Dedicated employees with a winning team spirit are essential to the achievement of our objectives. Our target is to further develop our business through the introduction of products that improve or save lives but at the same time we believe in improving our own employees' lives through offering a challenging work environment. We do this through investing in training and development opportunities for all employees; in doing so, Pharming encourages the development of function-related and personal skills and behaviors, since we believe this highly contributes to the collective realization of all our individuals' potential.

Employee Statistics
Pharming is a relatively small company with less than 90 employees. The majority of personnel are employed at Pharming's headquarters in Leiden and approximately twenty- five employees are working at other locations in the Netherlands and the USA. The Company's business involves specific high-tech processes and technologies and requires the employment of medium to highly educated personnel. Some of the internal departments are occupied by only one person with specialist knowledge, skills and experience. Therefore, it is important to Pharming to retain and motivate personnel and attract and retain top talent in a competitive and global environment.

Corporate social responsibility *continued*

During 2010 the following changes to the headcount took place:
• We hired 8 (2009: 24) new employees while 8 (2009: 11) employees continued their careers outside Pharming.
• DNage BV was spun out, which decreased the number of people employed by 11 and the weighted average full time equivalent (FTE) by 10.6.

As per December 31, 2010, 84 people were employed (2009: 95), representing 78 FTE's (2009: 86).

Headcount as per December 31	**2010**	**2009**
Pharming (Netherlands)	73	70
Pharming (USA)	11	12
DNage BV	-*	13
Total	84	95

FTE	**2010**	**2009**
R&D	63	72
G&A	15	14
Total	78	86

* Pharming spun out DNage during 2010, and discontinued the funding of DNage in early 2011.

Diversity
At the end of 2010, 54% (2009: 54%) of our total workforce was female and 18% (2009: 24%) of the senior managers was female.

A large number of our employees are relatively young: the average age is 38 with the vast majority of employees in the age brackets 36-40 and 41-45.

Health, Safety and Environment
Daily activities at the Company include working with all kind of materials that could harm employees and/or our environment. To create a work environment that is as safe as possible, we created an internal Health and Safety position. A professional dedicated staff member is working on Health and Safety policies and monitors the implementation. For more complex issues and for periodical reviews, external professionals are consulted.

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 dialogue with its employees and therefore considers the Works Council to be a valuable partner.

In 2010, the Works Council and the Board of Management held monthly meetings to discuss various subjects, including corporate strategy and financing, regulations on conditions of employment, the safety-health-and-welfare policy and pension scheme.

Information for shareholders and investors

GENERAL

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

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

Activities in 2010 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; and
- Timely updates in the Investor Relations section of our website.

SHARE INFORMATION AND TRADING DATA

Pharming Group NV's shares have been listed on NYSE Euronext NV Amsterdam (symbol: PHARM) since 1999. Pharming was included in the Small cap index (AScX) on Euronext Amsterdam during 2010, which consists of the top 25 actively traded small caps on Euronext Amsterdam, ranked on the basis of value of full year 2009 turnover of shares in Euros.

As of March 21, 2011, Pharming shares are included in the NYSE Euronext Amsterdam Dutch mid-cap index (AMX).

The Shares are traded under the following characteristics:
ISIN Code: NL0000377018
Common Code: 15661178
Amsterdam Security Code: 37701

Shareholders wanting to participate in AGM or EGM's may apply via their bank in writing to ABN- AMRO Bank by fax to +31 (0) 10 264 4651 or by e-mail to: abnamro.depotbewijzen@nl.abnamro.com

Shareholders meeting information can be found at the Company's website (www.pharming.com) and can be requested by e-mail at; listing.agency@nl.abnamro.com

Information for shareholders and investors *continued*

In the following table information per share and relevant trading data in 2010 compared to 2009 are depicted:

Amounts in €'000 (except per share data)	2010	2009
Earnings per share	(0.19)	(0.28)
Dividend	-	-
Average daily trading volume (nr. of shares traded)	5,481,808	616,593
Highest closing price	0.499	0.84
Lowest closing price	0.159	0.35
Price at year-end (€)	0.207	0.45
Shares outstanding at year-end	436,261,010	154,501,037
Market capitalization	90,306	69,525

FINANCIAL CALENDAR FOR 2011

11 May 2011	Annual General Meeting of Shareholders at the Pharming headquarters in Leiden, the Netherlands at 14.00 CET
12 May 2011	Publication of Q1 2010 financial results at 7.00 CET
4 August 2011	Publication of Q2 2010 financial results at 7.00 CET
17 November 2011	Publication of Q3 2010 financial results at 7.00 CET

Glossary

AGM
Annual General Meeting of Shareholders of Pharming Group NV.

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

AMX
The Amsterdam Mid Cap Index is composed of the top 25 actively traded mid cap companies on the NYSE Euronext stock exchange of Amsterdam. The companies in AMX are selected for the index based on their market value. The market value is calculated as follows: total of issued shares x free float (=percentage of shares that are freely tradable on the NYSE Euronext stock exchange) x share price. Pharming was previously included in the AMX until March 21, 2010 and has again been included in the AMX as of March 21, 2011.

AScX
The Amsterdam Small Cap Index is composed of the top 25 actively traded small cap companies on the NYSE Euronext stock exchange of Amsterdam. The companies in AScX are selected for the index based on their market value. The market value is calculated as follows: total of issued shares x free float (=percentage of shares that are freely tradable on the NYSE Euronext stock exchange) x share price. Pharming was included in the AScX from March 21, 2010 to March 21, 2011.

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

BOM
The Board of Management of Pharming Group NV.

CMO
Contract Manufacturing Organisation.

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.

Glossary *continued*

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

DNage
With the acquisition of the Dutch company DNage BV in 2006, DNage became a wholly-owned subsidiary of Pharming Group NV. DNage was focused on discovery and development of products for ageing diseases which are caused by DNA damage. DNage had active programs in the areas of osteoporosis, neurodegeneration (brain diseases), metabolic diseases and genetic diseases (premature ageing). DNage was put into liquidation at the end of January 2011 and was declared bankrupt on February 22, 2011.

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 Administration.

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

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

HAEI
Hereditary Angioedema International (patient organization).

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

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

IMC
Pharming's Innovation Management Committee.

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

LTIP
Pharming's Long Term Incentive Plan.

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

Management Board
The Board of Management of Pharming Group NV.

NYSE
New York Stock Exchange.

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

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

PEC
Pharming's Project Evaluation Committee.

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

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
Pharming's Research and Development activities.

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

Glossary *continued*

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

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

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

Ruconest™
Ruconest™ is the global registered trade mark for Pharming's recombinant human C1 inhibitor for the treatment of patients with acute HAE attacks.

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

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

SOBI
Swedish Orphan Biovitrum.

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

VWAP
Volume Weighted Average Price of Pharming shares.

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in €'000	Notes	December 31, 2010	December 31, 2009
Goodwill	4	-	4,312
Intangible assets	5	1,163	17,585
Property, plant and equipment	6	6,702	5,240
Restricted cash	7	176	176
Non-current assets		**8,041**	**27,313**
Inventories	8	9,013	11,255
Trade and other receivables	9	9,932	1,392
Cash and cash equivalents	7	10,302	15,923
Current assets		**29,247**	**28,570**
Total assets		**37,288**	**55,883**
Share capital	11	17,450	77,251
Share premium	11	219,220	187,708
Other reserves	11	15,407	10,422
Accumulated deficit	11	(241,213)	(262,068)
Shareholders' equity		**10,864**	**13,313**
Non-controlling interest	11	(764)	-
Total equity		**10,100**	**13,313**
Deferred license fees income	12	17,342	-
Deferred tax liability	13	-	4,276
Earn-out obligations	14	-	1,788
Other liabilities	15	162	236
Non-current liabilities		**17,504**	**6,300**
Bank overdrafts	7	-	13,761
Convertible bonds	16	-	9,461
Earn-out obligations	14	-	4,208
Deferred license fees income	12	1,936	-
Derivative financial liability	16	573	-
Trade and other payables	17	7,101	8,769
Current portion of other liabilities	15	74	71
Current liabilities		**9,684**	**36,270**
Total equity and liabilities		**37,288**	**55,883**

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	2010	2009
License fees	18	465	335
Product sales	18	108	-
Revenues		**573**	**335**
Costs of product sales	20	(91)	-
Gross profit		**481**	**335**
Income from grants	19	1,191	761
Other income		**1,191**	**761**
Research and development	20	(21,159)	(24,560)
General and administrative	20	(3,313)	(3,570)
Impairment charges	21	(20,696)	(167)
Share-based compensation	25	(636)	(647)
Costs		**(45,804)**	**(28,944)**
Loss from operating activities		**(44,131)**	**(27,848)**
Settlement convertible bonds	16	-	2,829
Fair value gain derivative	16	-	243
Fair value result embedded derivative	10	-	785
Other interest income, net	22	-	426
Foreign currency results	23	-	125
Financial income		**-**	**4,408**
Fair value loss derivative	16	(7,659)	-
Effective interest convertible bonds	16	(3,644)	(5,427)
Anti-dilution provisions	11	(2,905)	-
Interest on earn-out obligations	14	(777)	(1,530)
Other interest expenses, net	22	(88)	-
Foreign currency results	23	(843)	-
Other financial expenses	24	(596)	(1,327)
Financial expenses		**(16,512)**	**(8,284)**
Income taxes	13	4,276	(336)
Net loss		**(56,367)**	**(32,060)**
Attributable to:			
Equity owners of the parent		(50,215)	(32,060)
Non-controlling interest		(6,152)	-
Share information:			
Basic and diluted net loss per share (€)		(0.19)	(0.28)
Weighted average shares outstanding		266,313,183	116,177,686
Number of shares outstanding at year-end		436,261,010	154,501,037

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31

Amounts in €'000	**2010**	**2009**
Net loss for the year	(56,367)	(32,060)
Foreign currency translation	163	(73)
Other comprehensive income, net of tax	**163**	**(73)**
Total recognized income and expense	**(56,204)**	**(32,133)**
Attributable to:		
Equity owners of the parent	(50,052)	(32,133)
Minority interest	(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	2010	2009
Receipts from license partners	12	20,355	100
Receipt of Value Added Tax		1,519	2,098
Interest received		78	584
Receipt of grants		367	302
Other receipts		414	497
Payments of third party fees and expenses, including Value Added Tax		(18,583)	(20,052)
Net compensation paid to board members and employees		(3,817)	(3,885)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(3,002)	(3,043)
Interest paid		(100)	·
Other payments		(389)	(885)
Net cash flows used in operating activities		**(3,158)**	**(24,284)**
Purchase of property, plant and equipment	6	(909)	(304)
Divestment of available-for-sale financial assets	10	·	4,506
Net cash flows from/(used in) investing activities		**(909)**	**4,202**
Net proceeds of equity issued	11	18,240	9,230
Gross proceeds convertible bonds issued	16	7,500	·
Payments of transaction fees and expenses		(1,146)	·
Payments convertible bonds	16	(10,900)	(4,745)
Payments of nominal interest convertible bonds	16	(750)	(1,928)
Payments of other financial liabilities	15	(49)	(85)
Net cash flows from financing activities		**12,895**	**2,472**
Net increase/(decrease) cash and cash equivalents		**8,828**	**(17,610)**
Exchange rate effects on cash and cash equivalents		(688)	162
Cash and cash equivalents at January 1		2,338	19,786
Cash and cash equivalents at December 31		**10,478**	**2,338**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31

ATTRIBUTABLE TO OWNERS OF THE PARENT

Amounts in €'000	Notes	Number of shares	Share capital	Share premium	Other reserves
Balance at January 1, 2009		**97,429,854**	**48,715**	**183,980**	**7,403**
Reclassification fair value results	11	·	·	·	2,443
Total recognized income and expense		·	·	·	(73)
Share-based compensation	11	·	·	·	892
Commitment shares issued (non-cash)	11	1,200,000	600	·	·
Shares issued in exchange of cash	11	16,958,881	8,480	1,272	·
Bonds converted	11, 16	38,912,302	19,456	2,456	(243)
Balance at December 31, 2009		**154,501,037**	**77,251**	**187,708**	**10,422**
Total recognized income and expense		·	·	·	163
Share-based compensation	11	·	·	·	636
Settlement DNage B.V.	11, 14	5,000,000	200	800	·
Interest payments settled in shares	11, 16	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, 16	47,710,616	1,908	8,969	·
Warrants exercised	11, 16	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**

The notes are an integral part of these financial statements.

Consolidated financial statements *continued*

ATTRIBUTABLE TO OWNERS OF THE PARENT

Amounts in €'000	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at January 1, 2009	**(227,565)**	**12,533**	**-**	**12,533**
Reclassification fair value results	(2,443)	-	-	-
Total recognized income and expense	(32,060)	(32,133)	-	(32,133)
Share-based compensation	-	892	-	892
Commitment shares issued (non-cash)	-	600	-	600
Shares issued in exchange of cash	-	9,752	-	9,752
Bonds converted	-	21,669	-	21,669
Balance at December 31, 2009	**(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	-	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**

Notes to the consolidated financial statements

For the year ended December 31, 2010

1. Corporate information

The consolidated financial statements of Pharming Group NV, Leiden for the year ended December 31, 2010 were authorized for issue in accordance with a resolution of the Board of Supervisory Directors on March 30, 2011. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for May 11, 2011.

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

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

2. 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 2010 issued by the International Accounting Standards Board (IASB) as adopted by the European Union. In conformity with article 402 Book 2 of the Netherlands Civil Code, a condensed statement of income is included in the Pharming Group NV accounts.

The consolidated financial statements have been prepared under the historical cost convention; accounting policies applied are consisted with those for the financial statements of the financial year 2009.

Going Concern Assessment

The Board of Management of Pharming has, upon preparing and finalizing the 2010 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 commercial activities to meet its entire 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.

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

1. Pharming's first priority is to enter into license agreements in respect of Rhucin for territories not already covered through existing license agreements in Canada, the European Union, Iceland, Mexico, Norway, Switzerland, the United States of America and Turkey. Such agreement will, inter alia, potentially result in an upfront cash payment;
2. In 2010 Pharming entered into a commercialization agreement with Santarus, Inc. Under the agreement the Company is entitled to receive up to US$35.0 million in cash upon achievement of certain clinical and commercial milestones, of which about US$15.0 million relates to milestones that can be achieved within one year after the date of these financial statements;
3. The Company also expects cash income from sales of Rhucin inventories to license partners. However, 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 both volumes and timing;
4. Pharming's management is highly focused on generating additional operating cash flows through entering into one or more commercial agreements with third parties for the co-development of recombinant proteins beyond the current programs. These agreements would be structured similar to those entered into for Rhucin in 2010 and therefore may result in receipt of substantial upfront and milestone payments;
5. 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);
6. Pharming may use the SEDA to cover any deficits in the finance of its operations. Under the terms of the SEDA, Yorkville can invest a total of up to €30.0 million in a three year period until April 2012. Pharming has the right, but not the obligation, to call the funds in regular tranches. Until the date of these financial statements, total cash received under the SEDA amounts to €8.9 million, resulting in €21.1 million funds still available. Pharming is entitled to call up to €0.4 million per tranche by issuing shares at a 5% discount to the market price, provided the market price of the shares is at least 20% above the €0.04 nominal value of the shares. Yorkville may also accept a single tranche exceeding €0.4 million. However, capital market transactions under item 5 may prohibit Pharming to execute transactions under the SEDA for a certain period of time;

Notes to the consolidated financial statements *continued*

7. 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;
8. Finally, the Company may be able to attract funds through divestment of individual assets or a group of assets. However, the outcome of such divestment activities is uncertain in view of economic conditions in general and the relatively small market for such specific assets in particular.

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.

Also, the Company's equity position of €10.1 million at December 31, 2010 may become negative in the course of 2011 or 2012 and this could limit the possibility to execute certain financing transactions.

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

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

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

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

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

Investments in companies in which Pharming does not control or have significant influence on the financial and the operational decisions are classified as (available-for-sale) financial assets. In accordance with IAS 39 (Financial instruments), these investments are carried at fair value. 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, 2010:

Entity	Registered office	Investment %
Pharming BV (*)	The Netherlands	100.00
Pharming Intellectual Property BV	The Netherlands	100.00
Pharming Technologies BV	The Netherlands	100.00
Broekman Instituut BV	The Netherlands	100.00
Pharming Healthcare, Inc	United States	100.00
DNage BV	The Netherlands	51.00
ProBio, Inc	United States	100.00

(*) dormant

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.

Inventories
At year end 2010, the Company has capitalized rhC1INH product and milk with an aggregate value of €9.0 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.

Other current assets and Trade and other payables of DNage
In January 2011, the shareholders of DNage decided to put DNage into voluntary liquidation.

Other receivables at year end 2010 include €0.2 million in relation to grants to be recovered by the DNage business unit. Though the Company is of the opinion that DNage is entitled to receive these amounts as the costs eligible for reimbursement have been incurred and paid in accordance with the grant regulations, the ultimate settlement of these grant receivables may be lower in case the entity awarding the grant takes the position that no reimbursement takes place in view of the specific condition of the DNage entity.

As per the end of 2010 the consolidated trade and other payables of €7.1 million include €1.9 million due by DNage to third parties. In view of the voluntary liquidation these liabilities ultimately may be settled for an amount (significantly) different from the carrying value, in which case the effect will be reported in the statement of income upon settlement.

Accounting policies

Foreign currency translation
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (generally Euros) using exchange rates prevailing at the date of the transaction. Transactions executed in foreign currencies are translated at the exchange rate at the date of transaction. The resulting transaction gains or losses are recognized in the statement of income. Assets and liabilities of foreign entities are translated to Euros using year-end spot foreign exchange rates. The statements of income of foreign entities are translated at average exchange rates for the year. The effects of translating these operations are taken directly to equity. On disposal of a foreign entity, the accumulated exchange difference is recognized in the statement of income as a component of the gain or loss on disposal. In general, the above-stated translation of foreign entities applies to the entities in the United States. The €/US$ exchange rates applied at December 31, 2010 amounted to €0.748 (2009: €0.694).

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 measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

The remaining amortization periods for intangible assets at December 31, 2010 are:

Category	Description	Remaining amortization period
DNage technology	Product, marketing, and distribution rights	Not applicable*
Transgenic technology	Patents and licenses	4-12 years
Rhucin® for HAE (EU)	Development costs	10 years
ProBio technology	Patents and licenses	Not applicable*

** intangible assets with carrying value at December 31, 2010 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	5 years
(or less, based on actual use compared to standards)	
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 in a saleable or useable position;
- skimmed milk. This item serves as a raw material for the batches rhC1INH. Valuation per unit skimmed milk is based on the total costs of the rabbit facilities and the actual production levels.

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

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

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

Notes to the consolidated financial statements *continued*

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

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

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

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

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

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories (financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables) in the scope of IAS 39 (Financial instruments: recognition and measurement). After initial recognition, available-for-sale financial assets such as the marketable securities in Note 10 (but excluding the embedded derivative portion) are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the accumulated gain or loss previously reported in equity included in the statement of income.

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

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

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

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

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

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

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

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

Derecognizing financial assets and liabilities

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

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

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

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

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

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

Notes to the consolidated financial statements *continued*

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.

Pension plan
For all Dutch employees with an indefinite employment contract and who have reached the age of 25 years, the Company participates in defined contribution pension plans with an independent insurance company. Defined contributions are expensed in the year in which the related employee services are rendered.

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

Share-based payment
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 or after 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 valuation purposes, the period in which the options become unconditional is defined as the vesting period. As a result of the sliding scale according to which the options become unconditional, graded vesting is applied.

Long Term Incentive Plan
For a limited number of Board Members and managers, performance shares are granted free of charge. A maximum number of predetermined shares vest three years after the grant date with actual shares to be transferred based on the relative achievement of Pharming's share price compared to a peer group. The maximum number of shares immediately vests upon a change of control. The costs of this Long Term Incentive Plan are based on the actual participants still in service and assumptions with respect to share price developments, the relative performance within the peer group, the expected departure number of Board Members and managers for the remaining period until vesting date and the estimated possibility of a change of control and the timing thereof.

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

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

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

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

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

Taxes

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

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

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

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

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

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

Notes to the consolidated financial statements *continued*

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 the International Financial Reporting Interpretation Committee (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 2010. The adoption of these standards and interpretations did not have a material effect on the Company's financial performance or position.

The amendment to IFRS 2, 'Share-based Payment: Group-Cash Settled Share-based Payment Transactions', clarifies the scope and the accounting for group cash-settled share-based payment transactions. Pharming adopted this amendment as of 1 January 2010. This has not had a material effect on the financial performance or position of the company.

The revised IFRS 3, 'Business Combinations', and the amended IAS 27, 'Consolidated and Separate Financial Statements', became effective for Pharming as of January 1, 2010. They introduced a number of changes that are relevant to new acquisitions of the group and to changes in ownership interests in subsidiaries:
- contingent consideration payable is recognized at fair value at the acquisition date with subsequent changes in this value being recognized in profit or loss unless the contingent consideration is classified as equity, in which case it is not re-measured and settlement is accounted for within equity;
- transaction costs related to acquisitions, other than those associated with the issuance of debt or equity securities, are expensed as incurred;
- a non-controlling interest may be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity in which the non-controlling interest is held;
- in the event that a business combination is achieved in stages, the value of an equity interest previously held is re-measured to fair value at the acquisition date and value changes are recognized in profit or loss;
- changes in ownership interests in a subsidiary (without loss of control) are accounted for as transactions with owners and no longer give rise to goodwill, nor to a gain or loss. When control over a subsidiary is lost, the remaining interest is re-measured to fair value at the date when control is lost.

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 adoption of other standards with an effective date after the date of these financial statements is not expected to have a material impact on the consolidated financial statements. Certain additional disclosures and accounting changes will be required and will be introduced as of the effective date of the standards and interpretations.

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

4. Goodwill

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

Upon acquisition of DNage in 2006, the Company agreed, as more extensively explained in Note 14, to pay earn-outs to former DNage shareholders. In 2008 the Company deferred the expected achievement date of certain earn-out components and in addition, in view of the credit crunch, increased the discount rate from 20% to 23%. The total effects of the deferred achievement date and the increased discount rate on the net present value of the liabilities, amounting to €1,142,000, were charged to the original asset on which the earn-out obligations relates, being goodwill. In 2009 and 2010, the achievement dates of milestones were further deferred and as a result the net present value of earn-out obligations was decreased by €2,686,000 in 2009 and €386,000 in 2010 with a similar decrease of 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. 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 cannot 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 is deemed to be €nil with costs to sell not applicable.

Movement for the years 2009 and 2010 was as follows:

Amounts in €'000	**2010**	**2009**
Balance at January 1	4,312	6,998
Adjustments earn-out obligations	(386)	(2,686)
Impairment charges	(3,926)	-
Balance at December 31	**-**	**4,312**

Net carrying value of the goodwill at year-end 2009 and 2010 consists of:

Amounts in €'000	**2010**	**2009**
Gross carrying value	9,190	9,190
Accumulated adjustments earn-out obligations	(4,214)	(3,828)
Accumulated impairment charges	(4,976)	(1,050)
Net carrying value	**-**	**4,312**

Notes to the consolidated financial statements *continued*

5. Intangible assets

Movement of intangible assets per category for the financial years 2009 and 2010 was:

Amounts in €'000	DNage technology	Transgenic technology	Rhucin® for HAE (EU)	ProBio technology	Total
At cost	16,770	3,001	-	2,816	22,587
Accumulated amortization charges	-	(1,920)	-	(994)	(2,914)
Accumulated impairment charges	-	-	-	(1,622)	(1,622)
Net book value at January 1, 2009	**16,770**	**1,081**	**-**	**200**	**18,051**
Capitalization development at cost	-	-	48	-	48
Amortization charges	-	(314)	-	(33)	(347)
Impairment charges	-	-	-	(167)	(167)
Movement 2009	-	(314)	48	(200)	(466)
At cost	16,770	3,001	48	2,816	22,635
Accumulated amortization charges	-	(2,234)	-	(1,027)	(3,261)
Accumulated impairment charges	-	-	-	(1,789)	(1,789)
Net book value at December 31, 2009	**16,770**	**767**	**48**	**-**	**17,585**
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 book value at December 31, 2010	**-**	**644**	**519**	**-**	**1,163**

In accordance with IAS 38.97, amortization of intangible assets with a finite useful life begins when the asset involved is available for use. For product lines this is the moment of market launch of the product involved. An amount of €16,770,000 relates to the intangible assets identified in the 2006 DNage acquisition, representing the fair value of product lines acquired. 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 is not possible, the remaining carrying value of €16,770,000 cannot 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 is deemed to be €nil with costs to sell not applicable.

Effectively year end 2009 the Company has capitalized development costs in the amount of €48,000 in relation to Rhucin for HAE in the European Union. 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 2009 and 2010. 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.

6. Property, plant and equipment

Movement of property, plant and equipment for the financial years 2009 and 2010 is:

Amounts in €'000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Assets under construction	Other	Total
At cost	**849**	**5,708**	**2,517**	**1,019**	**-**	**1,697**	**11,790**
Accumulated:							
Depreciation charges	(64)	(2,466)	(550)	(294)	-	(835)	(4,209)
Impairment charges	-	-	-	(680)	-	-	(680)
Exchange rate effect	(197)	(784)	-	-	-	(24)	(1,005)
Net carrying value at January 1, 2009	**588**	**2,458**	**1,967**	**45**	**-**	**838**	**5,896**
Investments	-	187	7	-	-	115	309
Depreciation charges	(6)	(321)	(263)	(10)	-	(306)	(906)
Exchange rate adjustment	(15)	(42)	-	-	-	(3)	(60)
Movement 2009	**(21)**	**(176)**	**(256)**	**(10)**	**-**	**(194)**	**(657)**
At cost (*)	849	5,895	2,524	1,019	-	1,589	11,876
Accumulated:							
Depreciation charges (*)	(70)	(2,787)	(813)	(304)	-	(919)	(4,893)
Impairment charges	-	-	-	(680)	-	-	(680)
Exchange rate effect	(212)	(825)	-	-	-	(26)	(1,063)
Net carrying value at December 31, 2009	**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 (*)	849	5,714	2,524	1,019	2,054	1,339	13,499
Accumulated:							
Depreciation charges (*)	(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**

(*) in 2009 en 2010, the Company eliminated fully depreciated assets no longer in use from accumulated costs and accumulated depreciation with an effect of €516,000 in 2010 (2009: €223,000)

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. Aggregate investments are approximately €2.5 million of which €2.1 million was under construction at year-end 2010. Upon completion and validation of these assets they are reclassified to the category of manufacturing equipment with depreciation starting after start of use.

Of the 2009 investments of €309,000, items valued at €5,000 were unpaid at year end 2009 and accordingly €304,000 has been presented as an investment cash flow in the 2009 statement of cash flows. Total 2010 investments of €2,139,000 included €1,235,000 unpaid at year end 2010 so that, including the 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.

Notes to the consolidated financial statements *continued*

7. Net cash position and analysis of cash flows

The overall net cash position at year-end 2009 and 2010 was as follows:

Amounts in €'000	**2010**	**2009**
Non-current restricted cash	176	176
Cash and cash equivalents	10,302	15,923
Bank overdrafts	-	(13,761)
Balance at December 31	**10,478**	**2,338**
Balance at January 1	2,338	19,786
Net increase/(decrease) for the year	**8,140**	**(17,448)**

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

The main cash flow statement items for the years 2009 and 2010 can be summarized as follows:

Amounts in €'000	**2010**	**2009**
Net cash flows used in operating activities	(3,158)	(24,284)
Net cash flows from/(used in) investing activities	(909)	4,202
Net cash flows from financing activities	12,895	2,472
Exchange rate effects on cash and cash equivalents	(688)	162
Net increase/(decrease) cash and cash equivalents	**8,140**	**(17,448)**

Pharming's net cash flows used in operating activities decreased from €24.3 million in 2009 to €3.2 million in 2010; the €21.1 million decrease primarily reflects aggregate receipts from license agreements in the amount of €20.4 million in 2010 as compared to €0.1 million received in 2009. As disclosed in Note 29, operating cash flows used in 2010 operations included €2.9 million in relation to the DNage business unit with the remaining €0.3 million allocated to the Recombinant proteins segment. The funding of DNage activities has been terminated early 2011.

Investing activities in 2009 were largely affected by the one-time divestment of marketable securities for a cash amount of €4.5 million with investments in property, plant and equipment increasing from €0.3 million in 2009 to €0.9 million in 2010. The 2010 investments of €0.9 million primarily reflect payments in relation to assets under construction as disclosed in Note 6.

The 2009 cash flows from financing activities reflect €9.2 million proceeds of equity issued offset by €6.7 million in payments to bondholders. 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.

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

The composition of inventories at year-end 2009 and 2010 was:

Amounts in €'000	**2010**	**2009**
Batches rhC1INH	8,221	11,255
Skimmed milk	792	-
Balance at December 31	**9,013**	**11,255**

In 2010, the Company charged €1.0 million (2009: €0.9 million) of rhC1INH inventories to research and development costs based on use in (pre)clinical activities and €0.1 million (2009: €nil) as cost of product sales. The Company in 2010 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 €0.8 million (2009: €nil).

Based on expected use of batches rhC1INH in future commercial, preclinical and clinical development and the approaching expiration dates of these inventories, finished product with a carrying value of €2,077,000 were written down to the statement of income 2010 (2009: €35,000) and recognized as an impairment charge. The major portion of remaining inventories has expiration dates starting at mid 2012; other inventories primarily have expiration dates in 2014 but are expected to be sold or used before expiration.

9. Trade and other receivables

The composition of other current assets at December 31, 2009 and 2010 was:

Amounts in €'000	**2010**	**2009**
Receivable Socius CG II, Ltd.	9,034	-
Prepaid expenses	126	736
Value added tax	87	143
Accrued interest	-	63
Other receivables	685	450
Balance at December 31	**9,932**	**1,392**

The other current assets at December 31, 2010 are substantially short-term in nature (expected to be settled in 2011). With respect to the receivable on Socius CG II, Ltd. of which the background is further explained in Note 11, the full balance has been received early 2011. Other receivables include €0.6 million in relation to grants with €0.4 million received early 2011; the remaining €0.2 million in grants reflects grants to be recovered by the DNage business unit.

Prepaid expenses at December 31, 2009 included an amount of €468,000 in relation to 1,200,000 shares issued to Yorkville Advisors at €0.50 per share or €600,000 in total (also see Note 11). The €600,000 was scheduled to be amortized proportionally over actual investments made by Yorkville Advisors out of the total €30.0 million maximum SEDA value. At year end 2009, the total investment amounted to €6.6 million so that €132,000 has been charged to the statement of income of 2009. In 2010 Pharming received another €2,250,000 under the SEDA and accordingly an amount of €45,000 was amortized with a remaining balance of prepaid expenses of €423,000. The Company reviewed this position at per year end 2010 and concluded that the remaining €423,000 should be fully amortized in view of the likelihood that (almost) no further use of the SEDA will (need to) be made given the further improvement of the Company's financial position resulting from financial transactions and milestone payments throughout 2010. As a result, total amortization charges for 2010 amounted to €468,000 (see Note 24).

Notes to the consolidated financial statements *continued*

10. Marketable securities
Marketable securities related to a €6.0 million investment in public loans issued in June 2005 by a financial institution. Pharming sold the entire investment in 2009 and accordingly accrued interest decreased from €333,000 in 2009 to nil in 2010.

Movement of marketable securities for the financial years 2009 and 2010 was:

Amounts in €'000	**2010**	**2009**
Nominal value at January 1	-	6,000
Accumulated fair value result embedded derivative at January 1	-	(2,252)
Net carrying value at January 1	**-**	**3,748**
Accrued interest	-	333
Interest received	-	(360)
Fair value result embedded derivative	-	785
Divestment	-	(4,506)
Balance at December 31	**-**	**-**

11. Equity
The Company's authorized share capital amounts to €20.0 million and is divided into 500,000,000 ordinary shares with a nominal value of €0.04 each. All 436,261,010 shares outstanding at December 31, 2010 have been fully paid-up.

Other reserves includes 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 2009 and 2010.

Reclassification fair value results
Net unrealized gains and losses relate to the fair value adjustments on the Company's available-for-sale financial assets, being the investment in marketable securities (see Note 10). In 2009 the Company identified that these marketable securities acquired in 2005 included an embedded derivative. In the financial years 2005-2008 the fair value changes of this embedded derivative were charged to the reserve for 'net unrealized gains/(losses)' within equity but should have been charged to the statement of income. The accumulated fair value losses were €2,235,000 at December 31, 2007 and €2,443,000 at December 31, 2008. In view of the immaterial impact (being a €208,000 loss), the comparative statement of income of 2008 was not adjusted in 2009 but the year end 2008 balance of €2,443,000 was reclassified from 'net unrealized gains/(losses)' to 'accumulated deficit', both within equity, in 2009. The 2009 fair value adjustments on the marketable securities were charged to the statement of income with no further 2010 fair value adjustments recognised since the assets were fully sold in 2009.

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 outstanding as per the date of the adjustment. The reduction is made due to losses incurred and accordingly the amount of share capital has been decreased with €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 with €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 2010 of €50,215,000 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 €190,998,000 to €241,213,000 at year-end 2010.

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 2009 these transactions were valued at €647,000 and for 2010 at €636,000 (see Note 25); in addition, an amount of €245,000 was charged in 2009 in relation to 2,450,000 warrants issued in order to facilitate bond conversions (see Note 16).

Settlement 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 14) 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.

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.

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 issued in exchange of cash
In April 2009, the Company entered into a Standby Equity Distribution Agreement ('SEDA') with YA Global under which YA Global can invest a total of up to €20.0 million in a three year period, in return for which Pharming issues a number of shares based on the lowest volume weighted average price over a five day period minus a 5% discount. Upon closing of the SEDA, Pharming issued and transferred 800,000 Commitment Shares to YA Global valued at €0.50 per share. In October 2009, the SEDA was extended with a further €10.0 million and Pharming issued and transferred an additional 400,000 Commitment Shares valued at €0.50 per share to YA Global.

In 2009 Pharming called a total amount of €6,600,000 with €2,250,000 called in 2010. In return, in 2009 Pharming issued a total number of 11,871,669 shares to YA Global with a total fair value of €7,122,000; in 2010, a total of 14,260,818 shares were issued with a total fair value of €2,378,000. The difference between the fair value of the shares issued and the cash received amounted to €522,000 in 2009 and €128,000 in 2010 and has been recognized in Financial expenses (see Note 24).

The total value of Commitment Shares in the amount of €600,000 has been capitalized in 2009. This amount is amortized in the statement of income in accordance with the nominal amount settled relative to the maximum investment of €30.0 million. In 2009 and 2010, the total amortization charges based on €6,600,000 (2009 and €2,250,000 (2010) received in cash amounted to €132,000 (2009) and €45,000 (2010). In addition, the Company at year end 2010 amortized the full remaining prepaid expense of €423,000 in view of the estimated likelihood that all or a part of he SEDA would be used after the end of the reporting period until expiration of the SEDA facility. Accordingly, total amortization charges recognized in Financial expenses (see Note 24) amounted to €123,000 in 2009 and €468,000 in 2010.

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

Notes to the consolidated financial statements *continued*

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

At the start of 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.

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 is 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 is 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.

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 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 are forwarded to share capital (€3,034,000);
- the €0.172 intrinsic value of the 24,339,623 warrants is charged to other reserves equity (€4,186,000, to be reclassified to share premium upon exercise with cash to be received upon exercise of €974,000 to be forwarded to share capital);
- the total commission fees and transaction costs of €1,300,000 are charged to share premium;
- the residual value of the transaction is charged to share premium (€7,814,000).

Overall, the net increase of equity amounts 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 other current assets at year end 2010 (see Note 9) with the full balance received in cash early 2011.

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 Rhucin/ 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.

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.

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

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

13. Deferred tax

The net deferred tax liability at the start of 2009 comprised a liability amount of €4,276,000 in relation to intangible assets recognized upon the acquisition of DNage in 2006 minus a €336,000 deferred tax asset. No value adjustments for these items had been recognized prior to 2009.

In 2009, the Company assessed the income tax position of DNage in relation to the fiscal unity with Pharming Group NV and concluded that future tax benefits are highly unlikely to occur. Accordingly, the €336,000 tax asset has been fully written down in 2009. The remaining net liability at December 31, 2009 of €4,276,000 was expected to be settled more than 12 months after the end of the reporting period.

As explained in Note 5, the full carrying value of the intangible assets was impaired in 2010 and accordingly the deferred tax liability of €4,276,000 was released to the statement of income.

Income taxes for the years 2009 and 2010 were as follows:

Amounts in €'000	**2010**	**2009**
Current income taxes	-	-
Write-off deferred tax asset	-	(336)
Release deferred tax liability	4,276	-
Income taxes	**4,276**	**(336)**

Both in 2009 and 2010 no income tax items with a direct impact on equity or comprehensive income have been recognized.

Notes to the consolidated financial statements *continued*

The movement of deferred tax assets and deferred tax liabilities for the years 2009-2010 is as follows:

Amounts in €'000	Deferred tax liability	Deferred tax asset	Net deferred tax liability
Balance at January 1, 2009	4,276	(336)	3,940
Write-off deferred tax asset	-	336	336
Balance at December 31, 2009	**4,276**	**-**	**4,276**
Release deferred tax liability	(4,276)	-	(4,276)
Balance at December 31, 2010	**-**	**-**	**-**

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

	€million	Offsettable up to and inclusive
Taxable losses up to and inclusive 2002	100,2	2011
Taxable losses 2003	24,0	2012
Taxable losses 2004	15,8	2013
Taxable losses 2005	15,0	2014
Taxable losses 2006	16,7	2015
Taxable losses 2007	35,7	2016
Taxable losses 2008	29,6	2017
Taxable losses 2009	28,6	2018
Total taxable losses filed	**265,6**	

The tax position has been approved up to and inclusive the fiscal year 2006 (accumulated losses of €171.7 million); tax filings for the fiscal years 2007-2009 have been submitted but are subject to approval of the Dutch tax authorities.

The tax filing for 2010 has not been submitted as per the date of these financial statements and therefore have not been included in the above table. Main anticipated differences between the total net loss of €56.4 million and the 2010 fiscal loss are:
- impairment charges on goodwill and intangible assets of €20.7 million on aggregate are not tax-deductible in 2010;
- the main portion of financial expenses (about €15.0 million out of €16.5 million) is not tax-deductible in 2010;
- income associated with release of deferred tax liabilities (€4.3 million) is not included as 2010 taxable income; and
- deferred income from license fees at year end 2010 (€19.3 million) is fully recognised as 2010 taxable income.

Overall, the Company anticipates a 2010 taxable loss in the Netherlands of approximately €5.7 million so that the accumulated taxable losses of the Dutch fiscal unity at year end 2010 are estimated to be approximately €271.3 million.

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

14. Earn-out obligations

Upon acquisition of DNage in 2006, the Company agreed to pay the following earn-outs to former DNage shareholders:
- two separate €5.0 million milestones subject to achievement of certain milestones relevant for clinical development. Pharming at its sole discretion may decide to pay the milestones in Pharming shares at a price per share valued on the basis of the average closing price of the Pharming shares on twenty business days prior to achievement of the milestone;
- earn-out payments based on milestone payments, upfront fees, license fees and royalties received by Pharming in respect of a DNage compound during a period of ten years from the starting date of the commercial sale of a DNage product launched before November 21, 2016, the net sales of each commercial sale of a DNage product;
- certain earn-out payments in case of a commercial sale of a product combined of a DNage and a Pharming product.

The Company as per the 2006 acquisition date determined the discounted value of the earn-outs to be €5,575,000, taking into account the probability of paying any amounts to former DNage shareholders, the nominal amount to be paid and the timing thereof. This discounted value was fully charged to goodwill. Subsequent to initial measurement, the Company expensed non-cash interest based on 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 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.

Movement of the earn-out obligations for 2009 and 2010 was:

Amounts in €'000	**2010**	**2009**
Total balance at January 1	5,996	7,152
Interest accrued	777	1,530
Goodwill adjustments	(386)	(2,686)
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	**-**	**5,996**
Current balance	-	(4,208)
Non-current balance at December 31	**-**	**1,788**

15. Other liabilities

Other non-current liabilities are comprised of:

Amounts in €'000	2010	2009
Lease incentives	130	159
Financial lease	32	77
Balance at December 31	**162**	**236**

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

Notes to the consolidated financial statements *continued*

Movement of the lease incentives for 2009 and 2010 was:

Amounts in €'000	2010	2009
Total balance at January 1	188	217
Released to statement of income	(29)	(29)
Total balance at December 31	**159**	**188**
Current portion at December 31	(29)	(29)
Non-current at December 31	**130**	**159**

A financial lease agreement was entered into in September 2007, in relation to certain laboratory equipment. The contract has 60 monthly installments of €4,000 in which a total amount of €243,000 is repaid, consisting of €206,000 repayment of the investment and interest of €37,000. After this period, Pharming can buy the equipment for €2,000. At year end 2010, the net carrying amount of the asset involved as leased was €69,000 (2009: €110,000).

Movement and composition of the financial lease obligations for 2009 and 2010 was:

Amounts in €'000	2010	2009
Total balance at January 1	119	158
Interest expense accrued	7	10
Repayments	(49)	(49)
Total balance at December 31	**77**	**119**
Current portion at December 31	(45)	(42)
Non-current at December 31	**32**	**77**

The composition of the current portion of non-current liabilities at year-end 2009 and 2010 is as follows:

Amounts in €'000	2010	2009
Lease installments	45	42
Lease incentives	29	29
Balance at December 31	**74**	**71**

Together with the final installments of a loan of the State of Wisconsin paid in 2009 for an aggregate cash amount of €36,000, aggregate repayment of financial liabilities in 2009 amounted to €85,000. In 2010 such payments were limited to the lease installments of €49,000 on aggregate.

16. Convertible bonds and derivative financial liability

The convertible bonds balances as well effective interest on convertible bonds relate to financial instruments issued in 2007 ('Bonds 2007') and 2010 ('Bonds 2010') with a derivative financial liability resulting from warrants issued in connection with the Bonds 2010.

Bonds 2007

Effectively 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.

In 2008 an aggregate nominal value of €20,150,000 Bonds 2007 was cancelled in exchange for cash and shares so that, at the start of 2009, the outstanding Bonds 2007 had decreased to €49,850,000.

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

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

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

Both on April 30, 2010 and October 31, 2010 the Company paid semi-annual interest of €375,000 or €750,000 in total. Effectively 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 are still 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.

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; the fair value upon issue is 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.

Notes to the consolidated financial statements *continued*

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

		Fair value derivative		Carrying
Amounts in €'000	**December 31, 2010**	**January 5, 2010**	**Movement 2010**	**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.

Since the Company does not have an unconditional right to defer settlement of the remaining 5,208,333 cashless warrants for at least twelve months after the end of the reporting period, the carrying amount at the end of 2010 has been classified as current.

The movement of the interest-bearing part of the Bonds 2007 and Bonds 2010 and related conversion option and warrants in 2009-2010 is as follows:

Amounts in €'000	**2010**	**2009**
Total balance at January 1	9,461	35,693
Of which:		
- Bonds	9,461	35,693
- Warrants	-	-
- Conversion rights	-	-
Movements 2010		
Cash proceeds 2010 issuance of bonds (incl. conversion options and warrants)	7,500	-
Effective interest accrued	3,644	5,427
Fair value movement conversion options and warrants	7,659	-
Payments of nominal interest bonds 2007 in cash	(750)	(1,928)
Payments of nominal interest bonds 2010 in shares	(179)	-
Repayments bonds 2007 in cash	(10,900)	(4,745)
Shares issued upon conversion 2010 bonds	(10,877)	(21,912)
Shares issued to settle warrants	4,986	-
Transaction result bonds 2007 converted	-	(3,074)
Total balance at December 31	**572**	**9,461**
Of which:		
- Bonds	-	9,461
- Warrants	572	-
- Conversion rights	-	-

17. Trade and other payables

Trade and other payables at year-end 2009 and 2010 consist of:

Amounts in €'000	**2010**	**2009**
Accounts payable	2,939	5,098
Taxes and social security	145	120
Deferred compensation due to related parties	234	16
Other payables	3,783	3,535
Balance at December 31	**7,101**	**8,769**

The amount of deferred compensation due to related parties relates to Members of the Board of Supervisory Directors and Board of Management. Balances due at December 31, 2010 relate to 2010 bonuses for the Board of Management.

18. Revenues

Revenues for the financial years 2009 and 2010 can be split as follows:

Amounts in €'000	**2010**	**2009**
License fees	465	335
Product sales	108	-
	573	335

Income from license fees in 2009 relates to several installments on existing and new contracts with respect to products and use of the Company's technology; cash settlement of these items took place in 2009 (€100,000) and 2010 (€235,000).

The 2010 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 relates to the first supplies of Rhucin inventories to Swedish Orphan Biovitrum International AB following Market Approval in the European Union in October 2010.

19. Other income

Other income related to grants exclusively and amounted to €761,000 in 2009 and €1,191,000 in 2010. Grant income from the DNage business unit increased from €528,000 in 2009 to €676,000 in 2010 as a result of a new grant awarded. For the recombinant proteins business unit, grant income increased from €233,000 to €515,000 as a result of a one-time grant awarded by the US government.

20. Costs of product sales, research and development, general and administrative

Cost of product sales in 2010 amounted to €0.1 million (2009: €nil) and follow from the first supplies of Rhucin inventories to Swedish Orphan Biovitrum International AB late October 2010.

Costs of research and development decreased from €24.5 million in 2009 to €21.2 million in 2010. The decrease primarily stems from higher costs incurred in relation to the 2009 submission of a Marketing Authorization Application (EU) for Rhucin, the capitalization of development costs for Rhucin in 2010 (see Note 5) as well as capitalization of skimmed milk (see Note 8). In addition, the costs of the DNage business unit lead product Prodarsan were substantially higher in view of the stage of development and associated studies. Finally, the Company has been further focusing on cost savings.

Pharming's general and administrative costs decreased from €3.6 million to €3.3 million in view of 2009 costs incurred with respect to a public offer to the bondholders as described in Note 16, including the issuance of a prospectus, and cost savings.

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

Employee benefits for the financial years 2009 and 2010 comprised:

Amounts in €'000	**2010**	**2009**
Salaries	6,759	6,066
Social security costs	636	577
Pension costs	321	259
	7,716	**6,902**

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

Notes to the consolidated financial statements *continued*

The number of employees for 2009 and 2010 per functional category was as follows (at weighted average full time equivalent factor):

	2010	2009
Research and development	73	72
General and administrative	16	14
	89	**86**

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

Inventories
In 2010, the Company expensed an amount of €1.0 million for batches of rhC1INH (2009: €0.9 million) in research and development expense and €2.1 million for impairment charges (2009: less than €0.1 million).

Impairment charges on inventories in 2009 and 2010 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 €35,000 in 2009 and €2,077,000 in 2010.

Depreciation and amortization charges

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

Amounts in €'000	**2010**	**2009**
Property, plant and equipment	839	906
Intangible assets	132	347
	971	**1,253**

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 2010 an amount of €653,000 was charged to research and development costs (2009: €715,000) with the remaining €186,000 to general and administrative expenses (2009: €191,000).

Operating lease charges
For the year 2010, the Company charged approximately €0.7 million (2009: €0.8 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars. These non-cancellable leases have remaining terms of between one to five years and generally include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The expected operating lease charges after the end of the reporting period have been disclosed in Note 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 NV incurred in relation to 2010 audit services were €95,000 (2009: €94,000) with other services and audit-related services amounting to €108,000 (2009: €123,000, including activities related to the issuance of a prospectus). Altogether, fees incurred for services of PricewaterhouseCoopers Accountants NV were €203,000 in 2010 (2009: €217,000). These expenses were charged to General and administrative expenses.

21. Impairment charges

The 2009 and 2010 impairment charges relate to:

Amounts in €'000	**2010**	**2009**
Intangible assets	16,770	167
Goodwill	3,926	-
	20,696	**167**

The 2010 impairment charges on intangible assets and goodwill reflect the remaining carrying values related to the DNage entity. In May 2010 the Company reached an agreement with the former shareholders of DNage which entailed that all earn-out obligations (see Note 14) 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 cannot be recovered and thus the balance was fully impaired in 2010. Similarly, no future proceeds from DNage product lines as reflected in intangible assets can be expected and accordingly the balance of €16,770,000 was fully impaired in 2010.

Intangible assets impairment charges in 2009 related to the remaining carrying value of the ProBio assets.

22. Other interest income or expense, net

The composition of other net interest in 2009 and 2010 was as follows:

Amounts in €'000	**2010**	**2009**
Interest income/(expense) cash and cash equivalents	(81)	106
Interest income marketable securities	-	333
Interest expense financial lease	(7)	(10)
Interest expense loan State of Wisconsin	-	(3)
	(88)	**426**

The marketable securities were sold in 2009 whereas the final installment of the loan due to the State of Wisconsin was repaid in and accordingly no interest income or expense on these items was charged in 2010. Decreasing interest income on cash and cash equivalents reflect a combination of lower balances and interest compensation.

23. Foreign currency results

These results primarily follow from the revaluation of bank balances denominated in foreign currencies and the timing of foreign currency payments against the actual exchange rate as compared to the original exchange rate applied upon the charge of fees or expenses. Net exchange rate profits of €125,000 in 2009 included net profits of €162,000 in relation to revaluation of cash and cash equivalents; in 2010, exchange rate losses amounted to €843,000 of which €688,000 in relation to cash and cash equivalents.

24. Other financial expenses

The composition of other financial expenses in 2009 and 2010 was as follows:

Amounts in €'000	**2010**	**2009**
Success fees	-	673
SEDA transaction result	128	522
Amortization Commitment Shares	468	132
	596	**1,327**

Success fees relate to expenses in relation to the public offer to bondholders in the fourth quarter of 2009. As described in Note 11, the SEDA transaction result in 2009 relates to differences between the €7,122,000 fair values of shares issued to YA Global and the €6,600,000 received in cash; in 2009, the fair value of shares issued to YA Global amounted to €2,378,000 whereas the Company received €2,250,000 in cash. In addition, the €132,000 amortization expense of Commitment Shares follows from shares issued to YA Global valued at €600,000; the value has been capitalized as a prepaid expense and is amortized in accordance with the nominal amount settled relative to the maximum investment of €30.0 million. For 2010, regular amortization charges amounted to €45,000 with another €423,000 expensed in view of the Company's position that further use of the SEDA prior to expiration in the second quarter of 2012 is unlikely (also see Note 9).

Notes to the consolidated financial statements *continued*

25. Share-based compensation
The Company has a Long Term Incentive Plan and two option plans in place: one for the Board of Management and one for employees ('the Option plans'). In addition, option arrangements have been made with individual consultants. All these plans or arrangements are equity settled. The total expense recognized in 2010 for share based payment plans amounts to €636,000 (2009: €647,000).

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 fair value is determined using the Black-Scholes model. The exercise price of the option and the share price are known at grant date. Volatility is based on the historical end-of-month closing share prices over the 3 years (Long Term Incentive Plan) or 5 years (Option plans) prior to the date of grant. It is assumed no dividend payments are expected.

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.

The reference group for the 2008-2010 program consists of the following companies:

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

The vesting schedule 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 shares granted in 2008-2010, the fair value per share and the number of shares forfeited under the LTIP regulations as per December 31, 2010 is as follows:

	Granted 2008	Granted 2009	Granted 2010	Forfeited 2008-2010	Reserved December 31, 2010
Board of Supervisory Directors	60,000	60,000	120,000	(60,000)	180,000
Board of Management	180,000	225,000	300,000	(180,000)	525,000
Scientific Advisory Board	30,000	37,500	-	(30,000)	37,500
Senior Managers	225,000	390,000	400,000	(255,000)	760,000
Total	**495,000**	**712,500**	**820,000**	**(525,000)**	**1,502,500**
Fair value per share (€)	0.33	0.19	0.19		

The Company expensed amounts of €73,000 in 2008, €50,000 in 2009 and €132,000 in 2010. The 2008 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.

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

In 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.

Notes to the consolidated financial statements *continued*

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 criteria, the options fully vested in 2010 and a total expense of €289,000 was incurred

Option plan employees
Article 2.1 of the option plan for employees states: 'Pharming may grant Options to any Employee. The criteria for the granting of the Options will be determined by the Board of Supervisory Directors of Pharming, at its sole discretion. The Board of Management will propose (i) whether the criteria for granting an Option have been met by a potential Participant and (ii) the number of Options to be granted. Article 4.4 of the employee Option plan deals with the vesting scheme of employee options and reads as follows: 'In case of the termination of the employment of a Participant, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse. The following schedule shall apply for the cancellation:
- in the event of termination of employment within one year as of a Date of Grant, all Options shall lapse;
- in the event of termination of employment after the first year as of a Date of Grant, all Options, less 1/4 of the number of Options shall be cancelled. The number of Options to be cancelled decreases for each month that the employment continued for more than one year as of that Date of Grant by 1/48 of the number of Options granted of that Date of Grant.'

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

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

An overview of activity in the number of options for the years 2009 and 2010 is as follows:

	2010		2009	
	Number	Weighted average exercise price (€)	Number	Weighted average exercise price (€)
Balance at January 1	**5,172,391**	**1.44**	**4,451,474**	**1.95**
Granted under Board of Management Option plan	1,600,000	0.35	1,000,000	0.50
Granted under employee Option plan	765,125	0.27	1,169,700	0.52
Granted to consultants	-	-	15,000	0.50
Expired	(831,082)	3.07	(1,379,398)	1.67
Forfeited	(33,357)	0.62	(84,385)	0.84
Balance at December 31	**6,673,077**	**0.84**	**5,172,391**	**1.44**

No options have been exercised in 2009 and 2010. All options outstanding at December 31, 2010 are exercisable; for employees subsequent sale of the shares is subject to the vesting conditions of the option. The weighted average remaining contractual life in years of the outstanding options at December 31, 2010 is 3.33 years.

Exercise prices of options outstanding at December 31, 2010 are in the following ranges:

Exercise prices in €	Number
0.18-0.23	930,175
0.35-0.74	4,311,886
0.80-1.32	601,456
2.22-3.23	470,119
3.35-3.74	359,441
	6,673,077

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

	2010	2009
Expected time to maturity (employees)	2.5 years	2.5 years
Expected time to maturity (consultants)	n/a	2.5 years
Expected time to maturity (Board of Management)	5 years	5 years
Volatility (employees and consultants)	71-76%	62-66%
Volatility (Board of Management)	58-61%	62%
Risk-free interest rate (employees)	1.43-2.00%	2.41-3.20%
Risk-free interest rate (consultants)	n/a	n/a
Risk-free interest rate (Board of Management)	1.97-2.65%	2.78%

Share-based compensation

Share-based compensation for 2009 and 2010 can be summarized as follows:

Amounts in €'000	**2010**	**2009**
Board of Management options	289	250
Employee options	215	344
Consultancy options	-	3
Long Term Incentive Plan	132	50
	636	**647**

The increase of Board of Management options expense in 2009 results from a 60% higher number of options granted but this effect was partially offset with lower fair values. The decreased employee option expense primarily reflects the lower number of options granted and lower fair values per option. Long Term Incentive Plan expenses primarily increased due to the effect of share rights accrued for the 2010 Long Term Incentive Plan shares in addition to expenses for the 2008-2009 schedules.

26. Board of Management

S. de Vries (Chief Executive Officer) and B.M.L. Giannetti (Chief Operations Officer) have been member of the Board of Management for the entire year 2009 and 2010 and R. Strijker (Chief Commercial Officer) was for the full year 2009. 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 effectively April 1, 2010. Prior to this appointment he had been an employee of the Company as of June 1, 2009;
- R. Strijker resigned from the Board of Management at the AGM of May 27, 2010 but continued as Chief Executive Officer of DNage B.V. for the remainder of 2010;
- K.D. Keegan started as Chief Financial Officer as of September 1, 2010 and was appointed as member of the Board of Management effectively October 1, 2010.

Members of the Board of Management are statutory directors.

Notes to the consolidated financial statements *continued*

Compensation of the Members of the Board of Management for 2009 and 2010 was as follows:

Amounts in €'000 Name	Year	Periodic remuneration	Bonus	Share-based payment (i)	Post-employment benefits	Other (ii)	Total
B.M.L. Giannetti	2009	250	-	74	29	23	376
	2010	250	82	70	30	20	452
K.D. Keegan (iii)	2010	63	20	32	3	11	129
R.R.D. Pijpstra (iv)	2010	205	55	50	15	15	340
R. Strijker (v)	2009	250	-	74	22	12	358
	2010	104	13	7	10	6	140
S. de Vries	2009	350	-	130	17	52	549
	2010	350	117	169	23	82	741
Total	**2009**	**850**	**-**	**278**	**68**	**87**	**1,283**
Total	**2010**	**972**	**287**	**328**	**81**	**134**	**1,802**

(i) Total share-based payment 2009 relates to options of €289,000 (2009: €250,000) and Long Term Incentive Plan of €39,000 (2009: €28,000)
(ii) Other includes (lease) car compensation, a rent allowance for K.D. Keegan and, for S. de Vries, contributions to reallocation and other expenses
(iii) Compensation as of September 1, 2010: base salary of €188,000
(iv) Compensation as of January 1, 2010: base salary January-March of €191,000 increased to €210,000 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

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, 2010, the exercise prices and expiration dates:

Name	January 1, 2010	Granted 2010	December 31, 2010	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
K.D. Keegan	-	350,000	350,000	0.185	September 30, 2015
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
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
Total	**1,751,667**	**1,600,000**	**3,351,667**		

The options held by R.R.D. Pijpstra at January 1, 2010 were granted under the employee option plan in 2009.

At December 31, 2010, the following members of the Board of Management hold shares:

Name	Shares
B.M.L. Giannetti	83,029
R.R.D. Pijpstra	34,872
S. de Vries	116,240
Total	**234,141**

Loans or guarantees
During the year 2010, 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, 2010.

27. Board of Supervisory Directors

Remuneration
For both 2009 and 2010 the annual fee for the Chairman was €34,500 and €23,000 for other Members. The aggregate 2010 remuneration of the Board of Supervisory Directors amounted to €113,000 (2009: €113,000).

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 (Note 25). At year end 2010 none of the Board of Supervisory Directors Members in place held shares, options or warrants in the Company.

Loans or guarantees
During the year 2010, 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, 2010.

28. Warrants

An overview of activity in the number of warrants for the years 2009 and 2010 is as follows:

	Number	Weighted **average exercise price (€)**
Balance at January 1, 2009	700,000	4.00
Issued	2,450,000	1.00
Balance at December 31, 2009	**3,150,000**	**1.67**
Issued	83,120,068	0.15
Exercised	(53,572,112)	0.12
Balance at December 31, 2010	**32,697,956**	**0.34**

The weighted average remaining contractual life in years of the outstanding warrants at December 31, 2010 is 1.81 years. Warrants issued in 2009 relate to services provided in connection to the public offer to bondholders as discussed in Note 16; the Company charged €245,000 to the 2009 statement of income. Warrants issued in 2010 relate to 58,780,445 issued to the holders of Bonds 2010 as disclosed in Note 16 and 24,339,623 issued to Socius CG II, Ltd. as explained in Note 11.

Notes to the consolidated financial statements *continued*

29. Operating segments

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

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

The following table presents key financial information by operating segment for the years ended December 31, 2009 and 2010:

Amounts in €'000	**Recombinant proteins**	**DNage**	**Total**
Year ended December 31, 2010			
Statement of income:			
Revenues	573	-	573
Other income	515	676	1,191
Impairment charges	(6,003)	(16,770)	(22,773)
Share-based compensation	(636)	-	(636)
Fair value loss derivative	(7,658)	-	(7,658)
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	(1,528)	-	(1,528)
Result intercompany balances	(8,135)	8,135	-
Income taxes	-	4,276	4,276
Net loss	(49,728)	(6,639)	(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

Year ended December 31, 2009

Statement of income:			
Revenues	335	-	335
Other income	233	528	761
Impairment charges	(202)	-	(202)
Share-based compensation	(647)	-	(647)
Settlement convertible bonds	2,829	-	2,829
Effective interest convertible bonds	(5,427)	-	(5,427)
Fair value gain derivative	243	-	243
Interest on earn-out obligations	(1,530)	-	(1,530)
Other financial expenses	(1,327)	-	(1,327)
Income taxes	-	(336)	(336)
Net loss	(27,802)	(4,258)	(32,060)
Statement of financial position:			
Segment assets	38,988	16,895	55,883
Segment liabilities	35,987	6,583	42,570
Investments in:			
Property, plant and equipment	279	30	309
Cash flows provided by/(used in):			
Operating activities	(21,140)	(3,144)	(24,284)
Investing activities	4,232	(30)	4,202
Financing activities	2,472	-	2,472

Supplemental disclosure operating segments
In 2010 the Recombinant proteins business unit incurred an expense of €6,835,000 in relation to the forfeiture of receivables on the DNage business unit with a similar profit for that operating segment.

Segment assets of Recombinant proteins at December 31, 2009 included the carrying value of goodwill of €4,312,000 related to the acquisition of the DNage business unit; at December 31, 2010 this value was €nil. The decrease included goodwill impairment charges of €3,926,000 expensed by the Recombinant proteins business unit.

Segment liabilities include earn-out obligations due by Pharming to former shareholders of DNage BV; at December 31, 2009 and December 31, 2010 these liabilities totaled €5,996,000 and €nil. Interest on these earn-out obligations for 2009 and 2010 were €1,530,000 and €777,000 and charged to the Recombinant proteins business unit.

The main foreign assets of the Recombinant proteins business unit are the property, plant and equipment of Pharming Healthcare, Inc. in the United States. The carrying value of these assets at December 31, 2009 and December 31, 2010 amounted to €2,086,000 and €2,069,000.

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 26 and 27 of these Financial Statements. At December 31, 2010, the Company owed a total amount of €234,000 to Members of the Board of Management with respect to their compensation.

Notes to the consolidated financial statements *continued*

31. Commitments and contingencies

Operating lease commitments

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

Future minimum rentals payable under these non-cancellable leases at the end of 2009 and 2010 was as follows:

Amounts in €'000	**2010**	**2009**
Within one year	735	708
After one year but not more than five years	2,684	523
More than five years	964	-
	4,383	**1,231**

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;
- assets under construction (see Note 6);
- milestone payments for clinical trials and research and development activities.

Total potential payments under these agreements are approximately €0.4 million.

Repayment of government grants
Until 2002, the Company received income under a Dutch Government arrangement called Technisch Ontwikkelings Krediet (Technical Development Credit) for the development and commercialization of human lactoferrin and/or recombinant human collagen type I. In principle, all amounts received plus interest should be repaid to the extent that Pharming earns revenues from the commercialization of products. Repayments will be forgiven if the products do not materialize within a certain period. For this arrangement, which bears 4.9% interest per annum, the repayment period ends at the end of 2011. Pharming has to repay between 15% and 40% of realized net turnover for certain applications. As at December 31, 2010, the total of grants and accrued interest under this arrangement amounted to €4.4 million.

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, 2010 the Company's cash and cash equivalents, including restricted cash, amounted to €10.5 million. This balance consists of cash assets denominated in €for a total amount of €7.9 million and cash assets in US$ for a total amount of US$ 3.5 million or €2.6 million (applying an exchange rate €to US$ at December 31, 2010 of 0.748 to 1).

The following sensitivity analysis of costs and revenues charged in US$ in 2009 and 2010, 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 2009 and 2010 would have resulted in a lower loss from operating activities of €0.1 million in 2009 and €0.1 million in 2010. In addition to these effects, the foreign currency translation reserve would have increased with €0.2 million in 2009 and decreased with €1.9 million in 2010, so that the total net effect on equity would have been an increase of €0.3 million in 2009 and a decrease of €1.8 million in 2010. The impact of a 10% decrease of the US$ at year-end 2009 and 2010 would have resulted in a higher loss from operating activities of €0.1 million in 2009 and of €0.1 million in 2010. In addition to these effects, the foreign currency translation reserve would have decreased with €0.3 million in 2009 and with €1.2 million in 2010, so that the total net effect on equity in 2009 and 2010 would have been a decrease of €0.4 million and €1.3 million.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pharming's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on financial liabilities. The Company performed a sensitivity analysis in which the effect of a 1% interest increase or 1% interest decrease on the carrying value of the financial instruments at year-end 2010 was measured. Pharming concluded that no effect would have taken place on the carrying value of any item.

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, 2010 is represented by the carrying amounts of cash and cash equivalents and other current assets.

At December 31, 2010 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	8.5	A+	Aa3
Net cash held at selected institution 2	1.9	A	Aa3
Other institutions	0.1		
Total at December 31, 2010	**10.5**		

Other current assets at December 31, 2010 amounted to €9.9 million. This includes a €9.0 million receivable from Socius CG II, Ltd., €0.6 million in relation to grants, €0.1 million in other receivables, €0.1 million in prepaid expenses and €0.1 million in relation to value added tax. The €9.0 million receivable from Socius CG II, Ltd., €0.4 million in grants and €0.1 million value added tax have been received in 2011. No indication exists that the €0.2 million in prepaid expenses and other receivables will not be set off against goods or services. With respect to the remaining grant receivables of €0.2 million, and as disclosed in the significant accounting judgments and estimates in Note 3, settlement of these DNage items is ultimately subject to approval of the entity awarding the grant; in case the position is taken that no or only partial reimbursement will be paid in view of the specific condition of the DNage entity the balance settled could be below the carrying value.

Based on the credit ratings of cash and cash equivalents (including restricted cash) as well as the position taken with respect to other current assets, the Company estimates that total maximum exposure to credit risk at the end of 2010 is about €0.4 million.

For the purpose of the going aoncern 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 2010, 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, 2010. The derivative financial liability relates to the fair value of warrants which can be exercised by the warrant holder throughout the remaining lifetime ending December 31, 2012. With respect to trade and other payables, it is noted that the consolidated trade and other payables of €7.1 million include €1.9 million due by DNage to third parties. In view of the voluntary liquidation these liabilities ultimately may be settled for an amount (significantly) different from the carrying value, in which case the effect will be reported in the statement of income upon settlement.

Amounts in €'000	**2011**	**2012**	**2013**	**2014**	**2015**
Trade Trade and other payables	7,101	-	-	-	-
Derivative financialy liability	573	-	-	-	-
Other	48	32	-	-	-
Total	**7,722**	**32**	**-**	**-**	**-**

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 both at year end 2009 and 2010.

The following table presents the liabilities that are measured at fair value at year-end 2009 and 2010:

	December 31, 2010		**December 31, 2009**	
Amounts in €million	**Level 3**	**Total**	**Level 3**	**Total**
Financial liabilities at fair value through profit and loss	573	573	-	-
Total liabilities	573	573	-	-

The fair value of financial liabilities at fair value through profit and loss relates to a derivative financial liability (see Note 16) and presents the fair value of 5,208,333 warrants issued to and outstanding with a maximum exercise price of €0.12 and a fair value of €0.11 per warrant. The warrants are not publicly traded nor are there other observable inputs available and accordingly the fair value of the warrants has been determined through the Black-Scholes model, applying the following assumptions as per the end of:

	2010	**2009**
Expected time to maturity	2.0 years	n/a
Volatility	59%	n/a
Risk-free interest rate (Board of Management)	1.55%	n/a

Fair value of financial instruments

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

	December 31, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Cash and cash equivalents, net of bank overdrafts (i)	10,478	10,478	2,338	2,338
Other current assets	9,932	9,932	1,392	1,392
Liabilities:				
Non-current liabilities (ii)	32	32	1,865	1,865
Trade and other payables	7,101	5,326	8,769	8,769
Derivative financial liability	573	573	-	-
Current portion of non-current liabilities (ii)	45	45	13,711	13,975

(i) including restricted cash
(ii) including convertible bond liabilities, earn-out obligations, financial lease obligations, excluding deferred license fees income, deferred tax liabilities and non-cash lease incentives

The above fair values of financial instruments are based on internal calculations. Cash and cash equivalents, other current assets, trade and other payables and the current portion of non-current liabilities are stated at carrying amount, which approximates the fair value in view of the short maturity of these instruments. For non-current liabilities, the carrying values of earn-out obligations (based on an estimated cost of capital of 23% at year end 2009) and financial lease obligations are also in line with their fair values. For the convertible bonds outstanding at year end 2009, the fair values have been determined based on the carrying values adjusted for transaction fees. With respect to trade and other payables, the fair value is about €1.8 million below the carrying value to reflect the portion of liabilities of DNage at year end 2010 that has not been paid in 2011 and of which actual settlement is deemed unlikely.

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 116,177,686 for 2009 and 266,313,183 for 2010. For 2009 and 2010, the basic earnings per share are:

	2010	2009
Net loss attributable to equity owners of the parent (in €'000)	(50,215)	(32,060)
Weighted average shares outstanding	266,313,183	116,177,686
Basic earnings (loss) per share (in €)	(0.19)	(0.28)

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.

Notes to the consolidated financial statements *continued*

Fully-diluted shares
The composition of the number of shares outstanding and share rights issued as per December 31, 2010 and the date of these financial statements is as follows:

		Movements 2011		
	December 31, 2010	**Exercise of warrants**	**Other**	**March xx, 2011**
Outstanding shares	436,261,010	24,339,623	515,837	461,116,470
Issued	**436,261,010**	**24,339,623**	**515,387**	**461,116,470**
Warrants	32,697,956	(24,339,623)	(700,000)	7,658,333
Options	6,673,077	-	(1,780)	6,671,297
LTIP	1,502,500	-	-	1,502,500
Reserved	**40,873,533**	**(24,339,623)**	**(701,780)**	**15,832,130**
Total	**477,134,543**	**-**	**(185,943)**	**476,948,600**

With respective to the 2011 movements of outstanding shares and warrants, further reference is given to Note 34 (Events after the reporting period).

34. Events after the reporting period

In January 2011 the Company received €9,034,000 in cash from Socius CG II, Ltd. as a settlement for an amount receivable at year end 2010 (as per Note 9).

The shareholders of DNage decided to put DNage into voluntary liquidation in January 2011 while Pharming has discontinued the funding of DNage. The effects of this decision have been reflected in the 2010 financial statements as far as the carrying value of goodwill, intangible assets and deferred tax liabilities is concerned.

In February 2011 the Company issued an aggregate number of 515,837 shares in lieu of 2010 bonuses, of which 361,450 to the members of the Board of Management, while a total number of 700,000 warrants with an exercise price of €4.00 each expired in the same month. In March 2011 Socius CG II, Ltd. exercised 24,339,623 warrants outstanding at year 2010 with an exercise price of €0.212; payment of the exercise took place through a cash consideration of €0.04 per share (€1.0 million) and issuance of a Promissory Note for the remaining consideration of €4.2 million.

In March 2011 the Company entered into a financial lease agreement with respect to the financing of a part of the assets under construction at year end 2010. As a result of this agreement, Pharming received a cash amount of €2.1 million. The lease agreement covers a 3 year period in which the total lease amount of €2.1 million is repaid in 36 months with a one time payment of €261,000 and with 35 equal installments of €58,000, including 8.2% interest per annum. To secure the lease payments the Company has issued a banker's guarantee with an initial value of €1.2 million; this value gradually decreases to a minimum of €0.5 million over the 36 month lease period until the final installment has been paid and the remaining balance becomes unrestricted again.

Company financial statements

COMPANY STATEMENT OF FINANCIAL POSITION

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

Amounts in €'000	Notes	2010	2009
Goodwill	3	-	4,312
Property, plant and equipment	4	538	712
Investments in subsidiaries	5	282	6,050
Receivable from group companies	6	2,143	6,794
Non-current assets		**2,963**	**17,868**
Other current assets	7	9,259	943
Cash and cash equivalents		9,714	15,779
Current assets		**18,973**	**16,722**
Total assets		**21,936**	**34,590**
Share capital	8	17,450	77,251
Share premium	8	219,220	187,708
Foreign currency translation	8	(1,514)	(1,675)
Other reserves	8	16,921	12,097
Accumulated deficit	8	(241,213)	(262,068)
Shareholders' equity		**10,864**	**13,313**
Provision for subsidiaries	**5**	**9,304**	**1,221**
Earn-out obligations	9	-	1,788
Other liabilities	10	32	77
Non-current liabilities		**32**	**1,865**
Bank overdrafts		-	2,926
Convertible bonds	11	-	9,461
Earn-out obligations	9	-	4,208
Derivative financial liability	12	573	-
Trade and other payables	13	1,118	1,554
Current portion of other liabilities	10	45	42
Current liabilities		**1,736**	**18,191**
Total Shareholders' equity and liabilities		**21,936**	**34,590**

Company statement of income

For the year ended December 31

Amounts in €'000		2010	2009
Share in results of investments		(17,095)	(23,258)
Other results	14	(33,120)	(8,802)
Net loss		**(50,215)**	**(32,060)**

The notes are an integral part of these financial statements.

Notes to the company financial statements

For the year ended December 31, 2010

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

2. Summary of significant accounting policies
The company financial statements are prepared in accordance with accounting principles generally accepted in the Netherlands.

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

3. Goodwill
The carrying amount of goodwill relates to the acquisition of DNage in 2006. Further details are provided in Note 4 of the consolidated financial statements.

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

Movement of property, plant and equipment for the financial years 2009 and 2010 is:

Amounts in €'000	**Leasehold Improvements**	**Other**	**Total**
At cost	740	491	1,231
Accumulated depreciation charges	(171)	(205)	(376)
Net book value at January 1, 2009	**569**	**286**	**855**
Investments	7	41	48
Depreciation charges	(77)	(114)	(191)
Movement 2009	**(70)**	**(73)**	**(143)**
At cost (*)	747	489	1,236
Accumulated depreciation charges (*)	(248)	(276)	(524)
Net book value at December 31, 2009	**499**	**213**	**712**
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 book value at December 31, 2010	**422**	**116**	**538**

(*) in 2009 en 2010, the Company eliminated fully depreciated assets no longer in use from accumulated costs and accumulated depreciation with an effect of €43,000 in 2009 and €54,000 in 2010

5. 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 2009 and 2010 was as follows:

Amounts in €'000	**Investment in subsidiaries**	**Provision for subsidiaries**	**Net total**
Balance at January 1, 2009	9,302	(140,061)	(130,759)
Share in results of investments	(4,258)	(19,000)	(23,258)
Exchange rate effects	-	284	284
Reclassification	1,006	(1,006)	-
Balance at December 31, 2009	**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)**

At year end 2009 and 2010, the provision for subsidiaries was offset with the following receivable balances from Pharming Group NV:

Amounts in €'000	**2010**	**2009**
Provision for subsidiaries	(177,186)	(159,783)
Receivable	168,404	159,281
Net receivable/(payable)	**(8,782)**	**(502)**
Of which classified as Provision for subsidiaries	(9,304)	(1,221)
Included in receivable from group companies	**522**	**719**

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

Amounts in €'000	**2010**	**2009**
Receivable from investments in subsidiaries	1,621	6,075
Net investments (Note 5)	522	719
Total	**2,143**	**6,794**

Notes to the company financial statements *continued*

7. Other current assets

Other current assets at year-end 2009 and 2010 comprised:

Amounts in €'000	2010	2009
Receivable Socius CG II, Ltd.	9,034	-
Prepaid expenses	94	617
Value added tax	73	143
Accrued interest	-	63
Other receivables	58	120
	9,259	**943**

The other current assets at December 31, 2010 are substantially short-term in nature (expected to be settled in 2011). With respect to the receivable on Socius CG II, Ltd. of which the background is further explained in Note 11 of the consolidated financial statements, the full balance has been received early 2011.

Prepaid expenses at December 31, 2009 included an amount of €468,000 in relation to 1,200,000 shares issued to Yorkville Advisors at €0.50 per share or €600,000 in total (also see Note 11 of the consolidated financial statements. The €600,000 was scheduled to be amortized proportionally over actual investments made by Yorkville Advisors out of the total €30.0 million maximum SEDA value. At year end 2009, the total investment amounted to €6.6 million so that €132,000 has been charged to the statement of income of 2009. In 2010 Pharming received another €2,250,000 under the SEDA and accordingly an amount of €45,000 was amortized with a remaining balance of prepaid expenses of €423,000. The Company reviewed this position at per year end 2010 and concluded that the remaining €423,000 should be fully amortized in view of the likelihood that (almost) no further use of the SEDA will (need to) be made given the further improvement of the Company's financial position resulting from financial transactions and milestone payments throughout 2010. As a result, total amortization charges for 2010 amounted to €468,000.

8. Shareholders' equity

The Company's authorized share capital amounts to €20.0 million and is divided into 500,000,000 ordinary shares with a nominal value of €0.04 each. All 436,261,010 shares outstanding at December 31, 2010 have been fully paid-up.

Movements in Shareholders' equity for 2009 and 2010 were as follows:

Amounts in €'000	2010	2009
Balance at January 1	13,313	12,533
Net loss	(50,215)	(32,060)
Share-based compensation	636	892
Fair value of shares issued for bonds converted	10,877	21,912
Shares issued upon settlement DNage B.V.	1,000	-
Shares issued in lieu of interest and bonuses	348	-
Issuance of anti-dilution shares pursuant to anti-dilution provisions	2,905	-
Exercise of warrants	4,986	
Shares and warrants issued to Socius CG II, Ltd.	13,733	-
Effect bonds converted on derivative	-	(243)
Fair value of shares issued for cash	13,118	9,752
Fair value of commitment shares issued	-	600
Foreign currency translation	163	(73)
Balance at December 31	**10,864**	**13,313**

Legal reserve

Shareholders' equity of Pharming Group NV at December 31, 2010 includes a legal reserve with a negative amount of €1,514,000 with respect to a reserve for foreign currency translation.

For a detailed movement schedule of equity for the years 2009 and 2010, 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. Earn-out obligations
For a detailed description of earn-out obligations, reference is given to Note 14 of the consolidated financial statements.

10. Other liabilities
Other liabilities relate to the financial lease agreement as described in Note 15 of the consolidated financial statements.

11. Convertible bonds
The main developments, including impact on the financial statements, of the convertible bonds have been described in Note 16 of the consolidated financial statements.

12. Derivative financial liability
The derivative financial liability reflects the fair value of warrants outstanding at year end 2010; reference on this item is provided in Note 16 of the consolidated financial statements.

13. Trade and other payables

Trade and other payables consist of:

Amounts in €'000	**2010**	**2009**
Accounts payable	197	998
Deferred compensation due to related parties	234	16
Taxes and social security	52	28
Other payables	635	512
Balance at December 31	**1,118**	**1,554**

The amount of deferred compensation due to related parties relates to Members of the Board of Supervisory Directors and Board of Management. Balances due at December 31, 2010 relate to 2010 bonuses for the Board of Management.

14. Other results
Other results in 2009 and 2010 include costs of share-based compensation in the amount of €647,000 and €636,000, as disclosed in Note 25 of the consolidated financial statements. These charges include those related to Members of the Board of Management, employees and consultants who are not formally employed by Pharming Group NV.

Independent auditor's report

To the General Meeting of Shareholders of Pharming Group NV

Report on the financial statements
We have audited the accompanying financial statements 2010 of Pharming Group N.V., Leiden as set out on pages 45 to 95. 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 2010, 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 2010, 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 2010, 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 2010, 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 entire 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, 30 March 2011
PricewaterhouseCoopers Accountants N.V.
A.C.M. van der Linden RA

OTHER FINANCIAL INFORMATION

For the year ended December 31, 2010

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 2010 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
In January 2011 the Company received €9,034,000 in cash from Socius CG II, Ltd. as a settlement for an amount receivable at year end 2010 (as per Note 9).

The shareholders of DNage decided to put DNage into voluntary liquidation in January 2011 while Pharming has discontinued the funding of DNage. The effects of this decision have been reflected in the 2010 financial statements as far as the carrying value of goodwill, intangible assets and deferred tax liabilities is concerned.

In February 2011 the Company issued an aggregate number of 515,837 shares in lieu of 2010 bonuses, of which 361,450 to the members of the Board of Management, while a total number of 700,000 warrants with an exercise price of €4.00 each expired in the same month. In March 2011 Socius CG II, Ltd. exercised 24,339,623 warrants outstanding at year 2010 with an exercise price of €0.212; payment of the exercise took place through a cash consideration of €0.04 per share (€1.0 million) and issuance of a Promissory Note for the remaining consideration of €4.2 million.

In March 2011 the Company entered into a financial lease agreement with respect to the financing of a part of the assets under construction at year end 2010. As a result of this agreement, Pharming received a cash amount of €2.1 million. The lease agreement covers a 3 year period in which the total lease amount of €2.1 million is repaid in 36 months with a one time payment of €261,000 and with 35 equal installments of €58,000, including 8.2% interest per annum. To secure the lease payments the Company has issued a banker's guarantee with an initial value of €1.2 million; this value gradually decreases to a minimum of €0.5 million over the 36 month lease period until the final installment has been paid and the remaining balance becomes unrestricted again.

Notes

PHARMING

Pharming Group NV
Darwinweg 24
2333 CR Leiden
The Netherlands