ANNUAL REPORT 2006

RESEARCH AND INNOVATION

HEALTH SCIENCE PRODUCTS

PHARMING

About Pharming

Pharming Group NV (Pharming) is an innovative biotechnology company based in Leiden, the Netherlands. The company has facilities in the Netherlands and in the United States and employs approximately 85 people, more than eighty percent in R&D (Research and Development) and Operations.

Mission

Pharming's mission is to create value for all its stakeholders through the development of innovative products for unmet medical needs, focusing on specific therapeutic and food applications with significant market potential.

Strategy

Pharming's strategy is to build a sustainable, competitive business by combining superior technology and innovation, world class manufacturing and solid growth opportunities with sound financial and operational management. To that end, it focuses on delivering selected therapeutic products, including orphan drugs, surgical devices and bionutritionals, to the market in the shortest timeframe possible. Pharming intends to orchestrate the complete development of these therapeutic products by concentrating on its core competencies and forming strategic partnerships to obtain access to other required competencies.

Technology

Through its own development efforts, the collaboration with NovaThera Ltd (NovaThera), and the acquisition of DNage BV (DNage) in 2006, Pharming now has access to three different and innovative technology platforms: transgenic production technology, DNA repair and tissue repair.

Products

Pharming is developing innovative products for the treatment of genetic disorders, ageing and age-related diseases, specialty products for surgical indications, intermediates for various applications and nutritional products.

Pharming's most advanced product, based on its innovative platform for the production of transgenic protein therapeutics, is Rhucin® (recombinant human C1 inhibitor or rhC1INH) for treatment of acute attacks of the disease Hereditary Angioedema (HAE). Pharming's Market Authorization Application (MAA) for Rhucin® is under review with the European Medicines Agency (EMEA). The product has Orphan Drug designation (US Food and Drug Administration or FDA), Orphan Medicine designation (EMEA) and Fast Track designation (FDA) for treatment of acute attacks of HAE.

Pharming intends to bring most of these product candidates to market in co-development partnerships with companies offering marketing and sales expertise, so as to lower the risks while retaining potential returns, for example through milestone payments and revenue sharing. In addition, Pharming will pursue the development of other products in its pipeline through strategic alliances and partnerships with interested parties.

By bringing these products to market, Pharming also aims to validate the application of its technology by other parties to produce their protein therapeutics. Pharming aims to realize a strong upside from the application of its recombinant technology by other parties through up-front, milestone and royalty payments.

Other products under development include:

Product	Indication	Status
Recombinant human C1 inhibitor	New indications	Planning phase II studies
Human lactoferrin (hLF)	Nutritional applications	GRAS* file under review with FDA
Prodarsan®	Premature ageing	Preclinical
Other DNage products	Ageing diseases	Research
Recombinant human fibrinogen (rhFIB)	Bleeding disorders and trauma	Research
NovaThera combination products	Tissue repair	Research
Recombinant human collagen type I (rhCOL)	Tissue repair	Research

** GRAS: Generally Recognized As Safe*

Key developments and figures 2006

- Market Authorization Application for Rhucin® to treat acute attacks of HAE filed with EMEA (EU)
- Improved regulatory status of Rhucin® by obtaining Fast Track status in the United States
- Orphan Drug designations for rhC1INH for treatment of Delayed Graft Function (DGF) after solid organ transplantation and Capillary Leakage Syndrome (CLS) granted by FDA
- Filing for GRAS notification of human lactoferrin under review with the FDA
- Significant progress in research programs as exemplified by publications in Nature and other leading scientific journals
- Strategic agreement with affiliates of Paul Royalty Fund II, LP (Paul Royalty Fund)
- Acquisition of DNage
- Bruno Giannetti and Rein Strijker appointed to Board of Management (BOM)
- New headquarters in Leiden (Beagle building)
- Successful private placement of new shares issued to institutional investors, options exercised, in total raising over € 22.7 million.

Amounts in € '000	2006	2005
Balance sheet data (at December 31, 2006)		
Non-current assets	36,674	9,069
Cash and cash equivalents (excluding restricted cash)	26,082	14,452
Total assets	79,079	34,587
Total equity	49,843	28,739
Income data (for the year ended December 31, 2006)		
Costs and expenses	18,180	18,846
Net loss after tax	18,496	17,859
Basic and diluted net loss per share (€)	0.21	0.23
Weighted average shares outstanding	86,155,453	79,196,440
Cash flow data (for the year ended December 31, 2006)		
Liquidity position (including restricted cash)	31,253	20,528
Net cash used in operating activities	19,620	12,884
Net cash used in investing activities	3,197	2,896
Net cash from financing activities	34,386	8,688
Other information (at December 31, 2006)		
Number of schares outstanding	88,753,511	80,351,410
Market cap	371,877	324,620
Number of employees	81	63

Dear Shareholder

The healthcare industry is changing. Biotechnology now accounts for nearly half of the new products launched in healthcare each year. Increasingly, biotech research drives the product pipelines of the future. Large pharmaceutical companies are turning to smaller biotechnology firms for new products and research collaborations. In this changing environment, Pharming is well positioned to create value through research innovation. Our track record over the years demonstrates innovative product and process development, coupled with focused management of cash flows and an ever-increasing professionalism.

Pharming evolution:

(Amounts in € million)	2001	2002	2003	2004	2005	2006
Cash (year-end)	0	1	3	26	21	31
Annual Loss	(54)	(1)	(11)	(14)	(18)	(18)
Employees	250	40	42	48	63	81
Products	1	1	2	2	2	4
Market cap (year-end)	4	16	39	150	325	372

Recently, Pharming filed two pioneering transgenic products for regulatory approval in the United States and Europe. In addition, we completed the strategic acquisition of DNage to become one of the more promising research engines within the biotechnology sector in Europe.

Having created the research and regulatory team required for our current strategy, Pharming strengthened its operating and business development operations in 2006 with the appointments of Dr. Bruno Giannetti as Chief Operations Officer and Dr. Rein Strijker as Chief Commercial Officer in anticipation of product launches for Rhucin® and human lactoferrin.

On the financial front, Pharming was able to enhance its cash position and increase shareholders' equity from € 29 million to € 50 million, while completing a cost-effective relocation to a new research headquarters in the Beagle building in Leiden, the Netherlands.

Our first priority in 2007 will be to conclude licensing agreements for Rhucin®. The licensing team will also facilitate an increasing number of research collaborations across our three research platforms to improve our cash flow and strengthen our financial position, as we have done each of the last five years. Our goal is to conclude at least one significant strategic alliance in 2007.

We expect 2007 to be a landmark year for Pharming as we move towards commercial success with the continuing support of our research collaborators, partners, employees and Shareholders. For you, our Shareholders, we feel assured that 2007 will prove the wisdom of your continued confidence in Pharming and its team.

Sincerely,
Dr. Francis J. Pinto

Leiden,
The Netherlands,
April 19, 2007

DR. FRANCIS J. PINTO


Beagle

Prof. dr. J. Hoeijmakers, Erasmus Medical Centre, Rotterdam:

"Innovative research and outstanding science are the basis for good business"

Pharming's business is based on, and largely driven by, innovative research and outstanding science. Starting with the inception of Pharming's predecessor GenPharm, the Company has built on the development of a strong technology base. This has resulted in a large portfolio of patents issued and pending, and a vast know-how in specialized areas in biotechnology. In 2006, we further expanded on this strategy through our collaboration with NovaThera and our acquisition of DNage. We now have access to three different technology platforms: transgenic production technology, DNA repair and tissue repair.

RESEARCH AND TECHNOLOGY

Transgenic production technology

Transgenic or recombinant DNA technology is the basis on which Pharming was founded. About twenty years ago, researchers were able to combine genetic material (DNA) from different biological sources for the first time, introducing a human gene into the genetic material of a mouse. Members of this research team were among the founders of GenPharm, the company from which Pharming was spun off in 1995. Subsequently, Pharming's researchers played an important part in optimizing this technology and making it commercially applicable to other animal species, including rabbits and cattle.

In the early 1990's, Pharming scientists further developed this transgenic technology by creating DNA constructs in which the 'foreign gene' was only active in a specific tissue and/or organ, such as the mammary gland. This resulted in animals efficiently producing in their milk human proteins that were encoded by these newly introduced human genes. Over the past several years, Pharming has perfected this technology by making it conform to regulatory guidelines as published by authorities in the United States and Europe.

Pharming has also been able to develop large scale purification methods, through which the human protein is separated from the components that are naturally present in milk. For instance, Rhucin®, Pharming's current lead product, is now produced in rabbit milk at levels exceeding ten grams per liter. Production takes place at dedicated facilities, ensuring both a healthy environment for the animals and a high quality product. After the milk is collected, it is skimmed, pooled and rapidly frozen. The frozen material is then shipped to our partner Diosynth BV / NV Organon, where the final product is purified under conditions that are suitable for the production of pharmaceutical products of the highest quality.

Transgenic production technology has now come to the stage at which it can be used to produce specific proteins for which other production systems are less well suited, for instance because of required quality and/or quantity levels.

PHARMING'S TECHNOLOGY

High quality and quantity

AGEING DISEASES

Improve DNA repair and prevent DNA damage

DNA repair

DNA molecules are large organic molecules containing the genetic information for the development and functioning of living organisms. DNA is organized in so-called genes, which carry the instructions to construct specific proteins. As DNA molecules are very large, they are vulnerable to all sorts of damage. However, DNA molecules are exceptional in the sense that, once damaged beyond repair, they cannot be replaced. Therefore, multiple systems exist that are able to efficiently repair all kinds of damage before the stage of no return is reached.

Through the pioneering work of Prof. dr. Hoeijmakers and his team at the Erasmus Medical Centre in Rotterdam, the Netherlands (the Rotterdam group), it has become clear that repair of DNA damage is a crucial part of the metabolism of all cells that exist in nature. DNA damage has been linked to the development of various types of tumors in the past, but Prof. dr. Hoeijmakers and his group discovered that several types of DNA damage, if not repaired properly, can also lead to the development of ageing diseases. Most likely, this is caused by the fact that, if a DNA molecule is not functional anymore (through damage inflicted on the molecule), the cell dies and has to be replaced by another cell.

Apparently, most organs and tissues have only a limited cell-replacement capacity, ultimately leading to damage of the organ or tissue. The Rotterdam group discovered that animals in which a DNA repair mutation is introduced, spontaneously develop diseases normally associated with ageing, such as Osteoporosis and neurodegeneration. These animals rapidly age, showing all the characteristics of elderly animals, and die at young age. These findings formed the basis of the foundation of DNage in 2004. On the basis of these discoveries, DNage develops ways to improve DNA repair and to prevent DNA damage.

After initially considering collaboration with DNage in the areas of lactoferrin and Osteoporosis, Pharming decided to acquire the company in the course of 2006 and now fully owns all commercial rights to its technology. The founders of DNage, including Prof. dr. Hoeijmakers, have all remained on the team and are now exclusively associated with Pharming in the field of DNA repair.

Tissue repair

Pharming has an ongoing collaboration with NovaThera. In the development programs that form part of this collaboration, several Pharming products are combined with NovaThera technology to study whether this can result in new applications for these products. The long term goal of this alliance is to develop a suite of products based on the application of NovaThera's TheraGlass™ for the delivery of Pharming's recombinant human proteins. The proteins under consideration in this collaboration include recombinant human C1 inhibitor, recombinant human fibrinogen, recombinant human collagen and human lactoferrin.

The combination materials of TheraGlass™ and Pharming's proteins have applications ranging from soft tissue regeneration and bone repair through to device coatings, including cardiac stents. TheraGlass™ is a novel bioactive material which interacts with the body's tissues to stimulate cell growth and provide vital anti-bacterial, structural or regenerative proteins. TheraGlass™ is non-toxic and is reabsorbed and excreted through the body's natural metabolic processes. TheraGlass™ can be provided as a solid or a powder and can easily be combined with gels and sprays.

SEVERAL APPLICATIONS

Combination of TheraGlass™ and Pharming proteins

Dr. Bruno Giannetti, COO:

"Innovative products for medical needs"

Pharming's transgenic technology is particularly useful for the production of proteins that are either needed in relative large amounts and/or require specific quality specifications (for instance the presence of specific sugar residues). This has resulted in the development of a number of biopharmaceutical products described in this chapter. Pharming's technology in the field of DNA repair has, so far, resulted in the start of a development program of a product targeting DNA damage, and potentially useful in the field of ageing diseases.

PRODUCTS

BIOPHARMACEUTICAL PRODUCTS

Rhucin®

Pharming's lead product is Rhucin®. This is a human protein developed through Pharming's proprietary transgenic technology and produced in rabbits' milk. Rhucin® is currently under development to treat acute attacks of Hereditary Angioedema, a disease characterized by painful swelling of soft tissue. The disease is caused by a shortage of functional C1 esterase inhibitor in patients and can be compared to an overreaction of the immune system.

Pharming believes that it has generated sufficient data to demonstrate the safety and efficacy of the product in HAE patients and has filed for Market Authorization Application of the product in Europe. Based on the timelines associated with the review of this product, we expect an opinion from the scientific committee of the EMEA in the second half of 2007. In the United States, a randomized clinical trial will be finalized in the second half of 2007, after which we expect to file for approval in the United States likewise.

Meanwhile, Pharming has notified authorities in certain countries that it is willing to supply the product on a compassionate use or named-patient basis in anticipation of full registration. No decision to allow Rhucin® on the market under these conditions has yet been taken by these authorities.

Recombinant human C1 inhibitor for other indications

There is significant scientific evidence that rhC1INH may be useful in certain complications that can arise after organ transplantation. Rejection of the transplanted organ remains a critical issue, despite all the technical advances that have been made during the last decades. Given the paucity of available organs and the costs associated with the transplantation, there is a need for additional new and safe products that reduce the chances of rejection of the organ. In particular, Delayed Graft Function and so-called humoral rejection of transplanted organs are rhC1INH applications that are currently being evaluated by internal and external experts.

During the development of Rhucin® for HAE, a large safety dossier has been built up, including data in animals and in healthy human volunteers, which will allow Pharming to move quickly through the initial phases of development for these new indications. These indications represent very large markets with significant medical needs. RhC1INH can address some of these needs, as it has a different mode of action than most products currently available.

Prodarsan®

This product is based on the DNage technology and is a mixture of small molecules that in animal models are able to delay the development of ageing diseases. The most likely mode of action is the delay in accumulation of DNA damage, presumably by removal of agents that cause the damage.

Pharming is developing this product initially for the treatment of premature ageing diseases, such as Cockayne syndrome. Patients suffering from these kind of diseases have a genetic defect in DNA repair and develop various ageing diseases at young age. There is a high medical need for treatment for these patients. Pharming anticipates that if it is able to delay the development of ageing diseases in these patients, the technology and its products will provide new therapies for ageing diseases in elderly people. Pharming is currently at the stage of finalizing proof of principle studies in animals and completing formulation studies. >>

LEAD PRODUCT RHUCIN®

Applied for Market Authorization

Recombinant human fibrinogen

Pharming is developing rhFIB as an intermediate to stop excessive blood loss during surgical procedures or traumatic injury. Fibrinogen is a very complex molecule consisting of several independent proteins. In combination with thrombin, another protein naturally present in blood, it can form insoluble natural fibers (fibrin polymers). Based on this unique functional property of fibrinogen, tissue sealants have been developed to prevent excessive blood loss.

Pharming aims to develop its own recombinant tissue sealant (rTS) product on the basis of its recombinant human fibrinogen and patents and licenses acquired for the production and purification of rhFIB and rTS to provide an alternative to current plasma based sealants. Pharming is capable of producing recombinant human fibrinogen of consistently high quality and safety in great quantities, lowering production costs and enabling the Company to easily meet increasing market demand.

Pharming's rhFIB is being tested in a US Army funded research project focusing on the development of fibrin bandages.

Recombinant human collagen

Collagen is the most common protein in the human body. It is a fibrous protein that provides tensile strength to tissues and gives them structural integrity. Most of the collagen used in biomaterials that are now on the market is derived from animal tissues, which have possible disadvantages, such as health risks, limited availability for medical applications, and variability in quality.

Current approved uses of collagen include hemostats, vascular sealants, tissue sealants, implant coatings (orthopedic and vascular), artificial skin, bone graft substitutes, injectibles for incontinence treatment, dental implants and (antibiotic) wound dressings.

Many additional applications are currently under development, such as the engineering of cartilage, bone, skin, artificial tendons and blood vessels, nerve regeneration, and several drug delivery applications.

The protein production technology of Pharming can be used to produce large quantities of recombinant human collagen type I (rhCOL). Pharming expects that rhCOL products for various tissue repair applications will be regulated by the FDA as a medical device. The Company therefore aims to use its rhCOL product to substitute for already approved products containing collagen from bovine or porcine sources.

Research products

In addition to these pipeline products, Pharming has several products in early stages of development. These include protein products made via transgenic technology and currently tested in 'in vitro' models, as well as potential products in the area of DNA damage.

The DNage technology has been applied to generate animal models that, via a genetic mutation in a DNA repair gene, spontaneously develop Osteoporosis or neurodegenerative diseases. The Company is currently using these animal models to test compounds that interfere with the accumulation of DNA damage and study their potential effect on the development of these diseases. For many of the elderly patients suffering from these diseases, they are not in fact a direct cause of death, but rather impair their quality of life and increase their demands on the health care system. It is therefore expected that a delay in development of these diseases is clinically very relevant and will lead to a reduction in the total number of patients. After the establishment of proof of principle and the protection of these products via patent applications, preclinical/clinical development may start.

BIONUTRITIONALS

Lactoferrin is a protein naturally occurring in many human secretions including milk, saliva and tears. The protein has several interesting properties including anti-infective and anti-inflammatory properties. Its first application is likely to be found in the use as an ingredient in food products for people with an increased risk of infections in the gastro-intestinal tract. These could include immunocompromised patients, elderly people and infants.

Pharming has submitted a dossier concerning use of human lactoferrin in certain foods to the FDA, to obtain its confirmation that such use is GRAS. Pharming is developing hLF for use as an ingredient in advanced nutritional products. Review by the FDA of the dossier has been substantially completed, but is still ongoing due to the fact that hLF is an advanced and innovative product made with a new technology. Therefore, it is a pioneer product which has not been reviewed to such an extent by the FDA before. The FDA is currently reviewing the file and will likely give their opinion in the first half of 2007.

The DNage technology may also be applied to develop nutritional products that have a health effect. Through its subsidiary DNage, for instance, Pharming has a collaboration with Loders CrokLaan BV and BG-Medicine Inc to test nutritional compounds potentially useful in the management of Type II Diabetes. This program is sponsored by a grant from SenterNovem, an agency of the Dutch Ministry of Economic Affairs.

LACTOFERRIN

Use as an ingredient in advanced nutritional products

Dr. Francis Pinto, CEO:

"The progress of Pharming is based on four pillars: survival, collaboration, innovation and focus"

In 2006, Pharming strengthened its cash position, filed its Market Authorization Application for Rhucin® in Europe, developed new research initiatives, acquired DNage and moved to the new Beagle research headquarters. With these and other developments, the Company is well positioned to deliver on its ambition to become a leading player in the biopharmaceutical sector with highly profitable products on the market and a strong pipeline of innovative products based on excellent research.

REPORT OF THE BOARD OF MANAGEMENT

COMPOSITION BOARD OF MANAGEMENT

On 31 December 2006, the composition of the Board of Management was as follows:

DR. F.J. PINTO

Dr. Francis J. Pinto (1942) – President and Chief Executive Officer, Chairman
Nationality: Indian
Date of initial appointment: February 10, 2002
Current term: Up to AGM* 2010

Other current positions: Dr. Pinto is a non-executive director of the board of NovaThera Ltd and the HBM India Fund. He is also the founder and chairman of the Xandev Foundation, a non-profit charity focussed on health-care, education and culture.
Dr. Pinto joined Pharming in February 2002 and is responsible for the long-term strategy of the Company. Dr. Pinto brings to the Company over forty years of successful senior management experience in the pharmaceutical industry based in Europe, Asia and the United States. Previously, Dr. Pinto held senior level operating and management positions at Abbott Laboratories Inc, Bristol Myers Squibb Inc and Pfizer Inc. In addition, he has served on the board of directors of Glaxo Group Ltd in London. He has been involved in over 30 strategic alliances, has helped to launch pharmaceutical products in four major disease segments. Dr. Pinto has an exceptional track record with turnarounds.

DR. B.M. GIANNETTI

Dr. Bruno M. Giannetti (1952) – Chief Operations Officer
Nationality: Italian
Date of initial appointment: December 1, 2006
Current term: Up to AGM 2010

Other current positions: Dr. Giannetti is the founder and president of CRM GmbH, a well established European Clinical Research Organization.
Dr. Giannetti is responsible for the Company's operations including clinical development, research and development, regulatory and manufacturing activities. He has more than twenty-five years of experience in the pharmaceutical and biotech industry. Previously, Dr. Giannetti was the CEO of AM-Pharma BV, the Netherlands and President and CEO of Verigen AG, Germany. In senior management positions, he has been involved with Coopers & Lybrand, Switzerland and UK, Immuno, Austria and Madaus AG, Germany. He is accredited as Qualified Person (relevant for the manufacturing of pharmaceutical products). Dr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn.

DR. F.R. PIEPER

Dr. Frank R. Pieper (1959) – Chief Science and Technology Officer
Nationality: Dutch
Date of initial appointment: February 13, 2002
Current term: resigned on March 29, 2007

Other current positions: Dr. Pieper holds no other board positions.
As Chief Science and Technology Officer, Dr. Pieper has been responsible for the Company's research and technology activities, including management of the Company's intellectual property. Dr. Pieper joined Pharming in 1989 and has held various R&D and general management positions. He has been instrumental in establishing the Company's technology position. Before joining Pharming, Dr. Pieper worked at the Universities of Leuven and Nijmegen in the fields of molecular and cell biology. He has hold a PhD in Molecular Biology from the University of Nijmegen.

** AGM: Annual General Meeting of Shareholders*

MR. S.P. SINGH

Mr. Samir P. Singh (1969) – Chief Business Officer

Nationality: American

Date of initial appointment: May 10, 2005

Current term: resigned on March 29, 2007

Other current positions: Mr. Singh holds no other board positions.

In his function of Chief Business Officer, Mr. Singh has been responsible for business development activities for the Company's products. He has overall responsibility for the Company's operations in the United States. He joined Pharming in 2000 and has over ten years of successful business development, product development and corporate communications experience in the biotechnology industry. Mr. Singh has held management and consulting positions at at Hyseq Pharmaceuticals Inc (now Nuvelo Inc), Bio-Rad Laboratories Inc and Millipore Corporation. Mr. Singh holds a bachelors degree from Williams College and a masters degree in Biological Sciences from Stanford University.

DR. R. STRIJKER

Dr. Rein Strijker (1957) – Chief Commercial Officer

Nationality: Dutch

Date of initial appointment: October 13, 2006

Current term: Up to AGM 2010

Other current positions: Dr. Strijker holds no other board positions.

Dr. Strijker is responsible for commercial development, financial and investor relation activities and corporate communication. He was CEO of DNage BV, a company focusing on age related disorders, that was acquired by Pharming in 2006. Prior to the acquisition of DNage, Dr. Strijker was a Member of Pharming's Supervisory Board and has held management and R&D positions at Pharming and Genentech Inc. He is a member of the board of BioFarmind, the Dutch foundation of pharmaceutical biotechnology. Dr. Strijker holds a PhD in Biochemistry from the State University of Groningen.

COMPOSITION SUPERVISORY BOARD

On 31 December 2006, the composition of the Supervisory Board was as follows:

MR. B.P.TH. VELTMAN

Prof. dr. B.P.Th. Veltman (1932) – Chairman, Chairman of the Remuneration Committee
Nationality: Dutch
Date of initial appointment: February 13, 2002
Current term: Up to AGM 2010

Other current positions: Prof. Veltman holds no other board positions.
Prof. Veltman has served as a member of the supervisory boards of Organon Technica Turnhout, NKF Delft, Delft Instruments/Enraf-Nonius Delft and Gastec NV, Apeldoorn. He was chairman of the advisory council on science and technology policy to the Dutch government, Rector Magnificus of Delft University of Technology from 1980-85 and later president of the University of Twente and dean-director of the Maastricht School of Management. He graduated in Applied Physics at Delft University of Technology and has a long record as Professor in Applied and Technical Physics at the University of Utrecht and at the Delft University of Technology.

MR. K. MACLEOD

Dr. K. Macleod (1960) – Member
Nationality: British
Date of initial appointment: April 26, 2006
Current term: Up to AGM 2010

Other current positions: Dr. Macleod holds no other board positions.
Dr. Macleod is a Principal at Paul Capital Partners and is responsible for sourcing and evaluating European investment opportunities. Based in London, UK, Dr. 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, Dr. Macleod held senior management positions over an impressive fifteen-year career at Serono Pharmaceuticals Ltd, Abbott Laboratories Inc and Beecham Pharmaceuticals. Dr. Macleod earned his PhD from the University of York and his BSc with honors in Biology from the University of Manchester.

MR. G. VERHAGEN

Mr. G. Verhagen (1929) – Member, Chairman of the Audit Committee
Nationality: Dutch
Date of initial appointment: April 23, 2002
Current term: Up to AGM 2010, will resign on May 23, 2007

Other current positions: Mr. Verhagen holds no other board positions.
Mr. Verhagen has held various senior management positions including eighteen years at Koninklijke Pakhoed in Rotterdam. From 1986 to 1992, he was vice-chairman of the board of management of Pakhoed. Since his retirement in 1992, Mr. Verhagen has served on the boards of supervisory directors of several Dutch and international companies. Among others, he served as vice-chairman of the board of ING Group NV, chairman of the boards of Ahoy Rotterdam NV, Blauwhoed BV, Delft Instruments NV, Verenigde Tankrederij BV and as a member of the supervisory board of Volker Wessels Stevin NV. Mr. Verhagen graduated in Business Economics and Accountancy at the Erasmus University Rotterdam.

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management reports on financial, product and corporate development progress of the Company and presents the positive outlook for the business.

Financial development

Pharming's cash position including marketable securities and restrticted cash at December 31, 2006, was € 31.3 million, as against € 20.5 million at the end of 2005. In 2006, Pharming raised € 34.4 million for the further development of recombinant human C1 inhibitor through a strategic agreement with Paul Royalty Fund, a share placement with new institutional investor, and the exercise of options. The equity position of the Company increased to € 49.8 million, compared to € 28.7 million at the end of 2005. Current liabilities were € 9.2 million, compared to € 5.7 million at December 31, 2005, intangible assets were € 19.8 million, compared to € 3.9 million at December 31, 2005. Total non-current assets were € 36.7 million, up from € 9.1 million at December 31, 2005. These changes are largely associated with the acquisition of DNage, which has been accounted for by allocating part of the value (the part related to intellectual property) to the intangible assets and the remainder mainly to goodwill.

The total costs and expenses in 2006 (including € 2.2 million non-cash costs) were € 18.2 million, compared to € 18.8 million in 2005 (including € 2.4 million non-cash costs). The net loss in 2006 was € 18.5 million, compared to a net loss of € 17.9 million in 2005. Net cash used in operating activities in 2006 was € 19.6 million, compared to € 12.7 million in 2005. The remaining costs in 2006 mostly include charges connected with clinical studies for Rhucin® in Europe and North America and the European filing for Rhucin®. Inventories increased to € 9.2 million, up from € 3.9 million at December 31, 2005, in preparation for the launch of Rhucin®.

Product development

In the third quarter of 2006, Pharming's Market Authorization Application for Rhucin® for the treatment of acute attacks of Hereditary Angioedema was accepted for review by EMEA. In accordance with the standard schedule for accepted applications using the centralized procedure, Pharming received an initial response and further questions concerning the application for Rhucin® from EMEA at the end of 2006. Pharming expects to respond to the questions in the first half of 2007, after which the standard schedule allows EMEA ninety days to issue an opinion. Pharming's dossier for compassionate use of Rhucin® for treatment of HAE attacks is also under review by regulatory authorities in specific undisclosed markets where treatment options for HAE patients are limited. Since the procedures for such review are not standardized, the Company cannot predict when this review will be completed.

Pharming received Fast Track designation on Rhucin® for treatment of HAE from the FDA and a grant from the FDA's Office of Orphan Products Development for the clinical development of Rhucin®. The Company is in the process of completing a randomized placebo controlled clinical study in the United States and expects to complete that study in the course of 2007.

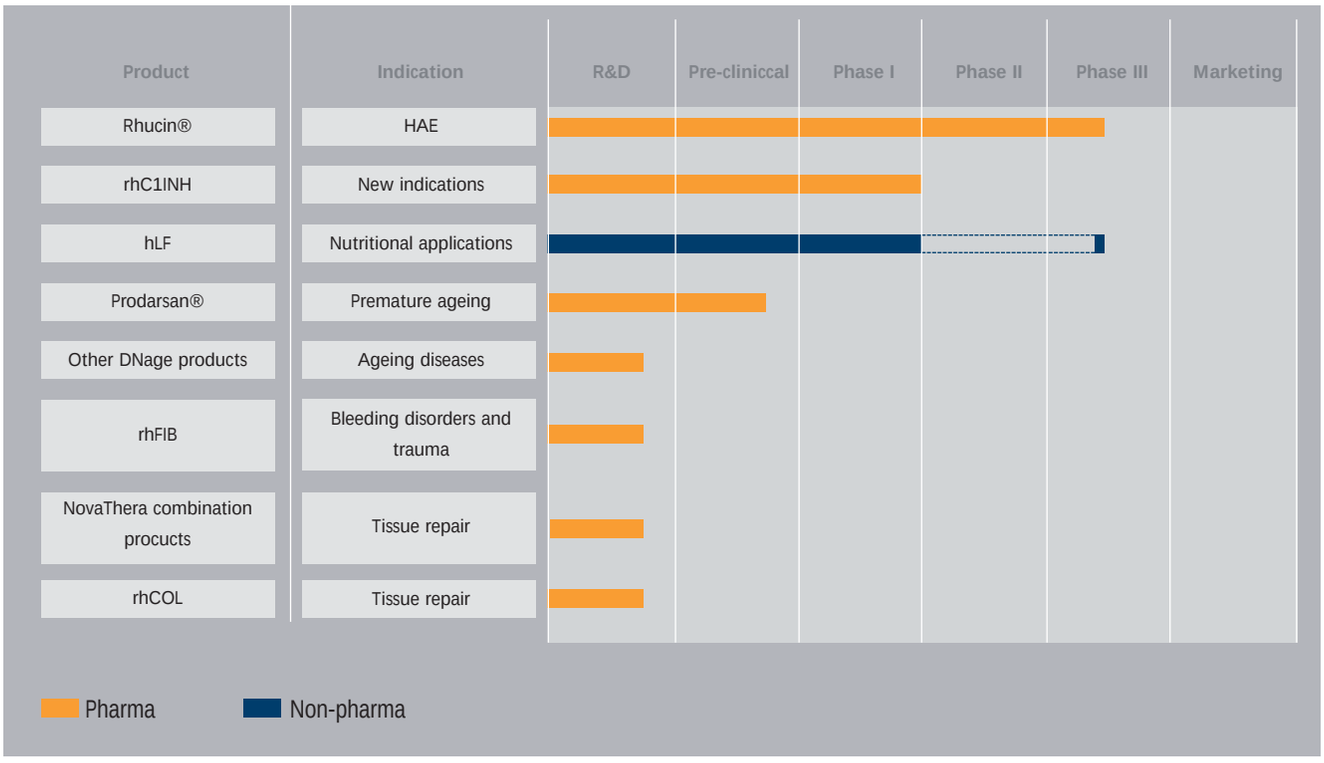
With the issuance of new patents covering the production of rhC1INH in milk of transgenic mammals and its use in treatment of patients suffering from or susceptible to C1 inhibitor deficiency, Pharming further strengthened its position to commercialize rhC1INH for HAE and other indications. The Company received Orphan Drug designations for rhC1INH from the FDA for two new indications beyond HAE: treatment of Delayed Graft Function after solid organ transplantation and treatment of Capillary Leakage Syndrome. Both conditions are characterized by a high burden and limited treatment options for patients. In early 2007, Pharming also received an Orphan Drug designation from EMEA for rhC1INH for treatment of DGF. The Company is now preparing to start clinical studies in the relevant patient groups.

Pharming is developing its lactoferrin product for use as an ingredient in advanced nutritional products. The dossier for GRAS notification, which was filed with the FDA at the end of 2005, is under review. The Company expects a decision from the FDA on this GRAS notification in the first half of 2007.

The research on the use of recombinant human fibrinogen in a US Army funded project on fibrin bandages is ongoing, as well as the research on combination products with NovaThera. Proof of concept studies of the latter, designed to develop a new generation of bioactive materials, were successfully completed. These materials are based on a fusion of the two companies' technologies - TheraGlass™ and Pharming's recombinant human proteins having potential applications in the field of tissue repair.

Pharming's subsidiary DNage's first product for Cockayne disease, a rare genetic disease in which children suffer from accelerated ageing while developing severe ageing diseases, is in preclinical development. Several other early stage programs have been initiated and partnered with academic institutions and biotech companies. At the end of 2006, Pharming announced the publication of two important scientific articles in the leading journals Nature and Public Library of Sciences. The articles describe the work of scientists of Pharming's subsidiary DNage in the field of ageing, in collaboration with the Erasmus Medical Centre and the University of Pittsburgh and exemplify Pharming's focus on research and innovation.

Current status procuct development:



Corporate development

In October 2006, Pharming acquired DNage, a privately held Dutch company focusing on the discovery and development of products for ageing diseases caused by DNA damage. DNage has active programs in the areas of Osteoporosis, neurodegeneration (brain diseases), metabolic diseases (Type II Diabetes) and genetic diseases (premature ageing). Early 2007, the Dutch government agency SenterNovem granted subsidies totaling just over € 1 million to develop products in the field of Osteoporosis. This exemplifies Pharming's strategy to expand its research engine and to strengthen its product pipeline.

DNage's CEO, Dr. Rein Strijker, joined the Board of Management of Pharming as Chief Commercial Officer. Dr. Bruno Giannetti, former CEO of AM-Pharma, was appointed as a Member of Pharming's Board of Management in the position of Chief Operations Officer.

In March 2007, Dr. Pieper and Mr. Singh resigned from the Board of Management. The Company is very grateful for their contributions during their tenure and the role they have played during the turnaround and growth of Pharming in the past years. Mr. Singh will continue to work for the Company in the new position of President, US Operations, focusing on business development and operational activities in the United States. Dr. Pieper will continue to focus on technology and intellectual property matters, but has decided to leave Pharming as of October 1, 2007 to pursue other activities in the area of biotechnology. The Company has secured his continued support after this date in certain relevant areas.

Outlook for 2007

The Board of Management believes that 2007 will be a crucial year for the Company, with several important milestones relevant for product development to be achieved. Actual achievement of these milestones will contribute enormously to the successful future of the Company and may form the basis for a further strengthening of the financial position of Pharming. The Board of Management believes that a further strengthening of this position is necessary given the anticipated future cash needs and important to achieve a sustainable and significant growth of the Company and further development of its pipeline of products. Improvement of the financial position may either occur via the generation of revenues associated with licensing or other commercial agreements or via accessing the capital markets or via a combination of both. Pharming does not expect to make significant investments in fixed or intangible assets during 2007, with the exception of possible investments to maintain its patent portfolio. The Board of Management expects the total level of investments in 2007 to be sigificantly lower than in 2006.

The main events expected in 2007 are as follows:

- Based on the standard schedule, Pharming anticipates EMEA's decision concerning the application of Rhucin® for treatment of acute HAE-attacks in the second half of 2007;
- A decision from regulatory authorities on compassionate (named-patient) use of Rhucin® is expected later this year, which will make Rhucin® available for HAE-patients in markets with limited treatment options. The Company is unable to provide exact guidance as to the timing of such a decision;
- Pharming expects to complete its randomized placebo controlled clinical study with Rhucin® for HAE in the United States in the course of 2007;
- The Company will continue its discussions with potential licensing partners, in particular in the United States, with the goal of concluding one or more licensing agreements in 2007;
- Pharming expects a decision from the FDA on its GRAS notification for hLF in the first half of 2007.

Since the exact timing of decisions made by regulatory bodies cannot be predicted, nor can that of concluding a licensing agreement, Pharming does not provide guidance for the expected 2007 financial result. It is, however, expected that the operational costs and expenses in 2007 will be in line with those for 2006. Finally, the Board of Management foresees a moderate growth of the number of employees in 2007 in line with the anticipated growth of the Company.

Leiden,
The Netherlands,
April 19, 2007

The Board of Management

FRANCIS J. PINTO

BRUNO M. GIANNETTI

REIN STRIJKER

Prof. dr. B. Veltman, Chairman of the Supervisory Board:

"Success in healthcare today requires new thinking – bio-centric, patient-centric, innovative, collaborative and a nimble approach to product development"

The supervision of the Board of Management of the Company is entrusted to a separate Supervisory Board, consisting of non-executive directors (i.e. a two-tier structure). The Supervisory Board supervises the policies of the Board of Management and the general course of affairs of the Company and the business connected with it. The Supervisory Board shall render advice to the Board of Management. In performing their duties, the Supervisory Board Members shall act in accordance with the interests of all stakeholders of the Company.

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board, assisted by its Audit Committee, supervises the financial reporting process and, assisted by its Remuneration Committee, 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 page 30.

Composition and remuneration

At the AGM of April 26, 2006, Mr. Zaman stepped down from the Supervisory Board after serving for four years as a Member. At the same time, Mr. Macleod, a Principal at Paul Capital Partners, joined the Supervisory Board. At the 2006 AGM, it was decided that Mr. Strijker would join the Board of Management after finalization of the acquisition of DNage, which was realized on October13, 2006. Following these changes, the composition of the Supervisory Board is such that best practice provision III.2.1 and III.2.2 of the Dutch Corporate Governance Code has been fulfilled.

Mr. Verhagen has indicated his wish to resign as a Member of the Supervisory Board at the AGM on May 23, 2007. The Supervisory Board thanks Mr. Verhagen for his valuable contribution during the past years first as a Chairman of the Supervisory Board and, more recently, as Chairman of the Audit Committee. The Supervisory Board intends to propose two new Members to the Shareholders before the meeting of May 23, 2007, so that it will continue to be fully equipped to perform its statutory duties.

The remuneration of the Members of the Supervisory Board is determined by the AGM. The annual remuneration of a Member of the Supervisory Board is € 20,000. The Chairman receives € 30,000 per annum.

No Member of the Supervisory Board holds shares in the Company. No loans or other financial commitments were made to any Member of the Supervisory Board on behalf of the Company. Pharming does not require its Supervisory Board Members to disclose any holdings in other listed and/or unlisted companies.

Activities

The Supervisory Board met seven times in 2006. At each of these meetings all Members were present. The Board of Management attended these meetings except when the composition, performance and remuneration of the Board of Management were discussed. Mr. Strijker being both a Member of the Supervisory Board of the Company and CEO and shareholder of DNage at the time, in accordance with best practice provisions III.6.1 to III.6.3 of the Code, did not attend the meetings at which the DNage acquisition was discussed and decided upon.

At the meetings of the Supervisory Board, the Company's financial and operational targets, strategy and accompanying risks were extensively discussed. A considerable amount of time was spent studying the DNage acquisition. Having sought independent advice from a specialist Dutch bank, the Supervisory Board (not including Mr. Strijker) was fully in favor of the take-over. Other topics discussed were the functioning of the Supervisory Board and the external auditor, the financial performance and structure of the Company, the annual budget and targets for 2007 and the operational and financial risks to which the Company is exposed.

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

- The Company is dependent on the commitment of key employees;
- The Company is active on a niche market for an orphan drug product with at least three competitors;
- The Company is highly dependent on the development of one product;
- The Company does not yet have a positive operational cash flow and therefore might be dependent on financial markets in the future;
- The timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimize the Company's exposure. Financial risks are actively monitored by the finance department, whose findings are discussed with the Board of Management on a monthly basis or whenever deemed necessary. The finance department also maintains a close working relationship with the legal department to monitor other corporate and contractual risks. The risks are further described in the corporate governance chapter on page 32.

The quarterly financial statements are circulated to the full Supervisory Board in advance of every Audit Committee meeting. During the four Audit Committee meetings held in 2006, the financial statements were discussed with a special emphasis on the impact of IFRS related issues, the comparison of the budget with actuals and tax issues. In addition, the management letter from the external auditor was discussed. The Audit Committee in 2006 consisted of Mr. Verhagen (Chairman) and Mr. Macleod (succeeding Mr. Zaman). With regard to the functioning of the external auditor, the Supervisory Board discussed the scope, fees and performance.

Financial statements

The financial statements of Pharming Group NV for 2006, as presented by the Board of Management, have been audited by Ernst & Young Accountants. Their report is included in this Annual Report on page 92. The Financial Statements are approved by the Supervisory Board and all Members (including the Board of Management) have signed these Statements. The Supervisory Board recommends the AGM to adopt the 2006 Financial Statements and to discharge the Board of Management and Supervisory Board from liability for their management and supervisory activities on behalf of the Company.

Finally, the Supervisory Board wishes to thank all employees of Pharming for their commitment and their performance in 2006.

Leiden,
The Netherlands,
April 19, 2007

The Supervisory Board

B.P.Th. VELTMAN

K. MACLEOD

G. VERHAGEN

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee evaluates the remuneration of the Board of Management. The Remuneration Committee proposes the remuneration policy to the Supervisory Board as well as the remuneration of the individual Members of the Board of management. The policy includes the remuneration structure, which provides for the amount of fixed remuneration, the shares and/or options to be granted and/or the variable components, pension rights, severance pay and other forms of compensation.

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

The objectives of the remuneration policy are to attract, motivate and retain good management by means of a competitive remuneration policy based on a fixed salary and a variable remuneration linked to the Company objectives and the desired performance of the Board of Management. The remuneration level and the different components of the remuneration are reviewed by the Remuneration Committee at least on a yearly basis.

Remuneration policy and structure

The remuneration policy for 2005 has been maintained during 2006. The main items of this policy are:

- The remuneration of each Board of Management Member shall consist of a fixed (salary) remuneration component, an annual bonus as a percentage of the fixed component, short- or long-term incentives by way of shares and/or options to shares in the Company and advantages in kind such as health insurance, a company car and participation in a pension plan;
- The non-variable component or fixed remuneration shall be relatively low compared to other remuneration components in order to conserve cash;
- The variable part of the remuneration is designed to challenge the Members of the Board of Management to meet or exceed predetermined targets and/or to create shareholder value by extraordinary performance;
- Incentives will be related to long-term objectives of the Company when suitable, i.e. after the Company moves from a research and clinical development phase, which is subject to many unforeseeable events and uncertainties, into a phase of commercial exploitation of products;
- In general, employment contracts or management contracts with Members of the Board of Management will provide for annual bonuses based on extraordinary performance and predetermined, measurable and influenceable targets. These contracts shall include provisions for an individual bonus in cash of up to twenty-five percent of the BOM Member's gross annual salary, fringe benefits, health insurance and pension scheme in accordance with the applicable staff manual of the Company, and severance pay when leaving the Company that will not exceed the BOM Member's gross annual salary.

Meetings and Composition

The Remuneration Committee met three times in 2006, in all cases preceding a meeting of the Supervisory Board. The first and second meeting were convened to review and discuss the performance of the Board of Management relative to pre-agreed targets of the Board of Management for 2005 and to advise the Supervisory Board about the BOM´s performance targets for 2006. During the 2006 financial year, Mr. Veltman acted as the Chairman of the Remuneration Committee. Mr. Zaman left the Remuneration Committee due to his resignation from the Supervisory Board. Mr. Macleod was appointed as Member of the Remuneration Committee in his place.

Remuneration Report

In line with the recommendations of the Remuneration Committee, the Supervisory Board decided not to grant the stock options of the 2005 Option plan as approved by the AGM on May 10, 2005, since the performance targets were not met by the Board of Management. It was decided, however, that these options would be added to the 2006 plan and, in view of the overall performance of the BOM with respect to product development, to grant a cash bonus equal to two months salary to the BOM Members.

Furthermore, the individual remuneration of the Members of the BOM was reviewed and compared to the remuneration of other listed biotechnology companies in the Benelux. The Supervisory Board concluded that the fixed or cash remuneration of BOM Members was, on average, lower than those of the peer group, but decided that for the time being, given the development stage of the Company and its financial position, the policy should not be changed in a substantial way. Nevertheless, the Remuneration Committee also advised the Supervisory Board to revise the salaries (or management fees) of BOM Members. All these decisions were discussed with and approved by the Annual General Meeting of Shareholders of April 26, 2006.

At the third, year-end meeting the performance and remuneration of the Board of Management were reviewed. The Remuneration Committee recommended the Supervisory Board not to grant any of the one million stock options of the 2005/2006 plan, since the challenging performance targets had not been met by the Board of Management. This recommendation was carried.

Although the Board of Management did not meet its performance targets, the Supervisory Board concluded that in the course of 2006 important successes were in fact achieved, such as the conclusion of a financing agreement with Paul Royalty Fund, a successful placement of new shares, the acquisition and integration of DNage, the Rhucin® filing for Market Authorization Application in Europe, the successful manufacturing and release of the first commercial batches of Rhucin®, the cost effective transfer to the Company's new facilities in Leiden and the retaining of key employees and hiring of external specialists at the appropriate time.

In view of these achievements and following the recommendation of the Remuneration Committee, the Supervisory Board decided to grant a cash bonus equal to two months salary (or management fee) (or equal to 16.6% of annual salary) to Mr. Pinto and Mr. Singh. Mr. Pieper was granted a bonus equal to 8.3% of his annual salary. In view of his much appreciated contribution to the Company's operations even before the start of his employment, Mr. Giannetti was granted a bonus equal to 8.3% of his annual salary. Mr. Strijker received a bonus of 16.6% in view of the targets during his employment with DNage and the additional contributions made to Pharming in the second half of 2006. Due to the fact that Pharming's pension plan does not provide for the same benefits as the plans of their previous employers, the Remuneration Committee advised the Supervisory Board to increase the annual salary of Mr. Strijker and Mr. Giannetti by € 15,000 as of January 1, 2007, which was accordingly done. This increase compensates for the decrease in pension benefits resulting from employment with Pharming. Other than as here described, no increases in salary were implemented for BOM Members.

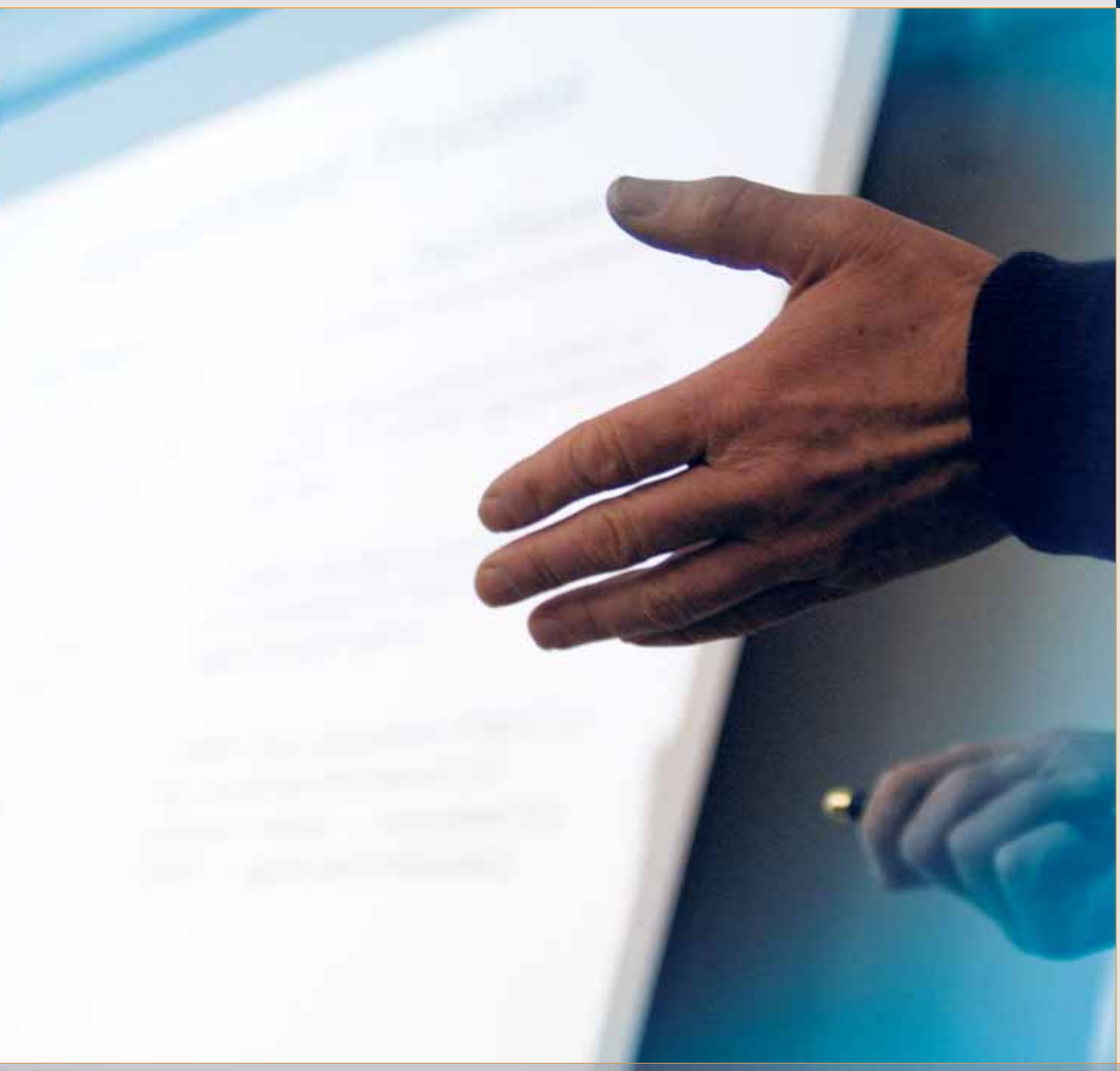
At the same meeting, the Remuneration Committee discussed the future composition and responsibilities of the Board of Management. This discussion ultimately resulted in the changes to the Board of Management, announced in the press release of March 29, 2007.

For 2007, the Remuneration Committee proposes to reserve a grant of 800,000 stock options for the Members of the Board of Management *in toto*, provided that certain milestones will be achieved. The proposal includes five milestones that could trigger an equal part of the options to be granted. They are described as follows:

- Positive opinion from the relevant committee of the EMEA regarding the market authorization of Rhucin®;
- A substantive licensing or other commercial agreement;
- An operational profit for 2007 (excluding share based payments);
- A milestone related to the performance of the share price;
- A milestone related to the future development of the Company in anticipation of further growth.

The Remuneration Committee has defined these milestones in detail and communicated them with the Board of Management. For competitive reasons further details of these milestones are not publicly disclosed.

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



Dr. Rein Strijker, CCO:

"Further improvement in clear and transparent regulations"

The Dutch Corporate Governance Code (the Code) came into force on January 1, 2004. According to the Code, all companies whose registered office is in the Netherlands and whose shares or depositary receipts for shares are officially listed on a government-recognized stock exchange will be required to report in a chapter of their annual report the broad outline of their corporate governance structure and their compliance with the corporate governance code, as well as the non-application of any best practice provisions of the Code (the 'comply or explain' principle).

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Company recognizes the importance of clear and transparent regulations in respect of corporate governance for the confidence of investors in its policies and strategy. At the AGM 2004, we informed our Shareholders that we expect that we will not comply, or not comply in full, with certain provisions of the Code, as we are a company with a limited amount of resources and personnel. Notwithstanding such limitations, the Company has been able to work on and to adopt a set of regulations with respect to corporate governance, describing the task and duties of the Board of Management, the Supervisory Board, the Remuneration Committee and the Audit Committee, and establishing a Corporate governance statement, a Code of ethical conduct and a Whistleblower procedure, all of which have been posted on the Company's website in compliance with the Code.

During the year 2006, the Company has undertaken further efforts to improve compliance with the Code as described below. In consideration of the Decree Article 10 Takeover Directive *(Besluit artikel 10 Overnamerichtlijn)*, which came into force on December 31, 2006, this chapter provides also certain information required by the Decree.

The broad outline of the Company's corporate governance structure and the relevant provisions of the Code, that are currently not or not fully applied, are set out and explained below. For easy reference, this corporate governance report follows, where practical, the sequence of the best practices as listed in the Code and sets out to what extent the Company applies the best practice provisions of the Code.

There are no substantial changes to the Company's corporate governance structure or substantial changes to its compliance with the Code, compared to last year, other than described or referred to in this chapter.

Compliance with the Code

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

II.1.3 *The company shall have an internal risk management and control system that is suitable for the company. It shall in any event, employ as instruments of the internal risk management and control system: (a) risk analyses of the operational and financial objectives of the company; (b) a code of conduct which should, in any event, be published on the company's website; (c) guidelines for the layout of the financial reports and the procedures to be followed in drawing up the reports; and (d) a system of monitoring and reporting.*

The Company maintains and operates various internal control systems and good practices for the management of the Company, the most important of which are the financial reporting and control system, the Organization Chart dealing with delegation of powers to designated employees, the standard operating procedures (SOPs) and quality assurance systems for research, development and manufacturing purposes. The SOPs and quality systems are embedded in the international regulatory framework of Good Laboratory Practices, Good Clinical Practices and Good Manufacturing Practices. For competitive reasons, neither these systems nor the SOPs, which represent part of the Company's proprietary know-how, are published on the Company's website. The Company's Code of conduct will be posted on its website in 2007.

II.2 *Any shares held by a member of the board of management of a company on whose board he sits are long-term investments.*

This provision of the Code did not apply at the time certain BOM Members invested in Shares of the Company and therefore the Company does not wish to implement transfer restrictions with respect to said Shares held by such BOM Members in addition to the restrictions provided by Dutch securities laws and by the Company's insider trading regulations in force as of March 20, 2006.

II.2.1 *Options to acquire shares are a conditional remuneration component, and become unconditional only when the management board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date.*

II.2.2 *If the company, notwithstanding best practice provision II.2.1 grants unconditional options to management board members, it shall apply performance criteria when doing so and the option should, in any event, not be exercised in the first three years after they have been granted.*

II.2.4 *The option exercise price shall not be fixed at a level lower than a verifiable price or a verifiable price average in accordance with the official listing on one or more predetermined days during a period of not more than five trading days prior to and including the day on which the option is granted.*

With respect to the three practices cited above, the Company believes that its future success will depend in large part on the continued services of its BOM Members and key employees. In view hereof, it is deemed essential that the Company is in a position to offer competitive remuneration packages to qualified BOM Members. In line with the recommendations of the Remuneration Committee, the options granted to BOM Members to acquire shares in the capital of the Company, will be a conditional remuneration component which becomes unconditional only when BOM Members have fulfilled predetermined performance criteria. An attractive remuneration package may however, include the granting of options on shares that become unconditional within the prescribed three years' period and that the option exercise price could be fixed at a price level that is deemed more appropriate than the price required by the Code.

II.2.3 *Shares granted to management board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter. The number of shares to be granted shall be dependent on the achievement of clearly quantifiable and challenging targets specified beforehand.*

During the restructuring process of the first half of this decade, the CEO received a limited cash remuneration together with a success fee in Company shares. The agreement on the success fee dates back to 2002 and contains no limitation on the transferability of shares. No success fee in shares has been paid after 2004.

II.2.6 *The supervisory board shall draw up regulations concerning ownership of and transactions in securities by management board members, other than securities issued by their 'own' company. The regulations shall be posted on the company's website.*

The Company believes that the restrictions under applicable Dutch securities laws are sufficient to govern the ownership of and transactions in securities by BOM Members, other than securities issued by the Company. Implementing additional restrictions would potentially harm our ability to attract and ensure the continued services of BOM Members and therefore the Company does not have a provision in its current BOM regulations to comply with this best practice provision nor a policy to that effect.

II.2.7 *The maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during his first term of office, such board member shall be eligible for a severance pay not exceeding twice the annual salary.*

One Member of the Board of Management, Mr. Pieper, was appointed several years prior to the introduction of the Code and the Company is bound by the employment contract, which includes a provision for severance pay equal to two years' salary, until the date of termination of his employment contract. Employment or management contracts with other Members of the Board of Management do comply with the Code and with the Company's present remuneration policy set out on page 30 and 31. As of the date of Mr. Pieper's leave, October 1, 2007, the Company will fully comply with this best practice provision.

III.5.11 *The remuneration committee shall not be chaired by the chairman of the supervisory board or by a former member of the management board of the company, or by a supervisory board member who is a member of the management board of another listed company.*

Due to the relatively small number of Members of the Supervisory Board, the options for this position are limited. The Company considers this position of such importance that it should be occupied by the best qualified person in the Supervisory Board, even if this is not in line with this provision of the Code. Currently, the best qualified person is the Chairman of the Supervisory Board.

III.7.3 *The supervisory board shall adopt a set of regulations containing rules governing ownership of and transactions in securities by supervisory board members, other than securities issued by their 'own' company. The regulations shall be posted on the company's website.*

The Company believes that the restrictions under applicable Dutch securities laws are sufficient to govern the ownership of and transactions in securities by its Supervisory Board Members other than securities issued by Pharming. Implementing additional restrictions may harm our ability to attract and ensure the continued services of Supervisory Board Members. Therefore, the Company does not have a provision in its current Supervisoy Board regulations to comply with this best practice provision.

IV.3.1 *Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the company's website.*

Considering the Company's size, it would create an excessive burden to provide facilities that enable Shareholders to follow in real time the meetings and presentations referred to in the best practice provision. However, the Company will ensure that presentations are posted on the website immediately after the meetings in question.

V.3 *The internal auditor, who can play an important role in assessing and testing the internal risk management and control systems, shall operate under the responsibility of the management board.*

Due to the size of the Company, Pharming has not created a specific position for an internal auditor but it has provided for the assessment and testing of the risk management and control systems to be supported by the head of the Company's Finance department, who is also the Company's Compliance Officer.

Group legal structure

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

Except for its minority shareholdings in MucoVax Holding BV, the Company is the ultimate parent company and owns hundred percent of all shares in the capital of the affiliated companies listed in Note 2 to the Financial Statements on page 48.

In 2006, the shares of ProBio, Inc were transferred in an internal transaction from ProBio International Holdings Pte Ltd to Pharming Group NV. Subsequently, Pharming Group NV sold and transferred all its shares in ProBio International Holdings Pte Ltd to a third party on a cash-neutral basis. Further (financial) information concerning these transactions is provided in Note 4 to the Financial Statements on page 55.

In the fourth quarter of 2006, the Company acquired 100% of the shares in DNage BV, a privately held company incorporated in the Netherlands. DNage focuses on the discovery and development of products for ageing diseases and cancer. Following the acquisition, the articles of association of DNage have been amended to substantially conform to the Articles of Association of the other Group subsidiary companies in the Netherlands. The Company has been appointed the sole statutory director of DNage. Further information concerning this transaction is provided on page 38 (conflict of interest) and in Note 4 to the Financial Statements on page 55.

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 in 2005. A resolution of the AGM to amend the Articles of Association or to dissolve the Company may only be adopted upon a proposal of the Board of Management which has been approved by the Supervisory Board.

Authorized capital, shares, warrants and options

The Company's authorized capital amounts to one hundred million Euro (€ 100,000,000). The authorized capital is divided into two hundred million (200,000,000) ordinary shares of fifty Eurocent (€ 0.50) each. On December 31, 2006, the issued share capital of the Company amounts to € 44,376,755.50, consisting of 88,753,511 shares. Currently the number of registered shares amount to less than one percent of all issues 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 and for employees, Options to and warrants on shares is provided in Note 25 to 28 to the Financial Statements on page 72 to 76.

Issuance of Shares or granting of Options

The Board of Management has the authority to issue shares or grant rights to subscribe for shares (so called options) if and insofar as the Board of Management has been designated by the AGM as the authorized corporate body for this purpose and subject to the approval of the Supervisory Board, all in accordance with the Articles of Association and Netherlands company law. As per resolution of the AGM of April 26, 2006, 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 eighteen months ending on October 26, 2007. A renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of May 23, 2007.

Pre-emptive rights

Under the Articles of Association, each holder of shares generally has a pre-emptive right to subscribe to its pro rata portion of any issue of shares or grant of options to subscribe for shares, except for certain issuances to employees and issuances for non-cash consideration. The Board of Management has the authority to restrict or exclude the rights of pre-emption for a period not exceeding five years, if and insofar as the Board of Management has been designated by the AGM as the authorized corporate body for this purpose and subject to the approval of the Supervisory Board. As per resolution of the AGM of April 26, 2006, the Board of Management has been granted such authorization for a period of eighteen months ending on October 26, 2007. A renewal of this authorization for a period of twelve months will be submitted for approval to the AGM of May 23, 2007.

Repurchase of shares

Subject to the authorization of the AGM and the approval of the Supervisory Board and subject to certain conditions imposed by Netherlands 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 Netherlands 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 AGM of April 26, 2006, the Board of Management has been granted such authorization for a period of eighteen months ending on October 26, 2007. A further renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of May 23, 2007. 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, the Company Secretary and the Head of the Human Resource management.

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 in article 6 of the Dutch Supervision of Securities Transactions 1995 (Wte 1995).

Board of Management and Supervisory Board

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

During the year 2006, the composition of the Board of Management was as follows:

F.J. Pinto	Chief Executive Officer, re-appointed as of May 21, 2006;
S.P. Singh	Chief Business Officer, until March 29, 2007;
F.R. Pieper	Chief Science and Technology Officer, until March 29, 2007;
J. Pieters	Chief Operations Officer, until April 26, 2006;
R. Strijker	Chief Commercial Officer, appointed as of October 13, 2006;
B.M. Giannetti	Chief Operations Officer, appointed as of December 1, 2006.

The Supervisory Board consisted of:

B.P.Th. Veltman	Chairman, date of initial appointment: February 13, 2002;
R. Strijker	Vice-chairman, date of initial appointment May 10, 2005; resigned at October 16, 2006 to join the Board of Management;
G. Verhagen	Member, date of initial appointment: April 23, 2002, will resign on May 23, 2007;
D.F.M.M. Zaman	Member, date of initial appointment February 13, 2002, resigned at April 26, 2006;
K. Macleod	Member, date of initial appointment: April 26, 2006.

All Members of the Board of Management are statutory directors of the Company. Mr. Strijker's appointment was approved by the AGM on April 26, 2006, conditional to completion of the acquisition of DNage, which took place in the fourth quarter of 2006. Mr. Giannetti was appointed as of December 1, 2006 in an Extraordinary Meeting of Shareholders held on November 1, 2006. Remuneration and other employment conditions of the BOM Members are proposed by the Remuneration Committee and approved by the Supervisory Board. Mr. Strijker and Mr. Giannetti are employed by the Company, whereas Mr. Pinto is hired under a management contract, all in accordance with the current remuneration policy of the Supervisory Board. As of March 29, 2007, the Board of Management consists of Dr. Francis Pinto, Dr. Rein Strijker and Dr. Bruno Giannetti. Dr. Francis Pinto is Chairman of the Board of Management and has the primary responsibility for the long-term strategy of the Company. Dr. Rein Strijker is responsible for all commercial development, financial and investor relation activities and corporate communication. Dr. Bruno Giannetti is responsible for the Company's operations, including clinical development, R&D, regulatory and manufacturing activities.

In 2005, the Supervisory Board has approved and the Board of Management has subsequently adopted the Board of Management regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Management and which are posted on the Company´s website. Certain important decisions from the Board of Management, as are listed in the Articles of Association, require the prior approval of the Supervisory Board. The Board of Management has delegated certain of its powers to designated functions within the Company, as described in the Company's Chart of Authority in force as of September 2005.

Related party transactions and conflict of interest

All direct transactions with Members of the Board of Management and Supervisory Board have been disclosed in accordance with the Code and are further described in Notes 26 and 27 to the Financial Statements on page 73 to 75.

Subsequent to the transactions with Paul Royalty Fund early 2006 as described in Notes 13 and 14 of the Consolidated Financial Statements and the subsequent appointment of Dr. Macleod to the Supervisory Board, Paul Royalty Fund is considered a related party. As disclosed in Note 14 of the Consolidated Financial Statements Paul Royalty Fund is entitled to receive payments based on future net sales of Pharming, with an amount of US$ 15 million guaranteed for repayment in the years 2007-2009.

In 2006, Pharming decided to acquire all shares of DNage, whose Chief Executive Officer, Dr. Rein Strijker, was a Supervisory Board Member of Pharming. Before approving the transaction, the Supervisory Board requested an opinion and valuation assessment by an independent expert bank. This opinion and assessment strongly supported the rationale and the terms of the transaction. Subsequent to and in consideration of this acquisition, the Company paid one portion of the purchase price in kind by transfer of 2,200,000 shares and issuance of 600,000 Warrants. The Company paid the second and last portion of the purchase price in kind by transfer to the sellers of 1,800,000 Shares on January 29, 2007. These transactions, described in more detail in Note 4 of the Financial Statements, included a

related party transaction with Mr. Strijker being one of the sellers. Both as a Member of the Supervisory Board prior to the transactions between the sellers and the Company, and upon his membership of the Board of Management, Dr. Strijker abstained from casting a vote with respect to all resolutions to be made and effectively made by either Board relative to any of the transactions related to said shares or associated directly or indirectly with his personal interest.

In addition, the Company paid a cash amount to NovaThera in relation to successful completion by NovaThera of proof of concept studies of the Company in October 2006. NovaThera is a privately held company in which Mr. Pinto, the Company's CEO, holds a private minority interest and is also a member of its board of directors.

All of the above transactions have been agreed to on terms that are customary in the sector in which the Company operates, and the Board of Management has assured itself that best practice provisions II.3.2 up to and including II.3.4 of the Code have been complied with.

All current Members of the Board of Management are under contract by the Company. The employment contract with Dr. Strijker has been signed by the Chairman of the Supervisory Board on behalf of the Company, in accordance with the Company's Articles of Association, to avoid a conflict of interest. As part of the terms of their employment contract, and where it concerns the CEO, his management services contract, each BOM Member has undertaken not to compete with Pharming's activities. During the past year, no conflicts of interest were reported between Members of the Board of Management and the Company or its subsidiaries other than those referred to in this Annual Report.

All but one Supervisory Board Members are independent of the Company within the meaning of best practice provision III.2.2 of the Code. None of the Members is 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 Dr. Macleod is employed as a principal of Paul Capital Fund, a Shareholder of the Company. None of the Members of the Supervisory Board provides any services outside his Board memberships or has any direct or indirect ties with the Company or any of its subsidiaries outside his Supervisory Board membership. The Supervisory Board regulations contain provisions with regard to potential conflicts of interest. In the year under review, no transactions with a potential conflict of interest took place.

Mandates with third parties

No Member of the Board of Management is a member or chairman of the supervisory board of another listed company. Acceptance of more than two mandates as a supervisory board member or of a mandate as chairman of the supervisory board of a listed company requires the prior approval of the Supervisory Board. Other appointments of material importance need to be notified to the Supervisory Board. There have been no such notifications or appointments during the year 2006.

Loans or guarantees

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

Risk management and control

Pharming has in place adequate internal controls for the management of the Company. Since 2005, it has a Code of ethical conduct and a Whistleblower procedure, both of which are published on the Company's website. The complete internal risk management and control systems of the Company are regularly discussed by the Board of Management with the Supervisory Board and its Audit Committee and in addition, procedures and controls are reviewed and areas requiring improvement are identified in audits from external parties.

The Company has established an Operations Management Team to further strengthen the internal controls of the Company. The Operations Management Team includes managers from the product, research, manufacturing, finance and legal groups. The Company has a Chief Operations Officer, Head of Finance and Administration, Legal Counsel and Compliance Officer. In addition, key risk factors applicable to the Company were addressed at several of the Supervisory Board meetings in 2006.

The Board of Management and Supervisory Board have committed themselves to further developing the internal management and control systems. Further information concerning risk factors is provided in Note 29 to the Financial Statements on page 77.

Appointment of the external auditor

At the AGM held on April 26, 2006, Ernst & Young Accountants was appointed as the Company's external auditor for a period of one year, expiring at the AGM of 2007. It is the intention to submit to the AGM to be held on May 23, 2007, the appointment of Ernst & Young Accountants as the Company's external auditor for a period expiring by the date of the next AGM.

Mr. G. Verhagen, Chairman of the Audit Committee

"Investing in research and innovation now generates significant returns in the future"

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

At December 31, 2006

Amounts in € '000	Notes	December 31, 2006	December 31, 2005
Goodwill	5.	9,190	-
Intangible assets	6.	19,783	3,914
Property, plant and equipment	7.	7,325	4,960
Financial assets	8.	200	195
Restricted cash	9.	176	-
Non-current assets		**36,674**	**9,069**
Inventories	10.	9,169	3,855
Other current assets	11.	2,159	1,135
Restricted cash	9.	-	237
Marketable securities	12.	4,995	5,839
Cash and cash equivalents		26,082	14,452
Current assets		**42,405**	**25,518**
Total assets		**79,079**	**34,587**
Share capital	13.	44,377	40,176
Share premium	13.	175,339	148,464
Foreign currency translation	13.	(1,436)	(1,150)
Share-based compensation	13.	5,748	2,816
Net unrealized gains/(losses)	13.	(1,231)	(395)
Deferred compensation payable in shares	13.	6,714	-
Accumulated deficit	13.	(179,668)	(161,172)
Total equity		**49,843**	**28,739**
Paul Royalty Fund	14.	10,108	-
Earn-out obligations	15.	5,791	-
Deferred tax liability	16.	3,889	-
Lease incentives	17.	170	-
State of Wisconsin	18.	85	140
Non-current liabilities		**20,043**	**140**
Trade and other payables	19.	7,614	5,659
Current portion of non-current liabilities	20.	1,579	49
Current liabilities		**9,193**	**5,708**
Total equity and liabilities		**79,079**	**34,587**

INCOME STATEMENT

For the year ended December 31, 2006

Amounts in € '000	Notes	2006	2005
Revenues	21.	**147**	**405**
Research and development		8,410	8,921
Operations		4,762	5,213
Selling, general and administrative		2,808	2,309
Depreciation and amortization charges	22.	1,208	1,042
Impairment charges	6.	357	-
Share-based compensation	22.	635	1,361
Costs and expenses		**18,180**	**18,846**
Loss from operating activities		**(18,033)**	**(18,441)**
Interest on liability Paul Royalty Fund	14.	(2,205)	-
Interest on earnout obligations	15.	(216)	-
Other interest income, net	23.	1,295	679
Finance revenue and costs		**(1,126)**	**679**
Currency effect on liability Paul Royalty Fund	14.	976	-
Other foreign currency losses	23.	(364)	(60)
Loss on disposal of marketable securities	12.	-	(37)
Other income and expenses		**612**	**(97)**
Loss before tax		**(18,547)**	**(17,859)**
Income tax benefit	16.	51	-
Net loss after tax		**(18,496)**	**(17,859)**
Share information			
Basic and diluted net loss per share (€)		(0.21)	(0.23)
Weighted average shares outstanding		86,155,453	79,196,440
Number of shares outstanding at year-end		88,753,511	80,351,410

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

For the year ended December 31, 2006

Amounts in € '000

	Foreign currency translation	Net unrealized gains/(losses)	Accumulated deficit	Total
2005				
Unrealized effect of foreign currency translation	410	-	-	410
Result on marketable securities	-	(483)	-	(483)
Result on financial assets	-	46	-	46
Income and expense directly recognized in equity	**410**	**(437)**	**-**	**(27)**
Net loss after tax	-	-	(17,859)	(17,859)
Total income and expense for the year	**410**	**(437)**	**(17,859)**	**(17,886)**
2006				
Unrealized effect of foreign currency translation	(286)	-	-	(286)
Result on marketable securities	-	(841)	-	(841)
Result on financial assets	-	5	-	5
Income and expense directly recognized in equity	**(286)**	**(836)**	**-**	**(1,122)**
Net loss after tax	-	-	(18,496)	(18,496)
Total income and expense for the year	**(286)**	**(836)**	**(18,496)**	**(19,618)**

STATEMENT OF CASH FLOW

For the year ended December 31, 2006

Amounts in € '000	2006	2005
Net loss after tax	**(18,496)**	**(17,859)**
Adjustments to reconcile net loss to net cash flows used in operating activities		
Change in operating assets and liabilities		
Increase inventories	(5,314)	(1,379)
Increase other current assets, net of inerest	(865)	(243)
Increase trade and other payables	1,538	4,267
Accrued interest	(1,303)	(688)
Received interest	1,181	421
Non-cash items		
Depreciation and amortization charges	1,208	1,042
Impairment charges	357	-
Share-based compensation	635	1,361
Interest on liability to Paul Royalty Fund	2,205	-
Foreign currency effect on liability to Paul Royalty Fund	(976)	-
Interest on earn-out obligations	216	-
Income tax benefit	(51)	-
Issuance of shares and exchange of services	37	150
Loss on disposal of marketable securities	-	37
Release lease incentives	(10)	-
Foreign currency effects on balance sheet	18	7
Net cash flows used in operating activities	**(19,620)**	**(12,884)**
Purchase of property, plant and equipment	(3,151)	(859)
Purchase of marketable securities	-	(6,000)
Sale of marketable securities	-	3,963
Acquisition of subsidiary, net of cash acquired	(46)	-
Net cash flows used in investing activities	**(3,197)**	**(2,896)**
Net proceeds of increase of share capital	22,746	8,725
Upfront payment Paul Royalty Fund, net of transaction fees paid	11,686	-
Repayment of loans and borrowings	(46)	(37)
Net cash flows from financing activities	**34,386**	**8,688**
Net increase/(decrease) cash and cash equivalents	**11,569**	**(7,092)**
Cash and cash equivalents at January 1 (including restricted cash)	14,689	21,781
Net increase/(decrease) cash and cash equivalents	11,569	(7,092)
Cash and cash equivalents at December 31 (including restricted cash)	**26,258**	**14,689**
Liquidity information		
Cash and cash equivalents at December 31 (including restricted cash)	26,258	14,689
Marketable securities at December 31	4,995	5,839
Total liquidities at December 31	**31,253**	**20,528**

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

Amounts in € '000

	Number of shares	Share capital	Share premium	Foreign tra
Balance at January 1, 2005	**75,741,776**	**37,871**	**141,518**	
Total income and expense for the year	-	-	-	
Share-based compensation	-	-	-	
Costs of increase of equity	-	-	(50)	
Issuance of shares for cash	200,000	100	660	
Warrants exercised	3,856,500	1,928	5,773	
Options exercised	400,033	200	114	
Issuance of shares for increase share in ProBio	91,573	46	292	
Issuance of shares in exchange of services (non-cash)	41,528	21	129	
Issuance of shares in exchange of deferred salary	20,000	10	28	
Balance at December 31, 2005	**80,351,410**	**40,176**	**148,464**	
Total income and expense for the year	-	-	-	
License agreement Paul Royalty Fund	-	-	-	
Share-based compensation	-	-	-	
Issuance of shares for cash	5,911,641	2,956	19,508	
Acquisition DNage	2,200,000	1,100	7,106	
Options exercised	257,442	129	153	
Issuance of shares in exchange of services (non-cash)	33,018	16	108	
Balance at December 31, 2006	**88,753,511**	**44,377**	**175,339**	

Nominal value € 0.50 per share. Outstanding shares at December 31, 2006 include 77,570 treasury shares.

For the year ended December 31, 2006

currency translation	Share-based compensation	Net unrealized gains/(losses)	Deferred compensation payable in shares	Accumulated deficit	Minority interest	Total
(1,560)	**1,455**	**42**	**-**	**(143,313)**	**176**	**36,189**
410	-	(437)	-	(17,859)	-	(17,886)
-	1,361	-	-	-	-	1,361
-	-	-	-	-	-	(50)
-	-	-	-	-	-	760
-	-	-	-	-	-	7,701
-	-	-	-	-	-	314
-	-	-	-	-	(176)	162
-	-	-	-	-	-	150
-	-	-	-	-	-	38
(1,150)	**2,816**	**(395)**	**-**	**(161,172)**	**-**	**28,739**
(286)	-	(836)	-	(18,496)	-	(19,618)
-	1,289	-	-	-	-	1,289
-	635	-	-	-	-	635
-	-	-	-	-	-	22,464
-	1,008	-	6,714	-	-	15,928
-	-	-	-	-	-	282
-	-	-	-	-	-	124
(1,436)	**5,748**	**(1,231)**	**6,714**	**(179,668)**	**-**	**49,843**

For the year ended December 31, 2006

1. Corporate information

The consolidated financial statements of Pharming Group NV, Leiden for the year ended December 31, 2006 were authorized for issue in accordance with a resolution of the Supervisory Board on April 19, 2007. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for May 23, 2007.

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

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

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 2006 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 income statement is included in the Pharming Group NV accounts. These Financial Statements have been prepared on a going concern basis.

Basis of consolidation

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

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 income statement.

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. Gains or losses are recognized in equity, except for impairment losses and foreign currency gains and losses. Upon derecognizing the asset, the cumulative gain or loss previously recognized in equity is forwarded to the income statement. Dividends on an Available-for-sale financial assets are recognized in the income statement when the right to receive payment is established.

The following table provides an overview of the participations at December 31, 2006 and 2005:

Ownership in % at December 31,		2006	2005
Company	**Registered office at December 31, 2006**		
Pharming BV	The Netherlands	100.00	100.00
Pharming Intellectual Property BV	The Netherlands	100.00	100.00
Pharming Technologies BV	The Netherlands	100.00	100.00
Broekman Instituut BV	The Netherlands	100.00	100.00
Pharming Healthcare, Inc	United States	100.00	100.00
DNage BV	The Netherlands	100.00	-
ProBio International Holdings Pte Ltd*	Singapore	-	100.00
ProBio, Inc	United States	100.00	100.00
MucoVax Holding BV	The Netherlands	2.00	2.45

* *The operations were desinvested in 2006; its 100% interest in ProBio, Inc was transferred to Pharming Group NV.*

3. Summary of significant accounting policies

Changes in accounting policies

The accounting policies adopted for 2006 are consistent with 2005. Effective 2007 the Company will implement IFRIC interpretation 8 (Scope of IFRS 2: Share-based payment), which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. For 2006 and 2007, other amendments (of IAS 1 Presentation of Financial Statements, IAS 19 Employee Benefits, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 39 Financial Instruments: Recognition and Measurement) and new standards or interpretations (IFRIC 4 Determining whether and Arrangement contains a Lease, IFRIC 5 Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment, IFRS 7 Financial Instruments: Disclosures) did not have an effect on the financial statements except for some disclosures.

Significant accounting judgements and estimates

The preparation of financial statements requires judgements 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. Management cautions that actual results could differ from those estimates.

The following items in particular are subject to judgements and/or estimates which may result in differences between the actuals as included in the underlying financial statements and the realization.

Goodwill, intangible assets and deferred tax liability resulting from acquisition DNage

The Company's acquisition of DNage has resulted in the initial recognition of significant amounts of goodwill (€ 9,190,000), intangible assets (€ 16,770,000) and deferred tax liabilities (€ 3,940,000). The values allocated to goodwill and intangible assets are based on Pharming's estimated expected future cash flows from DNage, as well as the selection of a suitable discount rate in order to calculate the present value of those cash flows. Estimated future cash flows depend on realization of anticipated business plans, which are substantially of long-term nature, and of the applicable discount rate which may vary from time to time based on both external and internal factors with an impact on cost of capital.

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

Earn-out obligations

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

Corporate income tax

Pharming's corporate income tax position in the Netherlands for the years 2001 and after is subject to approval of the Dutch tax authorities. Outcome of this approval may affect the carry forward loss position in the Netherlands as stated in Note 30 of these Financial Statements.

Foreign currency translation

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 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 income statements 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 income statement as a component of the gain or loss on disposal. In general, the above-stated translation of foreign entities applies to current and previous entities in the United States. The €/US$ exchange rates applied at December 31, 2006 and 2005 amounted to € 0.758 and € 0.845 respectively. Average exchange rates between €/US$ used for the years 2006 and 2005 were € 0.800 and € 0.786 respectively.

Distinction between current and non-current

An asset or liability is classified as current when it is expected to be realized (settled) within twelve months after the balance sheet date.

Intangible assets

Intangible assets acquired separately are measured on initial recognition cost. The cost of intangible assets acquired in a business combination is 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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. 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 income statement in the 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.

Research and development costs

Research costs are expensed as 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 ability of resources to complete and the availability to measure reliably the expenditure during the development. 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 future sales from the related project.

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.

Though the Company from a business perspective considers itself to be in a development phase, under IFRS the Company is considered to be in a research phase since no market approval for a product has yet been received. Therefore, no development costs have been capitalized.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation charges, accumulated impairment charges and the accumulated exchange rate effect on property, plant and equipment held by entities with a functional currency other than the reporting currency. 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end.

The depreciation periods for the Company's property, plant and equipment are:

Land	not depreciated
Land improvements	20 years
Operational facilities	10-20 years
Leasehold improvements	5-10 years
Manufacturing equipment	2-4 years
Other	3-10 years

Depreciation charges for manufacturing equipment are based on actual use of the equipment involved, which is expected to be a period of two to four years. Other property, plant and equipment apply to laboratory and office equipment, furniture, hardware and software.

Impairment of assets

Impairment of assets is recognized when events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable and the Company's estimate of discounted cash flows over the assets' remaining estimated useful life are less than the carrying value of the assets. If such evidence exists, the difference between the recoverable amount, being the greater of net selling price and value in use, and the carrying amount is included in the income statement for the period.

Measurement of the amount of impairment, which is carried out at each balance sheet date, may be based on appraisal, market values of similar assets or estimated discounted future cash flows resulting from the use and ultimate disposition of the asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had not impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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.

Available-for-sale financial assets

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's 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.

The Company has two available-for-sale financial assets, being the investment in MucoVax Holding BV (classified as Financial assets in Non-current assets) and listed interest-bearing loans (classified as Marketable securities in Current assets).

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to know amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts legally offsetable with positive bank balances are included in cash and cash equivalents.

For the purpose of the statement of cash flow, cash and cash equivalents are net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

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 income statement when the liabilities are derecognised as well as through the amortization process.

Other current assets and trade and other payables

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

Derecognition of 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

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 collectibility of the benefits is reasonably assured.

License fees relates to revenues from agreements with third parties for co-development of products and is recognized upon fulfilling of pre-defined contractual terms, net of applicable taxes. Revenues from research and development contracts are recognized upon completion of milestones and/or other criteria such as the stage of completion. With regard to government grants received, which in general provide for reimbursement of pre-defined expenses, revenue is accounted for in the income statement when the reimbursable costs have been incurred.

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

Costs and expenses

Costs and expenses are expensed as incurred. Costs of research and development cover those activities that are carried out to gain new scientific or technical knowledge and understanding as well as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products. The operational expenses relate to the cattle and rabbit farm facilities and manufacturing expenses. Costs of selling, general and administrative apply to overhead expenses and expenses incurred to commercialize products.

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

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. To become an eligible participant, an employee must complete six months of service and attain age 21. 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.

Share-based compensation

In accordance with IFRS 2, share-based payment and expense should be recognized in the income statement for options granted to Members of the Board of Management and employees under the respective Option plans (see Note 25 for characteristics of these plans). Such an expense is based on the fair value of the option determined on grant date and is subsequently charged to the income statement in accordance with the vesting schedule of the option. The charge is credited to the category of Share-based compensation within equity. Overall, the charge does not affect equity or cash flows in the year of expense or after.

Models and assumptions

This note describes the valuation method used to determine the estimation of the fair value of the options.

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

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

The value of the Options has been determined with the Black-Scholes formula, which includes all six elements stated above. Except for the known items under 1. and 3., several assumptions have been made. The expected time to maturity of the option has been set at 50%, with volatility of 82%-114% based on historical monthly stock prices as of August 2001 (until the valuation dates) and a risk-free interest rate applied of 2.27%-3.85% based on the IRS-curve as published by Het Financieele Dagblad. For valuation of options granted until year-end 2006 no dividend payments have been taken into account.

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. The options become unconditional according to a sliding scale. For valuation purposes, the period after 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 required.

Leases

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

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are 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 income statement.

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

Lease incentives

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

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible taxable temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measures at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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 balance sheet.

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 (options, warrants, convertible loan agreements, success fee payable in shares). 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.

4. Business combinations

2005: ProBio

Pharming increased its participation in ProBio International Holdings Pte Ltd in Singapore (ProBio Singapore) from 19.45% at December 31, 2003 to 93.40% at December 31, 2004. The value of ProBio Singapore at December 31, 2004 was € 2,208,000. In 2005, Pharming issued shares to acquire the remaining 6.60% interest held by minority shareholders in ProBio Singapore. These shareholders were offered a number of shares based on the price paid to other shareholders in 2004. Upon transfer, the market value of the Pharming shares was € 338,000. This amount was charged to share capital and share premium whereas the year-end 2004 value of the minority interest (€ 176,000) was reduced to nil. The € 162,000 difference between the market value of the shares issued and the previous valuation of the minority interest has been recognized as an intangible asset, being the main asset of ProBio Singapore's 100% subsidiary ProBio Inc in the United States (ProBio US).

In 2006, the shares of ProBio US were transferred to its ultimate parent company Pharming Group NV, which subsequently sold ProBio Singapore to a third party on a cash-neutral basis. These 2006 transactions were carried out to simplify the corporate structure and did not have an effect on the consolidated balance sheet or the consolidated income statement of the Company.

2006: DNage

On March 24, 2006, the Company announced it intended to acquire 100% of the shares in DNage BV (DNage), a privately held company incorporated in the Netherlands focusing on discovery and development of products for ageing diseases and cancer. The acquisition was completed on October 13, 2006 upon signing of a Sale and Purchase Agreement (SPA).

The SPA includes the following financial clauses:

- payment of 4,000,000 Shares in several tranches;
- issuance of 600,000 warrants with an exercise price of € 4.00 per Share and an exercise period of two years;
- payment of two separate € 5.0 million milestones ('the milestone earn-out obligations') to former DNage shareholders upon 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 ('the revenue earn-out obligations') 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 notarial deeds were passed on November 21, 2006 and as of that date Pharming legally owned 100% of the shares of DNage. On November 22, 2006, Pharming transferred the first 2,200,000 shares and issued the 600,000 warrants. The remaining 1,800,000 shares were transferred on January 29, 2007. These transactions included a related party transaction with Mr. Strijker, Member of the Board of Management as of October 13, 2006. On November 22, 2006 Mr. Strijker received 114,846 shares and 41,580 warrants with an exercise price of € 4.00 per warrant and an exercise period of two years; a further 124,818 shares were transferred to Mr. Strijker on January 29, 2007 as a portion of the 1,800,000 shares referred to.

Under IFRS 3, business combinations, Pharming has been identified as the acquirer and DNage as the acquiree. The acquisition date is defined in IFRS 3.25 as the date on which the acquirer effectively obtains control of the acquiree. Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalized at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control. Based on such an assessment, it has been determined that Pharming effectively was in control of DNage after finalization of the SPA on October 13, 2006, as immediately after this date the DNage operations were fully integrated in those of Pharming and Mr. Strijker joined the Board of Management of the Company. Accordingly, the financial statements of DNage have been consolidated in the underlying Financial Statements as of October 13, 2006.

Costs of the business combination

IFRS 3.24 states that the acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus
(b) any costs directly attributable to the business combination.

The costs of the business combination with DNage at acquisition date are as follows:

(i) the fair value of the shares issued is based on the closing price of the Pharming shares at the acquisition date of € 3.73 per share;
(ii) the fair value of the warrants has been determined using the Black-Scholes model taking into account:
   1. the exercise price of the warrant;
   2. the expected time to maturity of the warrant;
   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.

   Based on these parameters, an independent consultant has calculated a fair value per warrant of € 1.68;
(iii) at acquisition date, the Company has assumed liabilities to former DNage shareholders based on earn-out clauses agreed upon, taking into account the probability of meeting milestones or revenues as well as the timing and amount thereof, discounted at a rate of 20%;
(iv) in accordance with IFRS 3.29, the Company has capitalized those costs directly attributable to the combination, such as professional fees paid to legal advisers, valuers and other consultants, to effect the combination. One adviser has been paid 23,522 shares valued at € 3.72 per share (€ 88,000) and the remaining € 299,000 has been paid in cash. Fees incurred by DNage to realize the transaction cannot be capitalized and have been expensed in the income statement of DNage prior to the acquisition date.

Amounts in € '000

	Total
(i) 2,200,000 shares transferred at November 22, 2006	8,206
(i) 1,800,000 shares transferred at January 29, 2007	6,714
(ii) 600,000 warrants issued at November 22, 2006	1,008
(iii) Net present value earn-out obligations at October 13, 2006	5,575
(iv) Transaction fees incurred	387
Costs of business combination	**21,890**

Fair value identifiable assets, liabilities and contingents liabilities of the acquiree

As per IFRS 3.36 and 3.37, the acquirer shall, at the acquisition date, allocate the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. These criteria are:
(a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
(b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
(c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The fair value of the identifiable assets, liabilities and contingent liabilities of DNage immediately prior to and immediately following the acquisition date was:

Amounts in € '000

	Carrying value prior to acquisition date	Fair value adjustment recognized upon acquisition	Fair value after acquisition date
Intangible assets (i)	-	16,770	16,770
Deferred tax asset (ii)	336	(4,276)	(3,940)
Receivables and other current assets	34	-	34
Cash and cash equivalents (iii)	253	-	253
Trade and other payables	(417)	-	(417)
Net asset value	**206**	**12,494**	**12,700**

(i) the fair value of these intangible assets represents the expected pre-tax cash flows of the product lines of DNage, discounted at a rate of 20%;
(ii) the carrying value of the deferred tax asset prior to acquisition date reflects accumulated fiscal losses DNage of € 1,320,000. The amount of the fair value recognized upon acquisition of € 4,276,000 relates to the different tax base of the intangible assets recognized of € 16,770,000. These assets cannot be amortized in the fiscal financial statements so that future fiscal results will be higher than commercial results. Both tax base amounts have been been multiplied at the anticipated nominal corporate income tax rate in the Netherlands of 25.5%. Deferred taxes are not discounted but recognized at nominal value;
(iii) the amount of cash and cash equivalents acquired in the business combination of € 253,000 minus transaction fees paid in cash of € 299,000 results in an amount of € 46,000 as cash flows used in investing activities in the consolidated statement of cash flow.

Accounting treatment on acquisition date

IFRS 3.52 states goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. As per IFRS 3.51, the acquirer shall at the acquisition date:
(a) recognize goodwill acquired in a business combination as an asset; and
(b) initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

On the acquisition date of October 13, 2006, the transaction with DNage was recognized in the consolidated balance sheet of the Company by substracting the fair value of the identifiable assets, liabilities and contingent liabilities after acquisition date of € 12,700,000 of the costs of the business combination in the amount of € 21,890,000. The difference between the two in the amount of € 9,190,000 has been recognized in goodwill.

Effect of acquisition on the income statement

The result of DNage in the period of October 13, 2006 and December 31, 2006 was a net loss after tax of € 150,000 with total revenues in the period of € 28,000. The loss before tax of DNage in the period January 1, 2006 to October 13, 2006 was € 895,000 with total revenues in the period of € 144,000. Including the result for this period, the proforma net loss of Pharming for the year full 2006 would have been € 19,391,000 with pro forma revenues of € 291,000.

5. Goodwill

Recognition of goodwill in 2006 related to the acquisition of DNage exclusively. Movement for the year was as follows:

Amounts in € '000	**Total**
Balance at January 1	-
Surplus costs of business combination over net asset value DNage	9,190
Balance at December 31	**9,190**

Impairment testing of goodwill

Goodwill, which fully relates to the cash-generating unit of DNage, is tested for impairment as follows. The recoverable amount is based on value in use using internal projections of the DNage performance for a period of up to twenty years, which period reflects the patent-protected lives of the DNage products. In the opinion of Pharming the nature of the DNage business as reflected by the long-term development of products acquired as well as the lifetime of the underlying patents justify the use of projections covering a period for more than the common period of five years. The projections include assumptions about the timing of product launches, competition from rival products, market size in terms of patients, market penetration, partner revenues and pricing policy. A discount rate of 20% has been applied to the projections.

6. Intangible assets

Movement of intangible assets for the financial years 2005 and 2006 was:

Amounts in € '000	2006	2005
Balance at January 1	3,914	4,296
Intangible assets acquired in business combinations	16,770	162
Amortization charges	(544)	(544)
Impairment charges	(357)	-
Balance at December 31	**19,783**	**3,914**

The amount of € 162,000 recognized as Intangible assets acquired in business combinations in 2005, relates to the difference between the market value of shares issued to the remaining minority shareholders in ProBio and the previous valuation of their minority interest in ProBio as initially recognized upon consolidation in 2004 as described in Note 4. In 2006, the Company impaired an amount of € 357,000 for ProBio. The impairment related to the entire book value of a certain part of ProBio technology for which it was decided not to further use it in the future.

As disclosed in Note 4, the Company recognized a fair value amount of € 16,770,000 to the intangible assets of DNage on October 13, 2006. The intangible assets recognized in the acquisition of DNage represent the net present value of product lines acquired. 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 and since that has not been the case in 2006, no amortization charges were incurred in 2006.

Net carrying value of the intangible assets at year-end 2006 consists of:

Amounts in € '000	Total
Gross carrying value	23,821
Accumulated amortization charges	(3,681)
Accumulated impairment charges	(357)
Net carrying value	**19,783**

A summary of the net carrying value of these assets at December 31, 2006 is as follows:

Amounts in € '000			Total
Category	Description	Remaining amortization period	
DNage technology	Product, marketing and distribution rights	Not amortized*	16,770
ProBio technology	Patents and licenses	8 years	1,896
Transgenic technology	Patents and licenses	3-8 years	1,117
Net carrying value			**19,783**

** amortization starts after market launch*

Impairment testing of intangible assets with indefinite lives

Intangible assets with indefinite lives have been allocated to the cash-generating unit of DNage for impairment testing as follows. The recoverable amount is based on value in use using internal projections of the DNage performance for a period of up to twenty years, which period reflects the patent-protected lives of the DNage products. In the opinion of Pharming the nature of the DNage business as reflected by the long-term development of products acquired as well as the lifetime of the underlying patents justify the use of projections covering a period for more than the common period of five years. The projections include assumptions about the timing of product launches, competition from rival products, market size in terms of patients, market penetration, partner revenues and pricing policy. A discount rate of 20% has been applied to the projections.

7. Property, plant and equipment

Movement of property, plant and equipment for the financial years 2005 and 2006 is:

Amounts in € '000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Other	Total
Net book value at January 1, 2005	628	2,767	-	469	303	4,167
Investments in cash	-	672	-	-	187	859
Depreciation charges	(6)	(267)	-	(52)	(173)	(498)
Exchange rate adjustment	90	334	-	-	8	432
Net book value at January 1, 2006	**712**	**3,506**	**-**	**417**	**325**	**4,960**
Investments in cash	-	58	1,773	545	775	3,151
Non-cash lease incentives	-	-	200	-	-	200
Depreciation charges	(7)	(315)	(48)	(123)	(171)	(664)
Exchange rate adjustment	(70)	(246)	-	-	(6)	(322)
Net book value at December 31, 2006	**635**	**3,003**	**1,925**	**839**	**923**	**7,325**

Land, land improvements and operational facilities relate to the cattle and rabbit farm facilities. Manufacturing equipment is dedicated to the rhC1INH project. The Company's 2006 investments in leasehold and other property, plant and equipment primarily relates to the new office and laboratory facility to which it moved in the second half of the year.

Non-cash lease incentives relates to a € 200,000 investment by the lessor of the Company's new headquarters in leasehold improvements. This € 200,000 is depreciated by Pharming in line with the Company's accounting policies with the corresponding amount initially capitalized as lease incentives under non-current liabilities. These liabilities are released in the income statement in ten years to match the depreciation charges resulting from the investment capitalized.

Amounts in € '000	Land and land improvements	Operational facilities	Leasehold improvements	Manufacturing equipment	Other	Total
At cost	849	5,535	1,973	1,019	1,254	10,630
Accumulated depreciation charges	(53)	(1,872)	(48)	(180)	(310)	(2,463)
Accumulated exchange rate adjustment	(161)	(660)	-	-	(21)	(842)
Net carrying value	**635**	**3,003**	**1,925**	**839**	**923**	**7,325**

The assets of Pharming Healthcare, Inc have been secured by a second mortgage for the government loan with the State of Wisconsin (€ 126,000 exclusive of interest at December 31, 2006). At balance sheet date, these assets have a book value of € 2.7 million.

8. Financial assets

Financial assets relate to the fair value of the non-consolidated interest in MucoVax Holding BV (MucoVax), which has an estimated fair value of € 10.0 million at balance sheet date of which the Company has a 2.0% interest valued at € 200,000. Differences to the previous fair value of MucoVax have been recognized in equity under Net unrealized gains/(losses). Upon disposal of the participation, the accumulated gain or loss is released to the income statement.

The composition of the net carrying value of the interest in MucoVax at December 31, 2005 and 2006 is:

Amounts in € '000	2006	2005
Balance at January 1	195	149
Net unrealized gain	5	46
Balance at December 31	**200**	**195**

The composition of the net carrying value of the interest in MucoVax at December 31, 2005 and 2006 is:

Amounts in € '000	2006	2005
Gross carrying value	235	235
Net unrealized loss	(35)	(40)
Net carrying value	**200**	**195**

Under IAS 39, the share in MucoVax is considered an available-for-sale financial asset.

9. Restricted cash

The balance of restricted cash at year-end 2005 related to banker's guarantees issued with respect to lease commitments of the Company's previous offices in Leiden and other commitments. All these guarantees were cancelled in 2006 and new long-term guarantees were issued with respect to the new headquarters.

10. Inventories

Inventories include batches rhC1INH and skimmed milk available for production of rhC1INH. The composition of the inventories at balance sheet dates 2005 and 2006 was:

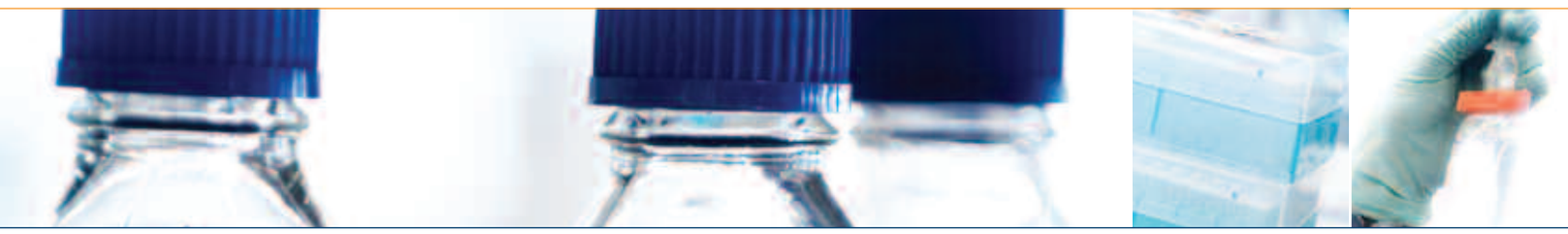
Amounts in € '000	2006	2005
Batches rhC1INH	8,485	2,905
Skimmed milk	684	950
Balance at December 31	**9,169**	**3,855**

Batches rhC1INH are comprised of therapeutic product available for multiple purposes, including sales upon market approval. In the event batches will not be used for commercial purposes, they can be used for clinical development and preclinical activities.

11. Other current assets

Other current assets are comprised of:

Amounts in € '000	2006	2005
Value added tax	324	358
Prepaid expenses	289	310
Accrued interest	392	267
Government grants and other receivables	1,154	200
Balance at December 31	**2,159**	**1,135**



12. Marketable securities

Movement of marketable securities for the financial years 2005 and 2006 was:

Amounts in € '000	2006	2005
Balance at January 1	5,839	4,092
Cash received upon sale of marketable securities	-	(3,963)
Purchase of marketable securities	-	6,000
Accrued interest	357	267
Interest received	(360)	(37)
Fair value adjustment	(841)	(483)
Loss on disposal marketable securities	-	(37)
Balance at December 31	**4,995**	**5,839**

In 2005, a loss of € 37,000 was incurred on the sale of marketable securities.

Net carrying value of the marketable securities at year-end 2006 consists of:

Amounts in € '000	Total
Nominal value	6,000
Accrued interest	191
Accumulated fair value adjustment	(1,196)
Net carrying value	**4,995**

The € 6.0 million investment relates to loans issued in June 2005 by a financial institution with an AAA-rating of both Standard & Poor's and Moody's. The loans carry 6% fixed interest for the first five years, after which the interest is based on multiplication of four times the difference between long-term and short-term interest. The accumulated fair value adjustment has been forwarded to equity and will be released to the income statement upon disposal of the security.

Under IAS 39, the marketable securities are considered as an available-for-sale financial asset.

13. Equity

This paragraph describes the background of the main fluctuations within equity in 2006.

Issuance of shares for cash

On January 25, 2006, the Company announced it had raised € 17.1 million from institutional investors for the development of rhC1INH for additional indications beyond HAE and for corporate purposes. The Company placed a total of 4,500,000 shares at € 3.80 per share along with 675,000 warrants at an exercise price of € 4.00 per share and an exercise period of two years.

Following the signing of a term sheet early January 2006, Pharming entered into a strategic agreement with Paul Royalty Fund on February 3, 2006. A part of this agreement included a US$ 5 million equity investment in which the number of shares issued was determined based on a

price of € 3.80 per share and the €/US$ exchange rate prior to transfer of the shares. In total, Pharming issued 1,094,929 shares to Paul Royalty Fund along with 164,240 warrants with an exercise price of € 4.00 per share and an exercise period of two years.

In addition to these transactions, Pharming raised € 1.2 million through the issuance of 316,478 shares at € 3.80 per share under a promissory note entered into in December 2005.

Acquisition DNage

As disclosed in Note 4, the Company paid 4,000,000 shares with a total value of € 14,920,000 and issued 600,000 warrants with a total value of € 1,008,000 in relation to the acquisition of DNage.

The first 2,200,000 shares with a value of € 8,206,000 were transferred on November 22, 2006. At balance sheet date, 1,800,000 shares were not physically transferred and accordingly the value of these shares of € 6,714,000 was classified as Deferred compensation payable in shares within equity. This value has been reclassified to Share capital (€ 900,000) and Share premium (€ 5,814,000) following transfer of the shares on January 29, 2007. The fair value of the warrants has been forwarded to the category of Share-based compensation within equity.

Issuance of shares in exchange of services

Pharming has agreed to pay one of its advisers partially in shares. The number of shares transferred is based on the average market share price in the period in which the services have been rendered and includes 23,522 shares issued at € 3.72 per share in relation to the acquisition of DNage, which costs have been capitalized as a part of the costs of the business combination. A further 9,496 shares have been issued in 2006 to pay other expenses in the amount of € 37,500 (which equals an average price of € 3.95 per share).

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 warrants or options based on current or future performance.

For 2006 these movements were:

Amounts in € '000	**Total**
Balance at January 1	2,816
Fair value of 700,000 warrants issued to Paul Royalty Fund in relation to license agreement (i)	1,289
Fair value of 600,000 warrants issued to former DNage shareholders (ii)	1,008
Release share-based compensation expenses 2005 for Board of Management options not vested (iii)	(654)
Expense share-based compensation employee option plan (iii)	1,289
Balance at December 31	**5,748**

Further see (i) Note 14, (ii) Note 4, (iii) Notes 22 and 25.

Unrealized effect of foreign currency translation

The effect reflects the effect of translating foreign operations of which the functional currency is different from the reporting currency (e.g. US subsidiaries).

Net unrealized gains/(losses)

Net unrealized gains and losses relate to the fair value adjustments determined on the Company's available-for-sale financial assets. Pharming has two available-for-sale financial assets, being the investment in MucoVax Holding BV (classified as Financial assets in Non-current assets) and listed interest-bearing loans (classified as Marketable securities in Current assets), for which movement in 2006 and the accumulated balances at year-end 2005 and 2006 were as follows:

Amounts in € '000	MucoVax Holding BV	Marketable securities	Total
Balance at January 1	(40)	(355)	(395)
Fair value adjustment 2006	5	(841)	(836)
Balance at December 31	**(35)**	**(1,196)**	**(1,231)**

Further details with regard to these available-for-sale financial assets are disclosed in Notes 8 and 12.

Accumulated deficit

Article 25.1 of the Articles of Association reads as follows: 'The management board shall annually determine, subject to the approval of the supervisory board, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.' The Board of Management has proposed to forward the net loss for the year 2006 of € 18,496,000 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 € 161,172,000 at December 31, 2005 to € 179,668,000 at year-end 2006.

14. Paul Royalty Fund

On February 3, 2006, Pharming received a US$ 15.0 million upfront payment in cash from Paul Royalty Fund under a license agreement. In return, Paul Royalty Fund is entitled to receive royalties on revenues of rhC1INH and other Pharming products over the ten year term of the agreement. As repayment and interest, Paul Royalty Fund will receive during the term of the agreement:

- as long as the aggregate amount (re)paid to Paul Royalty Fund is less than the milestone payments: 9.9% of the total net sales; thereafter;
- until Paul Royalty Fund has received 2.5 times the milestone payments: 3% of the total net sales; thereafter
- 3% of the rhC1INH products net sales through the remainder of the investment term.

Notwithstanding the aforementioned repayment schedule, the Company is required to have paid at least US$ 2.0 million by June 30, 2007, US$ 12.0 million by June 30, 2008, and US$ 15.0 million by June 30, 2009. At the end of the agreement, a termination option is automatically exercised by which the Company repurchases the investment rights for an amount not less than the higher of (i) two times the milestone payments and (ii) an amount that gives Paul Royalty Fund an internal rate of return of 20%.

Initial recognition

In accordance with IAS 32 (Financial instruments: disclosure and presentation), the upfront payment is accounted for as a financial liability. Subsequently, as per IAS 39 (Financial instruments: recognition and measurement), initial measurement is the fair value plus transaction costs. IAS 21.21 states that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Further, as set out in IAS 32.22, the 700,000 warrants issued to Paul Royalty Fund with an exercise price of € 4.00 per share and an exercise period of two years should be measured at fair value. The fair value of the warrants has been determined using the Black-Scholes model taking into account:

1. the exercise price of the warrant;
2. the expected time to maturity of the warrant;
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.

Based on these parameters, an independent consultant has calculated a fair value per warrant of about € 1.84 or € 1,289,000 in total. This value has been charged to the liability with a similar recognition to share-based compensation within equity.

Movement of the financial liability in the period until initial recognition of the liability on February 3, 2006 – based on the actual exchange rate of the US$ - was:

Amounts in € '000	**2006**
Balance at January 1	-
Cash receipt US$ 15.0 million	12,431
Transaction fees paid in cash	(745)
Upfront payment Paul Royalty Fund, net of transaction fees paid	**11,686**
Fair value of 700,000 warrants issued	(1,289)
Net liability to Paul Royalty Fund upon initial recognition	**10,397**

Transaction fees paid include US$ 650,000 paid to Paul Royalty Fund.

Subsequent measurement

IAS 21-23 states that foreign currency monetary items shall be translated using the closing rate. Then, in accordance with IAS 21.28, exchange differences arising on translating monetary items at rates different from those at which they were translated on initial recognition shall be recognized in the income statement.

In view of the 20% internal rate of return guaranteed to Paul Royalty Fund, the Company at balance sheet has to take into account those facts and circumstances known. Given the absence in 2006 of revenues which qualify for royalty payments to Paul Royalty Fund, the Company must accrue for an amount which at least equals the 20%, taking into account the lower value of the loan due to transaction fees paid and the fair value of the warrants issued which were both deducted from the upfront payment.

A summary of the movement between Februay 3, 2006 and balance sheet date is as follows:

Amounts in € '000	**2006**
Net liability to Paul Royalty Fund upon initial recognition	10,397
Interest expense	2,205
Exchange rate profit	(976)
Balance at December 31	**11,626**

The first US$ 2.0 million of the Paul Royalty Fund liability is repayable within one year after balance sheet date - on June 30, 2007 - so that the composition of the balance at December 31, 2006 was:

Amounts in € '000	2006
Total	11,626
Current portion	(1,518)
Non-current liabilities	**10,108**

Fair value of the liability

Management has evaluated the fair value of the Paul Royalty Fund liability using the discounted cash flow method and has concluded that the fair value of the liability, taking into account all facts and circumstances known at balance sheet date and applying the year-end 2006 €/US$ exchange rate of € 0.758, is approximately € 13.4 million.

15. Earn-out obligations

Upon acquisition of DNage the Company agreed to pay earn-outs to former DNage shareholders:
- two separate € 5.0 million milestones ('the milestone earn-out obligations') 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 ('the revenue earn-out obligations') 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 at acquisition date determined the fair value of the earn-outs to be € 5,575,000, taking into account the probablity of paying any amounts to former DNage shareholders, the nominal amount expected to be paid and the timing thereof. Subsequently, these amounts were discounted at a rate of 20%. Subsequent to initial measurement, the Company accrues an amount for non-cash interest based on the discount rate of 20%.

Movement of the earn-out obligations for 2006 is:

Amounts in € '000	2006
Balance at January 1	-
Net present value earn-out obligations recognized at October 13, 2006	5,575
Interest accrued	216
Balance at December 31	**5,791**

None of the earn-outs is expected to be settled in 2007 and accordingly the full balance at December 31, 2006 has been classified as non-current

Fair value of the liability

Management has evaluated the fair value of the earn-out obligations and has concluded that the fair value, taking into account all facts and circumstances known at balance sheet date, is in line with the liability in the balance sheet at year end 2006.

16. Deferred tax liability

Upon acquisition of DNage the Company recognized a deferred tax liability of € 4,276,000 in order to account for the tax base difference of the intangible assets recognized in the DNage transaction of € 16,770,000, valued at the nominal tax percentage of 25.5% in the Netherlands. In addition, the DNage carry forward losses at acquisition date were capitalized.

Amounts in € '000

	Deferred tax asset	Deferred tax liability	Net balance deferred tax liability
Balance at January 1	-	-	-
Deferred taxes recognized upon acquisition of DNage on October 13, 2006	(336)	4,276	3,940
Increase deferred tax asset: 25.5% of fiscal loss DNage after acquisition date	(51)	-	(51)
Balance at December 31	**(387)**	**4,276**	**3,889**

The increase of the tax asset of DNage has been forwarded to the income statement.

A summary of income tax is as follows:

Amounts in € '000	2006	2005
Loss before tax	18,547	17,859
Deduct: loss before tax DNage	(201)	-
Income tax base added to carry forwarded losses (not capitalized)	**18,346**	**17,859**
Income tax at the Dutch statutory income tax rate of 25,5% (2005: 31,5%) of the loss before tax	4,730	5,626
Total effect of income tax losses	**4,679**	**5,626**
Income tax benefit recognized in the income statement	51	-
Effective income tax rate: Income tax benefit DNage as a percentage of Loss before tax	0.3%	0.0%

The effect of non-deductible expenses on the income tax base is not material in both 2005 and 2006.

17. Lease incentives

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 lessor invested € 200,000 in leasehold improvements. The investment by the lessor qualifies as a lease incentive so that for accounting purposes the € 200,000 investment as paid by the lessor is capitalized under leasehold improvements in property, plant and equipment with a corresponding amount of € 200,000 recognized as a lease incentive. The investment is fully depreciated on a straight-line basis during the ten year period of the lease agreement; the accrued lease incentive is released in the income statement in ten years to match the depreciation charges resulting from the investment capitalized.

Movement of the lease incentives for 2006 is:

Amounts in € '000	Total
Balance at January 1	-
Lease incentives recognized at July 1, 2006	200
Released to income statement	(10)
Balance at December 31	**190**

The composition of the balance at year-end 2006 was:

Amounts in € '000	2006
Total	190
Current portion (to be released in the income statement 2007)	(20)
Non-current liabilities	**170**

18. State of Wisconsin

The balance relates to a Technology Development loan from the State of Wisconsin, net of 4% interest, to be repaid in 2007 – 2009. Movement of the total loan balance from the State of Wisconsin for the years 2005 and 2006 was as follows:

Amounts in € '000	2006	2005
Balance at January 1	189	197
Interest expense accrued	8	9
Repayment	(46)	(37)
Foreign currency effect	(25)	20
Balance at December 31	**126**	**189**

Composition of the loan at December 31, 2005 and December 31, 2006 was:

Amounts in € '000	2006	2005
Total	126	189
Current portion of loans and borrowings	(41)	(49)
Non-current liabilities	**85**	**140**

The amount of the current portion of loans and borrowings relates to the balance due within one year after the balance sheet date and has been separately headed under current liabilities. The State of Wisconsin has a second mortgage on the facilities of Pharming Healthcare, Inc.

19. Trade and other payables

Trade and other payables at year-end 2005 and 2006 consist of:

Amounts in € '000	2006	2005
Accounts payable	3,270	3,717
Taxes and social security	169	96
Deferred compensation due to related parties	666	311
Other payables	3,509	1,535
Balance at December 31	**7,614**	**5,659**

The amount of deferred compensation due to related parties relates to fees, salaries and bonuses due to Members of the Supervisory Board and Board of Management. The balance at year-end 2006 includes a € 360,000 severance payment for Mr. Pieper, Member of the Board of Management, as disclosed in Note 26.

20. Current portion of non-current liabilities

The composition of the current portion of non-current liabilities at year-end 2005 and 2006 is as follows:

Amounts in € '000	2006	2005
Paul Royalty Fund	1,518	-
State of Wisconsin	41	49
Lease incentives	20	-
Balance at December 31	**1,579**	**49**

The amount due to Paul Royalty Fund, reflects a repayment of US$ 2.0 million scheduled for the end of June 2007, converted at the €/US$ exchange rate at December 31, 2006. The balance due to the State of Wisconsin at December 31, 2006 relates to the monthly payments due for 2007, net of interest. For the movement of the loan in 2005 and 2006, please refer to Note 18. Current lease incentives are released in the income statement of 2007 as a reduction of lease charges in order to offset increased depreciation charges.

21. Revenues

Revenues for the financial years 2005 and 2006 can be split as follows:

Amounts in € '000	2006	2005
License fees	-	250
Other	147	155
	147	**405**

License fees for the year 2005 relate to milestone payments received from Laboratorios del Dr. Esteve SA for the rhC1INH project. Other primarily relates to revenues from government grants.

22. Costs and expenses

Depreciation and amortization charges

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

Amounts in € '000	2006	2005
Property, plant and equipment	664	498
Intangible assets	544	544
	1,208	**1,042**

Share-based compensation

Share-based compensation for 2005 and 2006 can be summarized as follows:

Amounts in € '000	2006	2005
Board of Management options	(654)	654
Employee options	1,289	707
	635	**1,361**

The 2005 expenses for the Board of Management options relate to 500,000 options granted for 2005 milestones as approved by the AGM on May 10, 2005. As further disclosed in Note 25, these options did not vest in 2005 and where added to the 500,000 options available for the Board of Management in 2006. Since the total of 1,000,000 options did not vest in 2006 either, the full amount expensed in 2005 was released in the income statement of 2006.

Expenses for employee options incurred in 2005 relate to the effect of options granted in 2003-2005 for which vesting took place in 2005. For 2006 the amount relates to the vesting expenses of options granted in 2003-2006.

Operating lease charges

For the year 2006, the Company charged approximately € 0.8 million (2005: € 0.6 million) to the income statement 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 for 2007 and the years after are disclosed in Note 34.

Inventories

In 2006, the Company expensed an amount of € 0.9 million million for batches of rhC1INH (2005: € 2.1 million).

23. Other income and expenses

Other interest income, net

The composition of other net interest income in 2005 and 2006 was as follows:

Amounts in € '000	2006	2005
Interest income on cash and cash equivalents and marketable securities	1,303	688
Interest expense on loan State of Wisconsin	(8)	(9)
	1,295	**679**

Other foreign currency losses

Following the US$ 5.0 million investment and US$ 15.0 million upfront payment by Paul Royalty Fund early 2006 the Company converted a part of these funds into Euros. The remaining balance was partially used to fund operational activities and partially held on US$ current accounts and short-term deposits. As of result of the decrease of the US$ this contributed to foreign currency losses.

24. Employee information

Employee benefits for the financial years 2005 and 2006 comprised:

Amounts in € '000	2006	2005
Wages and salaries	3,790	2,726
Social security costs	401	337
Pension costs	167	161
	4,358	**3,224**

Wages and salaries include holiday allowances, cash bonuses and severance payments.

The number of employees for 2005 and 2006 per functional category was as follows (at weighted average full time equivalent factor):

	2006	2005
Research and development	29	25
Operations	21	17
Selling, general and administrative	11	8
	61	**50**

25. Option plans

The Company has two Option plans in place: one for the Board of Management and one for employees ('the Option plans').

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 available for use under the plans. Unexercised options can be re-used for granting of options under the Option plans.

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

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

Option plan Board of Management

Article 2.1 of the Option plan for the BOM states: 'The Board of Supervisory Directors may, at its sole discretion, (i) grant Options to any Member (ii) define the conditions attached to the Options which need to be fulfilled before the Options can be exercised (iii) determine the criteria for the granting of the Options. The compensation committee of Pharming will propose (i) the criteria for the granting of Options, (ii) whether the criteria for granting an Option have been met by a potential Participant and (ii) 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 May 10, 2005, the AGM approved to make available 1,000,000 stock options with an exercise price of € 3,23 to the Board of Management. The options were granted for 2005 and 2006 milestones and an amount of € 654,000 was charged to the income statement of 2005. The options did not vest in 2005 or 2006 and the 2005 expense of € 654,000 was reversed in the income statement of 2006. A new option proposal for the Board of Management will me made at the AGM of May 23, 2007.

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.

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

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

In 2006, the Company granted a total number of 634,665 options. On October 25, 2006, the Board of Management approved the granting of a maximum number of 500,000 options with an exercise price of € 3.70 to employees, which have been formally issued in 2007.

An overview of activity in the number of options for the year 2006 is as follows:

	Number	Weighted average exercise price (€)
Balance at January 1, 2006	2,375,862	1.37
Granted under employee Option plan	634,665	3.78
Exercised	(257,442)	1.09
Forfeited	(20,000)	1.34
Balance at December 31, 2006	**2,733,085**	**1.96**

The weighted average remaining contractual life in years of the outstanding options at December 31, 2006 is 2.90 years.

26. Board of Management

General information

Composition of the Board of Management for the year 2006 was as follows:

- F.J. Pinto (Chief Executive Officer);
- S.P. Singh (Chief Business Officer);
- F.R. Pieper (Chief Science and Technology Officer);
- J. Pieters (Chief Operations Officer, until April 26, 2006);
- R. Strijker (Chief Commercial Officer, as of October 13, 2006);
- B.M. Giannetti (Chief Operating Officer, as of December 1, 2006).

Mr. Singh and Mr. Pieper resigned from the Board of Management effectively March 29, 2007.

All Members of the BOM are statutory directors. The Members of the BOM are selected by the Supervisory Board and appointed by the Annual General Meeting of Shareholders. Mr. Strijker's appointment was approved by the AGM on April 26, 2006, conditional to finalization of the acquisition of DNage. Mr. Giannetti was appointed as of December 1, 2006 in an Extraordinary Meeting of Shareholders held on November 1, 2006. Remuneration and further conditions of the BOM are proposed by the Remuneration Committee and approved by the Supervisory Board. Dr. Pinto is not formally employed but hired through his privately owned company.

Compensation of the Members of the Board of Management for 2005 and 2006 was as follows:

Amounts in € '000

Name	Year	Periodic remuneration	Pensions and insurances	Management fee	Bonus	Termination fee	Total
B.M. Giannetti (i)	2006	17	2	-	24	-	43
F.M.M. Ooms (ii)	2005	-	-	216	-	41	257
F.R. Pieper (iii)	2005	142	16	-	22	-	180
	2006	180	18	-	14	360	572
J. Pieters (iv)	2005	-	-	60	10	-	70
	2006	-	-	40	-	-	40
F.J. Pinto	2005	-	-	240	40	-	280
	2006	-	-	300	50	-	350
S.P. Singh	2005	141	14	-	24	-	179
	2006	180	15	-	28	-	223
R. Strijker (v)	2006	34	3	-	31	-	68
Total	**2005**	**283**	**30**	**516**	**96**	**41**	**966**
	2006	**411**	**38**	**340**	**147**	**360**	**1,296**

(i) formal Member BOM as of December 1, 2006. Mr. Giannetti has received a bonus of € 9,000 for his involvement in the Company from the date his appointment was announced (September 12, 2006) and the start of his BOM membership.

(ii) as per management agreement, Mr. Ooms was entitled to receive a termination fee. Management fees above are until his resignation from the BOM on October 24, 2005.

(iii) in 2006, it was agreed to terminate the contract with Mr. Pieper. Formalisation of the termination agreement took place in 2007.

(iv) six months in 2005 and four months in 2006.

(v) Member BOM as of October 13, 2006. Mr. Strijker has agreed to receive compensation as of November 1, 2006.

Periodic remuneration includes holiday allowances. All Members of the Board of Management in position at December 31, 2006 received a bonus equal to their regular two months gross salary of management fee, with the exception of Mr. Pieper and Mr. Giannetti who both received a bonus of one month.

The following table analyses movements in number of option holdings of the Board of Management:

	F.R. Pieper	F.J. Pinto	S.P. Singh	R. Strijker	Total
Balance at January 1, 2006	216,225	240,000	298,000	-	754,225
Options held when joining BOM	-	-	-	110,000	110,000
Balance at December 31, 2006	**216,225**	**240,000**	**298,000**	**110,000**	**864,225**

Mr. Giannetti does not hold any options in Pharming.

The option and warrant series held by Members of the Board of Management at December 31, 2006 are as follows:

Options	Number	Exercise price (€)	Expiration date
F.R. Pieper	56,225	0.78	February 20, 2007
	140,000	1.34	May 17, 2009
	20,000	1.34	December 31, 2010
F.J. Pinto	240,000	1.34	December 31, 2010
S.P. Singh	88,000	0.78	November 14, 2007
	50,000	1.34	March 31, 2009
	77,000	1.34	May 17, 2009
	83,000	1.34	December 31, 2010
R. Strijker	110,000	1.34	May 17, 2009
Warrants			
R. Strijker	41,580	4.00	November 21, 2008

Warrants held by Mr. Strijker are related to the acquisition of DNage.

Movement of the number of shares held by Members of the Board of Management in 2006 was as follows:

	F.R. Pieper	J. Pieters	F.J. Pinto	S.P. Singh	R. Strijker	Total
Balance at January 1, 2006	273,811	2,974,173	3,527,818	40,063	-	6,815,865
Shares held when leaving BOM (April 26)	-	(2,974,173)	-	-	-	(2,974,173)
Shares held when joining BOM (October 13)	-	-	-	-	25,001	25,001
Shares acquired in DNage transaction	-	-	-	-	114,846	114,846
Shares sold	-	-	-	-	(25,001)	(25,001)
Balance at December 31, 2006	**273,811**	**-**	**3,527,818**	**40,063**	**114,846**	**3,956,538**

The shares of Mr. Strijker were sold under a discretionary management agreement *(vrije hand beheerovereenkomst)*. Mr. Strijker received a further 124,818 shares upon the transfer of 1,800,000 shares to former DNage shareholders on January 29, 2007. Mr. Giannetti does not hold any shares in Pharming.

Loans or guarantees

During the year 2006, no loans or guarantees have been granted to Members of the Board of Management. No loans or guarantees to Members of the BOM were outstanding at December 31, 2006.

27. Supervisory Board

The composition of the Supervisory Board for the year 2006 was as follows:
- K. Macleod (Member as of AGM of April 26, 2006);
- R. Strijker (Member until joining BOM on October 13, 2006);
- B.P.Th. Veltman (Chairman);
- G. Verhagen (Member);
- D.F.M.M. Zaman (Member until AGM of April 26, 2006).

Mr. Verhagen will resign at the AGM of May 23, 2007.

Mr. Verhagen is Chairman of the Audit Committee, in which Mr. Macleod has replaced Mr. Zaman as a Member. The Remuneration Committee is chaired by Mr. Veltman, with Mr. Zaman as a Member until his resignation and Mr. Macleod thereafter.

Remuneration

Article 21 of the Company's Articles of Association reads as follows: 'The supervisory board shall determine the remuneration for each member of the supervisory board.' For the years 2005 and 2006, the annual fee for the Chairman was € 30,000 and the fee for other Members was € 20,000. The aggregate 2006 remuneration of the Supervisory Board amounted to € 86,700 (2005: € 92,500).

Shares, options and warrants

Members of the Supervisory Board are not allowed to be granted options under the Option plans of the Company.

At January 1, 2006, Mr. Strijker as Supervisory Board Member held 118,653 shares and 110,000 options which he had acquired respectively been granted in the period in which he was a Member of the BOM. Until rejoining the BOM on October 13, 2006 he sold 93,652 shares under a discretionary management agreement *(vrije hand beheerovereenkomst)*.

The other Supervisory Board Members do not hold shares, options or warrants in the Company.

Loans or guarantees

During the year 2006, the Company has not granted loans or guarantees to any Member of the Supervisory Board. No loans or guarantees to Members of the Supervisory Board were outstanding at December 31, 2006.

28. Warrants

An overview of activity in the number of warrants for the year 2006 is as follows:

	Number	Weighted average exercise price (€)
Balance at January 1, 2006	600,000	5.00
Issued	2,139,240	4.00
Forfeited	(600,000)	5.00
Balance at December 31, 2006	**2,139,240**	**4.00**

The weighted average remaining contractual life in years of the outstanding options at December 31, 2006 is 1.31 years.

The outstanding warrant series at December 31, 2006 are:

Related to	Number	Exercise price (€)	Expiration date
Issuance of shares to institutional investors	675,000	4.00	January 25, 2008
Paul Royalty Fund (including affiliated companies)	49,984	4.00	December 30, 2007
	814,256	4.00	February 2, 2008
Acquisition DNage	600,000	4.00	November 21, 2008

The 814,256 warrants issued to Paul Royalty Fund on February 3, 2006 relate to 114,256 warrants regarding the issuance of shares and 700,000 warrants issued with respect to the license agreement as disclosed in Notes 13 and 14 respectively.

29. Financial risk management objectives and policies

Pharming is exposed to several financial risks: liquidity risks, foreign currency risks, interest rate risks and credit risks. The Company's financial risk policy is aimed at minimizing the effects of fluctuations in currency exchange and interest rates on its results. The Board of Management of Pharming is highly involved in and ultimately decides on the Company's financing activities as outlined below.

Liquidity risks

Pharming's objective is to maintain a balance between cash and cash equivalents (including short-term deposits) and investments in marketable securities. As a guideline, the balance of marketable securities should make up no more than some 30% of the total balance of cash and marketable securities.

Foreign currency risks

Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies. The main foreign currency that impacts these items is the United States dollar (US$), which is used to finance the Company's US-based entities as well as payment of US operations through the Dutch entities. Where possible, the Company buys US$ in advance to cover forecasted US$ payments. For 2006 sufficient US$ funds were available as a result of the US$ 5.0 million investment and US$ 15.0 million upfront payment by Paul Royalty Fund early 2006.

In 2006, Pharming's foreign currency risk policy for the US$ did not include hedging activities.

Interest rate risks

The Company's exposure to the risk for changes in market interest rates relates primarily to the interest rates on cash, cash equivalents and marketable securities. In 2005, the Board of Management decided to invest in marketable securities issued by a financial institution. This investment generates 6% interest per year for another 3.5 years after balance sheet date.

Credit risks

Pharming manages the credit risk to which it is exposed through the selection of financial institutions having a high credit rating. For this purpose the Company uses credit ratings as based on reports issued by institutions such as Standard & Poor's and Moody's.

30. Taxation

At December 31, 2006, the estimated accumulated tax losses carried forward in the Netherlands amount to about € 169 million.

Effective 2007 tax losses in the Netherlands can be carried forward for nine years. 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, with the exception of the deferred tax assets recognized in the DNage transaction as described in Note 4 of these Financial Statements.

31. Segment information

Geographical segments

The Company's primary segmental reporting is based on geographical segments. The main geographical segments are the Netherlands and the United States, where the main operating companies are located. ProBio International Holdings Pte Ltd, which was based in Singapore and acted as a holding company for ProBio, Inc in the United States exclusively, had limited operational activities in 2005 and was desinvested early 2006.

Pharming Healthcare, Inc in the United States serves as a Contract Manufacturing Organization to other group companies and partners. The consequence of this is that the net result of Pharming Healthcare, Inc is nil.

All non-cash costs of share-based compensation are born by Pharming Group NV as the listed holding company of the Pharming Group.

The following table presents key financial information by geographical segment for the years ended December 31, 2005 and 2006:

Amounts in € '000	The Netherlands	United States	Singapore	Total
Year ended December 31, 2006				
Income statement:				
Revenues	147	-	-	147
Depreciation and amortization charges	742	466	-	1,208
Impairment charges	-	357	-	357
Share-based compensation	635	-	-	635
Interest on liability to Paul Royalty Fund	2,205	-	-	2,205
Currency effect on liability Paul Royalty Fund (profit)	976	-	-	976
Interest on earn-out obligations	216	-	-	216
Net loss after tax	17,789	707	-	18,496
Balance sheet:				
Segment assets	74,163	4,916	-	79,079
Segment liabilities	28,699	537	-	29,236
Investments in:				
Intangible assets	16,770	-	-	16,770
Property, plant and equipment	3,130	21	-	3,151
Year ended December 31, 2005				
Income statement:				
Revenues	405	-	-	405
Depreciation and amortization charges	576	466	-	1,042
Share-based compensation	1,361	-	-	1,361
Net loss after tax	17,512	347	-	17,859
Balance sheet:				
Segment assets	28,452	6,019	116	34,587
Segment liabilities	5,287	561	-	5,848
Investments in:				
Intangible assets	-	162	-	162
Property, plant and equipment	803	56	-	859

Business segments

The Company is active in only one line of business.

32. Major Shareholders

At December 31, 2006, the following individual major Shareholders (owning more than 5% of outstanding shares) were known to the Company following notifications pursuant to the Disclosure of Major Holdings in Listed Companies Act 2006:

- Lafferty Limited (11.25%, status at November 1, 2006);
- A. van Herk (9.85%, status at November 1, 2006).

As disclosed in Notes 26 and 27, total shares held by Members of the Board of Management and Supervisory Board at December 31, 2006 were 3,956,538 respectively nil. The number of shares held by Members of the BOM represents about 4.5% of the total outstanding shares at December 31, 2006.

33. Related party transactions

Related parties includes members of the key management personnel and parties which directly or indirectly have an interest in an entity that gives it significant influence over that entity. For Pharming, the related parties identified are the Members of the Board of Management and the Supervisory Board as well as Paul Royalty Fund and its affiliates.

All direct transactions with Members of the Board of Management and Supervisory Board have been disclosed in Notes 26 and 27 of these Financial Statements. At December 31, 2006, the Company owed a total amount of € 618,000 to Members of the Board of Management and Supervisory Board with respect to their compensation, including the termination fee for Mr. Pieper and 2006 cash bonuses for the Board of Management as disclosed in Note 26. In addition, Pharming paid an amount of £ 50,000 to NovaThera Limited in relation to successful completion by NovaThera of proof of concept studies in October 2006. NovaThera is a privately held company in which Mr. Pinto, Pharming's CEO, holds a private minority interest and also is a member of its board of directors.

Subsequent to the transaction with Paul Royalty Fund on February 3, 2006 as disclosed in Note 14, the Company paid an amount of US$ 650,000 as a contribution in the fees incurred to arrange the license agreement. As a part of the agreement, Pharming has issued 700,000 warrants to Paul Royalty Fund with an exercise price of € 4.00 and an exercise period of two years. No other transactions between Paul Royalty Fund and the Company were effected in 2006. At December 31, 2006, the Company has recorded a total liability to Paul Royalty Fund of € 11,626,000.

34. 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 2005 and 2006 was as follows:

Amounts in € '000	2006	2005
Within one year	749	650
After one year but not more than five years	2,341	2,355
More than five years	-	264
	3,090	**3,269**

Material Agreements

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

- the manufacturing of rhC1INH, including fill and finish activities;
- milestone payments for clinical trials and research and development activities.

Total potential payments under these agreements are about € 4.7 million.

Repayment of government grants

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

Under the first arrangement, which bears 8% interest per annum, the repayment period ends at the end of 2009. Pharming has to repay 25% of realized net turnover for certain applications. As at December 31, 2006, the total of grants and accrued interest under this arrangement amounted to € 20.8 million.

For the second arrangement, which bears 4.9% interest per annum, the repayment period ends at the end of 2011. Pharming has to repay between 15% and 40% of realized net turnover for certain applications. As at December 31, 2006, the total of grants and accrued interest under this arrangement amounted to € 3.6 million.

Paul Royalty Fund

Pharming has provided Paul Royalty Fund with the following collateral in the event of financial insolvency:

- all assets that are required for the research, development, manufacturing, marketing, sale or other exploitation of rhC1INH or rhC1INH-related items, and used or usable for such purposes with respect to any other product, including relevant intellectual property, clinical data and regulatory approvals; and
- bank accounts used to pool the proceeds of rhC1INH net sales.

35. Events after the balance sheet date

Issuance of shares

In January 2007, the Company issued 167,044 shares at a price of € 3.90 to an investor.

Transfer of shares to former shareholders DNage

On January 29, 2007 the Company transferred the second tranche of 1,800,000 shares to former DNage shareholders.

An overview of the outstanding number of shares, warrants and options as per year-end 2006 and the date of these Financial Statements (April 19, 2007) is as follows:

	Number of shares outstanding	Number of options and warrants
Shares	88,753,511	-
Warrants	-	2,139,240
Options	-	2,733,085
Outstanding at December 31, 2006	**88,753,511**	**4,872,325**
2007:		
Shares issued to former DNage shareholders	1,800,000	-
Other shares issued	167,044	-
Options exercised	284,757	(284,757)
Options granted	-	401,000
Developments January 1, 2007 – April 19, 2007	**2,251,801**	**116,243**
Shares	91,005,312	-
Warrants	-	2,139,240
Options	-	2,849,328
Outstanding at April 19, 2007	**91,005,312**	**4,988,568**

Changes in the Board of Management

On March 29, 2007, Mr. Singh and Mr. Pieper resigned from the Board of Management.

Dr. Rein Strijker, CCO:

"Pharming is moving towards commercial succes"

COMPANY FINANCIAL STATEMENTS

BALANCE SHEET

At December 31, 2006 (after proposed appropriation of net loss)

Amounts in € '000	Notes	December 31, 2006	December 31, 2005
Goodwill	3.	9,190	-
Property, plant and equipment	4.	1,280	85
Financial assets	5.	36,365	13,493
Non-current assets		**46,835**	**13,578**
Other current assets	6.	579	589
Marketable securities	7.	4,995	5,839
Restricted cash	8.	-	162
Cash and cash equivalents		47,572	29,000
Current assets		**53,146**	**35,590**
Total assets		**99,981**	**49,168**
Share capital		44,377	40,176
Share premium		175,339	148,464
Foreign currency translation		(1,436)	(1,150)
Share-based compensation		5,748	2,816
Net unrealized gains/(losses)		(1,231)	(395)
Deferred compensation payable in shares		6,714	-
Accumulated deficit		(179,668)	(161,172)
Shareholders' equity	**9.**	**49,843**	**28,739**
Paul Royalty Fund	10.	10,108	-
Earn-out obligations	10.	5,791	-
Provision for subsidiaries	5.	30,892	19,593
Non-current liabilities		**46,791**	**19,593**
Trade and other payables	11.	1,829	836
Current portion of non-current liabilities	10.	1,518	-
Current liabilities		**3,347**	**836**
Total Shareholders' equity and liabilities		**99,981**	**49,168**

INCOME STATEMENT

For the year ended December 31, 2006

Amounts in € '000	2006	2005
Share in results of investments	(15,167)	(15,588)
Other results	(3,329)	(2,271)
Net loss after tax	**(18,496)**	**(17,859)**

For the year ended December 31, 2006

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.

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

With regard to the interests in subsidiaries, the Company adds up its share in equity plus the loan/current account balance to determine the total participation value in the subsidiary. Debit positions are included in financial assets, whereas credit positions are included in provisions.

3. Goodwill

Goodwill relates to the acquisition of DNage. For further details reference is given to Notes 4 and 5 of the consolidated financial statements.

4. Property, plant and equipment

Movement of property, plant and equipment for the financial years 2005 and 2006 is:

Amounts in € '000

	Leasehold improvements	Other	Total
Net book value at January 1, 2005	-	49	49
Additions	-	72	72
Depreciation charges	-	(36)	(36)
Net book value at January 1, 2006	**-**	**85**	**85**
Additions	902	377	1,279
Depreciation charges	(21)	(63)	(84)
Net book value at December 31, 2006	**881**	**399**	**1,280**

The net carrying value of property, plant and equipment at year-end 2006 consists of:

Amounts in € '000	Leasehold improvements	Other	Total
At cost	902	524	1,426
Accumulated depreciation charges	(21)	(125)	(146)
Net carrying value	**881**	**399**	**1,280**

5. Financial assets and provision for subsidiaries

Movement of financial assets and the provision for subsidiaries for the years 2005 and 2006 was as follows:

Amounts in € '000	Total
Financial assets	14,717
Provision for subsidiaries	(9,796)
Balance at January 1, 2005	**4,921**
Share in result on investments	(15,588)
Movement in current account balances and other	4,567
Financial assets	13,493
Provision for subsidiaries	(19,593)
Balance at January 1, 2006	**(6,100)**
Fair value DNage after acquisition	12,700
Share in result on investments	(15,167)
Movement in current account balances and other	14,040
Financial assets	36,365
Provision for subsidiaries	(30,892)
Balance at December 31, 2006	**5,473**

For details on the fair value of DNage reference is given to Note 4 of the consolidated financial statements.

6. Other current assets

Other current assets at year-end 2005 and 2006 was comprised of:

Amounts in € '000	2006	2005
Value added tax	288	358
Prepaid expenses	158	103
Accrued interest	132	68
Other receivables	1	60
	579	**589**

7. Marketable securities

Reference is given to Note 12 to the consolidated balance sheet.

8. Restricted cash

The balance of restricted cash at year-end 2005 related to banker's guarantees cancelled in 2006.

9. Shareholders' equity

The Company's authorized share capital amounts to € 100.0 million and is divided into 200,000,000 ordinary shares with a nominal value of € 0.50 each.

Movements in Shareholders' equity for 2005 and 2006 were as follows:

Amounts in € '000	2006	2005
Balance at January 1	28,739	36,189
Net loss after tax	(18,496)	(17,859)
Share-based compensation	635	1,361
Issuance of shares for cash	22,464	760
Exercise of warrants and options	282	8,015
Warrants issued to Paul Royalty Fund for license agreement	1,289	-
Acquisition DNage	15,928	-
Other movements	(998)	273
Balance at December 31	**49,843**	**28,739**

Legal reserve

Shareholders' equity of Pharming Group NV at December 31, 2006 includes a legal reserve with a negative amount of € 1,436,000 with respect to a reserve for foreign currency translation.

For a detailed movement schedule of equity for the year 2006, please refer to the schedule consolidated statement of changes in equity. The main fluctuations in equity have been described in Note 13 to the consolidated balance sheet.

10. Paul Royalty Fund and Earn-out obligations

For a detailed disclosure of the liability to Paul Royalty Fund and earn-out obligations, reference is given to Notes 14 and 15 of the consolidated financial statements.

11. Trade and other payables

Trade and other payables consist of:

Amounts in € '000	2006	2005
December 31		
Accounts payable	809	364
Deferred compensation due to related parties	129	159
Taxes and social security	42	24
Other payables	849	289
	1,829	**836**

The amount of deferred compensation due to related parties relates to fees, salaries and bonuses due to members of the Supervisory Board and Board of Management, with the exception of Mr. Pieper and Mr. Singh who are formally employed by Pharming Technologies BV and Pharming Healthcare, Inc respectively.

12. Other results

Other results for the years 2005 and 2006 include costs of share-based compensation in the amount of € 1,361,000 and € 635,000 respectively, as disclosed in Note 22 of the consolidated financial statements. These charges include those related to members of the Board of Management and employees who are not formally employed by Pharming Group NV. Since Pharming Group NV as the entity formally listed on the stock exchange grants these options, all expenses related to share-based compensation are born by Pharming Group NV.

Prof. dr. B. Veltman, Chairman of the Supervisory Board:

"Pharming has made remarkable progress over the past few years in its ambition to become a trendsetting biopharmaceutical company"

OTHER INFORMATION

To the Shareholders of Pharming Group NV

Report on the Financial Statements

We have audited the accompanying Financial Statements of Pharming Group NV, Leiden (as set out on pages 41 to 89). The Financial Statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company profit and loss account for the year then ended and the Notes.

Management's responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

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

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pharming Group NV as at December 31, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Pharming Group NV as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Board of Management is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, April 19, 2007

For Ernst & Young Accountants

J. Verhagen

For the year ended December 31, 2006

1. Appropriation of result

Article 25.1 of the Articles of Association reads as follows: 'The management board shall annually determine, subject to the approval of the Supervisory Board, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.'

2. Proposed appropriation of net loss

The Company proposes to forward the net loss for the year 2006 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 balance sheet date

For a description of the events after the balance sheet date, reference is given to Note 35 of the consolidated financial statements.

Dr. Bruno Giannetti, COO:

"Biotechnology will solve many of the problems currently facing the pharmaceutical industry"

INVESTOR RELATIONS

General

Pharming's Chief Commercial Officer has the principal responsibility for investor and public relations. We aim to explain our strategy, business developments and financial results to investors, analysts and press. In February 2007, the Company initiated bi-annual analysts and press meetings, scheduled to take place when presenting our half year and annual financial results. These corporate presentations are also available on our website. In addition to the half-yearly and yearly result presentations, we maintain regular contact with financial analysts and institutional investors through meetings and road shows. In 2006, we visited investors in major financial cities in Europe and the United States.

Our policy is to provide all Shareholders and other parties with timely, equal and simultaneous information about matters that may influence the share price. We communicate with all of our Shareholders and investors through the publication of the annual report, meetings of Shareholders, press releases and our website.

We do not pay any fee(s) to parties for the carrying out of research for analysts' reports or for the production or publication of analysts' reports.

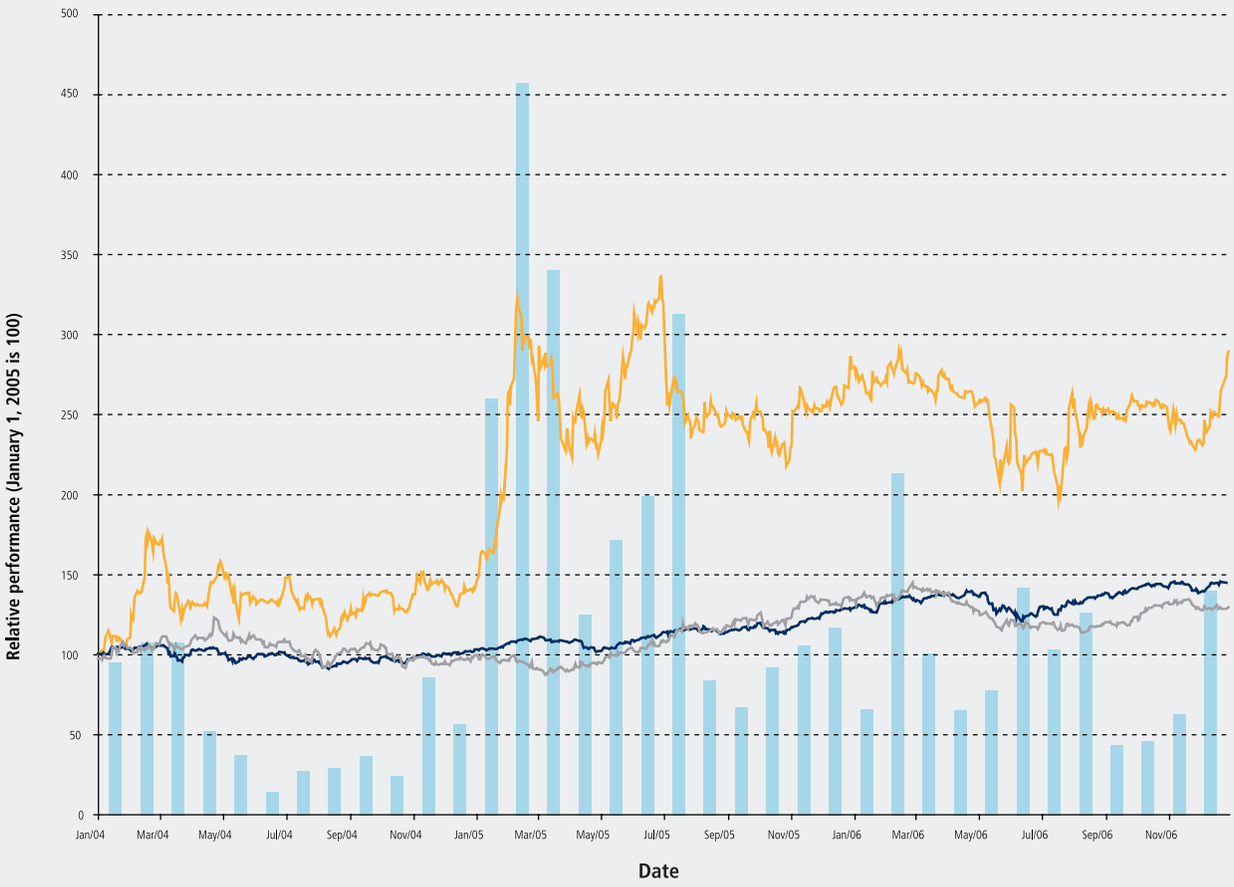
Information on the Company's shares

Pharming Group NV's shares are listed on Euronext NV (Amsterdam) under ticker symbol 'PHARM'. Pharming is included in the Small cap index (AScX) on Euronext Amsterdam, which consists of the top 25 actively traded small caps on Euronext Amsterdam, ranked on the basis of value of full year 2006 turnover of shares in Euros. The free float of Pharming is >75%, with most of the shares held by Dutch investors.

At December 31, 2006, the total number of outstanding shares was 88,753,511 at a price per share of € 4.19, compared to 80,351,410 outstanding shares at € 4.04 at December 31, 2005. The Company has not distributed dividend.

At December 31, 2006, the following individual major Shareholders were known to the Company following notifications pursuant to the Disclosure of Major Holdings in Listed Companies Act 2006:
- Lafferty Limited (11.25%, status at November 1, 2006);
- A. van Herk (9.85%, status at November 1, 2006)
- Board of Management (4.5%, status at December 31, 2006)

Relative share performance of Pharming Group NV compared to the Euronext Amsterdam (AEX) and ING Biotech fund (both rebased to Pharming) at closing prices in 2004 – 2006:



The highest closing price during 2006 was € 4.19 on December 29, 2006 and the lowest € 2.85 on July 18, 2006. A total of approximately 182 million shares were traded on the Euronext stock exchange, compared to approximately 358 million in 2005.

Financial calendar for 2007

April 20, 2007	Publication Q1 2007 financial results
May 23, 2007	Annual General Meeting of Shareholders
July 20, 2007	Publication HY1 2007 financial results
October 19, 2007	Publication Q3 2007 financial results

Dr. Francis Pinto, CEO:

"Biotechnology will continue to positively change our environment, in particular the way we treat and prevent diseases"

GLOSSARY

AGM
Annual General Meeting of Shareholders of Pharming Group NV.

AScX
The Amsterdam Small cap index is composed of the top 25 actively traded small cap companies on the Euronext stock exchange of Amsterdam. The companies in AScX are selected for the index based on value of full year 2006 turnover of shares in Euros. Pharming was included in the AScX on March 2, 2007.

BOM
The Board of Management of Pharming Group NV.

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

CLS
CLS or Capillary Leakage Syndrome is a severe life-threatening condition characterized by excessive fluid loss into the tissue space, which can result in hemodynamic instability, pulmonary edema, ascites and death. Current therapies for patients with CLS are limited to supportive care and treatment of the underlying condition. Previous clinical work has demonstrated that C1 inhibitor may be an effective anti-inflammatory that can control the mechanisms contributing to CLS. Over 100,000 patients in the US develop CLS annually as a complication of various disease states, including bone marrow/stem cell transplantation, IL-2 therapy for treatment of cancer, sepsis and neonatal cardiac surgery.

Compassionate use
Compassionate or named-patient use refers to the exceptional use of a medicine in a specific country or region, where the drug has not yet been granted marketing authorization. Compassionate use allows the early access to new promising treatments for patients suffering from a serious disease for which no alternative treatment or sufficient treatment is available in that specific country or region. Only physicians are allowed to administer the drug to a group of patients (cohort) or on a named-patient basis.

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

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

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

EMEA
The European Agency for the Evaluation of Medicinal Products (EMEA) 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.

GRAS
The acronym GRAS stands for Generally Recognized As Safe. This term is used by the FDA to indicate that a product is safe for specific applications.

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

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

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

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 particular rare disease (affecting less than 200,000 individuals in the United States) can receive Orphan Drug designation from the FDA. This status is granted under the United States Orphan Drug Act of 1983, which was established to encourage, support and protect the development of treatment for rare, but nonetheless serious diseases. Orphan Drug status provides several advantages including market exclusivity for seven years, various financial incentives and a well-defined regulatory approval path. Pharming has obtained an Orphan Drug designation for the use of rhC1INH in both prophylactic and acute treatment of Hereditary and Acquired Angioedema and fot treatment of DGF and CLS from the FDA.

Orphan Medicinal Product
The EMEA can grant an Orphan Medicinal Product status to products being developed to treat rare diseases (affecting not more than five in ten thousand persons in Europe). 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. Pharming has such Orphan Medicinal Product status and market exclusivity for ten years for rhC1INH for prophylactic and acute treatment of HAE.

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 85 people, of which more than eighty percent in R&D and Operations. Pharming's ordinary shares are listed in the Netherlands in the Small cap index (AScX) on 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 organism. They are composed of one or more chains of amino acids joined together by peptide bonds. The sequence of these amino acids is defined by genes, which are present in the DNA.

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

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

rhFIB
Human fibrinogen is a natural human plasma protein involved in blot clotting. Together with thrombin it can form insoluble fibrin polymers or clots. Tissue sealants have been developed to prevent excessive blood loss during surgery or traumatic injury. Available fibrin sealants are based on products from human donor plasma. Pharming is aiming at the development of a tissue sealant (rTS) based on recombinant human fibrinogen (rhFIB) to provide an alternative for these existing plasma derived fibrin sealants.

Rhucin®
Rhucin® is the global trade mark for Pharming's recombinant human C1 inhibitor (rhC1INH) for the treatment of patients with acute HAE attacks. Natural C1 inhibitor DNA from a human source is used in Pharming's protein production technology to ensure expression of the C1 inhibitor protein. 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.

rTS
rTS is a tissue sealant based on Pharming's recombinant human fibrinogen. Tissue sealants have been developed to prevent excessive blood loss during surgery or traumatic injury.

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 Euronext Amsterdam, under the symbol 'PHARM'.

Supervisory Board
The Supervisory Board of Pharming Group NV.

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


Research and innovation
The basis on which
Pharming
was founded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Colophon

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

This Annual Report also appears as a semi Dutch version. In the event of any inconsistency, the English version will prevail over the Dutch version. Both versions can be downloaded from the Corporate Material section on Pharming's website. Copies of this Annual Report may be obtained free of charge at Pharming's headquarters in Leiden or by completing the info request form at our website, www.pharming.com.

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