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annual report 2008

PHARMING

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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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Letter from the CEO

About Pharming

The Company

Pharming Group NV (Pharming or the Company) is a biotechnology company based in Leiden, The Netherlands. The Company has facilities both in the Netherlands and the United States, employing almost ninety professionals, the majority of whom are engaged in operational activities.

Pharming is developing innovative products, focusing on products for the treatment of diseases with significant medical needs. Pharming has a broad product pipeline with products for several indications and in different stages of development. Products in the most advanced stage of development and closest to commercialization are Rhucin (recombinant human C1 inhibitor or rhC1INH for treatment of acute attacks of Hereditary Angioedema or HAE) and human lactoferrin (hLF) for use in food products. Pharming's technologies include innovative platforms for the production of protein therapeutics and technology and processes for the purification and formulation of these products, as well as technologies in the field of DNA repair via its subsidiary DNage BV (DNage).

Mission

Pharming's mission is to be an international specialty pharmaceutical company focusing on the development and commercialization of therapeutic products, initially for specific rare diseases or other significant medical needs (orphan drug development), and secondly for larger indications with considerable market potential.

Strategy

Pharming intends to lower its risk profile by broadening and further developing its product pipeline and thus diversifying the risk of being dependent on one major product which fortunes affect the share price. In addition, the Company is pursuing the development of its products through strategic alliances and partnerships.

Pharming's strategy to become an international specialty pharmaceutical company is divided in three arms:

1. Two-phase product development strategy: Pharming focuses on the development of therapeutic products for significant medical needs. In a next phase, these proven products are being developed for indications with larger markets and significant market potential.
2. Two-way commercialization strategy: Pharming intends to orchestrate the complete development of its therapeutics by concentrating on its core competencies and forming strategic partnerships to obtain access to other required competencies, such as marketing and sales. In 2009, Pharming will both explore partnering possibilities for commercialization of its products and the option of setting-up its own commercialization infrastructure.
3. Two-step financing strategy: Pharming focuses on the aggressive development of its pipeline products and as such on generating further value in the short-term. Although Pharming's current liquidity position is relatively strong, the Company is, for its long-term existence, exploring opportunities to further improve its financial position. Such options include (combinations of) project-specific financing, licensing deals, loans and limited equity transactions.

Products

Pharming is developing innovative products for the treatment of various specialty disorders, including genetic disorders, diseases associated with the immune system, ageing diseases, and nutritional products. The Company continues to make progress in its product pipeline, with several products in or moving towards clinical development.

First example of Pharming's two-phase product development strategy is the development of recombinant human C1 inhibitor (rhC1INH). The development of Rhucin as an orphan drug for the treatment of acute HAE attacks is almost completed and is now getting close to commercialization. Pharming has started the next step: clinical development of rhC1INH for other larger indications in the field of organ transplantation. Second example is the development of Prodarsan for the treatment of Cockayne Syndrome, a rare genetic disease in which children suffer from accelerated (or premature) ageing, while developing severe ageing-related diseases. Prodarsan might also give beneficial effects in more common ageing diseases such as neurodegeneration. Recombinant human fibrinogen (rhFIB) is being developed for the treatment of the orphan indication of congenital fibrinogen deficiency. In addition to this market, rhFIB has the potential to address the significantly larger market of acquired fibrinogen deficiency, as a result of profuse traumatic and surgical bleeding.

PRODUCT	INDICATION	STATUS
Rhucin®	Acute HAE	Finalizing Clinical development
Recombinant human C1 inhibitor (rhC1INH)	AMR in kidney transplantation	Preparing Phase II
	DGF in kidney transplantation	Preparing Phase II
Human lactoferrin (hLF)	Nutritional applications	Commercialization
Prodarsan®	Cockayne Syndrome	Preparing phase II
Other DNage products	Ageing diseases	Research
Recombinant human fibrinogen (rhFIB)	Congenital fibrinogen deficiency	Pre-clinical
Recombinant human collagen type I (rhCOL)	Tissue repair	Research

Selected financial data

The data below have been derived from Pharming's audited consolidated financial statements starting at page 55 of this report.

AMOUNTS IN € '000 (except per share data)	2008	2007
Balance sheet data		
Non-current assets	31,121	35,645
Cash and cash equivalents (excluding restricted cash)	19,610	50,954
Total assets	67,096	114,348
Total equity	12,533	30,918
Income data		
Revenues	664	690
Costs	30,131	25,311
Net loss	(26,205)	(21,641)
Basic and diluted net loss per share (€)	(0.29)	(0.24)
Weighted average shares outstanding	91,657,617	90,912,531
Cash flow data		
Liquidity position at December 31 (including restricted cash)	23,534	65,266
Net cash used in operating activities	(21,906)	(21,733)
Net cash used in investing activities	(814)	(671)
Net cash from/(used in) financing activities	(18,810)	57,638
Other information (at December 31)		
Number of shares outstanding	97,429,854	91,235,178
Market capitalization	62,355	120,430
Number of employees	86	81

Letter from the CEO

Dear Shareholder,

On October 13, 2008, I succeeded Dr. Francis J. Pinto as Chief Executive Officer of Pharming. I am very pleased to have joined a company with such great potential and have strong confidence in the technologies and products that Pharming is developing.

In 2008, we made significant progress in the development of our product pipeline and in particular in the development of Rhucin with the completion of a further two double-blind placebo-controlled trials and the preparation of the regulatory dossiers ahead of filings with the FDA and EMEA later in 2009. We successfully initiated and completed a Phase I trial of Prodarsan for the treatment of Cockayne Syndrome in 2008 and we expect clinical follow-up studies in patients to commence in 2009. Importantly, we also signed a licensing agreement with Aslan Group to further develop, manufacture and market our human lactoferrin product for Turkey, the Middle East, UAE, Russia, Ukraine and several other territories.

Following the re-examination of its initial 2007 opinion, the Committee for Medicinal Products for Human Use adopted a negative opinion on the Marketing Authorization Application for Rhucin (recombinant human C1 inhibitor) to treat acute attacks of Hereditary Angioedema in March 2008. As a result of this, we focused our energies on re-filing a dossier with considerable additional data and recently announced that we have now closed the expanded databases and are preparing to submit the dossier to the EMEA in September 2009 and to the FDA for regulatory review later in 2009.

Key to our strategy remains the focus on orphan drug development initially, followed by the development of our assets for larger indications. Rhucin/rhC1INH is a very good example of this approach and in 2008 we filed the IND with the FDA for a clinical study with rhC1INH for the treatment of antibody-mediated rejection in kidney transplantation.

In 2008 and 2009, we decreased our financial liabilities through the cancellation of some of the outstanding convertible bond financing. In addition, we have continued to keep costs in-line with our budget and, given the turmoil in the financial markets, put strict cost controls in place. Although our current liquidity position is relatively strong and we are confident that, with our current cash and the anticipated milestone payments from Aslan, we can continue to fund our operations into 2010, we continue to pre-emptively look at new financing opportunities.

The Pharming team is confident about the outlook for 2009 and most grateful for the support from Shareholders in 2008. Together, we will execute and deliver on our key objectives: the strengthening of the product pipeline and our financial position. Amidst all the global economic turmoil, I feel that it is now more important than ever to remember the essence of our industry: by investing in Pharming, you invest in an industry that is taking on the challenges to cure diseases and improve the lives of people globally. Lastly, but not least, our industry has historically provided and will continue to provide scope for significant financial returns when successful.

I would like to take this opportunity to thank my predecessor Dr. Francis Pinto, who has been instrumental in building the Company over the last seven years, for his continued efforts, advice and support to effectuate the seamless transition that we have been jointly working on since my appointment as Chief Executive Officer.

I would also like to extend thanks to you and to our employees for their support and commitment to the Pharming. Their professionalism and hard work is the very essence of the Company and we are extremely grateful.

SIJMEN DE VRIES, MD, MBA

Leiden,
The Netherlands,
March 24, 2009

Pharming's Business

Products

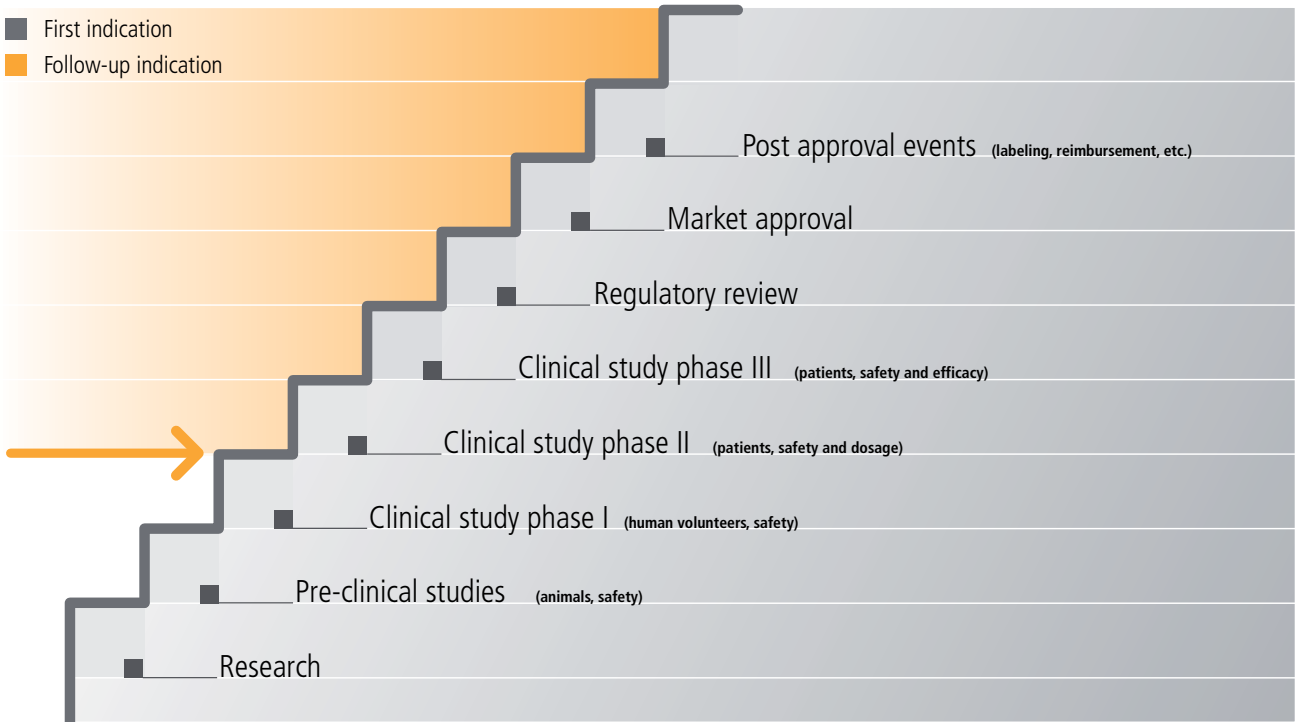
- Rhucin
- Recombinant human C1 inhibitor
- Human lactoferrin
- Prodarsan
- Recombinant human fibrinogen
- Recombinant human collagen

Research and technology

- Intellectual property
- Transgenic production technology
- DNage and the DNage technology
- Research projects
- Report from the Scientific Advisory Board

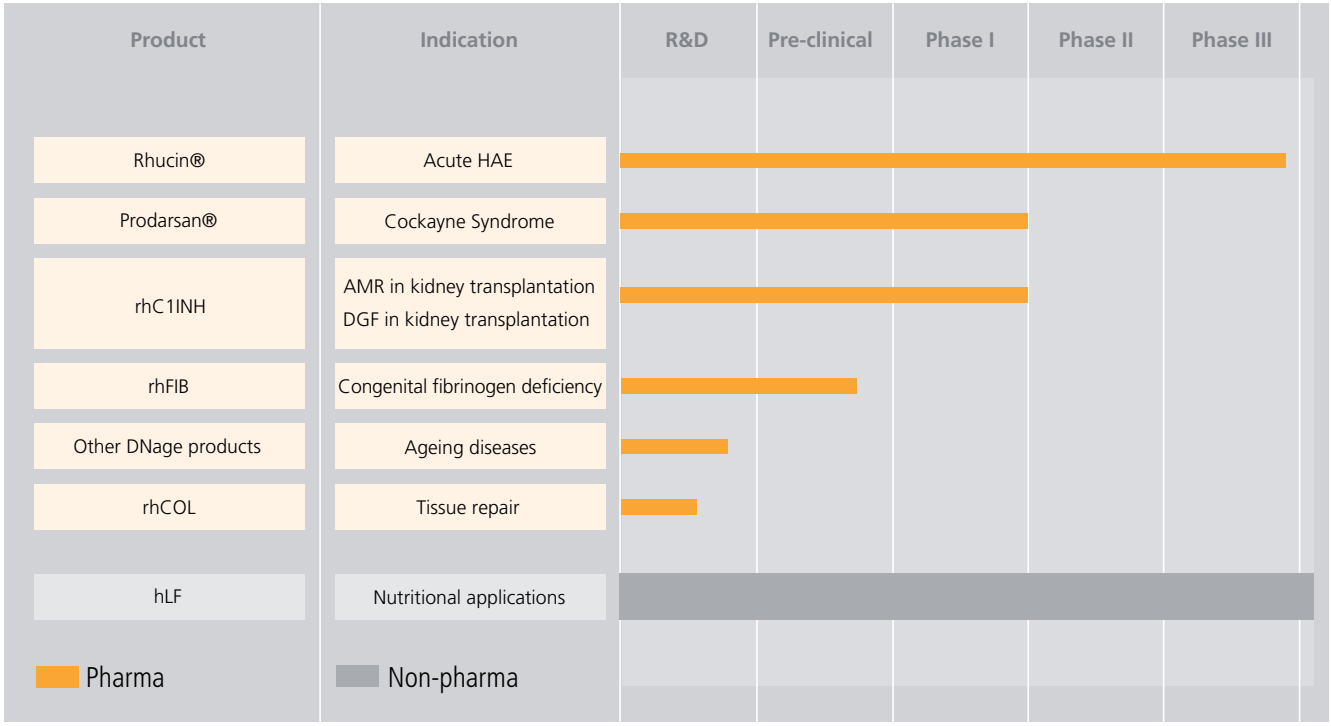
Products

Pharming develops innovative therapeutics for several indications, with a focus on genetic disorders and ageing diseases. Other applications include specialty products for surgical indications and intermediates for nutritional products. Pharming's strategy is to first develop products for orphan diseases to meet high medical needs. These products are then developed for indications with (significantly) larger markets.



Pharmaceutical development - From test tube to market

Pharming products under development are divided in three categories: biopharmaceuticals, biomaterials, and bio-nutritionals. A summary of Pharming products, their applications and development status is depicted in the overview below.



Throughout 2008, Pharming has **broadened its product and application pipeline** and made progress across a number of products. Several products are in or moving towards clinical development status. Clinical development for Rhucin for HAE has been completed and regulatory filings are expected in 2009. Another product close to commercialization is Pharming's human lactoferrin product. In 2008, Pharming and Aslan agreed on the co-development of hLF as a nutritional food supplement. The first two milestones, in terms of transfer of technology and production animals, are expected to be met in 2009. Additional products in the clinical stage of development are Prodarsan for Cockayne Syndrome (a premature ageing disease) and rhC1INH for the treatment of antibody-mediated rejection (AMR) in kidney transplantation. Other products in earlier stages of development include rhC1INH for reperfusion injury related indications (delayed graft function (DGF) in kidney transplantation) and rhFIB for the treatment of congenital fibrinogen deficiency. DNage is also active in the field of identification and development of biomarkers in human ageing.

Rhucin® is the trademark for Pharming's recombinant human C1 esterase inhibitor for the treatment of acute attacks of Hereditary Angioedema. HAE is a human genetic disorder. Patients are carrying a mutation in the C1 esterase inhibitor gene (C1INH), which leads to a deficiency of functional C1INH protein. This protein regulates several inflammatory pathways in the body by inhibiting certain proteins (proteases) that are part of the human defense system. Deficiency of functional C1 inhibitor can result in an overreaction of the immune system. In fact, it leads to excessive activation of the complement system and other immunological and haemostatic pathways, which causes angioedema attacks. These attacks are characterized by acute painful and in some cases fatal swellings of soft tissues (edema), including regions of the skin, abdomen and the mouth and throat. Untreated HAE attacks may last up to five days. In the Western world, approximately 1 in 30,000 individuals suffers from this disease, having an average of seven acute attacks per year.

Administration of C1 inhibitor protein can normalize the immune response and stop these angioedemic attacks. Rhucin, a recombinant human version of this protein, is being produced with Pharming's own transgenic technology: in milk from transgenic rabbits at high quantities, of **highgrade and consistent quality**. The product has Orphan Drug status for both prophylactic and acute treatment of Hereditary and Acquired Angioedema. Rhucin could provide a potentially safe and effective treatment for patients of HAE.

Rhucin has been shown to be safe and effective for treating acute attacks of HAE in open-label studies. The open-label data show that **Rhucin acts quickly** when treating HAE patients having an acute attack, with a median time to onset of relief of one hour (primary endpoint) and a median time to minimal symptoms of four hours (secondary endpoints). These results were confirmed in double-blinded randomized placebo-controlled clinical trials with two doses of Rhucin (100 U/kg and 50 U/kg) or placebo in Europe and North-America. In these placebo-controlled studies, Rhucin showed statistically significant superiority over placebo in both endpoints and no statistically significant difference between the two doses of Rhucin. No relapse of the HAE attack or any treatment related side-effects were reported from these studies.

Pharming filed a Marketing Authorization Application (MAA) for Rhucin with the European Medicines Agency (EMEA) late in 2006. In March 2008 however, Pharming received a negative opinion regarding its MAA. Safety, efficacy and quality were no issue, but the EMEA's CHMP (Committee for Medicinal Products for Human Use) did express some other concerns in regard to safety and efficacy of Rhucin upon repeat use, potential allergic reactions and the risk/benefit ratio in severe attacks (especially of the larynx).

Based on the feedback of the EMEA, Pharming has expanded the dossier on Rhucin substantially. By the end of 2008, **well over 300 administrations of Rhucin** were analyzed, with more than half of them repeat treatments (up to as much as twelve). There was no sign of any relevant safety issues in these repeat treatments, no allergic reactions and the efficacy remains very good. The dossier now also includes **significant evidence of efficacy and safety** in severe attacks, of which seven were laryngeal attacks and all successfully treated with Rhucin. Pharming believes that it has now successfully addressed the concerns raised by the EMEA on the previous dossier and plans to submit its Marketing Authorization Application for Rhucin to the EMEA in September 2009.

Pharming is also preparing for market authorization of Rhucin in the USA. The Company's IND (Investigational New Drug) was transferred from the CDER (Center of Drug Evaluation and Research) to the CBER (Center for Biologics Evaluation and Research) of the FDA (US Food and Drug Administration) in 2008 following a request from Pharming. Pharming expects to file its full Biological License Application (BLA) of Rhucin in 2009. Filings for compassionate use of Rhucin in EU countries and additional filings outside the EU and USA (Switzerland, Turkey, Canada, etc) are expected to follow in 2009 as well.

Pharming has two commercial agreements for Rhucin. In 2004, the Company signed an agreement with Laboratorios del Dr. Esteve SA (Spain) on the development, marketing and sales of Rhucin in Spain, Portugal and Greece. In 2008, Pharming signed an exclusive licensing and distribution agreement with Eczacibasi, a leading Turkish pharmaceutical company for the marketing and sales of Rhucin in Turkey.

The first example of Pharming's two-step strategy is the development of recombinant human C1 inhibitor for the treatment of antibody-mediated rejection and delayed graft function in kidney transplantation.

Despite all the technical advances that have been made during the last decades, rejection of transplanted organs remains a critical issue. Given the shortage of available organs and the high costs associated with transplantation, there is a need for new and safe products that reduce the risk of organ rejection. There is significant scientific evidence that **rhC1NH** can be used to prevent complications after organ transplantation. The protein C1 inhibitor is a key inhibitor of the classical complement system (part of the human immune system) and reduces the inflammatory reactions that lead to tissue damage, malfunctioning and often a total rejection of the transplanted organ. Therefore, the C1 inhibitor protein may play a significant role in **improving transplantation success rates**.

Two key situations, heavily impairing the success of transplantation, may arise following organ transplantation:

1. Delayed graft function: this is a situation occurring immediately after transplantation. Lack of oxygen during the procedure may cause a delayed functioning of the transplanted organ. This can eventually result in improper functioning or even rejection of the transplanted organ. As C1 inhibitor indirectly reduces inflammatory reactions, treatment with rhC1INH in an early stage of transplantation might improve the number of successful transplantations.
2. Antibody-mediated rejection: this is a rejection situation occurring in a later stage of organ transplantation. When implanted, a foreign body might, depending on its histocompatibility, be perceived as foreign by the recipient. The immune system is activated and the foreign body is attacked, which can lead to the organ failure and immunological rejection of the organ. As the number of waiting recipients is outgrowing the number of available donors, transplantations with sub-optimal matching levels may occur. This is resulting in a relatively higher rejection rate. Treatment with rhC1INH following transplantation might improve the transplantation success rate.

For AMR in kidney transplantation, a Phase I safety study in healthy volunteers was successfully completed in 2008. The FDA approved the IND for an investigator sponsored clinical study on AMR in kidney transplantation in the USA. In this study, patients suffering from AMR will be treated with rhC1INH and compared with patients treated with the available standard of care, which consists of a combination of non-specific treatments including plasmapheresis, steroids and intravenous immunoglobulin.

An additional complication arising from oxygen shortage due to an interruption of the blood supply (ischemia) is reperfusion injury. When the blood supply returns to a certain tissue after a period of ischemia, the tissue or organ can be damaged. This can occur in the brain, in case of stroke, and in the heart, in case of myocardial infarction ('heart attack'). Pharming is preparing clinical investigations into reperfusion injury related rejection of kidney transplants. In addition, the pre-clinical development of other reperfusion injury related indications, such as myocardial infarction, and additional indications, such as macula degeneration, an ophthalmologic disease leading to blindness (age-related macula degeneration or AMD) are being evaluated.

Pharming's rhC1INH has Orphan Drug status from the FDA for the prevention and/or the treatment of AMR and for treatment/prevention of DGF from the EMEA.

Lactoferrin is a protein naturally present in many human secretions including mother's milk, saliva and tears. The protein has unique anti-infective and anti-inflammatory properties and plays an important role in the defense system of infants as well as adults, where it is active against a wide range of bacterial, fungal and viral pathogens.

Pharming is developing human lactoferrin for its first commercial application: an ingredient in foods and food supplements, targeted at people who will benefit from the use of hLF. The product also has potential for pharmaceutical applications (e.g. against systemic infections).

In 2008, Pharming and Aslan signed a license agreement for the development of Pharming's human lactoferrin as a **food supplement**. The agreement covers the development, manufacturing and marketing of hLF in Turkey, the Middle East, UAE, Russia, Ukraine and several other countries in the region exclusively and other parts of the world non-exclusively. Processes and technology are being transferred and Aslan is building up facilities in Turkey for the production of a herd of more than 500 transgenic hLF cows by expanding Pharming's existing experimental herds. Milk fractions containing human lactoferrin will be incorporated into nutritional products. In return, Aslan will pay **license fees** to Pharming **totaling € 20 million** in 2009-2011. Pharming expects half of these fees to become due in 2009 when, as currently expected, the first two milestones are met. During the first 10 years of commercialization, Pharming will also receive **royalties** based on net sales.

Although an independent scientific expert panel concluded that Pharming's lactoferrin product is safe for its intended uses, Pharming is still awaiting an official response from the FDA with regard to the GRAS (Generally Recognized As Safe) notification procedure for hLF. However, with the commercial development of hLF moving ahead, the ongoing procedure to obtain GRAS status has become less important and is given a lower priority. Pharming's strategy to seek a more **direct route towards commercialization** is exemplified by the agreement with Aslan.

Prodarsan® - based on the DNage technology - is a mixture of small molecules that (in animal models) are able to delay the development of ageing diseases. It is thought to neutralize substances that cause DNA damage, and so delay the accumulation of DNA damage, or to trigger cellular responses that protect from premature ageing.

Ageing is a natural process but as a result of a DNA-repair defect, children with Cockayne Syndrome age unusually fast and develop ageing-related diseases at very young ages. There is no cure and patient organizations and the medical community voice the need for therapies that will slow down this process, reduce the symptoms, and thus increase the **quality of life**.

Pharming is now developing Prodarsan as a biopharmaceutical for the treatment of Cockayne Syndrome. If successful, the DNage technology and products may provide new **therapies for age-related disorders** in elderly people as well. Although many age-related diseases (for example osteoporosis) are in fact not directly life-threatening; they rather impair the quality of life and put a high burden on the health care system. Delaying ageing-related diseases is therefore clinically highly relevant and will lead to a significant reduction in patient numbers.

In 2008, a Phase I study of single and multiple escalating doses of Prodarsan in healthy volunteers was completed. The results showed that Prodarsan is **safe and well tolerated** in clinically effective dosages. Pharming already demonstrated that Prodarsan has significant beneficial effects in animal models for premature ageing. Further clinical investigation in patients is expected to start in 2009.

Fibrinogen is a natural plasma protein involved in blot clotting. In combination with thrombin, it can form insoluble fibrin polymers (fibers) or clots. Fibrinogen is a very complex protein consisting of several subunits folded together in fixed ratios. Deficiency or low levels of active fibrinogen can result in uncontrolled bleeding and be life-threatening.

In the USA and certain European countries, fibrinogen isolated from human plasma is used to control bleeding. Applications are either as an intravenous product (biopharmaceutical), or in the form of fibrin glues, tissue sealants, and gauze dressings for use in a wide-range of applications (biomaterials).

To provide an alternative to current plasma derived fibrinogen products, Pharming is developing recombinant human fibrinogen as a **replacement therapy** for genetic and acquired deficiencies of fibrinogen. Pharming produces rhFIB in cow's milk using its protein production technology and patents and licenses for the production and purification of rhFIB. This results in a recombinant fibrinogen product of high-quality, in large quantities and at relatively low cost. Pharming's rhFIB has Orphan Drug status from the FDA for the treatment of bleeding in patients that are deficient in fibrinogen. Development of rhFIB as an intravenously administered biopharmaceutical product for congenital fibrinogen deficiency initially, is in pre-clinical stage.

In addition to this market of genetic deficiency, rhFIB has the potential to address the significantly larger market of acquired fibrinogen deficiency. This type of deficiency can arise as a result of profuse bleeding during surgery or traumatic injury. Pharming pursues the development of rhFIB as an intermediate for medical devices, bandages, or patches (biomaterials) that are intended to **stop excessive blood loss** through future partnerships.

Collagen is the most common protein in the human body and can be found in skin, bone, blood vessels and many other tissues. It provides tensile strength to these tissues and gives them structural integrity. Therefore, collagen has several applications in the field of biomaterials.

Collagen is widely used as a coating or key structural component of injectable and other implants in plastic and reconstructive surgery, orthopedic surgery, dentistry and other areas. Collagen also plays a pivotal role in the ability of the body to stop bleeding. Therefore, collagen is also used as a haemostatic product, either alone or in combination with other materials, to form a range of wide haemostatic products (in formats including powders, dressings and many others).

However, the presently used collagen products are derived from animal tissues, human cadaveric tissues, and cell culture and have several disadvantages. They are available in limited amounts for medical applications and exhibit variability in quality. Some patients have allergic responses to the non-human collagen from animal skin.

Pharming is developing recombinant human collagen type I for use in various applications. This product can potentially overcome the disadvantages of collagen products derived from animal and human tissues as it is a natural human protein produced by recombinant technology. It can be manufactured in large quantities, with a consistent high quality, and at relatively low cost. RhCOL will thus provide an **alternative to existing collagen products**.

Activities on this project have been limited in 2008 due to the focus on other programs and have been limited to research activities needed for future product development.

Research and technology

Pharming develops innovative therapeutics for several indications, with a focus on genetic disorders and ageing diseases. Pharming has technology platforms for the production, purification and formulation of its recombinant protein products and technology in the field of DNA repair (DNage technology). The Company has a large portfolio of patents issued and pending, supporting these technologies and products.

Intellectual property

Patents and other proprietary rights are critical to Pharming's business. The Company's policy is to file patent applications to protect technology, including production processes, products (or composition of matter) and use of products, and improvements thereto that are of potential interest to the development of the Company's business. The Company's policy is to extend patent coverage to countries that represent a market opportunity for its products, its technology or both, in order to be able to sell licenses or form partnering alliances for joint development of its technologies in related fields. Pharming also relies on confidentiality agreements and other measures to protect its proprietary technology, drug candidates and products.

The Company's intellectual property portfolio contributes to and protects its leading role as a player in the field of the production of recombinant proteins in transgenic animals. The Company owns and has in-licensed a significant number of patents and patent applications worldwide covering the technology for the production of recombinant proteins in the milk of transgenic animals, as well as the specific products under development. Typically, products, methods, various aspects of production and use of the products are covered by separate patents, thus creating several independent layers of protection. Pharming's position in the generation and use of transgenic cattle is particularly broad. Other patents and patent applications are product related and cover the recombinant human proteins C1 inhibitor, lactoferrin, fibrinogen and collagen.

In 2008, the IP position for both the production and use of Rhucin and rhFIB has been significantly enhanced. New patents were issued and patents in the field of fibrinogen production licensed-in from GTC Biotherapeutics Inc, while new patent applications were filed for a next use of recombinant fibrinogen. Pharming also signed a license agreement with Advanced Cell Technology Inc and as such further strengthened its patent position in the field of transgenic technology.

There is a need in the industry for new means to produce the many (over 900) protein therapeutics in development. Pharming believes that its production technology offers significant competitive advantages and will enable the development of better, safer and more cost-effective therapeutic products.

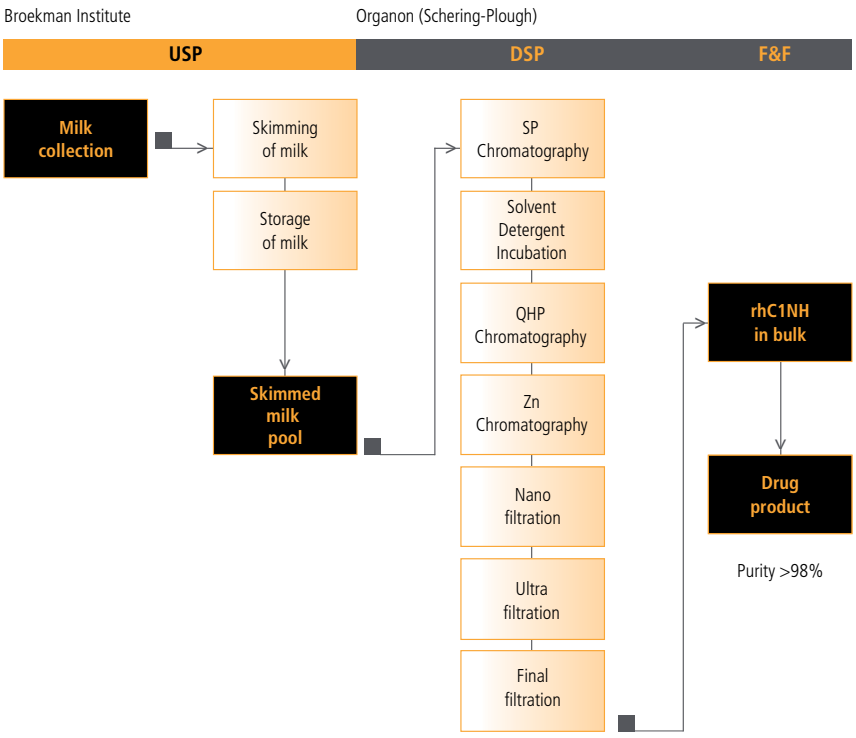
After the discovery of DNA and recombinant DNA techniques in the past decades it became possible to transfer genes between different organisms, such as plants and bacteria. Scientists discovered how to transfer mammalian genes into the genetic material of other animals, and breed transgenic animals with specific (mixed) characteristics. Pharming's predecessor company GenPharm was founded to commercialize this innovative technology. The Company further improved this technology and made it fully compliant with regulatory guidelines that apply in the United States and Europe. Pharming is able to produce complex human proteins in the mammary glands of genetically modified rabbits or cattle and purify the protein from milk for its therapeutic application.

Pharming develops tailor-made purification processes for each of its recombinant products to ensure the highest possible quantity, quality and purity. To separate the specific human protein from the other natural components in milk a cascade of (different) steps is required. These processes are developed by Pharming's R&D department and transferred in close cooperation with Pharming to CMO's (Contract Manufacturing Organization) for large-scale production. An example of such is the large-scale GMP (Good Manufacturing Practice) purification of Rhucin from rabbit milk at Schering-Plough (via subsidiairy Organon).

Both upstream (milk production) and downstream processes (protein purification) are GMP-approved and are **fully controlled**. This production system includes several virus removal and inactivation steps and obviously there is no chance of transmission of any human blood-borne agents. Pharming's protein production method thus has the advantage of delivering **high quality complex human proteins in high quantities**. In case of Rhucin, ten kilograms of purified product is produced by 135 rabbits (compared to 80,000 blood donors).

Another product for which a tailor-made purification process has been developed is Pharming's human lactoferrin in milk from cattle. In 2008, Pharming and Aslan agreed on the co-development of Pharming's human lactoferrin product as a nutritional food supplement. The technology transfer and build up of production facilities for large-scale production is ongoing. Semi purified milk fractions containing human lactoferrin will be incorporated into nutritional products.

TAILOR-MADE GMP PURIFICATION PROCESS FOR RHUCIN



USP: Upstream process
DSP: Downstream process
F&F: Fill and Finish

DNA is a so-called genetic blueprint and contains the instructions for the development and functioning of every living organism. DNA molecules are very complex and large molecules which makes them very sensible to damage. Damage can have huge implications and can for instance lead to the development of various types of tumors or ageing diseases. DNA can be damaged by many different sorts of influences, both external factors from the environment like high-energy electromagnetic radiation (UV-light and X-rays) and by internal agents coming from oxidative respiration and metabolism (like hydrogen peroxide or free radicals). In each human cell, DNA damage occurs about 500 times per day from oxidative damage alone.

To cope with this damage load, all organisms, from bacteria to man, are equipped with highly effective DNA repair systems. A research group from the Erasmus University Medical Center in Rotterdam discovered a specific change of the sequence of a DNA repair gene (mutation) that causes the rapid and premature ageing of animals. The mutation causes diseases such as osteoporosis and neurodegeneration and leads to shorter life expectations of the animal models. These results formed the basis of the founding of DNage and the DNage technology. Agents that can prevent DNA damage and/or improve DNA repair are screened in these models. An example of such an agent is **Prodarsan**, a mixture of small molecules that, in animal models, is able to delay the development of ageing diseases.

DNage is also using its premature ageing animal models to identify and develop **biomarkers** in human ageing. Biomarkers are changes in body function or composition which are in this case related to ageing and could predict the onset of age-related diseases. By measuring these biomarkers of human ageing, individuals with a high risk of developing age-related diseases or disabilities could be identified and treated in an early-stage. DNage is in particular studying the way in which osteoporosis and neurodegenerative diseases develop, in order to identify biomarkers and to find new ways for prevention and/or intervention of these diseases. For many elderly patients these diseases impair quality of life and increase their demands on the health care system. A delay in development of these diseases could alleviate patients' suffering and lead to a reduction in the total number of patients, reducing costs as well.

Pharming has several research projects on products in early stage of development. These primarily include products in the area of ageing and tissue repair. Several of these early stage programs have been initiated and partnered with academic institutions and biotech companies. Most of these projects are subsidized or paid for by government grants.

DNage is participating in a large European study, named Mark-Age. Goal of this research project is to identify biomarkers and to find new ways for prevention and/or intervention of ageing related diseases, like **osteoporosis** and neurodegenerative diseases. Research groups from all over Europe, including universities, research centers and companies like Unilever, are participating in this project. The study includes over 4000 volunteers and is the largest study on biomarkers of ageing ever. Pharming expects that a delay in development of these diseases will improve quality of life and lead to a reduction in the total number of patients and thus a reduction of health care costs as well. This project is sponsored by the European Union as part of the Seventh Research Framework (FP7).

DNage technology may also be applied to develop nutritional products that have a health effect. For instance, DNage has a collaboration with Lipid Nutrition BV and BG-Medicine Inc. to test nutritional compounds potentially useful in the management of metabolic diseases. This program is sponsored by a grant from SenterNovem, an agency of the Netherlands Ministry of Economic Affairs.

DNage also participates in Top Institute Pharma, a public private partnership between government, academic centers and corporations. In a large consortium, biomarkers for neuronal diseases are being investigated using, inter alia, the technology and animal-model systems owned by DNage.

Pharming has a research collaboration with NovaThera (fully-owned by MedCell BioScience Ltd), for the development of novel and effective new bioactive formulations, called TheraGlass-rH™. NovaThera's product technology TheraGlass™ and Pharming's recombinant proteins are linked for the localized delivery of therapeutic proteins. Although in an early stage of development, these TheraGlass-rH™ combination products have the potential to extend the therapeutic potential from transgenic technologies into the arena of medical devices and materials technologies.

Another program in which Pharming is participating is the BioMedical Materials (BMM). This is an R&D-focused public-private partnership, which include amongst others leading multinationals, universities and university medical centers. BMM aims to become a world leader for biomedical materials applications in a clinical environment, addressing cancer and cardiovascular, musculoskeletal and kidney diseases.

For innovative biotechnology companies, it is important to remain at the cutting edge of research. Therefore, Pharming established its Scientific Advisory Board (SAB) in 2007. The SAB advises the Company on new developments in science and technology which are relevant to Pharming's business. Members of the SAB also bring valuable networks and contacts to the Company, from the scientific, academic and politic community.

In 2008, there was one plenary meeting of the Scientific Advisory Board. Several other meetings were held with individual members of this Board. The emphasis of these meetings rested with advice on developments in the field of Ageing Research and in the field of tissue repair and tissue regeneration. The Scientific Advisory Board also provided advice regarding research to be done to answer questions raised by regulatory authorities on Rhucin.

Prof. dr. D.D. Breimer (1943) - Chairman

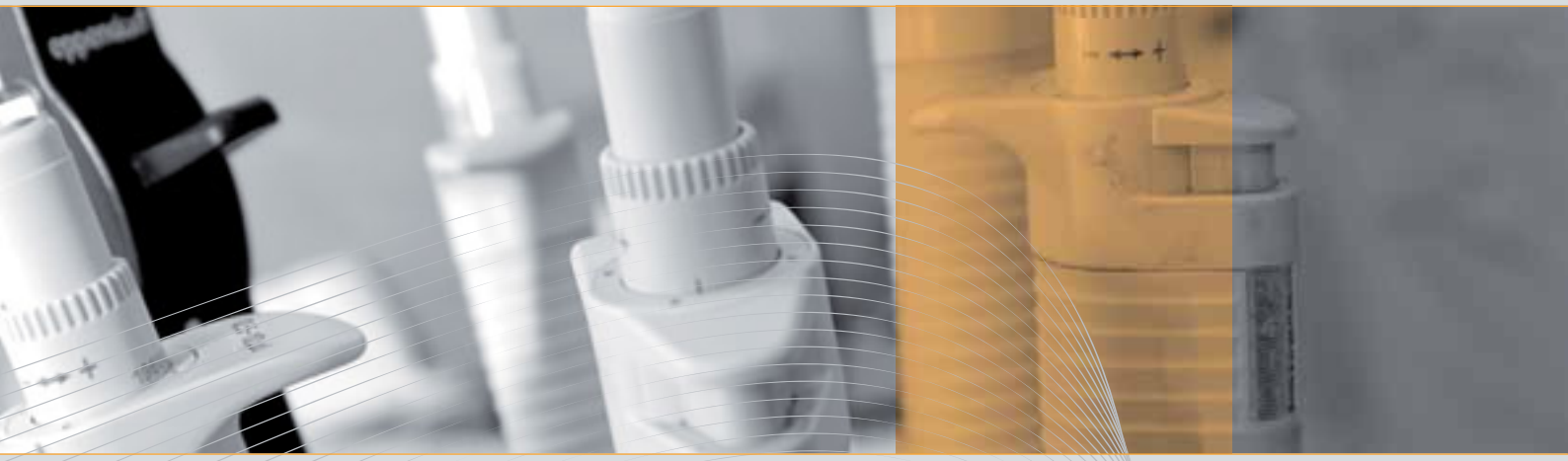
Professor Breimer is Professor of Pharmacology since 1975 and served as Rector Magnificus of Leiden University, the Netherlands from 2001 till 2007 and also as President from 2005 till 2007. Professor Breimer's research focuses on pharmacokinetics, pharmacodynamics, drug metabolism and drug delivery, using in vitro and animal models, as well as human clinical studies. He is (co)author of more than 500 scientific publications, has served on the editorial boards of numerous scientific journals and received several scientific distinctions among which are honorary doctorates of universities in Gent, Uppsala, Boedapest, London, Pamplona, Tokyo and Montreal. As a founder of the Center for Human Drug Research (CHDR) in Leiden, he brings Pharming valuable insights into the drug development process. Furthermore, professor Breimer brings an extensive network of contacts in the field of academia and innovation, encompassing Dutch universities, the Dutch Organization of Scientific Research (NWO), as well as the European League of Research Universities (LERU) and the European Federation for Pharmaceutical Sciences (EUFEPS). He has served on the scientific advisory boards of a number of pharmaceutical companies in Europe and in the USA and is currently chairman of the board of directors of Life Sciences Partners in Amsterdam.

Prof. dr. J. Hoeijmakers (1951) - Member

Professor Hoeijmakers studied Biology at the Nijmegen University and did his PhD at the University of Amsterdam before joining the Erasmus University in Rotterdam to work on DNA repair in mammals. His team cloned the first of many subsequent human DNA repair genes, discovered the strong evolutionary conservation of DNA repair systems, elucidated the basis of several human repair syndromes, generated a large number of DNA repair mouse mutants that provided insight into the etiology of human repair syndromes and discovered a link between DNA damage, repair, transcription and ageing and an unexpected connection with longevity. This work led to the identification of a 'survival response' that promotes successful ageing. A new line of research explores the organization of DNA repair and transcription in living cells and intact organisms. Recently, his group generated the first mouse mutant with intrinsic defects in the biological clock. Professor Hoeijmakers plays a leading role in several national and international scientific organizations and his work has been awarded with important prizes such as the Louis Jeantet Prize for Medicine in Europe, the Dutch Spinoza award and the Advanced Scientist Award of the European Research Council. He has published over 300 papers in the field of genetics and DNA repair and his team owns several patents in genome stability. In 1993, he became the professor of Molecular Genetics and since 1999 he has been the head of the Department of Genetics, Erasmus Medical Centre in Rotterdam. As a founder of DNage, professor Hoeijmakers and his research team support Pharming's technology platform for DNA repair.

Prof. dr. Dame J. Polak (1939) - Member

Professor Dame Julia Polak is Professor of the Tissue Engineering and Regenerative Medicine Centre at Imperial College in London, UK. In addition to advising Pharming, she is a member of broad range of academic, medical and scientific research associations including the scientific advisory board of the Imperial College Institute of Biomedical Engineering and the Stem Cell Advisory Board Panel for the UK. Professor Polak is a council member of the Tissue Engineering Society International and the Academy of Medical Sciences and was also European editor of 'Tissue Engineering'. She is the author of 997 original papers, 126 review articles, editor/author of 26 books, owner of multiple patents and is one of the most highly cited researchers in the field of tissue engineering and regenerative medicine. Furthermore, Professor Polak was the recipient of a heart and lung transplant in 1995 and is one of the longest living survivors of the procedure in Europe. Professor Polak will make a significant contribution to the development of Pharming's tissue repair technology and Rhucin studies in the field of transplants and immunology.



Management Report

- Composition Board of Management
- Report of the Board of Management
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Composition Board of Management

ON DECEMBER 31, 2008, THE COMPOSITION OF THE BOARD OF MANAGEMENT WAS AS FOLLOWS:

Sijmen de Vries, MD MBA (1959)
Chief Executive Officer

Nationality: Dutch
Date of initial appointment: October 13, 2008
Current term: Up to the AGM* in 2013

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

Mr. de Vries, successor to Mr. Pinto, is responsible for the overall management of the Company. Mr. de Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joins Pharming from Swiss-based 4-Antibody where he was CEO. Mr. de Vries has also been CEO of Morphochem and prior to this spent many years at Novartis and at SmithKline Beecham Pharmaceuticals where he held senior business and commercial positions. Mr. de Vries holds a Medical Degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

Bruno M. Giannetti, MD PhD (1952)
Chief Operations Officer

Nationality: Italian
Date of initial appointment: December 1, 2006
Current term: Up to the AGM in 2011

Other current positions: Mr. Giannetti is the founder and president of CRM GmbH, a well established European Clinical Research Organization.

Mr. Giannetti is responsible for the Company's operations including clinical development, research and development, regulatory and manufacturing activities. He has more than 25 years of experience in the pharmaceutical and biotech industry. Previously, he was the CEO of AM-Pharma BV (NL) and President and CEO of Verigen AG, Germany. In senior management positions, he has been involved with Coopers & Lybrand (in Switzerland and the UK), Immuno, Austria and Madaus AG, Germany. He is accredited as Qualified Person (relevant for the manufacturing of pharmaceutical products). Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn.

Rein Strijker, PhD (1957)
Chief Commercial Officer

Nationality: Dutch
Date of initial appointment: October 13, 2006
Current term: Up to the AGM in 2011

Other current positions: Mr. Strijker holds no other corporate board positions. He is a board member of BioFarmind, the Dutch foundation of pharmaceutical biotechnology.

Mr. Strijker is responsible for commercial development and financial activities. Mr. Strijker also focuses on the development and partnering of the DNage ageing products. Until the acquisition by Pharming in 2006, he was the CEO of DNage BV and a Member of Pharming's Supervisory Board. He has held management and R&D positions at Pharming and Genentech Inc. Mr. Strijker holds a PhD in Biochemistry from the Groningen State University.

** AGM: Annual General Meeting of Shareholders*

Francis J. Pinto, MBBS (1942)
Non-Executive Chairman

Nationality: Indian
Date of initial appointment: February 10, 2002
Current term: Up to the AGM in 2009

Other current positions: Mr. Pinto is a non-executive director of the board of MedCell Bioscience Ltd. He is also the founder and chairman of the Xandev Foundation, a charity organization in the UK and India focused on healthcare, education and culture.

Mr. Pinto joined Pharming in February 2002 and will retire at the next AGM in 2009. He brings to the Company over forty years of successful senior management experience in the pharmaceutical industry based in Europe, Asia and the USA. Previously, Mr. Pinto held senior level management positions in the field of R&D, Marketing, and Licensing 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 thirty strategic alliances and has helped to launch pharmaceutical products in four major disease segments. Mr. Pinto was CEO of Pharming until October 13, 2008 and in that role he was instrumental in the remarkable turnaround of Pharming during his tenure.

Report of the Board of Management

Developments in 2008

In March of 2008, Pharming received a negative opinion regarding the admission to the European market of Rhucin, our lead product. The negative opinion largely related to the fact that, in the view of the relevant authorities, insufficient data were provided to assure the long-term safety and efficacy of the product, particularly regarding the potential of developing immunogenic or allergic reactions to the product. While this opinion was disappointing to the Company, especially since no immunogenic reactions had been observed in the clinical studies, the efficacy, safety and quality of the product in treating acute attacks of HAE were not judged negatively. Therefore, Pharming decided to collect the data required by the authorities and to submit a new marketing authorization application.

At the same time, the Company continued to make progress in its product pipeline in 2008, with several products in or moving towards clinical development. In addition to Rhucin, for which clinical development for HAE has now been completed, Pharming's human lactoferrin product is also close to commercialization, with payments of the first two milestones of € 5 million each expected from Aslan Group AS ('Aslan') in 2009. Additional products in the clinical stage of development are Prodarsan for Cockayne Syndrome (a premature ageing disease) and rhC1INH for the treatment of antibody-mediated rejection in kidney transplantation. Other products in earlier stages of development include rhC1INH for reperfusion injury related indications (for instance, delayed graft function in kidney transplantation) and rhFIB for the treatment of congenital fibrinogen deficiency.

Rhucin and recombinant human C1 inhibitor

For the immediate future, the focus of the Company is first and foremost on the completion of its European and US regulatory filings on Rhucin for the treatment of acute HAE attacks. The regulatory dossier for Rhucin is in the final stages of completion. The current dossier includes results from over 400 administrations, now also including good evidence of efficacy and safety in repeated use and in severe laryngeal attacks while no significant immunogenic responses have been recorded. The Company has started the pre-filing dialogue with EMEA. Pharming plans to submit its Marketing Authorization Application for Rhucin to the EMEA in September 2009. The Biological License Application in the USA was transferred from the CDER to the CBER division of the FDA. The pre-filing dialogue with CBER is also ongoing with the BLA filing currently anticipated later in 2009.

Following the orphan drug development of Rhucin for HAE, we are also developing rhC1INH for larger indications. A first example of this strategy is the development of rhC1INH for the treatment of antibody-mediated rejection in kidney transplantation. We are also preparing the start of clinical development of rhC1INH in reperfusion injury related rejection in kidney transplantation.

In March 2008, Pharming signed a licensing and distribution agreement with Turkish company Eczacibasi Pharma AS ('EIP') for the marketing and sales of Rhucin for the treatment of acute HAE attacks in Turkey. EIP will make certain license, milestone and royalty payments and will also purchase the product from Pharming.

During the year 2008, one competing product was approved in the European Union for treatment of acute attacks of HAE (the indication of Rhucin). Pharming believes that several other filings have been and/or will be submitted in the major markets for approval of competing products in these markets. So far, this has not led to additional approvals. Management of Pharming is confident that Rhucin will gain significant market penetration in the major markets also if competing products have been or will be approved for the same indication. This confidence is based on strong data in the clinical studies where Rhucin, so far, has shown an excellent safety, quality and efficacy profile. Time to response after start of treatment is very short with almost all patients responding. No 'rebouncing' of attacks has been observed while the injections have not caused local side-effects as seen with some of the competing products.

Human lactoferrin

In 2008, Pharming signed a broad license agreement with Aslan for the manufacturing, marketing and distribution of Pharming's human lactoferrin product as a nutritional food supplement. The agreement is exclusive for Turkey, the Middle East, UAE, Russia, Ukraine and several other countries in this region and includes a non-exclusive license to other parts of the world. This agreement followed an earlier regional distribution agreement under which Pharming was going to supply Aslan with partly purified human lactoferrin. Under the broad license agreement, Aslan is expected to make payments to Pharming totalling € 20 million over the years 2009 - 2011. Pharming expects half of these fees to become due in 2009 when, as currently expected, the first two milestones are met. Pharming will also receive royalties based on net sales. The development of hLF, in terms of technology transfer and build up of production facilities by partner Aslan, is on schedule. Aslan will be breeding a significantly sized herd of more than 500 transgenic hLF cows by expanding Pharming's existing experimental herds and by building one or more farms and facilities in Turkey for housing them. Milk fractions containing human lactoferrin will be incorporated into nutritional products.

With the commercial development of hLF (outside the USA) moving ahead, the ongoing procedure to obtain GRAS status from the FDA, which is unpredictable, has become less important and is being given a lower priority. Pharming's strategy to seek a more direct route towards commercialization is exemplified by the agreement with Aslan.

Prodarsan and other DNage activities

Pharming's subsidiary DNage focuses on the development of Prodarsan for Cockayne Syndrome, a rare genetic disease in which children suffer from accelerated (or premature) ageing, while developing severe ageing-related diseases. In 2008, DNage started and completed a Phase I clinical study in healthy volunteers. Prodarsan appears to be safe and well tolerated in these human healthy volunteers. Prodarsan also showed beneficial effects in animal models for premature aging. A full clinical development plan for follow-up studies in patients is ready and is being consulted on with the regulatory agencies. Clinical studies in patients are expected to commence in 2009.

DNage is also participating in several projects regarding the identification of novel biomarkers of human ageing and in the field of human ageing diseases in more general. Most of these projects are subsidized or paid for by government grants.

Recombinant human fibrinogen

The development of recombinant human fibrinogen for the treatment of orphan indication of congenital fibrinogen deficiency has been reactivated and is now in mid pre-clinical stage. In addition to this market, rhFIB has the potential to address the significantly larger market of acquired fibrinogen deficiency, as result of profuse traumatic and surgical bleeding.

In June 2008, Pharming acquired an exclusive sub-license to key patents and technology of recombinant fibrinogen from GTC Biotherapeutics Inc. These rights enable Pharming to move ahead with the pharmaceutical development of recombinant human fibrinogen and stimulate medical device development through its biomaterials program.

Other programs

Activities in other programs (including the collagen project and NovaThera collaborations) have been limited in 2008 due to the focus on other programs and have been limited to research activities needed for future product development.

Financial results for 2008

In 2007, the Company raised € 70 million through the issuance of convertible bonds to institutional investors, which was managed by UBS Investment Bank. Approximately € 19.3 million of these proceeds were used to restructure the existing agreement with Paul Royalty Fund while approximately € 3.0 million was used for transaction fees. In the 2007 accounts, approximately € 17.7 million was classified as equity, with the remaining portion recognized as a liability. However, in preparing the 2008 accounts, the Company, in close consultation with its auditors, concluded that as a result of the fact that the conversion rate during the first period of the term of the bonds (ending April 30, 2008) had been variable, the amount that was classified as equity should (during that period) have been classified as a derivative and, therefore, as a financial liability. This reclassification does not impact the liquidity position at December 31, 2007 or the financial position of the Company at year end 2008. However, we have restated the 2007 figures to improve the comparability with 2008. In 2007, Pharming reported a net loss of € 35.6 million, a total equity of € 34.7 million and a net loss per share of € 0.39. After adjustment of the equity element to financial liabilities (plus some minor other restatements), the restated net loss for 2007 was € 21.6 million with a total equity of € 30.9 million and a net loss per share of € 0.24.

Pharming's cash position including marketable securities and restricted cash was € 23.5 million at December 31, 2008 in comparison to € 65.3 million at the end of 2007. The latter number, however, included restricted cash reserved for repayment to Paul Royalty Fund in the first quarter of 2008 related to the restructuring and termination of the royalty agreement. The amount of cash used for operating activities in 2008 (€ 21.9 million) was in line with that used in 2007 (€ 21.7 million). Other significant cash items included payments of nominal interest on the convertible bonds (€ 4.8 million) and the repurchase of part of the convertible bonds (€ 3.8 million). The latter transaction yielded a profit of approximately € 5.6 million, while the total fair value gain on the derivative part of the bonds in 2008 was € 4.9 million. Both results have been charged to the consolidated income statement.

The total costs in 2008 (including € 6.2 million non-cash costs) were € 30.1 million compared to € 25.3 million in 2007 (including € 3.4 million non-cash costs). The net loss in 2008 was € 26.2 million compared to a net loss of € 21.6 million in 2007, after restatements. This difference is largely caused by non-cash impairment charges. Approximately € 1.1 million of the DNage-goodwill was impaired which was caused by the increased cost of capital following the worldwide financial crisis and a deferral of the expected time of payment of a milestone to the former shareholders of DNage. Impairments were also made on inventories, certain equipment which is no longer expected to be used during its lifetime, as well as on certain non-core intellectual property which is expected to be no longer commercialized in full during the lifetime of the underlying patents. The impairment of this intellectual property related to patents and licenses acquired through the acquisition of ProBio Inc in 2004. Based on opinions of experts the Company decided to make an impairment such that the remaining value was in line with expert's estimates. Inventories slightly decreased to € 11.0 million from € 11.7 million at December 31, 2007. The current level of inventory is deemed adequate for further clinical programs and the initial launch of Rhucin. This analysis is based on best estimates of anticipated use for these purposes and the known and validated expiration dates of batches of Rhucin. Finally, an impairment was made on the value of Pharming's investment in Mucovax Holding BV ('Mucovax'). Based on the conclusions of an extraordinary meeting of shareholders in Mucovax in late 2008 and follow-up information obtained from Mucovax, we concluded that Mucovax has encountered significant financial problems and that it is unlikely that that company will be refinanced under conditions that would reflect the value of the Mucovax shares in our books. Given the seriousness of the issue and the current financial market conditions we have decided to impair the entire amount of € 0.2 million.

Through the issuance of convertible bonds to institutional investors, the Company solidified its cash position in 2007 by raising € 70 million. Due to the current conditions in the global financial markets, several bondholders have in the last months of 2008 entered into transactions with the Company under which a total amount of Convertible bonds with a nominal value of € 20 million were cancelled in return for cash payments by Pharming of € 3.8 million and conversion of the remaining € 16.3 million in shares at a valuation of € 2.64 per share. For Pharming, this cancellation of € 20.1 million of the convertible loan represented an opportunity to reduce its debt at a discount and to strengthen its balance sheet. In early 2009, another similar agreement was reached for an additional cancellation of € 5 million of convertible bonds for a cash payment by Pharming of € 1 million and conversion of the remaining € 4 million in shares at a valuation of € 2.64 per share. Discussions with the remaining bondholders for early part-redemption and conversion are ongoing regarding some of the now remaining € 45 million convertible debt. After the variable part of the conversion feature had been fixed at € 2.64 per share as per April 30, 2008, the derivative has been reclassified to equity. After allocation of the provisional 2008 results, the total equity of the Company is € 12.5 million per December 31, 2008 (€ 30.9 million per December 31, 2007).

Revenues of € 0.7 million in 2008 were similar to € 0.7 million in 2007 and consisted mainly of subsidies and grants awarded to research programs.

The total net loss in 2008 amounted to € 26.2 million (compared to € 21.6 million in 2007). Though the cash used for operational activities is approximately the same in both years, there are a number of other differences to note. Non-cash-impairments were approximately € 3.9 million higher (€ 4.2 million versus € 0.3 million in 2007) for reasons explained above. Share-based compensation was significantly lower in 2008 (€ 0.6 million in 2008 versus € 1.7 million in 2007). This change is mostly related to the lower value of granted options for management and employees. In relation to the reclassification of the convertible bonds as described above also, a € 14.3 million positive (non-cash) effect was recorded in 2007 while in 2008 an amount of € 4.9 million was recorded as (non-cash) income for the same reason. Additionally, a book-value gain of approximately € 5.6 million was recorded in relation to the settlement of a number of convertible bonds in December. Another significant difference in the income statement of these two years is the charge for effective interest on the bonds (€ 8.2 million in 2008 versus € 1.3 million 2007). This difference is caused by the fact that these interest payments only started late in 2007. Finally a number of non-recurring items (related to the settlement with Paul Capital) did, indeed, not recur in 2008.

Outlook 2009

The year 2009 will be a very important year for the Company, in particular with respect to the achievement of a wide range of product-related milestones. Some of these milestones in the lactoferrin program are expected to trigger the receipt of licensing fees from our commercial partner Aslan Group, whereas other clinical and regulatory milestones are anticipated in the development programs of Rhucin and Prodarsan. The receipt of licensing fees will not only strengthen our financial position but may also result in other commercial agreements or increase the success rate of alternative equity and/or debt transactions. Due to the financial position of the Company at year end 2008 plus the anticipated cash needed in 2009 and beyond we believe that additional financing will be needed to support continued future operations. Active and currently ongoing discussions in this area are expected to lead to the execution of one or more of such transactions in 2009.

We are confident that we will be able to continue to further develop our product pipeline in our ambition to become a specialty pharma company with products for several high potential indications.

THE MAIN EVENTS EXPECTED/GOALS TO BE ACHIEVED IN 2009 ARE AS FOLLOWS:

- Filing of Rhucin in the EU and the USA
- First product sales outside of EU and USA for Rhucin
- Conclusion of a regional or global distribution/ partnering/ licensing agreement for Rhucin
- Start clinical phase II program for Prodarsan
- Open an additional IND for rhC1INH in indications other than HAE
- Execution of the Lactoferrin agreement with Aslan according to plan and leading to the achievement of the first milestones
- Have a cash/cash equivalents position of € 30 million or more at year end

Given uncertainties in the current environment, Pharming is not providing full guidance for the expected financial results in 2009. With the current cash and the continued execution of the hLF agreement with Aslan, the Company is however confident that it will be able to continue its operational and intensified development efforts into 2010.

We do sympathize with our shareholders, HAE patients, employees and partners who have experienced the disappointment of receiving a negative opinion on Rhucin earlier in 2008 and the decreasing price of our shares partly related to this event and also partly related to the decline of share prices in general (due to the still ongoing financial crisis). However, after a careful analysis we concluded that the opinion of the European authorities included sufficient positive elements for us to continue to develop Rhucin. We have strong confidence that our product will ultimately be accepted as a safe and efficacious product for treatment of attacks of Hereditary Angioedema. Similarly, we believe that the same molecule will become an important therapeutic product for the treatment of other diseases as well. Besides having started clinical development for these new indications we have, in 2008, also started clinical development for our first product in ageing diseases and we have great hopes that we will be able to develop Prodarsan in areas of significant medical and therapeutic need. All in all, we have continued our activities to spread risks and hope to generate significant value over the coming period based on these developments. We would like to thank all our shareholders, research collaborators, partners and employees for their help and support in 2008.

Sincerely,

FRANCIS PINTO | REIN STRIJKER | SIJMEN DE VRIES | BRUNO GIANNETTI

Leiden,
The Netherlands,
March 24, 2009

Corporate social responsibility

Introduction

Pharming is aware of its responsibility towards its employees, shareholders, patients, other stakeholders, its animals and (the local) community in general. Pharming is a listed company developing therapeutic products. It is the Company's policy to operate according to the regulations and generally accepted ethical and social standards. Pharming supports the development and implementation of activities to improve its corporate social responsibility.

Medical need

Pharming is developing therapeutic products initially for specific rare diseases (orphan drug development) and other significant medical needs. For many of these indications no cure or sufficient treatment is available and patients, patient organizations and the medical community plea for therapies. By developing the products currently in its pipeline, Pharming can offer (alternative) treatment and improve the quality of life and in some cases save lives for different groups of people. As such, we believe that Pharming makes a valuable contribution to the community.

Patient safety

Pharmaceutical products need to be absolutely safe and fully compliant with regulatory guidelines. Therefore, in the development of therapeutics, the evaluation of safety and efficacy of the products is mandatory. Several studies need to be performed ranging from early research studies in animals to clinical studies in healthy volunteers and patients. These studies are highly regulated and thoroughly monitored, reviewed and evaluated both by the authorities and by Pharming. Any treatment related side-effect needs to be reported, and in the most extreme cases, might result in withdrawal of milk or (bulk) product batch(es) or in commercial phase in withdrawal of a product from the market.

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

Whistleblowers' procedure

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

Animal Code of conduct and animal welfare policy

Transgenic technology is core business of Pharming. Therefore, animal safety and welfare are very important issues. The Company produces products in animal systems, i.e. in the mammary glands of rabbits or cattle. These specific protein products are purified from the milk of these transgenic animals.

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

Pharming is largely dependent on its transgenic animals and highly appreciates animal health and welfare. The Company has an Animal Welfare policy which describes amongst others, that Pharming will not develop products with unacceptable adverse effects on animal health and welfare. Pharming carefully and regularly monitors the health and welfare of all animals in its care.

Working environment

Pharming aims to make 'people to be proud of their job and their company' a living reality. This means that every employee perceives that he or she is recognized as a valued individual. Pharming consistently supports development of his or her capabilities, skills and competencies to deliver performance and enable career development and personal growth. As a company Pharming will ensure that it rewards performance according to market practice. Pharming strives for best-in-class Human Resources (HR) processes, giving the business the opportunity to attract, motivate and retain the talented people who can deliver Pharming's current and future results.

Inspiring and leading people to a desired level of performance gives excellent employee and customer satisfaction. The managers of Pharming are expected to treat all of Pharming's people with integrity and respect. They feel responsible for creating the safest possible work environment, stimulate the development of all, both professionally as well as personally, and care for their team creating a performance-driven culture which is fun to work in.

Human Resources

The Pharming HR strategy is derived from the corporate business strategy and includes specified processes and areas for action based on business needs.

Pharming is constantly seeking for ways to improve her HR systems. Employee involvement is one of the key items to achieve improvement. Currently, management, employees and Works Council ('Ondernemingsraad') are developing an integrated system for function appraisal, career coaching, performance, assessment and compensation based on competencies and behaviours. We plan to implement this new system in the course of 2009. Pharming does not only encourage its employees to develop in a professional way, but also on a personal level. Each employee has access to a personal budget for personal professional development.

All employees are eligible to participate in an employee-options plan under which they have the right to acquire shares of Pharming Group at a price which is fixed at one day before the date of grant of the options. The number of shares obtained under this plan which the employee is entitled to sell increases over a four-year period thereby providing an incentive for the employee to stay with the Company and contribute to its success.

Employee engagement and acquaintances appreciation are strongly dependent on the quality of Pharming's leadership. Identifying and developing leadership potential is therefore a key building block for Pharming's success. Pharming uses instruments on coaching, career development discussions, and talent reviews to ensure a vibrant pipeline of top professionals and inspiring leaders.

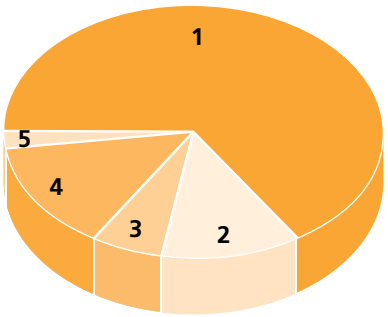
Employee engagement

Pharming is a rather small company, having approximately ninety employees. The majority of personnel is employed at Pharming's headquarters in Leiden and approximately thirty employees are working at the other locations in the Netherlands and the USA (figure 1). The Company's business involves specific high-tech processes and technologies and requires the employment of medium to highly educated personnel. Some of the internal departments are occupied by only one person having specialist knowledge, skills and experience. Therefore, it is important to Pharming to retain and motivate personnel and attract top talent in a competitive and global environment.

That Pharming is successful in retaining people is proven by its employees (figure 2). Also in attracting new employees Pharming is proud that it can attach first class people to its organization.

Figure 1

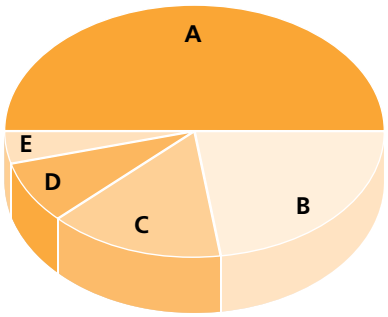
EMPLOYEES AT PHARMING LOCATIONS (END OF 2008):



1.	Leiden	66%
2.	Eindhoven	12%
3.	Rotterdam	6%
4.	DeForest, USA	14%
5.	New Jersey, USA	2%

Figure 2

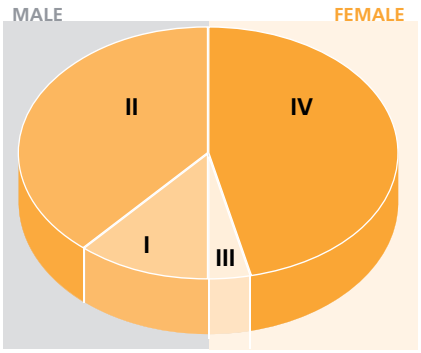
YEARS OF EMPLOYMENT AT PHARMING (END OF 2008):



A.	< 2 years	50%
B.	2-5 years	23%
C.	5-10 years	15%
D.	10-15 years	8%
E.	> 15 years	4%

Figure 3

PORTION OF MALE AND FEMALE EMPLOYEES AT PHARMING (END OF 2008):



I.	in senior management positions	23%
II.	in other than senior management positions	77%
III.	in senior management positions	7%
IV.	in other than senior management positions	93%

Diversity

Diversity in the workplace is important for providing different viewpoints to better understand the needs of stakeholders. The Company values both gender and ethnic diversity and acts as an equal opportunity employer. At the end of 2008, 54% of our total workforce was female and one out of every four senior managers was female (figure 3). End 2008, the Company employed people of more than 11 different nationalities.

Compensation and benefits

Pharming aims to offer an attractive remuneration package in line with the market. To focus management and staff on creation of sustainable added value, Pharming is offering compensation packages significantly driven by long-term incentives. These packages include bonuses in cash and/or in shares and share options. A Long Term Incentive Plan (LTIP) is in place under which restricted shares are granted to certain employees.

Health, safety and environment

Our daily activities at the Company include working with all kind of materials that could harm employees and/or our environment. To create a work environment that is as safe as possible, Pharming has created its own internal Health and Safety position. A professional dedicated staff member is working on Health and Safety policies and makes sure these are implemented in our departments, offices, labs etc. For very complicated matters Pharming hires external professionals to optimize its safety situation. Safety is continuously monitored in everything we do. For that reason Pharming pays significant attention to education and information. By the end of the day, Health Safety and Environment is also a mindset.

Internal communication

Pharming's management and employees highly appreciate good internal communication as this is essential in creating a transparent and open working environment. Pharming is constantly improving its internal communication processes. The Company has a range of communication tools in place to inform its employees on the Company's activities and developments. These communication channels include the Pharming intranet, an internal newsletter, in-house brochures, departmental and general presentations and regular business and project updates for all employees.

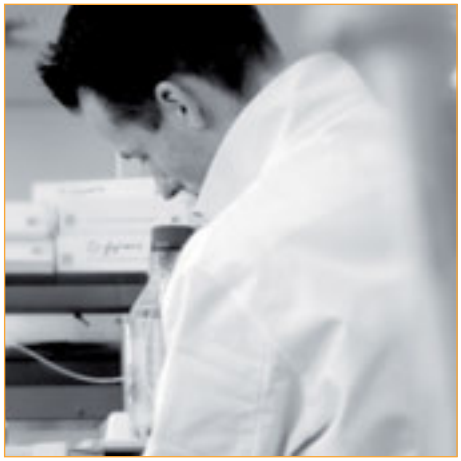
Works Council

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

In 2008, the Works Council and the Board of Management held monthly meetings to discuss various subjects. In preparation of each of these meetings, both a Works Council meeting and a meeting of the Works Council with the Human Resources department were held. Subjects on the agenda included corporate strategy and financing, regulations on conditions of employment, the safety-health-and-welfare policy, pension scheme and the appointment of the new CEO. In August 2008, a new Works Council was appointed by the employees for a period of three years.


SOP

Supervisory Board Report



- Composition Supervisory Board
- Report of the Supervisory Board
- Report of the Remuneration Committee

Composition Supervisory Board

THE COMPOSITION OF THE SUPERVISORY BOARD WAS AS FOLLOWS:

Mr. J. Blaak (1941)
Chairman, Chairman of the Audit Committee, Member of the Remuneration Committee

Nationality: Dutch
Date of initial appointment: May 23, 2007
Current term: Up to the AGM in 2011

Other current positions: Mr. Blaak holds other board positions in non-listed companies in the life science industry, like FlexGen Holding BV and to BBB Holding BV.

Mr. Blaak has an impressive track record in managerial positions with Hoogovens and Indivers in the Netherlands, USA, Germany and Singapore. In 1983, he was involved with the foundation of the MIP Equity Fund, one of the largest venture capital groups in Europe, and was appointed CEO in 1986. During the lifetime of the fund MIP invested in several life sciences companies that became active in The Netherlands, including Centocor, Mogen and EuroCetus/Chiron. In several of the companies MIP invested in, Mr. Blaak was a board member. MIP merged with the ABN-AMRO Venture Capital Group to form AlpInvest. Since 1989, Mr. Blaak is president and owner of Tailwind, a company investing during the last ten years mainly in early stage life science companies. He is involved as a board member or advisor to several of these companies and is also advisor to the Dutch Ministry of Economic Affairs for the Technopartner program. Mr. Blaak studied physics, mathematics and business economics at the Free University of Amsterdam and followed the Advanced Management Program of the Harvard Business School (AMP '81).

Mr. K. Macleod (1960)
Member, Member of the Audit Committee

Nationality: British
Date of initial appointment: April 26, 2006
Current term: Up to the AGM in 2010

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

Mr. Macleod is a partner at Paul Capital Partners and is responsible for sourcing and evaluating European investment opportunities. Mr. Macleod brings a strong operational and financial background. Most recently, he was a Venture Partner at Schroder Ventures Life Sciences, where he was responsible for deal sourcing, evaluation and negotiation of pharmaceutical investment opportunities. Previously, Mr. Macleod held senior management positions over an impressive fifteen-year career at Serono Pharmaceuticals Ltd, Abbott Laboratories Inc and Beecham Pharmaceuticals. Mr. Macleod earned his PhD from the University of York and his BSc with honors in Biology from the University of Manchester.

Mr. J.B. Ward (1938)
Member, Chairman of the Remuneration Committee

Nationality: British
Date of initial appointment: May 23, 2007
Current term: Up to the AGM in 2011

Other current positions: Mr. Ward is chairman of Onyvax Ltd, Spirogen Ltd, Cellcentric Ltd and Immunobiology Ltd, a vaccine company in Cambridge, UK. Mr. Ward is also a member of the board of Biotica Ltd and Cancer Research Technology Ltd.

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

MR. VELTMAN RESIGNED AS MEMBER OF THE SUPERVISORY BOARD ON DECEMBER 1, 2008.

Mr. B.P.Th. Veltman (1932)
Member, Member of the Remuneration Committee

Nationality: Dutch
Date of initial appointment: February 13, 2002
Current term: Up to December 1, 2008

Other current positions: Prof. Veltman holds no other board positions.

Professor Veltman has served as a member of the supervisory boards of Organon Technica Turnhout, NKF Delft, Stork NV Naarden, 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 till 1985 and later President of the University of Twente and Dean-director of the Maastricht School of Management. In 2006, he has been elected as President of the European Council of Applied Sciences and Engineering. 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. Veltman stepped down as Chairman of the Supervisory Board on April 16, 2008 and resigned as member of the Supervisory Board on December 1, 2008.

Report of the Supervisory Board

The Supervisory Board (BOSD), in general, supervises the Board of Management in its duty to manage the Company. It performs its duties and activities in accordance with the Articles of Association of the Company, the applicable law and its regulations which are posted on the Pharming website. The supervision of the Board of Management by the BOSD does include:

(a) the achievement of the Company's objectives;
(b) the corporate strategy and the risks inherent in the business activities;
(c) the structure and operation of the internal risk management and control systems;
(d) the financial reporting process.

The Supervisory Board determines, together with the Board of Management, the corporate governance structure of the Company and ensures compliance with the Dutch Corporate Governance Code and other (foreign) applicable rules and regulations. Assisted by its Audit Committee, it supervises the financial reporting process and, assisted by its Remuneration Committee, it determines the remuneration of the individual Board of Management members within the remuneration policy adopted by the Annual General Meeting of Shareholders. The report of the Remuneration Committee is presented separately as of page 42.

Composition and remuneration

At the AGM of April 16, 2008, Mr. Veltman stepped down as chairman of the Supervisory Board and resigned as member of the Supervisory Board on December 1, 2008 after serving as Chairman for three years and Member for almost seven years. Mr. Blaak was appointed as chairman of the Supervisory Board as of April 16, 2008. The current composition of the Supervisory Board is as follows: Mr. Blaak (Chairman), Mr. Ward and Mr. Macleod. It is the intention of the Supervisory Board to present at least one new candidate for the Supervisory Board at the next AGM of April 15, 2009.

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 € 23,000. The Chairman receives € 34,500 per annum.
No current 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. Mr. Macleod is partner of Paul Capital, an investment firm that holds shares in Pharming.

Activities

The Supervisory Board met six times in 2008. At each of these meetings all Members were present. The Board of Management attended these meetings except when the composition, performance, remuneration of the Board of Management and the self-evaluation of the members of the Supervisory Board were discussed.
At the meetings of the Supervisory Board, the Company's financial and operational targets, strategy and accompanying risks were extensively discussed. Amongst other topics, a considerable amount of time was spent on discussing regulatory issues with regard to Rhucin and other products, the competitive landscape, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the annual budget and targets for 2009 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's budget for 2009 is dependent, amongst other events, on the achievement of certain milestones. There is no certainty that these milestones will actually be achieved;
- The Company is largely dependent on the development of one key product for which regulatory filings in major markets will likely be submitted in 2009. However, the outcome of the registration process may be influenced by unpredictable events;
- The Company is dependent on the availability and commitment of key employees;
- The Company is active on a niche market for an orphan drug product with at least three competitors;
- The Company does not yet have a positive operational cash flow and therefore might be dependent on financial markets in the future;
- The timely development of the Company's products is dependent on the ability to attract partnerships or capital under attractive conditions.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to 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 commencing on page 47.

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 2008, the financial statements were discussed with a special emphasis on the impact of IFRS related issues and 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 2008 consisted of Mr. Blaak (Chairman) and Mr. Macleod. Except for the meeting on the Q3 2008 results, all meetings of the Audit Committee were also attended by the other members of the Supervisory Board.

During the 2008 financial year the Remuneration Committee consisted of Mr. Veltman until December 1, 2008, Mr. Ward (Chairman) for the full year and Mr. Blaak as of December 1, 2008. The Remuneration Committee met four times in 2008. The Remuneration Committee met four times in 2008. The first and last meeting were convened to review and discuss the performance of the Board of Management relative to pre-agreed targets and to define targets for the coming year. The remuneration policy, long term incentive plan and 2009 objectives were also discussed in the last meeting. During the second and third meeting, the nomination of Mr. de Vries was discussed including his remuneration package and the remuneration packages of the other members of the Board of Management.

A report of the Remuneration Committee can be found on page 42-45.

Financial statements

The financial statements of Pharming Group NV for 2008, as presented by the Board of Management, have been audited by Ernst & Young Accountants. Their report is included in this Annual Report on page 122. The Financial Statements are approved by the Supervisory Board and all members (as well as the members of the Board of Management) have signed these Statements. The Supervisory Board recommends the AGM to adopt the 2008 Financial Statements and to discharge the Board of Management and Supervisory Board from liability for their management and supervisory activities on behalf of the Company.

The Supervisory Board thanks Mr. Veltman for his valuable contribution during the past seven years. Finally, the Supervisory Board wishes to thank all employees of Pharming and the Board of Management for their commitment and their performance in 2008.

THE SUPERVISORY BOARD

J.B. WARD | K.MACLEOD | J.BLAAK

Leiden,
The Netherlands,
March 24, 2009

Report of the Remuneration Committee

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, defining the amount of fixed remuneration, shares and/or options to be granted and the variable benefits, pension rights, severance pay and other forms of compensation.

The Remuneration Committee also prepares the remuneration report that accounts for the implementation of the remuneration policy over the past financial year. It includes an overview of the remuneration policy for the next financial year and subsequent years, both in accordance with the Company's current 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 policy linked to the Company objectives and the overall performance of the Board of Management. The Committee recognizes that the Company is increasingly competing in an international environment. The policy and its implementation are reviewed by the Committee at least annually.

2008 Remuneration policy and structure

THE REMUNERATION POLICY FOR 2008 WAS APPROVED IN THE ANNUAL GENERAL MEETING OF APRIL 2008. THE MAIN ITEMS OF THIS POLICY ARE:

- The remuneration of each member of the Board of Management shall consist of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long term incentives by way of shares and/or options to shares in the Company and advantages in kind such as health insurance and participation in a pension plan, as further specified in Note 26 to the Financial Statements;
- In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on extraordinary performance and the achievement of predetermined objectives. These contracts include provisions for an individual bonus in cash of up to twenty five percent of the Member's gross annual salary (including holiday allowance). Other benefits, health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay will not exceed the Member's gross annual salary. The notice period for each member is two months;
- Members of the Board of Management as well as other key individuals (including senior managers and members of the Supervisory Board and the Scientific Advisory Board) are eligible to participate in the Company's Long Term Incentive Plan. Under the plan, participants will receive shares in the Company, the number of which is dependent upon the performance of the Pharming share price, during a three year period, compared to a peer group of small cap European Biotech Companies (see page 44).

Meetings and Composition

During the 2008 financial year the Remuneration Committee consisted of Mr. Ward (Chairman) and Mr. Veltman until December 1, 2008. After the resignation of Mr. Veltman from the Supervisory Board, per the same date, he was replaced by Mr. Blaak. The Remuneration Committee met four times in 2008. The first and last meeting were convened to review and discuss the performance of the Board of Management relative to pre-agreed targets and to define targets for the coming year. The remuneration policy, long term incentive plan and 2009 objectives were also discussed in the last meeting. During the second and third meeting, the nomination of Mr. de Vries was discussed including his remuneration package and the remuneration packages of the other members of the Board of Management.

Remuneration Report 2008

Following the recommendations of the Remuneration Committee, the Supervisory Board decided to grant 125,001 of the available 500,000 stock options of the 2008 Option plan (as approved by the AGM on April 16, 2008), in line with the partial achievement of the preset targets by the Board of Management. The exercise price of these options is € 1.12 and they will expire on April 15, 2013. These options were equally divided between Messrs. Pinto, Giannetti and Strijker. The Supervisory Board determined that the milestones Relating to rhC1INH for other indications, corporate partnerships and strengthening the management of the Company were achieved, while the other milestones were not, or only partially achieved.

All three members of the Board of Management did not meet fully all of their bonus-related performance targets. Although (on average) approximately 60% of the targets were met, the Supervisory Board concluded that the most important milestones, namely those relating to the filing and registration of Rhucin, were not achieved which contributed to a disappointing development of Pharming's share price. In view of this overall performance, a cash bonus equal to 7.5% of the annual fixed salary, or Management Fee, was granted to Mr. Pinto and Strijker and a cash bonus of 11.25% of the annual fixed salary to Mr. Giannetti.

The individual remuneration of the members of the Board of Management was reviewed at the time of the appointment of Mr. de Vries, also in the light of developments at other listed biotechnology companies in Europe. On this basis, the Remuneration Committee advised the Supervisory Board to increase the fixed salaries of Mr. Giannetti and Mr. Strijker per November 2008. The Management Fee of Mr. Pinto was cancelled and succeeded by a success fee arrangement which will stay in place from the time of his appointment of non-executive chairman of the Board of Management (October 16, 2008) until the Annual General Meeting of 2009. No further increases were granted per January 1, 2009.

Remuneration Policy 2009

For 2009, the Remuneration Committee continues with the existing compensation policy that was approved at the 2008 AGM with a few modifications as outlined below. To continue to be able to attract and retain top talent in a competitive and global environment and to focus management and staff on creation of sustainable value added, total compensation continues to be significantly driven by long-term incentives, as summarized below.

1. Fixed salary determined by the Supervisory Board;

2. Target bonus of up to 25% of annual salary payable on or before January 31, 2010 in cash and/or in shares valued at the average of the five trading days prior to 31 January 2010. Payment of the bonus remains dependent on the achievement of pre-defined milestones which are a combination of corporate and personal milestones.

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

DESCRIPTION OF PROPOSED 2009 SHARE OPTION GRANTS TO THE BOARD OF MANAGEMENT:

	NR OF OPTIONS	PARAMETERS
Mr. Sijmen de Vries	500,000	In service at 1 November 2009
Mr. Bruno Giannetti	250,000	In service at 1 November 2009
Mr. Rein Strijker	250,000	In service at 1 November 2009

4. A Long Term Incentive Plan under which restricted shares are granted conditionally to the Board of Management and certain eligible managers each year with a target value of 30% of annual salary. In addition members of the Supervisory Board and Scientific Advisory Board qualify for participation. These shares will vest after three years provided that the share price has increased (i.e. increased total shareholder value). The number of shares vested will be based on the relative performance of the share price compared to a group of 40 European Small Cap (< € 500 million) listed companies active in Life Sciences. To enhance transparency, the Supervisory Board decided to use this peer group as a reference group rather than the UBS-index as the performance of this index is not published publicly and difficult to assess for non-insiders. The reference group for the 2008 and 2009 program consists of the following companies:

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

THE VESTING SCHEDULE WILL BE AS FOLLOWS:

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

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

As per January 1, 2009, after one year of the three year period of the 2008-LTIP, Pharming ranked number 19 in this group.

For 2009, the Supervisory Board, following the recommendation of the Remuneration Committee, has determined that the maximum number of shares that can be earned by each Board of Management member is 75,000. Members of the Supervisory Board can earn a maximum of 20,000 shares while members of the Scientific Advisory Board can earn a maximum of 12,500 shares. For the senior managers a pool of 400,000 shares will be created out of which a maximum of 30,000 shares can be awarded to each individual senior manager. If granted, restricted shares under this program will vest on January 1, 2012 depending on the conditions described above.

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

6. During 2009, approximately 1,400,000 share options will expire with a strike price well above the current share price and will, likely, be struck off. Therefore, an amount of 1,000,000 share options have been added to the Employee Share Option Pool for distribution in 2009, amongst the employees (excluding members of the Board of Management), according to the employee share option policy.

The Supervisory Board has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for 2009.

THE MAIN CORPORATE OBJECTIVES FOR THE BOM CAN BE SUMMARIZED AS FOLLOWS:

- Filing of Rhucin in the EU and the USA
- First product sales outside of EU and USA for Rhucin
- Conclusion of a regional or global distribution/partnering/licensing agreement for Rhucin
- Start clinical phase II program for Prodarsan
- Submit an additional IND for rhC1INH in indications other than HAE
- Execution of the Lactoferrin agreement with Aslan according to plan and leading to the achievement of the first two milestones
- Have a cash/cash equivalents position of € 30 million or more at year end

For competitive reasons further details of these milestones and the personal 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.

Corporate Governance

Corporate Governance

According to the Corporate Governance Code (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).

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. As we are a company with a limited amount of resources and personnel, we expect that we will not comply, or not comply in full, with certain provisions of the Code. Notwithstanding such limitations, the Company has undertaken continuous efforts to improve its compliance with the Code. 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 and a whistleblowers' procedure have been posted on the Company's website in compliance with the Code and will be updated on a continuous basis. A Code of Conduct is in preparation and will be posted on the Company's website in the course of 2009.

During the year 2008, the Company has undertaken further efforts to improve compliance with the Code and has started to implement the main provisions of a new corporate governance code in anticipation of its coming into force probably later this year. As of the AGM of April 15, 2009, corporate governance shall become a fixed item on the agenda of the AGM. In this Annual Report the Company has put more attention to its strategy and associated risk profile and corporate social responsibility issues.

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.

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 interest 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.

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 2008. 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, 2008, the issued share capital of the Company amounts to € 48,714,927, consisting of 97,429,854 shares. Certain holders of convertible bonds issued by the Company on October 31, 2007 have converted their bonds into shares, as further specified in Note 34. Currently the number of registered shares amount to less than one percent of all issued ordinary shares. There are no cumulative preference shares or depositary receipts of shares issued by the Company or issued with its knowledge by any of its Shareholders. The Company has not vested or agreed to any pledges, usufruct, liens or other special voting rights with respect to any of the shares. Further information with respect to the shares, Option plans for the Board of Management, the Supervisory Board and for employees, options to and warrants on shares is provided in Note 25 to 28 to the Financial Statements.

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 Dutch company law. As per resolution of the AGM of April 16, 2008, the Board of Management has been granted such authorization to issue shares or grant of rights to subscribe for shares up to hundred percent of the authorized capital of the Company for a period of twelve months ending on May 23, 2009. A renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of April 15, 2009.

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 16, 2008, the Board of Management has been granted such authorization for a period of twelve months ending on May 23, 2009. A renewal of this authorization for a period of twelve months will be submitted for approval to the AGM of April 15, 2009.

Repurchase of shares

Subject to the authorization of the AGM and the approval of the Supervisory Board and subject to certain conditions imposed by the Dutch company law, the Company may repurchase and acquire fully paid-up shares in its own share capital for consideration if: (i) the shareholders' equity of the Company less the acquisition price of such shares is not less than the sum of the Company's paid-up and called-up share capital and the reserves which must be maintained in accordance with Dutch law; and (ii) the aggregate nominal value of shares to be acquired and shares already held by the Company or pledged for the benefit of the Company, or which are held by a subsidiary of the Company, does not exceed one-tenth of the Company's issued share capital. As per resolution of the April 16, 2008, the Board of Management has been granted such authorization for a period of twelve months ending on May 23, 2009. A further renewal of the authorization for a period of twelve months will be submitted for approval to the AGM of April 15, 2009. No voting rights may be exercised on shares held by the Company. The Board of Management may decide to transfer such shares. The Shareholders of the Company do not have a pre-emptive right on such transfers.

Insider trading of Shares

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

Change of Control

The Company has not entered into any agreement that will come into effect, change or terminate as a consequence of a change of control of the Company following a public offer on the shares as referred to the Act on the Financial Supervision, except for the convertible bonds as further described in Note 34 to the Financial Statements.

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 2008, THE COMPOSITION OF THE BOARD OF MANAGEMENT WAS AS FOLLOWS:

F.J. Pinto	Chief Executive Officer, re-appointed as of May 21, 2006 (resigned on October 13, 2008 and as of October 13, 2008 appointed as Non-Executive Chairman up to the AGM in 2009);
S. de Vries	Chief Executive Officer, appointed as of October 13, 2008 (appointed up to the AGM in 2013);
B.M. Giannetti	Chief Operations Officer, appointed as of December 1, 2006 (appointed up to the AGM in 2011);
R. Strijker	Chief Commercial Officer, appointed as of April 26, 2006 (appointed up to the AGM in 2010).

THE SUPERVISORY BOARD CONSISTED OF:

B.P.Th. Veltman	Chairman, date of initial appointment: February 13, 2002, Member as of April 16, 2008 and resigned on December 1, 2008;
J. Blaak	Member, date of initial appointment: May 23, 2007 and Chairman as of April 16, 2008;
K. Macleod	Member, date of initial appointment: April 26, 2006;
J.B. Ward	Member, date of initial appointment: May 23, 2007.

All members of the Board of Management are statutory directors of the Company, except for Mr. Pinto as of October 13, 2008. Remuneration and other employment conditions of the Board of Management members are proposed by the Remuneration Committee and approved by the Supervisory Board. Mr. de Vries (as of November 3, 2008), 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 set by the Supervisory Board. As of March 29, 2007 until October 13, 2008, the Board of Management consisted of Mr. Pinto, Mr. Giannetti and Mr. Strijker. Mr. Pinto has been chairman of the Board of Management until October 13, 2008 and had the primary responsibility for the long-term strategy of the Company. Mr. Giannetti is responsible for the Company's operations, including clinical development, R&D, regulatory and manufacturing activities. Mr. Strijker is responsible for all commercial development and financial. As of October 13, 2008, the Board of Management consists of Mr. de Vries, who has the position of Chief Executive Officer, Mr. Giannetti and Mr. Strijker. As of October 13, 2008, Mr. Pinto is appointed as Non-Executive Director of the Board of Management until the AGM in 2009.

The members of the Supervisory Board are selected by the Supervisory Board and appointed by the Annual General Meeting of Shareholders. Mr. Veltman resigned as chairman of the Supervisory Board April 16, 2008 and resigned as member of the Supervisory Board on December 1, 2008. Mr. Blaak is appointed as chairman of the Supervisory Board as of April 16, 2008. 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. The Supervisory Board regulations are posted on the Company's website as well.

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 December 2008.

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.

In 2008, the Company was charged for an amount of € 60,000 by CRM Biometrics in relation to providing statistical analyses of data from clinical studies. Pharming's COO, Mr. Giannetti, holds a minority interest in CRM Biometrics. Mr. Giannetti did not and does not have any supervisory, management or other position within CRM Biometrics. All 2008 charges of € 60,000 as well as € 2,000 charges due to CRM Biometrics due at year end 2007 were paid in 2008. No outstanding balances remained at December 31, 2008. Mr. Giannetti did not provide services to CRM Biometrics nor did he receive any payments from CRM Biometrics.

The above transaction has 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 as well as provisions III.6.1 up to and including III.6.3 of the Code have been complied with.

All current members of the Board of Management are under contract by the Company. As part of the terms of their employment contract, and where it concerns Mr. Pinto, his management services contract, each member of the Board of Management has undertaken not to compete with Company'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 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 Mr. Macleod is employed as a partner 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.

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 2008.

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 an internal risk management and control system that provide a reasonable assurance that the financial reporting does not contain any errors of material importance. The complete internal risk management and control systems of the Company are regularly discussed by the Board of Management with the 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. During the year 2008, the Board of Management has identified areas where control systems could be improved. The areas pertain to relationships with external parties performing paid activities commissioned by the Company. Appropriate steps have been taken to improve such systems and have been implemented per 2009. It also has a whistleblowers' procedure, which is published on the Company's website. A Code of Conduct is in preparation and will be posted on the Company's website in the course of 2009.

The Company has established an Operations Management Team (OMT) to further strengthen the internal controls of the Company. The OMT includes managers from the product, research and manufacturing departments. The Chairman of the OMT is the Chief Operations Officer. The Company has a Group Controller, a Compliance Officer, a General Counsel and a Company Secretary as well. In addition, key risk factors applicable to the Company were addressed at several of the Supervisory Board meetings in 2008.

The Board of Management and the Supervisory Board have committed themselves to further developing the internal management and control systems. Further information concerning risk factors is provided in Note 35 to the Financial Statements.

Appointment of the external auditor

At the AGM held on April 16, 2008, Ernst & Young Accountants was appointed as the Company's external auditor for a period of one year, expiring at the AGM of 2009. It is the intention to submit to the AGM to be held on April 15, 2009, the appointment of another auditor to become the Company's external auditor for a period expiring by the date of the next AGM. This intention, relates, inter alia to the desire of the Company to more clearly separate responsibilities of fiscal (and other financial) advice and independent auditing.

Responsibility statement

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

Non-Compliance with the Code

THE PRACTICES WHERE THE COMPANY IS NOT IN COMPLIANCE WITH THE CODE ARE THE FOLLOWING:

Internal risk and control systems statement (section II.1.4 of the Code)

With respect to the internal risk and control systems statement, the Company has decided to anticipate to the internal risk and control systems statement suggested in section II.1.5 of the new corporate governance code. The Company is of the opinion that the latter is more appropriate.

Options for the Board of Management (section II.2.1-II.2.3 of the Code)

With respect to sections II.2.1-II.2.3 of the Code, the Company believes that its future success will depend in large part on the continued services of its members of the Board of Management (BOM) and key employees. In view hereof, it is deemed essential that the Company is in a position to offer internationally competitive remuneration packages to qualified BOM members. In line with the recommendations of the Remuneration Committee and in line with industry practice, the options granted to BOM members to acquire shares in the capital of the Company, will be a conditional remuneration component which becomes unconditional when a BOM member is still in the service of the Company at the end of the year. These options may be exercised within the first three years of granting. The Company considers the total compensation of the BOM members in line with international industry practice and significantly driven by long-term incentives, the potential values of which are fully dependent on value creation, as further specified in the Remuneration Policy on page 42.

Regulations concerning ownership of and transactions in securities by the Board of Management (section II.2.6 of the Code)

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. It is noted that Mr. Strijker has signed a 'free hand agreement' with his bank, which prevents him from making his own investment decisions.

Chairman of the Audit Committee (section III.5.6 of the Code)

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 chairman of the Supervisory Board is also chairman of the Audit Committee. This means that the Company is not in line with section III.5.6 of the Code.

Granting of shares or rights to shares to Supervisory Board members (section III.7.1 of the Code)

The Company believes that, in today's biotech market, remuneration that includes restricted share options is deemed necessary, being customary practice, to attract excellent Supervisory Board members in the biotech industry. As of 2008 Supervisory Board members participate in the Long Term Incentive Plan as further specified in the Remuneration Policy on page 42.

Regulations concerning ownership of and transactions in securities by the Supervisory Board (section III.7.3 of the Code)

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 Supervisory Board regulations to comply with this best practice provision.

Follow in real time all the meetings (section IV.3.1 of the Code)

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

Internal Auditor (section V.3 of the Code)

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

Financial Statements

Consolidated financial statements

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- Consolidated income statement
- Consolidated statement of cash flow
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- Consolidated statement of changes in equity
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Company financial statements

- Company balance sheet
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Other information

- Auditor's report
- Other financial information

Consolidated balance sheet

AT DECEMBER 31, 2008

AMOUNTS IN € '000	NOTES	2008	2007
Goodwill	5.	6,998	9,190
Intangible assets	6.	18,051	18,981
Property, plant and equipment	7.	5,896	7,098
Financial assets	8.	-	200
Restricted cash	9.	176	176
NON-CURRENT ASSETS		**31,121**	**35,645**
Inventories	10.	10,971	11,720
Other current assets	11.	1,646	1,893
Restricted cash	9.	-	10,180
Marketable securities	12.	3,748	3,956
Cash and cash equivalents		19,610	50,954
CURRENT ASSETS		**35,975**	**78,703**
TOTAL ASSETS		**67,096**	**114,348**
Share capital	13.	48,715	45,618
Share premium	13.	183,980	182,243
Other reserves	13.	7,403	4,417
Accumulated deficit	13.	(227,565)	(201,360)
TOTAL EQUITY		**12,533**	**30,918**
Convertible bonds	14.	35,122	53,214
Earn-out obligations	16.	2,644	2,315
Deferred tax liability	17.	3,940	3,940
Other non-current liabilities	18.	307	412
NON-CURRENT LIABILITIES		**42,013**	**59,881**
Trade and other payables	19.	7,365	7,830
Current portion of non-current liabilities	20.	5,185	15,719
CURRENT LIABILITIES		**12,550**	**23,549**
TOTAL EQUITY AND LIABILITIES		**67,096**	**114,348**

Consolidated income statement

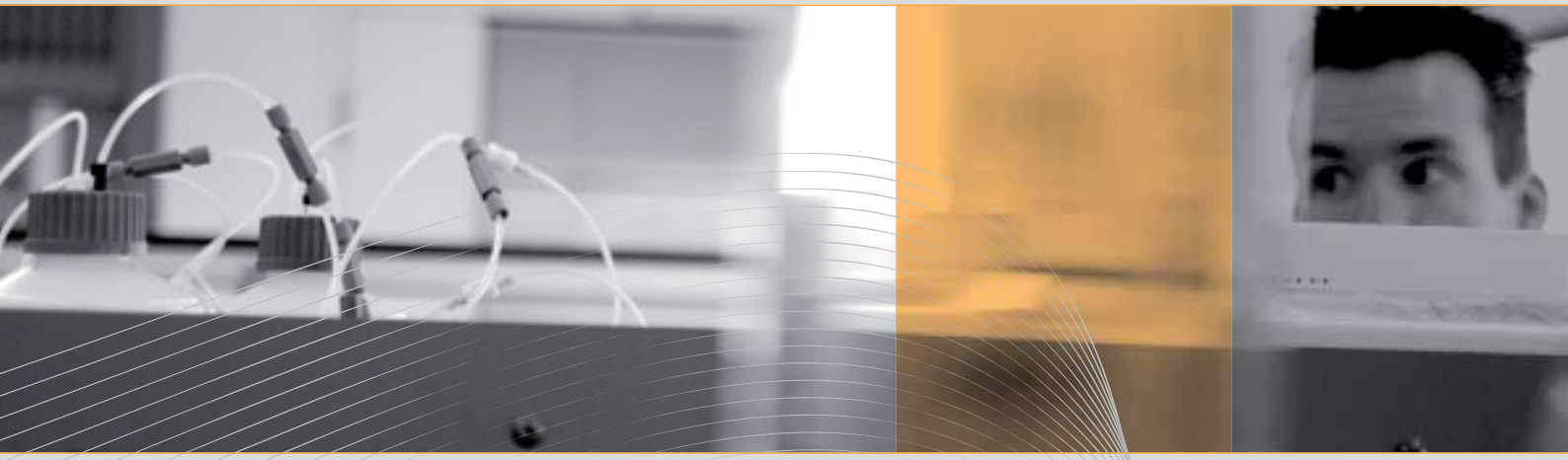
FOR THE YEAR ENDED DECEMBER 31, 2008

AMOUNTS IN € '000	NOTES	2008	2007
Revenues	21.	**664**	**690**
Research and development		20,857	19,088
General and administrative		3,108	2,824
Depreciation and amortization charges	22.	1,421	1,408
Impairment charges	22.	4,182	302
Share-based compensation	22.	563	1,689
COSTS		**30,131**	**25,311**
LOSS FROM OPERATING ACTIVITIES		**(29,467)**	**(24,621)**
Effective interest convertible bonds	14.	(8,161)	(1,308)
Fair value gain derivative	14.	4,947	14,305
Settlement convertible bonds	14.	5,604	-
Settlement Paul Royalty Fund	15.	-	(9,125)
Interest on liability Paul Royalty Fund	15.	-	(2,151)
Interest on earn-out obligations	16.	(1,345)	(1,158)
Other interest income, net	23.	2,022	1,328
FINANCE REVENUE AND COSTS		**3,067**	**1,891**
Currency effect on liability Paul Royalty Fund	15.	-	1,069
Other foreign currency results	23.	195	20
OTHER INCOME AND EXPENSES		**195**	**1,089**
NET LOSS		**(26,205)**	**(21,641)**
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**(26,205)**	**(21,641)**
Share information			
Basic and diluted net loss per share (€)		(0.29)	(0.24)
Weighted average shares outstanding		91,657,617	90,912,531
Number of shares outstanding at year-end		97,429,854	91,235,178

Consolidated statement of cash flow

FOR THE YEAR ENDED DECEMBER 31, 2008

AMOUNTS IN € '000	NOTES	2008	2007
Payments of third party fees and expenses, including Value Added Tax		(19,454)	(20,776)
Net compensation paid to board members and employees		(4,122)	(3,092)
Payments of pension premiums, payroll taxes and social securities, net of grants settled		(2,813)	(2,582)
Other payments		(420)	(50)
Receipt of Value Added Tax		1,372	2,383
Interest received from cash and marketable securities		2,282	1,301
Receipt of grants		595	656
Other receipts		654	427
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**(21,906)**	**(21,733)**
Purchase of property, plant and equipment	7.	(289)	(671)
Purchase of intangible assets	6.	(525)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(814)**	**(671)**
Net proceeds of increase of share capital	13.	1	1,156
Proceeds convertible bonds, net of transaction fees paid	14.	-	67,012
Repayments to Paul Royalty Fund	15.	(10,075)	(10,469)
Repayments convertible bonds at nominal value	14.	(3,800)	-
Payments of nominal interest convertibe bonds	14.	(4,844)	-
Repayment of other financial liabilities	18.	(92)	(61)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(18,810)**	**57,638**
NET INCREASE/(DECREASE) CASH AND CASH EQUIVALENTS		**(41,530)**	**35,234**
Exchange rate effects on cash and cash equivalents		6	(182)
Cash and cash equivalents at January 1		61,310	26,258
CASH AND CASH EQUIVALENTS AT DECEMBER 31		**19,786**	**61,310**
Marketable securities at December 31		3,748	3,956
TOTAL LIQUIDITIES AT DECEMBER 31		**23,534**	**65,266**



Consolidated statement of recognised income and expense

FOR THE YEAR ENDED DECEMBER 31, 2008

AMOUNTS IN € '000	FOREIGN CURRENCY TRANSLATION	NET UNREALISED GAINS/(LOSSES)	ACCUMULATED DEFICIT	TOTAL
2007				
Foreign currency effects	(307)	-	-	(307)
Fair value adjustment available-for-sale financial assets	-	(1,039)	-	(1,039)
Total income and expense directly recognised in equity	(307)	(1,039)	-	(1,346)
Net loss	-	-	(21,641)	(21,641)
TOTAL RECOGNISED INCOME AND EXPENSE	**(307)**	**(1,039)**	**(21,641)**	**(22,987)**
2008				
Foreign currency effects	141	-	-	141
Fair value adjustment available-for-sale financial assets	-	(173)	-	(173)
Total income and expense directly recognised in equity	141	(173)	-	(32)
Net loss	-	-	(26,205)	(26,205)
TOTAL RECOGNISED INCOME AND EXPENSE	**141**	**(173)**	**(26,205)**	**(26,237)**

Consolidated statement of changes in equity

FOR THE YEAR ENDED DECEMBER 31, 2008

AMOUNTS IN € '000	NUMBER OF SHARES	SHARE CAPITAL	SHARE PREMIUM	CURRENCY TRANSLATION
BALANCE AT JANUARY 1, 2007	**88,753,511**	**44,377**	**175,339**	**(1,436)**
Total recognised income and expense	-	-	-	(307)
Warrants Paul Royalty Fund	-	-	-	-
Share-based compensation	-	-	-	-
Acquisition DNage	1,800,000	900	5,814	-
Issuance of shares for cash	167,044	84	567	-
Options exercised	507,098	253	252	-
Other shares issued (non-cash)	7,525	4	271	-
BALANCE AT DECEMBER 31, 2007	**91,235,178**	**45,618**	**182,243**	**(1,743)**
Total recognised income and expense	-	-	-	141
Share-based compensation	-	-	-	-
Reclassification derivative	-	-	-	-
Bonds converted	6,193,181	3,096	1,737	-
Options exercised	1,495	1	-	-
BALANCE AT DECEMBER 31, 2008	**97,429,854**	**48,715**	**183,980**	**(1,602)**

Nominal value € 0.50 per share.

SHARE-BASED COMPENSATION	NET UNREALIZED GAINS/(LOSSES)	OTHER	ACCUMULATED DEFICIT	TOTAL
5,748	**(1,231)**	**6,714**	**(179,719)**	**49,792**
-	(1,039)	-	(21,641)	(22,987)
993	-	-	-	993
1,689	-	-	-	1,689
-	-	(6,714)	-	-
-	-	-	-	651
-	-	-	-	505
-	-	-	-	275
8,430	**(2,270)**	**-**	**(201,360)**	**30,918**
-	(173)	-	(26,205)	(26,237)
563	-	-	-	563
-	-	3,370	-	3,370
-	-	(915)	-	3,918
-	-	-	-	1
8,993	**(2,443)**	**2,455**	**(227,565)**	**12,533**

1. Corporate information

The consolidated financial statements of Pharming Group NV, Leiden for the year ended December 31, 2008 were authorized for issue in accordance with a resolution of the Supervisory Board on March 24, 2009. The financial statements are subject to approval of the Annual General Meeting of Shareholders, which has been scheduled for April 15, 2009.

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.

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 2008 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.

Going Concern Assessment

The Board of Management of Pharming has, upon preparing and finalizing the 2008 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of these financial statements.

In their assessment, the Board of Management has performed a best estimate of projected cash inflows and cash outflows for a period of one year after the date of these financial statements. These projections include several uncertainties. In particular, it is assumed that:

- in 2009 € 10.0 million of cash will be received from the lactoferrin agreement with Aslan Group and that € 5.0 million will be received early 2010. However, the actual receipt of these milestone-payments depends on (i) the actual achievement of certain agreed upon items, and (ii) transfer of the funds by Aslan Group. Both of these events may ultimately not take place due to uncertainties with respect to the actual achievement of these milestones respectively the dependence on the available financial resources of Aslan Group at the achievement date;
- the repayment of Dutch government grants in relation to the lactoferrin program (see Note 33) can and will be deferred until the long-term financial position of the Company is guaranteed;
- the Company has the possibility to decrease expected cash outflows through deferral of the execution of certain activities or investments, as far as either no financial commitments have been entered into or such commitments can be cancelled without significant costs to the Company. The deferral of such activities may give cause to impair – in particular - the carrying amounts of goodwill, intangible assets and inventories.

The effects of the uncertainties above may significantly affect, both positively and negatively, the Company's liquidity and/or equity position. Ultimately, equity may become negative in the course of 2009 thereby reducing the number of alternative financing possibilities. However, though the financing of the Company is one of the key areas of attention in 2009 and beyond, the Board of Management has not included major cash inflows from equity and/or debt transactions or other strategic (commercial) alliances in its projections. This is due, on the one hand, to its confidence in achieving the milestones in the lactoferrin program, coupled to the payments that will be received as per contract upon achieving such milestones. On the other hand, while, several financing possibilities are currently under review and discussion it is uncertain if, and how much, financing can be obtained given the current conditions on the capital markets in general. In its projections, the Board of Management has, therefore, limited its assessments to cash flows which are highly likely and/or contractually agreed. However, it is the intention of the Board of Management to enter into additional financial and other transactions to improve the financial position of the Company.

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

Basis of consolidation

The consolidated financial statements include Pharming Group NV and its effectively controlled subsidiaries, after the elimination of all intercompany transactions and balances. Subsidiaries are consolidated from the date the acquirer obtains effective control until such time as control ceases. 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 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 INVESTMENTS AT DECEMBER 31, 2008 AND 2007:

	REGISTERED OFFICE AT DECEMBER 31,	INVESTMENT % AT DECEMBER 31,	
COMPANY	2008	2008	2007
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	100.00
ProBio Inc	United States	100.00	100.00
MucoVax Holding BV	The Netherlands	1.95	2.00

3 Summary of significant accounting policies

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires judgments and estimates that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Financial Statements. Management cautions that actual results could differ from those estimates.

The following items in particular are subject to 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 in 2006 has resulted in the initial recognition of significant amounts of goodwill, intangible assets and (net) deferred tax liabilities. At year end 2008, goodwill amounts to € 7.0 million, intangibles from the DNage acquisition are € 16.8 million and (net) deferred tax liabilities are € 3.9 million.

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 include both cash income from sales and licensing agreement whereas cash outflows are based on anticipated costs of preclinical and clinical activities as well as general, administrative, sales and marketing expenses. The ultimate outcome depends of the actual realisation of 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 discount rate applied in 2008 was 23% as compared to 20% in 2007.

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 continuously 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.

At December 31, 2008, total earn-out obligations amount to € 7.2 million, of which € 4.5 million has been classified as a current liability due to expected settlement in 2009.

Inventories

At year end 2008, the Company has capitalized rhC1INH product with a carrying value of € 11.0 million. Management has planned for additional investments after balance sheet date.

These inventories are available for use in commercial, preclinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected preclinical and clinical programs for both the HAE project and other indications of the rhC1INH product as well as anticipation of market approvals. In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected lifetimes of the product involved.

Repayment of government grants

As more extensively disclosed in Note 33, the Company until 2002 received grants from the Dutch government which have to be repaid (including accrued interest) upon commercialization but are forgiven if the products do not materialize within a certain period. At December 31, 2008, the total of these contingent liabilities amount to € 28.3 million.

Following the 2008 agreement on human lactoferrin with Aslan Group AS, on which milestones of € 20.0 million are expected in 2009-2011 plus royalties upon sales, Pharming has entered into discussions with the Dutch government on the effects of this contract on the repayment clauses. These discussions include, among others, the interpretation of the amounts qualifying for repayment, the percentage to apply to these amounts as well as the timing of the repayments. As per the date of these financial statements discussions are still in progress.

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, 2008 and 2007 amounted to € 0.714 and € 0.679 respectively. Average exchange rates between €/US$ used for the years 2008 and 2007 were € 0.697 and € 0.716 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 availability of resources to complete and the ability 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 PROPERTY, PLANT AND EQUIPMENT ARE:

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

Depreciation charges for manufacturing equipment are based on actual use of the equipment involved, which is expected to take place in a period of no more than five years in view of technical expiration. 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 no 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.

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 organized 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). In arriving at the conclusion that these specific investments qualify as available-for-sale financial assets, management has considered that the category:

- financial asset at fair value through profit or loss does not apply since the Company did not acquire these assets for trading in the near term but as a medium to long term investment, nor do these assets contain one or more embedded derivatives;
- held-to-maturity investments does not apply since the Company did and does not have the positive intention and ability to hold the assets to maturity;
- loans and receivables does not apply due to the absence of fixed or determinable payments.

As a result, no other financial asset category than available-for-sale financial assets remained.

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

IMPAIRMENT OF FINANCIAL ASSETS

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit and loss (derivative financial liabilities) or financial liabilities at amortised cost (borrowings

and trade and other payables). All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Purchases and sales of financial liabilities are recognised using settlement date accounting.

DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities are measured at fair value at each balance sheet date. Changes in the fair value of the derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

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 collectability of the benefits is reasonably assured.

License fees relate to revenues from agreements with third parties for co-development of products and is recognized upon fulfilling of predefined 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

Costs are expensed as incurred. Costs of research and development cover those activities that are carried out to gain new scientific or technical knowledge and understanding as well as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products. Costs of 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, which also qualifies as a defined contribution plan. To become an eligible participant, an employee must complete six months of service and attain the age of 21 years. The employer matches 100% of the first 3% the employee contributes to their 401k plan and 50% of any amount over 3% up to 5%. Any employee contribution over 5% is not matched.

SHARE-BASED COMPENSATION

Share-based compensation includes both transactions recognized in accordance with IFRS 2 Share-based payment and other share-based transactions. For both transactions the Company credits a charge 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 since all transactions are equity-settled.

Share-based payment

In accordance with IFRS 2 Share-based payment an expense is 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) as well as options granted to consultants. 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.

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.

Pharming's employee Option plan states that an employee is entitled to exercise the granted options immediately with a maximum exercise period of five years, but can only transfer the shares acquired upon exercise according to a sliding scale over 48 months: 25% of the options vest one year after date of grant with the remaining 75% vesting in equal parts over the next 36 months. For valuation purposes, the period in which the options become unconditional is defined as the vesting period. As a result of the sliding scale according to which the options become unconditional, graded vesting is applied.

Long Term Incentive Plan

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

Other share-based transactions

The Company from time to time issues warrants to third parties under other agreements. Valuation of these warrants is similar as described for option plans, applying the same assumptions.

LEASES

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

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

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.

EFFECT OF NEW ACCOUNTING STANDARDS

The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. Pharming has introduced standards and interpretations that became effective in 2008. The adoption of these standards and interpretations did not have any effect on the group's financial performance or position.

The adoption of other standards and interpretations with an effective date after the date of these financial statements is not expected to have a material impact on the financial statements. Certain additional disclosures and accounting changes will be required and will be introduced as of the effective date of the standards and interpretations. The following new standards and amendments to existing standards are not yet being applied by the Company.

IFRS 8, 'Operating Segments', supersedes IAS 14, 'Segment Reporting' as of 2009. The Company does not expect major changes following implementation of this standard since it currently has only one business segment and two geographical segments.

THE REVISED IFRS 3, 'BUSINESS COMBINATIONS', WILL BECOME EFFECTIVE AS OF 2010. IT INTRODUCES A NUMBER OF CHANGES THAT WILL BE RELEVANT TO THE GROUP'S OPERATIONS:

- the requirement that contingent consideration must be measured at fair value with subsequent changes in this value being recognized in the income statement;
- the requirement to expense transaction costs for business combinations when incurred;
- additional guidance for step-acquisitions and for the measurement of non-controlling interests.

THE AMENDMENTS TO:

- IAS 1, 'Presentation of Financial Statements', which introduces the requirement to report total comprehensive income in either a single statement of total comprehensive income or in a separate statement of comprehensive income will become effective as of 2009. Pharming will fully implement this accounting standard;
- IAS 23, 'Borrowing Costs', which removes the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, will become effective as of 2009. It will not have any effect on the consolidated financial statements because the option is not applied by Pharming;
- IAS 27, 'Consolidated and Separate Financial Statements', providing further clarification on accounting for non-controlling interests in subsidiaries in the consolidated financial statements will become effective as of 2010. The changes are not expected to have a significant impact on the consolidated financial statements;
- IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations', clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions that are to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendment will become applicable for the 2009 financial statements but is currently not expected to have a significant impact;
- IAS 32 and IAS 1 with respect to puttable financial instruments and obligations arising on liquidation are not expected to have a significant impact;
- IFRS 1 and IAS 27 in relation to the cost of an investment in a subsidiary, jointly controlled entity or associate are not expected to have a significant impact;
- IAS 39 with respect to eligible hedged items is not expected to have a significant impact on the consolidated financial statements;
- IAS 39 and IFRS 7 with respect to the reclassification of certain nonderivative financial assets is not expected to have a significant impact.

THE FOLLOWING NEW IFRIC INTERPRETATIONS ARE NOT EXPECTED TO HAVE A MATERIAL EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS:

- IFRIC 12, 'Service Concession Arrangements';
- IFRIC 13, 'Customer Loyalty Programs';
- IFRIC 14, 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction';
- IFRIC 15, 'Agreements for the Construction of Real Estate';
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'.

4. Restatement of prior periods errors

The comparative 2007 financial information in these financial statements have been restated in order to reflect the effect of an error in the accounting treatment of the convertible bonds issued in 2007, as well as an error in the valuation of a deferred tax asset recognized upon the acquisition of DNage in 2006.

Background of the convertible bond

Effectively October 31, 2007, Pharming issued convertible bonds for a gross amount of € 70.0 million. Nominal interest due is 6.875% per year, paid semi-annually on April 30 and October 31, until the maturity date of October 31, 2012. Exclusive of total transaction fees and expenses of € 2,988,000, the Company received a net amount in cash of € 67,012,000.

Accounting treatment in 2007 financial statements

The original accounting treatment in the 2007 financial statements was based on qualifying the convertible bonds as a compound financial instrument in accordance with paragraphs 28-30 of IAS 32 (Financial Instruments: Presentation). As a result, the Company at the effective date recognized a liability based on the market interest of a loan without any type of conversion feature included but applying semi-annual interest payments at April 30 and October 31 as well as a maturity date of October 31, 2012. In the absence of an active market for similar loans issued by Pharming or a credit rating, it was estimated that at October 31, 2007 such a loan could have been issued for a market interest of 15%. The discounted value of nominal interest payments and the redemption payment of the loan amount at October 31, 2007 was € 51,518,000 or 73.6% of the total bond value. The € 18,482,000 difference between the gross proceeds of € 70,000,000 and the initial gross liability was considered to be a part of equity and charged to the other reserves. Subsequently, the transaction fees of € 2,988,000 were allocated to liabilities and equity in line with the division of the € 70,000,000; as a result, 73.6% or € 2,199,000 was charged to liabilities and 26.4% or € 789,000 to other reserves. The total amount of the bonds allocated to other reserves within equity therefore amounted to € 17,693,000.

The net liability value at the effective date after allocation of transaction fees amounted to € 49,319,000. Subsequent measurement of this liability was based on the assumption that, during the five year loan period, nominal interest and the loan are repaid in accordance with the schedule of the convertible bonds. Conversion of the loan or a part of the loan is not taken into account in this measurement until such an event has actually occurred, irrespective of expectations about conversion taking place (e.g. expectations based on developments in the share price). In order to repay interest and the loan, the Company accrued a monthly interest amount based on an effective rate of 16.2%, which reflects the 15% market interest plus the recovery of transaction fees during the five-year period. This effective interest is added to the non-current liabilities, after which monthly nominal interest amount is headed under current liabilities. At year end 2007, accrued current interest amounts to € 801,000, reflecting nominal interest for November and December.

AN OVERVIEW OF THE CONVERTIBLE BONDS IN THE FINANCIAL STATEMENTS 2007 WAS AS FOLLOWS:

AMOUNTS IN € '000	2007
Total balance at January 1	-
Cash receipt	70,000
Transaction fees and expenses paid in cash	(2,988)
PROCEEDS CONVERTIBLE BONDS, NET OF TRANSACTION FEES PAID	**67,012**
Classification equity share	(17,693)
LIABILITY CONVERTIBLE BONDS UPON INITIAL RECOGNITION	**49,319**
Effective interest accrued	1,250
TOTAL BALANCE AT DECEMBER 31	**50,569**
Current balance: nominal interest accrued November – December 2007 due in 2008	(801)
NON-CURRENT BALANCE AT DECEMBER 31	**49,768**

Error in accounting treatment convertible bonds 2007

Upon preparing the 2008 financial statements it was detected that the original accounting treatment in 2007 was incorrect. Note 34 of the 2007 financial statements included the following paragraph on the terms and conditions of the bonds:

'The initial conversion price is € 4.40 per Share. The conversion price will be adjusted in several cases, including in the event that:

- the average price of the Shares in the 15 trading days before and including April 30, 2008 is € 3.59 or lower. In that case, the conversion price shall be the average price of the Shares at that time multiplied by 1.23;
- the average price of the Shares in the 15 trading days before and including October 31, 2008 is less than the then-prevailing conversion price. In that case, the conversion price shall be reduced to the average price of the Shares at that time.

In each case, the conversion price shall not be reduced below € 2.64.'

In view of this conversion price reset mechanism, the ultimate number of shares to be issued upon any conversion was variable and accordingly the convertible bonds included a derivative portion which should be measured at its fair value with subsequent changes in fair value to be recognised in the income statement.

Appropriate accounting treatment convertible bonds 2007

Note 14 of the consolidated financial statements summarizes the proper appropriate accounting treatment of the convertible bonds in 2007 and 2008. Based on this summary, the following adjustments have been processed in the comparative 2007 financial information.

On the income statement, a fair value gain of € 14,305,000 should have been recognised in 2007 to account for the fair value difference between the issue date of the convertible bonds and December 31, 2007. At the same time, due to a lower initial liability amount of the convertible bonds, a higher effective interest should have been applied: the effect thereof for 2007 is € 58,000.

Deferred tax asset

Upon acquisition of DNage in 2006, a deferred tax asset of € 336,000 was identified and capitalized, representing DNage's accumulated fiscal losses prior to acquisition at the nominal Dutch income tax rate of 25.5%. Based on income projections of DNage including future profits and the actual pre-tax losses incurred, income tax benefits of € 51,000 respectively € 276,000 were charged to the income statement of 2006 respectively 2007 with a corresponding increase of the deferred tax asset. However, since DNage was included in a fiscal unity with Pharming as of the date of acquisition, the tax benefits recognized by DNage after the 2006 acquisition date were not correct in view of the fiscal status and expected fiscal results of the combined entities. Accordingly, the 2007 tax benefit of € 276,000 has been reversed in the comparative income statement of 2007 and the 2006 tax benefit of€ 51,000 has been charged to accumulated deficit within equity in the 2007 opening balance. As a result of these adjustments, the deferred tax asset in the balance sheets at year-end 2007 and 2008 equals the original balance of € 336,000, which has consistently been offset with a deferred tax liability in the amount of € 4,276,000 to arrive at a net deferred tax liability of € 3,940,000.

Restatements 2007 comparative information

THE IMPACT ON THE 2007 INCOME STATEMENT CAN BE SUMMARIZED AS FOLLOWS:

AMOUNTS IN € '000 (EXCEPT PER SHARE DATA)	ORIGINAL 2007	RESTATEMENTS	RESTATED 2007
LOSS FROM OPERATING ACTIVITIES	**(24,621)**	**-**	**(24,621)**
Fair value gain derivative	-	14,305	14,305
Effective interest convertible bonds	(1,250)	(58)	(1,308)
Other finance revenue and costs	(11,106)	-	(11,106)
Finance revenue and costs	(12,356)	14,247	1,891
Other income and expenses	1,089	-	1,089
LOSS BEFORE TAX	**(35,888)**	**14,247**	**(21,641)**
Income tax benefit	276	(276)	-
NET LOSS (AFTER TAX)	**(35,612)**	**13,971**	**(21,641)**
Weighted average shares outstanding	90,912,531	-	90,912,531
Basic and diluted net loss per share (€)	(0.39)	0.15	(0.24)

THE EFFECT ON THE 2007 BALANCE SHEET IS AS FOLLOWS:

AMOUNTS IN € '000 ORIGINAL	ORIGINAL 2007	RESTATEMENTS	RESTATED 2007
TOTAL ASSETS	**114,348**	**-**	**114,348**
Share capital	45,618	-	45,618
Share premium	182,243	-	182,243
Equity share convertible bonds	17,693	(17,693)	-
Other reserves	4,417	-	4,417
Accumulated deficit	(215,280)	13,920	(201,360)
Total equity	34,691	(3,773)	30,918
Convertible bonds	49,768	3,446	53,214
Deferred tax liability	3,613	327	3,940
Other non-current liabilities	2,727	-	2,727
Non-current liabilities	56,108	3,773	59,881
Current liabilities	23,549	-	23,549
TOTAL EQUITY AND LIABILITIES	**114,348**	**-**	**114,348**

The restatement of the 2007 financial results and the effects on the balance sheet did not have an impact on the cash flow statement nor on the current portion of the convertible bonds at year end 2008 (€ 801,000, representing accrued nominal interest payments).

5. Goodwill

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

MOVEMENT FOR THE YEARS 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000 ORIGINAL	2008	2007
Balance at January 1	9,190	9,190
Adjustments earn-out obligations	(1,142)	-
Impairment charges	(1,050)	-
BALANCE AT DECEMBER 31	**6,998**	**9,190**

Upon acquisition of DNage in 2006, the Company agreed, as more extensively explained in Note 16, to pay earn-outs to former DNage shareholders. In 2008 the Company deferred the expected achievement date of certain earn-out components and in addition, in view of the credit crunch, assessed the discount rate increased from 20% to 23%. The total effects of the deferred achievement date and the increased discount rate on the net present value of the liabilities, amounting to € 1,142,000, have been charged to the original asset on which the earn-out obligations relates, being goodwill. Subsequently, at year end 2008 the Company performed an annual impairment test of the goodwill amount net of the described effects of the adjustments on earn-out obligations, being € 8,048,000.

The purpose of the impairment test is to determine the recoverable amount of the underlying assets, being the cash generating unit of DNage, based on value in use. In performing this test, 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, are prepared. 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.

The assumptions applied in the 2008 test did not change significantly compared to 2007, but due to the use of a 23% discount rate as compared to a 20% rate in 2007, the net present value of goodwill amounted to € 6,998,000. Accordingly, the € 1,050,000 difference between the carrying amount prior to the test of € 8,048,000 was recognised as an impairment charge in the income statement (Note 22).

NET CARRYING VALUE OF THE GOODWILL AT YEAR-END 2007 AND 2008 CONSISTS OF:

AMOUNTS IN € '000	2008	2007
Gross carrying value	9,190	9,190
Accumulated adjustments earn-out obligations	(1,142)	-
Accumulated impairment charges	(1,050)	-
NET CARRYING VALUE	**6,998**	**9,190**

6. Intangible assets

MOVEMENT OF INTANGIBLE ASSETS FOR THE FINANCIAL YEARS 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Balance at January 1	18,981	19,783
Investments	525	-
Amortization charges	(492)	(500)
Impairment charges	(963)	(302)
BALANCE AT DECEMBER 31	**18,051**	**18,981**

In 2008, € 175,000 was paid to Advanced Cell Technology Inc for transgenic technology patents and € 350,000 to GTC Biotherapeutics Inc for an exclusive sublicense obtained to acquire key patents and technology on recombinant fibrinogen.

In 2007 and 2008, the Company impaired amounts of € 302,000 respectively € 963,000 for ProBio. The 2007 impairment involved the expected termination of ProBio's involvement in a cooperation and the effect thereof on future cash flows anticipated in earlier valuations. For 2008 management has thoroughly evaluated the commercial potential of ProBio, in particular in view of the credit crunch. Based thereon management has decided to continue the activities but at the same time recognise that future cash flows to be generated by ProBio may be significantly less than the carrying value. Accordingly, the net carrying value at year end of € 1,163,000 was impaired to € 200,000 to reflect the best estimate of the fair value of ProBio's intellectual property portfolio.

Pharming recognized a fair value amount of € 16,770,000 to the intangible assets of the 2006 DNage acquisition, representing 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 the years 2006-2008, no amortization charges were incurred in these years.

NET CARRYING VALUE OF THE INTANGIBLE ASSETS AT YEAR-END 2007 AND 2008 CONSISTS OF:

AMOUNTS IN € '000	2008	2007
Gross carrying value	24,346	23,821
Accumulated amortization charges	(4,673)	(4,181)
Accumulated impairment charges	(1,622)	(659)
NET CARRYING VALUE	**18,051**	**18,981**

A SUMMARY OF THE NET CARRYING VALUE OF THESE ASSETS AT DECEMBER 31, 2008 IS AS FOLLOWS:

AMOUNTS IN € '000 CATEGORY	DESCRIPTION	REMAINING AMORTIZATION PERIOD	TOTAL
DNage technology	Product, marketing and distribution rights	Not amortized*	16,770
Transgenic technology	Patents and licenses	1-14 years	1,081
ProBio technology	Patents and licenses	6 years	200
NET CARRYING VALUE			**18,051**

** 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 23% has been applied to the projections.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in the key assumptions would decrease the value in use to the extent that the carrying value of the related intangible assets would exceed the recoverable amount, except in significant program delays and/or in case of a major increase in the cost of capital. Management does not expect any reasonably possible changes in these key assumptions.

7. Property, plant and equipment

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT FOR THE FINANCIAL YEARS 2007 AND 2008 IS:

AMOUNTS IN € '000	LAND AND LAND IMPROVEMENTS	OPERATIONAL FACILITIES	LEASEHOLD IMPROVEMENTS	MANUFACTURING EQUIPMENT	OTHER	TOTAL
Net book value at January 1, 2007	635	3,003	1,925	839	923	7,325
Investments in cash	-	85	459	-	127	671
Non-cash financial lease	-	-	-	-	206	206
Non-cash lease incentives	-	-	85	-	-	85
Depreciation charges	(6)	(304)	(240)	(85)	(273)	(908)
Exchange rate adjustment	(63)	(211)	-	-	(7)	(281)
NET BOOK VALUE AT DECEMBER 31, 2007	**566**	**2,573**	**2,229**	**754**	**976**	**7,098**
Investments in cash	-	108	-	-	181	289
Depreciation charges	(6)	(310)	(262)	(29)	(322)	(929)
Impairment charges	-	-	-	(680)	-	(680)
Exchange rate adjustment	28	87	-	-	3	118
NET BOOK VALUE AT DECEMBER 31, 2008	**588**	**2,458**	**1,967**	**45**	**838**	**5,896**

Land, land improvements and operational facilities relate to the cattle and rabbit farm facilities, which are both fully owned by Pharming. The leasehold improvements include investments in the Company's headquarters to which it moved in the second half of 2006. In 2006 and 2007, the lessor of the headquarters made total investments of € 285,000 in these leasehold improvements, which has been recognised as a lease incentive in property, plant and equipment with a similar increase of liabilities. The investment is fully depreciated on a straight-line basis during the remaining term of the lease agreement with a maximum of ten years; the accrued lease incentive is released in the income statement in the same period to match the depreciation charges resulting from the investment capitalized.

Manufacturing equipment is dedicated to the purification of rhC1INH. Depreciation charges are based on actual purification cycles. In 2008, among others following the negative EMEA opinion on Rhucin, the Company was forced to decrease production levels. Since the manufacturing equipment has a remaining technical lifetime of about 2 years after balance sheet date, the carrying value at December 31, 2008 was brought in line with the number of expected purification cycles in 2009 and 2010. The € 680,000 difference between the prior carrying value was recognised as an impairment loss in the 2008 income statement.

A financial lease agreement was entered into in September 2007, in relation to certain laboratory equipment. The transaction did not affect Pharming's cash flows as the lessor directly compensated the equipment's manufacturer. The contract has 60 monthly instalments of € 4,000 in which a total amount of € 243,000 is repaid, consisting of € 206,000 repayment of the investment and interest of € 37,000. After this period Pharming is entitled to buy the equipment for € 2,000.

THE NET CARRYING VALUE AT DECEMBER 31, 2007 CAN BE SUMMARIZED AS FOLLOWS:

AMOUNTS IN € '000	LAND AND LAND IMPROVEMENTS	OPERATIONAL FACILITIES	LEASEHOLD IMPROVEMENTS	MANUFACTURING EQUIPMENT	OTHER	TOTAL
At cost	849	5,620	2,517	1,019	1,515	11,520
Accumulated:						
Depreciation charges	(59)	(2,176)	(288)	(265)	(513)	(3,301)
Exchange rate effect	(224)	(871)	-	-	(26)	(1,121)
NET CARRYING VALUE	**566**	**2,573**	**2,229**	**754**	**976**	**7,098**

THE NET CARRYING VALUE AT DECEMBER 31, 2008 CAN BE SUMMARIZED AS FOLLOWS:

AMOUNTS IN € '000	LAND AND LAND IMPROVEMENTS	OPERATIONAL FACILITIES	LEASEHOLD IMPROVEMENTS	MANUFACTURING EQUIPMENT	OTHER	TOTAL
At cost	849	5,708	2,517	1,019	1,697	11,790
Accumulated:						
Depreciation charges	(64)	(2,466)	(550)	(294)	(835)	(4,209)
Impairment charges	-	-	-	(680)	-	(680)
Exchange rate effect	(197)	(784)	-	-	(24)	(1,005)
NET CARRYING VALUE	**588**	**2,458**	**1,967**	**45**	**838**	**5,896**

The assets of Pharming Healthcare Inc have been secured by a second mortgage for the government loan of the State of Wisconsin (€ 38,000 exclusive of interest at December 31, 2008). At balance sheet date, these assets have a book value of € 2.3 million.

8. Financial assets

Financial assets at year end 2007 related to an estimated fair value of € 200,000 of the non-consolidated interest in MucoVax Holding BV ('MucoVax'). The € 35,000 surplus of the total € 235,000 investment over this fair value was considered as a temporary loss and recognized within equity under Net unrealized gains/(losses). Under IAS 39, the share in MucoVax is considered an available-for-sale financial asset.

In December 2008, all managing and supervisory board members of MucoVax resigned following an unsuccessful refinancing and a MucoVax shareholder did not follow up on a financing guarantee earlier given. The Board of Management of Pharming subsequently reviewed options to recover the investment but concluded that, due to among others the legal complexity of the MucoVax case, it is highly unlikely that any future proceeds may be flowing into the Company. Accordingly it was decided to impair the entire € 235,000 investment, of which € 200,000 was processed through financial assets and the remaining € 35,000 through a release from Net unrealized gains/(losses) in equity.

THE MOVEMENT OF THE NET CARRYING VALUE OF THE INTEREST IN MUCOVAX FOR 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Balance at January 1	200	200
Impairment charges	(200)	-
BALANCE AT DECEMBER 31	**-**	**200**

THE COMPOSITION OF THE NET CARRYING VALUE OF THE INTEREST IN MUCOVAX AT DECEMBER 31, 2007 AND 2008 IS:

AMOUNTS IN € '000	2008	2007
Gross carrying value	235	235
Net unrealized loss	-	(35)
Accumulated impairment charges	(235)	-
BALANCE AT DECEMBER 31	**-**	**200**

9. Restricted cash

The balance of non-current restricted cash at year-end 2007 and 2008 relates to banker's guarantees issued with respect to lease commitments of the Company's headquarters.

Following the settlement agreement with Paul Royalty Fund in 2007 as further explained in Note 15, the Company transferred an amount of US$ 15.0 million to an escrow account to guarantee a final payment of such amount to Paul Royalty Fund. The balance, which converted at the €/US$ exchange rate at December 31, 2007 amounted to € 10,180,000, has been fully settled in January 2008.

10. Inventories

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

THE COMPOSITION OF INVENTORIES AT YEAR-END 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Batches rhC1INH	10,895	11,416
Skimmed milk	76	304
BALANCE AT DECEMBER 31	**10,971**	**11,720**

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.

In 2008 the Company charged about € 1.1 million of inventories to research and development costs. Based on expected use of batches rhC1INH in future commercial, preclinical and clinical development and the approaching expiration dates of these inventories, finished product with a carrying value of € 1,254,000 was written down to the income statement and recognised as an impairment charge.

11. Other current assets

THE COMPOSITION OF OTHER CURRENT ASSETS AT DECEMBER 31, 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Value added tax	266	196
Prepaid expenses	717	264
Accrued interest	182	430
Other receivables	481	1,003
BALANCE AT DECEMBER 31	**1,646**	**1,893**

12. Marketable securities

MOVEMENT OF MARKETABLE SECURITIES FOR THE FINANCIAL YEARS 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Balance at January 1	3,956	4,995
Accrued interest	360	360
Interest received	(360)	(360)
Fair value adjustment	(208)	(1,039)
BALANCE AT DECEMBER 31	**3,748**	**3,956**

NET CARRYING VALUE OF THE MARKETABLE SECURITIES AT YEAR-END 2007 AND 2008 CONSISTS OF:

AMOUNTS IN € '000	2008	2007
Nominal value	6,000	6,000
Accrued interest	191	191
Accumulated fair value adjustment	(2,443)	(2,235)
BALANCE AT DECEMBER 31	**3,748**	**3,956**

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

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. All 97,429,854 shares outstanding at December 31, 2008 have been fully paid-up.

This note further describes the background of the main equity movements in 2007 and 2008.

Fair value adjustment available-for-sale financial assets

Net unrealized gains and losses relate to the fair value adjustments 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 2007 and 2008.

FOR 2007 AND 2008 MOVEMENTS WERE:

AMOUNTS IN € '000	MUCOVAX HOLDING BV	MARKETABLE SECURITIES	TOTAL
Balance at January 1, 2007	(35)	(1,196)	(1,231)
Fair value adjustment	-	(1,039)	(1,039)
BALANCE AT DECEMBER 31, 2007	**(35)**	**(2,235)**	**(2,270)**
Impairment charges	35	-	35
Fair value adjustment	-	(208)	(208)
BALANCE AT DECEMBER 31, 2008	**-**	**(2,443)**	**(2,443)**

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

Foreign currency effects

These results reflect the effect of translating US operations since their functional currency is different from the reporting currency.

Net loss after tax and Accumulated deficit

Article 25.1 of the Articles of Association reads as follows: 'The management board shall annually determine, subject to the approval of the 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 2008 of € 26,205,000 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 € 201,360,000 at December 31, 2007 (adjusted for restatement of financial results as disclosed in note 4) to € 227,565,000 at year-end 2008.

Warrants Paul Royalty Fund and 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 2007 AND 2008 THESE MOVEMENTS WERE:

AMOUNTS IN € '000	TOTAL
Balance at January 1, 2007	5,748
Share-based compensation expenses (i)	1,689
Fair value extension exercise period 2006 warrants Paul Royalty Fund 2006 (ii)	993
BALANCE AT DECEMBER 31, 2007	**8,430**
Share-based compensation expenses (i)	563
BALANCE AT DECEMBER 31, 2008	**8,993**

Further see (i) Note 25, (ii) Note 15.

Acquisition DNage

In 2006, the Company in relation to the acquisition of DNage agreed to pay a total of 4,000,000 shares with a value of € 14,920,000 to former DNage shareholders. The first 2,200,000 shares with a value of € 8,206,000 were transferred in 2006 and the remaining 1,800,000 shares were transferred in 2007 with the € 6,714,000 value of the 2007 shares reclassified to Share capital (€ 900,000) and Share premium (€ 5,814,000).

Reclassification derivative

As per the original terms and conditions of the convertible bonds issued in 2007, the conversion price on April 30, 2008 was fixed at € 2.64. The effect of this was that the fair value of the derivative as per April 30, 2008 in the amount of € 3,370,000 had to be reclassified from non-current liabilities to equity. The classification and fair value of this item does not change in subsequent periods, with the exception of amounts released for bond settlement transactions. In 2008 such transactions resulted in an amount of € 915,000 forwarded to the income statement. A further background of this item has been provided in Note 14.

Bonds converted

As disclosed in Note 14, the Company in 2008 issued 6,193,181 shares in relation to bonds converted with a total nominal value of € 20,150,000. Of this nominal amount, € 1,150,000 was fully converted at € 2.64 per share into 435,606 shares. For a nominal amount of € 19,000,000 settlement took place through converting 80% or € 15,200,000 into 5,757,575 shares at € 2.64 per share; the remaining 20% or € 3,800,000 was paid in cash. In addition to these transactions, total accrued nominal interest of € 31,000 was paid.

The full conversion into 435,606 shares was based on the original terms and conditions of the bonds so that accordingly the reduction of the € 804,000 net carrying value of the liability for these bonds was fully charged to equity without any amount recognised in the income statement. This resulted in an increase of share capital of € 217,000 with the remaining € 587,000 charged to share premium. The actual fair value of the 435,606 shares upon transfer amounted to € 340,000.

The transactions partially in cash and partially in shares have, as permitted under the terms and conditions of the bonds, been separately negotiated with individual bondholders. The 5,757,575 shares issued have been charged to equity at their fair values (market price) upon transfer of € 0.70 or a total value of € 4,029,000, of which € 2,879,000 to share capital and the remaining € 1,150,000 to share premium. In addition, the € 915,000 pro rata share of these bonds in the fair value of the derivative at April 30, 2008 of € 3,370,000 (based on € 70.0 million nominal bonds) was released to the income statement.

Issuance of shares for cash and exercise of options

In 2007, the Company issued 167,044 shares at a price of € 3.90 to an investor. Also in 2007, a total of 507,098 options were exercised for a total consideration of € 505,000. Following the decrease of the Company's share price in 2008, only a very limited number of 1,495 options with an exercise price of € 0.78 have been exercised. As a result, cash proceeds from the issuance of shares decreased from € 1,156,000 in 2007 to € 1,000 in 2008.

14. Convertible bonds

Developments 2007 and 2008

Effectively October 31, 2007, Pharming issued convertible bonds for a gross amount of € 70.0 million. Nominal interest due is 6.875% per year, paid semi-annually on April 30 and October 31, until the maturity date of October 31, 2012. Exclusive of total transaction fees and expenses of € 2,988,000, the Company received a net amount in cash of € 67,012,000.

In accordance with the original terms and conditions of the bonds, at April 30, 2008 the conversion price became fixed at the minimum of € 2.64 as a result of Pharming's average share price 15 days prior to this date. Until October 31, 2008, the € 70.0 million nominal value was unchanged and the Company paid nominal interest of € 2,406,250 on both April 30 and October 31 or a total of € 4,812,500. Between October 31 and December 31, one bondholder converted bonds with a nominal value of € 1,150,000 into 435,606 shares at the conversion price of € 2.64 (plus € 3,000 accrued interest paid) and other bonds with a nominal value of € 19,000,000 were repurchased and cancelled for a cash consideration of € 3,800,000 (plus € 29,000 accrued interest paid) and a conversion of the remaining € 15,200,000 into 5,757,575 shares at the conversion price of € 2.64. Altogether, the Company brought down € 20,150,000 nominal bonds for a total cash consideration of € 3,800,000 (plus € 32,000 interest) and issuance of 6,193,181 shares.

Accounting treatment

The terms and conditions of the bonds included the following paragraph:
'The initial conversion price is € 4.40 per Share. The conversion price will be adjusted in several cases, including in the event that:

- the average price of the Shares in the 15 trading days before and including April 30, 2008 is € 3.59 or lower. In that case, the conversion price shall be the average price of the Shares at that time multiplied by 1.23;
- the average price of the Shares in the 15 trading days before and including October 31, 2008 is less than the then-prevailing conversion price. In that case, the conversion price shall be reduced to the average price of the Shares at that time.

In each case, the conversion price shall not be reduced below € 2.64.'

In view of this conversion price reset mechanism, the ultimate number of shares to be issued upon any conversion upon initial recognition was variable and accordingly the convertible bonds included a derivative portion which should be measured at its fair value with subsequent changes in fair value recognised in the income statement. The fair values of the derivative were:

- € 21,708,000 at October 31, 2007;
- € 7,403,000 at December 31, 2007;
- € 3,370,000 at April 30, 2008.

At April 30, 2008 the conversion price became fixed at € 2.64 and accordingly the balance of the derivative is reclassified to equity. Until that date, the derivative is a part of the non-current liability portion of the bonds.

For accounting purposes, the fair value of the derivative upon initial recognition of the convertible bonds are not included in the carrying value of the interest-bearing portion. This portion is, excluding transaction fees in the amount of € 2,988,000, subsequently measured on the assumption that, during the five year loan period, nominal interest and the loan are repaid in accordance with the schedule of the convertible bonds. At year end accrued nominal interest of the remaining bonds for November and December is classified as current.

THE MOVEMENT OF THE INTEREST-BEARING PART OF THE CONVERTIBLE BONDS IN 2007 IS AS FOLLOWS:

AMOUNTS IN € '000	2007
Total balance at January 1	-
Cash receipt	70,000
Transaction fees and expenses paid in cash	(2,988)
PROCEEDS CONVERTIBLE BONDS, NET OF TRANSACTION FEES PAID	**67,012**
Derivative portion upon initial recognition	(21,708)
INTEREST-BEARING PART UPON INITIAL RECOGNITION	**45,304**
Effective interest accrued	1,308
TOTAL BALANCE AT DECEMBER 31	**46,612**
Current balance: nominal interest accrued November – December 2007 due in 2008	(801)
NON-CURRENT BALANCE INTEREST-BEARING PART AT DECEMBER 31	**45,811**

THE FAIR VALUE AND CLASSIFICATION OF THE DERIVATIVE PORTION IN 2007 IS:

AMOUNTS IN € '000	2007
Total balance at January 1	-
Derivative portion upon initial recognition	21,708
Fair value adjustment through income statement	(14,305)
NON-CURRENT BALANCE DERIVATIVE AT DECEMBER 31	**7,403**

THE TOTAL NON-CURRENT BALANCE OF THE BONDS AT DECEMBER 31, 2007 THEREFORE WAS:

AMOUNTS IN € '000	2007
Non-current balance interest-bearing part	45,811
Non-current balance derivative	7,403
TOTAL	**53,214**

THE MOVEMENT OF THE INTEREST-BEARING PART OF THE CONVERTIBLE BONDS IN 2008 IS AS FOLLOWS:

AMOUNTS IN € '000	2008
Total balance at January 1	46,612
Effective interest accrued	8,161
Shares issued upon conversion bonds	(4,832)
Payments of nominal interest convertible bonds	(4,844)
Repayments convertible bonds at nominal value	(3,800)
Transaction result bonds converted	(5,604)
TOTAL BALANCE AT DECEMBER 31	**35,693**
Current balance: nominal interest accrued November – December 2008 due in 2009	(571)
NON-CURRENT BALANCE INTEREST-BEARING PART AT DECEMBER 31	**35,122**

THE FAIR VALUE AND CLASSIFICATION OF THE DERIVATIVE PORTION IN 2008 IS:

AMOUNTS IN € '000	2008
Total balance at January 1	7,403
Fair value adjustment through income statement	(4,033)
Reclassification to equity	(3,370)
NON-CURRENT BALANCE DERIVATIVE AT DECEMBER 31	**-**

15. 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 entitling Paul Royalty Fund to receive royalties on revenues of rhC1INH and other Pharming products over the ten year term of the agreement. At the end of the agreement, a termination option would automatically be exercised by which the Company would have repurchased 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%. Pharming additionally issued 700,000 warrants with an exercise price of € 4.00 per share and an exercise period of two years to Paul Royalty Fund.

In view of the 20% internal rate of return guaranteed to Paul Royalty Fund, the Company at balance sheet dates had to take into account those facts and circumstances known. Given the absence in 2006 and 2007 of revenues qualifying for royalty payments to Paul Royalty Fund, the Company accrued for an amount in US$ which at least equals the 20% internal rate of return, 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. At balance sheet dates the liability was translated to the reporting currency at the closing exchange rate with subsequent exchange rate differences recognized in the income statement.

In July 2007, the first contractual amount of US$ 2.0 million or € 1,473,000 was repaid to Paul Royalty Fund. Effectively October 31, 2007 the Company and Paul Royalty Fund agreed to fully settle the original agreement through additional payment by Pharming of US$ 28.0 million and a 3 year extension of the original warrant exercise period (valued at € 993,000). Of the US$ 28.0 million repayment an amount of US$ 13.0 million was paid in November 2007 (€ 8,996,000) whereas the remaining US$ 15.0 million was transferred to an escrow account and paid in January 2008. At October 31, 2007 the € 8,132,000 difference between the carrying value of the liability before (€ 11,235,000) and after settlement (US$ 28.0 million or € 19,367,000) was charged to the income statement; together with the fair value of the warrant extension (€ 993,000) a total settlement result of € 9,125,000 was recognised in the 2007 income statement.

THE MOVEMENT OF THE FINANCIAL LIABILITY IN 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	TOTAL
Balance at January 1, 2007	11,626
Interest expense	2,151
Exchange rate profit	(1,260)
Settlement loss (excluding fair value warrant extension)	8,132
Repayments (US$ 13.0 million)	(10,469)
BALANCE AT DECEMBER 31, 2007 (US$ 15.0 MILLION)	**10,180**
Exchange rate profit	(105)
Repayment (US$ 15.0 million)	(10,075)
BALANCE AT DECEMBER 31, 2008	**-**

The repayment amount at year end 2007 of US$ 15.0 million was held on an escrow account (see Note 9 on Restricted cash). As a result, exchange rate results on the liability after October 31, 2007 were fully offset with a similar effect on the restricted cash balance. Both foreign currency effects have been recognized in other foreign currency results in the income statement.

16. Earn-out obligations

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

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

The Company at acquisition date determined the discounted value of the earn-outs to be € 5,575,000, taking into account the probability of paying any amounts to former DNage shareholders, the nominal amount expected to be paid and the timing thereof. This discounted value was fully charged to goodwill. Subsequent to initial measurement, the Company expensed non-cash interest based on the discount rate of 20%. In 2008 the Company deferred the expected achievement date of certain earn-out components; in addition the Company, in view of the credit crunch, assessed the discount rate increased from 20% to 23%. The effects of the deferred achievement date and the increased discount rate have been charged to the original asset on which the earn-out obligations relates, being goodwill.

MOVEMENT OF THE EARN-OUT OBLIGATIONS FOR 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Total balance at January 1	6,949	5,791
Interest accrued	1,345	1,158
Goodwill adjustments	(1,142)	-
TOTAL BALANCE AT DECEMBER 31	**7,152**	**6,949**
Current balance (Note 18)	(4,508)	(4,634)
NON-CURRENT BALANCE AT DECEMBER 31	**2,644**	**2,315**

The first earn-out milestone at year end 2007 was expected to be settled within one year after the balance sheet date. The expected achievement date has been shifted to 2009 and accordingly the discounted value at year end 2008 has consistently been classified as a current liability.

17. Deferred tax liability

Upon acquisition of DNage in 2006 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 prior to acquisition were capitalized at the nominal tax percentage of 25.5%; the deferred tax asset of € 336,000 has been offset with the liability of € 4,276,000 to arrive at a net deferred tax liability of € 3,940,000. No adjustments in the tax base or the nominal tax percentage have occurred after the acquisition date so accordingly the balance is unchanged. Subsequent to its acquisition DNage has been a part of the Dutch fiscal unity with Pharming.

18. Other non-current liabilities

OTHER NON-CURRENT LIABILITIES ARE COMPRISED OF:

AMOUNTS IN € '000	2008	2007
Lease incentives	188	217
Financial lease	119	157
Loan State of Wisconsin	-	38
BALANCE AT DECEMBER 31	**307**	**412**

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

MOVEMENT OF THE LEASE INCENTIVES FOR 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Total balance at January 1	246	190
Lease incentives recognised	-	85
Released to income statement	(29)	(29)
TOTAL BALANCE AT DECEMBER 31	**217**	**246**
Current portion at December 31 (Note 20)	(29)	(29)
NON-CURRENT AT DECEMBER 31	**188**	**217**

Financial lease

A financial lease agreement was entered into in September 2007, in relation to certain laboratory equipment. The transaction did not affect Pharming's cash flows as the lessor directly compensated the equipment's manufacturer. The contract has 60 monthly installments of € 4,000 in which a total amount of € 243,000 is repaid, consisting of € 206,000 repayment of the investment and interest of € 37,000. After this period, Pharming can buy the equipment for € 2,000. At year end 2008, the net carrying amount of the assets leased was € 151,000 (2007: € 192,000).

MOVEMENT AND COMPOSITION OF THE FINANCIAL LEASE OBLIGATIONS FOR 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Total balance at January 1	195	-
Lease installments recognised	-	206
Interest expense accrued	12	5
Repayments	(49)	(16)
TOTAL BALANCE AT DECEMBER 31	**158**	**195**
Current portion at December 31 (Note 20)	(39)	(38)
NON-CURRENT AT DECEMBER 31	**119**	**157**

Loan State of Wisconsin

The balance relates to a Technology Development loan from the State of Wisconsin, net of 4% interest, to be repaid in 2009.

MOVEMENT AND COMPOSITION OF THE LOAN FOR THE YEARS 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Total balance at January 1	76	126
Interest expense accrued	2	6
Repayment	(43)	(45)
Foreign currency effect	3	(11)
TOTAL BALANCE AT DECEMBER 31	**38**	**76**
Current portion at December 31 (Note 20)	(38)	(37)
NON-CURRENT AT DECEMBER 31	**-**	**38**

The amount of the current portion 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 2007 AND 2008 CONSIST OF:

AMOUNTS IN € '000	2008	2007
Accounts payable	2,496	2,791
Taxes and social security	130	124
Deferred compensation due to related parties	70	207
Other payables	4,669	4,708
BALANCE AT DECEMBER 31	**7,365**	**7,830**

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.

20. Current portion of non-current liabilities

THE COMPOSITION OF THE CURRENT PORTION OF NON-CURRENT LIABILITIES AT YEAR-END 2007 AND 2008 IS AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Paul Royalty Fund	-	10,180
Earn-out obligations	4,508	4,634
Nominal interest convertible bonds	571	801
State of Wisconsin	38	37
Lease installments	39	38
Lease incentives	29	29
BALANCE AT DECEMBER 31	**5,185**	**15,719**

The amount due to Paul Royalty Fund at year end 2007 represented the final settlement payment due of US$ 15.0 million, converted at the €/US$ exchange rate at December 31, 2007, which was paid in January 2008.

Earn-out obligations relates to the discounted value of a nominal payment of € 5.0 million expected to be settled within one year after the balance sheet date.

Nominal interest on the convertible bonds of relates to interest accrued for November and December of the year. Together with nominal interest of to be accrued in the first four months of the new year these will be repaid in April. The decrease reflects the nominal value of outstanding convertible bonds from € 70.0 million at year-end 2007 to about € 49.9 million at December 31, 2008.

21. Revenues

REVENUES FOR THE FINANCIAL YEARS 2007 AND 2008 CAN BE SPLIT AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Grants	629	608
Other	35	82
	664	**690**

Revenues in 2007 included Dutch government grants in the amount of € 350,000 and a one-time FDA grant of € 258,000. Revenues from grants in 2008 were from Dutch government grants and EU grants exclusively.

In 2008, Pharming did not recognise revenues on its 2008 licensing agreement with Aslan Group AS from Turkey on the development, manufacturing and marketing of human lactoferrin in Turkey, the Middle East, UAE, Russia, Ukraine and several other countries in this region. Pharming expects to receive total fees of € 20.0 million in 2009-2011 of which € 10.0 million in 2009. During the 10-year term of the agreement, Aslan will also pay royalties to Pharming based on net sales. Also, no revenues were recognised in 2008 on the agreement with Eczacibasi from Turkey for the marketing and sales of Rhucin for HAE in Turkey.

22. Costs

Depreciation and amortization charges

THE FOLLOWING TABLE SHOWS THE COMPOSITION OF DEPRECIATION AND AMORTIZATION CHARGES:

AMOUNTS IN € '000	2008	2007
Property, plant and equipment	929	908
Intangible assets	492	500
	1,421	**1,408**

Impairment charges

THE 2007 AND 2008 IMPAIRMENT CHARGES RELATE TO:

AMOUNTS IN € '000	2008	2007
Inventories	1,254	-
Goodwill	1,050	-
Intangible assets	963	302
Property, plant and equipment	680	-
Available-for-sale financial assets	235	-
	4,182	**302**

Impairment charges on inventories follow from management's assessment of the use of batches rhC1INH in future commercial, preclinical and clinical development. For certain batches such use is expected to be beyond the expiration dates so that their carrying value of € 1,254,000 was fully written down.

The goodwill impairment charge reflects the outcome of the annual impairment test to determine the recoverable amount of the underlying assets, being the cash generating unit of DNage, based on value in use. 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. Compared to the 2007 impairment test, the assumptions applied in the 2008 did not change significantly except that the discount rate applied increased from 20% to 23% as a result of the credit crunch. Accordingly, the € 1,050,000 difference between the carrying amount prior to the test of € 8,048,000 and the recoverable amount of € 6,998,000 was recognised as an impairment charge in the income statement.

Impairment of intangible assets in both 2007 and 2008 relate to the ProBio assets. The 2007 impairment charge involved the of ProBio's involvement in a cooperation and the effect thereof on future cash flows anticipated in earlier valuations. For 2008 management has thoroughly evaluated the commercial potential of ProBio, in particular in view of the credit crunch. Based thereon management has decided to continue the activities but at the same time recognise that future cash flows to be generated by ProBio may be significantly less than the carrying value. Accordingly, the net carrying value at year end of € 1,163,000 was brought down to € 200,000 to reflect the best estimate of the fair value of ProBio's intellectual property portfolio.

The impairment charges on property, plant and equipment relate to manufacturing equipment fully dedicated to the purification of rhC1INH. In 2008, among others following the negative EMEA opinion on Rhucin, the Company was forced to decrease production levels. Since the manufacturing equipment has a remaining technical lifetime of about 2 years after balance sheet date, the carrying value at December 31, 2008 was brought in line with the number of expected purification cycles in 2009 and 2010 through an impairment charge of € 680,000. The remaining value of the manufacturing equipment at year end 2008 is € 45,000.

At year end 2007, the Company carried non-current (available-for-sale) financial assets of € 200,000 for MucoVax. The € 35,000 surplus of the total € 235,000 investment over this fair value was considered as a temporary loss and recognized within equity under Net unrealized gains/(losses). In December 2008, all managing and supervisory board members of MucoVax resigned following an unsuccessful refinancing and a MucoVax shareholder did not follow up on a financing guarantee earlier given. The Board of Management of Pharming subsequently reviewed options to recover the investment but concluded that, due to among others the legal complexity of the MucoVax case, it is highly unlikely that any future proceeds may be flowing into the Company. Accordingly it was decided to write down the entire € 235,000 investment, of which € 200,000 was processed through financial assets and the remaining € 35,000 through a release from Net unrealized gains/(losses) in equity.

Share-based compensation

SHARE-BASED COMPENSATION FOR 2007 AND 2008 CAN BE SUMMARIZED AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Board of Management options	373	486
Employee options	96	927
Consultancy options	21	276
Long Term Incentive Plan	73	-
	563	**1,689**

On the AGM of April 16, 2008, a total number of 500,000 conditional Board of Management options with an exercise price of € 1.12 were made available. Of this series, 125,001 vested in 2008 with an expense of € 65,000. In addition, at the EGM of October 13, 2008, a total number of 750,000 unconditional options were granted to two members of the Board of Management; the total fair value of these options in the amount of € 308,000 was fully expensed in 2008. Altogether, in 2008 a total of 875,001 options for the Board of Management vested with an associated expense of € 373,000.

Expenses for employee options incurred in 2007 related to the effect of options granted in 2003-2007 for which vesting took place in 2007. For 2008 the amount relates to the vesting expenses of options granted in 2004-2008. The decrease of the expense in 2008, includes the effect of the lower fair value per option as well as the effect of options forfeited by employees upon termination of their agreement (profit of € 354,000 in 2008 compared to a € 91,000 profit in 2007, both offset against expenses). In addition, the granting of options in 2008 took place at September 1 compared to January 1 in previous years.

Consultancy options are expensed upon vesting. The higher charges in 2007 reflect the timing of such consultancy activities in relation to their vesting schedule. The 2008 charges relate to options conditionally granted in 2007 but vested in 2008.

At the AGM of April 16, 2008 a Long Term Incentive Plan ('LTIP') was approved with an effective date of January 1, 2008. The first time expense for 2008 represents the estimated number of shares to be transferred under the maximum number of 495,000 shares available for 2008. These shares will be transferred to those participants under the plan still in service at January 1, 2011. Shares vest in accordance with a schedule (further see Note 25).

Inventories

In 2008, the Company expensed an amount of € 1.1 million for batches of rhC1INH (2007: € 1.9 million).

Operating lease charges

For the year 2008, the Company charged approximately € 0.8 million (2007: € 0.7 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 2009 and the years after are disclosed in Note 33.

Fees Ernst & Young Accountants LLP

Fees of Ernst & Young Accountants LLP recognised in the financial statements 2007 and 2008 were € 119,000 respectively € 121,000 for the audit of the financial statements 2007 respectively 2008. Other assurance services were € 28,000 in 2007 (related to the listing document with respect to the issuance of convertible bonds) and € 3,000 in 2008. Altogether, fees incurred for services of Ernst & Young Accountants LLP were € 147,000 in 2007 and € 124,000 in 2008.

23. Other income statement items

Other interest income, net

THE COMPOSITION OF OTHER NET INTEREST INCOME IN 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Interest income cash and cash equivalents	1,676	979
Interest income marketable securities	360	360
Interest expense financial lease	(12)	(5)
Interest expense loan State of Wisconsin	(2)	(6)
	2,022	**1,328**

Other foreign currency results

These results primarily follow from the revaluation of bank balances denominated in foreign currencies and the timing of foreign currency payments against the actual exchange rate as compared to the original exchange rate applied upon the charge of fees or expenses.

24. Employee information

EMPLOYEE BENEFITS FOR THE FINANCIAL YEARS 2007 AND 2008 COMPRISED:

AMOUNTS IN € '000	2008	2007
Salaries	5,261	4,663
Social security costs	536	518
Pension costs	251	278
	6,048	**5,459**

Salaries include holiday allowances, cash bonuses and severance payments.

THE NUMBER OF EMPLOYEES FOR 2007 AND 2008 PER FUNCTIONAL CATEGORY WAS AS FOLLOWS (AT WEIGHTED AVERAGE FULL TIME EQUIVALENT FACTOR):

	2008	2007
Research and development	63	61
General and administrative	14	14
		77

75

25. Share-based compensation

The Company has a Long Term Incentive Plan and two option plans in place: one for the Board of Management and one for employees ('the Option plans'). In addition, option arrangements have been made with individual consultants. All these plans or arrangements are equity settled.

Long Term Incentive Plan

At the AGM of April 16, 2008 a Long Term Incentive Plan was approved with an effective date of January 1, 2008. Under the LTIP, restricted shares are granted conditionally each year with a target value of 30% of annual compensation. Shares will vest after three years provided that the share price has increased. The number of shares to vest will be based on the performance of Pharming compared to a peer group of 40 other European biotech companies as fully included in the annual report 2008.

THE VESTING SCHEDULE WILL BE AS FOLLOWS:

- ranking in the top 5% of the index: 100%
- ranking in the top 5-10 % of the index: 80% of maximum
- ranking in the top 10-20% of the index: 60% of maximum
- ranking in the top 20-30% of the index: 50% of maximum
- ranking in the top 30-50% of the index: 20% of maximum

THE FOLLOWING MAXIMUM NUMBER OF SHARES ARE AVAILABLE:

Supervisory Board:	15,000 per member;
Board of Management:	60,000 per member;
Scientific Advisory Board:	10,000 per member;
Senior managers:	225,000 with a maximum of 25,000 per senior manager.

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

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 (iii) the number of Options to be granted. The Options will at all times be granted under the condition that the granting of such Options will be approved by the general meeting of shareholders of Pharming.' Article 4.4 of the Option plan for the BOM reads as follows: 'In case of the termination of the membership of a Participant of the Board of Management, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse if the conditions set out in the Option Granting Letter have not been fulfilled at the time of the termination of the membership of the Board of Management.'

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

On April 2008, the AGM approved to make available 500,000 conditional stock options with an exercise price of € 1.12 to the Board of Management. The Board of Supervisory Directors has decided that 125,001 of these options have vested in 2008. In 2007, a total of 320,000 options were granted to the Board of Management, resulting in an expense of € 486,000.

Option plan employees

Article 2.1 of the option plan for employees states: 'Pharming may grant Options to any Employee. The criteria for the granting of the Options, will be determined by the Board of Supervisory Directors of Pharming, at its sole discretion. The Board of Management will propose (i) whether the criteria for granting an Option have been met by a potential Participant and (ii) the number of Options to be granted.

Article 4.4 of the employee Option plan deals with the vesting scheme of employee options and reads as follows: 'In case of the termination of the employment of a Participant, except for retirement and death, Pharming at its sole discretion is entitled to decide that the Options of the Participant shall lapse. The following schedule shall apply for the cancellation:

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

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

Consultancy options

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

AN OVERVIEW OF ACTIVITY IN THE NUMBER OF OPTIONS FOR THE YEAR 2008 IS AS FOLLOWS:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)
Balance at January 1, 2008	3,203,786	2.54
Granted under Board of Management Option plan	875,001	0.69
Granted under employee Option plan	581,390	0.92
Granted to consultants	20,000	2.78
Exercised	(1,495)	0.78
Expired	(20,406)	1.35
Forfeited	(206,802)	2.97
BALANCE AT DECEMBER 31, 2008	**4,451,474**	**1.95**

The weighted average share price for the options exercised in 2008 was € 0.90. All options outstanding at December 31, 2008 are exercisable; for employees subsequent sale of the shares is subject to the vesting conditions of the option. The weighted average remaining contractual life in years of the outstanding options at December 31, 2008 is 2.49 years with exercise prices ranging from € 0.50 - € 4.65.

Measurement of fair value

The costs of option plans are measured by reference to the fair value of the options at the grant date of the option. The fair value is determined using the Black-Scholes model, taking into account:

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 exercise price of the option and the share price are known at grant date. Volatility is based on the historical end-of-month closing share prices over the 5 years prior to the date of grant. It is assumed no dividend payments are expected. Market conditions were not included in the fair value measurements.

THE FOLLOWING ASSUMPTIONS WERE USED IN THE BLACK-SCHOLES MODEL TO DETERMINE THE FAIR VALUE AT GRANT DATE:

	2008	2007
Expected time to maturity (employees)	2.5 years	2.5 years
Expected time to maturity (consultants)	2.5 years	2 years
Expected time to maturity (Board of Management)	5 years	2.5 years
Volatility (employees and consultants)	65-76%	65-79%
Volatility (Board of Management)	65-76%	79%
Risk-free interest rate (employees)	3.16-5.24%	4.25-4.78%
Risk-free interest rate (consultants)	n/a	4.46-4.57%
Risk-free interest rate (Board of Management)	4.26-4.48%	2.99-3.17%

26. Board of Management

General information

Until October 13, 2008, F.J. Pinto served both as the Company's chairman and as its Chief Executive Officer. Following the approval by the EGM on October 13, 2008, he was replaced as Chief Executive Officer by S. de Vries as a new member of the BOM but accepted to continue his activities as a non-executive Chairman of the BOM. Mr. De Vries effectively started at November 3, 2008. Both B.M. Giannetti (Chief Operations Officer) and R. Strijker (Chief Commercial Officer) were executive members of the BOM for the entire year 2008.

F.J. Pinto resigned as a statutory director effectively October 13, 2008; the other members of the BOM were statutory directors during their 2008 employment. The members of the BOM are selected by the Supervisory Board and appointed by the Annual General Meeting of Shareholders. Remuneration and further conditions of the BOM are proposed by the Remuneration Committee and approved by the Supervisory Board. Mr. Pinto has not been formally employed but hired through his privately owned company.

COMPENSATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT FOR 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000 NAME	YEAR	PERIODIC REMUNERATION	PENSIONS AND INSURANCES	BONUS	TOTAL
B.M. Giannetti	2007	215	21	54	290
	2008	229	22	26	277
F.R. Pieper (i)	2007	45	5	-	50
F.J. Pinto (ii)	2007	300	-	75	375
	2008	323	-	18	341
S.P. Singh (i)	2007	45	4	-	49
R. Strijker	2007	215	28	54	97
	2008	229	28	17	274
S. de Vries (iii)	2008	54	5	-	59
TOTAL	**2007**	**820**	**58**	**183**	**1,061**
TOTAL	**2008**	**835**	**55**	**61**	**951**

(i) Member of the BOM until March 29, 2007
(ii) Fees of € 245,000 received until October 13, 2008 plus a contractual 3 month fee of € 78,000
(iii) As of November 3, 2008

THE FOLLOWING TABLE GIVES AN OVERVIEW OF MOVEMENTS IN NUMBER OF OPTION HOLDINGS OF THE BOARD OF MANAGEMENT, THE EXERCISE PRICES AND EXPIRATION DATES:

NAME	JANUARY 1, 2008	GRANTED 2008	DECEMBER 31, 2008	EXERCISE PRICE (€)	EXPIRATION DATE
B.M. Giannetti	140,000	-	140,000	3.05	May 22, 2012
	-	41,667	41,667	1.12	April 15, 2013
	-	250,000	250,000	0.62	October 12, 2013
F.J. Pinto	240,000	-	240,000	1.34	May 17, 2009
	90,000	-	90,000	3.05	May 22, 2012
	-	41,667	41,667	1.12	April 15, 2013
R. Strijker	110,000	-	110,000	1.34	May 17, 2009
	90,000	-	90,000	3.05	May 22, 2012
	-	41,667	41,667	1.12	April 15, 2013
S. de Vries	-	500,000	500,000	0.62	October 12, 2013
TOTAL	**670,000**	**875,001**	**1,545,001**		

MOVEMENT OF THE NUMBER OF SHARES HELD BY MEMBERS OF THE BOARD OF MANAGEMENT IN 2008 WAS AS FOLLOWS:

	JANUARY 1, 2008	TRANSFERRED 2008	DECEMBER 31, 2008
F.J. Pinto	3,527,818	-	3,527,818
R. Strijker	239,664	(57,423)	182,241
TOTAL	**3,767,482**	**(57,423)**	**3,710,059**

Shares transferred by Mr. Strijker in 2008 were legally due following his divorce settlement. Mr. de Vries and Mr. Giannetti did not hold any shares in Pharming.

Loans or guarantees

During the year 2008, no loans or guarantees have been granted to members of the Board of Management. No loans or guarantees to members of the Board of Management were outstanding at December 31, 2008.

27. Supervisory Board

General information

In 2008, the Supervisory Board included J. Blaak, B.P.Th. Veltman, K. Macleod and J.B. Ward. Mr. Veltman was succeeded by Mr. Blaak as chairman of the Supervisory Board at the AGM of April 16, 2008 before stepping down from the Supervisory Board at December 1, 2008.

Mr. Blaak and Mr. Macleod are chairman respectively a member of the Audit Committee. The Remuneration Committee is chaired by Mr. Ward; Mr. Veltman was succeeded by Mr. Macleod as Member as per December 1, 2008. The Members of the Supervisory Board are selected by the Supervisory Board and appointed by the Annual General Meeting of Shareholders.

Remuneration

For both 2007 and 2008 the annual fee for the Chairman and other Members was € 34,500 respectively € 23,000. The aggregate 2008 remuneration of the Supervisory Board amounted to € 102,000 (2007: € 98,000).

Shares, options and warrants

Members of the Supervisory Board do not participate in an option plan but are eligible to receive shares under the Long Term Incentive Plan (Note 25). At year end 2008 none of the Supervisory Board members in place held shares, options or warrants in the Company.

Loans or guarantees

During the year 2008, 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, 2008.

28. Warrants

AN OVERVIEW OF ACTIVITY IN THE NUMBER OF WARRANTS FOR THE YEAR 2008 IS AS FOLLOWS:

	WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE (€)
Balance at January 1, 2008	2,089,256	4.00
Expired without exercise	(1,389,256)	4.00
BALANCE AT DECEMBER 31, 2008	**700,000**	**4.00**

The weighted average remaining contractual life in years of the outstanding warrants at December 31, 2008 is 2.09 years; all were issued to Paul Royalty Fund on February 3, 2006 upon closing the license agreement as disclosed in Notes 13 and 15 respectively. Following termination of the license agreement in 2007, it was agreed to extend the original 2 years exercise period with 3 years. As a result of the extension, the Company in 2007 recognised a charge to the income statement of € 993,000.

29. Taxation

At December 31, 2008, the estimated accumulated tax losses carried forward in the Netherlands amount to about € 233 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 17 of these Financial Statements.

30. 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.

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 (intersegment charges of about € 1.7 million in both 2007 and 2008). Together with ProBio Inc this company represents the numbers for the United States presented in the next table. Transactions in the United States on behalf of Pharming Group companies based in the Netherlands have been reported under the geographical segment of the Netherlands. 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, 2007 AND 2008:

	AMOUNTS IN € '000	THE NETHERLANDS	UNITED STATES	TOTAL
YEAR ENDED DECEMBER 31, 2008				
INCOME STATEMENT:	Revenues	664	-	664
	Depreciation and amortization charges	1,060	361	1,421
	Impairment charges	3,219	963	4,182
	Share-based compensation	563	-	563
	Settlement convertible bonds	(5,604)	-	(5,604)
	Effective interest convertible bonds	1,250	-	1,250
	Fair value gain derivative	(4,947)	-	(4,947)
	Interest on earn-out obligations	1,345	-	1,345
	Intersegment charges	1,700	(1,700)	-
	Net loss	25,022	1,183	26,205
BALANCE SHEET:	Segment assets	64,492	2,604	67,096
	Segment liabilities	54,310	253	54,563
INVESTMENTS IN:	Property, plant and equipment	286	3	289
	Intangible assets	525	-	525
CASH FLOWS USED IN:	Operating activities	(20,421)	(1,485)	(21,906)
	Investing activities	(811)	(3)	(814)
	Financing activities	(18,767)	(43)	(18,810)
YEAR ENDED DECEMBER 31, 2007				
INCOME STATEMENT:	Revenues	690	-	690
	Depreciation and amortization charges	1,000	408	1,408
	Impairment charges	-	302	302
	Share-based compensation	1,689	-	1,689
	Interest on liability to Paul Royalty Fund	2,151	-	2,151
	Currency effect on liability Paul Royalty Fund (profit)	(1,069)	-	(1,069)
	Settlement Paul Royalty Fund	9,125	-	9,125
	Effective interest convertible bonds	1,308	-	1,308
	Fair value gain derivative	(14,305)	-	(14,305)
	Interest on earn-out obligations	1,158	-	1,158
	Intersegment charges	1,713	(1,713)	-
	Net loss	21,085	556	21,641
BALANCE SHEET:	Segment assets	110,475	3,873	114,348
	Segment liabilities	83,126	304	83,430
INVESTMENTS IN:	Property, plant and equipment	620	51	671
CASH FLOWS FROM/(USED IN):	Operating activities	(20,179)	(1,554)	(21,733)
	Investing activities	(620)	(51)	(671)
	Financing activities	57,683	(45)	57,638

31. Major Shareholders

At December 31, 2008, 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).
At November 1, 2006, about 86.4 million shares were outstanding.

As disclosed in Notes 26 and 27, total shares held by members of the Board of Management and Supervisory Board at December 31, 2008 were 3,710,059 respectively nil. The number of shares held by members of the BOM represents about 3.8% of the total outstanding shares at December 31, 2008.

32. 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. The Company in 2008 no longer reports transactions with Paul Royalty Fund as a related party transaction due to the settlement agreement of 2007.

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, 2008, the Company owed a total amount of € 70,000 to members of the Board of Management and Supervisory Board with respect to their compensation, including 2008 cash bonuses for the Board of Management as disclosed in Note 26.

In 2008, the Company was charged for an amount of € 60,000 by CRM Biometrics in relation to providing statistical analyses of data from clinical studies. Pharming's COO, Mr. Giannetti, holds a minority interest in CRM Biometrics. Mr. Giannetti did not and does not have any supervisory, management or other position within CRM Biometrics. All 2008 charges of € 60,000 as well as € 2,000 charges due to CRM Biometrics due at year end 2007 were paid in 2008. No outstanding balances remained at December 31, 2008. Mr. Giannetti did not provide services to CRM Biometrics nor did he receive any payments from CRM Biometrics.

33. 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 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Within one year	672	725
After one year but not more than five years	1,034	1,656
More than five years	-	-
	1,706	**2,381**

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 € 2.4 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. At December 31, 2008, the total of grants and accrued interest under this arrangement amounted to € 24.3 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, 2008, the total of grants and accrued interest under this arrangement amounted to € 4.0 million.

Following the 2008 agreement with Aslan Group AS on human lactoferrin as referred to in Note 21 the Company has entered into discussions with the Dutch government on the effects of this contract on the Technical Development Credit repayment clauses. These discussions include, among others, the interpretation of the amounts qualifying for repayment, the percentage to apply to these amounts as well as the timing of the repayments. As per the date of these financial statements discussions are still in progress.

Success fee arrangement

Upon his resignation as Chief Executive Officer, a success-fee arrangement with F.J. Pinto was approved at the EGM of October 13, 2008. Under this agreement, which ends as per the AGM on April 15, 2009, a 3% success-fee will be paid of all net cash and/or equities actually received by the Company.

34. Convertible bonds

As disclosed in Note 14, the Company raised € 70.0 million gross through the issuance of convertible bonds (the 'Bonds') due October 31, 2012 (the 'Maturity Date'). The following paragraphs describe the main characteristics of the terms and conditions of the Bonds, including the attached conversion rights. For a more extensive and detailed description, reference is given to the listing particulars issued in relation to the Bonds on December 3, 2007.

The Bonds bear annual interest of 6.875%, payable semi-annually in arrear on April 30, and October 31, with the first interest payment on April 30, 2008. The principal amount, if not redeemed before the Maturity Date, will be repaid at nominal value including any accrued and unpaid interest on the Maturity Date. The Bonds constitute unsecured obligations of the Company and shall at all times rank pari passu and without preference among themselves. The payment obligations of Pharming under the Bonds shall rank at least equally with all its respective other present and future unsecured and unsubordinated obligations. The agreement with the bondholders also prevents Pharming to create any security upon any part of its assets or revenues as long as the Bonds are outstanding.

Pharming is entitled to redeem the Bonds in several cases, including at any time on or after November 14, 2010 if the price of Pharming's ordinary shares (the 'Shares') on each of at least 20 trading days in any period of 30 consecutive trading days is above a certain threshold.

Bondholders have the right to:

- convert any or all of the Bonds held by it into Shares against a conversion price. The conversion price became fixed at € 2.64 on April 30, 2008;
- require Pharming to redeem the Bonds on October 31, 2010 or upon a change of control event.

Pharming has ensured that it will not incur or permit to subsist, directly or indirectly, any Restricted Obligations, where the aggregate amount of such Restricted Obligations outstanding from time to time exceeds € 15.0 million. In this respect Restricted Obligations means obligations required to be classified and accounted for as 'trade and other payables' in the Company's consolidated balance sheet, prepared in accordance with IFRS, less Excess Cash. 'Excess Cash' means the greater of:

(a) zero; and

(b) amounts required to be classified and accounted for as 'cash and cash equivalents' in the consolidated balance sheet of the Issuer (prepared in accordance with IFRS) less € 5.0 million.

35. Financial risk management

General

Pharming is exposed to several financial risks: market risks (being currency risk and interest rate risk), credit risks and liquidity risks. The Company's financial risk policy covers all these risks but is, due to the current status of the Company, in particular aimed at minimizing the effects of the market risks. Due to the absence of commercial sales, the Company does not carry accounts receivable so that credit risks mainly apply to some advance payments, which are limited both in frequency and size, as well as the marketable securities and cash and cash equivalents. As further explained under capital risk management, the absence of positive operational cash flows results in a continuing focus on the Company's liquidity status.

In general, the Board of Management is highly involved in the management of currency, interest, credit and liquidity risks and as such ultimately responsible for decisions taken in this field. Pharming does not use financial derivatives and does not enter into speculative positions; the recognition of a derivative portion in the convertible bonds issued in 2007 is, in the opinion of the Board of Management, a financial derivative from an accounting point of view only.

Capital risk management

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

Currency risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies, in particular of the United States dollar (US$). The US$ is used to finance the local operations of US-based entities and make direct payment of US activities carried out through the Dutch entities. If deemed appropriate, taking into account market expectations on the development of the US$, US$ are acquired in advance to cover such forecasted US$ payments. So far, Pharming's foreign currency risk policy for the US$ has not included hedging agreements.

The following sensitivity analysis of costs and revenues charged in US$ in 2007 and 2008, assumes an increase or decrease of the €/US$ exchange rate at the end of both years of 10%. The impact of a 10% increase at year-end 2007 and 2008 would have resulted in a lower loss from operating activities of € 0.1 million both in 2007 and 2008. In addition to these effects, the foreign currency translation reserve would have decreased with € 1.2 million in 2007 and € 0.5 million in 2008, so that the total net effect on equity both in 2007 and 2008 would have been a decrease of € 1.1 million respectively € 0.6 million. The impact of a 10% decrease of the US$ at year-end 2007 and 2008 would have resulted in a higher loss from operating activities of € 0.1 million both in 2007 and 2008. In addition to these effects, the foreign currency translation reserve would have increased with € 1.6 million in 2007 and increased with € 0.9 million in 2008, so that the total net effect on equity in 2007 and 2008 would have been an increase of € 1.5 million respectively € 0.8 million.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pharming's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and marketable securities and those paid on financial liabilities.

The Company performed a sensitivity analysis in which the effect of a 1% interest increase or 1% interest decrease on the carrying value of the financial instruments at year-end 2008 was measured. Pharming concluded that no effect would have taken place on the carrying value of any item, including the liabilities in relation to the convertible bonds as the effective interest of 18.6% determined upon initial recognition will not change in case of market interest fluctuations. With respect to the carrying value of the marketable securities in the amount of € 3.7 million, management arrived at the conclusion that no reliable effect from a sensibility analysis could be determined as the fair value is partially based on the difference between long and short term interest; a 1% interest increase or decrease on the short term interest would not automatically result in a similar increase or decrease of long term interest and vice versa.

Credit risk

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

The maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, available-for-sale financial assets and other current assets.

AT DECEMBER 31, 2008 THE CARRYING AMOUNTS OF THESE ASSETS AND THE MOST RECENTLY AVAILABLE (END 2008 OR EARLY 2009) CREDIT RATINGS COVERING THE INSTITUTIONS INVOLVED ARE:

AMOUNTS IN € '000	CARRYING VALUE	STANDARD & POOR'S	MOODY'S
Cash and cash equivalents (including restricted cash)	19.8	AA to AAA	Aa3 to Aaa
Available-for-sale financial assets	3.7	AAA	Aaa

Other current assets at December 31, 2008 amounted to € 1.6 million. This includes about € 0.4 million related to value added tax and accrued interest, both fully received in cash early 2009. The remaining balance of € 1.2 million relates to prepaid expenses and other receivables. No indication exists that fees paid in advance will not be provided or that amounts receivable from third parties will not be settled.

Based on the credit ratings of cash and cash equivalents and available-for-sale financial assets as well as the position taken with respect to other current assets, the Company estimates that total maximum exposure to credit risk at the end of 2008 is about € 1.3 millon.

Liquidity risk

The liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Pharming's objective is to maintain a minimum level and certain ratio of cash and cash equivalents (including short-term deposits) 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. The strategy of the Company is to repay its obligations through generation of cash income from operating activities such as product sales and licensing agreements. In the absence of such cash flows, the Company primarily relies on financing cash flows as provided through the issuance of shares or incurring financial liabilities such as have been the case in both 2006 (Paul Royalty Fund) and 2007 (convertible bonds).

The following table presents the financial liabilities at year-end 2008, showing the remaining undiscounted contractual amounts due including nominal interest. Liabilities denominated in foreign currency have been converted at the exchange rate at December 31, 2008. In this table it has been assumed the convertible bonds are held to maturity. For the earn-out obligations, of which the nature, timing and background has been disclosed in Note 16, the full nominal amounts due and the timing of payment have been estimated. Both for the convertible bonds and the earn-out obligations the amounts due may be settled through payment in shares, partially at the discretion of the Company.

LIABILITIES DENOMINATED IN FOREIGN CURRENCY HAVE BEEN CONVERTED AT THE EXCHANGE RATE AT DECEMBER 31, 2008.

AMOUNTS IN € '000	2009	2010	2011	2012	2013
Convertible bonds	3,427	3,427	3,427	53,277	-
Earn-out obligations	5,000	5,000	-	-	-
Trade and other payables	7,365	-	-	-	-
Other	86	48	48	32	-
TOTAL	**15,878**	**8,475**	**3,475**	**53,309**	**-**

Fair value of financial instruments

IN THE FOLLOWING TABLE THE CARRYING AMOUNTS AND THE ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS ARE DISCLOSED:

	DECEMBER 31, 2008		DECEMBER 31, 2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
ASSETS:				
Cash and cash equivalents (i)	19,786	19,786	61,310	61,310
Available-for-sale financial assets (ii)	3,748	3,748	4,156	4,156
Other current assets	1,646	1,646	1,893	1,893
LIABILITIES:				
Non-current liabilities (iii)	37,885	39,516	55,724	58,612
Trade and other payables	7,365	7,365	7,830	7,830
Current portion of non-current liabilities (iii)	5,156	5,156	15,690	15,690

(i) including restricted cash
(ii) marketable securities and (2007 only) equity stake in MucoVax
(iii) includes convertible bond liabilities, earn-out obligations, amounts due to Paul Royalty Fund, financial lease obligations and amounts due to the State of Wisconsin, excludes deferred tax liabilities and non-cash lease incentives

The above fair values of financial instruments are based on internal calculations with the exception of marketable securities which are based on market prices. Available-for-sale financial assets, other current assets, cash and cash equivalents, trade and other payables and the current portion of non-current liabilities are stated at carrying amount, which approximates the fair value in view of the short maturity of these instruments. For non-current liabilities, the carrying values of earn-out obligations (based on an estimated cost of capital of 20% at year end 2007 and 23% at year end 2008), financial lease obligations and amounts due to the State of Wisconsin are also in line with their fair values. For the non-current liabilities relating to the convertible bonds at year end 2007 and 2008, the fair values have been determined based on the carrying values adjusted for transaction fees.

36. Events after the balance sheet date

Early 2009, the Company repurchased convertible bonds with a total nominal value of € 5,050,000 in exchange of cash in the amount of € 1,010,000 (plus € 13,000 interest paid in cash) with the remaining balance of € 4,040,000 converted into shares at the conversion price of € 2.64. The number of shares issued in relation to the repurchase was 1,530,302, as a result of which the outstanding number of shares after the transactions increased to 98,960,156. The Company will post a € 1.9 million profit on this transaction in 2009.

Company balance sheet

AT DECEMBER 31, 2008 (AFTER PROPOSED APPROPRIATION OF NET LOSS)

AMOUNTS IN € '000	NOTES	2008	2007
Goodwill	3.	6,998	9,190
Property, plant and equipment	4.	855	978
Financial assets	5.	9,302	12,721
Receivable from group companies	6.	8,725	426
NON-CURRENT ASSETS		**25,880**	**23,315**
Other current assets	7.	834	837
Marketable securities	8.	3,748	3,956
Restricted cash	9.	-	10,180
Cash and cash equivalents		26,540	89,034
CURRENT ASSETS		**31,122**	**104,007**
TOTAL ASSETS		**57,002**	**127,322**
Share capital	10.	48,715	45,618
Share premium	10.	183,980	182,243
Foreign currency translation	10.	(1,602)	(1,743)
Other reserves	10.	9,005	6,160
Accumulated deficit	10.	(227,565)	(201,360)
SHAREHOLDERS' EQUITY		**12,533**	**30,918**
Convertible bonds	11.	35,122	53,214
Earn-out obligations	13.	2,644	2,315
Net provision for subsidiaries	5.	-	23,762
Other		119	157
NON-CURRENT LIABILITIES		**37,885**	**79,448**
Trade and other payables	14.	1,466	1,303
Current portion of non-current liabilities	15.	5,118	15,653
CURRENT LIABILITIES		**6,584**	**16,956**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**57,002**	**127,322**

Company income statement

FOR THE YEAR ENDED DECEMBER 31, 2008

AMOUNTS IN € '000	2008	2007
Share in results of investments	(23,462)	(20,845)
Other results	(2,743)	(796)
NET LOSS	**(26,205)**	**(21,641)**

Notes to the company financial statements

FOR THE YEAR ENDED DECEMBER 31, 2008

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 reference to Note 4 of the consolidated financial statements, certain amounts in the comparative 2007 information have been restated.

3. Goodwill

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

MOVEMENT FOR THE YEARS 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Balance at January 1	9,190	9,190
Adjustments earn-out obligations	(1,142)	-
Impairment charges	(1,050)	-
BALANCE AT DECEMBER 31	**6,998**	**9,190**

Upon acquisition of DNage in 2006, the Company agreed, as more extensively explained in Note 13, to pay earn-outs to former DNage shareholders. In 2008 the Company deferred the expected achievement date of certain earn-out components and in addition, in view of the credit crunch, assessed the discount rate increased from 20% to 23%. The total effects of the deferred achievement date and the increased discount rate on the net present value of the liabilities, amounting to € 1,142,000, have been charged to the original asset on which the earn-out obligations relates, being goodwill. Subsequently, at year end 2008 the Company performed an annual impairment test of the goodwill amount net of the described effects of the adjustments on earn-out obligations, being € 8,048,000.

The purpose of the impairment test is to determine the recoverable amount of the underlying assets, being the cash generating unit of DNage, based on value in use. In performing this test, 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, are prepared. 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.

The assumptions applied in the 2008 test did not change significantly compared to 2007, but due to the use of a 23% discount rate as compared to a 20% rate in 2007, the net present value of goodwill amounted to € 6,998,000. Accordingly, the € 1,050,000 difference between the carrying amount prior to the test of € 8,048,000 was recognised as an impairment charge in the income statement.

NET CARRYING VALUE OF THE GOODWILL AT YEAR-END 2007 AND 2008 CONSISTS OF:

AMOUNTS IN € '000	2008	2007
Gross carrying value	9,190	9,190
Accumulated adjustments earn-out obligations	(1,142)	-
Accumulated impairment charges	(1,050)	-
NET CARRYING VALUE	**6,998**	**9,190**

4. Property, plant and equipment

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT FOR THE FINANCIAL YEARS 2007 AND 2008 IS:

AMOUNTS IN € '000	LEASEHOLD IMPROVEMENTS	OTHER	TOTAL
Net book value at January 1, 2007	881	399	1,280
Additions	27	51	78
Transferred to group companies	(189)	-	(189)
Depreciation charges	(74)	(117)	(191)
NET BOOK VALUE AT DECEMBER 31, 2007	**645**	**333**	**978**
Additions	-	71	71
Depreciation charges	(76)	(118)	(194)
NET BOOK VALUE AT DECEMBER 31, 2008	**569**	**286**	**855**

THE NET CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT AT YEAR-END 2007 CONSISTS OF:

AMOUNTS IN € '000	LEASEHOLD IMPROVEMENTS	OTHER	TOTAL
At cost	740	494	1,234
Accumulated depreciation charges	(95)	(161)	(256)
NET CARRYING VALUE	**645**	**333**	**978**

THE NET CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT AT YEAR-END 2008 CONSISTS OF:

AMOUNTS IN € '000	LEASEHOLD IMPROVEMENTS	OTHER	TOTAL
At cost	740	491	1,231
Accumulated depreciation charges	(171)	(205)	(376)
NET CARRYING VALUE	**569**	**286**	**855**

5. Financial assets and net provision for subsidiaries

Financial assets include those investments in group companies with a positive balance of equity as well as entities classified as available-for-sale with a positive fair value. In the event the equity value of a group company becomes negative, a provision is made; receivables from such group companies are set off against this provision. These negative values are substantially long-term in nature.

MOVEMENT OF FINANCIAL ASSETS AND THE PROVISION FOR SUBSIDIARIES FOR THE YEARS 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	FINANCIAL ASSETS	PROVISION FOR SUBSIDIARIES	TOTAL
Balance at January 1, 2007	14,358	(100,849)	(86,491)
Share in results of investments	(1,637)	(19,208)	(20,845)
Exchange rate effects	-	593	593
BALANCE AT DECEMBER 31, 2007	**12,721**	**(119,464)**	**(106,743)**
Share in results of investments	(3,298)	(20,164)	(23,462)
Exchange rate effects	-	(354)	(354)
Impairment charges MucoVax	(200)	-	(200)
Reclassification	79	(79)	-
BALANCE AT DECEMBER 31, 2008	**9,302**	**(140,061)**	**(130,759)**

The provision for subsidiaries at year-end 2007 and 2008 has been set off with receivables from these subsidiaries in the amount of € 95,702,000 to arrive at a net provision of € 23,762,000. At year-end 2008, total receivable balances on group companies with a negative equity value were € 148,449,000; the € 8,388,000 surplus over the negative equity value of € 140,061,000 has been included in the balance of receivable from group companies.

6. Receivable from group companies

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

7. Other current assets

OTHER CURRENT ASSETS AT YEAR-END 2007 AND 2008 COMPRISED:

AMOUNTS IN € '000	2008	2007
Value added tax	266	196
Prepaid expenses	144	107
Accrued interest	180	421
Other receivables	244	113
	834	**837**

8. Marketable securities

MOVEMENT OF MARKETABLE SECURITIES FOR THE FINANCIAL YEARS 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Balance at January 1	3,956	4,995
Accrued interest	360	360
Interest received	(360)	(360)
Fair value adjustment	(208)	(1,039)
BALANCE AT DECEMBER 31	**3,748**	**3,956**

NET CARRYING VALUE OF THE MARKETABLE SECURITIES AT YEAR-END 2007 AND 2008 CONSISTS OF:

AMOUNTS IN € '000	2008	2007
Nominal value	6,000	6,000
Accrued interest	191	191
Accumulated fair value adjustment	(2,443)	(2,235)
BALANCE AT DECEMBER 31	**3,748**	**3,956**

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.

9. Restricted cash

Following the settlement agreement with Paul Royalty Fund in 2007 as further explained in Note 15, the Company transferred an amount of US$ 15.0 million to an escrow account to guarantee a final payment of such amount to Paul Royalty Fund. The balance, which converted at the €/US$ exchange rate at December 31, 2007 amounted to € 10,180,000, has been fully settled in January 2008.

10. 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. All 97,429,854 shares outstanding at December 31, 2008 have been fully paid-up.

MOVEMENTS IN SHAREHOLDERS' EQUITY FOR 2007 AND 2008 WERE AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Balance at January 1	30,918	49,792
Net loss after tax	(26,205)	(21,641)
Share-based compensation	563	1,689
Reclassification derivative	3,370	-
Bonds converted	4,833	-
Effect bonds converted on derivative	(915)	
Issuance of shares for cash	-	651
Exercise of options	1	505
Warrants Paul Royalty Fund	-	993
Other movements	(32)	(1,071)
BALANCE AT DECEMBER 31	**12,533**	**30,918**

Legal reserve

Shareholders' equity of Pharming Group NV at December 31, 2008 includes a legal reserve with a negative amount of € 1,602,000 with respect to a reserve for foreign currency translation. For a detailed movement schedule of equity for the year 2008, 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.

11. Convertible bonds

Developments 2007 and 2008

Effectively October 31, 2007, Pharming issued convertible bonds for a gross amount of € 70.0 million. Nominal interest due is 6.875% per year, paid semi-annually on April 30 and October 31, until the maturity date of October 31, 2012. Exclusive of total transaction fees and expenses of € 2,988,000, the Company received a net amount in cash of € 67,012,000.

In accordance with the original terms and conditions of the bonds, at April 30, 2008, the conversion price became fixed at the minimum of € 2.64 as a result of Pharming's average share price 15 days prior to this date. Until October 31, 2008, the € 70.0 million nominal value was unchanged and the Company paid nominal interest of € 2,406,250 on both April 30 and October 31 or a total of € 4,812,500. Between October 31 and December 31, one bondholder converted bonds with a nominal value of € 1,150,000 into 435,606 shares at the conversion price of € 2.64 (plus € 3,000 accrued interest paid) and other bonds with a nominal value of € 19,000,000 were repurchased and cancelled for a cash consideration of € 3,800,000 (plus € 29,000 accrued interest paid) and a conversion of the remaining € 15,200,000 into 5,757,575 shares at the conversion price of € 2.64. Altogether, the Company brought down € 20,150,000 nominal bonds for a total cash consideration of € 3,800,000 (plus € 32,000 interest) and issuance of 6,193,181 shares.

Accounting treatment

The terms and conditions of the bonds included the following paragraph:

'The initial conversion price is € 4.40 per Share. The conversion price will be adjusted in several cases, including in the event that:

- the average price of the Shares in the 15 trading days before and including April 30, 2008 is € 3.59 or lower. In that case, the conversion price shall be the average price of the Shares at that time multiplied by 1.23;
- the average price of the Shares in the 15 trading days before and including October 31, 2008 is less than the then-prevailing conversion price. In that case, the conversion price shall be reduced to the average price of the Shares at that time.

In each case, the conversion price shall not be reduced below € 2.64.'

In view of this conversion price reset mechanism, the ultimate number of shares to be issued upon any conversion upon initial recognition was variable and accordingly the convertible bonds included a derivative portion which should be measured at its fair value with subsequent changes in fair value recognised in the income statement. The fair values of the derivative were:

- € 21,708,000 at October 31, 2007;
- € 7,403,000 at December 31, 2007;
- € 3,370,000 at April 30, 2008.

At April 30, 2008 the conversion price became fixed at € 2.64 and accordingly the balance of the derivative is reclassified to equity. Until that date, the derivative is a part of the non-current liability portion of the bonds.

For accounting purposes, the fair value of the derivative upon initial recognition of the convertible bonds are not included in the carrying value of the interest-bearing portion. This portion is, excluding transaction fees in the amount of € 2,988,000, and subsequently measured on the assumption that, during the five year loan period, nominal interest and the loan are repaid in accordance with the schedule of the convertible bonds. At year end accrued nominal interest of the remaining bonds for November and December is classified as current.

THE MOVEMENT OF THE INTEREST-BEARING PART OF THE CONVERTIBLE BONDS IN 2007 IS AS FOLLOWS:

AMOUNTS IN € '000	2007
Total balance at January 1	-
Cash receipt	70,000
Transaction fees and expenses paid in cash	(2,988)
PROCEEDS CONVERTIBLE BONDS, NET OF TRANSACTION FEES PAID	**67,012**
Derivative portion upon initial recognition	(21,708)
INTEREST-BEARING PART UPON INITIAL RECOGNITION	**45,304**
Effective interest accrued	1,308
TOTAL BALANCE AT DECEMBER 31	**46,612**
Current balance: nominal interest accrued November – December 2007 due in 2008	(801)
NON-CURRENT BALANCE INTEREST-BEARING PART AT DECEMBER 31	**45,811**

THE FAIR VALUE AND CLASSIFICATION OF THE DERIVATIVE PORTION IN 2007 IS:

AMOUNTS IN € '000	2007
Total balance at January 1	-
Derivative portion upon initial recognition	21,708
Fair value adjustment through income statement	(14,305)
NON-CURRENT BALANCE DERIVATIVE AT DECEMBER 31	**7,403**

THE TOTAL NON-CURRENT BALANCE OF THE BONDS AT DECEMBER 31, 2007 THEREFORE WAS:

AMOUNTS IN € '000	2007
Non-current balance interest-bearing part	45,811
Non-current balance derivative	7,403
TOTAL	**53,214**

THE MOVEMENT OF THE INTEREST-BEARING PART OF THE CONVERTIBLE BONDS IN 2008 IS AS FOLLOWS:

AMOUNTS IN € '000	2008
Total balance at January 1	46,612
Effective interest accrued	8,161
Shares issued upon conversion bonds	(4,832)
Payments of nominal interest convertible bonds	(4,844)
Repayments convertible bonds at nominal value	(3,800)
Transaction result bonds converted	(5,604)
TOTAL BALANCE AT DECEMBER 31	**35,693**
Current balance: nominal interest accrued November – December 2008 due in 2009	(571)
NON-CURRENT BALANCE INTEREST-BEARING PART AT DECEMBER 31	**35,122**

THE FAIR VALUE AND CLASSIFICATION OF THE DERIVATIVE PORTION IN 2008 IS:

AMOUNTS IN € '000	2008
Total balance at January 1	7,403
Fair value adjustment through income statement	(4,033)
Reclassification to equity	(3,370)
NON-CURRENT BALANCE DERIVATIVE AT DECEMBER 31	**-**

12. 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 entitling Paul Royalty Fund to receive royalties on revenues of rhC1INH and other Pharming products over the ten year term of the agreement. At the end of the agreement, a termination option would automatically be exercised by which the Company would have repurchased 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%. Pharming additionally issued 700,000 warrants with an exercise price of € 4.00 per share and an exercise period of two years to Paul Royalty Fund.

In view of the 20% internal rate of return guaranteed to Paul Royalty Fund, the Company at balance sheet dates had to take into account those facts and circumstances known. Given the absence in 2006 and 2007 of revenues qualifying for royalty payments to Paul Royalty Fund, the Company accrued for an amount in US$ which at least equals the 20% internal rate of return, 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. At balance sheet dates the liability was translated to the reporting currency at the closing exchange rate with subsequent exchange rate differences recognized in the income statement.

In July 2007, the first contractual amount of US$ 2.0 million or € 1,473,000 was repaid to Paul Royalty Fund. Effectively October 31, 2007 the Company and Paul Royalty Fund agreed to fully settle the original agreement through additional payment by Pharming of US$ 28.0 million and a 3 year extension of the original warrant exercise period (valued at € 993,000). Of the US$ 28.0 million repayment an amount of US$ 13.0 million was paid in November 2007 (€ 8,996,000) whereas the remaining US$ 15.0 million was transferred to an escrow account and paid in January 2008. At October 31, 2007 the € 8,132,000 difference between the carrying value of the liability before (€ 11,235,000) and after settlement (US$ 28.0 million or € 19,367,000) was charged to the income statement; together with the fair value of the warrant extension (€ 993,000) a total settlement result of € 9,125,000 was recognized in the 2007 income statement.

THE MOVEMENT OF THE FINANCIAL LIABILITY IN 2007 AND 2008 WAS AS FOLLOWS:

AMOUNTS IN € '000	TOTAL
Balance at January 1, 2007	11,626
Interest expense	2,151
Exchange rate profit	(1,260)
Settlement loss (excluding fair value warrant extension)	8,132
Repayments (US$ 13.0 million)	(10,469)
BALANCE AT DECEMBER 31, 2007 (US$ 15.0 MILLION)	**10,180**
Exchange rate profit	(105)
Repayment (US$ 15.0 million)	(10,075)
BALANCE AT DECEMBER 31, 2008	**-**

The repayment amount at year end 2007 of US$ 15.0 million was held on an escrow account (see Note 9 on Restricted cash). As a result, exchange rate results on the liability after October 31, 2007 were fully offset with a similar effect on the restricted cash balance. Both foreign currency effects have been recognized in other foreign currency results in the income statement.

13. Earn-out obligations

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

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

The Company at acquisition date determined the discounted value of the earn-outs to be € 5,575,000, taking into account the probability of paying any amounts to former DNage shareholders, the nominal amount expected to be paid and the timing thereof. This discounted value was fully charged to goodwill. Subsequent to initial measurement, the Company expensed non-cash interest based on the discount rate of 20%. In 2008 the Company deferred the expected achievement date of certain earn-out components; in addition the Company, in view of the credit crunch, assessed the discount rate increased from 20% to 23%. The effects of the deferred achievement date and the increased discount rate have been charged to the original asset on which the earn-out obligations relates, being goodwill.

MOVEMENT OF THE EARN-OUT OBLIGATIONS FOR 2007 AND 2008 WAS:

AMOUNTS IN € '000	2008	2007
Total balance at January 1	6,949	5,791
Interest accrued	1,345	1,158
Goodwill adjustments	(1,142)	-
TOTAL BALANCE AT DECEMBER 31	**7,152**	**6,949**
Current balance (Note 18)	(4,508)	(4,634)
NON-CURRENT BALANCE AT DECEMBER 31	**2,644**	**2,315**

The first earn-out milestone at year end 2007 was expected to be settled within one year after the balance sheet date. The expected achievement date has been shifted to 2009 and accordingly the discounted value at year end 2008 has consistently been classified as a current liability.

14. Trade and other payables

TRADE AND OTHER PAYABLES CONSIST OF:

AMOUNTS IN € '000	2008	2007
Accounts payable	208	372
Deferred compensation due to related parties	70	207
Taxes and social security	52	44
Other payables	1,136	680
BALANCE AT DECEMBER 31	**1,466**	**1,303**

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.

15. Current portion of non-current liabilities

THE COMPOSITION OF THE CURRENT PORTION OF NON-CURRENT LIABILITIES AT YEAR-END 2007 AND 2008 IS AS FOLLOWS:

AMOUNTS IN € '000	2008	2007
Paul Royalty Fund	-	10,180
Earn-out obligations	4,508	4,634
Nominal interest convertible bonds	571	801
Other	39	38
BALANCE AT DECEMBER 31	**5,118**	**15,653**

The amount due to Paul Royalty Fund at year end 2007 represented the final settlement payment due of US$ 15.0 million, converted at the €/US$ exchange rate at December 31, 2007, which was paid in January 2008.

Earn-out obligations relates to the discounted value of a nominal payment of € 5.0 million expected to be settled within one year after the balance sheet date.

Nominal interest on the convertible bonds of relates to interest accrued for November and December of the year. Together with nominal interest of to be accrued in the first four months of the new year these will be repaid in April. The decrease reflects the nominal value of outstanding convertible bonds from € 70.0 million at year-end 2007 to about € 49.9 million at December 31, 2008.

16. Other results

Other results in 2007 and 2008 include costs of share-based compensation in the amount of € 1,689,000 and € 563,000 respectively, as disclosed in Note 22 of the consolidated financial statements. These charges include those related to members of the Board of Management, employees and consultants who are not formally employed by Pharming Group NV. 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.

Auditor's report

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 57 to 121). 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, 2008, 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, 2008, 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, 2008, 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, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Emphasis of matter

We draw attention to note 2 to the financial statements which indicates Pharming Group NV is facing uncertainties in 2009 that might significantly affect the liquidity and/or equity position of the company and therefore the ability to continue the operations. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

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

Amsterdam, March 24, 2009

Ernst & Young Accountants LLP
Signed by J. Verhagen

Other financial information

For the year ended December 31, 2008

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 2008 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

Early 2009 the Company repurchased convertible bonds with a total nominal value of € 5,050,000 in exchange of cash in the amount of € 1,010,000 (plus € 13,000 interest paid in cash) with the remaining balance of € 4,040,000 converted into shares at the conversion price of € 2.64. The number of shares issued in relation to the repurchase was 1,530,302, as a result of which the outstanding number of shares after the transactions increased to 98,960,156. The Company will post a € 1.9 million profit on this transaction in 2009.

Information for Shareholders and Investors

- General
- Information on the Company's shares
- Share performance
- Financial calendar for 2009

Information for Shareholders and Investors

General

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

We communicate with our Shareholders and investors through the publication of the annual report, meetings of Shareholders, press releases and our website. The latter was completely renewed in November 2008, to further improve information on the Company and its activities. We organize analysts and press meetings and/or conference calls, when presenting our half year and annual financial results or other significant news. These meetings and/or conference calls are announced in advance by means of press releases and on our website. Audio casts of these conference calls and corporate presentations are made available on our website after the meetings. In addition to the scheduled half-yearly and yearly result presentations, we maintain regular contact with financial analysts and institutional investors through meetings and road shows. In 2008, we visited investors in major financial cities in Europe and the United States. We regularly present at conferences and our corporate and scientific presentations are made available at our website as well.

The Company intends to organize a yearly investor's day at the Company's headquarters in Leiden. These Company visits will focus on the presentation of project and product updates, the Company's financial results and/or other relevant investor information.

Listing of Pharming shares

Pharming Group NV's shares are listed on NYSE Euronext NV Amsterdam (symbol: PHARM) since 1999. 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 2008 turnover of shares in Euros. The free float of Pharming is >75%, with most of the shares held by Dutch investors.

Disclosure of Major Holdings in Listed Companies

AT DECEMBER 31, 2008, 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	3.8%	(status at December 31, 2008).

Share information and trading data

IN THE FOLLOWING TABLE INFORMATION PER SHARE AND RELEVANT TRADING DATA IN 2008 COMPARED TO 2007 ARE DEPICTED:

AMOUNTS IN € '000	2008	2007
Earnings per share	(0.29)	(0.24)
Shares outstanding at year-end	97,429,854	91,235,178
Dividend	-	-
Highest closing price	1.31	4.26
Lowest closing price	0.62	0.91
Price at year-end (€)	0.64	1.32
Average daily trading volume	437,781	1,008,675

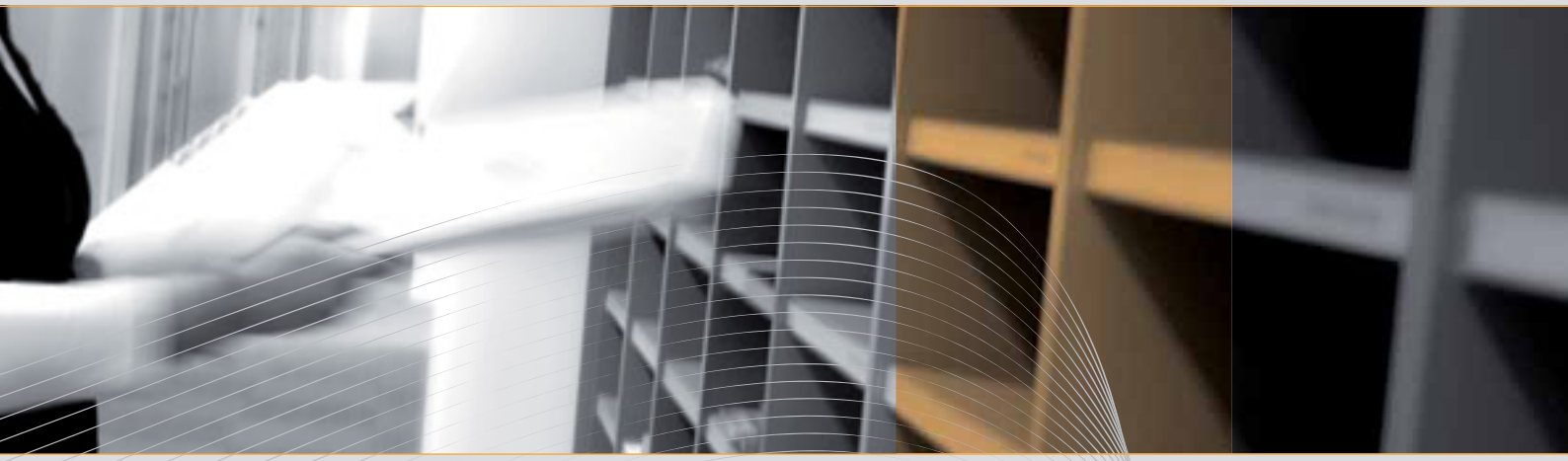
Relative share performance

Relative share performance of Pharming Group NV compared to the AEX Index (NYSE Euronext Amsterdam), AScX and ING Biotech fund (all rebased to Pharming) at closing prices in 2007 and 2008:

RELATIVE SHARE PERFORMANCE OF PHARMING GROUP NV:

Financial calendar for 2009

15 April 2009	Annual General Meeting of Shareholders at the Pharming headquarters in Leiden, the Netherlands at 15.00 pm CET
17 April 2009	Publication of first quarter 2009 financial results at 7.00 am CET
17 July 2009	Publication of second quarter 2009 financial results at 7.00 am CET
16 October 2009	Publication of third quarter 2009 financial results at 7.00 am CET



Glossary

Glossary

AGM
Annual General Meeting of Shareholders of Pharming Group NV.

AMR
Antibody-mediated rejection is a rejection situation occurring in a later stage of organ transplantation. When implanted, a foreign body might, depending on its histocompatibility, be perceived as foreign by the recipient. The immune system is activated and the foreign body is attacked, which can lead to the organ failure and immunological rejection of the organ.

ASCX
The Amsterdam Small cap Index is composed of the top 25 actively traded small cap companies on the NYSE Euronext stock exchange of Amsterdam. The companies in AScX are selected for the index based on value of full year 2008 turnover of shares in Euros. Pharming was included in the AScX on March 3, 2009.

ASLAN
Aslan Group AS is established in 1978 and one of the leading family-owned companies in Turkey (Istanbul). Aslan has a track record in several business areas. Nutrition and biotechnology is a newly established focus of Aslan in the fast growing market of Turkey and other countries in the region, including Russia, the Ukraine and the Middle East.

BLA
A Biologic License Application is a request for market approval in the USA.

BMM
BMM is short for the BioMedical Materials program, which is a publicprivate partnership of the Dutch government, academia and industry. It focuses on research and development in the field of biomedical materials.

BOM
The Board of Management of Pharming Group NV.

CBER/CDER
The Center for Biologics Evaluation and Research is a Center within the US Food and Drug Administration. It is concerned with the regulation of biological and related products including blood, vaccines, allergenics, tissues, and cellular and gene therapies. Biologics, in contrast to drugs that are chemically synthesized, are derived from living sources (such as humans, animals, and microorganisms), are not easily identified or characterized, and many are manufactured using biotechnology. These products often represent cutting-edge biomedical research and, in time, may offer the most effective means to treat a variety of medical illnesses and conditions that presently have few or no other treatment options.
The Center for Drug Evaluation and Research (CDER) is the Center concerned with the evaluation of regular or emergency investigational drug products, new drugs, or generic drugs. The Center makes sure that safe and effective drugs are available.

CHAIRMAN
Chairman is referring to the Chairman of Pharming's Board of Management, Board of Supervisory Directors, Audit Committee, Remuneration Committee or Scientific Advisory Board.

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

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

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 USA 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 the 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 and genetic diseases (premature ageing).

EMEA

The European Medicines Agency (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.

FAST TRACK DESIGNATION

This designation provides an expedited review process for products used for treatment of serious or life-threatening diseases with limited treatment options and where the product has the potential to have a positive effect on (the symptoms of) the condition. The designation also allows for more frequent interactions with the FDA, which could improve the efficiency of product development and decrease the typical review period.

FDA

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

GMP

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

GRAS

The acronym GRAS stands for Generally Recognized As Safe. This designation is granted by the FDA to a chemical or substance added to food that is generally recognized, among experts, as having been adequately shown through scientific procedures to be safe under the conditions of their intended use.

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).

IND

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

LTIP

Pharming's Long Term Incentive Plan.

MAA

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

MEMBER

A Member is referring to a member of Pharming's Board of Management, Board of Supervisory Directors, Audit Committee, Remuneration Committee or Scientific Advisory Board.

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 DESIGNATION

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

OMT

Pharming's Operations Management Team.

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 approximately 90 people, of which more than eighty percent in R&D. Pharming's ordinary shares are listed in the Netherlands in the Small cap index (AScX) on NYSE Euronext Amsterdam, under the symbol 'PHARM'.

PROTEIN

Proteins are large organic molecules, like C1 inhibitor, fibrinogen and collagen, and form the basis to all living 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.

R&D

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

rhC1INH

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

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. Deficiency or low levels of fibrinogen can result in uncontrolled bleeding, as can occur in case of trauma, surgery, liver disease, sepsis and cancer. Pharming is developing recombinant human fibrinogen (rhFIB) as a replacement therapy for patients with genetic and acquired deficiencies of fibrinogen.

Rhucin®

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

SAB

The Scientific Advisory Board of Pharming Group NV.

SHAREHOLDER

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

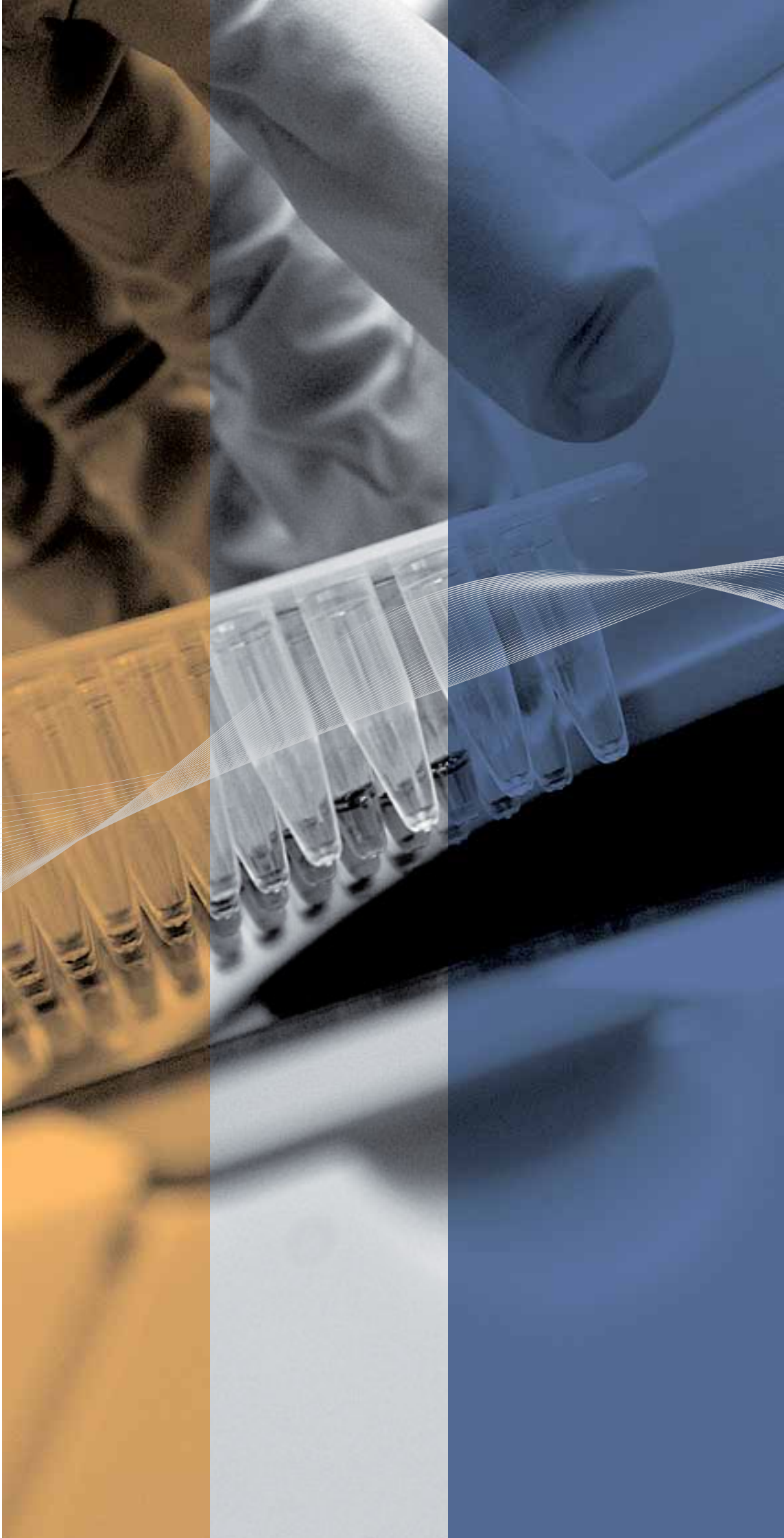
SUPERVISORY BOARD

The Board of Supervisory Directors 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.

ABBREVIATIONS >>



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AGM	Annual General Meeting of Shareholders
AMR	Antibody-mediated rejection
AScX	Amsterdam Small cap Index of NYSE Euronext
BLA	Biologic License Application
BMM	BioMedical Materials program
BOM	Pharming's Board of Management
CBER	Center for Biologics Evaluation and Research of the US FDA
CDER	Center for Drug Evaluation and Research of the US FDA
CHMP	Committee for Medicinal Products for Human Use
DGF	Delayed graft function
DNA	Deoxyribonucleic acid
EMEA	European Medicines Agency
FDA	US Food and Drug Administration
GMP	Good Manufacturing Practice
GRAS	Generally Recognized As Safe
HAE	Hereditary angioedema
hLF	Human lactoferrin
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IND	Investigational New Drug
LTIP	Pharming's Long Term Incentive Plan
MAA	Marketing Authorization Application
OMT	Pharming's Operations Management Team
R&D	Research and Development
rhC1INH	Recombinant human C1 esterase inhibitor
rhCOL	Recombinant human collagen type I
rhFIB	Recombinant human fibrinogen
SAB	Pharming's Scientific Advisory Board