

## PHARMING ANNOUNCES FINANCIAL RESULTS FIRST HALF YEAR 2009

**Leiden, The Netherlands, July 17, 2009.** Biotech company Pharming Group NV (“Pharming” or “the Company”) (Euronext: PHARM) announced today its financial first half year (HY1) results for the period ended June 30, 2009.

### Key financial developments first half year 2009

- €20.0 million Standby Equity Distribution Agreement (“SEDA”) signed with YA Global Master SPV LTD (“YA Global”);
- SEDA (equity) financing of €2.8 million implemented in June;
- €70.0 million convertible bonds (issued in 2007) reduced to €35.8 million at June 30, 2009 from €49.9 million at year end 2008;
- Operational costs from €12.8 million in the first six months of 2008 to €14.6 million in the same period of 2009 driven by preparation of submitting an EU Marketing Authorization Application for Rhucin® in September 2009 as well as intensified efforts for the Rhucin program in North America and preparation for continued clinical activities of Prodarsan®;
- Net loss in the first half year 2009 of €15.1 million as compared to €12.1 million in the first half of 2008 as a result of increased operational costs (€1.8 million), decreased interest income (€0.9 million) and the effect of non-cash items (€0.3 million).

### Key financial data (in €million, except per share data)

	HY1 ended June 30, 2009	Year ended December 31, 2008	HY1 ended June 30, 2008
<u>Statement of financial position:</u>			
Non-current assets (excluding restricted cash)	30.1	31.0	34.8
Cash and marketable securities, net of bank overdrafts	10.7	23.5	38.6
Other current assets	14.2	12.6	9.6
Total assets	55.0	67.1	83.0
Convertible bonds	26.7	35.7	48.3
Other liabilities	20.3	18.9	12.6
Total equity	8.0	12.5	22.1
<u>Statement of income:</u>			
Grants and other income	0.3	0.7	0.2
Operational costs	(14.6)	(30.1)	(12.8)
Financial and other income and expenses	(0.8)	3.2	0.5
Net loss	(15.1)	(26.2)	(12.1)
<u>Statement of cash flows:</u>			
Net cash used in operating activities	(13.4)	(21.9)	(12.9)
Net cash used in investment activities	(0.3)	(0.8)	(0.7)
Net cash from/(used in) financing activities	0.2	(18.8)	(12.5)
<u>Share data:</u>			
Outstanding shares at the end of the period	112,362,987	97,429,854	91,236,673
Weighted average shares outstanding in the period	100,138,967	91,657,617	91,235,909
Basic and diluted net loss per share (€)	(0.15)	(0.29)	(0.13)

## **Discussion of financial transactions and financial position**

The first half of 2009, the Company successfully negotiated several financial agreements in order to maintain the cash position and improve the equity position, while at the same time decreasing its liabilities and future interest payments.

### *Standby Equity Distribution Agreement with YA Global*

In April 2009, Pharming signed into a €20 million Standby Equity Distribution Agreement with YA Global. Under the terms of the agreement, YA Global can invest a total of up to €20.0 million in a three year period. Pharming has the right, but not the obligation, to call the funds in regular tranches. In June, Pharming started using the SEDA and called a total amount of €2.8 million in cash in exchange for the issuance of approximately 4.6 million Pharming shares. At closing of the agreement in April, Pharming issued a one-off payment of 0.8 million commitment shares.

In early July 2009, Pharming called €0.4 million in cash for a consideration of 800,000 shares, resulting in a total amount of €16.8 million still available under the agreement as at today.

### *Settlement of convertible bonds*

In the first half of 2009, Pharming entered into various agreements with several holders of bonds issued in 2007. Under these agreements, the Company successfully cancelled a total outstanding amount of €14.1 million nominal bonds in exchange for €1.0 million cash and issuance of 9.5 million shares. Following these transactions, the outstanding nominal value of bonds was reduced from €49.9 million at year end 2008 to €35.8 million at June 30, 2009 so that approximately 50% of the original €70.0 nominal value of the bonds issued in 2007 has now been cleared. Based on this reduction, annual interest payments of €4.8 million in 2008 are expected to be reduced by €2.0 million to €2.8 million in 2009, of which €1.5 million has already been paid in the second quarter with the payment of the remaining €1.3 million scheduled for the fourth quarter.

In compliance with International Financial Reporting Standards, upon issuance of the €70.0 million convertible bonds, a derivative portion of €21.7 million and transaction fees of €3.0 million were carved out to arrive at a net liability of €45.3 million. This initial liability increases in subsequent periods through charging an effective interest rate in order to, ultimately, fully equal the total amounts of semi-annual interest nominal interest payments of 6.875% and the redemption payment over the total five year period. As a result, the carrying value of the bonds at the end of each reporting period is lower than the nominal value of the outstanding bonds. At June 30, 2009, the total carrying value including the short-term portion of nominal interest due is €26.7 million as compared to nominal bonds of €35.8 million outstanding.

## **Discussion of results**

In the first half year of 2009, the Company's income increased from €0.2 million to €0.3 million as a result of grants received based on increased costs eligible for grants and increased facilities on certain grant programs by the Dutch government.

Operational costs increased from €12.8 million in the first six months of 2008 to €14.6 million in the same period of 2009. The €1.8 million increase primarily results from increased costs of research and development (from €10.3 million to €12.4 million), reflecting Pharming's efforts to complete the previously announced submission of an EU Marketing Authorization Application for Rhucin in September 2009. At the same time, the Company is intensifying its efforts for the Rhucin development program in North America and to prepare for clinical trials of Prodarsan. Operational costs for the first half of 2009 included €1.0 million for non-cash items compared to €1.2 million in the comparative period in 2008; costs of share based compensation programs and depreciation and amortization charges remained fairly constant but contrary to the first half year 2008 no operating asset impairment charges were incurred.

Financial and other income and expenses in the first half of both 2008 and 2009 were highly affected with non-cash valuation adjustments in relation to convertible bonds, marketable securities and deferred tax items as well as interest derived from cash and marketable securities. In total, net losses from these items in the first half of 2009 were €0.8 million compared to net profits of €0.5 million in the six months ended June 30, 2008; these effects are primarily related to lower interest income from cash and marketable securities.

Dr. Sijmen de Vries, Chief Executive Officer, commented: "With the planned regulatory submission for Rhucin in September and the development of our products on track, we can look back on a quarter that has progressed in line with expectations. An important achievement is that we decreased our financial risk profile with the conclusion of the €20 million SEDA with YA Global, which is illustrated by the €2.8 million we raised from this facility in June. Notwithstanding the above, further improvement of our financial position remains the top priority for management during the second half of the year. Several types of transactions including (convertible) debt, project-specific financing and licensing deals for our assets such as Rhucin and Lactoferrin are currently under consideration and discussion. In addition, we still anticipate receiving milestone payments from our partnering agreements this year. These transactions should keep the Company securely financed well into 2010. I look forward to reporting further on this as well as on progress with our clinical programmes."

#### **Conference call information**

Today, Chief Executive Officer Sijmen de Vries will present the HY1 2009 results in a conference call for analysts at 9:00 am and for press at 10:30 am CET. To participate, please call one of the following numbers 10 minutes prior to the call:

*Analyst call (conference ID 411 8549):*

- From the Netherlands: 0800 265 8543 (toll-free) or +31 (0)45 631 6901
- From the UK: 0800 358 0886 (toll-free) or +44 207 153 2027

*Press call (conference ID 411 8581):*

- From the Netherlands: 0800 265 8543 (toll-free) or +31 (0)45 631 6903
- From the UK: 0800 358 0886 (toll-free) or +44 207 153 2027.

Following a presentation of the results, the lines will be opened for a question and answer session. An audio cast of the conference calls will be available on Pharming's website shortly thereafter.

The full half year report for the period ended June 30, 2009 can be found on Pharming's website.

#### **About Pharming Group NV**

Pharming Group NV is developing innovative products for the treatment of genetic disorders, ageing diseases, specialty products for surgical indications, intermediates for various applications and nutritional products. Pharming has two products in late stage development - Rhucin® for Hereditary Angioedema and human lactoferrin for use in food products. The advanced technologies of the Company include innovative platforms for the production of protein therapeutics, technology and processes for the purification and formulation of these products, as well as technology in the field of DNA repair (via DNage). Additional information is available on the Pharming website, [www.pharming.com](http://www.pharming.com).

*This press release contains 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.*

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## INTERIM REPORT OF THE BOARD OF MANAGEMENT FOR THE HALF YEAR ENDED JUNE 30, 2009

### Discussion of financial position and results

The financial results for the first half year 2009 and the financial position for the half year ended June 30, 2009 of Pharming Group NV ("Pharming" or "the Company") have been highly affected by the financial transactions with YA Global Master SPV LTD ("YA Global") and settlement transactions with miscellaneous holders of convertible bonds.

Under the agreement with YA Global, the Company in the first half year of 2009 issued about 4.6 million shares in exchange for €2.8 million in cash; in addition, YA Global received a one-time fee of 0.8 million shares valued at €0.4 million. In January and June 2009, Pharming entered into agreements with several holders of bonds (issued in 2007) under which bonds with a total nominal value of €14.1 million were converted into approximately 9.5 million shares with an additional €1.0 million paid in cash. Further, the regular nominal interest of €1.5 million was paid in the second quarter of 2009. As a result of the transactions with YA Global and the bond settlements, the total number of outstanding shares increased from 97.4 million at December 31, 2008 to 112.4 million at June 30, 2009 with a total net impact on equity of €10.3 million, excluding a €2.2 million profit recognized upon settlement of the bonds.

Net loss in the first half year of 2009 was €15.1 million compared to a net loss of €12.1 million in the first half year of 2008. The €3.0 million increase was primarily related to increased operational costs related to several programs such as Rhucin and Prodarsan (from €12.8 million to €14.6 million), decreased interest income (€0.9 million) and the effect of non-cash items (€0.3 million).

The financial transactions with YA Global and the bondholders limited the impact of the €15.1 million net loss on equity, which decreased from €12.5 million at December 31, 2008 to €8.0 million at June 30, 2009. In the same period, the carrying value of the convertible bonds further decreased from €35.7 million to €26.7 million.

### Outlook

The main focus of the Company in the near future will be to further improve its financial position and to complete regulatory submissions for Rhucin (for approval of product) and Prodarsan (for further clinical development of product). It is expected that the SEDA with YA Global will continue to be used to issue new shares in return for cash. In addition the Company expects to receive milestone payments related to existing contractual agreements further improving the balance sheet. These two sources of cash, in addition to the existing cash position, and possibly combined with other financial and corporate transactions currently under consideration, should be sufficient to ensure operations well into 2010. Although no assurances can be given, the Board of Management of Pharming is confident that sufficient funds and other resources will be available to continue to develop its lead product candidates to the market where they will be addressing significant medical needs. The Company expects that there will be no material change to the focus of its activities being the development of pharmaceutical drug candidates using its proprietary technology platforms. These products will initially address profitable niche markets, but may be developed later for very large indications with significant medical needs.

**Related party transactions**

There were no material changes in the nature, scale or scope of related party transactions in the first half of 2009 compared with the disclosures made in note 32 of the 2008 consolidated financial statements published in the Annual Report 2008.

**Auditor's involvement**

The content of these Condensed Consolidated Interim Financial Statements has not been audited or reviewed by an external auditor.

**Risks and uncertainties**

Pages 106-108 of the Annual Report 2008 include an extensive overview of the Company's (financial) risk management. For the remainder of 2009 and the period beyond, Pharming is in particular focusing on managing liquidity risk through generating sufficient cash income to fund its operations.

**Responsibility statement**

The Board of Management of Pharming declares that to the best of their knowledge and belief, and in accordance with the applicable reporting principles, the Condensed Consolidated Interim Financial Statements give a true and fair view of the assets, liabilities, financial position and results of the Company. Also, the Board of Management declares that the Interim Report of the Board of Management includes a fair review of the development and performance of the business during the half year and the position at balance sheet date and the description of the outlook of the Company.

Leiden, July 15, 2009

Board of Management

S. de Vries, Chief Executive Officer  
R. Strijker, Chief Commercial Officer  
B.M. Giannetti, Chief Operations Officer

## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED JUNE 30, 2009**

Consolidated Statement of Financial Position

Consolidated Statement of Income

Consolidated Statement of Comprehensive Income

Consolidated Statement of Cash Flows

Consolidated Statement of Changes in Equity

Notes to the Condensed Consolidated Interim Financial Statements

# PHARMING

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2009

(amounts in €'000)

	Note	June 30, 2009	December 31, 2008
Goodwill	6.	6,585	6,998
Intangible assets		17,877	18,051
Property, plant and equipment		5,678	5,896
Restricted cash		<u>176</u>	<u>176</u>
Non-current assets		30,316	31,121
Inventories		11,013	10,971
Other current assets		3,209	1,646
Marketable securities		4,231	3,748
Cash and cash equivalents		<u>12,652</u>	<u>33,250</u>
Current assets		31,105	49,615
<b>Total assets</b>		<b>61,421</b>	<b>80,736</b>
Share capital	7.	56,181	48,715
Share premium	7.	187,037	183,980
Other reserves		9,855	7,403
Accumulated deficit		<u>(245,106)</u>	<u>(227,565)</u>
Total equity		7,967	12,533
Convertible bonds	8.	26,242	35,122
Deferred tax liability	9.	4,276	3,940
Earn-out obligations	6.	2,932	2,644
Other		<u>271</u>	<u>307</u>
Non-current liabilities		33,721	42,013
Bank overdrafts		6,406	13,640
Trade and other payables		8,243	7,365
Earn-out obligations	6.	4,587	4,508
Nominal interest convertible bonds	8.	410	571
Current portion of other non-current liabilities		<u>87</u>	<u>106</u>
Current liabilities		19,733	26,190
<b>Total equity and liabilities</b>		<b>61,421</b>	<b>80,736</b>

Notes on pages 12-17 are an integral part of these of these condensed consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF INCOME

For the period ended June 30, 2009

(amounts in €'000, except per share data)

	Note	June 30, 2009	June 30, 2008
<b>Other income</b>		<b>348</b>	<b>246</b>
Research and development		12,048	10,337
General and administrative		1,662	1,272
Depreciation and amortization charges		628	675
Impairment charges		-	177
Share-based compensation		332	356
<b>Costs</b>		<b>14,670</b>	<b>12,817</b>
<b>Loss from operating activities</b>		<b>(14,322)</b>	<b>(12,571)</b>
Financial income	10.	3,476	5,232
Financial expenses	11.	(3,916)	(4,736)
<b>Financial income and expenses</b>		<b>(440)</b>	<b>496</b>
Income taxes	9.	(336)	-
<b>Net loss</b>		<b>(15,098)</b>	<b>(12,075)</b>
<b>Attributable to Equity holders of the parent</b>		<b>(15,098)</b>	<b>(12,075)</b>
<b>Share information:</b>			
Basic and diluted net loss per share (€)		(0.15)	(0.13)
Weighted average shares outstanding		100,138,967	91,235,909

Notes on pages 12-17 are an integral part of these of these condensed consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2009

(amounts in €'000)

	Foreign currency translation	Net unrealized gains/(losses)	Accumulated deficit	Total
<b>Half year ended June 30, 2008</b>				
Net loss	-	-	(12,075)	(12,075)
Foreign currency effects	(147)	-	-	(147)
Fair value adjustment available-for-sale financial assets	=	<u>(320)</u>	=	<u>(320)</u>
Other comprehensive income	(147)	(320)	-	(467)
<b>Total comprehensive income</b>	<b>(147)</b>	<b>(320)</b>	<b>(12,075)</b>	<b>(12,542)</b>
<b>Half year ended June 30, 2009</b>				
Net loss	-	-	(15,098)	(15,098)
Foreign currency effects	<u>(80)</u>	=	=	<u>(80)</u>
Other comprehensive income	(80)	-	-	(80)
<b>Total comprehensive income</b>	<b>(80)</b>	<b>-</b>	<b>(15,098)</b>	<b>(15,178)</b>

Notes on pages 12-17 are an integral part of these of these condensed consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended June 30, 2009

(amounts in €'000)

	June 30, 2009	June 30, 2008
Payments of third party fees and expenses, including Value Added Tax	(10,667)	(10,756)
Net compensation paid to board members and employees	(2,039)	(2,873)
Payments of pension premiums, payroll taxes and social securities, net of grants settled	(1,897)	(1,779)
Other payments	(573)	(385)
Receipt of Value Added Tax	775	906
Interest received from cash and marketable securities	570	1,523
Receipt of grants	123	209
Other receipts	281	248
<b>Net cash flows used in operating activities</b>	<b>(13,427)</b>	<b>(12,907)</b>
Purchase of property, plant and equipment	(259)	(146)
Purchase of intangible assets	-	(525)
<b>Net cash flows used in investing activities</b>	<b>(259)</b>	<b>(671)</b>
Net proceeds of increase of share capital	2,800	1
Repayment to Paul Royalty Fund	-	(10,075)
Repayments convertible bonds at nominal value	(1,010)	-
Payments of nominal interest convertible bonds	(1,553)	(2,406)
Repayments of other financial liabilities	(46)	(45)
<b>Net cash flows from/(used in) financing activities</b>	<b>191</b>	<b>(12,525)</b>
<b>Net decrease cash and cash equivalents</b>	<b>(13,495)</b>	<b>(26,103)</b>
Net cash and cash equivalents at January 1 (*)	19,786	61,310
Exchange rate effect	131	(98)
Net decrease cash and cash equivalents	(13,495)	(26,103)
<b>Net cash and cash equivalents at June 30 (*)</b>	<b>6,422</b>	<b>35,109</b>
<b>Liquidity information</b>		
Net cash and cash equivalents at June 30 (*)	6,422	35,109
Marketable securities at June 30	4,231	3,456
<b>Total liquidities at June 30</b>	<b>10,653</b>	<b>38,565</b>

(\*) cash and cash equivalents (including restricted cash), net of bank overdrafts

Notes on pages 12-17 are an integral part of these of these condensed consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended June 30, 2009

(amounts in €'000)

	Number of shares	Share capital	Share premium	Foreign currency translation	Share-based compensation	Net unrealized gains/(losses)	Other Reserves	Accu- mulated deficit	Total
<b>Balance at January 1, 2008</b>	91,235,178	45,618	182,243	(1,743)	8,430	(2,270)	-	(201,360)	30,918
Total comprehensive income	-	-	-	(147)	-	(320)	-	(12,075)	(12,542)
Share-based compensation	-	-	-	-	356	-	-	-	356
Reclassification derivative	-	-	-	-	-	-	3,370	-	3,370
Options exercised	1,495	1	-	-	-	-	-	-	1
<b>Balance at June 30, 2008</b>	<b>91,236,673</b>	<b>45,619</b>	<b>182,243</b>	<b>(1,890)</b>	<b>8,786</b>	<b>(2,590)</b>	<b>3,370</b>	<b>(213,435)</b>	<b>22,103</b>
<b>Balance at January 1, 2009</b>	<b>97,429,854</b>	<b>48,715</b>	<b>183,980</b>	<b>(1,602)</b>	<b>8,993</b>	<b>(2,443)</b>	<b>2,455</b>	<b>(227,565)</b>	<b>12,533</b>
Reclassification fair value results	-	-	-	-	-	2,443	-	(2,443)	-
Total comprehensive income	-	-	-	(80)	-	-	-	(15,098)	(15,178)
Share-based compensation	-	-	-	-	332	-	-	-	332
Bonds converted	9,530,302	4,765	2,309	-	-	-	(243)	-	6,831
Issuance of shares for cash	4,602,831	2,301	748	-	-	-	-	-	3,049
Commitment shares issued (non-cash)	800,000	400	-	-	-	-	-	-	400
<b>Balance at June 30, 2009</b>	<b>112,362,987</b>	<b>56,181</b>	<b>187,037</b>	<b>(1,682)</b>	<b>9,325</b>	<b>-</b>	<b>2,212</b>	<b>(245,106)</b>	<b>7,967</b>

Notes on pages 12-17 are an integral part of these of these condensed consolidated interim financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2009

### 1. Company information

Pharming Group NV ('Pharming' or 'the Company') focuses on the development, production and commercialization of human therapeutic proteins to be used in highly innovative therapies. The Company's products are aimed at treatments for genetic disorders and surgical and traumatic bleeding. Pharming's technologies include novel transgenic platforms for the production of biopharmaceuticals, as well as technology and processes for the purification and formulation of these biopharmaceuticals. In addition, the Company is active in the field of DNA repair through its acquisition of DNage BV ('DNage') in 2006.

### 2. Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 (Interim Financial Reporting). As permitted by IAS 34, the condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with Pharming's Annual Report 2008. In addition, the notes to these consolidated interim financial statements are presented in a condensed format.

These condensed consolidated interim financial statements have not been audited or reviewed and are based on IFRS as adopted by the European Union. The Board of Management has approved these condensed consolidated interim financial statements on July 15, 2009.

### Going Concern Assessment

The Board of Management of Pharming has, upon preparing and finalizing these half year 2009 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:

- the Company is able to utilize the undrafted part (€17.2 million at June 30, 2009) of the Standby Equity Distribution Agreement with YA Global as further disclosed in note 7 of these condensed consolidated interim financial statements;
- additional financing can be secured through other financial arrangements (e.g. debt and/or equity transactions); and/or
- commercial cash income can be generated through partnerships.

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.

### **3. Summary of significant accounting policies**

The applied accounting principles are in line with those as described in Pharming's Annual Report 2008.

As of January 1, 2009, a (revised) IAS 1 ('Presentation of Financial Statements') became effective and has been applied by the Company. As per the revised IAS 1 it uses the terms 'statement of financial position' (previously 'balance sheet'), 'statement of income' (previously 'income statement'), and 'statement of cash flows' (previously 'cash flow statement') and introduces a 'statement of comprehensive income'. IAS 1 (revised) also requires the presentation of a statement of financial position at the beginning of the first comparative period presented if an entity has changed its accounting policies retrospectively or made retrospective restatements.

### **Significant accounting estimates and judgments**

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 condensed consolidated interim financial statements. Management cautions that actual results could differ from those estimates.

For Pharming's critical accounting estimates and judgments, reference is made to the notes to the Consolidated Financial Statements contained in the Annual Report 2008. Items which particularly are subject to estimates that may ultimately result in differences between the actuals as included in the underlying financial statements and the realization thereof, include – but are not limited to – the following:

- the net carrying values of goodwill, intangible assets and inventories as based on expected future cash flows and/or use of the assets involved;
- earn-out obligations due to former shareholders of DNage as 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.

The ultimate outcomes depend of the actual realization of business plans, which are substantially long-term in 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 the first half of 2009 was 23%.

Also reference is made to note 35 'Financial Risk Management' to the Consolidated Financial Statements in the Annual Report 2008, which discusses Pharming's exposure to liquidity risk. Actual results in the future may differ from those estimates. Estimates and judgments are being continually evaluated and based on historic experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

### **4. Cyclicity**

In view of the Company's line of business, expenses incurred for research and development activities as well as their associated cash flows highly depend on the phase of research or development. Costs from period to period (i.e. from quarter to quarter) may vary significantly due to the timing and extent of research and development activities and are partially beyond control of the Company.

# PHARMING

## 5. Restatement of comparative information

As disclosed in note 4 of the Annual Report 2008, the Company restated the comparative 2007 financial information 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. In these condensed consolidated interim financial statements, the comparative information for the first six months of 2008 has been adjusted accordingly. The overall effect hereof has been a profit on the fair value gain of the derivative in the first half of 2008 in the amount of €4,033,000 (previously recognized: €nil), an adjusted effective interest on convertible bonds in the amount of €4,086,000 (€202,000 more than the previously reported €3,884,000) and the full reversal of a €213,000 profit on the deferred tax asset.

Prior to finalization of the Annual Report 2008 the Company recognized that several 2008 adjustments to the net present value of milestone earn-out obligations had been charged to the income statement instead of goodwill. These adjustments were properly accounted for in the full year 2008 Financial Statements but have been restated in the comparative financial information for the first half of 2008. As a result, interest on earn-out obligations previously reported for the first half ended June 30, 2008 increased from €151,000 to €650,000.

In addition to the above adjustments, the Company recently identified that marketable securities acquired in 2005 (see note 12 Consolidated Financial Statements 2008) include an embedded derivative. The fair value changes of this derivative were charged to the reserve for 'net unrealized gains/(losses)' within equity but should have been charged to the statement of income. The accumulated fair value losses were €2,236,000 at December 31, 2007, €2,556,000 at June 30, 2008 and €2,443,000 at December 31, 2008. In view of the immaterial impact on comparative financial information, it has been decided not to adjust the comparative income statement and fully reclassify the year end 2008 balance of €2,443,000 from 'net unrealized gains/(losses)' to 'accumulated deficit', both within equity. This reclassification has been reflected in the Consolidated Statement of Changes in Equity. In the first half of 2009 the Company realized a fair value profit of €663,000 on these marketable securities, which has been included under financial income in the statement of income.

These adjustments did not have an impact on the comparative Statement of Financial Position at December 31, 2008 nor the Statement of Consolidated Cash Flows for the half year ended June 30, 2008. The following table shows the effect of the adjustments on the Consolidated Statement of Income for the half year ended June 30, 2008 as previously reported in a press release issued on July 18, 2008 (amounts in €'000, except per share data):

	Original	Restatements	Restated
<b>Loss from operating activities</b>	<b>(12,571)</b>	-	<b>(12,571)</b>
Financial income	1,199	4,033	5,232
Financial expenses	(4,035)	(701)	(4,736)
<b>Financial income and expenses</b>	<b>(2,836)</b>	<b>3,332</b>	<b>496</b>
Income taxes	213	(213)	-
<b>Net loss</b>	<b>(15,194)</b>	<b>3,119</b>	<b>(12,075)</b>
<b>Attributable to Equity holders of the parent</b>	<b>(15,194)</b>	<b>3,119</b>	<b>(12,075)</b>
<b>Share information:</b>			
Basic and diluted net loss per share (€)	(0.17)	(0.04)	(0.13)
Weighted average shares outstanding	91,235,909	-	91,235,909

## **6. Goodwill and earn-out obligations**

Upon acquisition of DNage in 2006, the Company agreed to pay two milestone earn-outs of € 5.0 million each to former DNage shareholders, 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. At each reporting date the Company assesses the success rate of achieving the milestones as well as the expected dates of achievement; these nominal values, adjusted for success rates, are subsequently discounted at a rate of 23%.

In the first half of 2009, the Company accrued non-cash interest of €780,000 to arrive at total discounted earn-out obligations of €7,932,000; due to reassessments of the expected timing of the achievement of the milestones, the net present values were subsequently adjusted to €7,519,000 with the decrease of €413,000 charged to the amount of goodwill.

## **7. YA Global**

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

In the first half of 2009, Pharming called a total amount of €3,700,000, of which €2,800,000 was fully settled at balance sheet date. In return, Pharming issued a total number of 4,602,831 shares to YA Global with a total fair value of €3,049,000. The overall result of the transaction is based on the difference between the fair value of the shares issued and the cash received in the amount of €249,000 and has been recognized in Financial expenses. The remaining €900,000 not settled prior to the end of the reporting period has been capitalized in other current assets with an increase of trade and other payables in the amount of €947,000 to reflect the Company's obligation to settle the receivable in a variable number of shares with the difference charged to the Statement of Income.

The total value of Commitment Shares in the amount of €400,000 has been capitalized. This amount is amortized in the statement of income in accordance with the nominal amount settled relative to the maximum investment of €20.0 million. At June 30, 2008, the total amortization charge amounted to €58,000 and has been recognized in Financial expenses.

## **8. Convertible bonds**

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

As a result of these conversions, nominal bonds outstanding were reduced to €35.8 million at June 30, 2009. Nominal interest payments of 6.875% per year are due in semi-annual payments in April and October with €1,540,000 paid in April 2009.

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Overall movement of the convertible bonds in the first half of 2009 can be summarized as follows (amounts in €'000):

		<b>Total</b>
Non-current	35,122	
Current	<u>571</u>	
Balance January 1		35,693
<b><u>Movements for the first half of 2009:</u></b>		
Effective interest accrued	2,781	
Shares issued upon conversion bonds	(7,074)	
Payment of nominal interest convertible bonds	(1,553)	
Repayments convertible bonds at nominal value	(1,010)	
Transaction result convertible bonds	<u>(2,185)</u>	
		<u>(9,041)</u>
Non-current	26,242	
Current	<u>410</u>	
Balance June 30		26,652

## 9. Deferred tax liability and income taxes

The net deferred tax liability at year end 2008 comprised a liability amount of €4,296,000 in relation to intangible assets recognized upon the acquisition of DNage in 2006 minus a €336,000 deferred tax asset. The Company has assessed the income tax position of DNage in relation to the fiscal unity with Pharming Group N.V. and concluded that future tax benefits are highly unlikely to occur. Accordingly, the €336,000 tax asset has been fully written down.

## 10. Financial income

Financial income is comprised of:

Amounts in €'000	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Fair value gain derivative portion convertible bonds	243	4,033
Result bond settlements	2,185	-
Fair value result marketable securities	663	-
Other interest income, net	298	1,170
Foreign currency results	<u>87</u>	<u>29</u>
	3,476	5,232

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## 11. Financial expenses

The financial expenses relate to:

Amounts in €'000	June 30, 2009	June 30, 2008
Effective interest convertible bonds	2,781	4,086
Interest on earn-out obligations	780	650
Transaction result YA Global	297	-
Other	<u>58</u>	-
	3,916	4,736

## 12. Operating segments

Business segmentation of the selected statement of income lines for the half year ended June 30 is disclosed in the table below:

Amounts in €'000	Recombinant Proteins		DNage		Total	
	2009	2008	2009	2008	2009	2008
Other income	125	72	223	174	348	246
Loss from operating activities	(12,861)	(11,737)	(1,461)	(834)	(14,322)	(12,571)
Net loss	(13,301)	(11,241)	(1,797)	(834)	(15,098)	(12,075)

## 13. Commitments and contingencies

In the first half year of 2009 there were no material changes to the commitments and contingent liabilities from those disclosed in note 33 of the Annual Report 2008.

## 14. Events after the balance sheet date

Of the total outstanding unsettled balance of €900,000 with YA Global at June 30, 2009 as described in note 7 of these condensed consolidated interim financial statements, the Company early July 2009 issued 800,000 shares to YA Global in exchange of €400,000 received in cash. The remaining €500,000 has been cancelled.