Pharming Group N.V.

Consolidated Interim Financial Statements (Unaudited)
For the nine-month period ended 30 September 2016

Consolidated Statement of Income
For the nine-month period ended 30 September

Amounts in €'000, except per share data	Notes	YTD 2016	YTD 2015
Product sales		7,034	6,829
Release of deferred license fee income		1,656	1,655
Revenues	6	**8,690**	**8,484**
Costs of product sales	7	(3,022)	(3,882)
Inventory impairments	7	(209)	150
Costs of sales		**(3,231)**	**(3,732)**
Gross profit		**5,459**	**4,752**
Other income		**265**	**106**
Research and development	7	(11,080)	(10,315)
General and administrative	7	(3,120)	(2,747)
Marketing and sales	7	(911)	(867)
Costs		**(15,111)**	**(13,929)**
Operating result		**(9,387)**	**(9,070)**
Fair value gain/(loss) on revaluation derivatives		411	3,152
Other financial income and expenses		(1,463)	19
Financial income and expenses		**(1,052)**	**3,171**
Result before income tax		**(10,439)**	**(5,899)**
Income tax expense		-	-
Net result for the period		**(10,439)**	**(5,899)**
Attributable to:			
Owners of the parent		(10,439)	(5,899)
Total net result		**(10,439)**	**(5,899)**
Basic and diluted earnings per share (€)		(0.025)	(0.014)

Consolidated Statement of Comprehensive Income
For the nine-month period ended 30 September

Amounts in €'000	Notes	YTD 2016	YTD 2015
Net result for the period		(10,439)	(5,899)
Currency translation differences		(2)	6
Items that may be subsequently reclassified to profit or loss		(2)	6
Other comprehensive income, net of tax		-	-
Total comprehensive income for the period		(10,441)	(5,893)
Attributable to:			
Owners of the parent		(10,441)	(5,893)

Consolidated Balance Sheet
As at date shown

Amounts in €'000	Notes	30 September 2016	31 December 2015
Intangible assets		685	724
Property, plant and equipment		5,909	5,661
Restricted cash		248	200
Long term prepayment	8	1,000	-
Non-current assets		**7,842**	**6,585**
Inventories	9	18,379	16,229
Trade and other receivables		5,872	3,220
Cash and cash equivalents		16,764	31,643
Current assets		**41,015**	**51,092**
Total assets		**48,857**	**57,677**
Share capital		4,126	4,120
Share premium		283,538	283,396
Legal reserves		64	66
Accumulated deficit		(272,746)	(263,743)
Shareholders' equity	**10**	**14,982**	**23,839**
Loans and borrowings	11	8,647	11,757
Deferred license fees income		6,214	7,808
Finance lease liabilities		726	798
Non-current liabilities		**15,587**	**20,363**
Loans and borrowings	11	5,636	3,047
Deferred license fees income		2,145	2,207
Derivative financial liabilities	12	534	953
Trade and other payables		9,714	7,005
Finance lease liabilities		259	263
Current liabilities		**18,288**	**13,475**
Total equity and liabilities		**48,857**	**57,677**

Consolidated Statement of Cash Flows
For the nine-month period ended 30 September

Amounts in €'000	YTD 2016	YTD 2015
Operating result	**(9,387)**	**(9,070)**
Non-cash adjustments:		
Depreciation, amortization	447	397
Accrued employee benefits	1,435	2,041
Deferred license fees	(1,656)	(1,655)
Operating cash flows before changes in working capital	**(9,161)**	**(8,287)**
Changes in working capital:		
Inventories	(2,150)	(3,272)
Trade and other receivables	(2,652)	(2,580)
Payables and other current liabilities	2,709	316
Total changes in working capital	**(2,093)**	**(5,536)**
Changes in non-current assets, liabilities and equity	**(759)**	**444**
Net cash flows used in operating activities	**(12,013)**	**(13,379)**
Capital expenditure for property, plant and equipment	(922)	(666)
Divestments of assets	-	2
Net cash flows used in investing activities	**(922)**	**(664)**
Proceeds of debt loans	-	15,524
Payments of transaction fees and expenses	-	(608)
Repayment and interest on loans	(1,567)	(88)
Proceeds of equity and warrants	13	4
Net cash flows from financing activities	**(1,554)**	**14,832**
Increase (decrease) of cash	**(14,489)**	**789**
Exchange rate effects	(343)	(122)
Cash and cash equivalents at 1 January	31,843	34,385
Total cash at 30 September	**17,012**	**35,052**
Of which restricted cash	(248)	(200)
Cash and cash equivalents at 30 September	**16,764**	**34,852**

Consolidated Statement of Changes in Equity
For the nine-month period ended 30 September

		Attributable to owners of the parent		
Amounts in €'000	Notes	Number of shares	Share capital	Share Premium
Balance at 1 January 2015		407,686,599	4,077	282,260
Result for the period			-	-
Other comprehensive income			-	-
Total comprehensive income			-	-
Share-based compensation		-	-	-
Bonuses settled in shares		523,813	5	168
Shares issued for cash			-	-
Warrants exercised/ issued			-	-
Options exercised		56,250	1	3
Total transactions with owners recognized directly in equity		580,063	6	171
Balance at 30 September 2015		408,266,662	4,083	282,431
Balance at 1 January 2016		411,971,790	4,120	283,396
Result for the period			-	-
Other comprehensive income			-	-
Total comprehensive income			-	-
Share-based compensation		-	-	-
Bonuses settled in shares	10	533,584	5	121
Shares issued for cash		-	-	-
Warrants exercised/ issued	10	100,000	1	21
Options exercised		-	-	-
Total transactions with owners, recognized directly in equity		633,584	6	142
Balance at 30 September 2016		412,605,374	4,126	283,538

Attributable to owners of the parent

Amounts in €'000	Notes	Legal reserves	Accumulated Deficit	Total Equity
Balance at 1 January 2015		36	(256,530)	29,843
Result for the period		-	(5,899)	(5,899)
Other comprehensive income		6	-	6
Total comprehensive income		6	(5,899)	(5,893)
Share-based compensation		-	2,040	2,040
Bonuses settled in shares		-	-	173
Shares issued for cash		-	-	-
Warrants exercised/ issued		-	-	-
Options exercised		-	-	4
Total transactions with owners, recognized directly in equity		-	2,040	2,217
Balance at 30 September 2015		42	(260,389)	26,167
Balance at 1 January 2016		66	(263,743)	23,839
Result for the period		-	(10,439)	(10,439)
Other comprehensive income		(2)	-	(2)
Total comprehensive income		(2)	(10,439)	(10,441)
Share-based compensation		-	1,436	1,436
Bonuses settled in shares	10	-	-	126
Shares issued for cash		-	-	-
Warrants exercised/ issued	10	-	-	22
Options exercised		-	-	-
Total transactions with owners, recognized directly in equity		-	1,436	1,584
Balance at 30 September 2016		64	(272,746)	14,982

1. *Company information*

Pharming Group N.V. is a limited liability public company which is listed on Euronext Amsterdam (PHARM), with its headquarters and registered office located at Darwinweg 24, 2333 CR Leiden, The Netherlands.

2. *Basis of preparation*

These consolidated interim financial statements for the nine months ended 30 September 2016 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committtee (IFRS IC) interpretations applicable to companies reporting under IFRS as adopted by the European Union and valid as of the balance sheet date.

These financial statements are being published to provide all shareholders and investors with the most current financial information to enable a full understanding of the implications of the Company's recently announced deal to acquire the commercialization rights to RUCONEST® in North America from its partner Valeant and the related proposed financing activity.

3. *Going concern assessment*

In preparing and finalizing the consolidated interim financial statements for the nine months ended 30 September 2016, The Board of Management of Pharming has assessed the Company's ability to fund its operations for a period of at least one year after the date of these financial statements on a going concern basis.

For this assessment, a number of scenarios have been assessed:

I – The Transaction does close and Pharming acquires the commercial rights from partner Valeant Pharmaceuticals, Inc

In relation to the acquisition of the commercial rights from partner Valeant Pharmaceuticals, Inc., the situation is assessed that the Company would commercialize its own product in the US, based on the rate of Valeant.

Assumptions:
The following main items and assumptions have been considered in this scenario:

- Funding through a combination of straight (convertible) debt and new equity capital of between US$ 80-100 million;
- Upfront fee payment of US$ 60 million for the acquisition of the commercial rights from Valeant;
- Additional new investment in sales force, medical science liaison, personnel and marketing activities in the US and Europe;
- The projected, however undisclosed sales revenues for the period involved, related to the markets in which the Company already has market approval.

Conclusion of this scenario:
Based on the assessment that the Transaction does close and direct commercialisation of the product in the US will be able, the Company has concluded that funding of its operations for a period of one year after the date of signing of these consolidated interim financial statements is realistic and achievable.

II - Alternative scenario assuming that the Transaction does not close and Pharming will continue to balance research and development (R&D) spending and company growth against actual sales revenues

Assumptions: If the Transaction does not close, Pharming will continue to balance research and development (R&D) spending and company growth against actual sales revenues, to ensure that the costs do not exceed the means and resources available to the Company. The business plan which Pharming intends to operate if it is unable to close the Transaction this year is as follows.

If sales continue to grow at the current rate in 2016 and 2017, the Company will continue to develop two of the current main research programs (Pompe disease and Fabry disease) together with the new routes of administration for RUCONEST®, and the other one (Human Recombinant Factor VIII) will be continued at a slower pace. The development of new additional IV Lite, intramuscular and subcutaneous versions of RUCONEST® will be continued. This reduced level of research activity represents a lower cost level by approximately 20% on the maximum R&D expenses level, or about €2.9 million in cost terms.

Conclusion of this scenario: On this basis, Pharming has sufficient cash for at least the next 15 months after the signing date of these financial statements.

III - Alternative scenario assuming that the Transaction does not close and Pharming will limit the research and development (R&D) spending and assuming no company growth against actual sales revenues

Assumptions:
If sales do not continue to grow at least the current rate in 2016 and the first quarter of 2017, then only one (Pompe disease) of the three main research programs will be continued in fast mode, together with the new routes of administration for RUCONEST®. The other two will continue at a slower pace, dependent on sales revenues. This level of research activity represents a lower cost level by approximately 40% on the maximum R&D expenses level, or €5.8 million in cost terms.

The consequential changes for the Company of slower sales growth are also expected to result in reductions of general and administration expenses of approximately 10%-15% (or €0.3 million to €0.4 million).

Conclusion of this scenario:
The total reduction of Pharming's annual operating costs relative to the rate prevailing over the first nine months of 2016 would therefore be between €3.2 million and €6.2 million. On this basis, Pharming has sufficient cash for at least the next 15 months after the signing date of these financial statements even in the absence of any sales improvement.

Overall conclusion

Based on the assessment on a going concern basis, the Company has concluded that funding of its operations for a period of 12 months after the signing date of these financial statements is realistic and achievable. In arriving at this conclusion, the following main items and assumptions have been considered:

- Cash and cash equivalents of approximately €17.0 million at the end of the reporting period.;
- The projected, however undisclosed sales revenues for the period involved, related to the markets in which the Company already has market approval;
- The Company's operating cash outflows, its investments in (in)tangible assets as well as its financing payments for one year after the end of the financial statements.

Overall, based on the outcome of these assessments, 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 with closing the Transaction, the Board of Management emphasizes that the actual cash flows for various reasons may ultimately (significantly) deviate from their projections.

4. Accounting policies

Compared to the financial statements for the year ended 31 December 2015, the Company has changed the consolidated statement of cash flows from the direct method to the indirect method. The main difference is the presentation and determination of cash flows from operating activities. Under the indirect method the figure is produced by adjusting the profit and loss by removing the effects of non-cash items and changes in working capital. The Company has chosen the operating result as a starting point for the reconciliation because most of the other elements in the net result have a non-cash nature. This way the statement properly reflects the cash flows.
The reasons for the Company for this change are: Clear reconciliation with income statement through operating result, and balance sheet through working capital changes, more relevant information about the Company's cash flow and more consistency with market standards.

A number of new or amended IFRS became applicable for the current reporting period. However, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these IFRS.
Besides the above mentioned, the accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2015.

5. Estimates and judgements

The preparation of interim financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies were the same as those applied to the consolidated financial statements for the ended 31 December 2015.

Seasonality of operations

Seasonality has no material impact on Company's interim financial statements.

6. *Segment information*

The Board of Management is the chief operating decision-maker. The Board of Management considers the business from both a geographic and product perspective. From a product perspective, the Company's business is almost exclusively related to the RUCONEST® business. From a geographic perspective, the Company is operating in the areas: the US, EU and the Rest of the World. The Board of Management primarily measures revenues to assess the performance of the geographic areas. Costs and assets are not allocated to the geographic areas.

Total revenues per geographic area for the nine-month period are:

Amounts in €'000 (unaudited)	YTD September 2016	YTD June 2016	Change	YTD September 2015
USA:				
Product Sales	5,765	3,504	2,261	5,088
Released License fees	852	568	284	852
Total	**6,617**	**4,072**	**2,545**	**5,940**
Europe:				
Product Sales	1,038	548	490	1,605
Released License fees	600	400	200	600
Total	**1,638**	**948**	**690**	**2,205**
RoW:				
Product Sales	231	118	113	136
Released License fees	204	136	68	203
Total	**435**	**254**	**181**	**339**
Total Revenue	**8,690**	**5,274**	**3,416**	**8,484**

7. *Expenses by nature*

Cost of product sales in the first nine months of 2016 amounted to €3.2 million (YTD 2015: €3.7 million). Inventory impairments amounted to an addition of €0.2 million (2015: reversal of €0.2 million). The impairment stems from the valuation of the inventories against lower net realisable value, related to reallocation of inventories to the different markets with different prices, based on sales forecasts by management and commercial partners, and clinical programmes. Actual sales can differ from these forecasts.

Operating costs increased to €15.1 million from €13.9 million in the first nine months of 2015. The increase is a result of the increased costs for the new R&D sites in France and the Netherlands and increased R&D activities in the Netherlands.

In the first nine months of 2016, Research and Development costs increased by €0.8 million compared to the same period in 2015 and amounted to €11.1 million, General and Administrative costs increased to €3.1 million from €2.7 million in the same period in 2015 and Marketing and Sales costs remained the same and amounted €0.9 million.

Employee benefits

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

Depreciation and amortisation charges

Amounts in € '000	YTD 2016	YTD 2015
Property, plant and equipment	(407)	(357)
Intangible assets	(40)	(40)
Total	**(447)**	**(397)**

The increase of depreciation charges of property, plant and equipment in the first nine months of 2016 as compared to 2015 stems from investments.

Amortisation charges of intangible assets have been fully allocated to research and development costs in the statement of income; for property, plant and equipment, in the first nine months of 2016 an amount of €335k was charged to research and development costs (YTD 2015: €274k) and €72k to general and administrative expenses (YTD 2015: €83k).

8. *Long term prepayment*

The Long term prepayment is part of a new manufacturing agreement with BioConnection B.V. and represents two of a total of four instalments, each of €500,000. BioConnection may decide at its sole discretion to lower the total amount of the last 2 instalments that are due in 2017. The prepayment will be settled by BioConnection for paying for Drug Product batches in the future. The Company does not expect to settle the instalments within 1 year. In the trade payable, the second instalment is included and will be paid in the fourth quarter of 2016.

9. *Inventories*

Inventories include batches RUCONEST® and skimmed milk produced and available for conversion to RUCONEST®.

Amounts in €'000	30 September 2016	31 December 2015
Finished goods	9,708	11,397
Work in progress	6,509	3,232
Raw materials	2,162	1,600
Balance at end of period	**18,379**	**16,229**

The inventory valuation at 30 September 2016 is stated net of a provision of €0.4 million (2015: €0.5 million) to write inventories down to their net realisable value.

Changes in the adjustment to net realisable value:

Amounts in € '000	30 September 2016	31 December 2015
Balance at 1 January	(462)	(1,691)
Reversal of (addition to) impairment for the year	(230)	247
Used related to costs of product sales	291	548
Used related to operating costs	5	434
Balance at end of period	**(396)**	**(462)**

In 2016, the addition of €0.2 million was based on adjusted sales forecasts. The impaired amount related to operating costs was used for investigational medicinal product drugs in clinical studies.

Cost of inventories included in the cost of product sales in the first nine months of 2016 amounted €3.0 million (2015: €3.9 million). The vast majority of inventories at 30 September 2016 has expiration dates starting beyond 2018 and is expected to be sold or used before expiration.

10. Equity

The Company transferred an aggregate number of 533,584 shares to members of the Board of Management and employees in lieu of bonus rights for the year 2015.
A total of 100,000 warrants were exercised in exchange for 100,000 shares.

11. Loans and borrowings

On 20 July 2015, the Company entered into a straight debt financing with Oxford Finance LLC and Silicon Valley Bank (the Lenders).

Under the terms and conditions of the agreement, the Lenders provide USD17 million (net €15.5 million) secured senior debt funding against 48 months' promissory notes with a 7.02% fixed interest per annum. The initial 12 months of the notes are interest payments only, followed by monthly re-payment of the notes in a 36 months' straight amortization scheme. In 2016 the total amount of interest was €1.3 million.

As further consideration for the facility, the Lenders have received 2,315,517 warrants (amounting to a 3.95% warrant coverage) with a strike price of €0.29, representing the average closing price of Pharming shares over the last ten days prior to the date of the loan, and a final payment on maturity (1 July 2019) of 9% of the principal sum. Other facility fees of €0.6 million have been deferred from the original loans.

The Company and its subsidiaries have pledged all its receivables, tangible assets and intellectual property rights as collateral security to the Lenders.

After initial recognition at fair value, the carrying amount of the loan is revalued to the exchange rate at reporting date.

In case of a change in the underlying cash flows, the carrying amount of the loan is revalued to the net present value of the underlying cash flows discounted at the effective interest rates of 12.2% and 13.1%.

No material changes occurred in 2016.

The Loans can be summarised as follows:

Amounts in € '000	30 September 2016	31 December 2015
Loans from banks	14,283	14,804
Current portion of the long-term loans due within one year	(5,636)	(3,047)
Portion of long-term loans due after one year	8,647	11,757

The remaining lifetimes of the loans are less than 5 years.

12. Derivative financial liabilities

Derivative financial liabilities relate to financial instruments and include warrants issued in relation to the issue of equity. Derivative financial liabilities include the initial fair value of the 4,203,125 warrants issued in connection with the private placements in October 2013 and the Loan and Security Agreement

with Oxford Finance LLC and Silicon Valley Bank, as well as changes in the fair value of the warrants resulting from adjustments of their exercise prices. All outstanding warrants were revalued for accounting purposes at 30 September 2016. No material changes occurred in 2016.

Movement of derivative financial liabilities can be summarised as follows:

Amounts in € '000	30 September 2016	31 December 2015
Balance at 1 January	953	4,266
Initial recognition upon issue	-	590
Fair value losses (gains) derivatives	(410)	(3,380)
Exercise of warrants	(9)	(523)
Balance at end of period	**534**	**953**

Fair value gains and losses on derivatives have been presented within financial income and expenses.

Fair value estimation

The Company uses the following hierarchy for determining the fair value of financial instruments measured at fair value:
Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).
The following table presents the liabilities that are measured at fair value at 30 September 2016 and 31 December 2015:

	30 September 2016		31 December 2015	
Amounts in € '000	Level 3	Total	Level 3	Total
Financial liabilities at fair value through profit or loss	534	534	953	953
Balance at end of period	**534**	**534**	**953**	**953**

The financial liabilities measured at fair value through profit or loss relates to warrants not publicly traded and for which no other observable inputs are available and accordingly the fair value of the warrants has been determined through the Black-Scholes model. For cash and cash equivalents, current receivables, accounts payable, interest accrual, short-term debts, loan and borrowings, finance lease liabilities, the carrying amounts approximate fair value.

13. Commitments and contingencies

In the first nine months of 2016, the Company entered into a Manufacture and Service Agreement with BioConnection for the fill & finish of RUCONEST® (Drug Product), placebo and other products. In July 2016, the Company entered into a Manufacturing Service Agreement with Therapure, Inc. of Canada with respect to process development and clinical production for one of the Company's new programs with a total liability of €3.6 million till the end of 2018.

There were no other material changes to the commitments and contingent liabilities from those disclosed in Note 28 of the 2015 Annual Report.

14. Fully-diluted shares

The total number of outstanding shares at 21 November 2016 is 412,605,374.

The composition of the number of shares and share rights outstanding as well as authorised share capital as per the date of these financial statements is provided in the following tables.

	21 November 2016
Shares	412,605,374
Warrants	4,203,125
Options	43,049,994
LTIP	7,001,736
Issued	**466,760,229**
Available for issue	333,239,771
Authorised share capital	**800,000,000**

15. Subsequent events since the end of the reporting period

The Company announced in August that it has entered into an agreement to acquire all commercialisation rights to its own product RUCONEST® from partner Valeant Pharmaceuticals International, Inc. Under the terms of the agreement with Valeant, Pharming will pay certain subsidiaries of Valeant an upfront payment of US$60 million upon Closing of the Transaction (which is expected on or around [5 December 2016]). In addition, over the coming years the Company will make one-time-only payments to Valeant on achievement of a small number of specific sales milestones events, totalling a maximum of US$65 million. The payments of these milestones will be self-funding because they occur at levels of sales at which the product may be expected to produce incremental profits which will themselves be sufficient for payment of the milestone once it is incurred. The Closing is subject to Pharming obtaining sufficient financing for payment of the Upfront Amount.

The Company held an extraordinary general meeting of shareholders on 5 October 2016, at which the Board of Management proposed to increase the Authorised Share Capital by 150 million new shares to ensure to enable the financing associated with the acquisition of North American rights to Ruconest® to succeed. The proposal is approved by the shareholders.

Apart from this, there have been no significant events since the end of the reporting period which are not already explained in the text of this report.

Review report

To: The board of management of Pharming Group N.V.

Introduction

We have reviewed the accompanying consolidated interim financial information for the nine-month period ended 3o September 2016 of Pharming Group N.V., Leiden, which comprises the consolidated balance sheet as at 30 September 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period then ended and the selected explanatory notes. The board of management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information for the nine-month period ended 30 September 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 21 November 2016
PricewaterhouseCoopers Accountants N.V.

Original version signed by R.M.N. Admiraal RA