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Pharming® 2019 Annual Report

Transforming the future for our patients

Pharming is a specialty pharmaceutical company developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs. We are committed to transforming the future for our patients.

We develop innovative products for the treatment of unmet medical needs. Pharming's lead product, RUCONEST® (conestat alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute hereditary angioedema ("HAE") attacks in patients in Europe, the US, Israel and South Korea. The product is available on a named-patient basis in other territories where it has not yet obtained marketing authorisation.

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Annual Report 2019

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FORWARD-LOOKING STATEMENTS

This Annual Report 2019 of Pharming Group N.V. and its subsidiaries ("Pharming", the "Company" or the "Group") may contain forward-looking statements including without limitation those regarding Pharming's financial projections, market expectations, developments, partnerships, plans, strategies and capital expenditures. The Company cautions that such forward-looking statements may involve certain risks and uncertainties, and actual results may differ. Risks and uncertainties include without limitation the effect of competitive, political and economic factors, legal claims, the Company's ability to protect intellectual property, fluctuations in exchange and interest rates, changes in taxation laws or rates, changes in legislation or accountancy practices and the Company's ability to identify, develop and successfully commercialise new products, markets or technologies. As a result, the Company's actual performance, position and financial results and statements may differ materially from the plans, goals and expectations set forth in such forward-looking statements. The Company assumes no obligation to update any forward-looking statements or information, which should be taken as of their respective dates of issue, unless required by laws or regulations.

The following sections of this annual report form the director's report within the meaning of section 2:391 of the Dutch Civil Code: Operational Highlights 2019, Financial Highlights 2019, About Pharming Group, Chief Executive Officer's Statement, Management Report, Statement of the Board of Management, Management Structure, Corporate Governance and Risk Management, Report of the Remuneration Committee, Corporate Social Responsibility.

Operational highlights 2019

As in the previous two years,

sales growth in the USA of RUCONEST® (C1 esterase inhibitor [recombinant]) for the treatment of acute hereditary angioedema (HAE) attacks has continued to increase. We have also been building our commercial infrastructure to increase sales in our European territories, principally Germany, France and the UK. These two activities have resulted in worldwide sales growth in 2019 of 25.0%, up from €135.1 million in 2018 to €169.0 million in 2019. In the USA, the growth was more marked as product sales grew to €162.7million ($182.2 million), up 29% from €126.6 million ($149.3 million) in 2018, although some of this growth was derived from the movement in the Euro:Dollar exchange rate.

A new source of growth is the increasing number of patients using a C1 esterase inhibitor for breakthrough attacks when on new prophylaxis treatments. This breakthrough attack segment is expected to continue to grow steadily, even as new products enter the market and despite the convenience of prophylaxis therapies, because most new therapies do not block all the relevant pathways and so an attack may not always be resolved easily without C1 esterase inhibitor delivered in the correct acute dose.

This strong sales performance coupled with efficient cost control and good capital structure enabled us to increase net profits, and we did so throughout the year. As a result of this strong financial performance, we were able to increase R&D investment significantly, as well as increasing capital spending on expansion of our product development activities and capacity and on a new in-licensed late-stage development program, leniolisib, a small molecule phosphoinositide 3-kinase delta (PI3Kδ) inhibitor for the treatment of Activated Phosphoinositide 3-kinase Delta Syndrome ("APDS"), a rare genetic mutation, causing a severe immune system deficiency.

Throughout the year,

A total of 20 (peer reviewed) published manuscripts, publications, presentations and abstracts were delivered at scientifc meetings by independent researchers and physicians demonstrated the power of RUCONEST® in a variety of situations affecting patients with HAE, including the following. Full details are available on pages 192-193.

1. A published manuscript regarding the acute treatment of pregnant HAE patients with RUCONEST® by Moldovan D, Bernstein JA, Hakl R, Porebski G, Poarch K, Lumry WR, Relan A. Safety of recombinant human C1 esterase inhibitor for hereditary angioedema attacks during pregnancy. J Allergy Clin Immunol Pract. 2019;7(8):2938-2940.
2. A published abstract examining the use of Recombinant human C1 esterase inhibitor as a rescue therapy for HAE; Urdaz RZ, Harper JR, Rosado Quiñones AM. Recombinant human C1 esterase inhibitor as rescue therapy for hereditary angioedema attacks refractory to other therapies: a case report. Allergy Asthma Proc. 2019;40(5):359.
3. A published abstract examining the use of Recombinant human C1 esterase inhibitor in the treatment of laryngeal HAE attacks; Bara N, Bologa R, Bellizzi L, Cicardi M. Recombinant human C1 esterase inhibitor (C1-INH) for laryngeal attacks due to acquired angioedema (C1-INH-AAE). Ann Allergy Asthma Immunol. 2019;123(5): S94.
4. And a published abstract on the treatment outcomes of HAE patients with normal levels of C1 esterase inhibitor; Jones DH, Bansal P, Bernstein JA, Fatteh S, Harper J, Hsu FI, Jain S, O'Connor M, Park N, Wilson B, Zacek L, Suez D. Clinical profile and treatment outcomes in patients with hereditary angioedema with normal C1 esterase inhibitor. Ann Allergy Asthma Immunol. 2019;123(5): S31-S32.

In April,

the Company invested a total of €4.1 million in subscription for new shares and a further €0.9 million in acquiring shares from existing shareholders to form a minority ownership stake in its fill & finish services provider, BioConnection B.V., which manufactures the vials of Pharming's product RUCONEST® from the formulated drug substance, in order to support that company in its investment plans for new production capacity. The transaction is intended to support the expansion of BioConnection, which will directly benefit Pharming as the Company looks to increase capacity to support the growing demand for RUCONEST® and pipeline development. BioConnection is a fast-growing profitable company with a global customer base. The Company does not intend to take an active operational role in BioConnection B.V.

In June,

Pharming announced the initiation of a clinical Phase I/II study of the effects of recombinant human C1 esterase inhibitor on patients with late-stage Pre-Eclampsia, following ethical committee approval. This study consists of two parts, a small safety study expected to read out headline data in 2020 and a larger Phase II proof of concept study which will follow on from a successful outcome of the first part.

During the year, a new study of the effects of recombinant human C1 esterase inhibitor on patients undergoing contrast-enhanced scans prior to percutaneous coronary interventions, such as stent insertions and valve replacement surgery, has been prepared. This follows positive results of a Phase II investigator-initiated study of RUCONEST® in a double-blind, placebo-controlled clinical trial in patients at risk of nephropathy resulting from contrast-enhanced examinations in October 2018. That study was led by Dr Michael Osthoff at the University Hospital Basel, Basel, Switzerland, and Dr Osthoff is also the lead investigator for the new study. Ethics committee approval and Swiss regulator, SwissMedic approval has been obtained, and the first patient is expected to be treated shortly. The study aims to establish whether treatment pre-administration of contrast medium and post-procedure can be beneficial in reducing the risk of acute kidney injury in patients with impaired kidney function prior to the scan/procedure. Such patients currently face a significant risk of debilitating or even fatal kidney damage as a result of such contrast-enhanced scans.

In August,

Pharming announced it had entered into a development collaboration and license agreement with Novartis to develop and commercialise leniolisib (CDZ173), a small molecule phosphoinositide 3-kinase delta (PI3Kδ) inhibitor being developed by Novartis to treat patients with Activated Phosphoinositide 3-kinase Delta Syndrome ("APDS"). Under the terms of the agreement, the Company paid Novartis an upfront amount of $20 million for the program.

APDS is a primary immune deficiency caused by a mutation in the PIK3CD gene that increases activity of PI3Kδ, a promoter of activity in the immune system. As a result of this over-activity, the cells involved in immune response can fail to be differentiated properly, which means that sufferers are unable to react well to infections and can suffer early cell death. Patients frequently suffer a functional inability to fight off infections, as well as developing airway and other lesions and certain cancers. It is an ultra-rare disease with estimated incidence rates across the world of approximately 1-2 per million. Importantly, there is a commercially available genetic test that can identify the patients who will benefit from leniolisib making this program personalized medicine for these APDS patients and their family members who also have the mutation.

Novartis has completed all the preclinical and clinical work to date and will continue to run the ongoing registration-enabling trial and the ongoing open label extension study. Pharming works alongside Novartis to complete enrolment of the ongoing registration enabling trial. Upon approval, Pharming will commercialise leniolisib through its existing commercial infrastructure in the US and Europe and look for ways to make the drug available in other markets worldwide. Novartis is eligible to receive payments for regulatory and commercial milestones and will also earn tiered, double digit royalties on net sales.

In October,

Pharming confirmed it had been included in an injunction in the US obtained by CSL Behring, a subsidiary of CSL Limited of Australia ("CSL"), to prevent possible transmission of proprietary documents and data to Pharming which CSL claimed to have been downloaded from its systems by one of their ex-employees, who chose to take a position at Pharming to be a medical director but who had not started with Pharming at that time. As none of the information was transmitted to Pharming and Pharming was able to satisfy CSL that it had not been involved in the download of any CSL documents in any way shape or form, the case against Pharming was dropped completely.

In December,

Pharming announced that it had agreed with Swedish Orphan Biovitrum AB (publ) (Sobi) to terminate Sobi's license to commercialise RUCONEST® in Europe, the former CIS states and the Middle East as of January 2020. Under the agreement, the license was terminated with effect from 1 January 2020 in all 36 countries with a smooth handover taking place in the countries where Sobi had sales activities. Pharming will pay Sobi €7.5 million in two tranches.

Following the strategic decision to re-acquire the North American commercial rights for RUCONEST® in December 2016 from its licensee Valeant Pharmaceuticals International (now "Bausch Health"), Pharming has increased US sales significantly. It is anticipated that, while not of the same commercial scale as the US, a growth increase in the additional 36 territories can be expected. The transaction has been accretive to earnings immediately.

Financial highlights 2019

Overall:

Total annual revenues increased to €169 million (including €1.5 million of license revenue) in 2019 from €135.1 million in 2018 (including €0.8 million in license revenue). The increase in license revenue relates to the release of the remaining balance of the upfront payment received from Sobi at the initiation of the Sobi license which was held on the balance sheet. This balance was released to the income statement as soon as the Sobi license was terminated.

Operating results improved strongly to a profit of €60.9 million in 2019 from €38.0 million in 2018, an increase of 60% in spite of considerable increases in clinical and R&D activity, mainly due to the strong sales growth in major markets and efficient production of RUCONEST®. The basic underlying unadjusted operating result (EBITDA) was €65.4 million. Operating costs also increased significantly from €75.6 million in 2018 to €87.2 million in 2019, reflecting the increased activity in the second production facility, preparing and launching the new clinical studies for Pre-Eclampsia and Acute Kidney Injury, work on new forms of RUCONEST® and investments in the new pipeline asset leniolisib in-licensed from Novartis.

The net profit in 2019 of €36.2 million represented an increase of 45% over 2018 (€25.0 million), reflecting improved gross profits less additional costs to provide for the contingent consideration for milestones due to Bausch Health, which are provided on a risk-adjusted basis in accordance with IFRS.

The first milestone amount due to Bausch Health was due and paid in the first quarter of 2019, and the second became due in the fourth quarter of 2019 and was paid in February 2020. The amount of this second payment ($20.0 million or €17.8 million) is shown in the current liabilities section of the balance sheet as at the year end, with the remainder shown under long term liabilities. Release of the current part of this provision will negate the effect of the milestone payment on the Company's income statement in the first quarter of 2020.

Since we created a deferred tax asset to recognise the likelihood of being able to use our net operating tax losses , the business has continued to grow, such that we began to pay taxes in the USA and are using up net operating losses in the Netherlands. The net effect of our profitability is an increase in the tax charge for 2019 to €10.5 million (2018: Tax income of €24.1 million, relating to an increase in the deferred tax asset). The tax charge in the Netherlands is met by a reduction in the deferred tax asset balance (December 2019: €28.6 million (2018: € 35.0 million). This is a strong statement in support of our belief that the underlying sustainable performance of the Company will result in our first corporate income tax payments in our home country of the Netherlands in the next few years.

The equity position improved 69% from €61.8 million in December 2018 to €104.7million in December 2019, mainly due to the changes in the net result achieved by the Company.

Inventories reduced slightly from €17.3 million in December 2018 to €14.5 million in December 2019, largely due to the increase in sales above the effect of movement of inventory from lower value raw materials to higher value drug product. This level of inventory, together with our increased capacity improvements, allows us to continue to meet the growing sales levels both in the US and in Europe without stock shortages.

The cash position (including restricted cash) decreased from €81.5 million at year-end 2018 to €68.6 million at year end 2019. This was mainly due to the strong sales performance of RUCONEST® especially in the third and fourth quarters, balanced by the repayment of over €29 million ($33.3 million) of the Orbimed loan during the year, interest payments totalling €8.7 million ($9.7 million), the payment of €35.5 million ($40 million) in upfronts and milestones ($20 million to Novartis upfront for the leniolisib program and $20 million milestone to Bausch Health), plus the cash payments of €2.5 million to BioConnection and its shareholders in April for the stake acquired in that company. Cash generation has been strong across all four quarters of 2019, as sales revenues grew and as faster credit collection was achieved.

After the year end 2019

Since 31 December 2019, the following additional events have occurred:

- In January 2020, the Company's second facility for producing enriched milk source material was validated and approved for production release of product for commercial sale in the European Union by the European Medicines Agency. Earlier in March 2020, the same facility also received the US Food and Drug Administration's (FDA) approval of Pharming's Prior Approval Supplement to add the new Netherlands production facility's manufacture of starting material to the US Biologics License Application (BLA) to support its lead product, RUCONEST® and enable the commercial sale of output derived from the facility in the USA as well.

- As a result of the strong sales level in the USA during 2019, Pharming has achieved the second milestone due to Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals International, Inc.) of €17.8 million (US$20 million). This payment was triggered when cumulative net sales in the USA reached $150 million in a calendar year. As this occurred during the fourth quarter of 2019, the milestone payment is due in May 2020. A further €22.3 million ($25.0 million) of milestones may be due to Bausch Health in future years if cumulative net sales in any one year reach additional specific undisclosed higher levels.

- In January 2020, the Company offered €125 million of 5-year convertible bonds. The bonds were more than three times oversubscribed in a bookbuilding exercise conducted by J.P. Morgan, the Company's sole bookrunner, and the offer closed within a few hours. The Bonds were offered via an accelerated book building process through a private placement only to institutional investors outside the United States of America, Australia, South Africa and Japan. The net proceeds of the issue of the Bonds were used to redeem the balance of approximately US$ 56 million of the loan with Orbimed Advisors in full, thereby reducing the Company's financing costs from 13% to 3% and extending its debt maturity through the period to anticipated approval of most of the Company's existing pipeline. The balance of the net proceeds will also be used to support capital expenditure in relation to the expansion of the commercialisation and manufacturing infrastructure of the Company and also serve as funding for the launch of Pharming's recently acquired leniolisib product, as well as for additional acquisitions/in-licensing opportunities.

  The Bonds were issued at par and carry a coupon of 3.00% per annum payable semi-annually in arrears in equal instalments. Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 21 January 2025. The Bonds will be convertible into ordinary shares of the Company with an initial conversion price of €2.0028, which represented a premium of 40% above the volume weighted average price (VWAP) of an ordinary Pharming share on Euronext Amsterdam between opening of trading on the launch date and the pricing of the Bonds (which was €1.4306). This initial conversion price may be subject to customary adjustment provisions as set out in the terms and conditions of the Bonds. The number of ordinary shares initially underlying the Bonds is 62,412,622, representing 9.9% of the Company's current issued share capital.

  The low (and non-market-variable) financing (fixed interest of 3%) cost of these bonds and the availability of market instruments (e.g. Future re-issuance of the bonds) to reduce the number of shares needed to back the bonds as the share price rises meant that this was by far the lowest cost and lowest impact method of re-financing the more expensive loan facility and providing additional capital without recourse to diluting shareholders unless the share price well exceeds €2.00 per share.

  These bonds are listed on the Frankfurt Exchange (Börse Frankfurt: PHARMING GRP 20/25 CV).

- Since the start of 2020, the effects of the outbreak of the coronavirus COVID-19 have been increasing in severity and their potential consequences for the business. Pharming has taken strict measures to safeguard the welfare of its staff and its animals as well as the security of supply for all patients using its drugs. More information on this is available in note 3 and in the Risk Factors on page 51.

- In March, Pharming Group Shares were included in the Euronext Amsterdam MidKap Index (AMX). On entry into the AMX, Pharming became one of the smaller index members. Composition of the AMX is reviewed quarterly by Euronext. Eligibility for entry into any Amsterdam index is evaluated by criteria relating to the price of the share and to ratios such as free float/market capitalisation and free float/velocity. Based on these evaluations, Euronext can rank companies by size into one of the three main indices of the Amsterdam Stock Exchange. Membership of each index has consequences in terms of which investors can purchase and hold Pharming stock, and some investors are required to invest only in index member companies.

About Pharming

Pharming is a specialty pharmaceutical company developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs. Pharming's lead product, RUCONEST® (conestat alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute HAE attacks in patients in Europe, the US, Israel, Colombia and South Korea. The product is available on a named-patient basis in other territories where it has not yet obtained marketing authorisation.

Pharming commercialises or has distribution rights world-wide, except Israel, South Korea and some Latin American markets, where RUCONEST® is partnered. In those markets where Pharming has distribution rights, but no presence, RUCONEST® can be obtained through the international HAE patient organisation (HAEi) Global Access Plan (HAEi-GAP).

RUCONEST® is awaiting formal approval for the treatment of HAE in young children (2-13 years of age) and is also being evaluated for various additional follow-on indications.

Pharming is developing leniolisib for Activated Phosphoinositide 3-kinase Delta Syndrome, under a license from Novartis. Leniolisib is currently in the middle of a registrational Phase III study due to report topline data in early 2021, with approval anticipated later that year and (if approval is granted) launch expected in mid-2022.

A new recombinant human alpha-glucosidase (rhαGLU) enzyme replacement therapy for Pompe disease has entered into IND-enabling studies. These studies enable the basic safety, activity and production process for the molecule to be established prior to use in first clinical studies in man. Filing of the IND is expected in the last quarter of 2021. This new more natural recombinant human alpha-glucosidase has been developed through Pharming's proprietary technology platform.

Our platform includes a unique, GMP-compliant, validated process for the production of pure recombinant human proteins that has proven capable of producing industrial quantities of high quality close-to-natural recombinant proteins in a more economical and often less immunogenic way compared with current cell-line or plasma fractionation-based methods. Leads for recombinant human alpha-galactosidase (rhαGAL) enzyme replacement therapy (ERT) for Fabry's disease are also being optimised at present.

Pharming has a long-term partnership with the China State Institute of Pharmaceutical Industry (CSIPI) and the Chengdu Institute of Biological Products (CDIBP), both Sinopharm companies, for joint global development of new products, starting with RUCONEST® and recombinant human Factor VIII for the treatment of Haemophilia A. Pre-clinical development and manufacturing for the latter will take place to global standards at SIPI and will be funded by SIPI. Clinical development will be shared between the partners with each partner taking the costs for their territories under the partnership.

Pharming began to report financial results and related information in both Euros and US dollars during 2019, beginning with the first quarter results statement in May 2019. This reflected the increasing importance of US dollars as a currency within Pharming, and the wider audience now seeking Pharming's published information. The issue of the new convertible bonds has rebalanced the importance of the Euro as reporting currency, and so the presentation currency in 2020, from the first quarter results, will continue to be Euros first, with comparable data for the income statement, balance sheet and cashflow statement given in US dollars afterward.

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

Testimonial Susanne

"Six years ago, straight out of university, I began my career at Pharming. Since then I have held several positions within the company. As we expanded and the communication need changed, I've had the opportunity to witness first-hand how each department works, what's important to them, what they need to communicate with various stakeholders and how that's best achieved. Most recently my role has focused on Investor Relations. I was drawn into the impassioned communication by our spokespeople. How they communicate what makes our company great to those interested in (or sometimes initially not so interested in) our company.

I consider us very fortunate to have such an enthusiastic group of well-informed investors. With each event, press release or conference call, I learn more about what makes Pharming an attractive investment opportunity. I consider myself lucky to have had the opportunity to grow and learn from so many incredibly skilled, experienced and kind colleagues. There's never a dull day at Pharming and I look forward to the exciting ride ahead."

"There's never a dull day at Pharming and I look forward to the exciting ride ahead

Strategic Focus

Pharming is focused on improving treatment options for patients with life-altering conditions. The Company strategy is centred around three pillars of growth:

- organic growth in HAE;
- organic growth in other indications; and
- expansion of the pipeline in both these areas supplemented by external opportunities.

Activities to execute this growth strategy include:

- Commercialising our own products in the major markets, which includes our lead product, RUCONEST® (recombinant human C1 esterase inhibitor (rhC1INH));
- Developing rhC1INH for additional large unmet indications, including Acute Kidney Injury, Pre-Eclampsia and Delayed Graft Function at present;
- Developing new programs or acquiring external assets for new products which can be used by the same physicians who treat HAE patients, or can help those patients further, or can be commercialised using the same infrastructure;
- Where RUCONEST® is partnered, assisting the partner to obtain the best value for patients and the product by pursuing additional regulatory approvals and additional indications for the product;
- Developing more convenient dosing forms of RUCONEST® (in particular injection methods); and
- Developing new protein replacement treatments for enzyme-deficiency disorders such as Pompe disease and Fabry's disease, as well as other possible biological protein approaches to both rare diseases and larger unmet indications.

Commitment

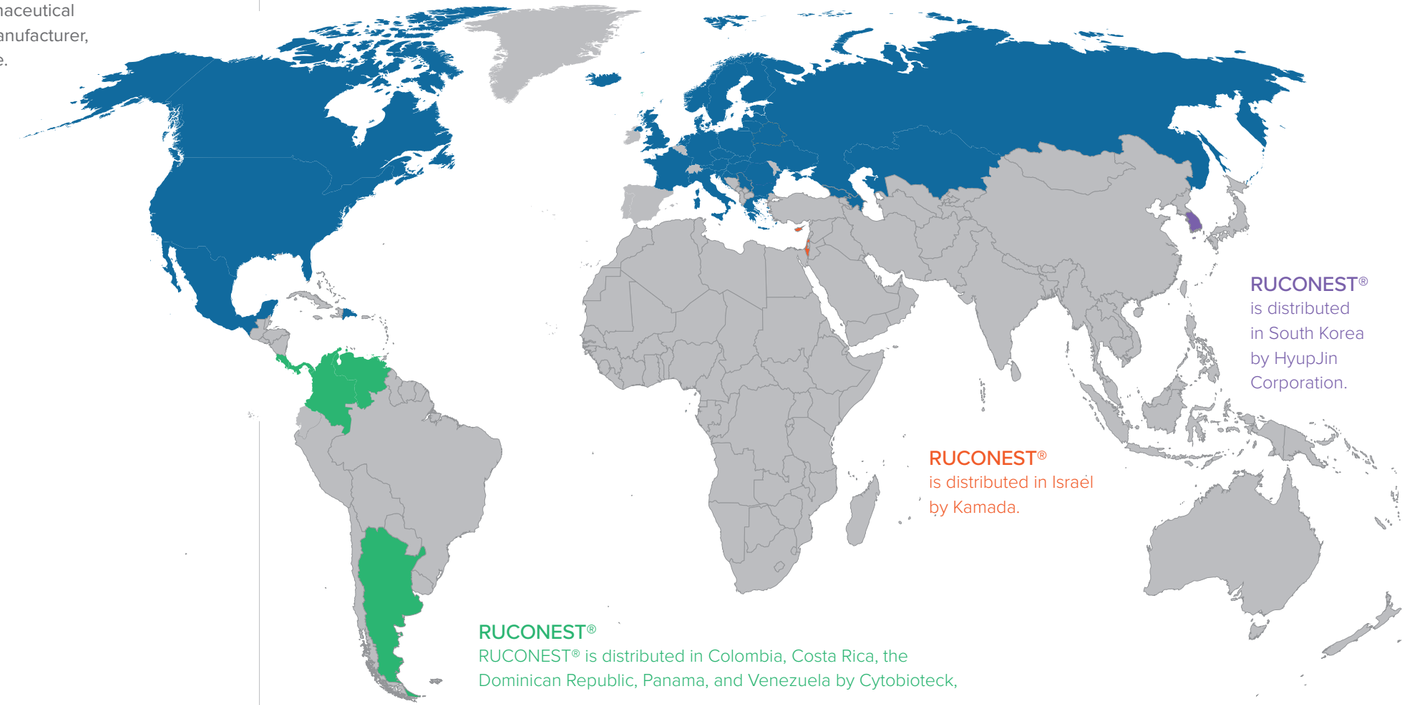
Pharming is committed to:

- Producing good value for all stakeholders through an entrepreneurial culture with appropriate recognition and efficient management of opportunities and risks; and
- Communicating openly, consistently, fairly and in a timely manner to all internal and external stakeholders; and
- Operating to the highest standards of ethics, environmental responsibility and animal welfare; and
- Continuing to maintain the highest levels of social and corporate responsibility as a pharmaceutical company, a research organisation, a manufacturer, an employer, a partner and a workplace.

Distribution of RUCONEST®

RUCONEST®
RUCONEST® is distributed by Pharming in Austria, France, Germany, Luxembourg, the Netherlands, the United Kingdom and the United States of America. Pharming holds commercialisation rights in Algeria, Andorra, Bahrain, Belgium, Ireland, Jordan, Kuwait, Lebanon, Morocco, Oman, Portugal, Qatar, Syria, Spain, Switzerland, Tunisia, United Arab Emirates and Yemen. In some of these countries distribution is made in association with the HAEi Global Access Program (GAP).

As of 1 January 2020, RUCONEST®, is also distributed by Pharming in the other EU countries as well as Serbia and Norway, and Pharming will hold commercialisation rights in Azerbaijan, Belarus, Georgia, Iceland, Kazakhstan, Liechtenstein, Russia, Serbia and Ukraine and the remaining countries in the Middle East region.



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Chief Executive Officer’s Statement

Clear differentiation within HAE

During 2019, we have seen an increase both in patients who are badly affected by HAE and those with less severe symptoms who have been discovering the efficacy as well as the reliable and consistent response rates of RUCONEST® to treat their HAE attacks.

With the developments in the prophylaxis market (in which RUCONEST® is not approved) including a far greater dependence on products and potential products which only block the kallikrein pathway, one of several pathways identified as being complicit in attacks of HAE, we see an increasing need for patients to have a C1 esterase inhibitor on hand to treat attacks which break through their prophylaxis medication. This has led to increased demand for RUCONEST® as a fast, effective resolution therapy for acute attacks of HAE. We see this need for an effective breakthrough resolution therapy continue to drive RUCONEST® sales, even as new products enter the market and despite the convenience of prophylaxis therapies.

Large potential expansion for rhC1INH beyond HAE

In 2019, we advanced the clinical development for additional indications for rhC1INH outside of HAE, a significant step in expanding our pipeline. We initiated a clinical program for the investigation of rhC1INH as a treatment for (late-stage) pre-eclampsia. This study has begun at centres in the Netherlands, and Australia. We also prepared a Phase IIb clinical dose-finding study of the effects of rhC1INH on acute kidney injury. The study protocol has obtained all required regulatory approvals and is expected to start in the near future.

Expansion of the pipeline beyond rhC1INH

In August 2019, we took a step I have been looking forward to for several years, when we acquired a late-stage program from a large pharmaceutical company to enhance our pipeline. We licensed leniolisib from Novartis for the treament of Activated Phosphoinositide 3-kinase Delta Syndrome (APDS). This is an ultra-rare genetic disease and a variant of primary immunodeficiency, in which a patient’s immune system has not developed properly due to genetic flaws, leaving them more susceptible to infections. There is no approved therapy for this rare variant of primary immunodeficiency. Patients with APDS are unable to produce normal white blood cells due to over-production of the white-cell stimulant enzyme Phosphoinositide 3-kinase Delta (PI3Kδ), whereas treatment with leniolisib downregulates PI3Kδ, allowing their white blood cells to develop fully. This program is in a registrational study, which means it will be eligible for approval by major regulators if it shows an adequate effect in this study.

The actual number of patients with APDS is not known, as the condition was only relatively recently identified. Analysts’ estimates of the peak sales potential for this program are between $100 million and $200 million per year. The product, once approved, can be commercialised using Pharming’s existing sales and marketing infrastructure.

Over the year, we have also continued to make progress on our human recombinant α-glucosidase for the treatment of Pompe disease, which has now entered Investigational New Drug (IND) enabling studies and we expect to be able to file the IND in the fourth quarter of 2021.

Our third program from our technology platform, human recombinant α-galactosidase for the treatment of Fabry’s disease, has been optimized and is ready for process development ahead of preclinical work. We are also exploring further recombinant versions of otherwise difficult-to-produce proteins as we continue to seek opportunities for long-term growth.

Strengthening resources and capacity

The strong sales performance, up 25% on a like-for-like basis over 2018, and the resulting profitability up 60% at the operating level year-on-year, have provided the Company with a strong cash generation to allow us both to launch clinical studies and to repay our debt facility on schedule with Orbimed Advisors. Orbimed have been an excellent partner to Pharming, making much of this stability possible. As a result, the Company is now in a position to command much lower financing costs and so we therefore issued our new Convertible Bonds to repay Orbimed in full ahead of time and to provide additional capital for the future. Together with our year end cash of €68.6 million, this has given us cash resources of well over €140 million. We have also been able to continue to deliver net profitability and despite our continued investment in our clinical trial programs, we expect overall net profitability to be sustainable within our current business strategy.

Building on our solid foundation, which we established through the success of RUCONEST®/rhC1INH, was our focus throughout the year. Our increased sales level has driven the need for significant further expansion of our raw materials production capacity, and as such we have now initiated a second and third facility expansion If successful in our new indications, we would require much larger volumes of rhC1INH than is possible using our current set-up and we are therefore making the necessary preparations. To this extent we are working towards producing rhC1INH from our cattle lines.

Finally, in order to upscale the production process, we are investing in our own downstream processing (DSP) plant, to enable extra capacity for the purification process of the proteins from the raw material milk to be brought in-house. The first facility, together with improvements being made in the process in association with our manufacturing partner Sanofi, will more than double our current capacity. Once we have successfully integrated one DSP plant, and if we obtain positive data from either of our current clinical studies, we can start to add additional facilities to increase capacity further as necessary. In the mean time, having our own DSP plant allows us to lower our cost of goods materially ahead of any such new applications for the product.

Despite the increased costs of these expansion activities and the clinical development activity mentioned above, the improvements in commercial performance and the financial restructuring has put Pharming in a very strong financial position. We look forward to continuing to realise value for shareholders over the next few years as we execute on our strategy.

Supervisory Board changes

During the year, Jan Egberts decided to step down from the Supervisory Board. During his tenure, Mr. Egberts was an experienced, energetic and wise adviser for Pharming, and on behalf of all at Pharming and all shareholders, I would like to offer our thanks here to Jan for his considerable contribution to Pharming since 2015. At the Annual General Meeting in May, Ms. Deborah Jorn joined the Supervisory Board, replacing former chairman Mr. Jaap Blaak. Ms. Jorn brings over 20 years' deep experience in the pharmaceutical business, having worked for Merck, Bausch & Lomb and Schering Plough, where she held roles of progressive responsibility in functional areas including R&D, Regulatory and Sales and Marketing.

None of these achievements and development programs would be possible without the support, expertise and hard work of all our employees. I would like to take this opportunity once more to thank all Pharming employees as well as all of our investors, advisers and partners for their support and commitment throughout 2019, which enabled us to execute on the strategic development of the Company to create a strong sustainable platform for significant long-term growth.

Despite being in the middle of the COVID-19 outbreak as this report is being written, we remain optimistic for 2020. We have been putting contingency measures in place to de-risk the production of RUCONEST® and for critical activities for the clinical development projects to continue, whilst at the same time ensuring the safety and wellbeing of our employees and the welfare of our animals. We do not anticipate any reduction in demand or availability of RUCONEST® to patients already using the product, but we are also taking steps to ensure that our commercial teams are safe and minimising all Company travel to reduce the risk of transmission of COVID-19. Barring any further unforeseen circumstances, including prolonged or aggravated continuation of the COVID-19 outbreak, we expect the production and distribution of RUCONEST® to continue to increase as planned, meaning that HAE patients can continue to rely on sufficient amounts of RUCONEST® being available and that our development plans can proceed without significant delays. I therefore look forward with confidence to continuing the strong growth story of Pharming in 2020, as we look to increase sales and progress our new exciting pipeline and as we continue to assess business development opportunities for enhancing shareholder value.

Leiden, 29 March 2020
Sijmen de Vries
Chief Executive Officer and Chairman
of the Board of Management

Testimonial Marjolein

"Drie jaar geleden ben ik gestart bij Pharming als onervaren teamleider, toch gaf Pharming gaf mij de kans te ontwikkelen in deze rol. Ik ben gestart in een team dat nog helemaal opgebouwd moest worden vanaf de grond. Het fijne aan Pharming is dat je bij iedereen binnen de organisatie kunt binnenlopen voor advies. Het leuke van het werken bij Research & Development is dat we bezig zijn met de toekomst. Ook is het werk nooit hetzelfde, wat vandaag onbelangrijk lijkt, kan morgen van groot belang zijn. Dit betekent dat er goed vooruitgedacht moet worden, wat er in de toekomst belangrijk zou kunnen worden. Het is mijn verantwoordelijkheid een goed operationeel platform op te bouwen met alle randvoorwaarden in acht genomen. Zoals onder andere zorgen voor de hoogst mogelijke kwaliteit, het verbeteren van het gebouw, data verzamelen en verwerken, het ontwikkelen van processen en de werknemers. Er is veel aandacht en ruimte voor werknemers om zich verder te ontwikkelen zowel op persoonlijk als op technisch vlak. Binnen ons team verzamelen wij op dit moment zoveel mogelijk informatie en data gerelateerd aan rhaGLU zodat wij een goede bijdrage kunnen leveren aan de veiligheid van de toekomst gerelateerd aan rhaGLU medicatie. Wij vinden het belangrijk dat alle processen zo ethisch mogelijk verlopen."

"Wij vinden het belangrijk dat alle processen zo ethisch mogelijk verlopen

Management Report

Please note that this Management Report includes the Operating Review, the Financial Review, the Statement of the Board of Management and the sections on Corporate Governance and Risk Management, Corporate Social Responsibility and Information for shareholders. It includes by reference the Company's published Corporate Governance Statement.

Operating review 2019

Continued strong sales growth enables launch of new clinical programs for new products

The excellent RUCONEST® sales effort from our commercial teams in the USA and the EU has continued to create momentum in the underlying patient numbers in both markets. We believe that while we now have the right sized of team in the US, the recent re-acquisition of all territories in Europe, Russia, the former CIS and the Middle East previously licensed to SOBI will require careful expansion of the European commercial, medical affairs and regulatory teams. During the year and as in previous years, Pharming provided unconditional support for the HAEA (the US HAE patients' association), the HAEi (the international HAE patients' association) and their programs as well as other HAE centres of excellence in the USA and elsewhere.

Regional market and product overview

USA

RUCONEST®, as the first and only recombinant C1-inhibitor in HAE, is the only C1-inhibitor product which is currently approved to treat HAE acute attacks on demand and to address breakthrough attacks for patients using other products prophylactically. Recombinant C1 esterase inhibitor addresses the root cause of HAE with reliable and consistent results and an excellent safety and tolerability profile. In addition, it is not susceptible to attenuation of effects or failure of therapy due to having effect on only one of several potential pathways or due to tachyphylaxis. Due to its scaleable production, RUCONEST® supplies are not dependent on availability of (commercially-obtained) blood donations. Lastly, there is no exposure to known or presently-unknown viral infections that could be derived from the significant usage of human blood plasma-derived products.

The US market for acute and prophylactic treatment of HAE in terms of patients continued to expand in 2019, and is now estimated by most observers as between 7,000 and 8,000 patients. The value of the market shrank somewhat, largely due to the replacement of Takeda's prophylaxis product Cinryze® with the more effective Takhzyro®, which caused a sharp drop in use of Takeda's acute therapy Firazyr® (icatibant). These changes had virtually no impact on RUCONEST® sales, as RUCONEST® is only promoted for acute use. The overall prophylaxis market is estimated at around $950 million.

The acute-only segment (i.e. patient who are not on any form of prophylaxis) is estimated at approximately US$550 million, still led by icatibant, although its sales are falling sharply. Icatibant is identified as a bradykinin inhibitor, and blocks the Bradykinin B2 receptor, only one of the mechanisms responsible for HAE symptoms.

Europe

The continuing expansion by Pharming of commercialisation of RUCONEST® in Western Europe and other countries is proceeding well, but with sales growing to hit the caps arbitrarily applied by several EU countries on sales, beyond which there is a net reduction in sales recorded. The entrenched positions and historical commercial arrangements of certain competing products in Western Europe continue to be the main obstacle to realise the full potential in western Europe. These obstacles are gradually being overcome, however, as the power and reliability of RUCONEST® in both therapeutic effect and supply leads to greater adoption by national medicines agencies and important clinics across the region.

The reacquisition of 36 territories across Eurasia (including all the remaining EU countries not already directly marketed by Pharming) will allow full marketing activity in all these countries as approvals are obtained. In some of these countries, distribution will remain in the control of the HAEi GAP program. This re-acquisition was immediately accretive to earnings, as supplies were provided to our previous partner at a price below cost

of goods for historic reasons, and the transition from them to Pharming distribution is now well under way. This will necessitate some expansion in commercial teams, as well as additional resources in medical affairs, regulatory affairs and pharmacovigilance, but this is all well within the sales revenue anticipated in 2020 from this expanded region.

Some further regions, such as the former Commonwealth of Independent States (CIS) and the Middle East, may be subject to new partnering arrangements with companies specialising in those areas, but this is still under consideration.

China

Our collaboration with China State Institute of Pharmaceutical Industry (CSIPI) and the Chengdu Institute of Biological Products (CDIBP), both Sinopharm companies, continues to progress well.

This collaboration includes full development and commercialisation rights for RUCONEST® in China. The full RUCONEST® manufacturing process and quality system has been transferred to Sinopharm, enabling manufacture for China but also allowing Sinopharm to supply Pharming with RUCONEST® in the future. This will help to improve our margins further.

In 2019 we assisted CSIPI and CDIBP, the biologicals manufacturing and commercialisation subsidiary of Sinopharm, with a new marketing approach after RUCONEST® was named as one of the 'essential medications' for which conditional approval to sell is available once final marketing approval applications are submitted. This means that Pharming will supply launch material to CSIPI from 2021 and thereafter for some time until CDIBP's Chengdu facility is finished and validated for sales to China, the EU and the US, which will help speed the availability of the drug in China by some years. Once this facility is ready, it should also be able to supply Pharming thereafter, further reducing our cost of goods.

Other markets

RUCONEST® continues to be commercialised in Colombia, Costa Rica, the Dominican Republic and Panama through our partner there, Cytobioteck. In Israel, our new partner Kamada has also been making headway. In South Korea, our partner is HyupJin.

HAEi global access programme ("HAEi GAP")

RUCONEST® is the first therapy available under the "HAEi Global Access Program" (HAEi GAP). This program seeks to ensure that in countries where no adequate HAE therapies are approved or otherwise available, all eligible HAE patients can have access to safe and effective treatment for their HAE through their treating physicians. As part of this program, several requests have been received and the initial treatments were started in countries such as South Africa and the Democratic Republic of the Congo. It is the only known program of this type which has been initiated through a patient group.

Pharming is fully confident in the ability of its partners to commercialise RUCONEST® successfully in all their territories, but it should be noted that Pharming depends on the success of its commercial partners to market its product in those territories. Pharming is therefore exposed indirectly to risks suffered by its chosen partners. We continue to believe that, given its well-established safety and efficacy profile, RUCONEST® is a suitable option for most HAE patients and we continue to support all our commercialisation partners wherever possible.

Development of RUCONEST®

RUCONEST® For Hereditary Angioedema (HAE)

RUCONEST® was originally developed for the treatment of acute attacks of HAE. HAE is a rare genetic disorder in which the patient's body is unable to manufacture sufficient amounts of a fully-functioning version of C1 esterase inhibitor, a protein which is responsible in the body for stopping inflammatory responses to antigen or situation challenges and associated swelling at an appropriate point in the challenge cycles. Abdominal attacks cause abdominal swelling and vomiting, potentially leading to misdiagnosis and unnecessary surgery, and swelling of the skin can lead to disfigurement, disability and pain. Untreated, attacks can last between 48 and 120 hours and can be fatal, especially if the swelling starts at or reaches the throat area. Estimates of the prevalence of the disease vary between 1 in 10,000 to 1 in 50,000, depending on the genetic diversity of the population. Acute attacks usually begin to be noticed in childhood or adolescence, but due to the disorder's rarity, the condition is often not correctly diagnosed for several years. The condition

is stress-related, and there can be considerable variability in the incidence of attacks even within one patient's year, depending on the stresses they encounter during the year. Dental appointments and similar situations can often trigger attacks. The frequency of HAE attacks varies between patients, from extreme cases with two to three attacks per week to milder cases with a few attacks per year. A typical patient has around 18-24 attacks requiring treatment per year.

Additional information about the condition can be found on the international HAE patient's association website at www.haei.org.

Treatment of acute and breakthrough attacks of HAE

Following Pharming's presentation of the initial results from an investigator-initiated, observational, "real-world" comparative study of therapies in acute attacks of hereditary angioedema ("HAE"), additional results from other studies were published corroborating its findings.

Recombinant therapy RUCONEST® and plasma derived C1 treatments appear to require significantly less re-dosing than icatibant to resolve HAE attacks. These outcomes add to emerging insight that the suppression of the kallikrein pathway (part of the contact activation system which includes the mode of action of icatibant and most of the new prophylactic therapies) may cause upregulation of the MASP proteins (Lectin pathway). This causes, in turn, upregulation of the other bradykinin receptors. The resulting breakthrough attacks of angioedema while patients are taking these prophylactic treatments, or following icatibant therapy, have led to new interest in RUCONEST® as treatment for these breakthrough attacks, representing one of the sources of the observed sales growth in 2019.

HAE in children

Pharming announced positive results from an open-label Phase II study evaluating RUCONEST® for the treatment of acute attacks of HAE in paediatric patients. This study involved 20 patients aged 2 up to 13. If successful and approved by regulatory agencies, this extension would broaden the label for RUCONEST® in Europe and would extend the regulatory exclusivity period, which are both valuable benefits. Currently, RUCONEST® has regulatory exclusivity in Europe until 2025.

The open-label, single arm, Phase II clinical trial was designed in agreement with the European Medicines Agency (EMA) as part of a Paediatric Investigation Plan (PIP) to assess the pharmacokinetic, safety and efficacy profiles of RUCONEST® at a dose of 50 IU/kg in paediatric HAE patients aged 2-13 years in support of a paediatric indication for treatment of HAE attacks.

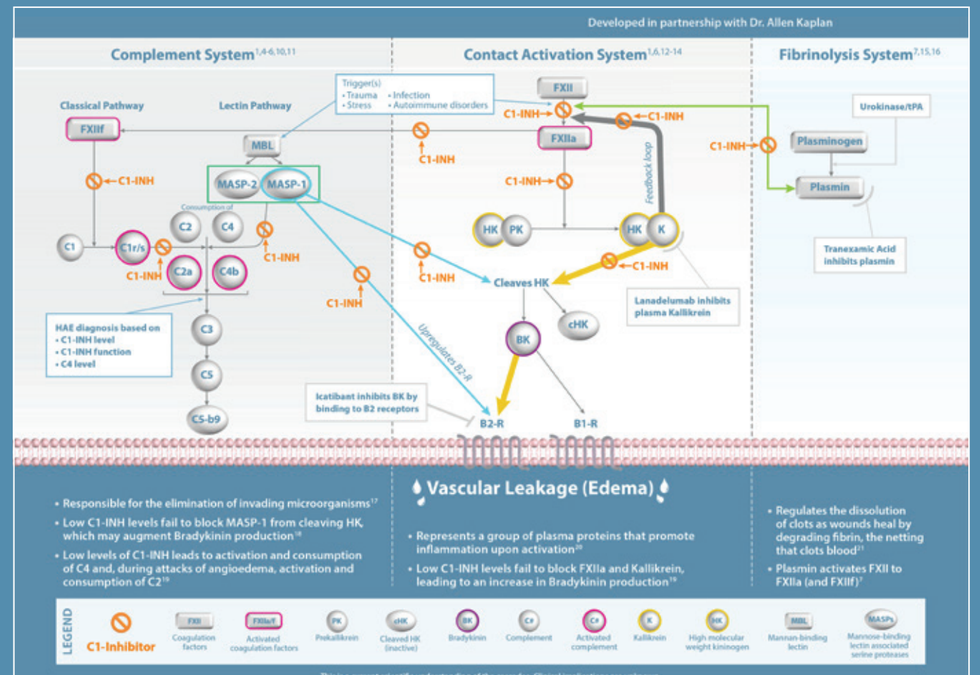
A total of 20 children with HAE were treated for 73 HAE attacks at a dose of 50 IU/kg (up to a maximum of 4200 IU). The study reported clinically meaningful relief of symptoms assessed using a Visual Analogue Scale (VAS) completed by the patient (assisted by their parent). The median time to onset of relief was 60 minutes (95% confidence interval: 60-63), and the median time to minimal symptoms was 122 minutes (95% confidence interval: 120-126). Only 3/73 (4%) attacks were treated with a second dose of RUCONEST®.
RUCONEST® was generally safe and well-tolerated in the study. No patients withdrew from the study due to adverse events. There were no related serious adverse events, hypersensitivity reactions or neutralising antibodies detected.

Biochemical Pathways for Development of HAE attacks

Hereditary angioedema is caused by a deficiency of the protein C1 esterase inhibitor (C1-inhibitor). This deficiency leads to the uncontrolled activation of the contact system pathway resulting in the over-production of some mediators, including bradykinin. Bradykinin is necessary to enable tissues to swell in certain shock situations or other circumstances, and acts on two receptors, B1 and B2. This has the effect of opening channels in the vascular wall, leading to the leaking of fluid from blood vessels to the tissue space. The most common symptoms of an HAE attack are caused by over-production of the bradykinin initiator protein kallikrein, and thus excessive leakage of fluid into tissue spaces (edema or swelling).

At a dose of 50 U/kg, RUCONEST® normalises C1-inhibitor effects in virtually all HAE patients (Source: "Target levels of functional C1-inhibitor in Hereditary Angioedema". C. E. Hack, A. Relan, E. S. van Amersfoort & M. Cicardi, Allergy, 2012 Jan;67(1):123-30.). Returning C1-inhibitor activity levels to normal has been shown to be clinically relevant in HAE attack treatment and prevention.

The Importance of Comprehensive C1-Inhibition for HAE



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After administration, RUCONEST® irreversibly binds to several target molecules, including importantly the coagulation factor FXII and the protease kallikrein, which cleaves a plasma protein into bradykinin and other products. By binding to and chemically deactivating these molecules, RUCONEST® stops the production of bradykinin and all other mediators and thereby stops or aborts the HAE attack on the relevant pathway.
Other therapies are available or are being developed which do not deal with all pathways to HAE, but instead focus on kallikrein or bradykinin themselves to reduce or stop the symptoms, but often the attack continues in the background, causing a relapse or worsening effect necessitating a second or further doses. RUCONEST® deals with all pathways (including the lectin pathway that is also able to activate the release of bradykinin) by restoring the normal concentration of C1 esterase inhibitor, thereby stopping essentially all attacks with no observed relapse or worsening effects for nearly all patients in nearly all attacks. In addition, because RUCONEST® is a protein replacement therapy, whereby the missing protein that the patient cannot effectively produce themselves is replaced by injection with RUCONEST®, it does not carry any risks which may be associated with stopping any other pathway completely.

Intramuscular, low-volume injection and other forms of RUCONEST®

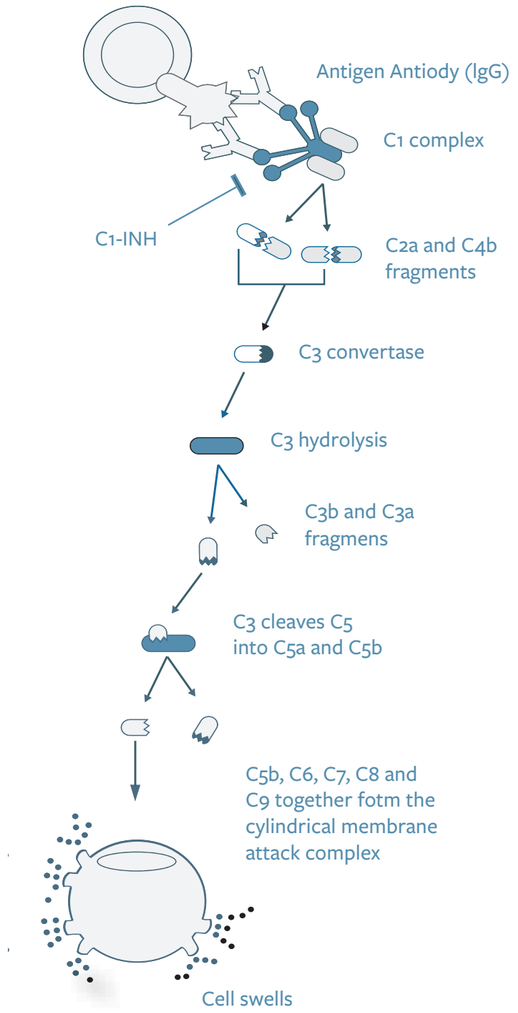
The Company is developing a new low-volume injection version of the full dose of RUCONEST® which can be used for intravenous, intramuscular or subcutaneous delivery to enable patients to benefit from the proven efficacy of the product in whichever form they find most convenient. Subject to approval, the new form of RUCONEST® will be tested in appropriate clinical settings for intramuscular and/or intravenous delivery. Additional technologies aimed at completely painless and or convenient administration are also being explored. As previously disclosed, this development program is progressing slower than previously planned, mainly due to high sales demand and patient need for RUCONEST® utlizing existing supplies of rhC1INH, which therefore could not be diverted to validate the new form manufacturing processes and for production of clinical trial materials. This delay has allowed us to begin to assess new technologies, which are considerably less painful, and consider what is the best regimen for delivery of C1-inhibitor to enable better prophylaxis.

Additional indications for RUCONEST®

RUCONEST® is a recombinant version of a very important human protein called C1 esterase inhibitor (C1INH). It is called recombinant because it is made outside the human body, using Pharming's proprietary technology platform which enables a close version of the natural human protein to be made. Inside the body, C1INH works by inhibiting the formation of the most important complexes at the top of the complement system and in the contact pathway. The complement system, sometimes known as the complement cascade, is a major part of the immune system, responsible for certain immune-mediated inflammation reactions, including most reactions that cause vascular edema (swelling). The purpose of inflammation is manifold, but includes enabling the movement of defence cells through plasma into tissues where it would normally be difficult through vascular leakage, and raising the local temperature to activate defence mechanisms and inhibit pathogen chemistry. The complement cascade and the contact activation pathway enhance (i.e. complement) the ability of antibodies and phagocytic cells (a type of white blood cells) to clear microbes and damaged cells from our bodies, promoting inflammation, and attacks the pathogen's cell membrane. It is part of the innate immune system, which is not adaptable and does not change over the course of an individual's lifetime.
The complement system can be recruited and brought into action by antibodies and other challenge triggers generated by the adaptive (i.e. the changeable) immune system.

The complement system consists of a number of complex proteins found in the blood, in general synthesized by the liver, and normally circulating as inactive precursors (pro-proteins). When stimulated by one of several triggers, enzymes called proteases produced for the purpose in the system cleave specific proteins to release active fragments called cytokines and initiate an amplifying cascade of further cleavages. The end result of this complement activation or complement fixation cascade is stimulation of the phagocytes to clear foreign and damaged material, inflammation to attract and enable the movement of additional phagocytes, and activation of the cell-killing membrane attack complex. Over 30 proteins and protein fragments make up the

Classical Pathway of Complement Activation



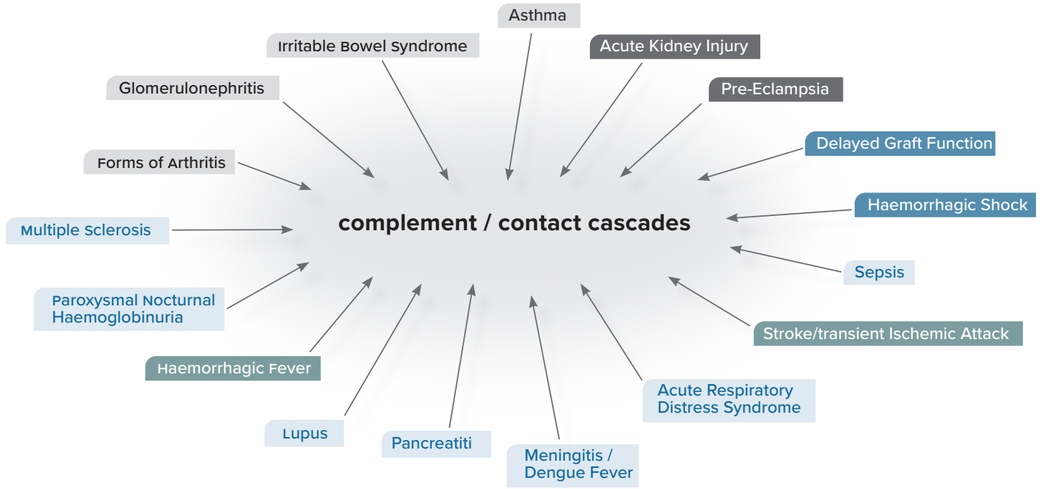
complement system, including serum proteins and specific cell membrane receptors.

Once the complement cascade has been triggered, the body also produces a counter-protein, C1 esterase inhibitor or C1INH to start to slow the reaction down, and the rate at which the reaction can be slowed down is constant as the body can only produce a low maximum level of C1INH. This means that serious trigger events can take much longer to resolve than minor ones, because the level of C1INH production catches up to the level of minor releases of cytokines more quickly than it can to major releases of cytokines. The most powerful releases of cytokines, sometimes known as 'cytokine storms', can occur so fast that a fatal 'shock' reaction or severe damage to organs occurs before the C1INH production can bring the release under control.

This system is thought to be playing an important part in many disease conditions and injury situations, where inflammation or vascular leakage running out of control are responsible for the symptoms of those conditions. In others, hypoxic conditions can result, where blood has not been able to circulate properly to bring oxygen to various tissues. The detrimental effects of such hypoxia can be exacerbated upon reperfusion with blood by local activation of the complement cascade caused by the reperfusion itself. In some of those conditions, therefore, there may be a role to play for externally-administered C1INH which could act to normalise that situation more quickly, allowing the body to have a less dangerous or more measured response, or to prevent the symptoms entirely. While C1INH is unlikely to 'cure' the underlying problem, this extra supply might allow for the damage caused or even the risk of death to be reduced and/or delayed long enough for the problem to be resolved either naturally or through the intervention of the patient's physician team.

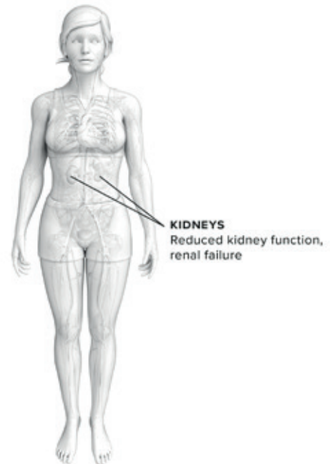
The following diagram shows the most important indications in this area for which there is good scientific evidence. Many of these conditions are entirely unmet medical needs, often with no approved therapy. Sometimes this is because they cause death very quickly, or because they lead to other more serious morbidities. A few do have approved treatments, largely because other mechanisms are also involved or are more important, such as for asthma.

Not/Limited unmet needs:



This has led the Company to explore a number of new indications for RUCONEST® itself as indicated below (highlighted in green above), and to investigate others with collaborating academics and hospitals (light blue above). The indications on the top left of the diagram above are not really unmet medical needs, as other therapies exist which have some success dealing with the conditions.

Acute Kidney Injury (AKI)



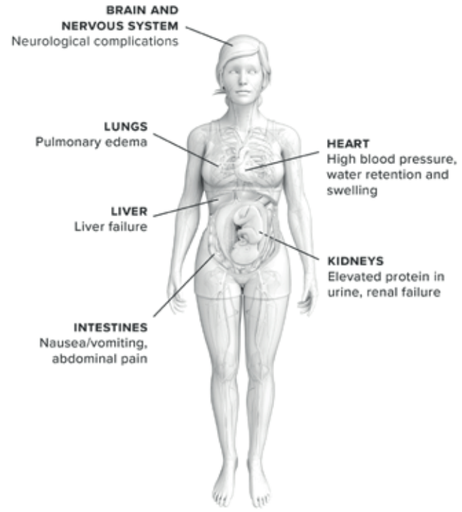
AKI, and its more dangerous analogue contrast-induced nephropathy (CIN) is a form of kidney damage which occurs in stress situations such as when a patient is injected with contrast medium as part of a contrast-enhanced examination, for example a Computed Tomography (CT) scan. In patients who have impairment of the kidneys prior to such examinations, the difficulty in clearing the injected contrast medium can result in further kidney damage which might be reversible, or which is irreversible and requires permanent dialysis or renal transplantation. It can also result in death in some cases. AKI is a serious and expensive complication in the contrast-enhanced examination setting, where patients are often compromised following minor or major cardiac events. When AKI occurs, it usually requires dialysis and often leads to prolonged hospitalisation or intensive care, which is extremely expensive and often results in poor long term outcomes for patients.

In October 2018 the Company announced positive results from a Phase II investigator-initiated study of RUCONEST® (recombinant human C1 esterase inhibitor, or “rhC1INH”) in a double-blind, placebo-controlled clinical trial in patients at risk of nephropathy resulting from contrast-enhanced examinations. The study was led by Dr Michael Osthoff at the University Hospital Basel, Basel, Switzerland.

The results were especially clear in the sub-group of patients (n=38) undergoing actual percutaneous coronary interventions such as stent insertions. The intent-to-treat analysis in this group showed that patients on RUCONEST® had a median increase in peak urinary NGAL concentration within 48 hours of 1.8 ng/ml, compared with an increase of 26.2 ng/ml in the placebo arm (p=0.04). This corresponds to a clear difference in the median percentage change in the peak urinary NGAL level within 48 hours of 11.3% in the RUCONEST® arm and 205.2% in the placebo arm (p=0.001).

Following this positive outcome, the Company has completed preparations for a new Phase IIb study of the effects of RUCONEST® in patients following certain defined contrast induced examinations. The new study is also being led by Dr Michael Osthoff at the University Hospital Basel, Basel, Switzerland.

Pre-eclampsia (PE)



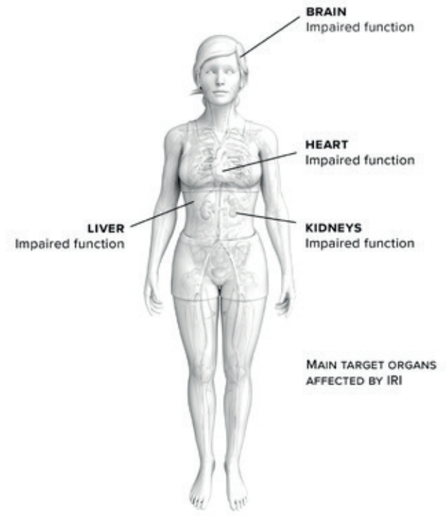
Pre-eclampsia is a life-threatening multisystem disorder in pregnancies leading to maternal and neonatal mortality and morbidity, usually first detected by hypertension. Proteinuria is a common symptom. Abnormal or impaired

spiral artery development between the mother and the fetus may be responsible, causing complement cascade triggering when these spiral arteries come under stress, especially oxidative stress because of poor blood flow. Emerging evidence has shown that activation of the complement system following such poor placentation is strongly implicated in the pathological processes of PE.

The outcome for both mother and baby can be severe. 50,000 maternal deaths a year are recorded for patients who proceed to full-blown eclampsia, while many more are caused by long-term irreversible damage to organs caused by PE while the mother carries her child before birth. Treatments include termination of the fetus or very premature birth, which is often associated with very high rates of mortality. Palliative care of the PE-damaged mother and neonatal care of premature babies can drive the costs of PE patients very high. Even if they can be born safely, consequences for the child can be severe, with growth restrictions, learning difficulties and moderate to severe disabilities affecting over half of such newborns. Almost 2.5 million cases are reported annually, with rates running at between 3% and 10% of all pregnancies in developed countries.

Pharming has initiated a two-centre Phase I/II study in late-stage pre-eclampsia in the Netherlands and Australia, and we anticipate obtaining headline data in the safety portion of the study by the end of 2020.

Ischaemic Reperfusion Injury (IRI)



IRI is a complication arising from tissue damage caused by lack of oxygen during an interruption of blood supply (ischaemia) until the tissue is supplied with blood again (reperfusion).

This can occur in traumatic injury involving haemorrhagic shock, in organs prior to and during transplantation, in the brain as a result of stroke and in the heart as a result of myocardial infarction (a main type of 'heart attack'). It has been shown in various preclinical models that C1 esterase inhibitor can reduce the extent and effects of IRI in such cases. In hypovolemic shock, for example, after a severe injury where the body is losing fluid, having a certain inhibitory effect on the mechanism causing or accelerating such complications can be very valuable for the patient.

These indications, although they are all large unmet medical needs, are extremely difficult to study in a clinical setting, and so Pharming is working with different potential partners to find a way to explore the use of RUCONEST® to help patients with these problems. These include an ongoing preclinical study with the US Army Institute of Surgical Research into the use of RUCONEST® for some of these indications.

Delayed Graft Function (DGF)

DGF, a form of IRI, is a serious and costly complication in the clinical transplantation setting. When DGF occurs, it necessitates the use of dialysis and leads to prolonged hospitalisation, which results in adverse long term outcomes and significantly higher costs. Current interventions focus on activities that occur after the organ is harvested from the donor (e.g. cold storage or machine perfusion of the organ). As demonstrated with a preclinical model, donor pre-treatment with RUCONEST® prior to transplantation represents a novel approach to addressing some of the limitations of current strategies to reduce the impact of DGF. A new Phase IIa study has been initiated and is being conducted by Dr Luis Fernandez of the University of Wisconsin, seeking to show that RUCONEST® pre-treatment of harvested organs significantly reduces the incidence of DGF in transplant operations. The mechanism of action is the inhibition of the complement cascade inflammatory response pathway.

Pipeline development

Pharming's clinical and research teams are also continuing to focus on three major projects, the newly acquired leniolisib in-licensed from Novartis in August 2019, and the existing programs in Pompe disease and Fabry's disease.

Leniolisib, for the treatment of Activated Phosphoinositide 3-kinase Delta Syndrome

Activated PI3K-delta syndrome (APDS) is a chronic disorder that impairs the immune system. Individuals with this condition often have lymphoproliferation and poorly functioning white blood cells , particularly B cells and T cells. Normally, these cells recognize and attack foreign invaders, such as viruses and bacteria, to prevent infection. Beginning in childhood, people with APDS develop recurrent infections, particularly in the lungs, sinuses, and ears. Over time, recurrent respiratory tract infections can lead to a condition called bronchiectasis, which damages the passages leading from the windpipe to the lungs (bronchi) and can cause breathing problems. People with APDS may also have chronic active viral infections, commonly Epstein-Barr virus or cytomegalovirus infections. Sufferers also frequently develop lymphomas and other cancers.

APDS is a primary immune deficiency caused by a mutation in the PIK3CD gene that increases activity of phosphoinositide-3-kinase delta, a promoter of activity in the immune system. Such a mutation which increases the activity of a molecule rather than suppressing it is called a gain-of-function mutation. As a result of this over-activity, the B and T cells involved in immune response can fail to be differentiated properly, which means that sufferers are unable to recruit them to help react to infections, and can suffer early cell death. The effect can be seen in epithelial cells and nervous system cells as well as those regulating cell adhesion (such as airway mucosal layer cells). By selectively inhibiting the enzyme p110δ which activates the gain-of-function mutation causing APDS, leniolisib specifically targets the causative factor of APDS. For this reason, APDS is sometimes called "p110 delta activating mutation causing senescent T cells, lymphadenopathy, and immunodeficiency", or PASLI.

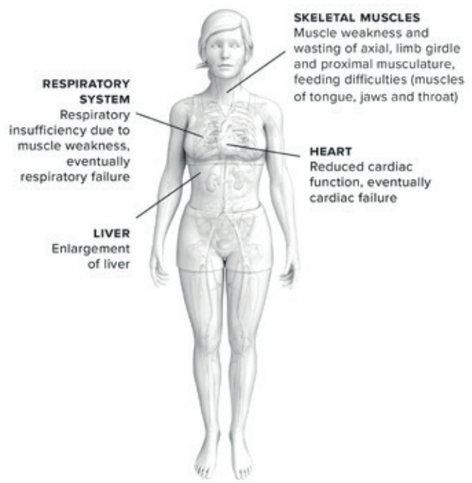
Another possible feature of activated PI3K-delta syndrome is abnormal clumping of white blood cells. These clumps can lead to enlarged lymph nodes (lymphadenopathy), or the white blood cells can build up to form solid masses (nodular lymphoid hyperplasia), usually in the moist lining of the airways or intestines. While lymphadenopathy and nodular lymphoid hyperplasia are noncancerous (benign), activated PI3K-delta syndrome also increases the risk of developing a form of cancer called B-cell lymphoma.

Leniolisib (also known as the Novartis project CDZ173) is a small molecule inhibitor of the delta isoform of the 110 kilodalton (kDa) catalytic subunit of class IA PI3K with immunomodulating and potentially anti-neoplastic activities. Leniolisib inhibits the production of phosphatidylinositol-3-4-5-trisphosphate (PIP3). PIP3 serves as an important cellular messenger specifically activating the protein-serine/threonine kinase AKT (via PDK1) and regulates a multitude of cell functions such as proliferation, differentiation, cytokine production, cell survival, angiogenesis, and metabolism. Unlike PI3Kα and PI3Kβ which are ubiquitously expressed, PI3Kδ and PI3Kγ are expressed primarily in cells that are hematopoietic in origin. The central role of PI3Kδ in regulating numerous functions of cells of the adaptive immune system (B-cells and T cells) as well as the innate immune system (neutrophil, mast cells, and macrophages) strongly

indicates the PI3Kδ is a valid and potentially effective therapeutic target for several immune diseases.

Leniolisib is being studied in a registration-enabling Phase II/III trial which is currently enrolling patients in clinical sites in the US and Europe. To date, leniolisib has proven to be safe and well tolerated in healthy subjects as well as the APDS patients during the phase I first in human trial and the ongoing open label extension trial. Data is expected at the start of 2021, with review by regulatory authorities during 2021. If approved, the drug could be launched in 2022.

Alpha-Glucosidase, for the treatment of Pompe Disease



Pompe disease (also known as Acid Maltase Deficiency or Glycogen Storage Disease type II) is an inherited muscular myopathy disorder caused by the build-up of a complex sugar called glycogen in the body's cells. It affects around 1 in 40,000 people in general, varying within different ethnic groups. Pompe disease is a rare multisystem genetic disorder that is characterised by absence or deficiency of the lysosomal enzyme alpha-glucosidase (GAA). This enzyme is required to break down (metabolise) the complex carbohydrate glycogen and convert it into the simple sugar glucose. Glycogen is a thick, sticky substance and failure to achieve proper breakdown results in massive accumulation of lysosomal glycogen in cells, particularly in cardiac, smooth, and skeletal muscle cells. Pompe disease is a single-disease continuum with variable rates of disease progression and different ages of onset. The infantile form is characterised by severe muscle weakness and abnormally diminished muscle tone (hypotonia) without muscle wasting, and usually manifests within the first few months of life.

Additional abnormalities may include enlargement of the heart (cardiomegaly), the liver (hepatomegaly), and/or the tongue (macroglossia). Without treatment, progressive cardiac failure usually causes life-threatening complications by the age of 12 to 18 months. Pompe disease can also present in childhood, adolescence or adulthood, collectively known as late-onset Pompe disease. The extent of organ involvement may vary among affected individuals, but skeletal muscle weakness is usually present with minimal cardiac involvement. Initial symptoms of late-onset Pompe disease may be subtle and may go unrecognised for years. Pompe disease is caused by mutations of the GAA gene and is inherited as an autosomal recessive trait. The only approved therapy to date is Enzyme Replacement Therapy (ERT) using recombinant human alpha-glucosidase, produced by Chinese Hamster Ovary (CHO) cells. This method of producing large, complicated and heavily glycosylated proteins often results in versions of the basic protein amino-acid sequence that do not have proper glycosylation patterns (i.e. are not very close versions of the natural human version) and which can therefore be very immunogenic (i.e. they provoke an immune system response upon administration) or cause off-target effects.

Pharming's platform, however, allows for full mammalian biochemistry to be brought into play with almost no risk of genetic drift. This produces commercial quantities of more accurate enzymes which are far closer to the natural human analogue and which are often far less immunogenic as a result. This can be seen in RUCONEST®, which has not shown any significant immunogenicity in over 75,000 applications and hundreds of uses in single patients. Patients receiving ERT for conditions such as HAE or Pompe usually need treatment during their entire life. All of the approved therapies for Pompe have so-called boxed warnings for immunogenicity, the general term for this kind of toxicity.

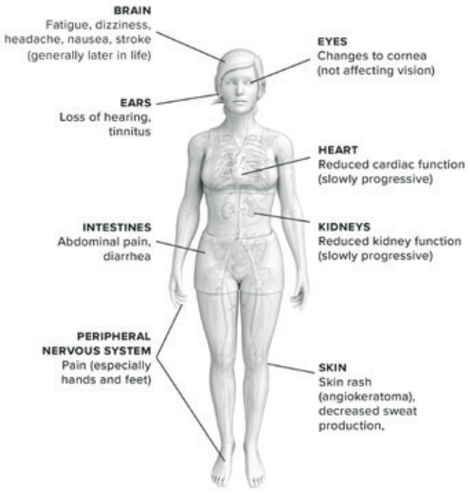
Human recombinant α-glucosidase produced using Pharming's platform technology is intended to have much better immunogenicity, safety and potentially efficacy profiles than existing and forthcoming products, largely due to the advantages identified above including improvements in glycosylation patterns. The product will not be considered a 'biosimilar' to existing therapies by the regulatory authorities as it is produced on a totally different production platform. The approach by Pharming (if successful) may therefore result in a so-called 'Biobetter'. In 2019, sales of Pompe therapies were over €1 billion.

Most other therapies involve trying to improve delivery of currently available recombinant CHO-cell alpha-glucosidase versions, whereas we believe the problem lies in the way this molecule itself is produced.

In addition, however, at present all current therapies show significant antibody formation in the patients, which reduces the efficacy of the drug therapy and eventually stops the patients benefitting from the drug. Estimates of this effect vary between 60% and 80% in Pompe disease and around 50% in Fabry disease. A therapy which did not provoke an immune response of this kind might therefore be much more effective in such refractory patients, increasing the size of the addressable market.

At present, Pharming is manufacturing sufficient amounts of its recombinant α-glucosidase to conduct toxicology and other preclinical studies and to enable us to commit to a multiple ascending dose study (Phase I/II) in patients, and the filing of the Investigational New Drug application is expected in late 2021.

Alpha-Galactosidase for the treatment of Fabry's Disease



Fabry's disease (also known as Anderson-Fabry disease, angiokeratoma corporis diffusum, or alpha-galactosidase A deficiency) is another rare genetic lysosomal storage disease resulting from the deficient activity of a different enzyme, alpha-galactosidase A (αGalA), caused by an X-chromosome mutation of the GLA gene. Fabry's disease can cause a wide range of systemic symptoms. It is a form of sphingolipidosis, as it involves dysfunctional metabolism of sphingolipids. Fabry's disease affects around 1 in 40,000 men and 1 in 60,000 women and is less dependent on ethnicity than Pompe Disease. This disorder belongs to the same group of diseases known as lysosomal storage disorders.

Lysosomes function as the primary digestive units within cells. Enzymes within lysosomes break down or digest particular compounds and intracellular structures. αGalA functions to break down specific complex sugar-lipid molecules called glycolipids, by removing the terminal galactose sugar from the end of these glycolipid molecules. The enzyme deficiency causes a continuous build-up of the glycolipids in the body's cells, resulting in cell abnormalities and organ dysfunction that particularly

affect the heart and kidneys. The GLA gene is located on the X-chromosome and therefore, Fabry's disease is inherited as an X-linked disorder. Males are typically more severely affected than females. Females have a more variable course and may be asymptomatic or as severely affected as males (see Genetics section below).

There are two major disease phenotypes: the type 1 "classic" and type 2 "later-onset" subtypes. Both lead to renal failure, and/or cardiac disease, and early death.

As for Pompe disease, the approved treatments at present use a recombinant form of the human enzyme αGalA produced in cell lines. As for α-glucosidase, Pharming believes that its own platform technology can produce a pure, less immunogenetic αGalA that will compare favourably with existing therapies on safety, efficacy and immunogenicity. In 2019, sales of Fabry disease therapies were over €1.0 billion. Again as for α-glucosidase, proper therapy for patients who are refractory on existing medications may increase the overall market size significantly.

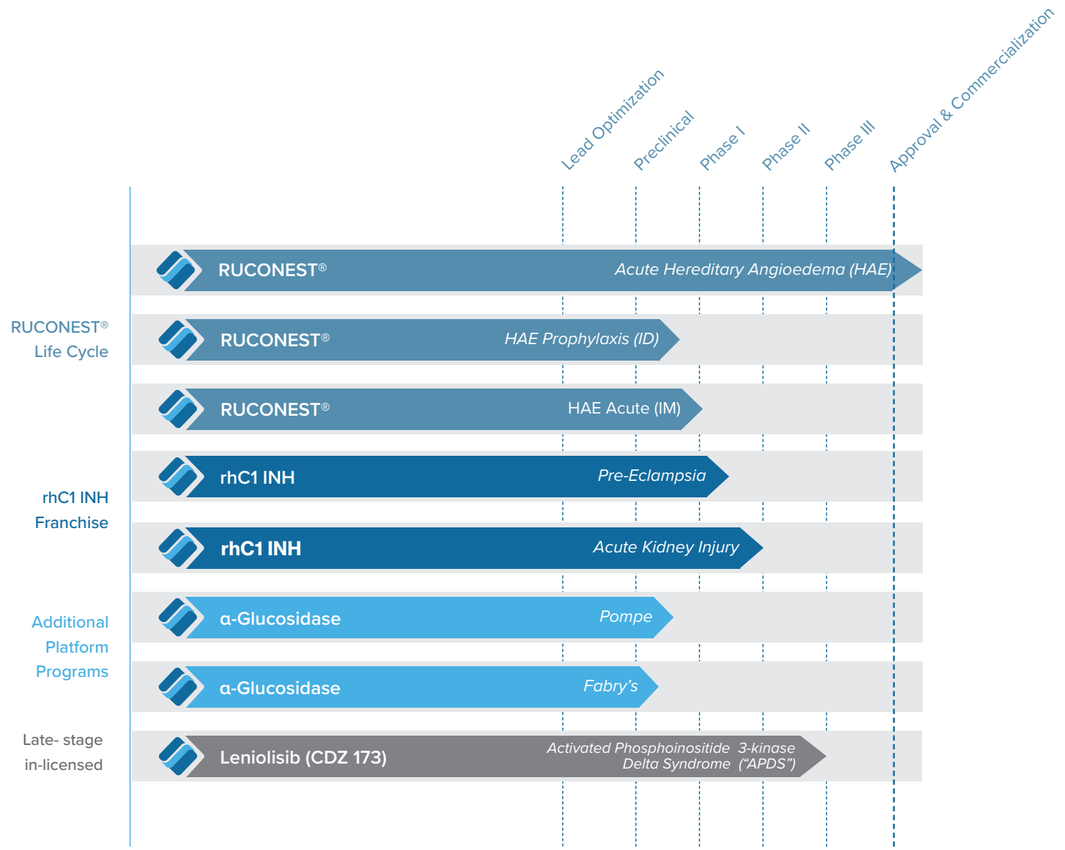
Proprietary transgenic technology platform

Pharming's main technology platform is the development of human recombinant proteins with excellent therapeutic properties and good safety profiles through the generation of transgenic animals which only express the human protein in their milk. This enables the safe, pure production of the protein without the animal suffering or being biologically affected.

During the recent years, we made significant progress in developing the platform technically so that in the future greater quantities of target substances can be generated from far fewer animals, again ensuring no distress to the animals, reducing the number of animals involved even further and allowing for better costs of production in the future. This includes regenerating our transgenic cattle herd to enable us to produce recombinant human C1INH on a larger scale.

Pipeline

The overall Pharming pipeline at the date of this annual report therefore appears as follows:



All development plans have strong scientific rationale and address high unmet needs

Financial review 2019

The financial objectives for 2019 were:

- Ensuring that sales of RUCONEST® in all markets is optimised for HAE so that the maximum potential for the product can be achieved in that indication;
- Ensuring that the development of new forms of RUCONEST® for HAE; new indications for rhC1INH in other larger indications; and of recombinant enzymes for Pompe and Fabry diseases proceed smoothly and positively
- Ensuring that the pace of research and development costs continues in line with the development of sales of RUCONEST®, so that profitability is maintained at the net level as far as possible, so that existing or available non-dilutive cash resources are sufficient for the Company's future needs excluding potential new opportunities; and
- Ensuring that any opportunities for acquisitions, licenses or new products are captured on a financial basis that is optimised for shareholders

All of these objectives were achieved in 2019. For 2020, the main financial objectives are very similar:

- Ensuring that sales of RUCONEST® in all markets is optimised for HAE so that the maximum potential for the product can be achieved in that indication;
- Ensuring that the clinical development of new forms of RUCONEST® for HAE; new indications for rhC1INH in other larger indications; the new drug candidate leniolisib for APDS and of recombinant enzymes for Pompe and Fabry diseases proceeds smoothly and positively;
- Ensuring that the pace of research and development costs continues in line with the development of sales of RUCONEST®, so that profitability is maintained at the net level as far as possible;
- Ensure that the Company maintains its strong financial position without recourse to shareholders (except for additional large opportunities offered to shareholders); and
- Ensuring that any opportunities for acquisitions, licenses or new products, large or small, that may be expected to enhance shareholder value are captured on a financial basis that is optimised for shareholders

Financial summary

Amounts in €m except per share data	2019	2018	Change %
Income Statement			
Total revenue	169.0	135.1	25%
Gross profit	147.7	113.0	31%
Operating result	60.9	38.0	60%
Financial income & expenses	(14.4)	(37.1)	(61%)
Share of associates' profits/(losses)*	0.2	n/a	
Tax credit/(expense)	(10.5)	24.1	
Net result	**36.2**	**25.0**	**45%**
Balance Sheet			
Cash (including restricted cash)*	68.6	81.5	(16%)
Share Information			
Basic earnings per share (€)	0.058	0.041	39%
Fully-diluted earnings per share (€)	0.054	0.038	39%

* Does not include the effects of the €125 million convertible bond issue, the repayment of the Orbimed loan facility in January 2020, the milestone payment to Bausch Health in February 2020 or the initial payment to Sobi for termination of their license, which all happened after the reporting date.

Revenues and Gross Profit

Revenues increased to €169.0 million in 2019 (2018: €135.1 million). Both years include amounts of deferred license revenue released, reflecting a portion of earlier license fee payments from partners including Sobi and China State Industry for Pharmaceutical Innovation, which have been allocated across a number of financial years in accordance with accounting guidelines. These amounts were €1.5 million in 2019, and €0.8 million in 2018. The increase in 2019 was due to the release of the remaining balance of license revenue held in respect of the Sobi license, all of which balance was released to the income statement immediately upon completion of the termination of the Sobi license in December 2019.

Revenues from product sales by Pharming and its partners increased to €167.6 million (2018: €134.3 million) reflecting a very good year overall for RUCONEST®. Sales in the USA produced €162.7 million ($182.2 million), up from €126.6 million ($149.3 million) in 2018. This shows the effect on the top line of the excellent continued execution of commercialisation in the USA.

Sales for RUCONEST® in Europe and the Rest of World ("RoW") were €4.8 million (2018: €7.7 million), reflecting clawbacks on direct sales by Pharming in France, and reduced sales of our partner Sobi prior to the license termination.

Costs of product sales in 2019 amounted to €21.4 million (2018: €22.2 million), a decrease caused by the absence of free vials contributed in 2018 due to the need to supply free RUCONEST® to ensure patients did not suffer from lack of therapy during the stock shortages by competitors early in the year in the US and later in the year in Europe. The fast stock turnover caused by the sales growth also reduced the number of obsolete vials which sometimes cause inventory impairments.

Gross profit increased to €147.7 million in 2019 (2018: €113.0 million, or $130 million), an increase of 31%. The main reasons for this gain were the increased sales in the US and EU coupled with the improvements leading to the better cost of goods.

Operating Costs

Operating costs increased modestly to €87.2 million ($97.7 million) in 2019 from €75.6 million ($89.3 million) in 2018. This increase was substantially due to the additional costs associated with starting up the new facility for source material, with new staff and operations, using the milk for production which could not be sold prior to validation and approval of the plant by regulators. Additional increases were due to added cost of clinical research activities relating to the new indications and to development of new forms of RUCONEST®, as well as increases in marketing and sales activities both in the US and in Europe, and in general and administrative costs.

R&D costs within these figures decreased from €28.9 million in 2018 to €28.4 million in 2019. In 2019, the increased costs mainly relate to preparing for and initiating the clinical studies of rhC1INH in pre-eclampsia and acute kidney injury, developing the new versions of RUCONEST®, and continuing work on the preparation and production of α-glucosidase for Pompe disease and α-galactosidase for Fabry disease using the Pharming technology.

General and administrative costs increased to €18.9 million (2018: €12.2 million). The increased costs are mainly related to: additional administration resources to support the growing commercial and operations activities in both the USA and the EU; depreciation costs on new production and intangible assets; and €4.6 million provided for abnormal service fees to Sanofi for a period of short production of source material in each of 2018 (€0.6 million) and 2019 (€4.0 million). More detail on the Sanofi provision is presented in note 22. This amount was originally presented under R&D costs in the preliminary financial statements for 2019, and has simply been reclassified. Lastly, there were additional legal and due diligence costs related to the Novartis and Sobi transactions during the year.

Operating Result

Operating results improved strongly to a profit of €60.9 million in 2019 from €38.0 million in 2018, an increase of over 60% despite considerable increases in Marketing and Sales and R&D activity, mainly due to the effect of strong sales growth for the USA and lower costs of product sales of RUCONEST®. As explained above, the reason for the decrease in production costs was the elimination of the need to provide free vials of RUCONEST® to patients on competitor products which suffered from shortages during 2018. The basic underlying operating result excluding depreciation and amortisation (EBITDA) was €65.4 million.

Financial income and expenses

The 2019 net financial expense was €14.5 million, compared with €37.1 million a year earlier. The net financial expense is mainly due to two items: (i) the interest on loans and borrowings and non-cash adjustments thereto, totalling approximately €11.3 million; and (ii) the increase in the provision for contingent consideration (i.e. the milestones due to Bausch Health Companies Inc. upon reaching certain sales targets) of €2.9 million. €1.1 million of financial income was received during the year, reflecting interest paid on cash balances. In 2018, a much larger provision of €21.2 million for the Bausch milestones was required. The last remaining milestone which might be due to Bausch Health is almost fully provided for.

Taxation

As a result of the growth in sales, it is now probable that going forward the Company will be able to use all its remaining net operating tax losses from previous years. During 2019, we incurred state and federal income taxes in the USA, in which jurisdiction we have no remaining tax losses available, whilst in the Netherlands we continue to use up our accumulated tax losses. The tax shielding effect of those remaining tax losses is shown on the balance sheet as a deferred tax asset. The deferred tax asset is utilized by being written down by the amount of the tax charge each reporting period, instead of paying the tax due from cash. Once all the Dutch tax losses are used up, the deferred tax asset will thus be completely extinguished and the tax due thereafter will be paid. This is reflected in the fact that although the tax charges are getting larger as we grow in net profits before tax, the amount actually paid (as shown in the cash flow statement) is considerably less. The total tax charge for the year was €10.5 million (2018: Tax income of €24.1 million, which was related to the increase in the deferred tax asset created by taking the tax effect of all remaining unexpired tax losses at that time to the balance sheet). The balance on the deferred tax asset therefore reduced as it was used to meet the tax charge, from €35.0 million in 2018 to €28.6 million in 2019 – the difference between this change and the tax charge relates to the tax paid in the USA, where no tax losses remain to be used.

Net Result

The net result of a profit of €36.2 million represented a large increase of 45% on the €25.0 million reported in 2018. The main point of difference was the better sales and cost of goods performance in 2019 coupled with the increase in taxation charged to the Group (and actually payable in the USA). The increase was also helped by a reduction of €18.3 million in the amount required to be provided against contingent consideration between 2018 (€21.2 million) and 2019 (€2.9 million). We believe this net profitability will be sustainable in future periods.

Intangible assets

The acquisition of the license to leniolisib from Novartis in August 2019 has led to a new intangible asset being created for the upfront price and the amount committed to the final clinical development phase. This amount, of approximately €18.7 million ($21.0 million), appears as an increase to intangible assets and will be depreciated as usual in accordance with its useful life over the commercial lifespan of the product. The total is comprised of the upfront payment of $20.0 million plus the committed costs actually paid during 2019 in respect of the finalisation of the clinical development program. As these costs represent part of the amount agreed to be paid for the asset in a marketable condition and are not under Pharming's control, they are capitalised as part of the acquisition cost. There is an (undisclosed) cap on the amount of the costs of the study to which Pharming is committed, in the acquisition and license contract.

Inventories

Inventories reduced slightly from €17.3 million in December 2018 to €14.5 million in December 2019, largely due to the increase in sales above the effect of movement of inventory from lower value raw materials to higher value drug product. By moving the source material through the purification stage, whereby the raw drug substances is separated out of the enhanced milk source material, the value of the inventory of drug substances is considerably increased by the costs of purification, which is reflected in a higher value of the same amount of material in inventory. Once the raw drug substances is further processed into finished goods, the value is higher still by the cost of such processing. In 2017/2018, when the shortage of competing C1INH products became acute and we converted all our milk reserves at the time into finished goods to help meet demand, the value of inventory rose quickly for this reason. As sales levels have continued at a higher rate, we have not yet been able to build up additional reserves of milk and so the inventory value has dropped overall. This level of inventory, together with the approval of the new facility allowing an increased capacity for RUCONEST® production, is expected to enable us to meet the naturally-growing sales level in the US and in Europe and then to build up new reserves of source material, drug substances and finished product. We expect inventories to increase in future years as these reserves are established, and as we build up supplies of leniolisib and other products in due course.

Cash and cash equivalents

The cash position including restricted cash decreased from €81.5 million at year-end 2018 to €68.6 million at year-end 2019. This was mainly due to the cash generated by the strong sales performance of RUCONEST® throughout the year being used for several large payments:

- The repayment through the year of a total of $33.3 million to Orbimed on the loan facility and $9.7 million of interest payments;
- The first milestone to Bausch Health, of $20 million in February 2019;
- The cash element of the payment for the stake in BioConnection BV in April of €2.5 million; and
- The payment of $20.0 million to Novartis in August 2019 for the leniolisib program.

Cash generation has been strong across all four quarters of 2019, as sales revenues grew faster than costs. This is expected to continue during 2020, and the generation of cash from sales, together with this high balance as enhanced by the net proceeds of the 2020 convertible bond issue after repayment of the Orbimed loan facility, is expected to be sufficient to meet the capital expenditure requirements of the

Company including the building of additonal source material and downstream processing facilities as they become necessary.

The Company's current pattern of sales growth, together with the strong cash generation, high cash balance and tight control over costs going forward, forms the basis of the Board of Management's view that Pharming Group should be accounted for as a going concern.

As the Company's sales are largely in US dollars and the Company's debt is now in Euros, the natural hedge which previously existed when the Company's debt was also in dollars and which meant that any decline in the US dollar exchange rate over the year to reduce sales reported in Euros had a balancing effect of reducing the size of the debt liability when reported in Euros, and 'vice versa', is now extinguished. Together with increasing capital spend in Euros on new production facilities and personnel, this means that the Company is now far more dependent on the Euro, and so the functional and reporting currency will remain the Euro for the foreseeable future. It will also require more active hedging strategies to ensure that a change between the US dollar and the Euro does not have a detrimental effect on the Company's assets, liabilities or business.

Equity

The equity position increased 69% from €61.8 million in December 2018 to €104.7 million in December 2019, mainly due to the net result achieved by the Company. As there are so few warrants remaining, the main source of income from share issue during 2019 was the exercise of employee share options.

Performance of Pharming shares

During 2019, the Pharming stock price fluctuated around an average price of €1.079 per share. The year-end price was €1.57 (2018: €0.76), with a high of €1.62 in December and a low of €0.72 in June. The closing number of shares as at the reporting date was 631,323,467 (2018: 621,501,238). New issues of stock representing a total of 9,822,229 shares were made to investors during the year and related to the long-term incentive plan 2016, exercise of most of the remaining warrants, and exercises of employee options. As at the date of this report, the fully diluted number of shares is 740,615,575 and the number of shares in issue is 634,994,764.

No Anti-Takeover Measures in place

The Board of Management believes that Pharming's shareholders are the best persons to judge whether a takeover bid for the Company is fair for them at the time of offer, after receiving an informed opinion from the Board of Management and the Board of Supervisory Directors regarding the advantages and disadvantages of such bid.

At present, therefore, there are no anti-takeover measures in place which would restrict the shareholders from receiving information about, or from accepting or rejecting, a genuine bid for their shares.

Outlook 2020

For the remainder of 2020, the Company expects

- Continued growth in revenues from sales of RUCONEST®, mainly driven by the USA and expanded European operations.
- Maintenance of positive net earnings during the year.
- Continued investment in the expansion of production of RUCONEST® in order to ensure continuity of supply to the growing markets in the US, Europe, China and the Rest of the World.
- Investment in the ongoing clinical trials for pre-eclampsia and acute kidney injury, and support for investigators wishing to explore additional indications for RUCONEST®
- Investment in the continuing registration-enabling study for leniolisib for APDS, leading to headline data early in 2021.
- Investment in IND enabling studies for α-glucosidase in Pompe disease and preclinical development of the new recombinant α-galactosidase candidate for Fabry's disease
- Investment in preparing for further clinical trial programs for RUCONEST® in acute treatment of HAE, initially by means of the development of a small volume version for intramuscular injections and research into applicability of pain-free delivery methods for prophylaxis of HAE.
- Investment in other new development opportunities and assets as these occur.
- Increasing marketing activity where this can be profit-enhancing for Pharming.
- Supporting all our teams and marketing partners in order to enable the expansion of the sales and distribution potential of RUCONEST® for patients in all territories, as we continue to believe that RUCONEST® represents an effective and reliable safe therapy option to treat acute angioedema attacks in patients with HAE.

No further specific financial guidance for 2020 is provided.

Throughout 2020, Pharming will report all financial figures in euros, with reference figures in US dollars. This decision reflects the rebounding importance of euros as the functional currency within the Group following the issue of €125.0 million of convertible bonds and the recovery of the licensed territories from Sobi, including all remaining Eurozone countries not already distributed by Pharming directly.

Going concern

Pharming's 2019 financial statements have been drawn up on the basis of a going concern assumption.

In particular, the Board has assessed the likelihood of the current COVID-19 outbreak affecting the Company's revenues, costs or other activity to such a degree that the likelihood of the Company being unable to meet all of its obligations as they fall due is reduced, and has concluded that there is no significant probability that this will occur during the next 18 months. While it is possible that sales growth may be slightly lower than expected if travel is heavily restricted for a long period of time, the underlying needs of our patients are not expected to change in any way and therefore demand should remain at least at the current levels. Certain costs may be delayed or not incurred at all if the outbreak continues. At present the Company is well-capitalised and structured, and although nothing can be guaranteed if the coronavirus outbreak is extensive and very dangerous, the Board of Management do not currently see a major risk to the long-term continuity of the business or to jobs. As a consequence, the Company does not believe that the COVID-19 emergency will affect its going concern status.

The 2019 year-end cash balance (including restricted cash) of €68.6 million is expected to fund the Company for more than eighteen months from the date of this report. The net proceeds of the €125 million convertible bond issue in January 2020, net of repayment in full of the Orbimed loan facility shown in these annual financial statements as at 31 December 2019 as well as the second Bausch Health milestone of $20 million and the first payment of €5.5 million to Sobi in respect of the termination of Sobi's license, together with normal receipts of sales revenues from customers and normal costs, increased the Company's cash balance to approximately €140.6 million as at the date of this report, after paying normal costs and expenses to that date. The receipts from commercial supply of product to our partners in Latin America, South Korea and Israel and proceeds from direct sales in the USA and Europe currently generate more cash than the Company requires for day to day expenses and to supply those sales, and thus the surplus cash generated will support our capital expenditure plans and financial reserves further.

Pharming has a previous history prior to 2017 of operating losses. The Board of Management anticipates that during 2020 such quantities of RUCONEST® will continue to be sold (directly or by our partners) that the proceeds to Pharming from such sales are more than sufficient to meet our operating costs, finance costs and all other cash requirements, including capital expenditure, as was the case in 2019.

Presently, however, no further assurance can be given on either the timing or size of future profits or whether consistent net profitability can be maintained on this basis. In addition, in the event that the Company needs to raise capital by issuing additional shares, shareholders' equity interests may be diluted as to voting power, and their interests as to value will depend on the price at which such issues are made. The Company sees no further need to raise capital to support its current operations, but may take an opportunity to do so in either equity issue or through an expansion of the current convertible debt to support an acquistion, inlicencing or expansion if appropriate terms can be obtained that are in the best interests of shareholders.

Statement of the Board of Management

On the basis of the above and in accordance with best practice 1.4.3 of the Dutch Corporate Governance Code effective as of 8 December 2016, and Article 5:25c of the Financial Markets Supervision Act, the Board of Management confirms that:

- This report provides sufficient insight into the nature of the Company's risk management and control systems and confirms that the control systems functioned properly in the year under review;
- The report also provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- The control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- Based on the current state of affairs, it is entirely appropriate that the financial reporting is prepared on a going concern basis; and
- The report identifies those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of at least twelve months after the preparation of the report.

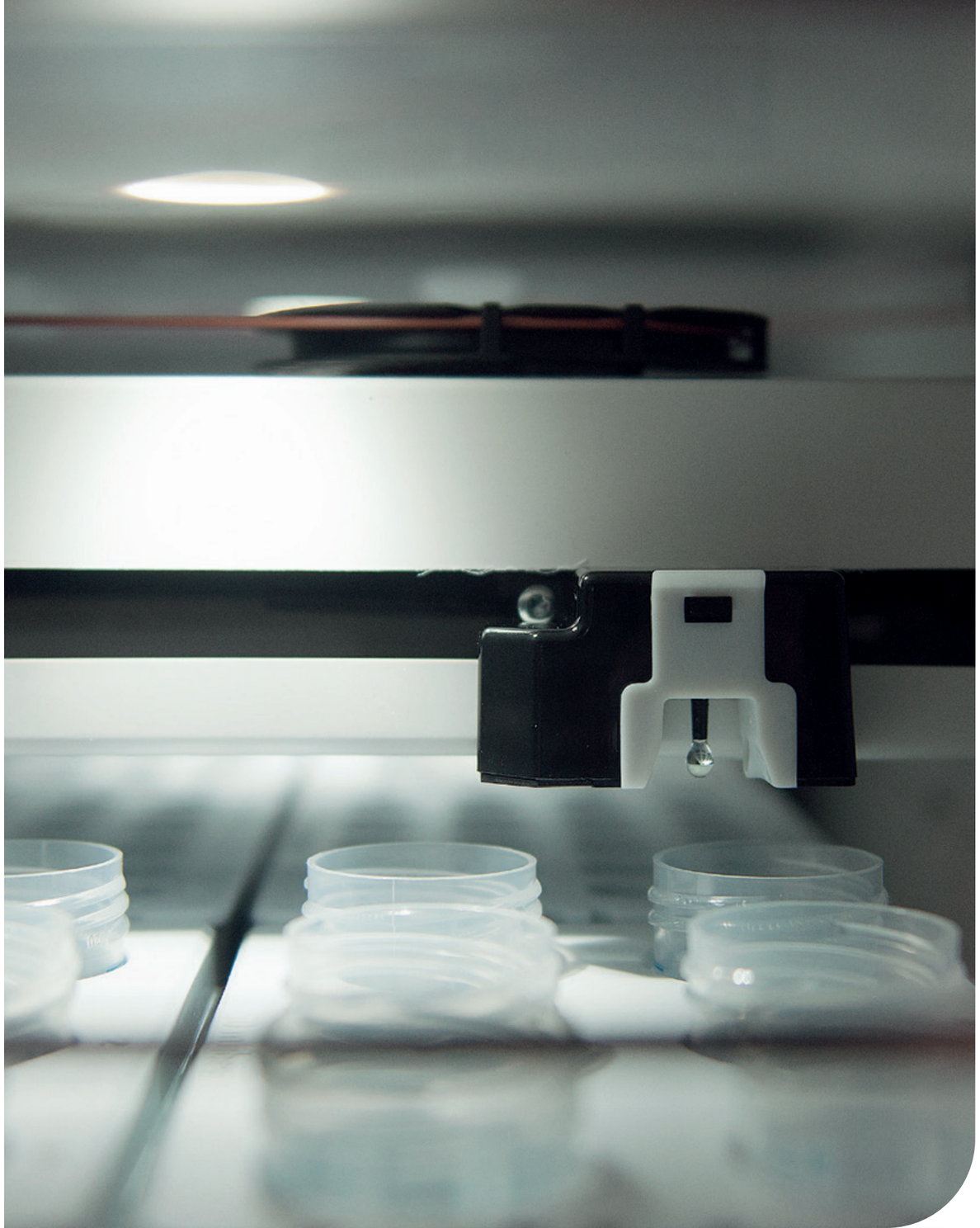
The Board of Management declares that to the best of its knowledge and in accordance with applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Management Report incorporated in 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 risks associated with the expected development of the Group. For a detailed description of the risk factors, we refer to the 'Corporate governance and risk management' chapter in this report.

Sijmen de Vries

Bruno Giannetti

Robin Wright

Collectively the Board of Management
of Pharming Group NV
Leiden,
29 March 2020



Management Structure

Pharming has a two-tier board structure, consisting of a Board of Management (in Dutch: Raad van Bestuur) and a Board of Supervisory Directors (in Dutch: Raad van Commissarissen).

Management Powers and Function

The Board of Management is entrusted with the management of the Company and is responsible for the policy and the central management of the Company under the supervision of the Board of Supervisory Directors. The Board of Management is authorised to commit the Company in contractual obligations to third parties. The Board of Management has adopted the Board of Management Regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Management.

The Board of Supervisory Directors is charged with supervising the policy of the Board of Management and execution of that policy in the general course of the Company's affairs and the enterprise connected therewith. The Board of Supervisory Directors assists the Board of Management further by rendering advice. In performing their duties, the members of the Board of Management are obliged to act in the best interests of the Company and the enterprise connected therewith. The Board of Supervisory Directors has adopted the Board of Supervisory Directors Regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Supervisory Directors.

The members of the Board of Management and the members of the Board of Supervisory Directors are appointed at General Meetings of Shareholders from nominations made by the Board of Supervisory Directors. If the nomination comprises two or more persons for each vacancy, the nomination shall be binding. In addition, the Board of Supervisory Directors is authorised to make a non-binding nomination for a vacancy, consisting of one person. If the Board of Supervisory Directors fails to submit the nominations in time, the General Meeting of Shareholders has the authority to appoint any person it chooses. Notwithstanding the foregoing, the General Meeting of Shareholders may at all times, by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital, deprive the nominations of their binding effect. The General Meeting of Shareholders may adopt or reject a non-binding nomination by a resolution adopted with a majority of the votes cast.
The members of the Board of Management and the members of the Board of Supervisory Directors may at any time be suspended or dismissed by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital. The members of the Board of Management may also be suspended by a resolution of the Board of Supervisory Directors. If in the aforementioned cases, the quorum of one third of the Company's issued share capital is not met, a new meeting will be convened in which a nomination can be rejected or a dismissal or suspension can be resolved by a majority of the votes cast.

Management Team (formerly Executive Committee)

The Company also has a senior management group which together with the Board of Management is responsible for management of the Company (The Management Team).

Board of Management

During 2019, the Board of Management comprised of the following members:

Name	Position	Member since	Term
Dr Sijmen de Vries	Chief Executive Officer	13 October 2008	Up to AGM in 2021
Dr Bruno Giannetti	Chief Medical Officer	1 December 2006	Up to AGM in 2021
Mr Robin Wright	Chief Financial Officer	28 October 2015	Standing down at AGM 2020

Management Team

During 2019, the Management Team comprised the Board of Management plus the following members:

Name	Position	Member since	Term ended
Mrs Anne-Marie de Groot	SVP, Organisational Development	01 January 2014	
Dr Erica Kerkvliet	Head of Research and Development	01 January 2017	01 August 2019
Dr Esther van Stralen	Head of Technical Operations	01 January 2017	01 August 2019
Mr Stephen Toor	General Manager, Pharming Americas	01 January 2017	
Mrs Mireille Sanders	SVP, Operations	01 August 2019	
Mr James Cornicelli	VP Global Business Development	23 July 2018	01 August 2019

Board of Supervisory Directors

During 2019, the Board of Supervisory Directors comprised the following members:

Name	Position	Member since	Term
Mr Paul Sekhri	Chairman	30 April 2015	Up to AGM in 2023
Mr Juergen Ernst	Vice Chairman	15 April 2009	Up to AGM in 2021
Dr Barrie Ward	Member	23 May 2007	Up to AGM in 2021
Mr Aad de Winter	Member	15 April 2009	Up to AGM in 2021
Dr Jan Egberts	Member	30 April 2015	Resigned 23 May 2019
Ms Deborah Jorn	Member	22 May 2019	Up to AGM in 2023

As disclosed to the Annual General Meeting in May 2019, Mr. Ward has served on the Board of Supervisory Directors for a period exceeding 12 years. This is a deviation to the maximum term proposed in the Dutch Corporate Governance Code best practice provision 2.2.2 and his extension term of two years was therefore specifically approved by the shareholders in general meeting on May 22, 2019.

MANAGEMENT TEAM

Sijmen de Vries, MD MBA (1959)

Title
Chairman of the Board of Management and Chief Executive Officer
Nationality
Dutch
Date of initial appointment
13 October 2008
Other current board positions
Mr. De Vries holds a non-executive directorship in Midatech Pharma plc.

Other current board positions: Mr. De Vries holds a non-executive directorship in Midatech Pharma plc. During 2019, Mr. De Vries was responsible for the overall management of the Company, including specifically commercial activities, quality assurance, business development and animal welfare. Mr. De Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joined Pharming from Switzerland-based 4-Antibody where he was CEO. Mr. De Vries has also been CEO of Morphochem AG and prior to this he worked at Novartis Pharma and Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc where he held senior business and commercial positions. Mr. De Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

Bruno M.L. Giannetti, MD PhD (1952)

Title
Member of the Board of Management and Chief Medical Officer
Nationality
Italian
Date of initial appointment
1 December 2006
Other current board positions
Mr. Giannetti holds no other board positions.

During 2019, Mr. Giannetti was responsible for the Company's operations including research and development and manufacturing activities as well as medical governance and non-clinical and clinical development, regulatory affairs, drug safety, and medical information teams. He has more than 25 years of experience in the pharmaceutical and biotech industry. Previously, he was the President and founder of CRM Clinical Trials GmbH (now Topcro GmbH), CEO of AM-Pharma B.V. and President and CEO of Verigen AG. He has served as senior management consultant for pharmaceutical R&D projects at Coopers & Lybrand (in Switzerland and the UK). Mr. Giannetti was also worldwide Vice-President Marketing and Medical Information at Immuno, Austria and Head of Clinical Research at Madaus AG. Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn and has been appointed visiting Professor at the Pharmaceutical Faculty of the University of Seville (Spain). With the arrival of Ms Sanders (below) as Senior Vice President Operations, Mr Giannetti has moved to become Chief Medical Officer.

Robin Wright, BA FCA (1964)

Title
Member of the Board of Management and Chief Financial Officer
Nationality
British
Date of initial appointment
28 October 2015
Other current board positions
Mr. Wright holds the position of non-executive Chair of the UK company Vaccitech Ltd.

Mr. Wright is responsible for the financial and capital management, accounting and investor relations activities of the Company within the CFO role, and for legal and other support functions beyond this. He has extensive senior level experience as a CFO of public companies in both the pharmaceutical and biotechnology industries. He is a qualified accountant and joined Pharming from Sweden-based Karolinska Development AB (publ.) (KDEV: SS), where he was CFO and Head of Business Development. Mr. Wright was prior to this CFO and Head of Business Development at Orexo AB (publ.) (ORX: SS) in Sweden. Before going to Sweden, he worked in private equity and corporate finance advisory roles, including long periods at Citibank Salomon Smith Barney and Barclays de Zoete Wedd. He has completed over 170 global license and M&A transactions as well as several hundred financing transactions within the pharma/biotech sector. Mr. Wright holds a BA degree in Chemistry from Oxford University and is a Fellow of the Institute of Chartered Accountants in England and Wales in the United Kingdom. Mr Wright has indicated that he will stand down at the AGM in May 2020.

Anne-Marie de Groot (1981)

Title
Senior Vice President Organisational Development
Nationality
Dutch
Date of initial appointment
1 January 2014

Mrs. De Groot is responsible for developing and executing internal strategic development within the Company to drive performance and identify and implement best business practices, including continuous education and alignment of the organization to be prepared to deliver on new challenges. She has extensive and hands-on experience leading the Portfolio Management Organisation, Human Resources, Corporate Compliance, Information Technologies and Support Services groups and plays a key role in developing, communicating, executing and sustaining corporate strategic initiatives and the organisational design, aligning talent to business strategy and cultivating an environment of high employee engagement. Mrs. De Groot has over 15 years of experience crossing the full spectrum of the Organisational Development discipline including organisation design and restructuring, mergers and acquisitions, corporate culture development, change management and leadership and talent development. She held various positions at Randstad, Janssen Pharmaceuticals and Pharming. She holds a Bachelor in Social Work and a Bachelor in Human Resources Management from Hogeschool Leiden.

Mireille Sanders, MSc (1968)

Title
Senior Vice President Operations
Nationality
Dutch
Date of initial appointment
1 May 2019

Manufacturing, Supply Chain Management and Animal Health. Mrs Sanders has over 23 years' experience in the pharmaceutical industry in different development, operational and strategic roles both in Europe as well as in the US. Her former companies include Organon, Schering Plough, MSD/Merck and Janssen Pharmaceuticals part of Johnson & Johnson. She holds a MSc in Chemical Engineering from the Technical University Eindhoven in the Netherlands.

Stephen Toor (1971)

Title
Senior Vice President and General Manager Pharming Americas
Nationality
American
Date of initial appointment
1 January 2017

Mr. Toor is responsible for Pharming's US subsidiary, Pharming Healthcare Inc (PHI). In this role he oversees all aspects of PHI's US operations including the commercialisation of RUCONEST® for patients with hereditary angioedema. Mr. Toor has over 23 years' experience leading commercial operations, brand launches and portfolios (rare disease, biologics and small molecule) in Europe, globally and in the US. His former companies include Pharmacia/Pfizer, Schering-Plough/Merck and Bausch Health. He holds a BA (Hons) in European and American History from Manchester Metropolitan University.

Board of Supervisory Directors

Paul Sekhri (1958)

Title
Chairman of the Board of Supervisory Directors
Nationality
American
30 April 2015t:
13 October 2008
Other current board positions:
Mr. Sekhri is President and CEO of eGenesis

Mr. Sekhri has 30 years of operational experience in life sciences with in-depth knowledge of multinational pharmaceutical and biotechnology markets and products. Mr. Sekhri is Chairman of Compugen Ltd, a company specialising in predictive discovery of new therapies for unmet medical need. During 2018, Mr Sekhri was President and Chief Executive Officer of Lycera Corp., a biopharmaceutical company developing breakthrough medicines to treat cancer and autoimmune disease. Prior to joining Lycera, Mr. Sekhri was Senior Vice President, Integrated Care at Sanofi, where he led the creation of innovative solutions and business models to meet patient needs. Previously, he served as Group Executive Vice President, Global Business Development and Chief Strategy Officer at Teva Pharmaceutical Industries Ltd. Mr. Sekhri has held positions in small biopharmaceutical companies, large and small pharmaceutical companies, and venture capital/private equity firms, including TPG, Cerimon Pharmaceuticals, Ariad Pharmaceuticals and Novartis AG. Mr. Sekhri completed postgraduate studies in clinical anatomy and neuroscience at the University of Maryland, School of Medicine and received his BSc degree from the University of Maryland. In addition to his board position at eGenesis, he currently serves on several public and private boards including Alpine Immune Sciences, Petra Pharma Corporation, Topas Therapeutics GmbH and Veeva Systems, Inc.; as well as several non-profit boards including Caramoor Music and Arts Center, Young Concert Artists, Inc., the TB Alliance, the English Concert in America, the Patrons Council of Carnegie Hall, the orchestra of St Luke's, The Knights, and the Metropolitan Opera.

Juergen H.L. Ernst, MBA (1939)

Title
Vice Chairman, member of the Audit, Corporate Governance and Remuneration Committees
Nationality
German
Date of initial appointment
15 April 2009
Other current board positions
Mr. Ernst holds no other board positions.

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

J. Barrie Ward, PhD (1938)

Title:
Member and Chairman of the Corporate Governance Committee and Member of the Remuneration Committee.
Nationality:
British
Date of initial appointment:
23 May 2007
Other current board positions:
Mr. Ward is a board member of ADC Therapeutics SARL.

Mr. Ward has a broad international network and experience in managing and financing biopharmaceutical companies. He has held senior management positions in the UK, US and Singapore at several pharmaceutical and biotechnology companies, including Glaxo Group Research Ltd, Virus Research Institute Inc., Avant Immunotherapeutics Inc. and KuDOS Pharmaceuticals Ltd. and board positions at Cancer Research Technology Ltd., Spirogen SARL, CellCenteric Ltd. and BergenBio AS. His most recent senior management 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.

Deborah Jorn, MBA (1959)

Title
Member, Chairman of the Remuneration Committee and member of the Audit Committee
Nationality
American
Date of initial appointment
22 May 2019
Other current board positions
Ms Jorn is Director & Founder of Jorn Consulting LLC and Board Member of Viveve Medical Inc.

Deborah (Deb) Jorn has over 30 years of operational experience building specialty pharmaceutical businesses across numerous therapeutic areas in the US and globally. Most recently, Ms. Jorn was Executive Vice President of Corporate and Commercial Development at Eyepoint Pharmaceuticals, a specialty pharmaceutical company focused on the developing and commercialising innovative ophthalmic products to treat serious eye diseases. Prior to joining Eyepoint, she was Executive Vice President and Group Company Chair at Bausch Health (formerly Valeant Pharmaceuticals) where she led the dermatology, gastroenterology and HAE businesses. Ms. Jorn was Chief Global Marketing Officer at Bausch & Lomb prior to its acquisition in 2013 by Bausch Health where she led the launch of several new products and the integration of Ista Pharmaceuticals following acquisition. Previously, she was Group Vice President of Women's Healthcare and Fertility (2008-2010) and Allergy and Respiratory (2004-2008) at Schering Plough Corporation prior to its acquisition by Merck and Co., Inc. Ms. Jorn was also at Johnson & Johnson as the Worldwide Vice President of Internal Medicine and Early Commercial input. She began her career at Merck and for more than 20 years held roles of progressive responsibility in various functional areas including R&D, Regulatory and Sales and Marketing. Ms. Jorn was also a Director of Orexigen Therapeutics, Inc. from May 2016 until July 2018.

Aad de Winter, LLM (1953)

Title
Chairman of the Audit Committee and member of the Corporate Governance Committee
Nationality
Dutch
Date of initial appointment
15 April 2009
Other current board positions
Mr. De Winter holds no other board positions.

Mr. De Winter has extensive financial experience. He started his career at AMRO Bank in 1980. He worked in the areas of capital markets, investment banking and institutional investor relationship management. In 1990, Mr. De Winter became senior Advisor Corporate and Institutional Finance at NIBC (formerly 'De Nationale Investerings Bank'). As of 1998, Mr. De Winter was at NYSE Euronext (now Euronext), Amsterdam responsible for advising and admitting companies to the stock exchange in Amsterdam as Director Listing & Issuer Relations. As of January 2009, until July 2015, Mr. De Winter was an Associate Partner at First Dutch Capital, Amsterdam and from 2008 to end of 2013, he was a member of the China and India working group at the Holland Financial Centre which was, inter alia, focused on attracting Chinese and Indian companies to a (cross) listing on Euronext Amsterdam. Since 2010 he is an Associate Partner at Nederlandsche Participatie Exchange (NPEX), an innovative online financing and trading platform for securities of SME companies. Mr. De Winter has more than three decades of experience in assisting companies with stock exchange listings for various capital markets instruments. He holds a law degree from Erasmus University, Rotterdam, specialising in corporate law.

Board of Supervisory Directors: Committees

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

The Audit Committee

The Audit Committee consists of Mr. De Winter (Chairman), Mr. Ernst, and Ms. Jorn. The tasks performed by the Audit Committee include reviewing the scope of internal controls and reviewing the implementation by the Board of Management recommendations made by the independent external auditor of Pharming.

The Remuneration Committee

The Remuneration Committee consisted of Mr. Ward (Chairman until 22 May 2019), Mr. Ernst and Mr. Egberts. Mr. Egberts was released from this committee when he left the Supervisory Board on 22 May 2019. Ms. Jorn became member and Chair of the committee as of 22 May 2019. The Remuneration Committee advises the Board of Supervisory Directors with regard to salaries, grants and awards under incentive plans, benefits and overall compensation for the individual members of the Board of Management.

The Board of Supervisory Directors decides upon remuneration of the Board of Management. The remuneration of each of the members of the Board of Supervisory Directors is determined by the General Meeting of Shareholders.

The Corporate Governance Committee

The Corporate Governance Committee consists of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. The Corporate Governance Committee is responsible for monitoring compliance with the Dutch Corporate Governance Code.

Testimonial Burt

"Having worked in the pharmaceutical laboratories for over 20 years, my main interest has always been in chromatography (especially High-Performance Liquid Chromatography). I joined Pharming as a Research Associate in the Analytical Department 4 years ago. At Pharming I have the opportunity to explore as much as possible about the field of HPLC. Next to the process development department, the analytical department consist of 2 teams: the first develops biochemical assays and the second chromatography assays. In the chromatography department we develop assays to analyse and characterise our product. The assay starts with the feasibility, then development and qualification and finally the transfer of a method to Quality Control. What I like about my work is all the different steps a method goes through; with such diversity it never becomes routine. Our Research and Development team is made up of incredibly experienced people. At Pharming every department is closely connected and everybody is open and willing to cooperate. My goal is to become a chromatography expert."

“Our Research and Development team is made up of incredibly experienced people

Corporate Governance & Risk Management

Corporate Governance

Pharming has a two-tier governance structure, as is common among listed companies in the Netherlands. The management, general affairs, direction, performance and long-term success of Pharming is entrusted to the Board of Management under the supervision of the Board of Supervisory Directors. A list of our current Board of Management and Supervisory Board members, their roles, dates of appointment, and their other major appointments is set out on page 42-48 of this Annual Report.

Pharming's compliance with Corporate Governance Codes and details of Pharming's Corporate Governance Statement, as required by Dutch law, can be found on our website: https://www.pharming.com/about-us/corporate-governance

Risk Management and Control

Risk management is integral to Pharming's strategy and to the achievement of Pharming's long-term goals. Pharming's Board of Management is responsible for designing, implementing, and operating the Company's internal risk management and control systems. The Board takes a comprehensive approach to risk management and has developed an internal risk management and control system, incorporating Pharming's strategy and the Five Components Cube of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The system is tailored to the COSO risk factors that are relevant to the Company, allowing for its small size.

This approach provides reasonable assurance that strategic, operational, financial and compliance objectives can be met and the risks facing the business are being assessed and mitigated.

Pharming's risk management and internal control framework has been in place for the duration of the financial year covered by, and to the date of the approval of, this Annual Report. A summary of the risks that could prevent Pharming from achieving its objectives is included in the section 'Risk factors' of this report.

Our internal risk management and control systems make use of various measures including:

- Annual evaluation by the Board of Supervisory Directors of the objectives reached;
- Periodical updates to the Board of Supervisory Directors reviewing developments relating to operations, finance, research and development, business development, clinical development, and investor relations;
- Quarterly reporting and review of the financial position and projections by the Board of Management to the Board of Supervisory Directors;
- Periodic review meetings by the Board of Management with departmental managers;
- Annual, quarterly and monthly agendas, incorporating financial and operational objectives, cash flow forecasts and evaluation of progress objectives;
- A whistle-blower's procedure, communicated with all employees and published on the Company's website;
- Regular meetings to discuss the financial results, controls and procedures between the Audit Committee, the Board of Management and the Independent Auditor;
- Periodical evaluation of the Company's Risk Management Plan and Risk Assessment by an internal Risk Assessment Team.

The Company maintains records and procedures designed to:

- Reflect accurately and fairly reflect the transactions and disposition of the assets of the Company;
- Provide reasonable assurance that transactions, receipts, and expenditure is recorded and made by authorised employees and permits the preparation of financial statements in accordance with generally accepted accounting principles;
- Provide reasonable assurance of the prevention or timely detection of unauthorised acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The internal risk management and control systems of the Company are undertaken by the Audit Committee and the Corporate Governance Committee and regularly discussed between the Board of Management and the Board of Supervisory Directors. These Committees regularly review the significant risks and decisions that could have a material impact on Pharming alongside the Board of Management. These reviews consider

the level of risk that Pharming is prepared to take in pursuit of the business strategy and the effectiveness of the management controls in place to mitigate the risk exposure.

Our risk management and control systems cannot provide absolute assurance that Pharming will achieve its objectives and we may not be successful in deploying some or all our mitigating actions. If the circumstances in these risks occur or are not successfully mitigated, our cashflow, operating results, financial position, business and reputation could be materially adversely affected. Risks and uncertainties could also cause actual results that vary from those described, which may include forward looking statements, or could impact on our ability to meet our targets or be detrimental to our profitability or reputation.

With respect to the financial reporting risks, reference is made to the 'Statements of the Board of Management' in this report. Please also refer to the note 31 'Financial risk management' on page 161.

The Company operates the normal financial control systems as expected of a large listed company. These include; provision for separation of responsibilities for issue, receipt and payment of invoices and funds; multiple layers of authorisation for any payments out of the Company or issue of invoices to third parties, as well as approvals of all invoices coming in to the Company; regular as well as occasional snap reconciliations of all balances with creditors, debtors and bank balances; regular review and updates of accounting policies and their application; internal analytical review and external audit. In addition, the Company uses specific accounting advice and external tax advice from a variety of highly reputable external consultants, which are mainly major accountancy firms and payroll services providers. As a large company under Title 9 of the Netherlands Civil Code, the Company provides additional information in this Management Report to enable users of the report to assess the Company, the risks it faces and the external factors acting upon it.

Risk Factors

The following risk factors have been identified by the Board of Management as the main risk areas challenging Pharming in achieving its objectives. Included are the risk-mitigating actions we have taken.

Our risk appetite and approach to risk management differs by risk type:

- Strategic risks: we aim to deliver on our strategic ambitions and priorities and are willing to accept reasonable risks to achieve these. The following Strategic Risks are assessed in more detail in this Annual Report:
  - Commercial Risks; and
  - Macroeconomic Risks.

- Operational risks: we face operational challenges that may require management attention. Our objective is to avoid risks that could negatively impact on our goal to achieve operational efficiency, while ensuring our quality standards are unaffected. The following key Operational Risks are assessed in more detail in this Report:
  - Risks related to CMC/pre-clinical research and development
  - Risks related to clinical research and development
  - Risks related to regulatory procedures
  - Risks related to production procedures
  - Risks related to quality control procedures
  - Personnel Risks

- Financial Risks: our financial strategy is focused on a strong financial position and creating long-term value to our shareholders. Our objective is to avoid risks which could negatively impact on this long-term value.

- Legal, IT, IP and Corporate Compliance Risks: we strive to be fully compliant with our code of conduct and national and international laws and regulations of the countries in which we operate. A new specific area of IT-related cybersecurity risk has been added in 2019.

To determine if a risk is acceptable, the Board of Management conducts a risk assessment to identify the nature of risks to the business and the level of such risks the Company deems acceptable with or without mitigation activity in respect of such risks on a case by case basis. The risk assessment is based upon our

strategic goals, our business principles, our policies and procedures, and taking into consideration the highly regulated markets we operate in.

Strategic Risks

At present, the coronavirus COVID-19 outbreak represents a short-term strategic risk. Apart from this, the two main strategic risks are Commercial Risk and Macroeconomic Risk.

Pharming faces a risk of damage to its commercial business or capacity to produce or develop new products from the necessary restrictions imposed by national and supranational authorities designed to control and manage the spread of COVID-19

While Pharming's principal commercial business is not currently seriously at risk from the restrictions imposed to stop the spread of COVID-19, there is no guarantee that the virus may not be more dangerous than currently observed, or may affect more people, or may result in longer term measures restricting further the ability of employees to complete their assigned tasks properly and on time. While at present there is no perceived long-term risk to the continuity of Pharming as a business, we are unable to guarantee where this outbreak may lead, and so a future risk does exist. The demand from patients is unlikely to be negatively affected, and even patients on prophylactic medications may need additional reliable breakthrough medication. The ability of our animal carers and ancillary staff necessary to the smooth operation of the production of RUCONEST® to go about their normal roles is subject to some risks, but as Pharming operates in pathogen-free environments, it may be possible to maintain an almost normal level of activity. One area where there may be delays rather than problems is in the selection and recruitment of patients for the ongoing clinical trials, as the procedures and hospital facilities which they might have needed will no longer necessarily be available. While this may add to the time taken to complete clinical trials, it is not expected to continue beyond the outbreak itself.

What are we doing to manage the risks?

Pharming has put in place strict guidance ensuring that every employee takes responsibility in preventing the transmission of the virus to or by Pharming staff. The main guidelines include: self-isolation for every employee exhibiting the published symptoms of the virus, for 14 days; cancellation of all non-essential travel to or from Pharming sites or to or from third party sites for any reason; working from home wherever possible at all times until the crisis has passed; and switching all meetings with external parties to virtual web-meetings or video-conference until the crisis has passed. By this means we hope to limit the effect of the outbreak as far as possible on our main production, commercial and clinical activities.

Commercial Risk

Pharming's future success may depend upon its ability to enter into partnerships with third parties

Pharming currently has a product portfolio which focuses on the commercialisation and further development of RUCONEST® as a treatment for an indication of Hereditary Angioedema (HAE).

Pharming's strategy for the commercialisation of other products, and in particular those for larger indications, is to sell directly where we are able to manage such sales in-house and to partner or out-license such products to third parties where we are not. The process of establishing partnerships, however, is difficult, time consuming and involves uncertainty.

If Pharming is unable to commercialise a new product itself due to financial or strategic factors, we may have difficulty in locating and entering into favourable agreements with suitable third parties to bring the sales of the relevant product to the level necessary to ensure profitability. Pharming's ability to predict the success of any partnership is limited due to the complexity and uncertainty of third-party negotiations coupled with the inherent vagaries of future markets for such products. There are currently no partnerships on the development or commercialisation of any of Pharming's products, other than for RUCONEST®. Other products being developed by Pharming have entered the clinical stage in studies run by Pharming or by counterparties with Pharming's cooperation and involvement.

What are we doing to manage the risks?

In order to mitigate this risk of dependency, Pharming has established partnerships in potentially lucrative geographical areas with partners capable of commercialising RUCONEST® in their local markets.

North American Market: In the North American market, which was re-acquired from Valeant in 2016, Pharming is engaged in the direct US commercialisation of RUCONEST®.

European Market: Pharming has terminated its license with Sobi as of 1 January 2020. SOBI had a specialised sales activity working in Eastern European countries with physicians that treat HAE patients, which Pharming is now replicating. In Western Europe, Pharming has been selling directly since 2015.

Pharming faces intense competition in the various markets for its products

Although Pharming is the sole provider of a recombinant therapy (either on the market or in development) for the treatment of HAE attacks, the Company faces intense competition from other products used to treat HAE. Two other non-recombinant C1-inhibitor products and one product using another mechanism of action have been approved by the European Medicines Agency (EMA), each for the treatment of acute HAE attacks. One recombinant kallikrein antibody has been approved for the preventive treatment of acute HAE attacks.

In the United States, one human blood plasma-derived C1-inhibitor product and two products with alternative mechanisms of action have been approved for the treatment of acute HAE attacks. Two blood plasma-derived C1-inhibitor products and a monoclonal kallikrein antibody for the preventive treatment of HAE attacks have also been approved (all of the above-mentioned products are applied parenterally, either by intravenous or subcutaneously). Oral products for the prevention of acute HAE attacks are also being developed and may be approved in late 2020 for the USA.

Consequently, Pharming may not obtain sufficient market penetration with RUCONEST® or a sufficient level of sales of the product to allow it to remain profitable. For products under development, Pharming is also exposed to the risk that a competitor may bring a product with similar effects to the market faster than the Company does, which may result in Pharming's sales of its products to fall short of the level needed to retain profitability.

New technologies from competitors may make RUCONEST® or any other products under development and Pharming's technology obsolete. Several competitors are active in the market for therapeutic products with more resources and significantly greater experience in the industry, such as, obtaining regulatory approvals. The above events may have a material adverse effect on Pharming's financial position and operational performance.

What are we doing to mitigate the risk?

Pharming is working towards developing new application forms for RUCONEST for the prophylaxis and the treatment of acute HAE attacks through other routes in addition to the current intravenous delivery route. Furthermore, it is developing new recombinant human C1INH preparations to treat several new indications such as pre-eclampsia or acute kidney injury after PCI. If successful, Pharming expects to have a very significant competitive advantage over plasma-derived products due to their supply limitations as well as strong patent protection in the major markets.

Pharming sets clear long-term commitments in research and development of its Products. In addition to Pharming commercialising its own products in the major markets, where RUCONEST® is partnered, Pharming is assisting:

1. the partner to obtain the best value for RUCONEST®; and
2. the patients by pursuing additional regulatory approvals and additional indications for the product.

Alongside these initiatives, Pharming is also focused on the following activities to mitigate the risk of competition:

- Evaluating external opportunities to enhance the product range and pipeline to enable better value from Pharming's resources;
- Developing or acquiring new products which can be used by the same physicians who treat HAE patients, can help those patients further, or can be commercialised using the same infrastructure;
- Developing new protein replacement treatments for enzyme-deficiency disorders such as Pompe disease and Fabry's disease, among other possible approaches;
- Helping to develop new products through our collaboration with CSIPI, such as recombinant human Factor VIII for the treatment of Haemophilia A.

Pharming's products may not gain market acceptance

Sales of medical products depend on physicians' willingness to prescribe the treatment. This is based on a determination by physicians that the products are safe and effective for the patient. The relative cost may also be a factor when physicians compare Pharming products with competing treatments. Even if Pharming's products achieve market acceptance, the market may fluctuate resulting in Pharming being unable to generate sufficient revenue.

What are we doing to manage the risk?

Pharming is committed to producing cost-effective, safe and efficacious products. Our research and development team actively search for ways to improve existing products and produce new products that are both cost-effective and which incorporate factors important to physicians.

The success of Pharming is dependent on public, market and governmental acceptance of its transgenic technology, development methods and products

Pharming uses genetic transfer technology and genetic modification in the development of our products. These and other activities are a common subject of debate and negative publicity. Activist organisations and individuals have tried to stop various industries from using genetic modification, usually employing media smear campaigns. These actions may have a material adverse effect on Pharming's reputation financial position.

Furthermore, the Company is dependent on the market accepting our products to enable commercialisation. Market acceptance is dependent on the opinions formed by the medical community, partners and competitors and are affected by evidence of safety and efficacy of the relevant products. Failure to obtain market acceptance of our products may also have a material adverse effect on Pharming's financial position, operational performance and financial market standing.

What are we doing to manage the risk?

The efficiency and high quality of our products mean that this risk is mitigated by the high demand for our products, which has been proven to save lives. Pharming also provides a less toxic and damaging product to treat patients with life-threatening conditions.

Unsatisfactory reimbursements paid by third parties and unsatisfactory cost-effectiveness of Pharming's products once approved for marketing

Pharming's financial success is dependent on the reimbursement of our products by third parties such as government health administration authorities, private health insurers and other organisations. There is an increasing tendency of health insurers to reduce healthcare costs by limiting both the coverage and the level of reimbursement for new therapeutic products and in some cases by refusing to provide coverage altogether. Not obtaining reimbursements, or obtaining inadequate reimbursements, from these third parties may have an adverse effect on Pharming's, financial position.

In addition to reimbursements from third parties, if the Company succeeds in bringing a product to market, it also faces uncertainties about the profitability of the product. The value of the product, acceptable to Pharming, may differ from that of health care insurers and/or consumers. This will prove the product uncompetitive and may adversely affect Pharming's financial position and financial market performance.

What are we doing to manage the risk?

The issue of reimbursement affects both the European market and the USA. Pharming's partner, Sobi originally addressed this on a country-by-country basis, and reimbursement has been obtained in some of the EU countries. Pharming will be extending this list on a country-by-country basis.

In the US, the product, once approved, needs to be covered under the various reimbursement programs that are applicable for various groups of US citizens. The coverage under the reimbursement programs is a legal requirement for certain federal government funded special interest groups such as Medicare patients or armed forces veterans. These discounts can take some time to be applied. Pharming reports net sales to the market, meaning that an amount out of the funds received for sale of the product (Gross Sales) is deducted from the Gross Sales to allow payment (Allowances) for such discount claims and other discounts such as fast payment and listing discounts. These allowance funds are held by Pharming until claims for the relevant discounts have been received and become payable. In case of an unexpected increase in eligible patients, it is sometimes necessary to make additional provisions over and above the original allowances for these discounts to be claimed. The result is usually an adjustment to sales.

Information on sales progression, marketing, sales planning and execution will be exchanged on a regular basis with our commercial partners through Joint Steering Committees. To mitigate risks in these areas, Pharming continuously evaluates and implements improvements in both up-stream and down-stream manufacturing processes which will reduce the cost of goods and the margin pressure.

Macroeconomic risks

The Macroeconomic environment is volatile

The volatility of the macroeconomic environment impacts on Pharming's objectives. In particular, the limited availability of funds in the market can sometimes affect Pharming's ability to operate, either because it cannot raise adequate funds to make a change in policy or because a counterparty cannot do so to enter into a transaction with Pharming. The US and EU biotech markets have been recovering since the last down cycle in the year 2014.

What are we doing to manage the risk?

To mitigate the risks of the macroeconomic environment, Pharming plans capital and financial activities several years in advance to ensure sufficient cash flow. In order to do so, Pharming maintains strong relationships with international banks and investors.

The cycle of biotechnology investment

Biotech investment tends to occur in cycles. The market is reasonably volatile, with the sector generally being seen as reliable for positive performances during a downturn.

What are we doing to manage the risk?

Pharming is aware of the money flows into biotech funds and the geographical differences between the Netherlands/Benelux/Other Europe and the US. Pharming is also aware of the risk assessment of investors at any point in the investment cycle.

Pharming recognises improvements and deteriorations of the biotech investment climate and acts to ensure that if funding is required from external sources, it raises funds when these are available at acceptable terms. To do so, Pharming maintains relationships/contact with a spread of international banks and investors (both equity and debt). The recent convertible bond issue is a very good example of this.

The recent bond issue has left Pharming with a solid, dependable balance sheet with no immediate need of funding. Pharming continues to monitor the biotech investment sentiment by following (financial and operational) sector news, keeping in close contact with banks both in the US and Europe and actively discussing funding and shareholder opportunities with these banks. The Company will continue to visit selected investor conferences and organise non-deal road shows in order to inform (potential) investors and be informed by them of changes in their requirements.

Cost of funding varies with the macroeconomic environment

Global economic changes impact the cost of funding

for all companies worldwide. Although the biotech sector has its own dynamics, it is expected that its development will ultimately be linked to future global economic trends. At present, restrictions on new investment funding in economic downturns tend to increase the cost of all forms of raised capital, with upturns having the opposite effect.

What are we doing to manage the risks?

The Company cannot influence the global changes that are taking place; however, we can strive to beat the trends by:

- Changing the investor base gradually towards more institutional shareholders;
- Informing our existing shareholder base clearly and in a timely fashion to create a better understanding of the fundamentals of our biotech development and pharmaceutical sales markets; and
- Ensuring that we have, or have access to, sufficient capital to carry out our plans.

High profile failures of biotech companies alter the investment environment

Next to economic behaviour, investors in biotechnology are also driven by sentiment and news flow. Performance of other biotech companies, especially poor performance leading to collapse or failure can have an impact on the investment environment. This could also have an impact on Pharming's stock price development and availability of funding.

What are we doing to manage the risks?

While Pharming cannot control other companies' management, in order to mitigate reputational damage, Pharming identifies different audiences, determines their relative importance for the Company's immediate future and assess the information necessary. We do this in part by contracting professional PR consultants to advise on our communication methods and attending selected investor conferences both in Europe and the US to meet interested investors. Pharming communicates important developments in press releases on our website and in the Annual Report.

Operational Risks

Operational or operating risk in this case refers to research and development risks, manufacturing risks, clinical risk and personnel risk. There are other areas of operating risk which are assessed and managed, such as documentary error risk, but they are not considered material for this report.

Risks related to CMC/ Pre-Clinical Research and Development

The Company's development pipeline has been dependent on the RUCONEST® franchise

Pharming's operational development is dependent on the RUCONEST® franchise. Any negative finding on the properties, efficacy or safety of the source of the recombinant protein may have a significant impact on the Company's existence.

What are we doing to manage the risk?

A set of activities to expand the pipeline are ongoing including:

- Addition of new late stage assets through acquisition and/or in-license, such as the new program leniolisib for APDS
- Development of recombinant human alpha-glucosidase (rhaGLU) for the treatment of Pompe disease;
- Development of recombinant human alpha-galactosidase (rhaGAL) for the treatment of Fabry's disease; and
- Platform improvement by Pharming Research in France to develop new programs with in- creased protein expression and/or improved glycosylation profiles.

In addition to these activities for new molecule projects, Pharming is also pursuing new indications for RUCONEST® and other forms of rhC1INH and supporting independent investigators to do so.

New ad hoc activities are sometimes introduced, and ongoing activities are continued as much as possible

while the data is promising. Progress of the projects is discussed at least each quarter with the Board of Supervisory Directors.

The development pipeline is at an early stage

Pharming's recent focus has been on identifying potential projects with a relatively short development time. This assumes that the main advantages of a potential new product are that it should, compared to existing alternatives on the market, be effective and safe. This assumption relies to some extent on the advantages provided by the Company's proprietary platform including a significant commercial upside due to lower cost of goods and lower immunogenicity due to better biochemical synthesis by the bioreactor.

Since 2015, significant effort has been applied to identifying suitable pipeline candidates, resources and infrastructure to mitigate the risk associated with focusing on a single product. At present, our R&D department is structured with different subdivisions to accommodate the work necessary for our new product development. However, our pipeline products are still in the early stages of development and exposed to the product failure during development.

What are we doing to manage the risk?

- Addition of new late stage assets through acquisition and/or in-license, such as the new program leniolisib for APDS
- Potential products such as rhaGLU and rhaGAL have been selected, recommended by the Pharming Pipeline Team. It is expected that these potential products will have a relatively short development time based on the assumption that the main advantage of a potential new product as compared to existing alternatives on the market at this stage should be safety, and these are essentially human proteins.
- Project teams have been set up for each project which will work to bring the projects to the next stage.

Pharming is looking to reduce the development timelines further by searching for more new projects in areas involving core competence and knowledge that are already available in the Company. A professional project management structure has been developed so that projects are properly monitored, and needs are met.

The development of Pharming's early stage products involves a long product development cycle

The development of a therapeutic drug to marketing approval is a lengthy process. During this time a research project must proceed through preclinical and several clinical stages of development, as well as the regulatory approval process. Due to this lengthy process and the inherent uncertainty of research and development of pharmaceuticals, only a small fraction of initial product candidates receives regulatory approval.

What are we doing to manage the risk?

In addition to RUCONEST® and other Pharming products in development, Pharming seeks to discover products in several long-term research projects for which clinical trials have not yet been initiated.

A failure to develop additional products successfully and within a reasonable time frame could have significant detrimental consequences for Pharming's, financial position operational performance and business prospects.

Quality and flexibility of outsourced development activities are harder to control than in-house activities

Outsourced activities performed for process development do not give the quality we are used to obtaining when processes are developed in-house. In addition, outsourcing of these activities is costly and often inefficient. A delay may occur in process development due to the Contract Research Organisation (CRO) or Contract Manufacturing Organisation (CMO) involved not being able to deliver on time or to the quality required.

What are we doing to manage the risk?

- Pharming is replicating important parts of the production process in its own new downstream processing facility, which will extend capacity at a lower cost per unit than any other outsourced approach can achieve at present.
- The Pharming process development team closely monitors the progress; Analytical Development colleagues are also closely involved and repeat tests regularly.
- In order to maintain control and management of the outsourced processes, we hold periodic meetings with the CROs/CMOs involved.

Risks related to Clinical Research and Development

Pharming relies on third parties to conduct preclinical and clinical trials

Pharming does not have the ability to conduct preclinical and clinical trials for product candidates in its own facilities and must rely on agreements with third parties to undertake these activities (i.e. contract research organisations, medical institutions, clinical investigators and contract laboratories). Pharming remains responsible that each of the preclinical and clinical trials are conducted in accordance with its general investigation plan and protocol. Moreover, the European Medicines Agency (EMA) and the US Food and Drug Administration (FDA) require Pharming to comply with regulations and standards, commonly referred to as Good Clinical Practices, for conducting, recording and reporting the results of preclinical and clinical trials. This is to ensure that data and reported results are reliable, credible and accurate and that trial participants are adequately protected.

Pre-clinical or clinical trials may be extended, delayed, suspended or terminated if third parties:

- do not successfully carry out their contractual duties or regulatory obligations;
- meet expected deadlines;
- need to be replaced;
- fail to adhere to Pharming's preclinical and clinical protocols or regulatory requirements (thereby compromising the quantity or accuracy of the data); or
- for any other related reasons.

In the above circumstances, Pharming may not be able to obtain regulatory approval for, or successfully commercialise, product candidates. This may have a material adverse effect on Pharming's future financial position, or operating performance.

What are we doing to manage the risk?

Pharming's legal, regulatory and clinical departments focus on initiating and maintaining good relationships with competent third parties. Penalties for contractual defaults are carefully considered and third parties are selected with importance placed upon past performance and reputation.

Clinical trials in new indications fail

Pharming is currently developing new routes of administration for RUCONEST® in several indications, independently or in co-development with various partners. Furthermore, several additional indications are being pursued as Investigator Initiated Trials.

Clinical trials are expensive and risky. General Clinical Practice rules have recently become stricter, which will cause a further increase in clinical development costs. The likelihood of a drug in clinical phase to get approved by the FDA has decreased in the last decade from 23% to 11.8%, and overall from concept to approval the probability of success is 1.5% for small molecules and 2% for biologic drugs (drugs based on existing human molecules). "Rushed development" and "cutting corners" have been named as the most common reasons for failure of proof of concept, dose-finding and confirmatory (pivotal) studies.

What are we doing to manage the risk?

RUCONEST® provides patients with a diagnosis of acute HAE with an active protein enzyme known to be missing or defective in the patient. For new indications, it is challenging to find a biochemical rationale for postulated efficacy in indications other than HAE. The success of the treatment is more uncertain. Nevertheless, the evidence for the importance of the biochemical processes on which RUCONEST® acts in new indications is robust, mitigating the risk of failure.

Alongside the strong evidential position, all project plans are evaluated by the Management Team (MT) and planning and Implementation of any clinical study is subject to Board of Management (BOM) approval. Development programs at Pharming may be partnered and sometimes co-funded, and therefore also may be subject to the review processes of the partner or funding entity, such as the leniolisib project.

Cost of trials overrun

Clinical trials are expensive and costly protocol amendments are regularly required. The costs of clinical trials have increased significantly in recent years mainly due to increased regulatory requirements.

Additional reasons for cost overruns include:

- a lengthy recruitment period for test patients;
- the addition of centres to gather patients and test results; and
- a decision to have an interim analysis for efficacy.

What we are doing to manage the risk?

To mitigate risk structurally, we work to implement the following processes:

- Clinical studies are managed by the Project Team;
- Special attention is paid to planning and conducting each clinical trial, adding scientific monitoring activities by a separate team of experts to the standard GCP conform monitoring plan.
- Deviations from the budget are flagged with the Management Team and proposals for protocol changes with significant budget impact require Board of Management approval;
- Development of formal processes for Project Management;
- Development of formal processes for Budgeting and Forecasting; and
- Negotiating contract research organisation contracts with clear conditions and limited capacity for budget expansions.

Risks related to Regulatory Procedures

The process of undertaking and completing preclinical studies and clinical trials, and obtaining regulatory approvals, may take several years and require substantial expenditure. There can be no assurance that applicable regulatory approvals for the Company's products will be granted in a timely manner, or at all. Any failure or delay in commencing or completing clinical trials for Pharming's products may have an adverse effect on the business.

The regulatory approval process is costly and lengthy and Pharming may not be able to successfully obtain all required regulatory approvals. Negative or inconclusive study results (either preclinical or clinical) could result in Pharming stopping the development of a product or technology or requiring additional clinical trials or other testing. This could have significant detrimental consequences for Pharming's financial position and operational development.

Pharming may not obtain all regulatory approvals for its products

Once a product receives regulatory approval, the approval may be subject to limitations or conditions (i.e. limitations on the indications for which the product is marketed or additional proof being required of the product's effectiveness and safety). Even after approval is granted, the product, its manufacturer and the manufacturing facilities are subject to ongoing scrutiny and regular inspections and audits by the relevant agencies. If previously unknown problems are discovered in connection with the product, the manufacturer or the manufacturing f acilities, restrictions may be imposed on use and withdrawal of the product from the market may be required. This would adversely affect Pharming's operational efficiency and financial position.

What are we doing to manage the risk?

Compliance with regulations is an essential part of Pharming's business operation. Pharming has

strengthened its in-house team in regulatory affairs for both the US and EU and continues to do so. Our regulatory specialists are heavily involved in monitoring and reviewing our practices to provide reasonable assurance that we remain aware of and in line with all relevant legal obligations.

Regulatory standards are constantly developing and failure to comply with applicable regulatory requirements could have serious consequences for the Company

The industry in which Pharming operates is highly regulated and the applicable regulatory requirements vary considerably between the different markets in which Pharming operates. These regulations are subject to development and future regulatory standards relating to, for instance, biotechnology-derived products, may be imposed that are distinct from those currently employed. Pharming cannot guarantee it will be able to meet such standards as they evolve and are implemented.

In addition to changing regulatory requirements, the failure of Pharming to comply with applicable regulatory requirements could result in, among other things, injunctions, product recalls, product seizures, fines and criminal prosecution.

What are we doing to manage the risk?

As noted above, compliance with regulations is an essential part of Pharming's business operation. Pharming has strengthened its in-house team in regulatory affairs for both the US and EU and continues to do so. Our regulatory specialists are heavily involved in monitoring and reviewing our practices to provide reasonable assurance that we remain aware of and in line with all relevant regulatory obligations. At the same time, Pharming has also strengthened and continues to strengthen its pharmacovigilance team, to ensure downstream compliance and fast response to issues arising for patients. We are also developing a separate internal Compliance team as a specialist group able to monitor and assess compliance with all up to date regulations on a continuous basis.

Risks related to Production Procedures

Pharming uses living mammals as the source for its program of recombinant product

The unique platform used by Pharming to produce its recombinant products bears the risk of failure due to contamination of the produced milk, due to diseases of the producing livestock or due to a breakdown of the facilities.

What are we doing to manage the risk?

Our production, operating and facility specialists are heavily involved in monitoring and reviewing our practices to provide the best possible animal care, processes and outcomes and this provides reasonable assurance that contamination is extremely unlikely to occur. We also remain aware of and in line with all relevant legal and regulatory obligations in relation to Pharming's production.

Pharming relies on single source suppliers for the provision of essential processes or materials incorporated in certain products and product candidates

Pharming relies on a single supplier for certain essential materials incorporated into products and product candidates. Any disruption in the supply of these materials could adversely affect our ability to deliver product or complete clinical trials. Other studies of product candidates, regulatory applications or commercialising product candidates in a timely and commercially valuable manner, may be adversely affected, should supply be disrupted.

What are we doing to manage the risk?

Pharming continuously evaluates and implements improvements in both up-stream and downstream manufacturing processes. Pharming has begun to gradually insource manufacturing activities and engage other partners to create alternatives or additional capacity to existing suppliers. At present, the Company is still too small to justify having alternate sources for all supplies, but on a high-risk basis we are moving to this status just now.

Pharming's future supplies of RUCONEST® are dependent on third parties

Pharming has entered into (downstream) manufacturing and supply agreements for the production of rhC1INH, the drug substance of RUCONEST®, principally with Sanofi and BioConnection. Pharming is also preparing develop and/or contract additional (upstream or downstream) manufacturing capabilities of its own and may also have to develop or contract additional (downstream) purification capacity beyond that. It is uncertain whether and to what extent Pharming will be able to develop such capabilities or enter into such partnerships or agreements on a timely basis and on acceptable terms. Even if a partnership or agreement has been concluded, the possibility exists that these partners fail to live up to the agreements made with them or that Pharming is unable to maintain such agreements. A failure to develop and/or sufficiently contract additional manufacturing capacity on a timely basis could have significant detrimental consequences for Pharming's business, financial position, results of operations, prospects and market price of the shares.

What are we doing to manage the risk?

Pharming has actively engaged in expanding its milk production capabilities in independent, geographically separated sites, thereby minimising the risk of a complete production stop caused by contaminations, diseases or catastrophe in one site.

Pharming is about to build a downstream facility to enable it to become independent from third party suppliers for short term problems. Furthermore, Pharming has acquired a significant stake in the supplier of the finished product, which allows greater insight and cooperation on capacity constraints and expansion activities in both directions. At the end of these processes Pharming will have almost full control over the whole production chain for RUCONEST®.

Risks related to quality control procedures

The release of product to the market is dependent on a set of quality control procedures. Some of these procedures, although validated, are very sensitive and complex with the risk of false results wrongly impairing the release.

All quality control procedures essential for the release are performed by third parties.

Pharming does not have a GMP certified analytical lab capable of performing the quality control procedures needed for the release of product. Presently third parties fulfil this task, but in some cases the diligence, timely delivery and accuracy of the selected Contract Laboratory Organisations does meet the expected quality standards.

What are we doing to manage the risk?

Pharming has started activities to build its own certified quality control laboratory, capable of performing most of the required analytical procedures. Furthermore, Pharming has started a scientific program to challenge and reassess all currently used quality control procedures with the aim to improve/replace those by modern, more robust and easier to perform analyses, where possible.

Personnel risks

Pharming is dependent on its ability to recruit and retain its management and key employees

Pharming's success is dependent on the performance and expertise of its management, sales and technical personnel. Competition for qualified employees is intense in the fields in which Pharming is engaged and there is no guarantee that qualified employees will not leave Pharming. Pharming's continued success depends on recruiting and retaining highly qualified employees, especially in management, product sales and R&D. The loss of individual employees or a failure to attract new highly qualified employees could have a significant detrimental consequence on Pharming's financial position and operating performance.

What are we doing to manage the risk?

Pharming strives to be an employer of excellence. The Company provides our employees with the opportunity to enjoy their work, learn and grow by providing internal and external training programs and development opportunities. Together with offering competitive remuneration packages Pharming can minimise employee turnover, attract higher quality talent and provide accountability to stakeholders.

Management and employee development, succession planning, Company culture and branding are focal points in the organisational development activities.

Legal, IT, IP and Compliance Risks

A material change in the laws and regulations to which Pharming is subject, or in their interpretation or enforcement could adversely affect Pharming's business, results of operations and financial condition

Pharming must comply with a variety of laws and regulations, including regulatory, health and safety, license requirements, tax and Corporate Governance Regulations. Pharming may be required to pay penalties for non-compliance with the laws and regulations of local, regional, national, US and EU authorities to which it is subject. A material change in the applicable laws and regulations, or in their interpretation or enforcement, could force Pharming to alter its business strategy or operations, leading to additional costs or reductions of revenue, which may adversely affect its business.

What are we doing to manage the risk?

Pharming has developed a system with external parties to signal and inform changes in any law or regulation. The Company has also recently enabled a successful challenge to the legality of freedom of information activities from parties wanting to interfere with Pharming's technology platform, activities which only have the consequence of putting our employees and animals at risk, as well as putting the lives of patients who depend on our products at risk.

Pharming's success is dependent on our ability to obtain and protect rights to proprietary technology and to develop Pharming's technology and products without infringing the proprietary rights of third parties

Patents, trade secrets and other proprietary rights are important to the success of Pharming's business. Pharming uses patents and licensing to protect our products and technology and is careful to develop products that don't infringe on the proprietary rights of third parties. Currently, Pharming has several patent applications granted and pending in countries including the US, Europe and Japan. The patent positions of pharmaceutical companies can be uncertain and may involve complex legal and factual questions.

It is uncertain whether pending patent applications will be successful, that these patents will afford adequate protection or that the existing patents will not be challenged. Failure to obtain patents may result in expensive and protracted proceedings to defend Pharming's proprietary rights.

The success of Pharming also depends, in part, on the ability of its licensors to obtain, maintain and enforce their intellectual property rights to the extent required for Pharming to develop and commercialise our products.

What are we doing to manage the risk?

Our legal, compliance and regulatory specialists are heavily involved in monitoring and reviewing our intellectual property and proprietary rights to ensure that we remain aware of an in line with all relevant laws and legal obligations concerning this area of law.

Furthermore, Pharming seeks to protect its other proprietary rights through confidentiality and non-disclosure agreements with employees and third parties. These agreements, while reducing the risk of infringing on Pharming's proprietary rights, cannot provide absolute protection from superior capability or independently developed products.

Pharming operates in a litigious industry sector

Pharming participates in an industry subject to significant product liability and intellectual property claims, among other litigation. While Pharming operates in good faith, it is not certain that the subject matter of Pharming's patents and patent applications are original, or that we were the first to apply for such a patent. There is also a risk that existing patents may be challenged, invalidated or unenforceable. Moreover, Pharming's technologies and products may infringe on third party intellectual property rights.

As a result, Pharming may face litigation or other legal proceedings concerning its intellectual property. These processes can be time-consuming and costly. In the event of an unfavourable ruling in patent or intellectual property litigation, Pharming could be subject to significant liabilities to third parties, or be required to cease developing, manufacturing or selling the affected products or technology. Each of these outcomes may adversely affect Pharming's financial position.

Pharming may also be confronted with claims which are raised with the main aim of exploiting the nuisance value of publicly raised claims. In order to prevent the infringement of third-party intellectual property rights, Pharming may need to acquire licenses for patents held by third parties to re-establish or maintain its freedom to operate, possibly on unfavourable terms. A failure to obtain licenses for patents held by third parties, or failure to obtain them on favourable terms, may have a material adverse effect on Pharming's financial and operational position.

As a public company, Pharming is also exposed to being included in lawsuits against third parties to whom any link can be established, even of Pharming is not in any way at fault. The Company has had recent experience of dealing with such a case successfully and is even better prepared now following that situation.

Pharming is not aware of any pending litigation however may face such claims in the future. Such claims, although not considered material, may impose considerable costs or may consume significant management resources.

What are we doing to manage this risk?

Pharming is committed to complying with the laws and regulations of the countries in which we operate. In specialist areas, relevant teams are responsible for setting detailed standards and ensuring that all employees are aware of and comply with regulations and laws specific to their roles.

As noted above, our legal, compliance and regulatory specialists are heavily involved in monitoring and reviewing our practices to provide reasonable assurance that we remain aware of and in line with all relevant laws and legal obligations.

Pharming is not aware of any pending litigation and does not believe that there is any material litigation or other proceedings pending or threatened.

Corporate Compliance risks

Pharming is a data controller of personal data as well as special categories of personal data

The General Data Protection Regulation was implemented on 25 May 2018 and governs how Pharming collects and processes personal data. Under the regulation Pharming is considered a Controller of data processing and is subject to several legal obligations. Importance is placed on the collection and processing of special categories of personal data which, for Pharming's purposes, is data that reveals genetic data or data concerning health.

What are we doing to manage the risk?

Compliance with the GDPR is a vital part of Pharming's corporate compliance program. Pharming has strengthened its compliance team in both the US and EU and continues to do so. Pharming's compliance specialists are heavily involved in monitoring and reviewing our practices and providing training to all employees to create awareness of Pharming's obligations. Moreover, a Company-wide review of all personal data held has been undertaken to help assess our level of protection.

Financial Risks

Pharming generates insufficient cash from commercial activities to meet all our potential future anticipated requirements. Pharming does not exclude the possibility that we may incur losses in future periods and could be dependent, at that stage, on financing arrangements with third parties, as has been the case since its incorporation.

Pharming currently generates insufficient cash from commercial activities to meet all its potential future anticipated requirements without continued growth and is dependent to some extent on financing arrangements with third parties, as has been the case since its incorporation. The available net cash (cash and cash equivalents) as at the date of this Annual Report is not expected to deplete before the end of 2021.

Product sales are currently exclusively related to RUCONEST® and are realised directly by the Company and through Pharming's commercialisation partners. The ability of Pharming to attract external funding is (inter alia) dependent on the external market conditions (equity and/or debt).

Pharming had incurred net losses in each year since incorporation until the financial year ended December 2018. Those losses arose mainly from costs incurred in R&D of Pharming's products and general and administrative expenses. The acquisition by Pharming of all commercialisation rights to RUCONEST® in North America (USA, Canada and Mexico) from Bausch Health Inc. (formerly Valeant Pharmaceuticals International Inc.), has enabled Pharming to achieve enough revenues now and in the future to continue to generate profits and cash sufficient for all short term (less than 12 months) needs.

The amount and timing of any expenditure required to implement Pharming's business strategy and continue the development of its products will depend on many factors, some of which are out of Pharming's control, including but not limited to:

- Scope, rate of progress, results and cost of Pharming's preclinical and clinical trials and other R&D activities;
- Terms and timing of any collaborative, licensing and other arrangements that Pharming may establish; Higher cost, slower progress than expected to develop products and delays in obtaining regulatory approvals; Number and characteristics of products that Pharming pursues;
- Cost and timing of establishing sales, marketing and distribution capabilities;
- Timing, receipt and amount of sales or royalties, if any, from Pharming's potential products, or any upfront or milestone payments during their development phase;
- The cost of preparing, filing, prosecuting, defending and enforcing any intellectual property rights; and
- The extent to which Pharming acquires or invests in businesses, products or technologies.

No assurance can be given that Pharming will remain profitable in the future. Furthermore, if Pharming's products fail in clinical trials or do not gain regulatory approval, or if Pharming's products do not achieve market acceptance, Pharming may not remain profitable on a sustainable basis.

Pharming does not exclude the possibility that it may need additional funding in the future, which may not be available to Pharming on acceptable terms or at all, which could force Pharming to delay or impair its ability to develop or commercialise its products. There can be no assurance that additional funds will be available on a timely basis, on favourable terms, or at all, or that such funds, if raised, would be sufficient to enable Pharming to continue to implement its long-term business strategy. If Pharming is unable to raise such additional funds through equity or debt financing, it may need to delay, scale back or cease expenditures for some or all of its longer-term research, development and commercialisation programs, or grant rights to develop and market products that Pharming would otherwise prefer to develop and market itself, thereby reducing their ultimate value to Pharming. Pharming's inability to obtain additional funds necessary to operate the business could materially and adversely affect the market price of the shares and all or part of an investment in the shares could be lost. In addition, to the extent Pharming raises capital by issuing additional shares, Shareholders' equity interests will most probably be diluted.

There may be a potential for fraud as a risk to the achievement of financial or other objectives

As a small company with almost no physical cash transactions, Pharming is not at high risk of petty fraud, but still needs to be vigilant for larger IT-mediated fraud and similar attempts. It is impossible to eliminate fraud as a risk from any environment where financial transactions take place, but although the risk is not assessed as large at present, we take action to establish fraud risk governance policies and to design and deploy fraud preventive and detective controls.

What are we doing to manage the risk?

The Board of Management, top management and personnel at all levels have responsibility for managing fraud risk. The Company is currently planning controls which establish a rigorous fraud governance process, create a sound anti-fraud culture and installs and maintains clear preventive and detective fraud controls.

This process is ongoing, and is designed to put in place five fundamental fraud risk management principles during 2020:

1. A Fraud Risk Management Program that demonstrates the expectations of the Board of Management and the Board of Supervisory Directors and their commitment to high integrity and ethical values
2. A regular and comprehensive fraud risk assessment to identify specific fraud risks, evaluate the control environment and implement actions to mitigate residual risks
3. Implementation of preventive fraud controls and detective processes which can flag when a control has been breached or bypassed, to enable both the minimisation of occurrences and the detection of fraud in a timely manner
4. A coordinated approach to obtaining information about actual and potential fraud attempts and addressing any suspected fraud appropriately and in a timely manner
5. Monitoring and evaluating transactions an controls to maintain an appropriate level of constant vigilance both as to the possibility or risk of fraud and to deficiencies in the Fraud Risk Management Program

Exchange rate fluctuations could negatively affect Pharming's financial condition

Pharming is based in the Netherlands, but sources materials, products and services from several countries outside the EU-territory which are paid in local currencies. As a result of the commercialisation of RUCONEST® in the USA and in other countries outside the EU and the USA, Pharming will also receive payments or generate costs in US dollars or possibly in other currencies.

Since the majority of Pharming's sales are invoiced and paid in US dollars, and the majority of its costs and liabilities are valued in Euros, any change in the relevant exchange rate means a corresponding change in the euro value of sales and a corresponding change in the loan balance in euros. As sales grow, it is necessary to make more conservative assumptions and to execute external hedging policies by buying dollars and/or euros at forward rates in an integrated treasury policy. This will minimise the net effect of foreign exchange rate differences on the accounts of the Company.

At 31 December 2019, the Company's cash and cash equivalents, including restricted cash, amounted to €68.6 million. This balance consisted of cash assets denominated in euros for a total amount of €6.1 million and cash assets denominated in US dollars for a total amount of US$70.1 million (or €62.5 million, applying an exchange rate of €1=$1.1214 at 31 December 2019). The US$ cash balances are currently mainly used for the payment of US costs in US dollars and are otherwise converted to euros for payment of non-US obligations.

The Company performed a sensitivity analysis by applying an adjustment to the spot rate at year-end. A 10 percent strengthening of the euro versus the US dollar would have had a hypothetical result of a gain of approximately €8.9 million on sales and an opposite amount of €4.5 million in reduction of the holding value of debt. As a result, Pharming's business and share price may be affected by actual or expected fluctuations in foreign exchange rates between the euro and foreign currencies, including the US dollar, which may have a significant impact on Pharming's reported results of operations and cash flows from year to year

Following the offer and issue of €125 million convertible bonds in January 2020, the Company's cash and cash equivalents balance as at the date of this report is approximately €150 million. The majority of this cash amount is maintained in holdings of short-term interest-paying easily tradable US Treasury Bonds at zero risk, providing the majority of the financial income shown in the income statement and cash flow statement.

In addition, the Company has provided its major financial statements in both euros and US dollars, starting with the first quarter of 2019, and following the issue of convertible bonds in euros in January 2020 will not change the functional and reporting currency to the US dollar for the foreseeable future.

Interest rate fluctuations could negatively affect Pharming's financial position

Pharming's interest rate risk policy is aimed at minimising the interest rate risks associated with the financing of the Group. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease liabilities.

The Company performed sensitivity analyses regarding the effect of a 1% interest increase or a 1% interest decrease on the carrying value of the financial instruments at year-end 2019. Pharming concluded that the total effect taking place on the carrying value of these items in either direction would have been approximately €0.6 million at year-end 2019. As the new convertible bonds have a fixed interest coupon, a 1% change in interest rates does not affect them, and so the effect in the future would only be that of items held under finance leases.

However, a rise in the variable interest rates on its finance lease liabilities may cause Pharming to pay more interest than anticipated, negatively impacting the profitability and liquidity position of the Group, which could have a significant impact on Pharming's reported results of operations and cash flows from year to year. Similarly, a reduction in those rates could lead to a corresponding increase on profitability and liquidity.

Risks relating to the dilution relating to warrants, options and the convertible bonds

Dilutive effects may reduce future potential earnings per share and subsequently the market price of the shares. There are no material amounts of warrants outstanding any longer, so this effect is really related to the effect of the convertible bonds and employee share option plans. If all of the convertible bonds were to be redeemed as at the current date, a total of 62.4 million shares would be issued, which would dilute the existing issued share capital by 9.9%. Similarly, full conversion of all outstanding employee and management options would result in a dilution to shareholders in their proportionate ownership and voting rights of 6.4%. In the case of the convertible bonds, this conversion would also have the effect of eliminating the entire outstanding debt liability of €125.0 million, and in the case of the employee and management share options, this would lead to an influx of cash in the amount of €25.04 million. These effects should be taken into account when assessing the dilutive effect of conversion of all outstanding bonds and options.

The effects of dilution may reduce earnings per share and independently the market price of the shares. The impact of dilution will also impact the amount that each individual share will be worth in terms of proportionate ownership and voting rights.

Future sales of shares, or the perception that such sales will occur, could cause a decline in the market price of the shares. Pharming cannot predict whether substantial numbers of shares will be sold in the open market by existing current shareholders. Future sales of shares could be made by shareholders or through a capital increase undertaken by the Company for additional working capital, to fund an acquisition or for another purpose. A sale of a substantial number of shares, or the perception that such sale could occur, could materially affect the market price of the shares and could also impede Pharming's ability to raise capital through the issue of equity securities in the future.

The market price of the shares may be volatile, and investors may not be able to sell shares at or above the price paid for by them.

The market price of the shares is subject to many factors, including the liquidity of the market for the shares, the public opinion about general economic and market conditions and the public sentiment about either the Company or the biotech industry. In addition, the market price of the shares could fluctuate substantially due to any of the risks described herein materialising or the sale of large blocks of shares. Moreover, stocks of life science companies such as Pharming, and stock markets in general, have from time to time experienced extreme price and volume fluctuations that may be unrelated or disproportional to the operational performance of any particular companies. Because of all these different factors, the market price of the shares has been, and may be in the future, highly volatile.

Pharming does not intend to pay dividends for the foreseeable future.

Pharming does not intend to pay any dividends for the foreseeable future. Payment of future dividends to Shareholders will effectively be at the discretion of the Management Board, subject to the approval of the Supervisory Board, after considering various factors including Pharming's business prospects, cash requirements, financial performance and new product development. In addition, payment of future dividends may be made only in so far as Pharming's shareholders' equity exceeds the amount of its paid-up and called-in capital increased by the reserves which are required to be maintained pursuant to Dutch law. Accordingly, investors cannot rely on dividend income from the shares and any returns on an investment in the shares will likely depend entirely upon any future appreciation in the price of the shares.

If securities or industry analysts do not publish research or reports about Pharming's business, or if they change their recommendations regarding the shares adversely, the price and/or trading volume of the shares could be affected.

The trading market for the shares may be influenced by the research and reports that industry or securities analysts publish about Pharming or Pharming's business. Currently there are several institutions which publish independent research reports on the Company, including Oppenheimer, Stifel, HC Wainwright, Portzamparc (BNP Paribas), Roth and First Berlin Equity Research GmbH. Other institutions have made enquiries about beginning such research activities.

If one or more of the analysts who cover Pharming or Pharming's industry downgrade the shares in a research report, the market price of the shares would probably decline. The reverse is also true. If one or more of these analysts ceases coverage of Pharming or fails to publish reports on Pharming regularly, the Company could lose visibility in the financial markets, which could cause the market price and/or trading volume of the shares to decline.

Risk-mitigation actions – Financial risks.

We may need additional funding in the future, which may not be available to us on acceptable terms, or at all, which could force us to delay plans or profitability or impair our ability to develop or commercialise our products. There can be no assurance that additional funds will be available on a timely basis, on favourable terms, or at all, or that such funds, if raised, would be sufficient to enable us to continue to implement our long-term business strategy. If we are unable to raise such additional funds through equity or debt financing, we may need to delay, scale back or cease expenditures for some of our longer-term research, development and commercialisation programs, or grant rights to develop and market products that we would otherwise prefer to develop and market ourselves, thereby reducing their ultimate value to us.

In addition, to the extent we raise capital by issuing additional ordinary shares, existing shareholders' equity interests may be diluted as to voting power and may also be diluted (or enhanced) as to value, depending on the terms of such additional share issues and the reasons for the issue. The Finance team monitors market developments, including the position of the banks. All cash in EUR has been placed at ABN Amro, which is a Dutch government owned bank, or at Silicon Valley Bank, a very highly accredited US bank with a high credit rating, which has been a lender to the Company before now.

The Dutch government has an excellent credit rating. The cash is denominated principally in euros and US dollars and is kept in flexible deposits including short-maturing US Treasury stocks.

It should be noted that as at the date of this report, Pharming is not only profitable but generates significant amounts of cash beyond its current day-to-day needs, and so the likelihood that it will need to issue shares for cash is currently very low, in the absence of a large transaction which would in all probability need shareholder approval. No such transaction is currently planned.

Report of the Board of Supervisory Directors

The Board of Supervisory Directors, in general, supervises the Board of Management in its duty to manage the Company. It performs its duties and activities in accordance with the Articles of Association of the Company, its regulations, which are posted on the Company's website, the applicable law and the Dutch Corporate Governance Code applicable as of 8 December 2016 (the "Code"), as adopted into law in the Netherlands on 7 September 2018.

The supervision of the Board of Management by the Board of Supervisory Directors includes:

- The achievement of the Company's objectives;
- The corporate strategy and the risks inherent in the business activities;
- The structure and operation of the internal risk management and control systems;
- The financial reporting process;
- Compliance with primary and secondary regulations;
- The Company-shareholder relationship; and
- Corporate social responsibility issues that are relevant to the Company.

The Board of Supervisory Directors determines, together with the Board of Management, the corporate governance structure of the Company and ensures compliance with the Code and other (foreign) applicable rules and regulations, assisted by its Corporate Governance Committee. Through the 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 in this report.

Composition and remuneration

In 2019, the composition of the Board of Supervisory Directors was as follows: Mr. Sekhri (Chair), Mr. Ernst (Vice-Chair), Ms Jorn, Mr. Ward, Mr. De Winter, Mr. Egberts. Mr Egberts stepped down from the Board of Supervisory Directors at the AGM on 22 May, 2019, which was also the day on which Ms Jorn was elected to the Board of Supervisory Directors.

The remuneration of the members of the Board of Supervisory Directors is determined by the General Meeting of Shareholders. The annual remuneration is based on the position an individual has in the Board of Supervisory Directors, the Audit Committee and the Remuneration Committee, no additional remuneration was agreed for members of the Corporate Governance Committee.

For 2019, the annual compensation was as follows:

- Board of Supervisory Directors: Chairman €50,000 and Member €36,000;
- Audit Committee: Chairman €9,000 and Member €3,000;
- Remuneration Committee: Chairman €6,000 and Member €3,000; and
- Corporate Governance Committee: no additional fee in 2019 and
- An additional compensation of €1,000 per day is paid in case of extraordinary activities.

As result of a 100% pay-out of the Long Term Incentive Plan (LTIP) 2017, in January 2020, Mr Sekhri, Mr. Ernst, Mr. Ward and Mr. de Winter received shares in the Company (details of Supervisory Directors' shareholdings can be found in note 25).

Following a decision to that effect by the members in General Meeting in 2015, members of the Board of Supervisory Directors participate in the Company's LTIP. No loans or other financial commitments were made to any member of the Board of Supervisory Directors on behalf of the Company.

In the opinion of the Board of Supervisory Directors, the independence requirements referred to in best practice provisions [2.1.7 to 2.1.9] inclusive have been fulfilled and all members regard themselves and their colleagues on the Board of Supervisory Directors as independent. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies, although it does require that any other board positions are disclosed.

Activities

The Board of Supervisory Directors met 9 times in 2019. The individual presence of the Supervisory Directors is reflected in the following schedule:

Date	5/6 March	27 March	15 May	22 May	23/24 July	8 August	17 October	22/23 October	19 December
Extra Participants	CEO/CFO/ OO/ D. Jorn (Obser-ver), Mr. B Webber (Orbimed)	CEO*/ CFO*/ COO*/D. Jorn (Ob-server)* Mr. B Webber (Orbimed)*	CEO*/ CFO*/ COO*/D. Jorn (Ob-server)*, Mr. B Webber* (Orbimed)	CEO/ COO/ Mr. B Webber (Orbimed)*	CEO/COO/ Mr. M Rizzo, Mr. B Webber (Orbimed)	CEO*/ CFO*/ COO*/ Mr. B. Webber (Orbimed)	CEO*/ CFO*/ COO*/ Employee*	CEO/ COO/ Mr. B Webber (Orbimed)	CEO/ COO/ Mr. B Webber (Orbimed)
Ms. Jorn				P	P	P*	P*	P	P
Mr. Ernst	P	P*	P*	P	P	P*	P*	P	P
Mr. Ward	P	P*	P*	P	P	P*	P*	P	P
Mr. De Winter	P	P*	P*	P	P	P*	P*	P	P
Mr. Egberts	P	P*	P*	P					
Mr. Sekhri	P	P*	P*	P		P*	P*	P	P

** Joined by teleconference call*

The Board of Management attended these meetings except when the composition, performance, remuneration of the Board of Management and the self-evaluation of the members of the Board of Supervisory Directors and its committees were discussed and voting took place.

As part of good governance, the Board of Supervisory Directors conducts a self-evaluation annually. These evaluations generally cover two parts; one part is the work of the Board of Supervisory Directors in relation to key objectives of the Company and the second part is the structure of the Board of Supervisory Directors to ensure that the members bring the correct skills and background knowledge for the benefit of the Company. The annual self-evaluation took place after the BOSD meeting of 19 December 2019 in the light of the changing emphasis of the activities of the company and the composition of the board as from 2019. The conclusions reached were that the balance of skills and experience in the Board of Supervisory Directors and in the Board of Management were appropriate and suitable to the needs of the Company at this time and the levels of information sharing and supervision were effective, but that additional members whould be sought with skills appropriate to replace those members of the Board who were likely to have to retire within 2 years.

At the meetings of the Board of Supervisory Directors, the Company's financial and operational targets, strategy and accompanying risks, the latter always formulated in an appropriated Risk Assessment document, were extensively discussed. Amongst other topics, a considerable amount of time was spent on RUCONEST® discussing commercialisation with a significant emphasis on the position in the US, the acquisition of leniolisib and the recovery of the license territories from Sobi.

Other issues receiving significant time were regulatory issues with regard to RUCONEST®, the competitive landscape, commercial and production partnerships, other licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the targets for 2019 and 2020 and the operational and financial risks to which the Company is exposed.

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

- The Company's progress on the achievement of objectives. There is no certainty that these objectives will actually be achieved;
- The Company is still largely dependent on the success of one key product; RUCONEST® in one market, the US. In other markets, the execution of its commercialisation strategies and outcome of any registration process is uncertain and may be influenced by unpredictable events;
- The Company is active on a niche market for an orphan drug product with at least four current or potential competitor products and with potentially another competitive entry within the coming 12 months;
- The timely development of the Company's products is dependent on the ability to attract and retain experienced commercial staff, particularly for its US operations and capital under attractive conditions.
- Pipeline development of other indications, products and production locations.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimise 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 more often if deemed necessary. The finance department also maintains a close working relationship with the company secretary to monitor other corporate and contractual risks. The risks are further described in the 'Corporate governance and risk management' chapter in this report. Due to the current size of the Company, there is no internal auditor function within the organisation.

Audit Committee

The Audit Committee in 2019 consisted of Mr. De Winter (Chairman), Mr. Ernst, and Mr. Egberts. Following the resignation of Mr Egberts, the Audit Committee comprised Mr De Winter, Mr Ernst and Ms Jorn.

During the four Audit Committee meetings held in 2019, the financial statements were discussed with a special emphasis on progress on sales revenues in the face of increased competition in some areas, as well as the impact of IFRS-related issues and the effects of reorganisation of the Finance function in Europe and the USA. In addition, the external Auditor's audit plan 2019, its management letter and board report for the audit of the 2018 year end numbers were discussed. The main topics discussed related to revenue recognition, the valuation of inventories, and the impact of increased profitability both on timing differences leading to deferred tax assets or liabilities and on the likelihood of paying milestones to Bausch Health Companies Inc. and the effect on the contingent consideration. The audit committee also took a leading role in selecting Deloitte as a replacement auditor for Pricewaterhouse Coopers, who were obliged to resign as auditors after 10 years in office due to Dutch independence regulations. The new auditors were approved at the Annual General Meeting in May 2019. Lastly, but importantly, the audit committee is satisfied that the internal controls and external audit processes are effective in managing risks across the company, and has accepted additional recommendations from both Deloitte and Pricewaterhouse Coopers in order to improve the control environment further and to enable a smooth switch to a new enterprise resource planning (ERP) system.

The quarterly financial statements, draft annual report and draft auditors' Board Report and Management letter as appropriate are circulated to the Audit Committee and also to the full Board of Supervisory Directors in advance of every relevant Audit Committee meeting.

The Board of Supervisory Directors, after a recommendation to that effect from the Audit Committee, has concluded that the Company does not yet require the establishment of an internal auditor function. The Board has assessed whether adequate alternative measures have been taken and will consider each year whether it is necessary to establish an internal audit department. In arriving at this conclusion, the Board took the following into consideration:

- Due to the size of the Company, Pharming has not created a specific position for an internal auditor, but it has provided for the assessment and testing of the risk management and control systems to be supported by the Chief Financial Officer, the Quality Assurance department and external auditors.
- As a result of the Company operating in the highly regulated field of development and worldwide commercialisation of human medicines, the Company has a fully staffed Quality Assurance department which is responsible for, inter alia, maintaining, auditing and testing an extensive system of Standard Operating Procedures throughout the Company and for the execution of audits on all (major) suppliers, subcontractors, licensees and internal departments of the Company including the Finance department, although this is not exactly the same as an internal auditor function.
- The audit committee has reviewed the need for an internal auditor as at March 25, 2020. Based on this review, the Board of Supervisory Directors has recommended to the Management Board that due to the size of the company no internal auditor is needed at this point in time.
- The audit committee will reconsider this position annually and make recommendations to the Board of Supervisory Directors accordingly.
- The fast rate of growth of the Company at present may cause a different determination at some point in the foreseeable future.

Date	06 March	27 March	15 May	24 July	23 October
Extra Participants	CEO/COO/CFO/ STAFF/Deloitte/ Ms. Jorn/Mr. Ward/ Mr. Sekhri	CEO*/COO*/CFO*/ STAFF*/Deloitte*/ Ms. Jorn*/Mr. Sekhri*	CEO/COO/CFO/ STAFF/Deloitte*/ Ms. Jorn*/Mr. Ward*/ Mr. Sekhri*	CEO/COO/CFO/ STAFF/Deloitte*/ Mr. Ward	CEO/COO/CFO/ STAFF/ Deloitte*/ Mr. Ward/Mr. Sekhri
Ms. Jorn				•	•
Mr Ernst	•		•*	•	•
Mr. De Winter	•	•	•*	•	•
Mr. Egberts	•	•	•*		

Deloitte = Deloitte Accountants B.V.
** Joined by teleconference call*

Corporate Governance Committee

The Corporate Governance Committee consisted of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. During 2014, it was decided to include Corporate Governance as a mandatory and separate topic during every meeting of the Board of Supervisory Directors, and this was continued during 2019. The Corporate Governance Committee did not meet outside the Board of Supervisory Directors meetings during 2019. The principal focus of meetings during 2019 was the ramifications of the Dutch Corporate Governance Code, revised 8 December 2016 and passed into law on 7 September 2018 into Pharming's company practices.

Remuneration committee

The remuneration committee met 5 times in 2019.

A report of the Remuneration Committee can be found on pages 74-93 of this Annual Report

Remuneration Committee

During 2019, the Remuneration Committee comprised of the following members:

Date of Meeting	15 February*	4 March*	5 March	11 March*	19 December
Mr. Juergen Ernst	P	P	P	P	P
Mr. Barrie Ward	P	P	P	P	P
Mr. Jan Egberts	P	P	P	P	
Ms. Deb Jorn					P
Other participants	-	-	-	-	-

** Joined by teleconference call*

Financial Statements

The Financial statements of Pharming Group N.V. for 2019, as presented by the Board of Management, have been audited by Deloitte Accountants N.V. Their report is included in this Annual Report on pages 182-189

The Financial statements were unanimously approved by the Board of Supervisory Directors and the Board of Management, and the Board of Management has signed these Statements on behalf of the Company.

The Board of Supervisory Directors recommends the Annual General Meeting of shareholders to adopt the 2019 Financial statements and to discharge the Board of Management and the Board of Supervisory Directors from liability for their management and supervisory activities on behalf of the Company thereafter.

Leiden, 29 March 2020

Paul Sekhri

Juergen Ernst

Barrie Ward

Deb Jorn

Aad de Winter

Collectively the Board of Supervisory Directors of Pharming Group NV

Report of the Remuneration Committee

The Remuneration Committee proposes the remuneration policy to the Board of Supervisory Directors as well as the remuneration of the individual members of the Board of Management. The policy includes the remuneration structure, defining the amount of fixed remuneration, shares and/or options to be granted and the variable benefits, pension rights, severance pay and other forms of compensation.

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

The objectives of the remuneration policy are to attract, motivate and retain good management by means of a competitive policy linked to the Company objectives and the overall performance of the Board of Management and to create a long-term relationship with the Company. The Remuneration Committee recognises that the Company is increasingly competing in an international environment. The policy and its implementation are reviewed by the Remuneration Committee at least annually.

Another key objective of the policy is to promote sound and effective risk management as well as to discourage risk-taking that exceeds the level of tolerated risk of the Company.

In June of 2019, the revised European Union Shareholder Rights Directive ("SRD II") came into effect. The SRD II amends the 2007 SRD and aims at encouraging long-term engagement of EU listed companies' shareholders. To achieve this long-term investment objective, the SRD II describes new obligations for EU Listed companies, leading to a greater transparency regarding the investment strategy, the directors' remuneration, the voting process in general meetings, and the shareholders themselves.

Our remuneration policy is under review to meet the requirements of the SRD II. Approval for the revised remuneration policy 2020-2023 for both the Board of Management and the Board of Supervisory Directors of Pharming will be sought at the 2020 General Meeting of Shareholders.

2019 Remuneration policy and structure

The remuneration policy for 2019 was a continuation of the 2014-2018 policy and was approved in the Annual General Meeting of June 2014. Scenarios were tested during the year to ensure that the policy remains competitive and fair, and further benchmarking was performed in the fourth quarter as described below.

The main items of this policy are:

- The remuneration of each member of the Board of Management consists of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long-term incentives by way of shares and/or options to shares in the Company and benefits in kind such as health insurance and participation in a pension plan, as further specified in note 24 to the Financial Statements. In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/or extraordinary performance and/or the achievement of predetermined objectives. These contracts have included provisions for an individual target bonus in cash or shares of 60% (for the CEO) and 50% (for the other member(s) of the Board of Management) of the gross annual salary (including holiday allowance). Other benefits, such as health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay cannot exceed the member's gross annual salary.
- Members of the Board of Management as well as other key individuals are eligible to participate in the Company's Long Term Incentive Plan (LTIP). Under the plan, participants receive shares in the Company, the number of which is dependent upon the performance of the Company share price over a three-year period when compared to a peer group of European biotech companies (see page 86-89)

Company strategy

Pharming is focused on improving treatment options for patients with life-altering conditions. The strategy is centred around three pillars of growth:

- Organic growth in HAE
- Organic growth in other indications
- Expansion of the pipeline supplemented by external opportunities

Activities to execute the growth strategy include:

- Commercialising its own products in the major markets, with RUCONEST® as its lead product at present.
- Where the product is partnered, assisting the partner to obtain the best value for RUCONEST® and patients by pursuing additional regulatory approvals and additional indications for the product.
- Developing leniolisib to FDA and EMA approvals.
- Evaluating external opportunities to enhance the product range and pipeline to enable better value from Pharming's resources.
- Development of RUCONEST® for additional indications: Acute Kidney Injury and Pre-Eclampsia.
- Developing new protein replacement treatments for Pompe disease and Fabry disease.
- Development of more convenient dosing forms of RUCONEST® (especially pain free or virtually pain free injection methods).

The Policy is consistent with and supports the strategy of the Company.

The Board of Supervisory Directors has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for the financial year 2020.

The Policy aims at distributing the strategy of the Company into (inter-)departmental Goals and Objectives, which lead to the personal objectives of Directors and employees.

For competitive reasons further details of these milestones and the personal milestones are not publicly disclosed.

Objectives 2019

The Remuneration Committee recommended and the Board of Supervisory Directors agreed that the Board of Management had met their pre-set corporate and personal objectives set for 2019, and had contributed to positioning the Company solidly for the future, in particular by the following accomplishments:

- Exceeding the agreed Operating Results targets and year end cash balance targets by a combination of cost control and timing of implementation of R&D investments, balanced by actual revenue growth.
- De-risking of the Company by broadening the territorial and indication revenue base for RUCONEST® and/or acquisition of new assets for development and/ or leveraging of US/EU commercialisation infrastructure.
- Building the C1 esterase inhibitor franchise by progressing the development of recombinant human C1 esterase inhibitor in indications beyond acute HAE attacks.
- Developing the current pipeline projects according to rational plans aimed at providing the best chance of approval and commercial success.
- Driving shareholders' long-term returns, increasing investor awareness and improving the shareholder base.

These achievements, in combination with meeting many of the other corporate objectives, led the Remuneration Committee to conclude that the Corporate Objectives were achieved and on several parts exceeded. The Remuneration Committee therefore recommended a pay-out percentage of 102% of the maximum for the 2019 bonus for all members of the Board of Management, which was confirmed by the Board of Supervisory Directors.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to pay out all of the bonus in cash.

The individual remuneration of the members of the Board of Management was reviewed and it was decided that, taking into account their individual performance and market developments and the timing of the previous review (1 January 2019), the Committee recommended and the Board of Supervisory Directors agreed to increase the base salaries of all three members of the Board of Management by 4% per annum from 1 January 2020.

The 2019 benchmark analyses both showed that the base salaries of the Board of Management were on average almost 20% below the median of the relevant benchmarks. In line with the remuneration policy, which takes into account the principles of the Dutch Corporate Governance Code, Pharming's Supervisory Board decided to gradually increase the individual remuneration of the members of the Board of Management and reduce the gap with the peer group. Since this decision falls within the scope of the current remuneration policy, it was decided to act and implement the first level of the increase as of 1 January 2020. The Supervisory Board therefore decided, as a first step, to increase the base salaries of the Board of Management by an additional 2%. The remaining increases will be effectuated in multiple (benchmarked) stages over time, but no later than by 1 January 2023.

Pay ratio

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2019. In addition, the Remuneration Committee considered the pay ratios within the company and how these compare with the peer group companies.

For 2019, the pay ratio between the compensation of the CEO and the mean compensation of employees (excluding the CEO) was 7.7 to 1 (2018: 7.5 to 1). Compensation in each case comprises all salary, bonus, share-based compensation in cash or in kind and pension contributions.

The pay ratio between the mean compensation of members of the Board of Management and the mean compensation of employees (excluding BoM) was 5.4 to 1 (2018: 5.3 to 1).

Remuneration report 2019

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2019. In addition, the Remuneration Committee considered the pay ratios within the Company and how these compare with the peer group companies.

Overview Remuneration Board of Management

	Fixed remuneration	Short term variable: annual bonus	Share based payments	Post-employ-ment benefits	Other	TOTAL
Sijmen de Vries, CEO	2019: 507	2019: 310	2019: 487	2019: 72	2019: 32	2019: 1,408
	2018: 490	2018: 428	2018: 325	2018: 81	2018: 32	2018: 1,356
	2017: 475	2017: 330	2017: 536	2017: 79	2017: 32	2017: 1,452
	2016: 454	2016: 258	2016: 736	2016: 79	2016: 32	2016: 1,559
	2015: 432	2015: 194	2015: 1,055	2015: 76	2015: 32	2015: 1,789
Bruno Giannetti, CMO	2019: 331	2019: 170	2019: 289	2019: 70	2019: 8	2019: 868
	2018: 320	2018: 233	2018: 201	2018: 77	2018: 8	2018: 839
	2017: 309	2017: 186	2017: 328	2017: 78	2017: 15	2017: 916
	2016: 287	2016: 148	2016: 445	2016: 75	2016: 36	2016: 991
	2015: 282	2015: 106	2015: 636	2015: 72	2015: 25	2015: 1,121
Robin Wright, CFO	2019: 317	2019: 149	2019: 114	2019: 23	2019: -	2019: 603
	2018: 306	2018: 148	2018: 167	2018: 34	2018: -	2018: 655
	2017: 296	2017: 135	2017: 203	2017: 34	2017: -	2017: 668
	2016: 264	2016: 165	2016: 205	2016: 30	2016: -	2016: 664
	2015: 44	2015: -	2015: 7	2015: 2	2015: -	2015: 53

Comparative table of remuneration and company performance over the period 2014-2019:

Comparative table of remuneration and company performance over the period 2014-2019					
Annual % change **Director's remuneration**	**2019 vs 2018**	**2018 vs 2017**	**2017 vs 2016**	**2016 vs 2015**	**2015 vs 2014**
Board of Management					
Sijmen de Vries, CEO	4%	(7%)	(7%)	(13%)	(11%)
Bruno Giannetti, COO/CMO	3%	(8%)	(8%)	(12%)	(11%)
Robin Wright, CFO	(8%)	(2%)	1%	n/a*	n/a
Company performance - increase/ (decrease)					
Revenues	25%	51%	465%	47%	(49%)
Gross Profit	31%	46%	590%	86%	(66%)
Operating Result	60%	73%	290%	10%	(546%)
Net Result	45%	133%	(356%)	(76%)	(73%)
Employees (Full-time equivalent)	21%	23%	49%	37%	32%
Average remuneration of employees on a full-time equivalent basis					
Employees of the Group	(2%)	3%	46%	(16%)	(2%)

** Mr Wright joined the Board of Management on 28 October 2015*

Share based compensation

In 2014, following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant 19,200,000 share options to the Board of Management; (12,000,000 options to Mr. de Vries and 7,200,000 options to Mr. Giannetti). These options vested in five equal tranches on 31 January of 2015, 2016, 2017, 2018 and 2019. All of these options have been exercised or have expired without any value.

With the election of Mr. Robin Wright to the Board of Management at the EGM held on 28 October 2015, 1,000,000 options were granted to Mr. Wright with a strike price of €0.355 (being the 20 day VWAP prior to 28 October 2015). In addition, a further 4,000,000 options were granted to Mr. Wright by the Annual General Meeting at 25 May 2016.

The exercise price of these options, on a tranche by tranche basis, shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting. For the fourth and final tranche of 1,000,000 options for Mr. Wright, this resulted in a strike price of €0.805; being the VWAP measured over the 20 trading days prior to 23 May 2019. The share options will expire on 25 May 2021 for Mr. Wright.

Share options dependent on defined parameters:

Number of options **Grant 2019 for period 2019 - 2024**		
	Award	Status
Mr Sijmen de Vries	2,800,000	Vested* (strike price €0.805)
Mr Bruno Giannetti	1,600,000	Vested* (strike price €0.805)
Number of options **Grant 2015 for period 2015 - 2020**		
	Award	Status
Mr Robin Wright	1,000,000	Vested (strike price €0.355)
Grant 2016 for period 2016 - 2021		
Mr Robin Wright	4,000,000	
	In Annual vesting tranches	Status
2016	1,000,000	Vested (strike price €0.209)
2017	1,000,000	Vested (strike price €0.335)
2018	1,000,000	Vested (strike price €1.382)
2019	1,000,000	Vested (strike price €0.805)

Board of Management granted share options

All options granted in 2014 to Mr. Bruno Giannetti and Mr. Sijmen de Vries have vested as at 31 January 2019 and have been exercised or lapsed without value. The strike price of the 2019 final remaining share option grant for Mr. Robin Wright, being the fourth tranche of 1,000,000 options for Mr. Robin Wright and the new options granted to Mr. Sijmen de Vries and Mr. Bruno Giannetti, by the 2019 Annual General Meeting of Shareholders is €0.805; being the 20 Day VWAP prior to the 2019 AGM.

Benchmark studies to determine format and aggregate size of employee option grants and size of Board of Management option grants

Following the issuing of the 2018 option grants to staff, the Company had no significant head-room available to issue future stock option grants, as the stock option pool of 10% of the Company's fully diluted equity which was granted at the AGM in 2006 was almost depleted.

Therefore, towards the end of 2018 and into early 2019, the Company commissioned two benchmark studies with independent third parties specialised in the field of remuneration practices in the pharmaceutical and biotech industry to be able to decide what would constitute (i) an appropriate amount of equity to have (annually) available for granting stock options to staff and (ii) how to best structure such vehicle and (iii) determine appropriate stock option grant levels for the Board of Management. All of this, taking into consideration, the Company's size and (multinational) complexity, including the fact that a majority of staff eligible for options are employed in the Company's US subsidiary, and the Company's stage of (commercial) development.

Following results from the two above-mentioned independent benchmark studies, it was recommended by the Remuneration Committee and approved by the Supervisory Board, that no request for the approval of a new fixed staff option pool would be submitted to the AGM.

Instead, a specific amount of equity that can be used for granting staff options in that year will be proposed for approval each year by the AGM. This practice is consistent with industry standards and appropriate for the Company's complexity and (commercial) stage of development and will allow the Company to offer its eligible staff a competitive annual equity incentive.

In accordance with this decision of the Supervisory Board, the Company obtained approval from shareholders at the Annual General Meeting on 23 May 2019 for authority to grant up to 2.8% of its outstanding share capital, equating to 17,400,000 stock options in total, during 2019 to its staff. During 2019, the Company issued 13,485,000 stock options to its staff (2.17% of its outstanding share capital)

Benefits

Pension

For all Dutch employees, including the members of the Board of Management, 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.

For Dutch employees, the pensionable income was capped at €107.593 for 2019: this is the fiscal maximum. For employees based in other EU countries, the fiscal maximum pensionable incomes of their respective home country also apply.

Awarding discretionary pension is not possible at Pharming. A Net Employee Pension Scheme is offered to employees who have a pensionable income in excess of the specified maximum. Participation is compulsory.

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 6 months of service and attain the age of 18 years. The employer matches 100% of the first 3% the employee contributes to their 401k plan and 50% of any amount over 3% up to 5%. Any employee contribution over 5% is not matched. Costs of the 401k plan are expensed in the year in which the related employee services are rendered.

Lease car scheme

A lease car scheme applies to employees serving in defined positions, including members of the Board of Management.

Holiday allowance

All employees contracted by the Dutch entities, receive 8,33% holiday allowance. This allowance is paid in May of the relevant year.

Short term employee benefits

The Company does not provide any benefits based on financial measurement of the statement of income.

Other arrangements Board of Management

	Employment term	Appointment term	Notice period
S. de Vries	Employee, indefinite period	4 years	1 month
		Up to AGM in 2021	
B. Giannetti	Employee, indefinite period	2 years	1 month
		Up to AGM in 2021	
R. Wright	Management agreement	4 years	3 months
		Up to AGM in 2020	

Mr Wright has indicated that he will not stand for reappointment at the AGM in May 2020 when his current contract will end.

Remuneration policy for 2020- 2023

For 2020 and onwards, the Board of Supervisory Directors will seek approval from the 2020 AGM to implement the new remuneration policy. All remuneration elements described below are consistent with and covered by the current compensation policy.

To continue to be able to attract and retain top talent in a competitive and global environment and to focus management and staff on creation of sustainable added value, total compensation continues to be significantly driven by variable performance-dependent income components and continues to be maintained in line with industry standards of companies at a comparable stage of development.

The policy will evolve over time, to align with Pharming's strategy, market practice and shareholders' views. A consistent and competitive structure, which applies across the workforce, is also a core principle. This consistency allows for a culture of shared purpose and performance.

Principles remuneration policy

The Policy is based on the following principles:

- Total remuneration package enables the Company to attract and retain highly talented employees.
- The Policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company.
- The remuneration structure of the Company ensures a proper balance between variable and fixed remuneration to attract, motivate and keep qualified employees both in the EU and the USA.
- Variable remuneration is never guaranteed.
- Variable remuneration is performance related. The total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the overall results of the Company and when assessing individual performance, quantitative (financial) criteria and qualitative (non-financial) criteria are taken into account.
- The metrics used to calculate (pools of) variable remuneration components include (adjustment for) all relevant types of current and future risks.
- The assignment or payment of variable remuneration should not adversely affect the financial situation of the Company (in terms of solvability, liquidity, profitability) in a significant matter.
- Employees who leave the Company or have given notice to leave the Company before any variable remuneration payment is made shall forfeit full or pro-rata entitlement to that payment.
- Payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure. This does not preclude termination payments in situations such as early termination of the contract due to changes in the strategy of the Company, or in merger and/or takeover situations or when the termination payment is set in a legal (court) proceeding.

Design Policy

The Board of Supervisory Directors adopts amongst others the following:

- the principles of the Policy.
- the Company targets.
- the personal targets regarding fixed remuneration.
- the personal targets regarding variable remuneration.
- the calculation and determination of the variable remuneration pool.
- the payout of variable remuneration.
- the necessity to take ex ante or ex post measures with regard to the variable remuneration (malus and clawback).
- Where required, approval by the general meeting of shareholders will be sought.

Annual review

The annual review includes whether the overall remuneration structure of the Company:

- operates as intended (in particular, that all agreed plans/programs are being covered; that the remuneration pay-outs are appropriate, and that the risk profile, long-term objectives of the Company are adequately reflected); and
- is compliant with national and international regulations, principles and standards.
- Where periodic reviews reveal that the remuneration structure does not operate as intended or prescribed, the Board of Supervisory Directors should ensure that a timely remedial plan is put in place. The periodic review of the implementation of the remuneration policies and practices may be, partially or totally externally commissioned.

Main features of the remuneration system

Market comparison

The Company regularly compares its levels of remuneration with those of other, comparable companies based both in the EU and the USA. The Company ensures that the total remuneration package remains competitive and provides proper and risk-based incentives.

To ensure that employees are compensated in accordance with the desired market positioning, the alignment to the desired market position is addressed bi-annually by the Company. The bi-annual review is based on amongst others inflation, developments in the industry, size of the Company and the location of the Company.

This year, two independent remuneration benchmark studies were performed.

The remuneration components consist of:

- Fixed remuneration: salaries of the Board of Management (statutory directors) of the Company can only be amended upon approval of the Board of Supervisory Directors.
- Variable remuneration: The Company takes a balanced and proportionate approach regarding the variable remuneration compared to fixed remuneration. The variable remuneration components are 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.
- Others: contribution pension premiums, travel allowance and holiday allowance.

The remuneration policy is based on the principle that the average level of total remuneration is just above the median of the benchmark group that is relevant to the company. In accordance with the policy, a comparison with a peer group is periodically made and was last conducted in 2019 to gauge the competitiveness of the total remuneration. The relevant peer group for the Board of Management is a mix of Dutch and US based medium-sized listed biotech businesses. The Remuneration Committee periodically checks whether that the choice of peer group is still adequate or if it should be revised. Every two years, an independent consultant makes a market comparison (remuneration benchmark).

The performance of each Board of Management member is reviewed annually, based on a set of financial and non-financial targets determined by the Supervisory Board.

Annual Performance Management Cycle

The annual performance management cycle may lead to an increase of the fixed remuneration of employees if the agreed targets have been met and/or higher salary is justified by higher levels of responsibility and/or changes in labour markets.

The variable remuneration is based on the principle “pay for performance”. Target setting and evaluation of the performance of the targets is key in the process of vesting the variable remuneration. Risk alignment is embedded in the target setting and the evaluation of the performance.

Fixed remuneration members of the Board of Management

In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/ or extraordinary performance and/or the achievement of predetermined objectives. These contracts have included provisions for an individual target bonus in cash or shares of 60% (for the CEO) and 50% (for the other member(s) of the Board of Management) of the gross annual salary (including holiday allowance). Other benefits, such as health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay cannot exceed the member’s gross annual salary.

Members of the Board of Management as well as other key individuals are eligible to participate in the Company’s Long Term Incentive Plan (LTIP). Under the plan, participants receive shares in the Company, the number of which is dependent upon the performance of the Company share price over a three-year period when compared to a peer group of European biotech companies.

Base salary and cash bonus

The 2019 benchmark analyses both showed that the base salaries of the Board of Management were on average almost 20% below the median of the relevant benchmarks. In line with the remuneration policy, which takes into account the principles of the Dutch Corporate Governance Code, Pharming’s Supervisory Board decided to gradually increase the individual remuneration of the members of the Board of Management and reduce the gap with the peer group. Since this decision falls within the scope of the current remuneration policy, it was decided to act and implement the first level of the increase as of 1 January 2020. The Supervisory Board therefore decided, as a first step, to increase the base salaries of the Board of Management by an additional 2%. The remaining increases will be effectuated in multiple (benchmarked) stages over time, but no later than by end of 2023.

As result of the Company continued having achieved net profitability consistently during 2018 and 2019, the basis for the annual cash bonus for 2020 and going forward shall become as follows:

- CEO: from a target of 60% of annual salary to 70% of annual salary.
- Other Board of Management members: to a target of 50% of annual salary.

The issuance of any share-based bonus component for the cash bonus payments shall be valued at the VWAP measured over the 20 trading days prior to 31 January of the subsequent year. Payment of the bonus remains dependent on the achievement of pre-defined milestones, which are a combination of corporate and personal milestones.

Proposals on the potential award of a bonus, achievement of milestones or any increase of fixed salary are made by the Remuneration Committee towards the end of the year and formally approved by the Board of Supervisory Directors in the first meeting of the next year but in any case prior to or on the date of approval of the Annual Report.

The Board of Supervisory Directors has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for the financial year 2020.

The main corporate objectives for 2020 for the Board of Management can be summarised as follows:

- Achievement of the agreed Operating Results targets and year end cash balance targets by a combination of cost control and timing of implementation of R&D investments, balanced by actual revenue growth.
- De-risking of the Company by broadening the territorial and indication revenue base for RUCONEST® and/or acquisition of new assets for development and/ or leveraging of US/EU commercialisation infrastructure
- Building the C1 esterase inhibitor franchise by progressing the development of recombinant human C1 esterase inhibitor in indications beyond acute HAE attacks;
- Developing the current pipeline projects according to rational plans aimed at providing the best chance of approval and commercial success;
- Driving shareholders’ long-term returns, increasing investor awareness and improving the shareholder base.

For competitive reasons further details of these milestones and the personal milestones are not publicly disclosed.

Variable remuneration

Share based compensation

The Company has a long-term incentive plan (LTIP) and two share option plans in place: one for the Board of Management and one for employees ('the option plans').

LTIP

Under this LTIP, restricted shares are granted conditionally to the Board of Management and eligible staff members each year with a target value of 30% of annual salary for the Board of Management members and an annually defined number of shares for staff members.

These shares will vest after three years provided that the share price has increased above certain thresholds (i.e. increased total shareholder value). The number of shares vested will be based on the relative performance of the share price compared to an initial group of 26 other European Small/ Midcap Cap listed companies active in Life Sciences over the preceding 36 months. The reference group consists of the following companies:

Main location	Number	Company
Belgium	1	Galapagos
Denmark	4	Bavarian Nordic, Neurosearch, Veloxis Pharmaceuticals, Genmab
France	5	Cellectis, Eurobio Scientific, Hybrigenics, Innate Pharma, Transgene
Germany	4	Evotec, Medigene, Morphosys, Heidelberg Pharma
Italy	1	Newron Pharmaceuticals
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex Therapeutics, Basilea Pharmaceutica, Kuros Biosciences, Santhera Pharmaceuticals
United Kingdom	5	Allergy Therapeutics, GW Pharmaceuticals, ImmuPharma, Oxford Biomedica, Premier Veterinary Group
TOTAL excluding Pharming Group	26	

The thresholds and payout percentages are given by the following table:

Achievement level	% of grant attained
5% of the index	100%
5-10% of the index	80% of maximum
10-20% of the index	60% of maximum
20-30% of the index	50% of maximum
30-50% of the index	20% of maximum
Lower than 50% index	0%

Share option plans: Main characteristics

The total number of shares with respect to which options may be granted pursuant to the option plans accumulated, shall be annually approved by the Annual General meeting of Shareholders.

Pharming may grant options to a member of the Board of Management or an employee:

- As part 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 Volume Weighted Average Price of the preceding 20 trading days preceding the Annual General Meeting of Shareholders for the Board of Management and the closing price of the Pharming shares on the stock exchange on the trading day prior to the date of grant or on the trading day prior to the meeting of the Board of Management during which it was resolved to grant options for the options granted to the staff. Vested options can be exercised at any time within five years following the date of grant. Unexercised options shall be deemed lapsed and shall cease to exist automatically after five years. Exercise of options is subject to compliance with laws and regulations in the Netherlands. Exercise of options is including withholding taxes, to be paid by the recipient. Each option is equal to one share unless otherwise stated.

Option plan Board of Management

Article 2.1 of the option plan for the Board of Management 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 remuneration 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 are subject to approval by the general meeting of shareholders of Pharming.

Article 4.4 of the option plan for the Board of Management 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.

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 Management, 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 lapsed. The number of options to be cancelled decreases for each quarter that the employment continued for more than one year as of that date of grant by 1/12 of the number of options granted of that date of grant.

Share-based payment

The costs of option plans are measured by reference to the fair value of the options on the date on which the options are granted. The fair value is determined using the Black Scholes model. The costs of these options are recognised in the income statement (share-based compensation) during the vesting period, together with a corresponding increase in equity (other reserves). Share-based payment charges do not affect liabilities or cash flows in the year of expense since all transactions are equity-settled.

Pharming's employee option plan states that an employee is entitled to exercise the vested options within five years after the date of the grant. The period in which the options become unconditional is defined as the vesting period.

Benchmark studies to determine format and aggregate size of employee option grants and size of Board of Management option grants

Following the issuing of the 2018 option grants to staff, the Company had no significant head-room available to issue future stock option grants, as the stock option pool of 10% of the Company's fully diluted equity which was granted at the AGM in 2006 was almost depleted.

Therefore, towards the end of 2018 and into early 2019, the Company commissioned two benchmark studies with independent third parties specialised in the field of remuneration practices in the pharmaceutical and biotech industry to be able to decide what would constitute (i) an appropriate amount of equity to have (annually) available for granting stock options to staff and (ii) how to best structure such vehicle and (iii) determine appropriate stock option grant levels for the Board of Management. All of this, taking into consideration, the Company's size and (multinational) complexity, including the fact that a majority of staff eligible for options are employed in the Company's US subsidiary, and the Company's stage of (commercial) development.

Following results from the two above-mentioned independent benchmark studies, it was recommended by the Remuneration Committee and approved by the Supervisory Board, that no request for the approval of a new fixed staff option pool would be submitted to the AGM.

Instead, a specific amount of equity that can be used for granting staff options in that year will be proposed for approval each year by the AGM. This practice is consistent with industry standards and appropriate for the Company's complexity and (commercial) stage of development and will allow the Company to offer its eligible staff a competitive annual equity incentive.

In accordance with this decision of the Supervisory Board, as in 2019, the Company will seek approval from shareholders at the Annual General Meeting on 20 May 2020 for authority to grant up to 2.8% of its outstanding share capital, equating to 17,678,000 stock options in total, during 2020 to its staff and a defined number of options for the Board of Management.

Share option grants

With regards to new share option grants for Mr. Bruno Giannetti and Mr. Sijmen de Vries, following recommendations by the Remuneration Committee, the Supervisory Board determined that, as from 2019 onwards, the Company will return to its previous practice of annual stock option grants which vest when the respective Directors continue to be in service on 31 January of the year following the grant.

For 2020, the following grants will be proposed for approval by the Annual General Meeting of Shareholders on 20 May 2020.

- **Mr. Sijmen de Vries; 2,800,000 options**
- **Mr. Bruno Giannetti; 1,600,000 options**

In line with the Dutch Corporate Governance Code, Mr de Vries and Mr Giannetti will commit not to exercise any of the options within 36 months of granting.

In the event of a change of control of the Company becoming irrevocable all granted but unvested options will vest immediately. In case of an event resulting in a change of control or in case of the announcement of a (contemplated) public offer the shares in the Company,

the Board of Supervisory Directors can decide that the Company shall settle the options for the Board of Management in cash.

LTIP

LTIP 2017 expired with an 100% pay-out

At 1 January 2020, after three years of the three-year period of the 2017 LTIP, the Pharming share price increased from €0.217, the closing price at 31 December 2016, to €1.568, the closing price at 31 December 2019. With this result, compared to the reference group, Pharming reached a rank of 1 out of 27 (including Pharming), which translates into a score 100% from the top of the reference group. As a result, 100% of the maximum allocated shares have vested and were issued to the LTIP participants.

The allocations under the 2018 and 2019 LTIP still have one and two years respectively to run. The minimum share prices (hurdles) for the 2018 and 2019 allocations to qualify for (part-)vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €1.13, being the closing price at 31 December 2017 for the LTIP 2018 and (2) €0.757, being the closing price at 31 December 2018 for the LTIP 2018.

LTIP 2020

For 2020, the Board of Supervisory Directors, following the recommendation of the Remuneration Committee, has determined that the number of shares (calculated at the closing price of 31 December 2019 of €1.568) shall be equal to 30% of each of the Board of Management's 2020 base salaries.

This results in the following allocations:

Board of Management:

- Mr. Sijmen de Vries 102,964 shares
- Mr. Bruno Giannetti 67,259 shares.

Senior managers and key staff:

For a selected group of senior managers and key staff, 1,300,000 shares are available. A maximum number of 20,000 shares per senior manager or key staff member can be allocated.

Other benefits 2020 - 2023

Pension

For all Dutch employees, including the members of the Board of Management, 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.

For Dutch employees, the pensionable income is capped at €110.111,- for 2020, this is the fiscal maximum. For employees based in other EU countries, the fiscal maximum pensionable incomes of their respective home country also apply.

Awarding discretionary pension is not possible at Pharming. A Net Employee Pension Scheme is offered to employees who have a pensionable income in excess of the specified maximum. Participation is compulsory. 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 6 months of service and attain the age of 18 years. The employer matches 100% of the first 3% the employee contributes to their 401k plan and 50% of any amount over 3% up to 5%. Any employee contribution over 5% is not matched. Costs of the 401k plan are expensed in the year in which the related employee services are rendered.

Lease car scheme

A lease car scheme applies to employees serving in defined positions, including the Board of Management.

Holiday allowance

All employees contracted by the Dutch entities, including the Board of Management, receive 8,33% holiday allowance. This allowance is paid in May of the relevant year.

Short term employee benefits

The Company does not provide any benefits based on financial measurement of the statement of income.

Severance pay

The following conditions apply to severance pay for members of the Board of Management:

- The maximum severance pay is 100% of the fixed annual remuneration;
- Severance pay is not awarded in the event of failure on the part of the company;
- Severance pay that can be classified as variable is not awarded.

Neither fixed nor variable severance pay may be awarded in the following cases:

- If an employment relationship is terminated early at the employee's own initiative, except where this is due to serious culpable conduct or neglect on the part of the company;
- In the event of serious culpable conduct or gross negligence on the part of the employee in the performance of his or her role.

In view of the fact that the Company is listed at the Amsterdam Stock Exchange it is expressly understood between the parties that the termination payment will at all times be in accordance with the relevant provisions of the Dutch Corporate Governance Code as amended and Dutch legislation on the subject of management services contracts for top management positions with listed companies and the termination thereof.

Change of control

In the event of a change of control of the Company, becoming unconditional, all outstanding but unallocated all share based incentive plans will vest automatically and unconditionally. In case of an event resulting in a change of control or in case of the announcement of a proposed formal public offer for the shares in the Company, the Board of Supervisory Directors can decide to settle the allocated shares for the Board of Management and for the Board of Supervisory Directors in cash.

New hire policy

Pharming complies in full with all privacy and anti-discrimination laws and regulations in force in the EU, UK and USA. When hiring new staff or Directors, Pharming actively seeks to promote diversity into its Workforce, Management and Board of Supervisory Directors.

Disclosure of remuneration

External disclosure

The Company shall disclose information regarding remuneration in the annual reports of the Company in line with the applicable rules and regulations.

Internal disclosure

The Policy will be accessible to all employees. The Company ensures that the information regarding the Policy disclosed internally reveals at least the details which are disclosed externally. The employees should know in advance the criteria that will be used to determine their remuneration. The annual appraisal process will be properly documented and will be transparent to the employee concerned.

Governance

The Board of Supervisory Directors is responsible for adoption, amendment, implementation and review of the Policy.

Approval for the remuneration policy for the Board of Management of Pharming will be sought at the 2020 General Meeting of Shareholders.

Remuneration of the Board of Supervisory Directors

The remuneration of the members of the Board of Supervisory Directors is determined by the General Meeting of Shareholders. The annual remuneration is based on the position an individual has in the Board of Supervisory Directors, the Audit Committee and the Remuneration Committee, no additional remuneration was agreed for members of the Corporate Governance Committee.

For 2019, the annual compensation was as follows:

- Board of Supervisory Directors: Chair €50,000 and Member €36,000;
- Audit Committee: Chair €9,000 and Member €3,000;
- Remuneration Committee: Chair €6,000 and Member €3,000; and
- An additional compensation of €1,000 per day is paid in case of extraordinary activities.
- Participation in the Long-Term Incentive Plan (LTIP)

Proposed remuneration for 2020-2023

The last few years have seen significant growth in our US business. The majority of our current and future sales will continue to be generated in the US. In light of the increasing need for board members with experience and expertise in the complex US market, we have begun to add new BOSD members from the US. As a result of these changes in makeup of the board, remuneration needs to be competitive with US standards to attract needed expertise.

As a result, the Remuneration Committee has conducted a benchmark analysis of US peers to assess compensation. Based on that analysis, the compensation of BOSD is well below the 25th percentile in terms of both cash and equity grants. While the Committee does not recommend moving to the levels of US peers, there is a need for an increase in base cash compensation and implementation of an equity plan.

The latter is also important to consider as participation by the BOSD in the LTIP has been stopped effective as from 1 January, 2020.

The Board of Supervisory Directors therefore recommend the following new plan be adopted at the 2020 General Meeting of Shareholders to ensure the company is able to attract additional US board members as required and to retain current US directors on the Board.

For 2020 and onwards the proposed remuneration is as follows:

- Board of Supervisory Directors: Chair €60,000 per annum, respectively a Member €42,000 per annum in cash and in addition, €40,000 per annum for the Chair, respectively €30,000 per annum for the members in restricted shares; vesting in four annual tranches and each year valued at the 20 Day VWAP preceding the Annual General Meeting of Shareholders
- Audit Committee: Chair €9,000 and Member €3,000;
- Remuneration Committee: Chair €6,000 and Member €3,000; and
- An additional compensation of €1,000 per day is paid in case of extraordinary activities.

Compensation overview per member:

	Fixed remuneration	Share based payments	TOTAL
Paul Sekhri	2019: 50	2019: 33	2019: 83
	2018: 50	2018: 30	2018: 80
	2017: 50	2017: 32	2017: 82
	2016: 44	2016: 12	2016: 56
	2015: 36	2015: 9	2015: 45
Barrie Ward	2019: 39	2019: 27	2019: 66
	2018: 42	2018: 26	2018: 68
	2017: 45	2017: 31	2017: 76
	2016: 43	2016: 18	2016: 61
	2015: 45	2015: 11	2015: 56
Juergen Ernst	2019: 42	2019: 26	2019: 68
	2018: 42	2018: 26	2018: 68
	2017: 42	2017: 31	2017: 73
	2016: 42	2016: 18	2016: 60
	2015: 47	2015: 11	2015: 58
Aad de Winter	2019: 45	2019: 28	2019: 73
	2018: 45	2018: 26	2018: 71
	2017: 45	2017: 31	2017: 76
	2016: 45	2016: 18	2016: 63
	2015: 45	2015: 11	2015: 56
Deb Jorn	2019: 26	2019: -5	2019: 31
	2018: -	2018: -	2018: -
	2017: -	2017: -	2017: -
	2016: -	2016: -	2016: -
	2015: -	2015: -	2015: -
Jaap Blaak	2019: -	2019: -	2019: -
	2018: 20	2018: 18	2018: 38
	2017: 39	2017: 31	2017: 70
	2016: 45	2016: 22	2016: 67
	2015: 53	2015: 13	2015: 66
Jan Egberts	2019: 16	2019: 71-	2019: 16
	2018: 39	2018: 20	2018: 59
	2017: 39	2017: 25	2017: 64
	2016: 38	2016: 12	2016: 50
	2015: 36	2015: 9	2015: 45

As result of a 100% pay-out of the Long Term Incentive Plan (LTIP) 2017, in February 2020, Mr Sekhri, Mr. Ernst, Mr. Ward and Mr. de Winter received shares in the Company (details of Supervisory Directors' shareholdings can be found in note 26).

As outlined above: from 2020 onwards, the members of the Board of Supervisory Directors will not participate in the Company's LTIP scheme any more and should not receive any outstanding LTIP participations any more, but will be entitled to annual grants of restricted shares in accordance with the Remuneration Policy as approved by the General Meeting of Shareholders.

No loans or other financial commitments were made to any member of the Board of Supervisory Directors on behalf of the Company.

In the opinion of the Board of Supervisory Directors, the independence requirements referred to in best practice provisions have been fulfilled and all members regard themselves and their colleagues on the Board of Supervisory Directors as independent. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies.

Appointment term

The Supervisory Board members are normally appointed for a period of four years.

Miscellaneous

The Supervisory Board members do not have an individual employment contract with Pharming. Therefore, the topics notice period, severance, pension and retirement schemes are not applicable.

Governance

Approval for the remuneration policy for the Board of Supervisory Directors of Pharming will be sought at the 2020 General Meeting of Shareholders.

The policy is reviewed at least every four years.

The policy has been drawn up taking into account all relevant laws, regulations and codes.

Employee participation

Elections for a Works Council in France and The Netherlands will be held in 2020. Both Work Councils will be installed in Q4 2020.

Corporate Social Responsibility

"Our values of Respect, Responsibility, Passion and Innovation is the basis for everything we do.

Patient safety

Our highest priority is patient safety. By consistently reviewing and improving our processes we work to improve the quality of our product and the treatment our patients receive further. Our product and all our planned pharmaceutical products are produced and sold to the highest of regulatory standards to ensure safety and quality. In addition, our in-house Quality Assurance (QA) department conducts internal and external audits of manufacturing facilities, testing laboratories, suppliers of materials and service providers on a regular basis. These procedures have been implemented to monitor, control and improve the quality of our products continuously.

Animal Care Code of Conduct and welfare policy

Pharming's transgenic platform technology involves animals that get the very best treatment and care to guarantee not only compliance to the welfare law but also to live up to the highest moral standards. Therefore, animal safety and welfare are of paramount importance to the Company's success. Pharming produces products in specific non-invasive animal systems, such as in the milk of transgenic mammals. Pharming's current specific human protein products are purified from this milk, which has so far provided products suitable and safe for human use but without causing any distress of any kind to the animals. Pharming has a strict Animal Care Code of Conduct in place, which enforces the strict regulatory control over the Company's transgenic biological materials and animals with special regard to the environment and particularly the continuous wellbeing of our animals.

Our Animal Care Code of Conduct emphasises the importance of carrying out our activities with transgenic animals in a consistent and safe manner, and in conformity with the laws and regulations in force in the countries of operation.

Special attention is given to the strict identification and segregation of transgenic and non-transgenic materials and animals. In addition, the Company follows strict procedures to prevent the prohibited release of transgenic animals, their semen or any other reproductive transgenic material into nature. Pharming is largely dependent on its transgenic animals and highly values animal health and welfare. The Company has an animal welfare policy, which ensures that Pharming will not develop products with adverse effects on animal health and welfare in either use or production. Accordingly, Pharming carefully and continuously monitors the health and welfare of its animals.

Providing Sustainable return on Investment

Economic sustainability is one of our top priorities after safety of our animals, people and patients. In order to provide a sustainable return on investment for our shareholders, we aim to innovate, become more efficient and increase value in every department. Our policy is to provide all stakeholders with timely, equal and simultaneous information regarding matters that may have an influence on our share price. One way that we are working towards this is by holding many non-deal road-shows, also across the Netherlands, including live group meetings and webinars in which we meet with our (retail) investors to provide clear explanations of our published information and to ensure their questions are answered.

Our impact on the climate

Climate change is a global challenge and responding to it calls for a number of parallel approaches.

Next to economic sustainability, we are structurally finding ways to be a better environmental steward by preventing waste and limiting negative impacts. At this moment, our focus is on our carbon footprint.

We will not push for production capacity growth without keeping a close eye on the direct climate impact of our refining. We aim to utilise the best available technology to keep our emissions in control when we deploy our new capacity.

We are currently evaluating our existing facilities to identify the most efficient ways to reduce our carbon footprint ahead of the EU's climate and energy targets. We will continue focusing on energy efficiency. The new plant scheduled for commissioning in 2021 and approval in 2022 will also contribute. While we are still working on a more detailed plan, our strategic direction is clear, complete with high-quality isolation methods and full-electric concept (no gas installation). Solar panels are installed where-ever possible to self-generate the electricity.

We moved our Headquarters in Leiden to a building that received the Breeam-NL label 'excellent', provided by the Dutch Green Building Council.

In 2020, a state-of-the-art video conferencing system will be installed within all Company premises. Although traveling (intercontinental) remains important to stay connected and retrieve the best results, we aim to reduce business travel over the coming years.

"Next to economic sustainability, we are structurally finding ways to be a better environmental steward by preventing waste and limiting negative impacts.

Traceability of supply chain

As a biotechnology company that manufactures and develops biopharmaceuticals, Pharming complies with the applicable environmental rules and regulations. The entire supply chain, from animal feed and animal waste products and from milk to the finished pharmaceutical product, is covered by our fully cGMP-compliant (industry standard) quality systems which are constantly observed and tested.

Suppliers and contractors are audited on a regular basis. All elements of our operations are inspected by various specialised governmental agencies on a regular basis. In accordance with the international biopharmaceutical regulations, the entire supply chain is fully traceable. Our staff are highly trained and regularly requalified for compliance with the total quality system in our entire supply chain.

Ethical conduct

Pharming is committed to maintaining the highest standard of ethical conduct.

Our values of Respect, Responsibility, Passion and Innovation is the basis for everything we do.

Our Code Principles are derived from our values. The Principles set out the issues that are important in our operation.

Our Principles are:

1. **Pharming's Standard of Conduct;**
2. **Countering Corruption;**
3. **Respecting People; and**
4. **Safeguarding Information.**

Our Code Policies define the ethical behavior that we all need to demonstrate when working at Pharming. While these are for internal use, we also publish them externally for transparency. The Code of Conduct is therefore available on the Company's website.

We take this ethical approach to all parts of the business. Everything from our primary research to our commercial activity in all markets is conducted from these good principles of fairness and honesty. For example, we distributed thousands of vials of RUCONEST® in 2018 and 2019 free to patients unable to pay for the drug, or who could not get adequate insurance, or who could not get insurance cover quickly enough and needed a supply of drug before their insurance was confirmed.

Whistleblowers' procedure

Pharming's whistleblowers' policy can be found on the Company's website. This policy describes the internal reporting and investigation procedures for suspected

irregularities pertaining to the general, operational and/or financial activities in the Company. The whistleblowers' procedure applies to all Pharming entities in all countries. Pharming will not discharge, demote, suspend, threaten or harass any employee or consultant in the process of any lawful actions by the employee or consultant regarding good faith reporting of complaints or issues nor as a result of their participation in any related investigation.

Health and safety

'Safety First' is our highest priority within our business strategy. The health and wellbeing of our employees directly impacts on our business success. Safety is continuously monitored in everything we do. For that reason, we pay great attention to education and information on all aspects of safety. We are therefore extremely proud that the accident frequency rate within our Company continued at zero accidents and zero near-miss events in 2019. This is the result of strong enforcement of existing safety standards and procedures, improved implementation of accident investigation recommendations and good practice management.
Our new head office building in Leiden has a very open atmosphere that encourages employees to connect and to use different working spaces. High tech solutions are used to create optimal acoustics and due to all over windows from floor to ceiling, the distribution of daylight is excellent.

We invested in desks which can be quickly and simply transformed into standing tables to promote working in different positions.

One of our employees adopted the role of Health and Safety Officer. In case of questions or complaints regarding the workplace, the Health and Safety Officer can be asked for advice.

Human capital

Pharming places confidence in its employees as the most essential resource as well as vital stakeholders in our business. We continue to succeed only through the outstanding skill and commitment of our people. We are dedicated to attracting, developing and retaining the most talented employees within our field. Our human resource policies aim to engage employees with the necessary expertise, skill and knowledge, and also to cultivate a corporate culture of accountability and harmony. We have already built a team of diverse international people and we see it as a priority to focus on the proper development of our Pharming family.

As our numbers grow, 16% in 2019 after 22% in 2018, we have continued to invest in developing employee engagement. By reviewing our internal processes and assessing possible gaps, we are learning and defining new roles, innovating for the future of our company. Through open and transparent communication from the Board of Management and Management Team to the wider employee base, we have capitalised on our internal knowledge and experience to engage our global workforce by encouraging initiative, responsibility and communication. Our employees are unified under our corporate values of respect, responsibility, passion and innovation.

> *"Our team consists of motivated and highly-commited people that adhere to our family values: Patient safety, ethical behaviour and honest, transparent communication.*

Family values

One of our success factors is our ability to function as a highly motivated, diverse and accountable team. We aim to set a Pharming family culture where employees feel safe and connected, to maintain an environment of continuous improvement.

Our team consists of motivated and highly-commited people that adhere to our family values: patient safety, ethical behaviour and honest, transparent communication. We are still focused on learning and defining new roles, recognising and solving gaps or reorganising departments to tackle the issues that our growth presents.

Sustainable Corporate Culture

Pharming aims to be an attractive employer and offers a safe and healthy, inclusive and engaging working environment focused on maintaining our values in everything that we do. We endeavour to carry out all business in a highly ethical, fair and honest manner. We stimulate and support our employees to actively pursue personal development goals and endeavour to offer opportunities for internal professional growth and promotions wherever and whenever possible. Our organisational structure allows for open communication. Our employees are encouraged to share their ideas and improvements with the Company's management. Our corporate culture programme is working on improving our interdepartmental communications and enabling us to align an international work force.

During Q4 of 2019, we started the initiative to update our Pharming story. Our strategy, values, purpose and competencies will be updated during 2020 to thrive and support our growth.

Diversity and inclusion

Diversity and inclusion are essential to our Company Culture. A workforce diverse in, among other things, age, race, gender, nationality, sexual orientation, physical ability, thinking style and background enriches our work environments and helps to ensure our long term success. With operations and stakeholders all over the world, we see cultural diversity as a strength.

> *"Diversity and inclusion are essential to our company culture.*

We strive to ensure there are equal opportunities for all. In 2019, we had 19 different nationalities amongst our employees. Also, the number of women in senior management positions is increasing. This remains a point for attention.

Remuneration

During 2019, an independent consultant is hired to perform a remuneration benchmark. Our remuneration policy starts from the principle that the average level of total remuneration should be in the 75th percentile of the peer group. The relevant peer group contains Pharmaceutical and Health Sciences companies, selected per country.

The remuneration structure of the Company ensures a proper balance between variable and fixed remuneration to attract, motivate and keep qualified employees.

19 Nationalities

There are currently 19 nationalities working for Pharming

The fixed income is determined by the job weighting and associated salary grade. Within the legal frameworks, the growth of fixed income is linked to the assessment of the overall performance of the job.

Annual Performance Management Cycle

The annual performance management cycle may lead to an increase of the fixed remuneration of employees if the agreed targets have been met and/or higher salary is justified by higher levels of responsibility and/or changes in labour markets.

The variable remuneration is based on the principle "pay for performance". Target setting and evaluation of the performance of the targets is key in the process of vesting the variable remuneration. Risk alignment is embedded in the target setting and the evaluation of the performance.

Employee statistics

At 31 December 2019, 212 people were employed (2018: 183). During 2019, the Company hired 54 new employees (2018: 44) and 20 employees left the Company (2018: 11). At the reporting date, we had grown further, to 231 employees.

The Company's business involves specific high-technology processes and requires the employment of highly skilled and motivated personnel. Therefore, it is important for Pharming to create an attractive work environment that retains and motivates a diverse range of personnel and attracts talent in a competitive and global marketplace.

"We continue to succeed only through the outstanding skill and commitment of our people.

Headcount at 31 December 2019	2019	2018
The Netherlands	138	112
France	13	12
Germany	2	3
United Kingdom	2	1
United States	57	55
Total	**212**	**183**

Headcount at 31 December	2019	2018
General & Administration	38	52
Research & Development	131	79
Marketing & Sales	43	52
Total	**212**	**183**

Testimonial Luca

"I started contracting in the clinical research department at Pharming in 2006. The past 14 years have been a rewarding experience, in my role I have the opportunity to work with some of the most advanced academic Institutions in the world. At Pharming drug development doesn't stop with commercialisation and marketing, in the clinical department we are fully engaged in expanding the scientific knowledge of our product and the disease it treats, but also in future indications. Coming from Big Pharma, I appreciate that Pharming prioritises its employees and how our work is connected to a sense of purpose, mission and meaning: Pharming gives people freedom and space to do their best work. Running clinical trials only works with close interdepartmental communication: I appreciate that hierarchy does not translate into a compartmentalised structure, but that people have full accessibility at any level, which makes communication and decision-making all the more efficient."

"Pharming gives people freedom and space to do their best work.

Information for Shareholders and Investors

We communicate with our shareholders and investors through the publication of the annual report, meetings of shareholders, press releases, online webinars and our website. Pharming organises analyst and press meetings and/or conference calls or webinars, when presenting 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 Pharming's website. Audio and/or web casts of these conference calls and corporate presentations are made available on the website after the meetings.

In 2019, Pharming increased the frequency in which it communicates with its investors. In addition to its full-year, half year and quarterly financial results publications Pharming held live audience webinars and Q&A sessions in conjunction with its half-year and full year results. Furthermore, Pharming held its annual Investor Tour of 2019. In which CEO, Sijmen de Vries travelled to 5 cities in the Netherlands to give business update presentations to groups of retail investors. In 2019 Pharming also published its new corporate website, with a more in-depth and user-friendly Investor Relations section and financial document overview. Pharming's management also attended relevant healthcare, biotech and equity conferences around the the world. The corporate and scientific presentations are made available on the company's website.

Activities for shareholders and investors included:

- A full presentation of our annual results to financial journalists and analysts, including audio commentary, Q&A sessions and posting on our website;
- Various additional webinars and conference calls with analysts, investors and providers of finance;
- Regular road show meetings with potential and existing shareholders and sell side analysts;
- Regional meetings with groups of existing shareholders in the Netherlands to explain public announcements or results; and
- Timely updates in the investor relations section of our website.

SHARE INFORMATION

Pharming Group N.V.'s shares have been listed on Euronext Amsterdam (symbol: PHARM) since 1999.

The shares (ISIN Code: NL0010391025) are only traded through the book-entry facilities of Euroclear Nederland. The address of Euroclear Nederland is: Herengracht 459-469, 1017 BS Amsterdam, the Netherlands.

ABN AMRO Bank N.V. is the paying agent with respect to the shares. The address of the paying agent is: ABN AMRO Bank N.V., Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands

Financial Calendar 2020	
14 May	Publication of financial results for the first three months of 2020 at 07:00 CET
20 May	Annual General Meeting of Shareholders
30 July	Publication of financial results for the first six months of 2020 at 07:00 CET
29 October	Publication of financial results for the first nine months of 2020 at 07:00 CET

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Financial Statements

Consolidated statement of income

For the year ended 31 December

Amounts in € '000	notes	2019	2018
Revenues	5	**169,022**	**135,130**
Costs of sales	7	**(21,355)**	**(22,180)**
Gross profit		**147,667**	**112,950**
Other income	6	**435**	**684**
Research and development		(28,368)	(28,882)
General and administrative		(18,913)	(12,221)
Marketing and sales		(39,914)	(34,539)
Costs	7	**(87,195)**	**(75,642)**
Operating result		**60,907**	**37,992**
Fair value gain (loss) on revaluation derivatives	8	(209)	(495)
Other financial income	9	1,011	18
Other financial expenses	9	(15,259)	(36,658)
Financial income and expenses		**(14,457)**	**(37,135)**
Share of net profits in associates using the equity method	13	**229**	**-**
Result before income tax		**46,679**	**857**
Income tax credit (expense)	10	(10,484)	24,136
Net result for the year		**36,195**	**24,993**
Attributable to:			
Owners of the parent		36,195	24,993
Total net result		**36,195**	**24,993**
Basic earnings per share (€)	32	0.058	0.041
Fully-diluted earnings per share (€)	32	0.054	0.038

The notes are an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

Amounts in € '000	notes	2019	2018
Net result for the year		**36,195**	**24,993**
Currency translation differences	17	(39)	348
Items that may be subsequently reclassified to profit or loss		**(39)**	**348**
Other comprehensive income (loss), net of tax		**(39)**	**348**
Total comprehensive income (loss) for the year		**36,156**	**25,341**
Attributable to:			
Owners of the parent		36,156	25,341

The notes are an integral part of these financial statements.

Consolidated balance sheet

As at 31 December

Amounts in € '000	notes	2019	2018
Non-current assets			
Intangible assets	11	70,809	52,435
Property, plant and equipment	12	8,553	8,402
Right-of-use assets	12	5,979	-
Long-term prepayments		-	2,006
Deferred tax assets	28	28,590	34,995
Investment accounted for using the equity method	13	5,508	-
Restricted cash	14	2,268	1,204
Total non-current assets		**121,707**	**99,042**
Current assets			
Inventories	15	14,467	17,315
Trade and other receivables	16	25,737	17,814
Cash and cash equivalents	14	66,299	80,311
Total current assets		**106,503**	**115,440**
Total assets		**228,210**	**214,482**
Equity			
Share capital		6,313	6,215
Share premium		392,266	387,525
Legal reserves		3,718	1,647
Accumulated deficit		(297,618)	(333,636)
Shareholders' equity	17	**104,679**	**61,751**
Non-current liabilities			
Loans and borrowings	18	-	37,267
Contract liabilities	19	-	667
Lease liabilities	20	4,363	164
Other financial liabilities	29	17,282	32,034
Total non-current liabilities		**21,645**	**70,132**
Current liabilities			
Loans and borrowings	18	45,590	35,235
Contract liabilities	19	-	800
Derivative financial liabilities	21	268	228
Trade and other payables	22	36,247	28,589
Lease liabilities	20	1,946	263
Other financial liabilities	29	17,835	17,484
Total current liabilities		101,886	82,599
Total equity and liabilities		**228,210**	**214,482**

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

Amounts in € '000	notes	Number of shares (in '000)	Share capital	Share premium	Legal reserves: Capitalized development cost	Legal reserves: Translation reserve	Accumulated deficit	Total equity
Balance at 1 January 2018		**579,015**	**5,790**	**363,818**	**-**	**(938)**	**(352,560)**	**16,110**
Result for the year			-	-	-	-	24,993	24,993
Other comprehensive income (loss) for the year			-	-	-	348	-	348
Total comprehensive income (loss) for the year			-	-	**-**	**348**	**24,993**	**25,341**
Legal reserves development expenses	17	-	-	-	2,237	-	(2,237)	-
Share-based compensation	17, 23	-	-	-	-	-	3,889	3,889
Bonuses settled in shares	17	1,625	16	1,284	-	-	(1,964)	(664)
Shares issued for cash/ conversion of bonds	17	2,746	28	3,117	-	-	-	3,145
Warrants exercised/ issued	17, 26	11,122	111	6,031	-	-	-	6,142
Options exercised	17	26,993	270	13,275	-	-	(5,757)	7,788
Total transactions with owners, recognised directly in equity		**42,486**	**425**	**23,707**	**2,237**	**-**	**(6,069)**	**20,300**
Balance at 31 December 2018		**621,501**	**6,215**	**387,525**	**2,237**	**(590)**	**(333,636)**	**61,751**
Result for the year			-	-	-	-	36,195	36,195
Other comprehensive income (loss) for the year			-	-	-	(39)	-	(39)
Total comprehensive income (loss) for the year			-	-	**-**	**(39)**	**36,195**	**36,156**
Legal reserves development expenses	17	-	-	-	2,110	-	(2,110)	-
Share-based compensation	17, 23	-	-	-	-	-	3,825	3,825
Bonuses settled in shares	17	6	-	6	-	-	-	6
Shares issued for cash	17	1,662	17	228	-	-	(245)	-
Warrants exercised	17, 26	240	2	234	-	-	-	236
Options exercised	17	7,914	79	4,273	-	-	(1,647)	2,705
Total transactions with owners, recognised directly in equity		**9,822**	**98**	**4,741**	**2,110**	**-**	**(177)**	**6,772**
Balance at 31 December 2019		**631,323**	**6,313**	**392,266**	**4,347**	**(629)**	**(297,618)**	**104,679**

The notes are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December

Amounts in € '000	notes	2019	2018
Operating result		**60,907**	**37,992**
Non-cash adjustments:			
Depreciation, amortisation, impairment	7	5,177	6,559
Accrued employee benefits	23	3,825	3,270
Release contract liabilities	5, 19	(1,467)	(804)
Operating cash flows before changes in working capital		**68,442**	**47,017**
Changes in working capital:			
Inventories	15	3,067	1,019
Trade and other receivables	16	(8,492)	(6,554)
Payables and other current liabilities	22	8,677	1,391
Total changes in working capital		**3,252**	**(4,144)**
Changes in non-current assets, liabilities and equity		(39)	(1,098)
Cash generated from (used in) operations before interest and taxes		**71,655**	**41,775**
Interest received		-	18
Income taxes paid	10	(5,098)	(1,417)
Net cash flows generated from (used in) operating activities		**66,557**	**40,376**
Capital expenditure for property, plant and equipment	12	(2,362)	(2,496)
Investment intangible assets	11	(1,650)	(1,273)
Investment associate	13	(2,503)	-
Acquisition of license	11	(18,702)	-
Net cash flows used in investing activities		**(25,217)**	**(3,769)**
Repayment on loans and borrowings	18	(31,406)	(15,137)
Payment on contingent consideration	29	(17,634)	
Redemption bonds	18	-	(2,257)
Payment of lease liabilities		(1,967)	-
Interests on loans	18	(8,418)	(11,063)
Interest received	9	1,011	-
Proceeds of equity and warrants	17	2,778	10,496
Net cash flows generated from (used in) financing activities		**(55,636)**	**(17,961)**
Increase (decrease) of cash	14	**(14,296)**	**18,646**
Exchange rate effects	14	1,348	2,876
Cash and cash equivalents at 1 January	14	81,515	59,993
Total cash and cash equivalents at 31 December		**68,567**	**81,515**

The notes are an integral part of these financial statements.

Notes to the consolidated financial statements

1. CORPORATE INFORMATION

The consolidated financial statements of Pharming Group N.V., Leiden for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Supervisory Directors on 29 March 2020. The financial statements are subject to adoption by the Annual General Meeting of shareholders, which has been scheduled for 20 May 2020.

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

Pharming Group N.V. is registered at the Chamber of Commerce in the Netherlands under number 28048592.

Pharming Group N.V. is the ultimate parent company of Pharming Group. A list of subsidiaries is provided in note 2.2.

Pharming is a specialty pharmaceutical company developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs. Pharming's lead product, RUCONEST® (conestat alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute Hereditary Angioedema ("HAE") attacks in patients in Europe, the US, Israel and South Korea. The product is available on a named-patient basis in other territories where it has not yet obtained marketing authorisation.

2. ACCOUNTING PRINCIPLES AND POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS interpretations committee (IFRS IC) interpretations applicable to companies reporting under IFRS as endorsed by the European Union and valid as of the balance sheet date. The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of financial statements in conformity with IFRS and book 2 title 9 of the Dutch Civil Code 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.4.

One new standard has been applied for the first time for the reporting period starting at 1 January 2019: IFRS 16 Leases in italic. The impact of adopting the new IFRS standard is not material. Further information is presented in note 2.5. These financial statements are presented in euros (€) and rounded to the nearest thousand euro (€'000), unless otherwise stated.

2.2 Basis of consolidation

The consolidated financial statements include Pharming Group N.V. 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 control ceases.

An entity is considered effectively controlled if the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting year as Pharming Group N.V., using the same accounting policies. Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The following table provides an overview of the consolidated investments at 31 December 2019:

Entity	Registered office	Invesment %
Pharming B.V.	The Netherlands	100.0
Pharming Americas B.V.	The Netherlands	100.0
Pharming Intellectual Property B.V.	The Netherlands	100.0
Pharming Technologies B.V.	The Netherlands	100.0
*Pharming Research & Development B.V. **	The Netherlands	100.0
Broekman Instituut B.V.	The Netherlands	100.0
Pharming Healthcare, Inc.	The United States	100.0
ProBio, Inc.	The United States	100.0

* Pharming Research & Development B.V. was established in December 2018 as a 100% subsidiary of Pharming Technologies B.V.. Activities with respect to research and development for Pompe and Fabry diseases have been transferred to this new entity. As a consequence, the transaction has resulted in the effective renewal of past operating losses.

2.3 Accounting principles and policies

Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Where the consideration transferred exceeds the fair value of the net assets, liabilities and contingent liabilities acquired, the excess is recorded as goodwill. The costs of acquisition are recognised as an expense.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (generally euros) using exchange rates prevailing at the date of the transaction. Transactions executed in foreign currencies are translated at the exchange rate at the date of transaction.

The resulting transaction gains or losses are recognised in the statement of income. Assets and liabilities of foreign entities are translated to euros using year-end spot foreign exchange rates. The statements of income of foreign entities are translated at weighted average exchange rates for the year. The effects of translating these operations are taken directly to other comprehensive income within equity. On disposal of a foreign entity, the accumulated exchange difference is recognised in the statement of income as a component of the gain or loss on disposal. Until 2017 borrowings formed part of the net investment in Pharming Healthcare, Inc. From 2018 the Company has assessed that these borrowings form no longer part of the net investment as repayments are made. From 2018 the associated exchange rate differences are recognised through the statement of income.

The above-stated translation of foreign entities applies to the entity in the United States. The EUR/USD exchange rate applied at 31 December 2019 was 1.1214 (31 December 2018: 1.1439).

Distinction between current and non-current

An item is classified as current when it is expected to be realised (settled) within 12 months after the end of the reporting year. Liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year

Intangible assets

Intangible assets acquired separately are measured at historical cost. The cost of intangible assets acquired in a business combination is recognised and measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

Intangible assets are also created through the capitalisation of certain types of expenditure, including particularly pharmaceutical research and development expenses. These are discussed in more detail under "Research and Development" on page 116 below.

The remaining amortisation periods for intangible assets at 31 December 2019 are:

Category	Description	Amortisation period	
		Total	Remaining
Transgenic technology*	Patents and licenses	6 to 10 years	Not applicable
RUCONEST® for HAE (EU)	Development costs	10 years	1 year
RUCONEST® for HAE (US)	Re-acquired commercial rights	20 years	17 years
Software expenses	Development costs	10 years	9 years
Development costs**	Development costs	Not yet in use	Not yet in use

** Carrying value at 31 December 2019 of €nil*

*** Regarding acquired assets for Pompe and Fabry's disease and internal generated assets for modifications of RUCONEST®*

The Company's original transgenic technology has been fully depreciated and now has a carrying value of €nil. The Company is developing new transgenic technology based on new internally generated patents and is also using externally-developed technology to produce certain founder transgenic animals. The new technology, if capitalised upon completion, will be amortised over its then useful life.

Biological Assets

Pharming's production system is dependent on biological assets, but these do not qualify to be recognised under the relevant standard IAS 41 Agriculture and thus all relevant costs are expensed through the income statement. It is possible that a change of platform bioreactor to cattle may require a review of this policy.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation charges and accumulated impairment charges. Generally, depreciation is calculated using a straight-line basis over the estimated useful life of the asset. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

All costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management, will be capitalised. These costs include direct employee benefits, rent and testing costs. Capitalisation will be done until the asset is capable of operating in the manner intended by management.

The depreciation periods for property, plant and equipment are:

Category	Depreciation period
Land	Not depreciated
Land improvements	20 years
Operational facilities	10-20 years
Leasehold improvements	5-10 years
Manufacturing equipment*	5-10 years
Other property, plant & equipment	5-10 years

** Depreciation charges for manufacturing equipment are based on actual use of the equipment involved, which is expected to take place in a period before technical expiration.*

Impairment of assets

Assets that have an indefinite useful life and intangibles not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. The Company has three inventory categories

- Finished goods: consists of batches of RUCONEST®. These batches comprise therapeutic product available for sales (both single vials and self-administration kit), clinical development and pre-clinical activities. Initial recognition is at cost and includes all production costs related to product sales, including production costs of the skimmed milk, external manufacturing costs, costs for product testing and other costs incurred in bringing the inventories to their present location and condition;
- Work in progress: semi-finished goods consisting of drug substance;
- Raw materials: consists of skimmed milk serving as a raw material for the batches of RUCONEST®. Valuation per unit skimmed milk is based on the total costs of the production facilities and the normal production levels.

Costs are determined using the first-in first-out (FIFO) method. Net realisable 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, or, in case the products will be used for a clinical trial, the net realisable value is the reimbursement we expect to receive from partners in this trial. The costs of inventories

are included in costs of product sales if related to the sale of products. If related to the use in a clinical trial the expenses are included in the operating costs.

An impairment provision is recognised for inventories if no future use or sale is expected or likely before the expiration date or if product batches are expected not to be released due to quality issues. The cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses, until this falls below net realisable value whereupon the inventory so affected is carried at net realisable value.

Financial assets

Financial assets are recognised when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets expire, or if the Company transfers the financial asset to another party and does not retain control or substantially all risks and rewards of the asset. Purchases and sales of financial assets in the normal course of business are accounted for at settlement date (i.e., the date that the asset is delivered to or by the Company).

At initial recognition, the Company measures its financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

After initial recognition, the Company classifies its financial assets as subsequently measured at either i) amortised cost, ii) fair value through other comprehensive income or iii) fair value through profit or loss on basis of both:

- The Company's business model for managing the financial assets;
- The contractual cash flow characteristics of the financial asset.

Subsequent to initial recognition, financial assets are measured as described below. At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises a loss allowance for expected credit losses for financial assets measured at either amortised costs or at fair value through other comprehensive income. If, at the reporting date, the credit risk on financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. If, at the reporting date, the credit risk on a financial instrument has increased significantly since initial recognition, the Company measures the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses.

Financial assets at amortised cost

Financial assets are measured at amortised cost if both i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest of on the principal amount outstanding.

A financial asset measured at amortised cost is initially recognised at fair value plus transaction cost directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortised cost is determined using the effective interest method, less any impairment losses.

The Company's financial assets measured at amortised cost comprise cash equivalents held in short term deposits. As these are US Treasury bonds only, there has been no difference to date between the fair value and the delivered value.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both i) the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company has no financial assets measured at fair value through other comprehensive income.

Financial assets at fair value through profit or loss

When any of the above-mentioned conditions for classification of financial assets are not met, a financial asset is classified as "at fair value through profit or loss" and measured at fair value with changes in fair value recognised in profit or loss.

A financial asset measured at fair value through profit or loss is recognised initially at fair value and its transaction cost is recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in the consolidated statement of income for the reporting period in which it arises.

The Company may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company's financial instruments measured at fair value through profit or loss comprise derivative financial liabilities. It has no financial assets of this kind.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent measurement is at amortised cost using the effective interest method, less the expected credit loss. Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. No customer has ever defaulted or been late with due payment, and so the expected credit loss is nil for all current customers. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments (maturity less than 3 months) readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. For the purpose of the statement of cash flow, cash and cash equivalents are net of outstanding bank overdrafts. Reference to 'cash balances' also includes restricted cash, which is cash held on short term deposits with certain banks as security mainly for credit cards and car leases.

Equity

The Company only has ordinary shares, and these are classified within equity upon issue. Shares transferred in relation to settlement of (convertible) debt and derivative financial liabilities are measured at fair value with fair value based on the closing price of the shares on the trading day prior to the settlement date. Equity is recognised upon the issue of fixed warrants with a fixed exercise price as well as upon the recognition of share-based payment expenses; shares issued upon exercise of such warrants or options are measured at their exercise price.

Transaction costs associated with an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Transaction costs related to the issue of a compound financial instrument are allocated to the liability and equity components of the instruments in proportion to the allocation of proceeds.

Financial liabilities and borrowings

Financial liabilities are classified as either financial liabilities at fair value through profit or loss (derivative financial liabilities) or financial liabilities at amortised cost (borrowings and trade and other payables). All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs; transaction costs related to the issue of a compound financial instrument are allocated to the liability and equity components of the instruments in proportion to the allocation of proceeds. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of income when the liabilities are paid off or otherwise eliminated as well as through the amortisation process. Purchases and sales of financial liabilities are recognised using settlement date accounting.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 derecognising of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. The expense relating to any provision is presented in the statement of income net of any reimbursement.

Derivative financial liabilities

Derivative financial liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss with changes in the fair value recognised in the statement of income as they arise.

Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest method.

Revenue recognition

The standard IFRS 15 *Revenues from contracts with customers* has been applied by the Company since 1 January 2018. IFRS introduced a five-step model to determine when to recognise revenue and at what amount, based on transfer of control over goods or services to the customer:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct;
3. Determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer;
4. Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract;
5. Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

All of the Group's revenue from contracts with customers is derived from delivery of goods, specifically vials of pharmaceutical products. The Group does not provide any additional services (including financing services) or equipment to its customers.

In accordance with IFRS 15, revenue is recognised when the customer obtains control of the goods. For the Group's contracts the customer obtains control immediately after shipment of the product, which arrives at the customer within a short time frame.

The vast majority of the Group's contracts for revenue with customers are subject to chargebacks, discounts and/or rebates relating directly to customers or to ultimate reimbursement claims from government or insurance payers. These are accounted for on an estimated net basis, with any actual discounts and rebates used to refine the estimates in due course. These variable elements are deducted from revenue in the same period as the related sales are recorded.

The Group received upfront payments in the past from a variety of parties in exchange for licenses for European, US, Chinese and other sales and distribution rights. These

upfront payments were each considered as a single performance obligation together with the subsequent delivery of goods. They were initially recognised as a deferred contract liability and were released to the statement of income over the effective life of the license, in line with the terms of agreement with each distributor. All amounts held over in this way have now been released to the income statement following termination or variation of the underlying agreements or completion of the performance obligation in question.

Costs of sales

Costs of sales represent all production costs related to product sales, including production costs of the skimmed milk, external manufacturing costs, costs for product testing and other costs incurred in bringing the inventories to their present location and condition. The costs are measured at their actual costs based on FIFO and incurred to net realisable value if sales price is below actual costs.

Research and development costs

Research expenditure is recognised as an expense in the period in which it is incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the following criteria are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale is not in doubt;
- The Company has the clear intention and resources to complete the asset, and to use or sell it;
- Its ability to use or sell the asset is not in doubt;
- The probability of future economic benefits is clear at the time of making the decision;
- The availability of resources to complete the development required is not expected to change during the development process;
- It is possible to measure the expenditure reliably during the development.

Technical feasibility and ability to use or sell the asset are, in general, considered probable when the Company estimates that obtaining marketing approval is deemed likely. In practice this is only the case when we have either (i) completed a similar program before on the same therapeutic molecule or combination, or (ii) completed an identical program before on a similar molecule or combination. In other situations, the likelihood of success at each remaining level of clinical development and regulatory approval is assessed and, unless the collective probability is over 80%, the criteria is difficult to meet in these circumstances.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure capitalised is amortised over the period of expected useful life of the related patents. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Other income

Pharming receives certain grants which support the Company's research efforts in defined research and development projects. These subsidies generally provide for reimbursement of approved costs incurred as defined in various grants. Subsidies are recognised if the Company can demonstrate it has complied with all attached conditions and it is probable that the grant amount will be received.

The Company includes income from grant under other income in the statement of income in order to enable comparison of its statement of income with companies in the life sciences sector. Companies in this sector generally present governmental grants as income since these often are a significant source of income.

Interest income

Interest income is recognised as interest accrues, using the effective interest method. For the purpose of the consolidated statement of cash flows, interest income derived from cash and cash equivalents have been presented as financing cash flows.

Operating costs

Operating 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 nature apply to overhead expenses. Costs of marketing and sales relate to all expenses incurred to commercialise the product.

Short-term employee benefits

The Company does not provide any benefits based on financial measurement of the statement of income.

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Pension plan

For all Dutch employees, 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 6 months of service and attain the age of 18 years. The employer matches 100% of the first 3% the employee contributes to their 401k plan and 50% of any amount over 3% up to 5%. Any employee contribution over 5% is not matched. Costs of the 401k plan are expensed in the year in which the related employee services are rendered.

Share-based payment

The costs of option plans are measured by reference to the fair value of the options on the date on which the options are granted. The fair value is determined using the Black-Scholes model. The costs of these options are recognised in the income statement (share-based compensation) during the vesting period, together with a corresponding increase in equity (other reserves). Share-based payment charges do not affect liabilities or cash flows in the year of expense since all transactions are equity-settled.

Pharming's employee option plan states that an employee is entitled to exercise the vested options within five years after the date of the grant. The period in which the options become unconditional is defined as the vesting period.

Long Term Incentive Plan

For a limited number of board members and officers, performance shares are granted free of charge. A maximum number of predetermined shares vest three years after the grant date, provided that the participant to the long-term incentive plan is still in service (continued employment condition), with actual shares to be transferred based on the relative achievement of Pharming's share price compared to a peer group. The maximum number of shares immediately vests upon a change of control.

The fair value is determined using Monte Carlo simulation. The costs of the LTIP are recognised in the income statement during the vesting period. The fair value at the grant date includes the market performance condition (relative total shareholder return performance) but excludes the three-year service condition.

Leases

The Group assesses whether a contract is or contains a lease at the inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is a lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use, unless those costs are incurred to produce inventories.

Right-of-used assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated balance sheet.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability. And the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition triggers those payments occur.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain lease components and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The Group had no such lease arrangements in 2019 and has none at the date of this report.

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to use those temporary differences and losses. The Company has assessed all its income tax amounts and provisions in the light of IFRIC 23 *Accounting for Uncertain Income Taxes*, and has concluded that it is probable that its particular tax treatment will be accepted in all relevant jurisdictions and thus it has determined taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Cash flow statement

Operating cash flows in the statement of cash flows are reported using the indirect method. 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 as most of the other elements in the net result have a non-cash nature. Payments of the finance lease liabilities related to operating assets and equipment are included in the operating cash flows, whereas all other finance lease liabilities are included in financing cash flows.. They are part of the manufacturing costs, thus part of the working capital. This way the statement properly reflects the cash flows.

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 are computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans, warrants issued and convertible loan agreements.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting of segmental information provided to and used by the chief operating decision-maker function in managing that segment.

The Board of Management, which makes the Company's strategic decisions, has been identified as the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments.

Alternative Performance Measures

Wherever used in this report, performance measures comply with IFRS definitions and are used strictly in accordance with the definitions of those items according to the European Federation of Financial Analysts' Societies ('Effas Definition Guide').

The main performance measures used in this report are the following:

EBIT: Earnings before Interest & tax, defined as EBIT (Reported) = Sales - Cost of Sales and Operating Costs (including Personnel Expenses) -/+ Non-Recurrent Expenses (Income) - Depreciation – Amortisation – Provisions, Write Downs and Impairments

EBITDA: Earnings before interest, tax, depreciation & amortisation, defined as operating result after nonrecurring operating items (e.g. restructuring costs, start-up costs, etc.), before Depreciation, Amortisation & Write Downs, before Interest, Associates & Tax. EBITDA = Sales - Cost of Sales and Operating Costs (including Personnel Expenses) -/+ Non-Recurrent Expenses (Income).

NET DEBT: Net Debt is defined as Long-term financial debt + short-term financial debt – (cash & cash equivalents (including restricted cash)). The Company currently has no short term financial debt.

OPERATING RESULT: Defined as Pre-Provision Profit – Loan Impairment Charges, where Pre-Provision Profit itself is defined as Total Revenues – Costs of Sales - Operating Costs – Other Operating Provisions.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires judgments and estimates that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Judgements:

Revenue

Revenue is recognised when control has been transferred to the customer. Gross turnover is reduced by chargebacks and rebates for government healthcare programs, discounts to specialty pharmacies and wholesalers, and product returns given or expected to be given, which vary by patient groups. Chargebacks and rebates for healthcare programs depend upon the submission of claims some time after the initial recognition of the sale. The liability for this variable consideration is made, at the time of sale, for the estimated chargebacks and rebates, based on available market information and historical experience. Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of patient groups. The level of these liabilities is being reviewed and adjusted regularly in the light of contractual and legal obligations, historical charges and trends, past experience and projected mixtures of patient groups. The Group acquires this information from both internal resources as external parties.

Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

Business combinations and contingent consideration

In 2016 Pharming completed the acquisition of all North American commercialisation rights for its own product RUCONEST® from Valeant. Valeant Pharmaceuticals International changed its name in 2018 to Bausch Health Companies after it acquired Bausch & Lomb. The re-acquired rights are determined as an intangible, asset, as part of a business combination. Pharming has paid an upfront amount of US$60 million and agreed to pay future amounts up to a further US$65 million based on achievement of sales milestones. The future payments, based on achieving milestones, are considered to be contingent consideration. As the payments will be made in cash the contingent consideration is classified as a financial liability. It is recognised at its fair value at the acquisition-date, as part of the total consideration transferred, according IFRS 3 para 39. Fair value at acquisition-date was based on the probability of achieving the milestones. These fair values are based on risk-adjusted future cash flows discounted using appropriate discount rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement.

At 31 December 2019, the liability for contingent consideration amounted to €34.9 million (2018: €49.5 million). See note 29 Business combinations and contingent consideration. The amount originally arose on the acquisition of the commercialisation rights from Valeant Pharmaceuticals in 2016. This represents the present value of the estimated amount probably payable by Pharming in the event of achieving sales milestones and is calculated by applying the milestone criteria to probabilities of forecast future revenues and cash flows. Sensitivity analysis is given in note 31 Financial risk management. The assumptions relating to future revenues and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these projections to change with a consequent adverse effect on the future results of the Company.

Investment in BioConnection BV
In 2019, Pharming took a 43.85% stake in the equity of its fill & finish partner, BioConnection BV. In the Board of Management's judgement, the investment in BioConnection constitutes an investment in an unconsolidated structured entity, as Pharming has significant influence but does not have control of BioConnection and in particular is embargoed by a shareholders agreement between the shareholders of BioConnection from influencing any activity between the two parties which is in any significant way different from the relationship which existed between the two prior to the investment. Pharming does not control the voting rights or the economic benefits of the entity. Accordingly, Pharming accounts for its investment in BioConnection by the equity method and does not consolidate the entity as a subsidiary.

Development costs

Expenditures for development can be recognised as an intangible asset when there is little doubt that the following criteria are being met as described in further detail on page 116 above:

- Technical feasibility of completing the asset so that it will be available for use of sale is clear;
- The Company's intention to complete the asset and use or sell it is clear;
- Its ability to use or sell it is clear;
- The probability of future economic benefits is good (there is an existing market for the product which is likely to be available once the product is ready for launch);
- The availability of resources to complete the development is not in question;
- The ability to measure the expenditures on the project reliably is not in question.

Development expenditures that meet these criteria are being capitalised. Expenditure which does not meet these criteria must be taken as expenses through the income statement.

The Company has had to make some judgements to determine if the above criteria will be met.
For most pharmaceutical products the capitalisation of development expenditures is usually restricted because the release of a new drug is strictly controlled by legislation and has to pass a number of (pre) clinical trials. The Company is however working on modifications of its current product but since the active component in these modified products is exactly the same in structure and mode of action as in the existing approved product ("RUCONEST®"), management strongly believes that final approval for these modifications will be obtained. For this reason, the costs related to these developments are being capitalised.

Estimates:

Inventories

At year-end 2019, the Company has capitalised batches of RUCONEST® as well as skimmed milk with an aggregate carrying value of €14.5 million. These inventories are available for use in commercial, pre-clinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected sales as well as pre-clinical and clinical programmes for both HAE projects and other indications of the rhC1INH product. In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected remaining shelf life of the product involved. The actual cash proceeds from these product sales are difficult to predict in terms of volumes, timing and reimbursement amounts.

Inventories are stated at the lower of cost and net realisable value. The estimation of the net realisable value is based on the allocation 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.

Derivative instruments presented as financial liabilities

Derivative instruments which are not equity instruments, such as warrants to acquire Pharming shares which have a cashless exercise option and the conversion option for repayment of the instalments into shares, are presented as financial liabilities.

All Pharming warrants are essentially the commitment to issue a fixed number of shares for a fixed amount of cash, but the possibility of cashless exercise (where a holder decides to accept fewer shares so as to avoid paying the relevant amount of cash, thus resulting in a number of shares to issued which can vary downward from the original number) requires that such warrants are treated as financial liabilities. As such, these derivative instruments are initially recognised at fair value and subsequently revalued at fair value through profit or loss with changes in the fair value recognised in the statement of income as they arise. Such revaluations do not represent the actual liability to issue shares, which is unchanged, but a notional market value of the instrument as if a new instrument with the same terms were issued on the measurement date. The revaluations are not cash movements or capable of being realised, and any accumulated revaluation total is returned to the profit & loss account (if a loss) or added to equity (if a gain) upon the extinction of the instrument through exercise or expiry, resulting in a net nil balance. These revaluations are presented as a separate line under financial income and expenses.

As at 31 December 2019, the Company has presented such derivative instruments as financial liabilities with a carrying value of €0.3 million. The revaluation shown in the profit & loss account represents the notional adjustment necessary to reflect the market values of similar warrant rights as if they were issued on the measurement date (31 December 2019) with the same terms and are based on models using assumptions with respect to, inter alia, the exercise of the warrants on or before maturity dates as well as (historical) volatility. Actual share price developments may trigger exercise of these warrants at a different time than assumed in the model, or result in their expiry unexercised, and may also result in the issue of shares to warrant holders at a time when the Pharming share price is higher or lower than anticipated at 31 December 2019. As a result, the difference between the open market value of shares transferred to warrant holders upon exercise and the carrying value at year-end 2019 as charged to the statement of income may be material but will be a non-cash movement to profit & loss or equity as described above. As the carrying value has significantly decreased as per 31 December 2019, the related risks have also been reduced significantly.

Property, plant and equipment

At year-end 2019, Pharming has property, plant and equipment with a carrying value of €8.6 million. These assets are dedicated to the production of RUCONEST® inventories €6.5 million and, research and development activities, marketing and sales activities and corporate purposes €2.1 million. It is estimated these asset groups will continue to be used in ongoing production, research and development or general and administrative activities at least over its currently anticipated lifetime. The carrying value of these assets may be impaired in the future in case of a decision to cancel and/or defer certain activities.

Deferred tax assets

The Board of Management has considered the Company's history of losses, its current financial performance and expectations of future financial performance and has concluded that it is probable that the benefits of the tax loss carry forward and the other deferred tax assets will be realised through future taxable profits. Accordingly, the Company has recorded deferred tax assets as set out in note 28.

2.5 Effect of new accounting standard

FRS 16 Leases

The IASB has issued a new standard IFRS 16 Leases.

IFRS 16 *Leases* is a new standard effective for annual period beginning after January 1, 2019 of which earlier application is permitted; however, the Group has chosen not to early adopt the new IFRS 16 in preparing these consolidated financial statements. The Group adopted IFRS 16 *Leases* from January 1, 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group has applied the recognition exemptions for short-term leases and leases of low-value items.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a lease.

The Group has applied IFRS 16 using the simplified transition approach, it does not restate any comparative information. In the simplified transition approach the lease liability is measured at the present value of remaining lease payments using the incremental borrowing rate on January 1, 2019, the date of initial application. The Group has chosen to measure the right-of-use assets at an amount equal to the lease liability. See also note 2.3.

i. Leases in which the Group is a lessee

The Group has recognised new assets and liabilities for its operating leases for the rent of offices and laboratory facilities, as well as lease cars for employees.
The nature of expenses related to those leases changed because the Group recognised a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

ii. Measurement of lease liabilities

Amounts in € '000	January 1, 2019
Operating lease commtments disclosed under IAS 17 at 31 December 2018	8,457
Short-term and low value lease commitments straight-line expensed under IFRS 16	(2,033)
Effect of discounting	(1,633)
Lease liabilities recognised at 1 January 2019	**4,791**

Of which the breakdown between current and non-current lease liabilities is as follows:

Amounts in € '000	January 1, 2019
Current lease liabilities	1,441
Non-current liabilities	3,350
Lease liabilities recognised at 1 January 2019	**4,791**

iii. Measurement of right-of-use assets

Right-of-use assets for property and car leases were measured at the amount equal to the lease liability.

Amounts in € '000	January 1, 2019
Buildings	4,228
Cars	563
Right-of-use assets recognised at 1 January 2019	**4,791**

iv. Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

Amounts in € '000	January 1, 2019
Right-of-use assets - increase by	4,791
Lease liabilities - increase by	4,791

v. Weighted average IBR

The weighted average incremental borrowing rate ('IBR') used at January 1, 2019 for the whole of 2019 is 10.8%.

Interest Rate Benchmark Reform

The IASB has issued a new reform proposal for Interest Rate Benchmarking, which was endorsed by the European Commission on 15 January 2020 and which affects all companies with hedging relationships affecting interest costs. These are hedging instruments designed to remove the future uncertainties of cost changes due to movements in interest rates which are tied to a variable index such as the London Interbank Offering Rate (LIBOR). Companies often match such uncertainties by acquiring derivative instruments designed to pay out if the rate moves disadvantageously for the Company. As until January 2020 the interest rate on Pharming's debt was tied to LIBOR, Pharming could have benefited from such instruments if they had been taken out and LIBOR also risen (i.e. the debt had started to cost more). In fact, LIBOR was very steady throughout the duration of all Pharming loans which were linked to it, and so no meaningful loss was incurred even without such derivative instruments. Pharming has no such hedging relationships at present and so does not use any hedging accounting affected by the reform, but has adopted the reform nonetheless such that in the event that new hedging relationships are required in the future, Pharming will apply the new reform standard immediately.

3. GOING CONCERN ASSESSMENT

In preparing and finalising the 2019 financial statements, the Board of Management of Pharming has assessed the Company's ability to fund its operations for a period of at least eighteen months after the date of signing these financial statements.

In particular, the Board has assessed the likelihood of the current COVID-19 outbreak affecting the Company's revenues, costs or other activity to such a degree that the likelihood of the Company being unable to meet all of its obligations as they fall due is reduced, and has concluded that there is no significant probability that this will occur during the next 18 months. While it is possible that sales growth may be slightly lower than expected if travel is heavily restricted for a long period of time, the underlying needs of our patients are not expected to change in any way and therefore demand should remain at least at the current levels. Certain costs may be delayed or not incurred at all if the outbreak continues. As a consequence, the Company does not believe that the COVID-19 emergency will affect its going concern status.

Based on the assessment on a going concern basis, the Company has concluded that funding of its operations for a period of 18 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 (including restricted cash) of €68.6 million as at 31 December 2019;
- Cash and cash equivalents of €140.6 million (including restricted cash) as at 22 March 2020, the latest date available prior to the date of publication of these financial statements, which is more than sufficient to meet anticipated obligations;
- The receipts from commercial supply of product to our partners in Europe, the Middle East, Latin America, South Korea and Israel and proceeds from direct sales in the USA, Austria, France, Germany, Luxembourg, the Netherlands and the United Kingdom currently generate more cash than the Company requires for day to day expenses or to supply those sales, and thus the surplus cash generated will support our financial reserves further;
- Pharming has a previous history prior to 2017 of operating losses. As result of the steady continuing sales growth, the Company achieved in 2019 net profits in every quarter, ending the year at €36.2million, up 45% on 2018.
- The Company's anticipated operating cash outflows, and its planned and expected investments in (in) tangible assets for eighteen months from the date of this report. The cash outflow is expected to increase as a result of the increase in marketing and sales activities, production costs, development costs, and investment in assets will increase due to investments in production facilities, but these are expected to increase to a lesser extent than sales revenue increase, enabling sustained net cash generation.
- The Company's current finance structure, including both interest, repayment obligations and exit fee's, is included in the assessment of future obligations;
- The Company's obligation to pay certain sales milestones is included in the assessment of future obligations.

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 emphasises that the actual cash flows may potentially ultimately (significantly) deviate up or down from our projections for various reasons. In the absence of an (improbable) absolute catastrophe such as banning of the product from sale in a major market, the Board of Management believe that the Company will have more than sufficient resources to meet all obligations as they fall due.

4. 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 recombinant human C1 esterase inhibitor business. From a geographic perspective, the Company is operating in the US, Europe and the Rest of the World. The Board of Management primarily measures revenues and gross profit to assess the performance of the geographic areas. Operating costs and assets are not sub-allocated to the geographic areas.

Total external revenues and gross profit per geographic segment for the financial year 2019 and 2018 are:

Amounts in € '000	2019	2018
Revenues:		
US	162,689	126,636
Europe	5,041	7,166
RoW	1,291	1,328
Total revenues	**169,021**	**135,130**
Gross profit:		
US	144,780	111,581
Europe	1,911	290
RoW	976	1,079
Total gross profit	**147,667**	**112,950**

5. REVENUES

The revenue significantly increased due to higher sales in the US market (€162.7 million in 2019 compared to €126.6 million in 2018). Revenue in Rest of the World (excluding the EU) stayed flat at €1.3 million in both 2018 and 2019. Revenues in Europe decreased (€5.0 million in 2019 compared to €7.2 million in 2018) due to lower sales levels in the Sobi regions.

The revenue fully relates to the transfer of goods and is recognised at a point in time when the goods have been delivered to the customer. In 2019, the Group released €1.5 million (2018: €0.8 million) from a contract liability to the revenue.

6. OTHER INCOME

Other income related to grants and amounted to €0.4 million in 2019 (€0.7 million in 2018). The grants are annual payroll-tax reimbursement granted by the Dutch and French governments for research and development activities actually conducted by the Company in those countries.

7. EXPENSES BY NATURE

Costs of product sales

Costs of sales in 2019 and 2018 were as follows:

Amounts in € '000	2019	2018
Cost of product sales	(20,587)	(20,576)
Inventory impairments	(768)	(1,604)
Total	**(21,355)**	**(22,180)**

Cost of product sales in 2019 amounted to €21.0 million (2018: €20.6 million) and relate to actual product sales. Costs were relatively lower for product sales in 2019 than in 2018 because in 2018 there were significant numbers of vials of RUCONEST® provided for free to patients suffering from shortage of their vital HAE medications due to stock-out situations at competitor firms, or to provide intermediate assistance to patients in need during a transfer to RUCONEST® as their primary medication for HAE attacks. This therefore increased the cost of goods and reduced the gross margin. In 2019 this situation did not occur, and there were very few donated vials.

Inventory impairments related to inventories designated for commercial activities amounted to a reversal of €0.3 million in 2019 (2018: a charge of €1.6 million). The impairment stems from the valuation of the inventories against lower net realisable value.

Costs of research and development

Operating expenses for research and development activities decreased slightly to €28.4 million in 2019 from €28.9 million in 2018. The costs mainly relate to preparing for and initiating the clinical studies of rhC1INH in pre-eclampsia and acute kidney injury, and continuing work on the preparation and production of α-glucosidase for Pompe disease and α-galactosidase for Fabry disease using the Pharming technology.

Costs of general and administrative activities

Operating expenses for general and administrative activities increased to €18.9 million in 2019 from €12.2 million in 2018. The increased costs are mainly related to: additional administration resources to support the growing commercial and operations activities in both the USA and the EU; depreciation costs on new production and intangible assets; and €4.6 million provided for abnormal service fees to Sanofi for a period of short production of source material in each of 2018 (€0.6 million) and 2019 (€4.0 million). More detail on this provision is presented in note 22.

Costs of marketing and sales activities

Operating expenses for marketing and sales increased in 2019 to €39.9 million from €34.5 million in 2018. The increased costs are mainly related to the further expansion of the commercial organisation and infrastructure in both the USA and the EU.

Employee benefits

Amounts in € '000	2019	2018
Salaries	(26,363)	(22,887)
Social security costs	(3,364)	(2,251)
Pension costs	(1,577)	(1,034)
Share-based compensation	(4,449)	(3,889)
Total	**(35,753)**	**(30,061)**

Salaries include holiday allowances and cash bonuses for staff not on the Board of Management.

The number of employees

Weighted average full time equivalent	2019	2018
Research and development	115	96
General and administrative	31	21
Marketing and sales	43	39
Total	**189**	**156**

The weighted average number of employees working outside the Netherlands was 73 (2018: 63). The increase was mainly due to additional sales representatives and medical affairs personnel in the USA and in other EU countries.

Employee benefits are charged to research and development costs, general and administrative costs, or marketing and sales costs based on the nature of the services provided by each employee.

Depreciation and amortisation charges

Amounts in € '000	notes	2019	2018
Property, plant and equipment	13	(1,573)	(1,090)
Intangible assets	12	(2,884)	(2,845)
Total		**(4,457)**	**(3,935)**
Right of Use assets			
Buildings	12	(1,125)	-
Cars	12	(328)	-
Total		**(1,453)**	**-**

The increase of depreciation charges of property, plant and equipment in 2019 as compared to 2018 stems from new investments, mainly in production assets. For property, plant and equipment, in 2019 an amount of €1.5 million was charged to research and development costs (2018: €0.9 million).

Amortisation charges of intangible assets have been allocated to research and development costs and marketing and sales costs in the statement of income, depending on the class of intangible asset. For example, amortisation related to the re-acquired commercialisation rights for RUCONEST® in the USA were charged to Marketing and Sales expenses. In 2019 the amortisation charges were in line with prior year and mainly related to the amortisation of the re-acquired US commercialisation rights, which is applied over the economic useful life of 20 years.

Lease charges

For the year 2019, the Company charged €2.1 million (2018: €1.9 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars.

The non-cancellable leases at 31 December 2019 have remaining terms of between one and ten years and generally include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The expected operating lease charges after the end of the reporting year have been disclosed in note 30 below. Allocations of the operating lease charges to research and development costs or general and administrative expenses have been based on the nature of the asset in use.

Independent auditor's fees

The 2018 Audit was performed by PricewaterhouseCoopers Accountants N.V., while the 2019 audit was performed by Deloitte Accountants B.V..

Amounts in € '000	2019	2018
Audit of the financial statements	(616)	(526)
Audit related activities	-	-
Tax advisory	-	-
Total	**(616)**	**(526)**

The decrease of fees in 2019 compared to 2018 mainly relates to the change of auditor, and the fact that some €0.15 million of the 2018 costs were in fact incurred in 2019 as a result of the audit of the 2018 financial statements.

8. FAIR VALUE GAIN (LOSS) ON REVALUATION DERIVATIVES

Amounts in € '000	2019	2018
Revaluation warrants	(209)	(302)
Revaluation conversion rights	-	(193)
Total	**(209)**	**(495)**

In 2018 and 2017, the Company incurred (non-cash) adjustment losses through revaluation against fair value and exercises of the derivative components of issued instruments (principally the ordinary convertible bonds and the warrants), largely stemming from increases in the Company's share price. Please see note 21 for more information on the derivative financial liabilities related to these revaluations. In 2019 conversion of bonds was no longer possible, as all of the bonds were redeemed or converted early in the year.

The new €125 million convertible bonds due 2025 (the "2025 Bonds") issued in January 2020 do not have settlement other than for a specific fixed number of shares, and are therefore not subject to these revaluations to fair value. Instead, the equity component of the 2025 Bonds is taken directly to share capital and share premium upon recognition. The accounting for the 2025 Bonds will first appear in the financial statements for the first quarter of 2020.

9. OTHER FINANCIAL INCOME AND EXPENSES

Amounts in € '000	2019	2018
Interest income	1,011	18
Foreign currency results	-	-
Other financial income	**1,011**	**18**
Interest expenses	-	(10)
Foreign currency results	(460)	(1,147)
Interest loans and borrowings	(11,255)	(14,301)
Interest leases	(662)	-
Contingent consideration	(2,882)	(21,200)
Other financial expenses	**(15,259)**	**(36,658)**
Total other financial income and expenses	**(14,248)**	**(36,640)**

Foreign currency results

These results primarily follow from the revaluation of bank balances and the loan which are denominated in foreign currencies, mainly US dollars, 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. The losses in 2019 and 2018 are a result of the effective revaluation of the loan in US dollars, partly set off against the revaluation of the bank balances in US dollars, both incorporated in our Dutch entities. The US dollar strengthened over the course of 2019.

Interest loans and borrowings

Interest on loans and borrowings in 2019 relate to the amortised costs from loans and borrowings, principally the current term loan from Orbimed Advisors, calculated under IFRS at the effective rate of interest, which takes account of any equity component on recognition such as warrants or early repayment options.

Settlement fees and expenses

In 2019 and 2018 no settlement fees and expenses occurred.

Contingent consideration

The expense for the contingent consideration is related to the present value of the estimated likelihood of meeting all or some of the balance of US$25 million remaining out of the US$65 million potential sales milestones which formed part of the re-acquisition transaction for North American commercial rights for RUCONEST®. The second milestone, of US$20 million, was triggered in the last quarter of 2019, and was paid in February 2020, after the first milestone, also of US$20 million was triggered in 2018 and paid in March 2019. See also note 29.

10. INCOME TAX

Income taxes on ordinary activities

The following table specifies the current and deferred tax components of income taxes in the income statement:

Amounts in € '000	Notes	2019	2018
Income tax expense			
Current tax			
Current tax on profit for the year		(4,315)	(413)
Adjustments for current tax of prior periods		242	(919)
Total current tax expense		(4,073)	(1,332)
Deferred income tax			
Deferred tax on profit for the year		(6,784)	(5,697)
Adjustments for deferred tax of prior periods		373	31,165
Total deferred tax benefit		(6,411)	25,468
Income tax credit (expense)		**(10,484)**	**24,136**

Effective income tax rate

Pharming Group's effective rate in its consolidated income statement differed from the Netherlands' statutory tax rate of 25%. The following table reconciles the statutory income tax rate with the effective income tax rate in the consolidated income statement:

Amounts in € '000	2019	2018
Profit (loss) on ordinary activities before taxation	46,680	857
Profit (loss) on ordinary activities multiplied by standard rate of tax in The Netherlands 25% (2018: 25%)	(11,670)	(214)
Effects of:		
- Rate differential	9	263
- Non taxable income (expense)	(628)	(793)
- True-up	373	31,165
- Rate change	2,877	(5,367)
- Other	(1,445)	(919)
Income tax credit (expense) for the year	**(10,484)**	**24,136**

Factors affecting current and future tax charges

The main difference between the theoretical tax and the effective tax for the year 2019 can be explained by the effects of non-taxable expenses, the effect of the increase in the 2020 Dutch statutory rate, US State taxes and the effect of taxable income generated and taxed in jurisdictions where tax rates differ from the statutory rate in The Netherlands.

The 2018 rate differential is primarily explained by the recognised deferred tax assets created by taking the taxable effect of the Company's remaining outstanding net operating (tax) losses at that time to the balance sheet. The Board of Management believe that it is likely that these assets will be realised in the foreseeable future.

11. INTANGIBLE ASSETS

Amounts in € '000	Transgenic technology	RUCONEST® for HAE (EU)	Development costs	Re-acquired rights and Licenses	Novartis License	Software	Total
At cost	2,651	528	3,588	55,860	-		62,627
Accumulated:							
Amortisation charges	(2,616)	(379)	-	(2,966)	-		(5,961)
Impairment charges	(35)	-	-	-	-		(35)
CARRYING VALUE AT 1 JANUARY 2018	**-**	**149**	**3588**	**52,894**	**-**		**56,631**
Amortisation charges	-	(52)	-	(2,793)	-		(2,845)
Impairment charges	-	-	(2,624)	-	-		(2,624)
Capitalised development costs	-	-	1,273	-	-		1,273
Assets acquired	-	-	-	-	-		-
MOVEMENT 2018	**-**	**(52)**	**(1,351)**	**(2,793)**	**-**		**(4,196)**
At cost	2,651	528	4,861	55,860	-		63,900
Accumulated:							
Amortisation charges	(2,616)	(431)	-	(5,759)	-		(8,806)
Impairment charges	(35)	-	(2,624)	-	-		(2,659)
CARRYING VALUE AT at 31 DECEMBER 2018	**-**	**97**	**2,237**	**50,101**	**-**		**52,435**
Amortisation charges	-	(53)	-	(2,793)	-	(38)	(2,884)
Impairment charges	-	-	732	-	-	-	732
Capitalised development costs	-	-	1,335	-	-	-	1,335
Assets acquired	-	-	-	-	18,702	489	19,191
MOVEMENT 2019	-	(53)	2,067	(2,793)	18,702	451	18,374
At cost	2,651	528	6,196	55,860	18,702	489	84,426
Accumulated:							
Amortisation charges	(2,616)	(484)	-	(8,552)	-	(38)	(11,690)
Impairment charges	(35)	-	(1,892)	-	-	-	(1,927)
CARRYING VALUE AT 31 DECEMBER 2019	**-**	**44**	**4,304**	**47,308**	**18,702**	**451**	**70,809**

In 2018, the Company started to modify the current product RUCONEST® for more convenient forms of administration for use by the patient. This will result in better variants of the existing product. One of these variants has been down-prioritised, as a result of better opportunities with another version. As a result, the Company had to eliminate the capitalised costs related to the previous variant using impairment of the amount held. This has led to an impairment charge of €1.9 million in 2019 which was set off against €2.6 million due to a reversal of impaired costs on the new variant project, reflected in the operating costs under research & development. A total amount of €1.3 million for the new variant prioritised version has been capitalised during 2019 and has been recognised as an internally-generated intangible asset as at 31 December 2019. Amortisation will start after completion and launch, which is expected to occur between two and four years from now, depending on the different form of administration finally approved for use.

In 2014, the Company acquired assets from Transgenic Rabbit Models SASU, for a total amount of €0.5 million, which was recognised as intangible assets related to development costs of two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease. The assets are recorded at historical cost, related to the development costs that Pharming avoids or saves by acquiring these assets. The development of these new product leads is expected to be completed within approximately 4 years.

The Company has capitalised development costs in the amount of €0.1 million in relation to RUCONEST® for HAE in the European Union. Following market launch of the product in 2010 the amortisation of the asset started, and no further development costs have been capitalised in respect to this item since then.

The re-acquired rights relate to the acquisition of all North American commercialisation rights from Valeant in 2016. For additional information, please refer to note 29.

Intangible assets that are not yet in use are tested annually, or more frequently if there are indications that a particular asset might be impaired. The fair value is determined using discounted cash flow projections for revenue to be expected from such assets based on financial plans approved by management. The period of calculation covers the period from the start of the year until expiration of the relevant patent. The weighted average cost of capital used to discount the cash flows for the time value of money is based on Company standards for applicable markets and assets and is currently 12.03% (and during 2019: 13.9%). This cost of capital is reviewed at least annually.

In August 2019, Pharming entered into a development collaboration and license agreement with Novartis to develop and commercialise leniolisib, a small molecule phosphoinositide 3-kinase delta (PI3Kδ) inhibitor being developed by Novartis to treat patients with Activated Phosphoinositide 3-kinase Delta Syndrome ("APDS"). Under the agreement, the Company paid Novartis an upfront amount of €17.9 million ($20 million) for the program, with other smaller commitments to fund the remaining clinical development. The total amount paid in 2019 of €18.7 million has been capitalised. The balance of the committed development funding will also be capitalised, whereafter the program will be assessed according to Pharming's normal criteria for capitalisation of development expenses for internally generated programs.

In December 2019, Pharming agreed to terminate its license agreement with Sobi with respect to 36 territories in eastern Europe, the former CIS and the Middle East and to transition the activities there in respect of RUCONEST® to Pharming. As this transaction had an effective date of January 1, 2020, it will be accounted for as a 2020 event and will appear in the financial statements for the first quarter of 2020.

12. PROPERTY, PLANT AND EQUIPMENT AND LEASES

Amounts in € '000	Land and land impro-vements	Operational facilities	Leasehold Improvement	Manu-facturing equipment	Other	Asset under construction	Total
At cost	27	2,575	1,980	5,270	3,612	2,548	16,012
Accumulated depreciation	-	(1,976)	(1,969)	(1,875)	(1,958)	-	(7,778)
Carrying value at 1 January 2018	**27**	**599**	**11**	**3,395**	**1,654**	**2,548**	**8,234**
Investments	-	3,151	-	-	1,774	(2,429)	2,496
Divestments	-	-	-	-	-	-	-
Depreciation charges	-	(466)	(2)	(1,251)	(622)	-	(2,341)
Depreciation of disinvestment	-	-	-	-	-	-	-
Currency translation	-	-	1	-	12	-	13
Movement 2018	**-**	**2,685**	**(1)**	**(1,251)**	**1,164**	**(2,429)**	**168**
At cost	27	5,726	1,981	5,270	5,398	119	18,521
Accumulated depreciation	-	(2,442)	(1,971)	(3,126)	(2,580)	-	(10,119)
Carrying value at 31 December 2018	**27**	**3,284**	**10**	**2,144**	**2,818**	**119**	**8,402**
Investments	-	182	1	(6)	1,880	306	2,363
Internal transfer	-	-	-	-	(54))	(119)	(173)
Divestments *	-	(740)	-	-	(511)	-	(1,251)
Depreciation charges *	-	(515)	(1)	(465)	(1,057))	-	(2,038)
Depreciation of disinvestment	-	739	-	-	510	-	1,249
Currency translation	-	-	-	-	2	(1)	1
Movement 2019	**-**	**(334)**	**-**	**(471)**	**770**	**186**	**151**
At cost	27	5,168	1,982	5,264	6,715	305	19,461
Accumulated depreciation	-	(2,218)	(1,972)	(3,591)	(3,127)	-	(10,908)
Carrying value at 31 December 2019	**27**	**2,950**	**10**	**1,673**	**3,588**	**305**	**8,553**

** Some assets were written off after they were in fact disposed. This means disposal should be 103K higher and depreciation charges 103K lower. Nett effect is zero.*

Depreciation charges on manufacturing equipment of €0.5 million in 2019 (2018: €1.3 million) have been charged to the value of inventories and an amount of €1.6 million of the total 2019 depreciation costs has been charged to the statement of income (2018: €1.1 million). In 2019 the Company invested €2.4 million, mainly in operational facilities, research and development facilities and laboratory equipment.

12.2 LEASES

This note provides information for leases where the Group is a lessee.

i. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Amounts in € '000	Buildings	Cars	Total
At cost	-	-	-
Accumulated depreciation	-	-	-
Carrying value at 1 January 2018	**-**	**-**	**-**
Investments	-	-	-
Divestments	-	-	-
Depreciation charges	-	-	-
Depreciation of disinvestment	-	-	-
Movement 2018	**-**	**-**	**-**
At cost	-	-	-
Accumulated depreciation	-	-	-
Carrying value at 31 December 2018	**-**	**-**	**-**
Value right-of-use assets at 1 January 2019*	**4,228**	**563**	**4,791**
Investments	2,338	303	2,641
Divestments	-	-	-
Depreciation charges	(1,125)	(328)	(1,453)
Depreciation of disinvestment	-	-	-
Movement 2019	**1,213**	**(25)**	**1,188**
At cost	6,566	866	7,432
Accumulated depreciation	(1,125)	(328)	(1,453)
Carrying value at 31 December 2019	**5,441**	**538**	**5,979**

Amounts in € '000	31 December	1 January
Right -of-use assets	2019	2019*
Current	1.946	1.704
Non-current	4.363	3.514
	6.309	**5.218**

** In the previous year the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases" under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 2.5.*

The non-cancellable leases at 31 December 2019 have remaining terms of between one and ten years and generally include a clause to enable upward revision of the rental charge on an annual basis in accordance with prevailing market conditions.

ii. Amounts recognised in the statement of income

The statement of income shows the following amounts relating to leases:

Amounts in € '000		
Depreciation right-of-use assets	**2019**	**2018**
Buildings	(1,125)	-
Cars	(328)	-
	(1,453)	-
Interest expense (see note 10)	(662)	-

iii. Deferred Taxes

The Company does not apply IFRS 16 for Dutch tax purposes, in accordance with Dutch tax regulations. The balance on the deferred tax asset which relates to this feature is €0.04 million.

13. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

As the investment in BioConnection BV (BioConnection) announced in April is significant and carries significant interest in that company, it has been treated as an associate of the Group as at 31 December 2019 which, in the opinion of the directors, is material to the Group. BioConnection has a share capital consisting solely of ordinary shares, which are held directly by a small group of shareholders. The proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2019	2018			2019	2018
BioConnection B.V.	**Oss, NL**	**43.85%**	**-**	**Associate**	**Equity**	**5,307**	-
Movement during the year:							
Recognition of financial guarantee						221	-
Amortization of financial guarantee						(20)	-
Balance at year end						**5,508**	-

BioConnection manufactures the sterile sealed vials of Pharming's product Ruconest from the purified drug substance. BioConnection is a Dutch contract manufacturing organization which offers flexible state-of-the-art development and GMP-compliant manufacturing services for sterile drug products. BioConnection specializes in Fill and Finish techniques including freeze-drying, technology transfers, scale-up and validations. BioConnection offers complete drug product manufacture service packages based on tailor-made solutions and customer-oriented flexibility from its own FDA and EMA accredited facility in Oss in The Netherlands. This investment became effective on April 9, 2019.

In the Board of Management's judgement, the investment in BioConnection constitutes an investment in an unconsolidated structured entity, as Pharming has significant influence but does not have control of BioConnection and is embargoed by a shareholders agreement between the shareholders of BioConnection from influencing any activity between the two parties which is in any significant way different from the relationship which existed between the two prior to the investment. In addition to its carrying value for the investment, Pharming's risk is limited to the provision of a €3 million corporate guarantee in favour of ABN AMRO Bank in the unlikely event that BioConnection were to default on all its debts and its assets did not meet the outstanding liabilities owing to ABN AMRO Bank. In the opinion of the Board of Management, the fact that BioConnection is a growing profitable company which has met all its obligations as they fell due since

inception makes the likelihood of this guarantee ever being used very small. The guarantee is accounted for under IFRS 9 and appears as financial guarantee liabilities in note 29 Other financial liabilities.

14. RESTRICTED CASH, CASH AND CASH EQUIVALENTS

Amounts in € '000	2019	2018
Non-current restricted cash	2,268	1,204
Cash and cash equivalents	66,299	80,311
Balance at 31 December	**68,567**	**81,515**
Balance at 1 January	81,515	59,993
Exchange rate effects on cash	1,348	2,876
Increase (decrease) of cash	**(14,296)**	**18,646**

Restricted cash represents the value of banker's guarantees issued with respect to (potential) commitments towards third parties and a deposit issued in respect of lease cars of total US$1.1 million. As such, although temporarily restricted, the Company can access this cash if necessary and therefore includes the amount in overall cash balances.

15. INVENTORIES

Inventories include batches RUCONEST®, work in progress and skimmed milk available for production of RUCONEST®.

Amounts in € '000	2019	2018
Finished goods	10,320	15,949
Work in progress	1,843	661
Raw materials	2,304	705
Balance at 31 December	**14,467**	**17,315**

The inventory valuation at 31 December 2019 of €14.5 million is stated net of a provision of €0.4 million (2018: €0.4 million) to write inventories down to their net realisable value, and net of a provision for obsolescence of €0.4 million (2018: €1.5 million).

Changes in the adjustment to net realisable value:

Amounts in € '000	2019	2018
Balance at 1 January	(435)	(336)
Reversal of (addition to) impairment for the year	(348)	1,604
Provision for study vials of product	(420)	-
Related to costs of product sales	723	1,455
Related to operating costs	56	50
Balance at 31 December	**(424)**	**(435)**

In 2019, the addition to the impairment of €0.8 million was based on adjusted forecasts for sales (2018: addition of €1.6 million). The changes related to the costs of product sales (€0.7 million in 2019 and €1.5 million in 2018) are the adjustments for sold vials which were valued at net realisable value. This amount decreased compared to prior year as a result of decreased sales levels to Sobi regions. The changes related to the operating costs represent the costs of vials used for investigational medicinal product drugs for clinical studies.

Cost of inventories included in the cost of product sales in 2019 amounted €21.4 million (2018: €22.2 million). The inventories at 31 December 2019 have expiration dates starting beyond 2021 and are all expected to be sold and/or used before expiration.

16. TRADE AND OTHER RECEIVABLES

Amounts in € '000	2019	2018
Trade receivables	21,427	15,335
Prepaid expenses	2,279	1,813
Value added tax	1,193	344
Other receivables	772	322
Taxes and social securities	66	-
Balance at 31 December	**25,737**	**17,814**

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. The Company's outstanding trade receivables are mainly related to the sales in the USA. The increase in trade receivables reflects the increase in sales.

The Company did not recognise any expected credit losses. Pharming has a limited number of customers with long term relationships, without a history of significant shortfalls.

The prepaid expenses increased in 2019 due to increased prepayments for future research and development activities and other fees.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

17. SHAREHOLDERS' EQUITY

The Company's authorised share capital amounts to €8.0 million and is divided into 800,000,000 ordinary shares with a nominal value of €0.01 each. All 631,323,467 shares outstanding at 31 December 2019 have been fully paid-up. Other reserves include those reserves related to currency translation, share-based compensation expenses and other equity-settled transactions. Please refer to the *Consolidated statement of changes in equity* and to note 32. This note further describes the background of the main equity movements in 2019 and 2018.

Net result 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 Board of Supervisory Directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.' The Board of Management has proposed to forward the net profit for the year 2019 to the accumulated deficit. Anticipating the adoption of the financial statements by the shareholders at the Annual General Meeting of shareholders, this proposal has already been reflected in the financial statements.

Share-based compensation

Share-based compensation within equity includes those transactions with third parties, the Board of Management and employees in which payment is based in shares or options, based on current or future performance. For 2019 these transactions were valued at €4.4 million and for 2018 at €3.9 million (see note 23).

Bonuses settled in shares

In 2019 the Company issued 6,225 shares with an aggregate value of €6,000 to various managers in lieu of bonuses. In 2018 a total of 1,624,897 shares were issued in lieu of bonuses of €1.3 million.

Warrants

In 2019 warrants representing a total of 240,000 shares were exercised in exchange for that number of shares. In relation to the exercises, the Company received €0.07 million in cash.

In 2018 warrants, representing a total of 14,802,056 shares, were exercised in exchange for an actual total of 11,122,269 shares. In relation to the exercises, the Company received €0.3 million in cash and recovered 3,679,787 shares through cashless exercise and settlement of warrants representing a total of that number of shares.

Options exercised

In 2019, options were exercised in exchange for a total of 7,913,912 shares. In 2018, options were exercised in exchange for a total of 26,993,172 shares.

Conversions of bonds

There were no conversions of bonds in 2019.
In 2018 a total of 2,746,476 shares were issued through conversions to redeem ordinary convertible bonds with a face value of €0.8 million. Derecognition prior to conversion of the fair values of the derivative financial liabilities recorded on issue resulted in adjustment in equity of €3.1 million.

Adjustment to share capital

There were no adjustments to the authorised share capital in 2019 and 2018.

Legal reserves

The legal reserves concern the currency translation differences of foreign investments and capitalised development expenses. Adjustments of the currency translation reserve reflect the effect of translating US operations denominated in US dollar since their functional currency is different from the reporting currency.

In 2019, a decrease of €0.04 million (2018: an increase of €0.3 million) took place due to the difference between the result of the foreign investments and the total exchange rate differences of the investment. We refer to note 2.3.

The legal reserves as of 31 December 2019 include an increase of €2.1 million (2018: €2.2 million) for capitalised development expenses.

18. LOANS AND BORROWINGS

Amounts in € '000	2019	2018
Loans	45,590	72,502
Convertible bonds	-	-
Balance at 31 December	**45,590**	**72,502**
- Current portion	45,590	35,235
- Non-current portion	-	37,267

Loans

In 2017, the Company entered into a debt facility with Orbimed Royalty Opportunities II, LP to raise US$100 million (€91.3 million at 2017 exchange rate).

Under the terms and conditions of this debt facility, the Lenders provided an amount of US$100 million secured senior debt funding against 48 months promissory notes with interest of the sum of (i) the Applicable Margin of 11% plus (ii) the greater of (x) One-Month LIBOR and (y) 1.00%. Quarterly repayment of the loan has been started in September 2018. The Company has the option to prepay the loan before its maturity date. As further consideration for the facility, the Lenders received a 4% warrant coverage (9,174,372 warrants) with a strike price of €0.455 representing the closing price of Pharming shares immediately prior to the closing date, plus a 2.5% commitment fee of the principal sum and an assignment fee on the maturity date of US$3.7 million. The warrants have been separated from the loan and recognised in equity. On repayment of the loan, the Company has to pay an exit fee of 5%.

The Company, and its subsidiaries, have pledged all tangible fixed assets, receivables, movable assets and intellectual property rights as security to the lenders. This security was released completely following the repayment of the loan in January 2020.

Recognition and movements of the Orbimed loan were as follows:

Amounts in € '000	2019	2018
Carrying value at 1 January	**72,502**	**80,725**
Amortised costs (financial income and expenses)	11,255	14,281
Interest paid (cash flow)	(8,419)	(11,063)
Repayment and exit fee	(31,406)	(15,137)
Revaluation loan	1,658	3,696
Carrying value at 31 December	**45,590**	**72,502**
- Current portion	45,590	35,235
- Non-current portion	-	37,267

The amortised costs (effective interest) and the interest paid in 2019, both decreased compared to 2018 because total loan amount decreased after quarterly repayments have been started at Q3 2018.

Recognition and movements of the Ordinary convertible bonds due 2021 which were fully redeemed in 2018 were as follows:

Amounts in € '000	2019	2018
Balance at 1 January	**-**	**834**
Amortised costs	-	19
Interest paid	-	-
Redemption	-	(457)
Conversion into shares	-	(396)
Balance at 31 December	**-**	**-**
- Current portion	-	-
- Non-current portion	-	-

Reconciliation of liabilities arising from financing activities:

	2018	Cashflows	Non -Cash changes					2019
			Acquisition	Intrest Expense Accrued	Amortised costs	Foreign Exchange movement	Fair Value Changes	
Loans and borrowings	72,502	(39,824)	-	-	11,254	-	1,658	45,590
Other financial liabilities	49,518	(17,634)	201	-	-	150	2,882	35,117
Lease Liabilities	427	(2,213)	7,432	663	-	-	-	6,309
Deritative financial liabilities	228	-	-	-	-	-	40	268
Total liabilities from financing activities	**122,675**	**(59,671)**	**7,633**			**150**	**4,580**	**87,284**

19. CONTRACT LIABILITIES

In 2010, the Company entered into a distribution agreement for the European market for RUCONEST® with SOBI, under which a €3.0 million upfront payment and a €5.0 million milestone payment were received in cash. The total of €8.0 million has been released to the statement of income, over time, in accordance with the remaining lifetime of the agreement following market approval for RUCONEST® in October 2010 and subsequent start of supplies. In 2019 €1.5 million was released compared to €0.8 million in 2018 from this agreement and recognised as revenue. In relation to re-acquiring of the sales rights, the Company accelerated the revenues from contract liabilities. While the contract had an effective date of January 1, 2020, and has therefore been accounted for in the period starting on that date, the remaining useful life of this deferred licence revenue was known at the time of signing to be limited to 2019 only, and accordingly it has all been released as at December 31, 2019.

In 2013, Pharming received an upfront payment of €1.1 million in cash from the China Shanghai Institute of Pharmaceutical Industry (CSIPI) with respect to a strategic collaboration in China for the development, manufacturing and commercialisation of new products at CSIPI, funded by CSIPI up to IND stage, based on the Pharming technology platform. In addition, Pharming has also granted CSIPI an exclusive license to commercialise RUCONEST® in China. In 2017 the last remaining €0.1 million was recognised as revenue from this agreement. In 2018 and 2019 therefore no further release was possible.

Amounts in € '000	2019	2018
Balance at 1 January	**1,467**	**2,271**
Revenues from contract liabilities	(1,467)	(804)
Balance at 31 December	**-**	**1,467**
- Current portion	-	800
- Non-current portion	-	667

20. LEASE LIABILITIES

Lease liabilities can be specified as follows:

Amounts in € '000	2019	2018
Balance at 1 January	**427**	**653**
Initial application IFRS 16 lease liabilities	4,791	-
Balance at 1 January	**5,218**	**653**
New Leases	2,641	
Interest expense accrued	663	55
Payments of lease liabilities	(2,213)	(281)
Balance at 31 December	**6,309**	**427**
- Current portion	1,946	263
- Non-current portion	4,363	164

Future minimum lease payments as at 31 December in 2019 and 2018 are as follows:

Amounts in € '000	2019		2018	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	1,946	1,946	281	263
After one year but not more than five years	3,149	3,149	190	164
More than five years	1,214	1,214	-	-
Balance at 31 December	6,309	6,309	471	427

21 DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities include conversion options embedded in warrants issued in relation to the issues of equity in 2013 and the taking out of loans in 2015 and 2016.

In 2019, in total 240,000 warrants were exercised, compared to the exercise of 14,802,056 warrants in total in 2018.

Movement of derivative financial liabilities for 2019 and 2018 can be summarised as follows:

Amounts in € '000	notes	2019	2018
Balance at 1 January		228	10,080
Initial recognition upon issue		-	-
Reclassification from equity		-	-
Fair value losses (gains) derivatives	9	209	495
Redemption cash settlement		-	(1,779)
Conversions into shares		(169)	(8,568)
Balance at 31 December		268	228

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

22. TRADE AND OTHER PAYABLES

Amounts in € '000	2019	2018
Accounts payable	5,351	6,642
Taxes and social security	(209)	2,142
Deferred compensation due to related parties	-	718
Other payables and provisions	31,105	19,087
Balance at 31 December	36,247	28,589

The decrease in taxes and social security relates to taxes to be received in the in the US and Netherlands.

The increase in "Other payables and provisions" shown above includes:

- an amount of €4.6 million for service fees due to Sanofi, relating to the one-off fees to be paid to Sanofi in respect of unused production time in 2018 and 2019 while source material supplies were very low, before validation of the new facility in 2020. The fees have been taken as service fees as they do not result in production of goods for sale. They have been recorded under general & administrative costs in the income statement. These fees, which are common in long-term manufacturing agreements, are not expected to be recurring now that the new facility is fully operational and the capacity for source material has been significantly increased.
- a further €6.3 million due to higher government and other insurance plan rebate accruals as a consequence of the higher sales performance, almost entirely in the US market.

23. 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'). All these plans or arrangements are equity settled. The total expense recognised in 2019 for share-based payment plans amounts to €4.4 million (2018: €3.9 million).

Models and assumptions

The costs of option plans are measured by reference to the fair value of the options at the grant date of the option.

IFRS 2 describes a hierarchy of permitted valuation methods for share-based payment transactions. If possible, an entity should use market prices at measurement date to determine the fair value of its equity instruments. If market prices are unavailable, as is the case with Pharming's option plans and long-term incentive plan, the entity shall estimate the fair value of the equity instruments granted. A valuation technique should be used to estimate the value or price of those equity instruments as it would have been at the measurement date in an arm's length transaction between knowledgeable, willing parties.

The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments and shall incorporate all factors and assumptions that knowledgeable market participants would consider in setting the price.

Whatever pricing model is selected, it should, as a minimum, take into account the following elements:

- The exercise price of the option;
- The expected time to maturity of the option;
- The current price of the underlying shares;
- The expected volatility of the share price;
- The dividends expected on the shares;
- The risk-free interest rate for the expected time to maturity of the option.

The six elements above are all incorporated in the Black-Scholes model used to determine the fair value of options. 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 a period prior to the option grant date being equal to the expected option life, with a minimum of 3 years. It is assumed no dividend payments are expected.

For the long-term incentive plan, the following elements of Pharming and/or the peer group are included in order to determine the fair value of long-term incentive plan share awards, using Monte Carlo simulation:

- Start and end date of performance period;
- The grant date;
- The share prices;
- Exchange rates;
- Expected volatilities;
- Expected correlations;
- Expected dividend yields;
- Risk free interest rates.

Volatilities are based on the historical end-of-month closing share prices over the 3 years.

Correlations are based on 3 years of historical correlations based on end-of-month closing quotes, taking into account exchange rates. Expected dividend yields for peers and risk-free interest rates (depending on the currency) are obtained from Bloomberg.

Long Term Incentive Plan

At the AGM of 16 April 2008, a long-term incentive plan was approved with an effective date of 1 January 2008. Under the LTIP, restricted shares are granted conditionally each year with shares vesting based on the market condition in which the total shareholder return performance of the Pharming share is compared to the total shareholder return of a peer group of other European biotech companies.

The reference group for the 2017-2019 programmes consists of the following 26 companies:

Main location	Number	Company
Belgium	1	Galapagos
Denmark	4	Bavarian Nordic, Neurosearch, Veloxis Pharmaceuticals, Genmab
France	5	Cellectis, Eurobio Scientific, Hybrigenics, Innate Pharma, Transgene
Germany	4	Evotec, Medigene, Morphosys, Heidelberg Pharma
Italy	1	Newron Pharmaceuticals
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex Therapeutics, Basilea Pharmaceutica, Kuros Biosciences, Santhera Pharmaceuticals
United Kingdom	5	Allergy Therapeutics, GW Pharmaceuticals, ImmuPharma, Oxford Biomedica, Premier Veterinary Group
TOTAL excluding Pharming Group	26	

The vesting schedule is as follows. Ranking in the top:

Achievement level	% of grant attained
5% of the index:	100%
5-10% of the index:	80% of maximum
10-20% of the index:	60% of maximum
20-30% of the index:	50% of maximum
30-50% of the index:	20% of maximum
Lower than 50% index:	0%

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

An overview of the maximum number of LTIP shares granted in 2016-2019 and in total as well as the fair value per share award is as follows:

Participant category	2016	2017	2018	2019	Total
Board of Supervisory Directors	-	725,000	120,000	205,000	1,050,000
Board of Management	-	1,498,263	296,351	457,857	2,252,471
Senior managers	80,000	1,290,000	967,500	2,000,000	4,337,500
Total	**80,000**	**3,513,263**	**1,383,851**	**2,662,857**	**7,639,971**
Fair value per share award (€)	0.079	0.407	0.671	0.345	

The following table provides an overview of LTIP shares granted, forfeited or issued in 2017-2019 as well as the number of LTIP shares reserved at 31 December 2019:

Participant category	Granted	Forfeited	Not vested	Reserved at 31 December 2019
Board of Supervisory Directors	1,050,000	(220,000)	-	830,000
Board of Management	2,252,471	-	-	2,252,471
Senior managers	4,337,500	(100,000)	-	4,237,500
Total	**7,639,971**	**(320,000)**	**-**	**7,319,971**

The 2017 shares did vest at the end of the vesting period (31 December 2019) and a total of 100% of the granted LTIP shares were issued. LTIP shares reserved at 31 December 2019 relate to the 2018 and 2019 shares available for participants still in service at the end of 2019. The Company expensed amounts of €1.1 million in 2019 compared to €0.9 million in 2018

Main characteristics of the option plans

The total number of shares with respect to which options may be granted pursuant to the option plans accumulated, shall be determined by Pharming, but shall not exceed 10% of all issued and outstanding shares of Pharming on a fully diluted basis. Shares transferred or to be transferred, upon exercise of options shall be applied to reduce the maximum number of shares reserved under the plans. Unexercised options can be re-used for granting of options under the option plans.

Pharming may grant options to a member of the Board of Management or an employee:

- At the time of a performance review;
- Only in relation to an individual: a date within the first month of his or her employment;
- In case of an extraordinary achievement;
- In case of a promotion to a new function within Pharming.

The option exercise price is the price of the Pharming shares on the stock exchange on the trading day prior to the date of grant or on the trading day prior to the meeting of the Board of Supervisory Directors during which it was resolved to grant options. Vested options can be exercised at any time within five years following the date of grant. Unexercised options shall be deemed lapsed and shall cease to exist automatically after five years. Exercise of options is subject to compliance with laws and regulations in the Netherlands. Exercise of options is including withholding taxes. Each option is equal to one share unless otherwise stated. Options are not applicable for early retirement.

Option plan Board of Management

Article 2.1 of the option plan for the Board of Management 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 Board of Management 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.

At the AGM of 18 June 2014 two members of the Board of Management were granted a total of 19,200,000 options for the period 2014-2018 with annual vesting conditions for the period 2015-2019. The exercise price of the granted options for the first tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.505. For the second tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.341. For the third tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.209. For the fourth tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.335. For the fifth tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €1.13. The Fair values of the options vary between €0.177 and €0.366.

At the AGM of 28 October 2015, one member of the Board of Management was granted a total of 1,000,000 options upon appointment with a strike price of €0.335 based on the 20-day VWAP prior to the EGM, immediate vesting and a life of five years from that date. At the AGM of 25 May 2016 one member of the Board of Management was granted a total of 4,000,000 options for the period 2016-2020 with annual vesting conditions for the period 2017-2020. The exercise price of the granted options for the first tranche of 1,000,000 options for Mr. R. Wright is €0.209, and €0.335 for the second tranche. The fair values of the options vary between €0.045 and €0.114 per option.

At the AGM of 22 May 2019 two members of the Board of management were granted a total of 4,400,000 options for the period 2019-2023. The options vest in 2020. The exercise price of the granted options is €0.805. The fair value of the options is €0.138.

Vesting of the next tranche of the granted options in 2016 and 2019 per individual member of the Board of Management was based on the requirement to be in service at 31 January 2019. For the options of S. de Vries (2,800,000 options valued at grant date for €0.4 million), B.M. Giannetti (1,600,000 options valued at grant date for €0.2 million) and R. Wright (4,000,000 options valued at grant date for €0.3 million), Pharming expensed a total amount of €0.6 million in 2019 (2018: €0.4 million).

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 lapsed. 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.

In 2019, the Company granted 14,085,000 options to employees with a weighted average exercise price of €0.734; fair values for options granted in 2019 were in the range of €0.170 - €0.307.

In 2018, the Company granted 6,320,000 options to employees with a weighted average exercise price of €0.770; fair values for options granted in 2018 were in the range of €0.274 - €0.418.

An overview of activity in the number of options for the years 2019 and 2018 is as follows (please also refer to note 32 in respect of movements since the reporting date):

	2019		2018	
	Number	Weighted Average Exercise Price (€)	Number	Weighted Average Exercise Price (€)
Balance at 1 January	**34,320,956**	**0.532**	**54,901,629**	**0.408**
Expired	(4,430,757)	1.022	(76,702)	0.071
Granted pre 2018			525,453	0.335
Exercised	(7,913,912)	0.344	(26,993,174)	0.291
Granted under plan for:				
Board of Management	4,400,000	0.805	-	
Employees	14,085,000	0.734	6,320,000	0.770
Forfeited under plan for:				
Board of Management	-		-	
Employees	(133,750)	0.712	(356,250)	0.320
Balance at 31 December	**40,327,537**	**0.923**	**34,320,956**	**0.532**
- Vested	12,797,424	0.401	16,614,702	0.302
- Unvested	27,680,113	0.719	17,706,254	0.757

In 2019 a total of 7,913,912 options have been exercised with an average exercise price of €0.344.

In 2018 a total of 26,993,172 options have been exercised with an average exercise price of €0.291.

All options outstanding at 31 December 2019 are exercisable with the exception of the unvested options granted to the Board of Management and employees still in service.

The 2019 share options for the Board of Management vest after one year under the condition the board members are still in service at vesting date.

For the employees, the vesting period and conditions are similar, except the annually vesting date, starting at 1 September 2015 with the first of four tranches. 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 31 December 2019 is 3.2 years (2018: 3.2 years).

Exercise prices of options outstanding at 31 December 2019 and the exercise values are in the following ranges:

Exercise prices in €	2019		2018	
	Number	"Exercise value in €'000"	Number	"Exercise value in €'000"
0.063 - 0.25	4,737,500	990,138	6,578,837	1,374,867
0.25 - 0.50	9,187,537	3,100,143	14,757,996	4,994,403
0.50 – 0.75	13,202,500	9,624,623	824,121	416,181
0.75 – 2.50	13,350,000	11,323,600	12,160,002	11,465,600
Balance at 31 December	**40,477,537**	**25,038,504**	**34,320,956**	**18,251,051**

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

	2019	2018
Expected time to maturity (employees)	1-4 years	1-4 years
Expected time to maturity (Board of Management)	0,7 year	-
Volatility (employees)	54-58%	53-58%
Volatility (Board of Management)	56%	-
Risk-free interest rate (employees)	-0,36-0,3%	-0.25 – 0.20%
Risk-free interest rate (Board of Management)	-0.25%	-

The range of assumptions used in the Monte Carlo simulation to determine the fair value of long-term incentive plan share awards at grant date were:

	2019	2018
Volatilities	56%	56%
Risk-free interest rates	-0.21%	-0.41%
Dividend yields	0.00%	0.00%

Share-based compensation	**2019**	**2018**
Board of Management options	557	395
Employee options	2,157	1,285
Long term incentive plan	1,735	1,501
Bonus shares	-	708
Balance at 31 December	**4,449**	**3,889**

The increase of Board of Management options expense in 2019 compared to 2018 results mainly from the expense from the new options granted by the shareholders in General Meeting in May 2019. The employee options expense also increased and reflects the increased fair value of the options granted in 2019 as also approved by the shareholders in General Meeting in May 2019.

Long-term incentive plan expenses increased due to a higher number of eligible employees.
In 2019, bonus shares were granted to certain high-performing employees for a total amount of €5,000.

24. BOARD OF MANAGEMENT

Mr. S. de Vries (Chief Executive Officer), Mr. B.M. Giannetti (Chief Operations Officer) and Mr. R. Wright (Chief Financial Officer) have been members of the Board of Management for the entire year 2019.

The members of the Board of Management are statutory directors.

Remuneration

Compensation of the members of the Board of Management for 2019 and 2018 was as follows:

Amounts in € '000	Year	Base salary	Bonus (i)	Share-based payment (ii)	Post-employment benefits (iii)	Other (iv)	Total
S. de Vries	2019	507	310	487	72	32	**1,408**
	2018	490	428	325	81	32	1,356
B.M. Giannetti	2019	331	170	289	70	8	**868**
	2018	320	233	201	77	8	839
R. Wright	2019	317	149	114	23	-	**603**
	2018	306	148	167	34	-	655
Total	**2019**	**1,155**	**629**	**890**	**165**	**40**	**2,879**
	2018	**1,116**	**809**	**693**	**192**	**40**	**2,850**

(i) Bonuses are related to the achievement of the corporate and personal objectives. Refer to the report of the Remuneration Committee for the review of the performance and the extent the goals have been met.
(ii) Share-based payments are long term benefits and for 2019 relate to options of €0.6 million (2018: €0.4 million) and long-term incentive plan of €0.3 million (2018: €0.3 million).
(iii) Post-employment benefits were in line with previous year.
(iv) Includes car allowances.

Lease car reimbursements, insurance and social security contributions:

Amounts in € '000	Year	Lease reimbursement	Employer's contribution health insurance and social security	Total
S. de Vries	2019	-	24	24
	2018	-	10	10
B.M. Giannetti	2019	20	28	48
	2018	20	7	27
R. Wright	2019	-	18	18
	2018	-	10	10
Total	**2019**	**20**	**70**	**90**
	2018	**20**	**27**	**47**

Shares

At 31 December 2019, the members of the Board of Management held the following numbers of shares:

Shares held	As at 31 December 2019
B.M. Giannetti	2,240,684
S. de Vries	6,306,628
R. Wright	402,947
Total	**8,950,259**

All shares held by members of the Board of Management are unrestricted.

Since 31 December 2018, all members of the Board of Management have increased their holdings during a regulated open period. All shares held by members of the Board of Management are unrestricted.

Options

The following table gives an overview of movements in number of option holdings of the individual members of the Board of Management in 2019 and 2018, the exercise prices and expiration dates:

	1 January 2018	Granted 2018-2019	Exercised 2018-2019	Forfeited/ Expired 2018-2019	31 December 2019	Exercise Price (€)	Expiration date
B.M. Giannetti							
	1,625,000	-	(1,625,000)	-	-	0.09	14 May 2018
	7,200,000	-	(5,760,000)	(1,440,000)	-	0.341 -1.130	17 June 2019
		1,600,000			1,600,000	0.805	20 Sept 2023
Total	**8,825,000**	**1,600,000**	**(7,385,000)**	**(1,440,000)**	**1,600,000**		
S. de Vries							
	2,500,000	-	(2,500,000)	-	-	0.09	14 May 2018
	12,000,000	-	(9,600,000)	(2,400,000)	-	1.130	17 June 2019
		2,800,000			2,800,000	0.805	20 Sept 2023
Total	**14,500,000**	**2,800,000**	**(12,100,000)**	**(2,400,000)**	**2,800,000**		
R. Wright							
	1,000,000	-	-	-	1,000,000	0.355	28 Oct 2020
	4,000,000	-	-	-	4,000,000	0.209 - 1.130	25 May 2021
Total	**5,000,000**	**-**	**-**	**-**	**5,000,000**		
In service: 31 December 2018	**28,325,000**	**4,400,000**	**(19,485,000)**	**(3,840,000)**	**9,400,000**		

Long Term Incentive Plan

Amounts in € '000	Year	Granted	Settled	Forfeited	Not vested	Reserved at 31 December 2019
B.M. Giannetti	2019	131,331	-	-	-	131,331
	2018	85,005	-	-	-	25,000
	2017	429,762	-	-	-	125,000
	2016	314,955	(251,964)	-	(62,991)	-
	2015	217,450	(130,470)	-	(86,980)	-
S. de Vries	2019	201,050	-	-	-	201,050
	2018	130,131	-	-	-	130,131
	2017	657,902	-	-	-	657,902
	2016	482,151	(385,721)	-	(96,430)	-
	2015	332,884	(199,730)	-	(133,154)	-
R. Wright	2019	125,476	-	-	-	125,476
	2018	81,215	-	-	-	81,215
	2017	410,599	-	-	-	410,599
	2016	287,234	(229,787)	-	(57,447)	-
	2015		-	-	-	-
Total	**2019**	**457,857**	**-**	**-**	**-**	**457,857**
	2018	296,351	-	-	-	296,351
	2017	1,498,263	-	-	-	1,498,263
	2016	1,084,340	(867,472)	-	(216,868)	-
	2015	550,334	(330,200)	-	(220,134)	-

Loans or guarantees

During the year 2019, 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 31 December 2019.

25. BOARD OF SUPERVISORY DIRECTORS

Remuneration

The remuneration is based on the position an individual has in the Board of Supervisory Directors (BOSD), the Audit Committee (AC) and the Remuneration Committee (RC). For both 2019 and 2018 the annual compensation is as follows:

BOSD:
chairman €50,000 and member €36,000;
Audit Committee:
chairman €9,000 and member €3,000; and
Remuneration committee:
chairman €6,000 and member €3,000.
Corporate Governance committee:
No additional remuneration at present.

An additional compensation of €1,000 per day is paid in case of extraordinary activities.

Amounts in € '000	Year	BOSD	AC	RC	Share-Based Payment	Total
P. Sekhri	2019	50			33	83
	2018	50	-	-	30	80
Ms D. Jorn *	2019	20	2	4	5	31
	2018	-	-	-	-	-
J. Blaak **	2019	-	-	-	-	-
	2018	18	-	2	18	38
J.H.L. Ernst	2019	36	3	3	26	68
	2018	36	3	3	26	68
J.B. Ward	2019	36		3	27	66
	2018	36	-	6	26	68
A. de Winter	2019	36	9		28	73
	2018	36	9	-	26	71
J. Egberts ***	2019	15	-	1	-	16
	2018	36	3	-	20	59
Total	**2019**	**193**	**14**	**11**	**119**	**337**
	2018	**212**	**15**	**11**	**146**	**384**

** Ms Jorn was appointed on 22 May 2019*
*** Mr Blaak retired from the board on 23 May 2018*
**** Mr Egberts retired from the board on 22 May 2019*

Shares, options and warrants

Members of the Board of Supervisory Directors do not participate in an option plan. In 2019, a total of 205,000 LTIP shares were granted at the Annual General Meeting held on 22 May 2019.

The following table gives an overview of movements in number of LTIP shares of the individual members of the Board of Supervisory Directors:

Amounts in € '000	Year	Granted	Settled	Forfeited	Not vested	Reserved at 31 December 2019
J.H.L. Ernst	2019	40,000	-	-	-	40,000
	2018	25,000	-	-	-	25,000
	2017	125,000	-	-	-	125,000
	2016	125,000	(100,000)	-	(25,000)	-
	2015	125,000	(75,000)	-	(50,000)	-
J.Blaak	2019	-	-	-	-	-
	2018	-	-	-	-	-
	2017	100,000	-	(100,000)	-	-
	2016	150,000	(120,000)	-	(30,000)	-
	2015	125,000	(75,000)	-	(50,000)	-
J.B. Ward	2019	35,000	-	-	-	35,000
	2018	25,000	-	-	-	25,000
	2017	125,000	-	-	-	125,000
	2016	125,000	(100,000)	-	(25,000)	-
	2015	125,000	(75,000)	-	(50,000)	-
A. de Winter	2019	40,000	-	-	-	40,000
	2018	25,000	-	-	-	25,000
	2017	125,000	-	-	-	125,000
	2016	125,000	(100,000)	-	(25,000)	-
	2015	125,000	(75,000)	-	(50,000)	-
P. Sekhri	2019	50,000	-	-	-	50,000
	2018	30,000	-	-	-	30,000
	2017	150,000	-	-	-	150,000
	2016	100,000	(80,000)	-	(20,000)	-
	2015	100,000	(60,000)	-	(40,000)	-
D. Jorn	2019	40,000	-	-	-	40,000
J. Egberts	2019	-	-	-	-	-
	2018	20,000	-	(20,000)	-	-
	2017	100,000	-	(100,000)	-	-
	2016	100,000	(80,000)	-	(20,000)	-
	2015	100,000	(60,000)	-	(40,000)	-
Total	**2019**	**205,000**	**-**	**-**	**-**	**205,000**
	2018	125,000	-	(20,000)	-	105,000
	2017	725,000	-	(200,000)	-	525,000
	2016	725,000	(580,000)	-	(145,000)	-
	2015	700,000	(420,000)	-	(280,000)	-

Shares

At 31 December 2019, the members of the Board of Supervisory Directors held the following numbers of shares:

Shares held	As at 31 December 2019
P. Sekhri	110,000
A. de Winter	150,000
J.B. Ward	250,000
J.H.L. Ernst	300,000
Ms D. Jorn	-
Total	**810,000**

All shares held by members of the Board of Supervisory Directors are unrestricted.

Loans or guarantees

During the year 2019, the Company has not granted loans or guarantees to any member of the Board of Supervisory Directors. No loans or guarantees to members of the Board of Supervisory Directors were outstanding at 31 December 2019.

26. WARRANTS

An overview of activity in the number of warrants for the years 2019 and 2018 is as follows:

	2019		2018	
	Number	Weighted Average Exercise Price (€)	Number	Weighted Average Exercise Price (€)
Balance at 1 January	448,944	0.284	**15,251,000**	**0.373**
Issued	-	-	-	0.000
Exercised	(240,000)	0.284	(14,802,056)	0.376
Expired	-	-	-	-
Balance at 31 December	**208,944**	**0.284**	**448,944**	**0.284**

The weighted average of the remaining contractual life in years of the outstanding warrants at 31 December 2019 is 1.9 years.

In 2019 and 2018 no warrants were issued.

The number of outstanding warrants at 31 December 2019 consisted of:

Warrant prices in €	Number
0.135	-
0.284	208,944
0.455	-
Balance at 31 December 2019	**208,944**

In order to protect the warrant holders from the (potential) effects of dilution, both the number of warrants as well as their exercise prices can be adjusted in the event of issue of new shares or share rights (e.g. Warrants) for conditions more favourable than for existing warrant holders (e.g. Issue of new shares at a consideration below the existing exercise price); a number of transactions, such as the issue of options to members of the Board of Management and employees, are excluded from these adjustment clauses.

27. RELATED PARTY TRANSACTIONS

Related parties' disclosure relates mainly to key management compensation and to transactions with the associated company Bioconnection B.V.. Key management includes the members of the Board of Management and the Board of Supervisory Directors of Pharming.

Amounts in € '000	2019	2018
Salaries and other short-term employee benefits	2,132	2,250
Post-employment benefits	165	193
Share-based compensation	1,009	839
Total	**3,306**	**3,282**

Related party transactions with Bioconnection B.V. are in the ordinary course of that company's fill & finish business and amounted to €2.2 million since the effective date of the investment of April 9, 2019. At 31 December 2019, the Company owed a balance of €0.1 million to Bioconnection for fill & finish services supplied. In addition, accrued expenses at the balance sheet date included €0.3 million in respect of batches of finished vials produced in 2019.

All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in notes 24 and 25 of these financial statements. At 31 December 2019, the Company had a payable balance of a total amount of €nil (2018: €0.7 million) to members of the Board of Management and Board of Supervisory Directors.

28. DEFERRED TAX

The significant components and annual movements of deferred income tax assets as of December 31, 2019 and January 1, 2019 , are as follows:

Amounts in € '000	Notes	2019	2018
Intangible fixed assets		12,514	11,822
Short term assets / liabilities		-	907
Other financial liabilities	29	8,186	10,941
Accruals		3,217	786
Other		1,102	-
Tax losses		5,914	10,626
Total deferred tax assets		**30,933**	**35,082**

Amounts in € '000	Intangible fixed assets	Short term assets / liabilities	Other financial liabilities	Accruals	Other	Tax losses	Total
At 1 January 2018	-	-	-	-	-	9,442	9,442
(Charged)/credited							
- to profit or loss	11,822	907	10,941	746	-	1,138	25,554
- to other comprehensive income	-	-	-	40	-	46	86
At 31 December 2018	**11,822**	**907**	**10,941**	**786**	**-**	**10,626**	**35,082**
(Charged)/credited							
- to profit or loss	692	(908)	(2,754)	2,426	1,102	(4,712)	(4,154)
- to other comprehensive income	-	-	-	5	-	-	5
At 31 December 2019	**12,514**	**(1)**	**8,187**	**3,217**	**1,102**	**5,914**	**30,933**

Based upon the Company's latest budget for 2020 and its long-range forecasts for the three years thereafter, it is considered more likely than not that there will be sufficient taxable profits in the future to realise the deferred tax assets, and therefore these assets should continue to be recognised in these financial statements.

Deferred taxes relating to intangible fixed assets represent the tax effect on temporary difference between the tax base and the carrying amount of research and development intangibles, which were transferred within the Group. These deferred taxes will be realised through the amortisation of the intangible assets once in use within the fiscal unity.

Short term assets and liabilities represent deferred tax assets recognised for temporary differences between the carrying amount and tax bases of deferred license fees. These deferred taxes will be realised in the next three years.

Deferred taxes relating to other financial liabilities represent the tax effect on the temporary difference between the tax base and the carrying amount of contingent liabilities (see note 29).

Accruals represent deferred tax assets recognised for temporary differences between the carrying amount and tax bases of accrued liabilities.

The unused tax losses were mainly incurred by the Dutch fiscal unity and the French branch of Pharming Group N.V.

The calculation of the deferred tax asset is as shown below:

Amounts in € '000	2019	2018
Net Operating Losses - Netherlands		
Net Operating Losses at year-end	21,926	47,727
Portion selected for deferred tax asset	21,926	47,727
Tax rates used:		
2020/2019 : 25%	5,482	2,443
2021 /2020: 21,7% /22,55%	-	4,428
2022/ 2021 and later: 21,7%/20,5%	-	3,755
Total tax effect Netherlands	**5,482**	**10,626**
Net Operating Lossers - France		
Net Operating Losses at year-end ($ 11,824)	1,394	-
Portion selected for deferred tax asset	1,394	-
Tax rate used:		
2019 and later: 31%	432	-
Total tax effect France	**432**	-
Tax effect Netherlands - losses deferred	5,482	10,626
Tax effect France - losses deferred	432	-
Total deferred tax asset	**5,914**	**10,626**

The losses carried forward mainly expire in the period 2021 – 2025, except for the losses recorded in the French branch which do not have a formal expiry date.

The current part of the net deferred tax assets is €18.4 million.

The component and annual movement of deferred income tax liabilities as of December 31, 2019 and January 1, 2019, are as follows:

Amounts in € '000	2019	2018
Tangible fixed assets	(1,135)	-
Other liabilities	(1,208)	(87)
Total deferred tax liabilities	**(2,343)**	**(87)**

Amounts in € '000	Tangible fixed assets	Other liabilities	Total
At 1 January 2018			
(Charged)/credited			
- to profit or loss	-	(87)	(87)
- to other comprehensive income	-	-	-
At 31 December 2018	**-**	**(87)**	**(87)**
(Charged)/credited			
- to profit or loss	(1,135)	(1,122)	(2,257)
- to other comprehensive income	-	1	1
At 31 December 2019	**(1,135)**	**(1,208)**	**(2,343)**

The balance of the net deferred tax asset/(liability) is therefore shown below:

Amounts in € '000	2019	2018
Total deferred tax assets	30,933	35,082
Total deferred tax liabilities	(2,343)	(87)
Net deferred tax assets	**28,590**	**(87)**

At the end of 2018, the Company entered into a normal tax loss refreshment program by selling a small part of its rights to its own Pompe & Fabry programs to a subsidiary outside the fiscal group in exchange for the services of that subsidiary, which will produce the source material for the protein replacement drugs in those programs. This transaction generated an arm's-length taxable profit against which the oldest net operating losses were utilised in the 2018 income tax calculation which is currently under review. The rights generated an intangible asset which will be depreciated over the life of those programs, reducing taxable profits in the future by approximately the same amount. Based on discussions with the tax authorities and the normal nature of this program, and bearing in mind that the relevant tax authorities have not yet given their opinion on the structure, the Board of Management consider that the tax treatment is likely to be accepted by the tax authorities and that therefore this is not an uncertain tax treatment within the meaning of IFRIC 23 *Uncertainty over Income Tax Treatments*.

29. OTHER FINANCIAL LIABILITIES, INCLUDING BUSINESS COMBINATIONS AND CONTINGENT CONSIDERATION

Other Financial Liabilities:

Amounts in € '000	2019	2018
Current		
Contingent Consideration	17,835	17,484
Total Current	**17,835**	**17,484**
Non-current		
Contingent Consideration	17,081	32,034
Financial guarantee contracts	201	-
Total Non-current	**17,282**	**32,034**
Total	**35,117**	**49,518**

In 2019, the Company agreed the termination of the existing license and the re-acquisition of the commercial rights to RUCONEST® in 36 territories from Sobi. As the effective date of this agreement is 1 January 2020, this transaction will be accounted for in the first quarter 2020. In the Notes to the 2019 Financial Statements, only the potential contingent commitment of €7.5 million to Sobi has been reflected.

In 2016 Pharming completed the acquisition of all North American commercialisation rights for its own product RUCONEST® from Valeant.

Pharming paid an upfront amount of US$60 million, and committed future payments up to a further US$65 million, based on achievement of certain sales milestones. After this acquisition, Pharming became responsible for selling RUCONEST® directly in the US.

The fair value of the contingent consideration, which is reflected in Other financial liabilities, is based on becoming due within two years. Accordingly, the Company has decreased the fair value of the contingent consideration from €49.5 million at year-end 2018 to €34.9 million at year-end 2019, by eliminating the payment of the first milestone of €17.8 million in February 2019 and by taking a charge to the income statement of €2.9 million (2018: €21.2 million). See also note 9. Over the course of 2019, as sales have continued to grow and to accelerate, the payment of the first milestone was made and the second milestone was achieved towards the end of the year. The Board of Management also believes that it is probable that the other sales milestones will be achieved within the coming years. The increased fair value of the contingent consideration reflects the increased probability of achieving those milestones.

30. COMMITMENTS AND CONTINGENCIES

Material agreements

At the end of 2019 the Company had several agreements with third parties related to the manufacturing of RUCONEST and development of new products. In these agreements certain minimum volumes are committed. Total potential liabilities under these agreements are approximately €26 million (2018: €43 million), of which €17 million relates to 2020 and €9 million relates to 2021. All expenditures relate to the cost of goods.

Under the Novartis license agreement for Leniolisib dated August 2019, the Company is committed to contribute additional funding for the remaining clinical development through the current registration-enabling study up to the amount of €3.7 million. This is expected to be paid during 2020, although a small portion may be paid in 2021 depending on the rate of completion of the study. The agreement also provides for future milestone payments upon future achievement of certain approvals and sales levels.

In December 2019, Pharming agreed to terminate its license agreement with Sobi with respect to 36 territories in eastern Europe, the former CIS and the Middle East and to transition the activities there in respect of RUCONEST® to Pharming. As this transaction had an effective date on January 1, 2020, it will be accounted for as a 2020 event and will appear in the financial statements for the first quarter of 2020. As the agreement was executed in 2019, however, the amount due to Sobi in respect of this early termination and transition of €7.5 million in two tranches of €5.5 million (already paid in February 2020) and €2.0 million (due on completion of the transition) should be regarded as committed costs for 2020 as at the year end 2019.

31. FINANCIAL RISK MANAGEMENT

General

Pharming is exposed to several financial risks: market risks (being currency risk and interest rate risk), credit risks and liquidity risks. The Board of Management is responsible for the management of currency, interest, credit and liquidity risks and as such ultimately responsible for decisions taken in this field.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern. This includes a regular review of cash flow forecasts and, if deemed appropriate, subsequent raising 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, debt and equity. Compared to last year there have been no significant changes in risk management policies.

Currency risk

This is the risk that the fair value of assets, liabilities and especially the future cash flows of financial instruments 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 or recorded in foreign currencies, in particular of the United States dollar (US dollar). Certain payments and sales of RUCONEST® in the US are being and will be received in US dollar. Repayments and interest payments of the loans are made in US dollar. Some direct payments of US activities are carried in US dollar through the Dutch entities. At 31 December 2019 the Group's cash and cash equivalents, including restricted cash, amounted to €68.6 million. This balance consists of cash assets denominated in euros for a total amount of €6.1 million and cash assets in US dollars for a total amount of US$70.1 million or €62.5 million (applying an exchange rate EUR/US$ at 31 December 2019 of 1.1214). The US dollar cash balance will be used for the commercialisation activities of the US organisation and to cover the operating costs of the activities in the EU and RoW.

The carrying value of the loan at 31 December 2019 was US$51.1 million or €45.6 million, although this has since been repaid. Next to the loan the Group has a contingent consideration of US$39.2 million (€34.9 million) as a liability on the balance sheet. The other assets and trade and other payables denominated in USD amounted in total respectively US$29.1 million (€25.9 million) and US$20.1 million (€17.9 million). We performed a sensitivity analysis by applying an adjustment to the spot rate at year-end. As the balance of the loan, the cash and cash equivalents, the contingent consideration and other assets and liabilities, denominated in US dollars, at year-end is US$11.2 million, a 10% strengthening or weakening of the euro versus US dollar would have an impact of €1.0 million on the Group's gain (strengthening of the euro) or loss (weakening of the euro).

The facts that US sales are increasing, and that the repayment of the loan denominated in USD had started, mean that there is no natural hedge anymore between those amounts. The Company is making plans for the introduction of an integrated treasury policy involving non-speculative hedging instruments such as forward currency purchases and sales to enable this risk to be managed and contained.

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 minimising the interest rate risks associated with the financing of the Company and thus at the same time optimising the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease 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 2019 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be approximately €0.5 million. If interest rates begin to rise, then the

Company plans to begin a policy of non-speculative interest rate hedges using ordinary commercial instruments designed for that purpose.

The issue of the Convertible Bonds due 2025 at a fixed interest rate of 3.00% p.a. replacing the Company's previous debt facility has rendered this concern obsolescent. The interest on the vast majority of the Company's financial instruments is now not variable with market interest rates, and the total effect of a 1% interest rate change taking place on the carrying value of the Company's financial instruments at the reporting date would be less than €0.05 million. More information on the Convertible Bonds due 2025 can be found in note 33 below.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge obligations. Pharming manages credit risk exposure through the selection of financial institutions having a high credit rating, using credit rating reports issued by institutions such as Standard & Poor's and Moody's. The exposure to credit risk at 31 December 2019 is represented by the carrying amounts of cash and cash equivalents and trade and other receivables.

The carrying amounts of the cash and cash equivalents (including restricted cash) as at 31 December 2019 amounted to €68.6 million and was held through financial institutions with a BB+ to A+ rating or better from Standard & Poor's, Baa3 to A1 ratings from Moody's and BBB+ to A ratings from Fitch.

Trade and other receivables at 31 December 2019 amounted to €25.7million. As at the date of these financial statements, these amounts have largely been settled, including receipts in cash and receipt of goods and services in exchange of prepaid expense items. Based on the credit ratings of cash and cash equivalents (including restricted cash) as well as the position taken with respect to trade and other receivables, the Company considers that this risk is adequately managed.

Liquidity risk

The liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Pharming's objective is to maintain a minimum level and certain ratio of cash and cash equivalents (including short-term deposits). The strategy of the Company is to repay its obligations through generation of cash income from operating activities such as product sales and licensing agreements. In case such cash flows are insufficient, the Company relies on financing cash flows as provided through the issuance of shares or incurring financial liabilities. Note 3 of these financial statements more extensively describes the Company's going concern assessment.

The following table presents the financial liabilities at year-end 2019, showing the remaining undiscounted contractual amounts due including nominal interest. Liabilities denominated in foreign currency have been converted at the exchange rate at 31 December 2019. Other financial liabilities comprise the contingent consideration provision for the expected future milestones due to Bausch Health as explained further in note 29, together with the fair value of financial guarantees provided to BioConnection as explained in note 13.

Maturity profile of financial liabilities:

Amounts in €'000	2020	2021	2022	2023	2024	Total	Total 2019-2023
Trade and other payables	36,247	-	-	-	-	36,247	28,589
Derivative financial liabilities	268	-	-	-	-	268	228
Loans and borrowings	49,601	-	-	-	-	49,601	90,230
Other financial liabilities	17,863	22,322	28	28	28	40,269	56,823
Lease Liabilities	3,084	2,602	1,778	1,551	1,200	10,215	443
Total	107,063	24,924	1,806	1,579	1,228	136,600	176,313

Fair value estimation

The Company uses the following hierarchy for determining the fair value of financial instruments measured at fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: 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 3: Inputs for the asset or liability that are not based on observable market data or which are based on the probability of future events occurring (that is, unobservable inputs).

The following table presents the liabilities that are measured at fair value at year-end 2019 and 2018:

Amounts in € '000	2019		2018	
	Level 3	Total	Level 3	Total
Derivative financial liabilities	268	268	228	228
Other financial liabilities*	35,117	35,117	49,518	49,518
Balance at 31 December	**35,385**	**35,385**	**49,746**	**49,746**

* This amounts reflects the fair values of the contingent consideration and the financial guarantee contract with Bioconnection

The derivative financial liabilities measured at fair value through profit or loss include warrants not publicly traded and for which no other observable inputs are available. Accordingly, the fair value of the warrants has been determined through the Black-Scholes model, applying the following parameters as at 31 December in each year:

	2019	2018
Expected time to maturity of warrants in issue	1.9 years	2.9 years
Volatility	58%	58%
Risk-free interest rate	-0.30%	-0.10%

As described in note 2.4 *Significant accounting judgments and estimates*, the Company has performed a sensitivity analysis which demonstrates the potential possible effects in the event that derivative financial liabilities are settled for shares at a fair value price different from the exercise value.

The following table includes carrying values and the estimated fair values of financial instruments:

Amounts in € '000	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents, including restricted cash	68,567	68,567	81,515	81,515
Trade and other receivables	25,737	25,737	17,814	17,814
Liabilities:				
Loans and borrowings	45,590	45,590	72,502	72,502
Lease liabilities	6,309	6,309	427	427
Other financial liabilities	35,117	35,117	49,518	49,518
Trade and other payables	36,247	36,247	28,589	28,589
Derivative financial liabilities	268	268	228	228

The above fair values of financial instruments are based on internal calculations with the exception of the warrant and conversion option in the derivative financial liabilities as calculated by an independent valuator. Cash and cash equivalents, trade and other receivables as well as trade and other payables are stated at carrying amount, which approximates the fair value in view of the short maturity of these instruments. The fair values of finance lease liabilities and loans and borrowings (both non-current and current portion) are based on arm's length transactions.

The net debt sets out an analysis for each of the period presented, showing the remaining undiscounted contractual amounts due including nominal interest.

Amounts in € '000	2019	2018
Cash and cash equivalents	66,299	80,311
Loans and borrowings - repayable within one year	(49,601)	(39,034)
Loans and borrowings - repayable after one year	-	(51,196)
Net debt	**16,698**	**(9,919)**
Cash and cash equivalents	66,299	80,311
Gross debt - fixed interest rates	(49,601)	(90,230)
Gross debt - variable interest rates	-	-
Net debt	**16,698**	**(9,919)**

Reconciliation of liabilities arising from financing activities:

	2018	Cashflows	Non -Cash changes					2019
			Acquisition	Intrest Expense Accrued	Amortised costs	Foreign Exchange movement	Fair Value Changes	
Loans and borrowings	72,502	(39,824)	-	-	11,254	-	1,658	45,590
Other financial liabilities	49,518	(17,634)	201	-	-	150	2,882	35,117
Lease Liabilities	427	(2,213)	7,432	663	-	-	-	6,309
Deritative financial liabilities	228	-	-	-	-	-	40	268
Total liabilities from financing activities	**122,675**	**(59,671)**	**7,633**			**150**	**4,580**	**87,284**

32. EARNINGS PER SHARE AND FULLY-DILUTED SHARES

Basic earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans and warrants issued. For 2019 and 2018, the basic and fully diluted profit (loss) per share is:

	2019	2018
Net profit (loss) attributable to equity owners of the parent (in €'000)	36,195	24,993
Weighted average shares outstanding	626.315.013	606,618,117
Basic profit (loss) per share (in €)	0.058	0.041
Weighted average fully-diluted shares outstanding	673.519.995	653,527,702
Fully-diluted profit per share (in €)	0.054	0.038

Fully-diluted shares

The composition of the number of shares and share rights outstanding as well as authorised share capital as per 31 December 2019 and the date of these financial statements is provided in the following table.

Movements of shares and other instruments between 31 December 2019 and 29 March 2020 are shown in the table below:

	31 December 2019	Shares issued	Shares reserved	26 March 2020
Shares	631,323,467	3,671,297		634,994,764
Warrants	208,944			208,944
Options	40,327,537	(1,460,000)		38,867,537
Convertible bonds	-		62,412,622	62,412,622
LTIP	7,644,971	(3,513,263)		4,131,708
Issued	**679,504,919**	**(1,301,966)**	**62,412,622**	**740,615,575**
Available for issue	120,495,081	1,301,966	(62,412,622)	59,384,425
Authorised share capital	**800,000,000**	**-**	**-**	**800,000,000**

33. EVENTS AFTER THE REPORTING YEAR

- In January 2020, the Company paid back and extinguished the loan from Orbimed completely with a settlement payment of $55.6 million (€49.6 million).
- Also in January 2020, the Company offered €125 million of 5-year convertible bonds. The bonds were more than three times oversubscribed in a bookbuilding exercise conducted by J.P. Morgan, the Company's sole bookrunner, and the offer closed within a few hours. The Bonds were offered via an accelerated book building process through a private placement only to institutional investors outside the United States of America, Australia, South Africa and Japan. The net proceeds of the issue of the Bonds were used to redeem the balance of approximately US$ 56 million of the loan with Orbimed Advisors in full, thereby reducing the Company's financing costs from 13% to 3% and extending its debt maturity through the period to anticipated approval of most of the Company's existing pipeline. The balance of the net proceeds will also be used to support capital expenditure in relation to the expansion of the commercialisation and manufacturing infrastructure of the Company and also serve as funding for the launch of Pharming's recently acquired leniolisib product, as well as for additional acquisitions/in-licensing opportunities.

  The Bonds were issued at par and carry a coupon of 3.00% per annum payable semi-annually in arrears in equal instalments. Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 21 January 2025. The Bonds will be convertible into ordinary shares of the Company with an initial conversion price of €2.0028, which represented a premium of 40% above the volume weighted average price (VWAP) of an ordinary Pharming share on Euronext Amsterdam between opening of trading on the launch date and the pricing of the Bonds (which was €1.4306). This initial conversion price may be subject to customary adjustment provisions as set out in the terms and conditions of the Bonds. The number of ordinary shares initially underlying the Bonds is 62,412,622, representing 9.9% of the Company's current issued share capital.

  The low (and non-market-variable) financing (fixed interest of 3%) cost of these bonds and the availability of market instruments (e.g. Future re-issuance of the bonds) to reduce the number of shares needed to back the bonds as the share price rises meant that this was by far the lowest cost and lowest impact method of re-financing the more expensive loan facility and providing additional capital without recourse to diluting shareholders unless the share price well exceeds €2.00 per share.

  These bonds are listed on the Frankfurt Exchange (Börse Frankfurt: PHARMING GRP 20/25 CV).

- Also in January 2020, the Company's second facility for producing enriched milk source material was validated and approved for production release of product for commercial sale in the European Union by the European Medicines Agency. Later, in March 2020, the same facility also received the US Food and Drug Administration's (FDA) approval of Pharming's Prior Approval Supplement to add the new Netherlands production facility's manufacture of starting material to the US Biologics License Application (BLA) to support its lead product, RUCONEST® and enable the commercial sale of output derived from the facility in the USA as well.
- Also in January 2020, the Company also made the first payment of €5.5 million to Sobi for the termination of its license with Sobi and the re-acquired rights. Another € 2.0 million is due later in the year, following transition of aspects of the RUCONEST ® business in the former Sobi territories. For more information, please see Note 30.
- In February 2020, Pharming paid the second milestone due to Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals International, Inc.) of €17.8 million (US$20 million). This payment became due when cumulative net sales in the USA reached a certain undisclosed threshold level. Up to a total of an additional €22.3 million ($25 million) of milestones may be due in future years if cumulative net sales in any one year reaches additional specific undisclosed higher levels.

- Since the start of 2020, the effects of the outbreak of the coronavirus COVID-19 have been increasing in severity and their potential consequences for the business. Pharming has taken strict measures to safeguard the welfare of its staff and its animals as well as the security of supply for all patients using its drugs. More information on this is available in note 3 and in the Risk Factors on page 51.
- In March, Pharming Group Shares were included in the Euronext Amsterdam MidKap Index (AMX). On entry into the AMX, Pharming became one of the smaller index members. Composition of the AMX is reviewed quarterly by Euronext. Eligibility for entry into any Amsterdam index is evaluated by criteria relating to the price of the share and to ratios such as free float/market capitalisation and free float/velocity. Based on these evaluations, Euronext can rank companies by size into one of the three main indices of the Amsterdam Stock Exchange. Membership of each index has consequences in terms of which investors can purchase and hold Pharming stock, and some investors are required to invest only in index member companies.

Company statement of income

For the year ended 31 December

Amounts in € '000	Notes	2019	2018
Revenues		**17,343**	**25,725**
Operating expenses		**(17,676)**	**(14,786)**
Operating result	12	**(333)**	**10,939**
Fair value gain (loss) on revaluation derivatives		(209)	(495)
Other financial income and expenses	15	(13,919)	(18,950)
Financial income and expenses		**(14,128)**	**(19,445)**
Result before income tax		**(14,461)**	**(8,506)**
Income tax credit (expense)	15	(8,044)	27,070
Net result for the year		**(22,505)**	**18,564**
Share in result of investments	8	53,242	18,327
Total net result	7	**30,737**	**36,891**

The notes are an integral part of these financial statements.

company balance sheet

As at 31 December

(after proposed appropriation of net profit)

Amounts in € '000	Notes	2019	2018
Intangible assets	3	19,171	469
Property, plant and equipment	3	866	675
Right-of-use assets	3	2,756	-
Deferred tax asset	4	26,665	34,210
Financial assets	8	88,823	137,359
Restricted Cash	6	367	-
Non-current assets		**138,648**	**172,713**
Trade and other receivables	5	1,571	288
Cash and cash equivalents	6	44,098	6,006
Current assets		**45,669**	**6,294**
Total assets		**184,317**	**179,007**
Share capital		6,313	6,215
Share premium		392,266	387,525
Legal reserves		3,718	1,647
Accumulated deficit		(291,178)	(321,738)
Shareholders' equity	7	**111,119**	**73,649**
Loans and borrowings	9	-	37,267
Lease liabilities	3	2,323	-
Non-current liabilities		**2,323**	**37,267**
Loans and borrowings	9	45,590	35,235
Derivative financial liabilities	10	268	228
Taxes payable		134	1,601
Intercompany payable		21,311	29,212
Trade and other payables	11	3,070	1,815
Lease liabilities	3	502	-
Current liabilities		**70,875**	**68,091**
Total shareholders' equity and liabilities		**184,317**	**179,007**

The notes are an integral part of these financial statements.

Notes to the company financial statements

1. General

Within Pharming, the entity Pharming Group N.V. 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 have been prepared in accordance with accounting principles generally accepted in the Netherlands. The accounting policies applied are the same as those used in the consolidated financial statements in accordance with the provisions of article 362-8 of book 2 of the Dutch Civil Code, except for investments in subsidiaries which are accounted for using the equity method.

Investments in subsidiaries are those investments with a positive equity value. In the event the equity value of a Group company together with any long-term interests that, in substance, form part of our net investment in the Group company, becomes negative, additional losses are provided for, and a liability is recognised, only to the extent that we have incurred legal or constructive obligations or made payments on behalf of the subsidiary. The Company shall, upon identification of a credit loss on an intercompany loan and/or receivable, eliminate the carrying amount of the intercompany loan and/or receivable for the value of the identified credit loss.

2.1 IFRS 16 Leases

The Company has elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the start of the reporting period the Company has relied on its previous assessment made under International Accounting Standard 17 and Interpretation 4 Determining whether an arrangement contains a lease.

Since the start of the reporting period the Company has applied IFRS 16 using the simplified transition approach: it does not restate any comparative information. In the simplified transition approach, the lease liability is measured at the present value of remaining lease payments using the incremental borrowing rate on January 1, 2019, the date of initial application. The Company has elected to measure the right-of-use assets at an amount equal to the lease liability. See also notes 2.3 and 2.5 of the consolidated financial statements.

i. Leases in which the Group is a lessee

The Company has recognised new assets and liabilities for its leases for the rent of offices and laboratory facilities, as well as lease cars for employees. The nature of expenses related to those leases changed because the Company recognised a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised lease expense on straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

ii. Measurement of lease liabilities

Amounts in € '000	January 1, 2019
Operating lease commitments disclosed under IAS 17 at 31 December 2018	2,019
Short-term and low value lease commitments straight-line expensed under IFRS 16	(1,002)
Effect of discounting	(337)
Lease liabilities recognised at 1 January 2019	**680**

Of which the breakdown between current and non-current lease liabilities is as follows:

Amounts in € '000	January 1, 2019
Current lease liabilities	548
Non-current liabilities	132
Lease liabilities recognised at 1 January 2019	**680**

iii. Measurement of right-of-use assets

Right-of-use assets for property and car leases were measured at the amount equal to the lease liability.

Amounts in € '000	January 1, 2019
Buildings	672
Cars	8
Right-of-use assets recognised at 1 January 2019	**680**

iv. Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

Amounts in € '000	January 1, 2019
Right-of-use assets - increase by	680
Lease liabilities - increase by	680

v. Weighted average IBR

The weighted average incremental borrowing rate ('IBR') used at January 1, 2019 for the whole of 2019 is 10.9%.

3. Intangible and tangible assets

The large increase in Intangible assets relates to the acquisition of the license to leniolisib from Novartis in August 2019, resulting in an increase of €17.9 million relating to the upfront payment and €0.8 million relating to the ongoing development costs for the registration-enabling studies. More information is available in note 11 of the consolidated financial statements.

3.1 Property, plant and equipment

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

Amounts in € '000	Leasehold improvements	Operational facilities	Other	Total
At cost	747	626	806	2,179
Accumulated depreciation	(746)	(231)	(513)	(1,490)
Carrying value at 1 January 2018	1	395	293	689
Investments	-	96	116	212
Depreciation charges	(1)	(127)	(98)	(226)
Movement 2018	(1)	(31)	18	(14)
At cost	747	722	922	2,391
Accumulated depreciation	(747)	(358)	(611)	(1,716)
Carrying value at 31 December 2018	**-**	**364**	**311**	**675**
Investments	-	133	76	209
Depreciation charges	-	(146)	129	(17)
Movement 2019	**-**	**(13)**	**205**	**192**
At cost	747	855	998	2,600
Accumulated depreciation	(747)	(504)	(482)	(1,733)
Carrying value at 31 December 2019	**-**	**351**	**516**	**867**

3.2 LEASES

This note provides information for leases where the Company is a lessee.

i. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Amounts in € '000	Buildings	Cars	Total
Value right-of-use assets at 1 January 2019*	**672**	**8**	**680**
Investments	2,239	77	2,316
Divestments	-	-	-
Depreciation charges	(224)	(16)	(240)
Depreciation of disinvestment	-	-	-
Movement 2019	2,015	61	2,076
At cost	2,911	85	2,996
Accumulated depreciation	(224)	(16)	(240)
Carrying value at 31 December 2019	**2,687**	**69**	**2,756**

** IFRS 16 was first adopted by Pharming as from 1 January 2019.*

Amounts in € '000	31 December	1 January
Lease liabilities	2019	2019*
Current	502	132
Non-current	2,323	548
	2,825	**680**

i. Amounts recognised in the statement of income

The statement of income shows the following amounts relating to leases:

Amounts in € '000		
Depreciation right-of-use assets	2019	2018
Buildings	(224)	-
Cars	(16)	-
	(240)	**-**
Interest expense	(212)	-

4. Deferred tax

The significant components and annual movements of deferred income tax assets as of December 31, 2019 and January 1, 2019 , are as follows:

Amounts in € '000	2019	2018
Deferred tax assets		
Intangible fixed assets	12,514	11,822
Short term assets / liabilities	1,072	907
Other financial liabilities	8,187	10,941
Accruals	-	-
Other	-	-
Tax losses	5,914	10,626
Total deferred tax assets	**27,687**	**34,296**

Amounts in € '000	Intangible fixed assets	Short term assets / liabilities	Other financial liabilities	Accruals	Other	Tax losses	Total
At 1 January 2018	-	-	-	-	-	-	-
(Charged)/credited							
- to profit or loss	11,822	907	10,941		-	3,487	27,157
- to other comprehensive income	-	-	-		-		-
At 31 December 2018	**11,822**	**907**	**10,941**	**-**	**-**	**10,626**	**34,296**
(Charged)/credited							
- to profit or loss	692	165	(2,754)		-	(4,712)	(6,609)
- to other comprehensive income	-	-	-		-		-
At 31 December 2019	**12,514**	**1,072**	**8,187**	**-**	**-**	**5,914**	**27,687**

For more information on deferred taxes see note 28 to the consolidated financial statements.

The component and annual movement of deferred income tax liabilities as of December 31, 2019 and January 1, 2019 , are as follows:

Amounts in € '000	2019	2018
Deferred tax liabilities		
Tangible fixed assets	(1,022)	-
Other liabilities		(86)
Total deferred tax liabilities	**(1,022)**	**(86)**

Amounts in € '000	Tangible fixed assets	Other liabilities	Total
At 1 January 2018			
(Charged)/credited			
- to profit or loss	-	(86)	(86)
- to other comprehensive income	-	-	-
At 31 December 2018	**-**	**(86)**	**(86)**
(Charged)/credited			
- to profit or loss	(1,022)	86	(936)
- to other comprehensive income	-	-	-
At 31 December 2019	**(1,022)**	**-**	**(1,022)**

The net balance of deferred tax assets and liabilities is therefore:

Amounts in € '000	2019	2018
Total deferred tax assets	27,687	34,296
Total deferred tax liabilities	(1,022)	(86)
Net deferred tax assets	**26,665**	**34,210**

5. Trade and other receivables

Amounts in € '000	2019	2018
Prepaid expenses	496	286
Value added tax	686	-
Other receivables	323	2
Taxes and Social Securities	66	-
Balance at 31 December	**1,571**	**288**

Trade and other receivables at 31 December 2019 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

6. Restricted cash, cash and cash equivalents

Amounts in € '000	2019	2018
Cash and cash equivalents	44,098	6,006
Balance at 31 December	**44,098**	**6,006**

The holding company Pharming Group N.V. has entered into a joint liability agreement with a bank and other Group companies. Pursuant to this agreement, the entity at 31 December 2019 is jointly liable for commitments relating to bank guarantees from other group companies for an aggregate amount of €0.37 million with a maturity of more than one year after the end of the reporting year.

7. Shareholders' equity

The Company's authorised share capital amounts to €8.0 million and is divided into 800,000,000 ordinary shares with a nominal value of €0.01 each. All 631,323,467 shares outstanding at 31 December 2019 have been fully paid-up.

Movements in shareholders' equity for 2019 and 2018 were as follows:

Amounts in € '000	2019	2018
Balance at 1 January	**73,649**	**16,110**
Net profit (loss)	30,737	36,891
Foreign currency translation	(39)	348
Total comprehensive income	**30,698**	**37,239**
Share-based compensation	3,825	3,889
Bonuses settled in shares	6	(664)
Shares issued for cash	-	-
Warrants issued and exercised	236	6,142
Conversion option exercised		3,145
Options exercised	2,705	7,788
Total transactions with owners	**6,772**	**20,300**
Balance at 31 December	**111,119**	**73,649**

For a detailed movement schedule of equity for the years 2019 and 2018, please refer to the consolidated statement of changes in equity.

The difference between parent company equity and equity as per the consolidated financial statements consists of the shareholder's deficit of €6.4 million (2018 - €11.9 million) of Pharming Healthcare, Inc.

The investment in Pharming Healthcare, Inc. is included in the consolidated financial statements at its negative equity value, €6.4 million (2018 - €11.9 million), while in the parent company financial statements the investment in Pharming Healthcare, Inc. has been valued at nil.

The parent company is not liable, nor has it issued guarantees for the debts of Pharming Healthcare, Inc.

The movement in the equity difference between consolidated and parent company financial statements was as follows:

Amounts in € '000	2019	2018
Consolidated financial statements	104,679	61,751
Negative equity Pharming Healthcare, Inc.	6,440	11,898
Parent company financial statements	**111,119**	**73,649**

The difference in net result between consolidated and parent company financial statements can be specified as follows:

Amounts in € '000	2019	2018
Consolidated financial statements	36,195	24,993
Net result Pharming Healthcare Inc.	(5,458)	11,898
Parent company financial statements	**30,737**	**36,891**

8. Financial assets

Movements of the provision for investments for the years 2019 and 2018 were as follows:

Amounts in € '000	2019	2018
Balance at 1 January	**(178,007)**	**(196,682)**
Share in results of investments	58,700	6,429
Revaluation investment Pharming Healthcare, Inc.	(5,458)	11,898
Exchange rate effects	(39)	348
Other	-	-
Balance at 31 December	**(124,804)**	**(178,007)**

At year-end 2019 and 2018, the provision for subsidiaries was set off against intercompany receivable balances in Pharming Group N.V.:

Amounts in € '000	2019	2018
Provision for investments	(124,804)	(178,007)
Receivable from group companies	213,627	315,366
Net financial assets	**88,823**	**137,359**

The investment in Pharming Healthcare, Inc. is valued at nil as the parent company is not liable nor has it issued guarantees for the debts of Pharming Healthcare, Inc. At 31 December 2019 Pharming Healthcare, Inc. had a shareholder's deficit of €6.4 million (2018: a deficit of € 11.9 million).

Pharming Healthcare, Inc. realised a net profit of €5.5 million in 2019 (2018 - € 3.8 million). See note 2.2 Basis of consolidation for a list of direct subsidiaries of Pharming Group N.V.

The Company's direct investments are:

Entity	Registered office	Investment %
Pharming B.V.	The Netherlands	100.0
Pharming Americas B.V.	The Netherlands	100.0
Pharming Intellectual Property B.V.	The Netherlands	100.0
Pharming Technologies B.V.	The Netherlands	100.0
Broekman Instituut B.V.	The Netherlands	100.0
Pharming Healthcare, Inc.	The United States	100.0
ProBio, Inc.	The United States	100.0

9. Loans and borrowings

The backgrounds of the loans and borrowings have been provided in note 18 of the consolidated financial statements.

10. Derivative financial liabilities

The backgrounds of the derivative financial liabilities have been provided in note 21 of the consolidated financial statements.

11. Trade and other payables

Amounts in € '000	2019	2018
Accounts payable	691	811
Deferred compensation due to related parties	-	718
Other payables	2,379	286
Balance at 31 December	**3,070**	**1,815**

12. Operating result

The operating results in 2019 and 2018 include costs of share-based compensation in the amount of €4.4 million and €3.9 million respectively, as disclosed in note 23 of the consolidated financial statements. These charges include those related to members of the Board of Management and employees.

13. Employee information

All employees of Pharming Group N.V. (company) in both 2019 and 2018 were based in the Netherlands and France. The weighted average number of full-time equivalent employees in 2019 was 35 (2018: 29) and the number of employees at 31 December 2019 was 43 (31 December 2018: 31). The weighted average number of employees working outside the Netherlands was 13 (2018: 11).

14. Related party transactions

Related parties' disclosure relates mainly to transactions with our associate Bioconnection B.V. and with the key management of Pharming, being represented by the members of the Board of Management and the Board of Supervisory Directors.

Related party transactions with BioConnection B.V are in the ordinary course of that company's fill & finish business and amounted to approximately €1.9 million since the effective date of the investment of April 9, 2019.

All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in notes 24 and 25 of the consolidated financial statements. At 31 December 2019, the Company owed €nil (2018: €0.7 million) to members of the Board of Management with respect to their compensation.

15. Other financial information

Other financial income and expenses

Other financial income and expenses relates mainly to interest paid on the Company's principal loan facility during 2019 of €11.3 million (2018: €14.3 million), together with interest on leases of €0.7 million (2018: €nil).

Income tax

During 2018, the Company recognised all of its outstanding net operating losses as a deferred tax asset, and as a consequence recorded tax income on the face of the income statement. As a result of the net profit achieved in 2019, the company was liable to a tax charge this year of €8.0 million, which was set off against the deferred tax asset previously reserved.

16. Commitments and contingencies

The backgrounds of the commitments and contingencies have been provided in note 30 of the consolidated financial statements.

The Company has issued declarations of joint and several liabilities for debts arising from the actions of Dutch consolidated participating interests, as described in article 2:403 of the Netherlands Civil Code.

17. Events after the balance sheet date

Details on events after the balance sheet date can be found in note 33 to the consolidated financial statements, and are included here by reference.

19. Distribution of profit

Appropriation of result

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

The Board of Management, with the approval of the Board of Supervisory Directors, proposes to forward the net profit for the year 2019 of €30.7 million to the accumulated deficit.

Leiden, 29 March 2020
The Board of Management:

Sijmen de Vries – Chairman of the Board of Management and Chief Executive Officer

Bruno Giannetti – Chief Medical Officer

Robin Wright – Chief Financial Officer

The original copy has been signed by the Board of Management

Deloitte.

Independent auditor's report

To the Shareholders and the Board of Supervisory Directors of Pharming Group N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2019 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the accompanying Annual Report 2019 of Pharming Group N.V. ("the company"), based in Leiden. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Pharming Group N.V. and its subsidiaries as at December 31, 2019, and of its statement of income and its statement of cash flows for year ended December 31, 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Pharming Group N.V. as at December 31, 2019, and of its statement of income for the year ended December 31, 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated balance sheet as at December 31 2019.
2. The following statements for year ended December 31, 2019: the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at December 31, 2019.
2. The company statement of income for year ended December 31, 2019.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Pharming Group N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 880,000. The materiality is based on profit before tax from continuing operations. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Audits of the components were performed using materiality levels determined by the judgement of the group engagement team, taking into account the materiality of the financial statements as a whole and the reporting structure within the group. Component performance materiality did not exceed EUR 554,000.

We agreed with the Board of Supervisory Directors that misstatements in excess of EUR 44,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Pharming Group N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Pharming Group N.V

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components. All audit procedures on both group and component level were performed by the group team.

Our group audit mainly focused on significant group entities in the Netherlands and the United States. By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

In addition, we performed review at other components.

Audit coverage

Audit coverage of consolidated revenues	100%
Audit coverage of consolidated assets	98%

Scope of fraud and non-compliance with laws and regulations

In accordance with Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error.

Inherent to our responsibilities for the audit of the financial statements, there is an unavoidable risk that material misstatements go undetected, even though the audit is planned and performed in accordance with Dutch law. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Also, we are not responsible for preventing and cannot be expected to detect non-compliance with all laws and regulations. Our audit procedures differ from those performed as part of a specific forensic or legal investigation, which often have a more in-depth scope.

In identifying potential risks of material misstatement due to fraud and non-compliance with laws and regulations, we evaluated the group's risk assessment, had inquiries with the Board of Management, those charged with governance and others within the group. We involved a forensic specialist in our identification of fraud risk factors.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls. Furthermore, we identified and considered the fraud risk related to revenue recognition and pinpointed the risk to the significant management estimate in the determination of the rebate accruals in relation to Medicaid in the United States.

As part of our audit procedures to respond to these fraud risks, we evaluated the internal controls relevant to mitigate these risks and performed supplementary substantive audit procedures, including detailed testing of journal entries and supporting documentation in relation to post-closing adjustments. Data analytics, including testing journal entries based on certain risk-based characteristics, is part of our audit approach to address fraud risks. We refer to the audit procedures as described in the separate Key Audit Matters in addressing fraud risks in connection with revenue recognition in the United States.

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Resulting from our risk assessment procedures, and whilst realizing that the effects from non-compliance could considerably vary, we considered adherence to (corporate) tax law and financial reporting regulations and the requirements under Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. Apart from these, the group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance through imposing fines or litigation. Given the nature of the company's business and the complexity of regulatory environment the company operates in and the Dutch stock exchange regulations, a risk of non-compliance with the requirements of such laws and regulations exists. In addition, we considered data and privacy legislation and Dutch stock exchange regulations.

As required by auditing standards, we designed and performed audit procedures that address the risk of non-compliance with these laws and regulations. Our procedures included inquiries of the Board of Management, those charged with governance and others within the group and we inspected (board) minutes, correspondence with relevant authorities and lawyers' letters. We also remained alert to indications of (suspected) non-compliance throughout the audit, both at component and group levels.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Emphasis of the impact of COVID-19 virus
The coronavirus also impacts Pharming Group N.V. The Board of Management disclosed the current impact and plans to deal with these events or circumstances in note 33 Events after the reporting year and note 3 Going concern assessment in the financial statements. The Board of Management indicates that it is currently not possible for them to properly estimate the impact of the coronavirus on the financial performance and health of Pharming Group N.V. Our opinion is not modified in respect of this matter.

Our key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Supervisory Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Key audit matter

Revenue recognition US

Description

The majority of the company's contracts for revenue with customers in the United States are subject to different rebates relating directly to customers or to ultimate reimbursement claims from government or insurance payers. Which rebate or chargeback program depends on which insurance or program is applicable per patient. The Board of management is required to assess the different rebate programs as revenue is recorded on a net basis.

The rebates depend on several inputs such as the estimated number of vials to be claimed in the future, the rebate per vial and the insurance program of the patient. Therefore, the amount recognized is deemed a significant management estimate.

The company's disclosures concerning the estimates in revenue are included in note 2.4 to the consolidated financial statements.

How the key audit matter was addressed in the audit

In auditing the rebate accrual, we focused on the Board of Management's estimate in relation to the utilization of vials and the calculated amount of rebate per unit. We recalculated the estimated units based on the Board of Management's calculation and performed a sensitivity analysis on the assumptions used in the estimation. Furthermore, we involved an experienced US life sciences auditor to support us in obtaining an understanding of the rebates and assessing risks of material misstatement.

We verified that the approach is consistently applied in the calculation of the accrual as of December 31, 2019.

Our observations
The key assumptions used, including the number of vials and the rebate per unit within the accrual are considered reasonable and the key assumptions are properly disclosed in the financial statements.

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Key audit matter

First year audit

Description

At the AGM on May 22, 2019 we were appointed as the company's auditor for the year 2019. Initial audit engagements involve a number of considerations and additional procedures not associated with recurring audits. We identified the first year audit, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy.

Our focus was on 1) gaining an initial understanding of the company, its processes and its business including the control environment and information systems, sufficient to determine the risks and develop the audit approach and plan. 2) Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles and communication with the previous auditors.

How the key audit matter was addressed in the audit

We developed a comprehensive transition plan prior to being appointed the company's auditors, to understand the company's strategy, the related risks and how these impact the company's financial reporting and control environment. Subsequently we executed this transition plan which consisted of:

Meetings to obtain understanding of the key business processes, relevant controls and risks of material misstatement in the Netherlands and United States.

Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles. To accomplish this we were in close interaction with the previous auditor, including a process of file reviews and formal transition procedures as prescribed by our professional standards.

Attending the meeting between the previous auditors, senior management and the Audit Committee in which the 2018 auditor's report and the 2018 financial reporting process was discussed.

The discussion of our audit plan with the Audit Committee in July 2019 and the subsequent discussions on the status, progress and key findings from our audit process throughout the year and at year end.

Our observations

We obtained sufficient and appropriate audit evidence regarding the opening balance in accordance with COS 510.

Key audit matter

Valuation and capitalization of Intangible Assets

Description

The company's intangible assets consist mainly out of EUR 4.3 million capitalized development costs, EUR 47.3 million re-acquired rights and EUR 18.7 million for the capitalized Novartis license. These were deemed significant to our audit, given the specific criteria that need to be met for capitalization of the asset.

For the capitalization of development costs, valuation of the re-acquired rights and Novartis license, this involves management judgement in relation to establishing the technical feasibility, the intention and ability to complete the intangible asset, the ability to use or sell the asset, the generation of future economic benefits and the ability to measure the costs reliably.

In addition, the determination whether there is an indication of (reversal of) impairment of the carrying value of the assets requires management judgement

How the key audit matter was addressed in the audit

We assessed the accounting for the contracts and projects based on the IFRS conceptual framework and IFRS-EU. We focused on the critical attributes of an intangible asset conform IAS 38 and challenged the assumptions made by the Board of Management by corroborating inquiries within the organization, evaluating (preliminary) testing results from ongoing studies and evaluating external (regulatory) guidance and guidelines.

We performed audit procedures to verify the accuracy and valuation of the amounts recognized and we involved accounting specialists to verify the accounting policies applied.

We considered the technological and economical feasibility of the projects and management's intent to complete the project. We also considered when the assets, including the re-acquired rights are controlled by the entity. In addition, we determined whether any indicators of impairment or reversals of impairment exist.

We also evaluated the adequacy of the Company's disclosures in note 11 of the financial statements.

Our observations

The valuation and capitalization of the intangible assets as per December 31, 2019 is in accordance with IAS 38 and the disclosure note in the financial statements is adequate.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In our auditor's report we also report on the other information, including the Management Report, other information pursuant to Part 9 of Book 2 of the Dutch Civil Code, the Remuneration Report 2019, Report of the Board of Supervisory Directors and additional information, if any. Accordingly we read the other information and consider, based on our knowledge and understanding to be obtained through our audit of the financial statements or otherwise, whether the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code, and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of these procedures is substantially less than the scope of those to be performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Management Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by a resolution at the Annual General Meeting of Shareholders as auditors of Pharming Group N.V. on May 22, 2019, as of the audit for the year 2019 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of Board of Management and the Board of Supervisory Directors for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Board of Supervisory Directors is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.
Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.
- Concluding on the appropriateness of the Board of Management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with Board of Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit.

In this respect we also submit an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Board of Supervisory Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Supervisory Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, March 29, 2020

Deloitte Accountants B.V.
I.A. Buitendijk

Other Financial Information

For the year ended 31 December 2019

1. Appropriation of result

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

Leiden, 26 March 2020
The Board of Management
Sijmen de Vries – Chairman of the Board of Management and Chief Executive Officer
Bruno Giannetti – Chief Operations Officer
Robin Wright – Chief Financial Officer

Appendix

RUCONEST® 2019 Published Manuscripts

1.
Reshef A, Grivcheva-Panovska V, Kessel A, Kivity S, Klimaszewska-Rembiasz M, Moldovan D, Farkas H, Gutova V, Fritz S, Relan A, Giannetti B, Magerl M. Recombinant human C1 esterase inhibitor treatment for hereditary angioedema attacks in children. Pediatr Allergy Immunol. 2019;30(5):562-568.

2.
Moldovan D, Bernstein JA, Hakl R, Porebski G, Poarch K, Lumry WR, Relan A. Safety of recombinant human C1 esterase inhibitor for hereditary angioedema attacks during pregnancy. J Allergy Clin Immunol Pract. 2019;7(8):2938-2940.

RUCONEST® 2019 Published Abstracts

1.
Jones DH, Thompson AM, Park N. Impact of hereditary angioedema prophylaxis with recombinant human C1 esterase inhibitor on burden of emergency department visits. Allergy Asthma Proc. 2019;40(3):208.

2.
Smith AM, Park N. Recombinant human C1 esterase inhibitor as routine short-term prophylaxis for hereditary angioedema inadequately controlled with long-term prophylaxis during menses. Allergy Asthma Proc. 2019;40(3):208.

3.
Tyson C, Magar R, Adams P, Relan A. Cost-effectiveness model for on-demand treatment of HAE attacks. J Manag Care Spec Pharm. 2019;25(3-a): S37.

4.
Hakl R, Valerieva A, Staevska M, Kohalmi KV, Farkas H, Jesenak M, Zanichelli A, Hrubiskova K, Grivcheva-Panovska V, Bellizzi L, Relan A, Cicardi M. Recombinant human C1 esterase inhibitor for the acute treatment of hereditary angioedema attacks: multi-country, European registry analysis. Allergy. 2019;74(suppl 106):271.

5.
Valerieva A, Staevska MT, Jesenak M, Hrubiskova K. Sobotkova M, Zachova R, Hakl R, Andrejevic S, Suiter TM, Grivcheva-Panovska V, Karadza-Lapic L, Shapiro R, Hsu FI, Zanichelli A. Recombinant human C1 esterase inhibitor as short-term prophylaxis for dental procedures in patients with angioedema: a case series. J Allergy Clin Immunol. 2019;143(suppl 2): AB37.

6.
Bernstein JA, Moldovan D, Hakl R, Porebski G, Poarch K, Lumry WR, Relan A. Acute treatment of pregnant women with hereditary angioedema attacks: administration of recombinant human C1 esterase inhibitor. Allergy Asthma Clin Immunol. 2019;15(suppl 4):21.

7.
Urdaz RZ, Harper JR, Rosado Quiñones AM. Recombinant human C1 esterase inhibitor as rescue therapy for hereditary angioedema attacks refractory to other therapies: a case report. Allergy Asthma Proc. 2019;40(5):359.

8.
Tyson C, Relan A, Adams P, Haynes A, Magar R. Cost-effectiveness model for on-demand treatment of hereditary angioedema (HAE) attacks. Allergy Asthma Proc. 2019;40(5):359.

9.
Tyson C, Relan A, Adams P, Haynes A, Magar R. Cost-effectiveness model for on-demand treatment of hereditary angioedema (HAE) attacks. J Drug Assess. 2019;8(suppl 1):22.

10.
Bara N, Bologa R, Bellizzi L, Cicardi M. Recombinant human C1 esterase inhibitor (C1-INH) for laryngeal attacks due to acquired angioedema (C1-INH-AAE). Ann Allergy Asthma Immunol. 2019;123(5): S94.

11.
Grivcheva-Panovska V, Giannetti B. First documented case of hereditary angioedema attack in utero and treatment of mother and fetus. Ann Allergy Asthma Immunol. 2019;123(5): S87.

12.
Jones DH, Bansal P, Bernstein JA, Fatteh S, Harper J, Hsu FI, Jain S, O'Connor M, Park N, Wilson B, Zacek L, Suez D. Clinical profile and treatment outcomes in patients with hereditary angioedema with normal C1 esterase inhibitor. Ann Allergy Asthma Immunol. 2019;123(5): S31-S32.

RUCONEST® 2019 Presentations (Abstracts Not Published)

1.
Tyson C, Relan A, Adams P, Haynes A, Magar R. Cost-effectiveness model for on-demand treatment of hereditary angioedema (HAE) attacks. Poster presented at: 2019 Aspen Allergy Conference (AAC); July 28-August 1, 2019; Aspen, CO.

2.
Jones DH, Thompson AM, Park N. Impact of hereditary angioedema prophylaxis with recombinant human C1 esterase inhibitor on burden of emergency department visits. Poster presented at: 2019 Aspen Allergy Conference (AAC); July 28-August 1, 2019; Aspen, CO.

3.
Bernstein JA, Hakl R, Porebski G, Poarch K, Lumry WR, Relan A. Acute treatment of pregnant women with hereditary angioedema attacks: administration of recombinant human C1 esterase inhibitor. Poster presented at: 2019 US Hereditary Angioedema Association (HAEA) National Patient Summit; July 26-28, 2019; Atlanta, GA.

4.
Zanichelli A, Staevska M, Jesenak M, Hrubiskova K, Sobotkova M, Zachova R, Hakl R, Andrejevic S, Suiter T, Grivcheva-Panovska V, Karadza-Lapic L, Soteres D, Shapiro R, Rumbyrt J, Tachdjian R, Mehta V, Hsu FI, Valerieva A. Recombinant human C1 esterase inhibitor for short-term prophylaxis in patients with angioedema. Poster presented at: 2019 US Hereditary Angioedema Association (HAEA) National Patient Summit; July 26-28, 2019; Atlanta, GA.

5.
Smith AM, Park N. Recombinant human C1 esterase inhibitor as routine short-term prophylaxis for hereditary angioedema inadequately controlled with long-term prophylaxis during menses. Poster presented at: Intermountain West Allergy Association (IWAA) 22nd Annual Scientific Session; July 25-27, 2019; Coeur d'Alene, ID.

6.
Zanichelli A, Suiter T, Valerieva A. Recombinant C1 esterase inhibitor for short-term prophylaxis in patients with hereditary angioedema. Poster presented at: 2019 Eastern Allergy Conference (EAC); May 30-June 2, 2019; Palm Beach, FL.

Glossary

AGM
Annual General Meeting of Shareholders.

AKI
Acute Kidney Injury AKI is a sudden episode of kidney failure or kidney damage.

AMI
Acute Myocardial Infarction, commonly known as a heart attack, results from the interruption of blood supply to a part of the heart causing heart cells to die. Heart attacks are one of the leading causes of death for both men and women worldwide.

APDS
or Activated PI3K-delta syndrome is a s a primary immunodeficiency disease caused by activating gain of function mutations in gene contributing to the control of the immune system. Individuals with this condition often have high numbers of not properly functioning white blood cells.

Bausch Health Companies Inc.
Formerly known as Valeant Pharmaceuticals International, develops, manufactures and markets pharmaceutical products and branded generic drugs, primarily for skin diseases, gastrointestinal disorders, eye health, and neurology.

Bioconnection B.V.
Contract services and manufacturing organisation for the development and manufacturing of injectable (bio) pharmaceutical products.

BLA
To commercialise a new biological product in the US, the FDA needs to approve a Biologics License Application (BLA). A BLA is a submission that contains specific information on the manufacturing processes, chemistry, pharmacology, clinical pharmacology and the medical effects of the biologic product.

BOM
The Board of Management.

BOSD
Board of Supervisory Directors.

C1INH
C1 esterase inhibitor or C1INH is an inhibitor protein present in human blood. C1INH is involved in the regulation of one of the key proteins in the complement system (C1), which is part of the natural inflammatory response of the body. Insufficient C1 inhibitor levels or activity can cause inflammation and HAE attacks.

CDIBP
Chengdu Institute of Biological Products, a Sinopharm Company.

CDZ173
Novartis project name for leniolisib.

CHMP
The Committee for Medicinal Products for human use.

CHO
Chinese Hamster Ovary, the most common originator cells for cell-line bioreactor manufacture.

CIN
Contrast-Induced Nephropathy. CIN is a form of kidney damage in which there has been recent exposure to medical imaging contrast material without another clear cause for the acute kidney injury.

Clinical trial/Clinical 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.

CLO
Contract Laboratory Organisations.

CMO
Contract Manufacturing Organisation.

Complement system
The complement system is a major part of the immune system, responsible for certain immune-mediated inflammation reactions, including most reactions that cause vascular edema (swelling).

Convertible Bonds
These are corporate bonds offered by a publicly traded company, that give the bond holder the right to exchange the bond for a pre-determined quantity of stock.

CRO
Contract Research Organisation.

CSIPI
China State Institute of Pharmaceutical Industry, a Sinopharm company.

Cytobioteck
Privately-owned Bogota, Colombia based specialty healthcare company.

Cytokines
Cytokines are a broad and loose category of small proteins (~5–20 kDa) secreted by the immune system that are important in cell signalling.

DGF
A DGF or delayed graft function is a common complication affecting solid organs in the post-transplant period.

DSP
Downstream Processing.

EGM
Extraordinary General Meeting of Shareholders.

EMA
The European Medicines Agency is the regulatory office for pharmaceuticals in the European Union.

ERT
Enzyme Replacement Therapy.

Fabry's
disease (also known as Anderson-Fabry disease and a lpha-galactosidase A deficiency) is a rare genetic lysosomal storage disease resulting from the deficient activity of an enzyme, alpha-galactosidase A (αGalA), usually caused by an X-chromosome mutation of the GLA gene.

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

First Berlin Equity Research GmbH
Provider of independent equity research and market intelligence.

GCP
Good Clinical Practices.

GDPR
General Data Protection Regulation.

GLP
Good Laboratory Practice.

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

HAE
Hereditary Angioedema is a human genetic disorder caused by insufficient activity or concentration of the C1 inhibitor protein in the plasma.

HAEI
Hereditary Angioedema International (patient organisation).

Haemophilia A
Haemophilia A is a hereditary disorder caused by defects in the Factor VIII gene. Lack of functional Factor VIII diminishes the body's clotting ability, which in turn can lead to damaging or fatal bleeding episodes.

HC Wainwright
HC Wainwright is a full-service investment bank dedicated to providing Investment Banking, Equity Research, Sales & Trading as well Corporate Access and Strategic Advisory services.

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HyupJin Corporation
HyupJin Corporation is a Seoul based Korean specialty pharma company that develops and distributes healthcare products.

FRS, 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
Investigational New Drug application is the process through which a product must pass to get to the next stage of drug development known as clinical trials.

IRI
Ischemia Reperfusion Injury is a complication arising from a two-step event: 1) lack of oxygen due to an interruption of the blood supply (ischemia) resulting in tissue damage and production of toxic metabolites 2) the flooding of toxic metabolites into healthy tissue after reopening the blood supply.

Kamada
partners with international pharmaceutical companies in exclusive marketing and distribution arrangements for the Israeli market.

Leniolisib
Also known as CDZ173, is a synthetic phosphoinositide 3-kinase delta (PI3Kδ) inhibitor developed for the treatment of Activated Phosphoinositide 3-kinase Delta Syndrome ("APDS").

LTIP
Long Term Incentive Plan.

MAA
Marketing Authorisation Application is a request for market approval to the EMA in the European Union.

MASP
Mannan-binding lectin-Associated Serine Protease: molecules that initiate the lectin pathway of complement activation upon binding to microbial carbohydrates.

MT
Management Team.

NGAL/ N-GAL
Neutrophil Gelatinase-Associated Lipocalin: NGAL is a protein involved in innate immunity by sequestrating iron that in turn limits bacterial growth. NGAL is used as a biomarker of kidney injury.

Novartis
Swiss multinational pharmaceutical company based in Basel, Switzerland.

Oppenheimer & Co Inc.
Oppenheimer & Co is an American investment bank and financial services company.

Orbimed Advisors
Orbimed is a healthcare-dedicated investment firm.

Orphan Drug
Orphan Drug status 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.

PASLI
This is a rare genetic disorder of the immune system. PASLI stands for p110 delta activating mutation, causing senescent T cells, lymphadenopathy, and immunodeficiency.

PCI
Percutaneous Coronary Intervention is a minimal invasive surgical procedure used to treat narrowing of the coronary arteries of the heart found in coronary artery disease.

Pharmacovigilance
also known as drug safety, is the pharmacological science relating to the collection, detection, assessment, monitoring, and prevention of adverse effects in relation to pharmaceutical products.

PIP
Paediatric Investigation Plan.

POC
Proof of Concept.

Pompe
is a rare multisystem genetic disorder that is characterised by absence or deficiency of the lysosomal enzyme alpha-glucosidase (GAA).

Portzamparc
(BNP Paribas) part of the BNP Paribas group, is a French investment bank and financial services company.

Pre-eclampsia /PE
is a life-threatening multisystem condition in pregnancies leading to increased maternal and neonatal mortality and morbidity.

Primary Immunodeficiency
These are disorders in which part of the body's immune system is missing or does not function normally.

Protein-serine/Threonine kinase also known as Ak
is a serine/threonine-specific protein kinase (enzyme) that plays a key role in multiple cellular processes such as glucose metabolism, apoptosis, cell proliferation, transcription, and cell migration.

Proteinuria
The presence of excess proteins in the urine.

QA
Quality Assurance.

R&D
Research and Development.

Recombinant
refers to the combination of one form of genetic material (DNA) from one source with the DNA of a different biological source from a different species.

Reperfusion
is the restoration of blood flow to an organ or tissue after having been blocked.

rhaGAL alpha-galactosidase
recombinant human alpha galactosidase

rhaGLU alpha-glucosidase
recombinant human alpha glucosidase

rhC1INH
Recombinant human C1 esterase inhibitor or rhC1INH is the active component of RUCONEST®.

Roth
Investment banking firm dedicated to the small-cap public market.

RUCONEST®
RUCONEST® is the global registered trademark for Pharming's recombinant human C1 inhibitor.

Sanofi
is a French multinational pharmaceutical company.

Silicon Valley Bank
is a commercial bank.

Sinopharm
China National Pharmaceutical Group Co., Ltd.

SOBI
Swedish Orphan Biovitrum International AB.
Stifel is an American investment bank and financial services company.

SwissMedic
is the Swiss Agency for Therapeutic Products.

Transgenic
an organism is called transgenic when its cells carry genetic material from another species in addition to or replacement of parts of its own genetic material.

Treasury stocks
Also known as treasury shares or reacquired stock refers to previously outstanding stock that is bought back from stockholders by the issuing company.

VWAP
Volume Weighted Average Price of shares.

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Pharming®