Pharming®

Transforming the future for our patients

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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 authorization.

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Forward-looking statements

This Annual Report 2020 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 commercialize 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.

Directors report 2020 within the meaning of section 2:391 of the Dutch Civil Code

The following sections of this annual report form the director's report within the meaning of section 2:391 of the Dutch Civil Code: Business section, Risk Management and Control section, Corporate Governance section, Report of the Board of Directors Section, Report of the Remuneration Committee section and the Corporate Social Responsibility section.

Chief Executive Officer's Statement

Continued delivery against the Company's growth strategy

Since its inception in 1988, Pharming Group has been focused on developing ground-breaking new therapies for the safe, effective treatment of rare diseases where there remains an unmet medical need. By applying its patented transgenic technology platform, we can develop difficult to reproduce, highly glycosylated, recombinant human proteins.

Our first commercialized product from this platform, RUCONEST®, is a recombinant human C1 esterase inhibitor, or rhC1INH. RUCONEST® is approved for the treatment of acute hereditary angioedema, or HAE. This drug has been launched in over 40 countries, including across Europe and the US, where the company has developed its own sales force, allowing patients access to a medicine to manage their acute HAE attacks which in some cases, if left untreated, can be life-threatening. The successful commercialization of RUCONEST® has also enabled us to become a profitable, cash generative biopharma company, fuelling its own growth.

Pharming remains focused on its three-pillar strategy. Namely;

(i) continued sales growth of RUCONEST® through further country launches and increasing market share in acute HAE attack treatment;

(ii) indication expansion for rhC1INH and clinical development and commercialization of new recombinant human proteins using our platform technology, and;

(iii) in-licensing or acquisition of drug candidates that are in the late-stages of clinical development and that can potentially leverage our commercial infrastructure.

We are delivering on this strategy, as we continue to grow the number of patients benefiting from RUCONEST® in both the US and the EU. After reacquiring the commercialization rights for the remaining EU countries from our former partner SOBI, we are now gearing up to make RUCONEST® fully available in additional EU markets. Building our presence and infrastructure in additional EU markets will also facilitate the future roll-out in the EU of leniolisib, if approved.

We continue to be committed to advancing our pipeline through the clinical development of rhC1INH for the treatment of pre-eclampsia, acute kidney injury and severe pneumonia as a result of COVID-19 infections. We are also focusing on progressing the next candidate from our technology platform; our proprietary enzyme replacement therapy ("ERT") a-glucosidase for the treatment of Pompe's disease through to an Investigational New Drug stage.

Finally, following our 2019 in-licensing from Novartis, we continue to develop leniolisib for the treatment of activated phosphoinositide 3-kinase delta syndrome (APDS), an ultra-rare immune deficiency, which we expect to be able to launch, if approved, during 2H 2022. Leniolisib has been granted an Orphan Drug designation in both the EU and US.

Looking back at 2020, individuals, communities and companies globally faced unprecedented challenges as a direct result of the COVID-19 pandemic. For Pharming, despite the pandemic causing an initial halt in clinical development across our existing pipeline, the tenacity, dedication, creativity and focus of our staff has ensured we delivered another year of financial and operational growth. Throughout the year, Pharming continued to comply with international guidance and requirements across its operations to prioritize the health and safety of

its employees during the COVID-19 pandemic, which has continued into 2021. To date, there has been no impact on the upscaling or continued production of RUCONEST®, as well as no impact on the availability or distribution of RUCONEST® to HAE patients, as a result of the pandemic.

Building on solid foundations to enhance and accelerate long-term value creation

In January 2020, the Company successfully placed a €125 million of senior unsecured convertible bonds due in 2025 (the "Bonds"). The net proceeds of the issue of the Bonds were used to redeem the approximately US$ 56 million loan with Orbimed Advisors in full, thereby reducing the Company's financing costs and extending its debt maturity through the period to the potential approval of most of the Company's existing pipeline. The balance of the net proceeds will be used to support capital expenditure in relation to the expansion of the commercialization and manufacturing infrastructure of the Company, to serve as funding for the launch of leniolisib and for additional acquisitions/in licensing opportunities.

As sales of RUCONEST® continue to grow and we continue to study rhC1INH for future potential additional indications, our need for an enlarged and secure supply chain becomes ever more crucial. Therefore, we continue to invest in de-risking and upscaling production capacity. In Q1 2020, we received validation from both the European Medicines Agency (EMA) and US Food and Drug Administration (FDA) for our second starting material production facility. In the meantime, a third facility is under construction and a fourth facility is in the planning stage. Finally, in November 2020, we signed an agreement for the construction of a new facility to expand the Company's in-house processing capacity for rhC1INH, including the purification, filtration and concentration of starting material.

Pharming concluded the year with a successful dual listing in the US. On 22 December 2020, we announced that our American Depositary Shares were admitted for listing on the Nasdaq Global Market in the US under the symbol "PHAR" and started trading the next day. We believe this dual listing will enable us to accelerate our growth strategy to deliver significant value to our patients and other stakeholders through enhancing access to a much deeper pool of specialist biotech and life science investors and provides us with a US based currency for financing the acquisition of additional late stage assets.

Regulatory and clinical development progress despite impact of COVID-19

During the year, recruitment for our clinical development programs, as with most companies in our sector, was impacted by the COVID-19 pandemic. Our clinical trial for pre-eclampsia was halted, our clinical trial for acute kidney injury was halted immediately before commencement, and the pivotal trial for leniolisib, although only halted for a brief period, has seen recruitment slowed.

As a result of the ongoing halt in recruitment for our pre-eclampsia and acute kidney injury studies, timelines are incurring delays and are subject to the return of recruitment. However, following the restart of recruitment for our leniolisib program, we continue to expect the potential launch in H2 2022, subject to regulatory approval.

Despite this impact, we have made regulatory progress, with an indication extension for RUCONEST® and orphan drug designation for leniolisib, in addition to the initiation of a new clinical trial in patients with COVID-19. In April 2020, Pharming received formal European Commission (EC) approval to treat acute HAE attacks in children with RUCONEST®. This followed the positive opinion and recommendation from the EMA's Committee for Medicinal Products for Human Use on the extension of the indication for RUCONEST® received in March 2020. In addition, in October 2020, the EC granted orphan drug designation for leniolisib for the treatment of APDS, based on a positive opinion from the EMA's Committee for Orphan Medicinal Products.

Also in April 2020, Pharming announced positive results from five patients with confirmed SARS-CoV-2 infections hospitalized with related severe pneumonia that were treated with RUCONEST® under a compassionate use program, led by Dr. Michael Osthoff at the University Hospital Basel, Switzerland. These results were subsequently published in the peer-reviewed journal, Frontiers in Immunology. Following these positive results, in August 2020, Pharming announced the initiation of an investigator-sponsored, multinational, multi-center study into the use of RUCONEST® in the prevention of severe SARS-CoV-2 infections in patients hospitalized with related severe pneumonia. The clinical trial continues to recruit patients in centers across Switzerland and in centers in Brazil and Mexico. In December 2020, Pharming initiated a second clinical trial for the same indication, albeit with a different dosing regimen, at the Valley Hospital in Ridgewood, New Jersey in the US. This trial continues to recruit patients in centers across the US.

Board and Management changes

Prior to December 2020, we had a two-tier Board structure, consisting of a Board of Management, supervised by a separate Board of Supervisory Directors. In connection with the listing of our ADSs on Nasdaq, we converted our two-tier Board structure into a one-tier Board structure, with a single Board of Directors consisting of Executive Directors and Non-Executive Directors.

In March 2020, we announced Chief Financial Officer (CFO), Robin Wright, would not be seeking re-election as a member of the then Board of Management and therefore as CFO at the General Meeting of Shareholders. As a result, Robin left Pharming on 20 May 2020. In November 2020, Jeroen Wakkerman was appointed CFO. Jeroen is an experienced CFO and financial director in multinational companies. He has a proven track record and brings more than ten years of financial and business development experience in diverse sectors. His appointment bolsters our senior management skills and experience base as we continue to execute against our growth strategy. We are delighted to have him as a member of the newly formed Executive Committee.

The Company announced in May 2020 the nomination of Barbara Yanni and Mark Pykett to the Board of Supervisory Directors. They were both appointed as new Non-Executive Directors and joined the new Board of Directors following the corporate reorganization. In addition, Deborah Jorn succeeded Juergen Ernst as Vice-Chair of the Board following his retirement in November 2020.

Lastly, as part of the corporate reorganization, we appointed Anne-Marie de Groot as Chief Ethics and Compliance Officer, Mireille Sanders as Chief Operations Officer and Stephen Toor as Chief Commercial Officer and General Manager Americas. All appointees are members of the new Executive Committee, together with our Chief Medical Officer Bruno Giannetti and our CFO Jeroen Wakkerman.

Leiden, 6 April 2021
Executive Director and Chief Executive Officer
Sijmen de Vries

Our Business

About Pharming

Pharming is a global, commercial stage biopharmaceutical company developing innovative protein replacement therapies and precision medicines for the treatment of rare diseases and unmet medical needs. The flagship of our portfolio is our recombinant human C1 esterase inhibitor, or rhC1INH, franchise. C1INH is a naturally occurring protein that down-regulates the complement cascade in order to control swelling in affected tissues. Our lead product, RUCONEST® is the first and only plasma-free rhC1INH protein replacement therapy. It is approved for the treatment of acute hereditary angioedema, or HAE, attacks. We are commercializing RUCONEST® in the United States, the European Union and the United Kingdom through our own sales and marketing organization, and the rest of the world through our distribution network. The product is available on a named-patient basis in other territories where it has not yet obtained marketing authorization.

We are also developing rhC1INH for subsequent indications, including pre-eclampsia, acute kidney injury and we are also investigating the clinical efficacy of rhC1INH in COVID-19. In addition, we are studying our oral precision medicine, leniolisib (a phosphoinositide 3-kinase delta, or PI3K delta, inhibitor), for the treatment of activated PI3K delta syndrome, or APDS, in a registration enabling Phase 2/3 study in the US and Europe. Furthermore, we are leveraging our transgenic manufacturing technology to develop next-generation protein replacement therapies most notably our product candidate for Pompe disease, which is in preclinical stage.

Our unique, scalable, reproducible methodology is a GMP validated process for the production of high-quality recombinant human proteins. The process is supported by clinically proven safety and efficacy data, which demonstrate lower immunogenicity compared with current cell-line methods. Through our proprietary transgenesis method, we are able to make complex therapeutic proteins which are often difficult to make in other types of bioreactors and which are accepted as human by the body. We have optimized our platform to allow us to generate large quantities of recombinant proteins in a controlled, easily transferable and scalable fashion.

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

Our strategy

Our goal is to be a leading biopharmaceutical company focused on offering treatment options for patients with unmet medical needs, focused on rare diseases. Our three-pillar strategy for achieving our goal, and accordingly for creating long-term value as a company, is:

- Continuing to grow sales of RUCONEST® through further country launches and increasing our market share for the treatment of acute HAE attacks.
  - We have fully transitioned commercialization of RUCONEST® in major international markets in house with our own sales force. This pertains to the United States, the United Kingdom and the European Union. RUCONEST® is being sold in South Korea, Israel and certain Central and South American countries through our distributor network.

- Expanding indications for rhC1INH and clinical development and commercialization of new recombinant human proteins using our platform technology.
  - Developing rhC1INH for additional large unmet indications. We are currently developing rhC1INH for the treatment of several indications with unmet medical need, including severe pneumonia resulting from COVID-19 infection, acute kidney injury and pre-eclampsia.
  - Developing next-generation RUCONEST®. We are developing more convenient next-generation forms of RUCONEST® in order to address the needs of patients with HAE. In particular, we are developing a new low-volume injectable version of the full dose of RUCONEST® which can be used in future clinical trials for intramuscular, intravenous or subcutaneous delivery to increase convenience of treatment.
  - Develop next-generation protein replacement therapies. We will continue to leverage our transgenic manufacturing technology to develop next-generation protein replacement therapies, such as our product candidate for Pompe disease. We believe protein replacement therapies that are manufactured utilizing our transgenic technology may be less immunogenic than current therapies, which are manufactured using traditional biologic cell-line approaches.

- In-licensing or acquiring drug candidates that are in the late-stages of clinical development and that can potentially leverage the Company's commercial infrastructure
  - Developing leniolisib for the treatment of APDS. In 2019, we entered into a collaboration with Novartis, pursuant to which we acquired rights to market leniolisib. Leniolisib is currently being studied in a Phase 2/3 clinical trial in patients with APDS and also received orphan drug designation from the European Commission in October 2020. If the trial is successful, and leniolisib is approved, we will leverage our immunologist-focused sales and marketing infrastructure in the United States, the United Kingdom and the European Union for commercialization.
  - Acquiring or in- licensing of new programs or companies that have assets that can be commercialized using our in house sales and marketing infrastructure. We intend to continue our search to develop and acquire new programs or companies that will be synergistic with our own commercialization organization and its expertise and experience. The 2019 acquisition of leniolisib highlights the strength of this strategy.

Our markets

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 established 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 scalable 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 is estimated by most observers as between 7,000 and 8,000 patients. We are marketing RUCONEST® through our own sales force in this market and distributing via large specialty wholesale companies that are specialized in distribution of pharmaceuticals in our and our competitors' disease area.

The value of the combined acute and prophylactic market for HAE medicines in the US is estimated to be over $1.7 billion per annum. In the US, where prophylaxis of HAE is widely used, HAE patients, whether on prophylaxis or not, typically have, under their personal treatment plans, access to multiple medications, so as to be able to also treat their break- through attacks. By now, as result of extensive training of patients, the vast majority of treatments for both acute attacks and prophylaxis is done by patients themselves at home. RUCONEST® mostly serves patients that suffer from frequent attacks, whether on prophylaxis treatment, or not.

Europe

The European market for HAE is estimated at €262 million per annum. Pharming reacquired commercial rights to distribute RUCONEST® in Europe from Swedish Orphan Biovitrum AB, or SOBI, in January 2020. Accordingly, we have recently extended our direct sales and marketing organizations in Europe. This re-acquisition of 36 territories across Eurasia (including all the remaining EU countries not already directly marketed to by Pharming) allows full marketing activity in all these remaining EU

countries as approvals have been obtained. In some of these countries, outside of the EU, distribution will remain in the control of the HAEi GAP program. This re-acquisition was immediately accretive to our 2020 earnings, as supplies were provided to our previous partner at a price below cost of goods for historic reasons, and the transition from SOBI to Pharming distribution was completed during 2020.

During the year we further expanded our commercial teams, as well as added additional resources in medical affairs, regulatory affairs and pharmacovigilance.

Pharming's continuing expansion of commercialization of RUCONEST® in Western Europe and other countries is proceeding, 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 realize RUCONEST®'s full potential in western Europe. These obstacles are gradually being overcome as the efficacy and reliability of RUCONEST® in both therapeutic effect and supply leads to greater adoption by national medicines agencies and important clinics across the region.

While the United Kingdom's withdrawal from the European Union, or Brexit, could result in increased regulatory and legal complexity, we believe that our existing commercialization of RUCONEST® in the United Kingdom continues to have additional growth potential.

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

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. This collaboration includes full development and commercialization rights for RUCONEST® in China. The full RUCONEST® manufacturing process and quality system has been transferred to Sinopharm, enabling future manufacture for China but also allowing Sinopharm to supply Pharming with RUCONEST® in the future. We may receive certain regulatory and manufacturing-associated milestones, and we are eligible to receive margin on RUCONEST supplies to Sinopharm, if RUCONEST were to be approved as imported product ahead of the approval of the CDIBP manufacturing plant and low to mid-single digit royalties from sales in China by CDIBP or other affiliates of Sinopharm.

The company expects to supply launch material to CDIBP, possibly as soon as 2021 until CDIBP's Chengdu facility is finished and validated for sales to China, the EU and the US. This will help speed the availability of the drug in China by a number of years. Once this facility is ready, it should also be able to supply Pharming, further reducing our cost of goods.

Other markets

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

HAEi global access program ("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 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 (HAEi).

Pharming is confident in the ability of its partners to commercialize RUCONEST® successfully in their territories. However, 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 commercialization partners wherever possible.

Highlights of 2020

In January,

the Company successfully placed a €125 million of senior unsecured convertible bonds due 2025 (the "Bonds"). The offer was fully subscribed. The Bonds were offered via an accelerated book building process through a private placement made 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 approximately US$ 56 million loan with Orbimed Advisors in full, thereby reducing the Company's financing costs and extending its debt maturity through the period to the potential approval of most of the Company's existing pipeline. The balance of the net proceeds were used to support capital expenditure in relation to the expansion of the commercialization and manufacturing infrastructure of the Company, and will serve as funding for the launch of leniolisib, a product in licensed from Novartis in August 2019 and for additional acquisitions/in-licensing opportunities.

The Company also made an initial payment of €5.5 million to SOBI for the termination of its license with SOBI and the re-acquired rights. The remaining €2.0 million was paid in July 2020, following completion of the transition of aspects of the RUCONEST ® business in the former SOBI territories.

Pharming'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 (EMA).

In March,

the Company announced that the Committee for Medicinal Products for Human Use (CHMP) an advisory committee to the EMA, had adopted a positive opinion recommending an extension of the indication for RUCONEST® to the European Commission for the treatment of acute angioedema attacks in children with hereditary angioedema (HAE).

Pharming's second facility, following its January approval by the EMA, also received the US Food and Drug Administration's (FDA) approval. This followed Pharming's Prior Approval Supplement to add the new Dutch production facility's manufacture of starting material to the US Biologics License Application (BLA) to support its lead product, RUCONEST® and will enable the commercial sale of output derived from the facility in the USA as well.

Additionally, Pharming announced that it had been accepted into the Euronext Amsterdam MidKap index (AMX).

In April,

Pharming announced results from five patients with confirmed COVID-19 (SARS-CoV-2) infections hospitalized with related severe pneumonia that were treated with RUCONEST® under a compassionate use program at the University Hospital Basel, Switzerland.

Additionally, the Company announced that it has received formal European Commission approval to treat acute hereditary angioedema (HAE) attacks in children with RUCONEST®. Following the positive opinion and recommendation EMA Committee for Medicinal Products for Human Use (CHMP) on the extension of the indication for RUCONEST® received on 26 March 2020.

In August,

The Company announced the publication of data in the peer-reviewed journal, *Frontiers in Immunology*, from April's compassionate use program of five patients with confirmed COVID-19 (SARS-CoV-2) infections hospitalized with related severe pneumonia who were treated with RUCONEST® at the University Hospital Basel, Switzerland.

The Company also announced that the first patient has been enrolled in a randomized, controlled, investigator-initiated clinical trial in up to 150 patients for the treatment with RUCONEST® of patients with confirmed COVID-19 (SARS-CoV-2) infections hospitalized with related severe pneumonia at the University Hospital Basel in Basel, Switzerland.

In October,

The Company announced that the European Commission has granted orphan drug designation for leniolisib for the treatment of activated phosphoinositide 3-kinase delta syndrome (APDS), based on a positive opinion from the Committee for Orphan Medicinal Products (COMP) of the EMA.

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In November,

The Company announced the appointment of Jeroen Wakkerman as Chief Financial Officer (CFO), with effect from 16 November 2020. This followed Robin Wright, Pharming's former CFO, leaving the Company on 20 May 2020.

Additionally, Pharming announced it has committed to building a new facility to expand the Company's downstream processing capacity for its lead product, RUCONEST®.

The Company also announced that its Vice-Chair, Juergen Ernst, decided to retire from the Board of Supervisory Directors (BOSD) with immediate effect for personal reasons. Ms. Deborah Jorn, a member of the BOSD, succeeded Juergen Ernst as Vice-Chair.

Finally, the Company announced that it had publicly filed a registration statement with the U.S. Securities and Exchange Commission (the "SEC") in connection with a proposed listing of ADSs representing the Company's ordinary shares of nominal value €0.01 each ("Ordinary Shares") on the Nasdaq Global Market ("Nasdaq").

In December,

The Company announced that the first patient has been enrolled in a randomized, open label, parallel group, controlled, pilot clinical trial in up to 120 patients hospitalized with confirmed COVID-19 treated with RUCONEST® for the prevention of severe SARS-CoV-2 infections at the Valley Hospital in Ridgewood, New Jersey in the United States.

The Company also held an Extraordinary General Meeting of shareholders (EGM), at which all proposals were approved. As a result, the one-tier board structure became effective, and Barbara Yanni and Mark Pykett were appointed as Non-Executive Board members.

Lastly, the Company announced that, as of 22 December 2020, its ADSs were admitted for listing on the Nasdaq under the symbol “PHAR” and began trading on Nasdaq Global Market on 23 December 2020. Each ADS represents 10 of the Company’s ordinary shares of €0.01 nominal value (“Ordinary Shares”).

After the year end 2020

Since 31 December 2020, the following additional event has occurred:

On March 23, 2021 the Company announced the nomination of Steven Baert, Leon Kruimer and Jabine van der Meijs as Non-Executive Directors to the Board. Their official appointments will be confirmed by the Company’s Annual General Meeting of Shareholders that will be held on 19 May 2021. Until that time, Steven Baert, Leon Kruimer and Jabine van der Meijs will hold observational roles on the Board of Directors. Steven, Leon and Jabine will replace Juergen Ernst who stepped down in November 2020 and Aad de Winter and Barrie Ward, both of whom cannot be re-elected due to the maximum term of office for Non-Executive Directors according to the Dutch Corporate Governance Code.

Financial review 2020

The financial objectives for 2020 were:

- Ensuring that sales of RUCONEST® in all markets is optimized for HAE so that the maximum potential for the product can be achieved in this indication;
- Ensuring that the 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 proceed;
- 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 optimized for shareholders

Except for the clinical development activities, which were halted most of the year, as result of the COVID-19 pandemic, all of these objectives were achieved in 2020. In addition, going forward, the development of a new ERT for Pompe was prioritized over Fabry.

For 2021, the main financial objectives are very similar:

- Ensuring that sales of RUCONEST® in all markets is optimized for HAE so that the maximum potential for the product can be achieved in this indication;
- Ensuring that the development of new indications for rhC1INH in other larger indications; the new drug candidate leniolisib for APDS and of the ERT for Pompe disease proceeds smoothly and positively;
- Ensuring that the pace of research and development costs underpins the pipeline development whilst 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 optimized for shareholders

Financial Summary

In 2020 Pharming increased Revenues by 9.9% to € 185.7m and delivered even stronger Operating profit growth of 10.7%. Net Profit decreased by 8.7% to € 33.0m due to an increase in finance costs, mainly from negative currency effects. Cash increased significantly due to strong operating cash flow and the proceeds from a convertible bond issue. This section will further elaborate on the Pharming's financial performance in 2020.

The next table sets out the movements in the most important items on the Consolidated Income Statement and the Consolidated Balance Sheet in accordance with International Financial Reporting Standards as adopted by European Union. Further on in this section movements on these items are clarified, preceded by a disclosure on non-IFRS performance measures.

Amounts in €m except per share data	2020	2019	% Change
Consolidated Income Statement			
Revenues	185.7	169.0	9.9%
Gross profit	165.1	147.7	11.8%
Operating profit	66.7	60.9	9.6%
Finance cost, net	(28.5)	(14.5)	96.9%
Income tax expense	(5.6)	(10.5)	(47.0%)
Profit for the year	33.0	36.2	(8.7%)
Consolidated Balance Sheet			
Cash and cash equivalents (including restricted cash)	168.3	68.6	145.3%
Share Information			
Basic earnings per share (€)	0.051	0.058	(12.1%)
Fully-diluted earnings per share (€)	0.048	0.054	(11.1%)

Alternative Performance Measures

Furthermore, we believe the success of Pharming can be captured in a set of Alternative Performance Measures ("APMs"). These are EBIT, EBITDA, Adjusted EBITDA and Net Debt and are measures to evaluate and manage our business on an ongoing basis. For a definition of the measures refer to note 2.4 of the Consolidated Financial Statements. We believe these measures to be useful for investors to compare key financial data both within and across reporting periods. Specifically, we believe that EBIT, EBITDA, and Adjusted EBITDA provide investors with a supplemental measure of our operating performance and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Moreover, we believe that inclusion of Net Debt in this report is appropriate to provide investors information on our ability to meet debt obligations by using cash and cash equivalents.

Amounts in €m	2020	2019
EBIT	67.1	61.1
EBITDA	72.4	65.6
Adjusted EBITDA	72.4	64.9
Net Debt	(44.7)	(23.0)

Revenues and Gross Profit

Revenues increased by € 16.7 million, or 9.9%, from €169.0 million for the year ended 31 December, 2019 to €185.7 million for the year ended 31 December, 2020. The increase was primarily a result of our increased sales of RUCONEST® in the U.S. market, which increased from €162.7 million in the year ended 31 December, 2019 to €177.4 million in the year ended 31 December, 2020.

Revenues in Europe increased by 44.0% from €5.0 million for the year ended 31 December, 2019 to €7.2 million for the year ended 31 December, 2020. This increase was primarily caused by the company continuing to build out its EU commercial infrastructure and expanding into new territories following the re-acquisition of EU rights for RUCONEST® from Sobi in January 2020.

Cost of sales for the year ended 31 December, 2020 amounted to €20.6 million (for the year ended 31 December, 2019 this was € 21.4 million). The inventory valuation at 31 December 2020 of €17.2 million is stated net of an impairment of €0.5 million (2019: €0.8 million). This amount decreased compared to prior year as a result of the termination of the distribution agreement with Sobi, and the fact that the Company's own sales have a higher net realizable value. The costs of vials used in preclinical and clinical programs are presented under the research and development costs.

Gross profit increased €17.4 million, or 11.8%, from €147.7 million for the year ended 31 December, 2019 to €165.1 million for the year ended 31 December, 2020. The main reasons for this increase were the growing sales of RUCONEST® in the US market combined with a lower cost of sales level.

Other Operating Costs and Operating Profit

Other Operating costs increased to €100.0 million for the year ended 31 December, 2020 from €87.2million for the year ended 31 December, 2019. The increase is a result of the increased sales activities in the US, and increased

research and development costs for both our current product as the new pipeline.

Operating profit improved strongly to a profit of €66.7 million in 2020 from € 60.9 million in 2019, an increase of 9.6% in spite of the increase in operating costs, mainly due to the increase in gross profit as a result of strong sales growth in major markets.

Finance cost, net

Other finance income decreased by approximately €0.4 million, from €1.0 million for the year ended 31 December, 2019 to €0.6 million for the year ended 31 December, 2020, as a result of decreased interest on cash balances due to lower interest rates in the United States. There is no other finance income originating from foreign currency translation.

Other finance expenses increased by €13.9 million, or 91.0%, from €15.3 million for the year ended 31 December, 2019 to €29.2 million for the year ended 31 December, 2020. This increase was primarily due to the sudden and significant decrease in the US dollar versus the Euro during 2020. Significant negative currency effects (€16.8 million) were incurred on the cash reserves partly invested in US government securities and on the continuous inflow of mainly US dollars from revenues.

Next, the interest expenses on loans and borrowings declined significantly due to repayment of the Orbimed loan facility in January 2020, resulting in a decrease of €6.7 million during the year ended 31 December, 2020. The Company incurred one-off payments of fees and penalties amounting to €3.8 million in relation to the repayment of the Orbimed loan facility.

Finally, the Company faced interest expenses on the convertible bonds, being issued during January 2020. The Company offered €125 million of 5-year convertible bonds. The bonds were more than three times oversubscribed in a book building exercise conducted by J.P. Morgan, the sole book runner, and the offer closed within a few hours. The Bonds were offered via an accelerated book building process through a private placement to institutional investors outside the United States of America, Australia, South Africa and Japan only. 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 commercialization and manufacturing infrastructure of the Company and also serve as funding for the launch of Pharming's leniolisib product, as well as for additional acquisitions/in-licensing opportunities.

Income tax expense

Income tax expense decreased €4.9 million (47%) from €10.5 million for the year ended 31 December, 2019 to €5.6 million for the year ended 31 December, 2020. The decrease in tax expense of €4.9 million is mainly due to the reduced profit before tax (€1.9 million), the federal and state tax true up (€1.5m), foreign tax rate differential (€0.2m) and other smaller differences (€0.3m).

Profit for the year

Total Net Profit in 2020 of €33.0 million represented a decrease of 9.7% over 2019 (€36.2 million). The decrease was despite the increase in operating profit and reflects the increase in Finance cost. This increase in Finance cost was caused by negative currency effects (€16.8 million) incurred on the cash reserves invested in US government securities and on the inflow of US dollars from revenues, as well as costs in relation to the repayment of the Orbimed loan facility (€ 3.8 million).

Intangible assets

In 2020 intangible assets increased, mainly as a result of the payment of €7.5 million related to the re-acquisition of the EU commercial rights, formerly owned by Sobi. As part of this acquisition the company acquired multiple items which are considered as one intangible asset. When assessing the economic lifetime of the intangible asset on an economical basis, the company's intention and expectation is to obtain benefits from the asset until the end of the expected profitable lifespan of the license product. The future economic benefits from the intangible assets are expected to flow to the entity for a period of 12 years. As such the useful life is determined for 12 years and the intangible assets will be amortized over the useful life on a straight-line basis.

Property, plant and equipment

Property, plant and equipment increased from €8.6 million for the year ended 31 December, 2019 to € 10.0 million for the year ended 31 December, 2020 largely due to investment of €4.1 million, mainly in operational facilities, research and development facilities and laboratory equipment (2019: €2.4 million). The investments were partly off-set by depreciation charges.

Inventories

Inventories increased from €14.5 million for the year ended 31 December, 2019 to €17.2 million for the year ended 31 December, 2020 largely due to an increase in work in progress inventory anticipating sales growth.

Cash and cash equivalents

The cash position (including restricted cash) increased from €68.6 million for the year ended 31 December, 2019 to €168.3 million for the year ended 31 December, 2020. This was mainly due to strong cash flow from operating activities and proceeds from the issue of a convertible bond which were partly offset by the repayment of loans.

Equity

The equity position improved 42.7% from €104.7 million for the year ended 31 December, 2019 to €149.4 million for the year ended 31 December, 2020, mainly due to the changes in the net result achieved by the Company.

Performance of Pharming shares

The closing number of shares as at the reporting date was 638,821,619 (2019: 631,323,467). New issues of stock representing a total of 7,498,152 shares were made to investors during the year and related to the long-term incentive plan 2017, 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 758,499,171.

Outlook 2021

For the remainder of 2021, the Company expects:

- Continued growth in revenues from sales of RUCONEST®, mainly driven by the US and expanded EU operations, subject to the progression of the COVID-19 pandemic, with quarterly fluctuations in revenues expected, as a result of the ongoing effects of the pandemic on access to customers and phasing of ordering patterns.
- Maintenance of positive net earnings during the year, we therefore do not expect to require additional financing to maintain the current business.
- Investments in acquisitions and in-licensing of new development opportunities and assets, as these occur.
- Continued investment in the expansion of production of RUCONEST® and production of leniolisib
- Investment in pre-marketing activities for leniolisib and the continuing registration-enabling study for leniolisib for APDS, as well as our ongoing clinical trials for rhC1INH and other development activities.
- Continued close monitoring of the ongoing COVID-19 pandemic and the potential impact on the business.

No further specific financial guidance for 2021 is provided.

As previously announced, as of 1 January 2021, the Company changed its presentation currency from Euro to US dollar.

Going concern

Pharming's 2020 financial statements have been drawn up on the basis of a going concern assumption.

Looking forward, we see continuing uncertainties following the COVID-19 outbreak and market volatility. In the preparation of the financial statements, the future impact of the global pandemic COVID-19 outbreak has been considered as part of the adoption of the going concern. In particular, the Executive Directors and Officers have 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 12 months. While it is possible that sales growth may be slightly lower than expected if business 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.

In addition to the above, risk factors, possible future actions and other uncertainties remain, and it is currently not possible to reliably estimate the future impact thereof for the company. Whilst uncertain, we do not believe, however, that the impact of the COVID-19 virus would have a material adverse effect on our financial condition or liquidity, and we expect to be able to meet our financial obligations.

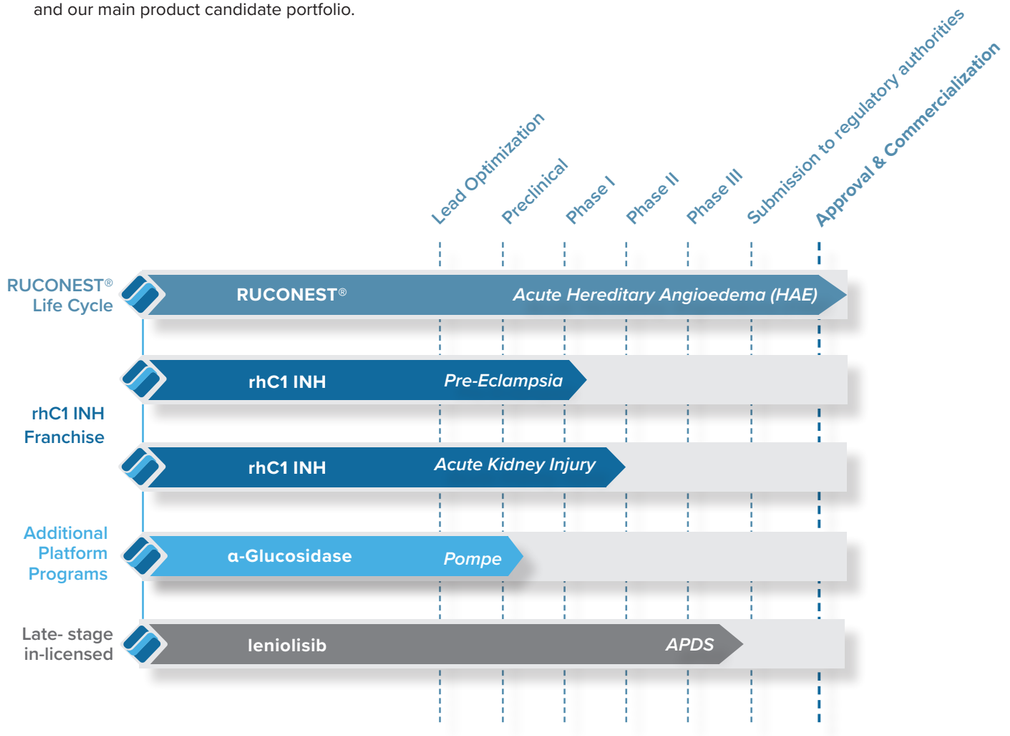
The 2020 year-end cash balance (including restricted cash) of € 168.3 million is expected to fund the Company for more than twelve months from the date of this report. The normal receipts of sales revenues from customers and normal costs together increased the Company's cash balance to approximately €176.7 million as of 31 March 2021. So far, we have not experienced any noteworthy disruption to our supply chain and none of the Company's (external) production facilities/sales locations have been closed. 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.

The Board of Directors anticipate that during 2021 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 2020. We remain confident that the development of RUCONEST®, additional rhC1INH potential products and additional in-licensed products such as leniolisib, will enable this situation to continue.

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 or to raise debt, or through a combination of such instruments, to support an acquisition or in-licensing of additional assets, if appropriate terms can be obtained that are in the best interests of shareholders.

Pipeline Development

The following chart summarizes the status of our product and our main product candidate portfolio.



Development of RUCONEST®

RUCONEST® for the treatment of acute HAE attacks

Our lead product, RUCONEST® is the first and only rhC1INH protein replacement therapy that is approved for the treatment of acute hereditary angioedema, or HAE, attacks. HAE is a rare genetic condition that occurs in between approximately 1 in 10,000 and 1 in 50,000 people worldwide. In the United States, the market for HAE treatment is estimated to be between 7,000 and 8,000 patients for both acute and prophylactic treatment. HAE is caused by a deficiency of the protein C1INH. This deficiency leads to the uncontrolled activation of the complement cascade, resulting in the over-production of some mediators, leading to the leaking of fluid from blood vessels to the tissue space. The most common symptoms of an HAE attack are caused by overproduction of the bradykinin initiator protein, kallikrein, and thus excessive leakage of fluid into tissue spaces (edema or swelling). Patients may suffer bouts of excruciating abdominal pain, nausea and vomiting that is exacerbated by swelling in the intestinal wall. Airway, or laryngeal, swelling is particularly dangerous and can lead to death by asphyxiation. Untreated, attacks can last between 48 and 120 hours and can be fatal.

Our revenues from the sale of RUCONEST® were €185.7 million and €169.0 million for the years ended December 31, 2020 and 2019, respectively. We are currently marketing RUCONEST® in the United Kingdom and the European Union through our own sales force, and RUCONEST® is being sold in South Korea, Israel and certain Central and South American countries through our distributor network.

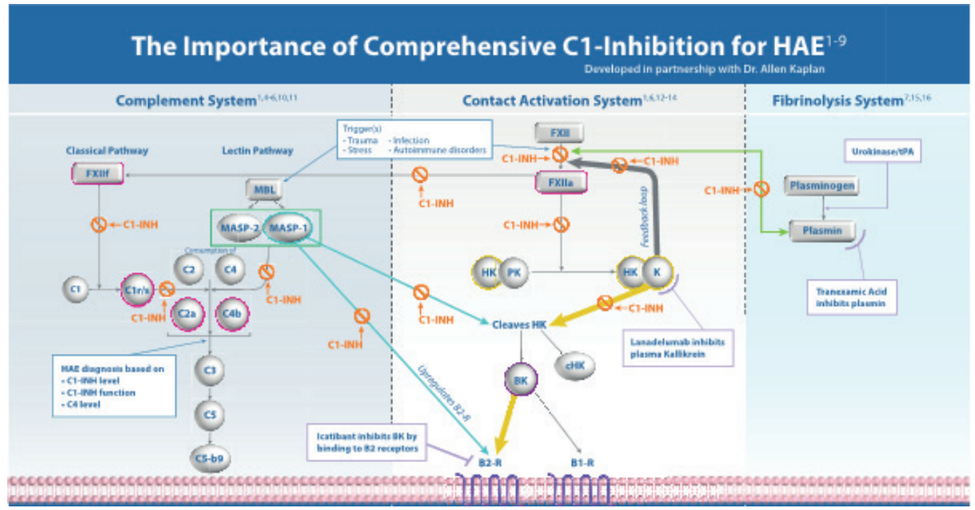
RUCONEST® has been shown to normalize C1INH effects in HAE patients. Returning C1INH activity levels to normal has been shown to be clinically relevant in HAE attack treatment. The standard posology for the treatment of HAE attacks is 50 units per kilogram of the reconstituted product. RUCONEST® is administered through a slow intravenous (IV) injection. One vial contains 2100 U of lyophilized product to be reconstituted with 14ml of water for injection. RUCONEST® irreversibly binds to several target molecules, including, importantly the coagulation factor FXII and the protease kallikrein, which (when unbound) 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 the HAE attack.

We are currently developing a next-generation low-volume formulation of RUCONEST® for intramuscular administration or other routes of administration, to increase convenience of therapy. We have received approval from the EMA for the extension of the RUCONEST® label to include pediatric patients (aged 2-13 years).

RUCONEST® has regulatory exclusivity in the European Union expiring in 2025 and in the United States biologics reference product exclusivity expiring July 16, 2026.

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 that 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 and 1 in 50,000, depending on the genetic diversity of the population. Although acute attacks usually begin to be noticed in childhood or adolescence, the condition is often not correctly diagnosed for several years due to the disorder's rarity. 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. 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, with patients experiencing an average of approximately 27 swelling attacks per year.



The figure above demonstrates the importance of C1INH on the complement cascade, and its significance for HAE

We are currently marketing RUCONEST® in the United States, the United Kingdom, and the European Union through our own internal commercialization organization, and RUCONEST® is being sold in South Korea, Israel and certain Central and South American countries through our distributor network.

Next-generation RUCONEST®

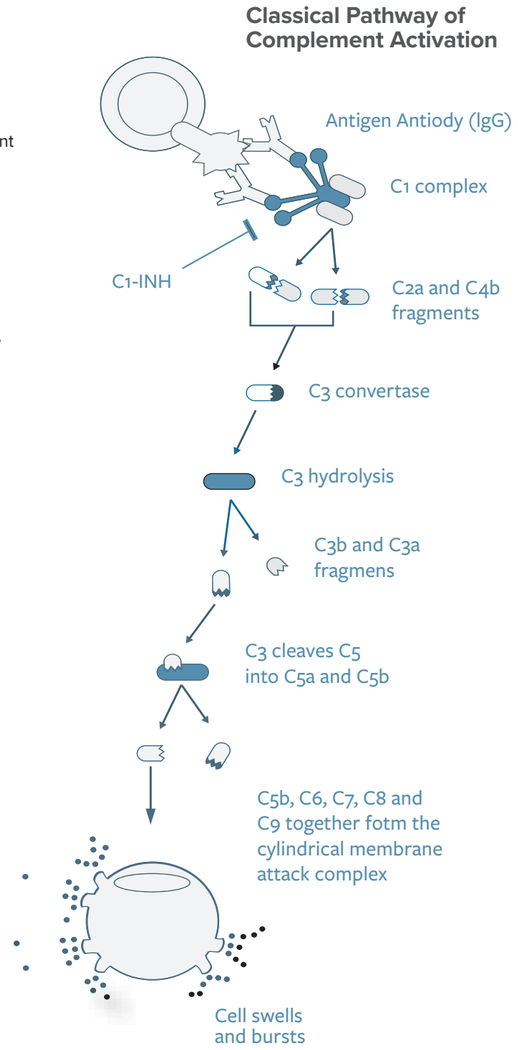
We are developing a new low-volume injectable version of the full dose of RUCONEST® which could be used for clinical trial for intravenous, intramuscular or subcutaneous delivery to improve convenience of treatment. Subject to approval, the new form of RUCONEST® will be tested in appropriate clinical settings for intramuscular and/or intravenous delivery. This development program is progressing more slowly than previously planned, mainly due to high sales demand and patient need for RUCONEST® utilizing existing supplies of rhC1INH, which therefore could not be diverted to validate the manufacturing processes for this new formulation and to produce clinical trial material.

Additional development programs for rhC1INH

C1INH Protein Biology

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 component of the immune system, responsible for certain immune-mediated inflammation reactions, including most reactions that cause vascular edema (swelling). Inflammation enables the movement of immune cells through vascular leakage of plasma into tissues that are normally difficult to access. Inflammation also raises the local temperature to activate immune defense mechanisms and inhibit pathogen chemistry. The complement cascade and the contact activation pathway also enhance the ability of antibodies and phagocytic cells (a type of white blood cells) to clear microbes and damaged cells from our bodies, and attack the cell membranes of pathogens.

The complement system can be recruited and brought into action by antibodies and other challenge triggers generated by the adaptive 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. When stimulated by one of several triggers, enzymes called proteases cleave specific proteins to release active fragments called cytokines which initiate an amplifying cascade of further cleavages. The end result of this complement activation 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 complement system, including plasma proteins and specific cell membrane receptors. Once the complement cascade has been triggered, the body also produces a counter-protein, C1INH to start to slow the reaction down. The rate at which the reaction can be slowed down is constant as the body can only produce up to a maximum level of C1INH. This means that serious trigger events can take much longer to resolve than minor ones, because the level of C1INH existing in the plasma, as well as new production can meet the demands of minor releases of cytokines more quickly than major releases.

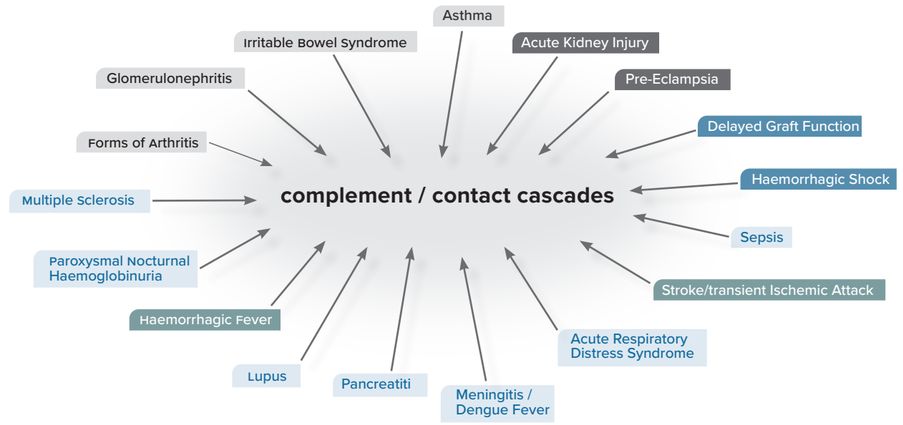
The most powerful releases of cytokines, sometimes known as “cytokine storms”, can occur so fast that a fatal “shock” reaction or severe damage to organs occurs before the C1INH production can bring the release under control. This dynamic is thought to play an important role in many disease conditions and injury situations, where inflammation or vascular leakage running out of control are responsible for many of the symptoms of those conditions. It can be these resulting symptoms that do the most damage.

rhC1INH may also be useful in the body’s recovery from hypoxic situations, 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 these conditions, therefore, there may be a role to play for externally administered C1INH which could act to normalize 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.

We have developed the only plasma-free recombinant human C1INH commercial product. Our rhC1INH product has been approved for the treatment of acute HAE attacks, and we and our collaborators are studying rhC1INH for the treatment of other large and unmet indications, including COVID-19, certain acute kidney injuries and pre-eclampsia.

The following diagram shows the most important indications in this area for which there are scientific findings highlighting the involvement of complement. Many of these conditions are entirely unmet medical needs, often with no approved therapy. 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:



COVID-19

We are currently investigating rhC1INH for the treatment of severe pneumonia resulting from COVID-19 infection. COVID-19 is the disease caused by the novel coronavirus SARS-COV-2, which was declared to be a pandemic by the World Health Organization in March 2020. Systemic hyper inflammation is a hallmark of more severe stages of COVID-19 leading to acute respiratory distress syndrome, mechanical ventilation and ultimately death. We believe that complement activation may lead to a cytokine storm, a dangerous biochemical process that worsens the complications of COVID-19 infection, such as organ failure and death. Because C1INH mediates the complement cascade and inhibits the kallikrein-kinin system, we believe rhC1INH may dampen uncontrolled complement activation and collateral lung damage, reduce capillary leakage and subsequent pulmonary edema and reduce the generation of micro thrombi by inhibiting MASP-1 (a human enzyme) induced clot formation and factor XII amplified thrombo-inflammation.

In April 2020, we reported results from a compassionate use program at the University Hospital Basel, Switzerland, in which four male patients and one female patient (between 53-82 years of age) with COVID-19, suffering from related severe pneumonia, who did not improve despite standard treatment, including hydroxychloroquine and lopinavir/ritonavir, had been administered rhC1INH. Following treatment, fever resolved in four of the five patients within 48 hours, and levels of C-reactive protein and the inflammatory cytokine IL-6 decreased significantly. Soon thereafter, four of the five patients were discharged from the hospital as fully recovered. One patient had increased oxygen requirement and was eventually transferred to the ICU for intubation but has also since made a full recovery.

Based on the results of the compassionate use program, enrollment commenced in a randomized, controlled, investigator-initiated clinical trial in up to 150 patients of rhC1INH for the treatment with confirmed COVID-19 infections hospitalized with related severe pneumonia at the University Hospital Basel in Basel, Switzerland. The study was extended to several other centers in Switzerland, Brazil and Mexico. In addition, enrollment has commenced in a second investigator-initiated randomized, open label, parallel group, controlled, pilot clinical trial in up to 120 patients hospitalized with confirmed COVID-19 treated with RUCONEST® for the prevention of severe SARS-CoV-2 infections at the Valley Hospital in Ridgewood, New Jersey in the United States. Both clinical studies in hospitalized patients with COVID-19 seek to identify if the administration of additional C1 INH can control or stop the systemic hyper inflammation syndrome or cytokine storm.

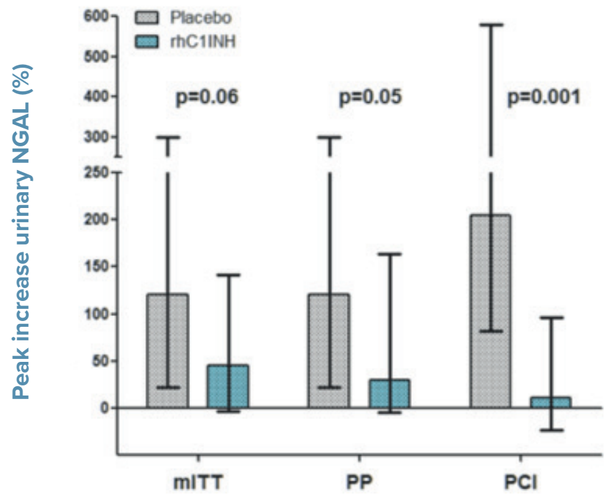
Acute Kidney Injury (AKI)

We are developing a rhC1INH therapy for the prevention and treatment of acute kidney damage resulting from contrast medium, which is injected as part of a contrast-enhanced examination, for example coronarography. Especially in patients with impaired kidney function the difficulty in clearing the injected contrast medium can result in further kidney damage which might be irreversible and ultimately requiring permanent dialysis or renal transplantation. AKI often leads to prolonged hospitalization or intensive care, which is extremely expensive and often results in poor long-term outcomes for patients, or even death.

Contrast medium injury is responsible for 11% of cases of hospital-acquired renal insufficiency, and is the third most common cause of renal failure after impaired renal function. AKI affects between 1% and 2% of the general population, and up to 50% of high-risk subgroups following coronary angiography or percutaneous coronary intervention.

In October 2018, we announced positive results from a Phase 2 investigator-initiated study of rhC1INH in a double-blind, placebo-controlled clinical trial in 75 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. In the study, patients were given either rhC1INH (<84kg: 50 U/kg; >84kg: 4,200 U) or placebo (0.9% sodium chloride). In the sub-group of patients (n=38) undergoing percutaneous coronary interventions, or PCI, such as stent insertions, the intent-to-treat analysis in this group showed that patients on rhC1INH had a median increase in peak urinary Neutrophil Gelatinase-Associated Lipocalin, or NGAL, concentration within 48 hours of 1.8 ng/ml, compared with an increase of 26.2 ng/ml in the placebo arm (p=0.038). As set forth below, 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 rhC1INH arm and 205.2% in the placebo arm (p=0.001).

Relative urine NGAL peak increase 48 h, (%)



Following this positive outcome, we have completed preparations for a new Phase 2b study of the effects of RUCONEST® in patients undergoing PCI accompanied by contrast-enhanced examinations. The Phase 2b study will also be initiated by us and led by Dr. Osthoff. This study was planned for the first half of 2020, but was halted due to COVID-19. Subject to COVID-19-related delays, the study is now planned to start in 2021.

Pre-eclampsia (PE)

We are developing a rhC1INH protein replacement therapy for the treatment of pre-eclampsia. 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 placental spiral artery development may be a possible trigger of the complement cascade. Treatments may include abortion or premature birth, the latter being often associated with high rates of mortality. Palliative care of pregnant women suffering from PE and neonatal care of premature babies can drive the costs of pre-eclampsia patients very high. Complications after birth can be severe and affect more than 50% of all newborns under these conditions, with growth restrictions, learning difficulties and moderate to severe disabilities.

World-wide almost 2.5 million cases of pre-eclampsia are reported annually, with rates running at between 3% and 10% of all pregnancies in developed countries. In the United States alone, estimated annual cases of pre-eclampsia exceed 120,000. Each year, 50,000 maternal deaths are recorded for patients who proceed to full-blown eclampsia.

As shown in the table below, a study of C1INH levels in pregnant women has demonstrated that women suffering from PE have reduced circulating C1INH levels.

Analytical data (mean ±1SD) in normal pregnancy, preeclampsia and in non-pregnant women

	(A) Normal pregnancy (n=20)	(B) Mild pre-eclampsia (n=17)	(C) Moderate pre-eclampsia (n=10)	(D) Non-pregnant women (n=20)
C1-INH activity (%)	74.3 ± 15.5	64.4 ± 14.0	55.5 ± 15.8	95. ± 10.8
C1-INH antigen (%)	68.2 ± 10.4	62.7 ± 13.3	53.1 ± 8.8	86.5 ± 12.2

We believe that protein replacement therapy with rhC1INH may slow the rate of progress of the condition and thereby reduce the level of damage that it can cause to the mother and the unborn baby.

We are conducting an open label, single-arm, multi-stage, multi-center Phase 1/2 study in late-stage pre-eclampsia in the Netherlands and Australia. Recently the study was extended to include a center in Mauritius. The study will initially be conducted to assess the tolerability and safety of treatment with RUCONEST® in 30 patients with mid- to late-stage symptomatic PE. This study was approved in 2019, but was halted due to COVID-19.

Additional pipeline development

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

We are developing leniolisib (a phosphoinositide 3-kinase delta, or PI3K delta, inhibitor), for the treatment of activated PI3K delta syndrome, or APDS. In partnership with Novartis we are currently carrying out a double blind, placebo controlled, randomized, registration-enabling Phase 2/3 trial followed by an open label extension safety trial which is currently enrolling patients in clinical sites in the United States and Europe.

APDS, is a chronic primary immunodeficiency. Primary immunodeficiencies, or PIDs, lead to immune system dysregulation with numerous complications. More than 300 gene mutations are known to cause PIDs, and the estimated prevalence of PIDs are 1 in 1,200. APDS is caused by a mutation in the PIK3CD gene that results in an increase of activity of phosphoinositide-3-kinase delta, a promoter of activity in the immune system. APDS has an estimated prevalence of 1 to 2 per million. Individuals suffering from APDS often have lymphoproliferation and poorly functioning white blood cells, particularly B cells and T cells. 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, leading to serious breathing problems. People with APDS may also suffer from chronic active viral infections, for example Epstein-Barr virus or cytomegalovirus infections. Sufferers also frequently develop lymphomas and other types of tumors. Another possible feature of activated PI3K delta syndrome is abnormal aggregation of white blood cells leading to enlarged lymph nodes (lymphadenopathy or nodular lymphoid hyperplasia) usually in the epithelial tissues of the airways or intestines. While lymphadenopathy and nodular lymphoid hyperplasia are benign, activated PI3K delta syndrome also increases the risk of developing a form of cancer called B-cell lymphoma.

Leniolisib is a small molecule inhibitor of one isoform of the catalytic subunit of class IA PI3K. It has immunomodulating and potentially antineoplastic activities. Leniolisib inhibits the production of phosphatidylinositol-3-4-5-trisphosphate, or 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 PI3K alpha and PI3K beta which are ubiquitously expressed, PI3K delta and PI3K gamma are expressed primarily in cells that are hematopoietic in origin. The central role of PI3K delta 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 PI3K delta is a valid and potentially effective therapeutic target for several immune diseases.

In partnership with Novartis, we are currently studying leniolisib to assess the efficacy and safety of leniolisib in patients with APDS. The study, a phase 2/3 potentially registration enabling study is composed of 2 sequential parts. The first part including 6 patients in an open-label dose escalation study designed to assess the safety, tolerability, pharmacodynamics and pharmacokinetics of leniolisib; this dose-finding study has been completed. The second part is a randomized, blinded, placebo-controlled study that includes 30 additional patients and is designed to assess the efficacy of leniolisib in APDS patients. (NCT: NCT02435173) The co-primary endpoints of the second part of the study are (i) change in the size of lesions from baseline and (ii) change from baseline in percentage f naive B cells out of total B cells.

The first part of the study showed that oral leniolisib led to a dose-dependent reduction in PI3K/AKT pathway activity assessed ex-vivo and improved immune dysregulation. We observed normalization of circulating transitional and naive B-cells, reduction in PD-11CD41 and senescent CD571CD42 T cells and decreases in elevated serum immunoglobulin M and inflammatory markers including interferon g, tumor necrosis factor, CXCL13, and CXCL10. After 12 weeks of treatment, all patients showed amelioration of lymphoproliferation with lymph node sizes and spleen volumes reduced by 39% (mean; range, 26%-57%) and 40% (mean; range, 13%- 65%), respectively. Leniolisib was well tolerated and improved laboratory and clinical parameters in APDS, supporting the specific inhibition of PI3Kd as a potential therapy in APDS and other diseases characterized by over-activation of the PI3Kd pathway. (Blood, 23 November 2017 – Volume 130, Number 21.)

Previous to the ongoing phase 2/3 study, 5 clinical studies, 3 studies in healthy volunteers and 2 in-patients have been conducted. As of June 26, 2020, 238 healthy subjects have been investigated, 168 had received leniolisib and 70 had received placebo. Single doses of leniolisib up to 400

mg and multiple doses up to 140 mg bid for 14 days have been administered to 168 subjects and were assessed to have been well tolerated. Across the entire clinical development one SAR case of skin rash has occurred (in a patient with Primary Sjögren`s syndrome “pSS”) there were n=15 other cases of leniolisib-related skin rash adverse events of lower intensity. These were observed both in healthy subject studies (n=5) and in the study investigating patients with pSS (n=10). In all of these cases skin rash was suspected to be related to leniolisib. Furthermore, skin rash is a known class effect of PI3Kd inhibitors.

This study was temporarily halted due to COVID-19 but has since resumed. Subject to COVID-19-related delays, data is expected during the second half of 2021, followed by review by regulatory authorities during the first half of 2022. If approved, the drug is planned to launch in the second half of 2022.

Next-Generation Enzyme Replacement Therapies: Alpha-Glucosidase, for the treatment of Pompe Disease

We are developing a next-generation alpha-glucosidase replacement therapy 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 polymer sugar called glycogen in the body’s cells. It affects around 1 in 40,000 people, varying within different ethnic groups. Pompe disease is a rare multisystem genetic disorder that is characterized by absence or deficiency of the lysosomal enzyme alpha-glucosidase, or GAA. This enzyme is required to break down, or metabolize, the complex carbohydrate glycogen and convert it into the simple sugar glucose. Failure to achieve its 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 characterized by severe muscle weakness and abnormally diminished muscle tone, or 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 unrecognized for years.

We are currently studying our alpha-glucosidase therapy in IND-enabling studies.

Next-Generation Enzyme Replacement Therapies: 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.

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 alpha-glucosidase, Pharming believes that its own platform technology can produce a pure, less immunogenetic αGalA that will compare favorably with existing therapies on safety, efficacy and immunogenicity.

Proprietary transgenic technology platform

Pharming’s main technology platform is the development of human recombinant proteins through the generation of transgenic animals which only express the human protein in their milk.

During recent years, we have made significant progress in developing the platform technically so that in the future larger quantities of target substances can be generated from fewer animals thereby reducing the number of animals involved and allowing for lower 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.

Risk Management and Control

Risk management is integral to Pharming's strategy and to the achievement of Pharming's long-term goals. Pharming's Executive Committee are responsible for designing, implementing, and operating the Company's internal risk management and control systems. The Executive Committee is aware of the importance of a comprehensive approach to risk management and is developing an internal risk management and control system, incorporating Pharming's strategy and the Five Components Cube of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The system will be tailored to the COSO risk factors that are relevant to the Company, allowing for its small size. We have identified material weaknesses in our internal control over financial reporting across the principles for each component of the COSO framework, and accordingly, across the business and IT processes of the Company. For a detailed description of the material weaknesses and managing of the related risk, refer to chapter 'Risk Factors' of this report.

We are in the process of remediating the material weaknesses identified including further developing and implementing formal policies, processes, internal controls and documentation relating to our financial reporting. We are also currently in the process of finalizing a risk assessment framework and scoping to identify key processes and controls that will require additional enhanced controls to be designed and implemented. 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 Directors of the objectives reached;
- Periodical updates to the Board of 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 Executive Committee to the Board of Directors;
- Periodic review meetings by the Executive Committee with departmental managers;
- Annual, quarterly and monthly agendas, incorporating financial and operational objectives, cash flow forecasts and evaluation of progress objectives;
- An Alert Reporting 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 Directors and the Independent Auditor;

The Company maintains records and procedures designed to:

- Reflect accurately and fairly the transactions and disposition of the assets of the Company;
- Provide reasonable assurance that transactions, receipts, and expenditures are recorded and made by authorized employees in accordance with generally accepted accounting principles;
- Provide reasonable assurance of the prevention or timely detection of unauthorized 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 regularly discussed between the Executive Committee and the Board of Directors. These Committees regularly review the significant risks and decisions that could have a material impact on Pharming. 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 may not provide 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 cash flow, 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 please also refer to the note 28 'Financial risk management'.

The Company is currently further developing its internal control framework including controls such as; a provision for separation of responsibilities for issue, receipt and payment of invoices and funds; multiple layers of authorization 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 reconciliation 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 Dutch 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 Directors 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 Report:
  - Risks related to COVID-19; and
  - 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/preclinical 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 Compliance Risks: we strive to be fully compliant with our Code of Conduct (https://www.pharming.com/about-us/corporate-governance) and national and international laws and regulations of the countries in which we operate.

To determine if a risk is acceptable, the Management Board (currently, the Executive Directors and Officers) 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 strategic risk. Apart from this, the two main strategic risks are Commercial Risk and Macroeconomic Risk.

The outbreak of COVID-19 may result in disruptions to our commercialization, clinical trials, manufacturing and other business operations.
The outbreak of COVID-19, has spread across the globe and is impacting worldwide economic activity. A public health epidemic, including COVID-19, poses the risk that we or our employees, contractors, suppliers, distributors and other partners, as well as physicians treating HAE patients, may be prevented from conducting business and patient care activities for an indefinite period of time, including due to shutdowns and quarantines that may be requested or mandated by governmental authorities. Beginning in March 2020, we transitioned our field-based sales, market access, and medical employees to remote work and suspended work-related travel and in-person customer interactions with healthcare professionals and customers. Our increased reliance on personnel working from home may negatively impact productivity and increase our cyber security risk. General protective measures put into place at various governmental levels, including quarantines, travel restrictions and business shutdowns, may also negatively affect our operations.

Our animal carers and staff involved in the production of RUCONEST® may be affected, which would adversely affect our ability to manufacture RUCONEST®. In addition, our clinical trials or those of our collaborators and investigational sponsors, including our planned Phase 2b study of the effects of RUCONEST® in patients undergoing PCI accompanied by contrast-enhanced examinations and our open label, single-arm, multi-stage, multi-center Phase 1/2 study in late-stage pre-eclampsia, have been subject to delays and it remains uncertain when these clinical trials will resume or the degree to which COVID-19 will impact them.

The continued spread of COVID-19 and the measures taken by the governments of countries affected, particularly the United States and the Netherlands, could also disrupt the supply chain and the manufacture or shipment of RUCONEST®. Any delays or interruptions in the manufacture and supply of RUCONEST® could result in delays for our planned clinical trials, impair our ability to meet demand for new RUCONEST® prescriptions and impede our clinical trial recruitment, testing, monitoring, data collection and analysis and other related activities.

Any of the foregoing factors could have a material adverse impact on our business, financial condition, operating profit, cash flows and prospects.

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. In addition to local authority guidelines, the company also imposes additional guidelines including: 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

If we are unable to maintain and grow our sales and marketing capabilities, particularly outside of the United States, or enter into agreements with third parties to market and sell our products outside of the United States and Europe, our business will be adversely affected.
We reacquired commercial rights to distribute RUCONEST® in Europe from Swedish Orphan Biovitrum AB, or SOBI, as of January 2020. Accordingly, we have only recently established our direct sales and marketing organizations in Europe. There are risks involved with both establishing and maintaining our own sales and marketing capabilities. For example, recruiting and training a commercial organization is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our product candidates on our own include:

- the inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future product that we may develop;
- the lack of complementary treatments to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

We enter into arrangements with third parties to perform sales, marketing and distribution services outside the United States and Europe. In addition, we have granted the China Shanghai Institute of Pharmaceutical Industry an exclusive license to commercialize RUCONEST® in China, and we are solely dependent on their efforts to commercialize RUCONEST® in that territory. We may receive certain regulatory and manufacturing-associated milestones, and we are eligible to receive low to mid-single digit royalties from sales in China by CSIPI or other affiliates of Sinopharm. Dependence on distribution arrangements and marketing alliances to commercialize our products in certain jurisdictions subjects us to a number of risks. We don't have full control over such third parties and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. In addition, such third parties may experience compliance related issues and associated government investigations. If such third party arrangements are terminated or allowed to expire, the marketing and sales of a product in that jurisdiction may be interrupted, which could adversely affect our revenues. In addition, we may not be successful in entering into arrangements with third parties to sell and market our product candidates or may be unable to do so on terms that are favorable to us.

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 commercializing RUCONEST® in their local markets.

North American Market: In the North American market, which was re-acquired from Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals International, Inc.) in 2016, Pharming is engaged in the direct commercialization of RUCONEST®.

We face significant competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.
The development and commercialization of pharmaceuticals is highly competitive. In particular, RUCONEST® faces intense competition from other products used to treat Hereditary Angioedema, or HAE. Several products have been approved in the U.S. and Europe for the treatment of HAE attacks, including human blood plasma derived C1INH products. Oral products for the prevention of HAE attacks are also being developed and the first one was approved in the US in late 2020. Consequently, we may not obtain sufficient market penetration with RUCONEST® or a sufficient level of sales of the product to allow it to remain profitable. New technologies from competitors may make RUCONEST®, one or more of our product candidates or our technology obsolete.

Our competitors include major international pharmaceutical companies as well as smaller or regional specialty pharmaceutical and biotechnology companies. Many of our competitors are larger and have greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals, prosecuting intellectual property rights and marketing approved products than we do. Such competitors may be better equipped to withstand changes in economic and industry conditions. Smaller or early stage companies may also be significant competitors, particularly through collaborative arrangements with large, established companies.

What are we doing to mitigate the risk?
Pharming is working towards developing new application forms for RUCONEST for the treatment of acute HAE attacks and possibly for prophylaxis of HAE 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.

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 commercialized using the same infrastructure;
- Developing new protein replacement treatments for enzyme-deficiency disorders such as Pompe and Fabry disease, among other possible approaches;

Pharming's products may not gain market acceptance by physicians, patients, payors and others in the medical community.

The commercial success of our products and product candidates will depend in part on the medical community, patients, and payors accepting our product candidates as effective, safe and cost-effective. Notwithstanding the level of revenues historically generated from the sale of RUCONEST®, if RUCONEST® or our product candidates do not achieve an adequate level of acceptance, we may struggle to continue to generate significant product revenues and may not in the future generate any profits from operations. The degree of market acceptance of RUCONEST®, or our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the potential efficacy and potential advantages over alternative treatments;
- the frequency and severity of any side effects, including any limitations or warnings contained in a product's approved labeling;
- the frequency and severity of any side effects resulting from the conditioning regimen or follow-up requirements for the administration of our product candidates;
- the relative convenience and ease of administration;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support and timing of market introduction of competitive products;
- publicity concerning our products or competing products and treatments; and
- sufficient third-party insurance coverage or reimbursement.

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.

Negative public opinion and increased regulatory scrutiny of transgenic manufacturing techniques, or activism regarding the ethical treatment of our livestock, may damage public perception of RUCONEST® and our product candidates, which may adversely affect sales of our products and our ability to obtain marketing approvals for our product candidates.

Public perception may be influenced by negative public statements regarding our transgenic manufacturing technology. Our transgenic manufacturing technology platform involves the genetic engineering of animals for the production of recombinant proteins. Genetic modification of food and livestock are a common subject of debate and negative publicity. In addition, animal rights activists commonly engage in campaigns to reduce or eliminate the use of animals in the commercialization of pharmaceutical products.

Negative publicity regarding genetic modification in general, and our transgenic manufacturing techniques in particular, or activism regarding the treatment of our livestock could result in reduced market acceptance for our products, increased governmental regulation, unfavorable public perception, potential regulatory delays in the testing or approval of our potential product candidates, stricter labeling requirements for those product candidates that are approved and a decrease in demand for any such product candidates. If any such adverse events occur, commercialization RUCONEST® or further advancement of our clinical trials could be halted or delayed, which would have a material adverse effect on our business and operations.

What are we doing to manage the risk?

This risk is mitigated by our adherence and compliance to our Corporate Social Responsibility (CSR) policies and procedures, whereby patient safety is our highest priority. The efficiency and high quality of our products treating a life-threatening disease generates a high demand for the product. Further, animal care and welfare are embedded in our CSR policies and procedures. For further details, reference is made to the Corporate Social Responsibility chapter of this report.

The successful commercialization of our product candidates will depend in part on the extent to which governmental authorities and health insurers establish adequate coverage, reimbursement levels and pricing policies.

The availability and adequacy of coverage and reimbursement by governmental healthcare programs such as Medicare and Medicaid, private health insurers and other third-party payers is essential for many patients to be able to afford prescription medications such as RUCONEST® and potential product candidates, assuming regulatory approval is obtained. Our ability to achieve acceptable levels of coverage and reimbursement for products by governmental authorities, private health insurers and other organizations fundamentally impacts the potential success of RUCONEST® and product candidates. Assuming we obtain coverage for our product candidates by third-party payers, the resulting reimbursement payment rates may not be adequate or may require co-payments that patients find unacceptably high. We cannot be sure that coverage and reimbursement in the United States, the EU Member States, or elsewhere will be available for the product candidates or any product that we may develop, and any reimbursement that may become available may be decreased or eliminated in the future. 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.

Because coverage and reimbursement determinations are made on a payor-by-payor basis, obtaining coverage and adequate reimbursement from a third party payor does not guarantee that we will obtain similar coverage or reimbursement from another third party payor. Reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any products for which we obtain marketing approval. Failure to secure or retain adequate coverage or reimbursement for our products by third-party payors, or delays in processing approvals by those payors, could result in the loss of sales, loss of customers, or reputational damage, which could have a material adverse effect on our business, financial condition and operating profit.

What are we doing to manage the risk?

The issue of reimbursement affects both the European market and the US. Pharming's former 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 recognizes 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 convertible bond issue in January 2020 is a good example of this.

The issuance of bonds at the beginning of 2020 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 organize 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.

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/Preclinical 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. Our ability to meet expectations with respect to sales of RUCONEST®, generate revenues from such sales, and attain and maintain positive cash flow from operations, in the time periods anticipated, or at all, will depend on a number of factors, including, among others:

- the ability to continue to maintain and grow market acceptance for RUCONEST® among healthcare professionals and patients in the United States, European Union and other key markets for the treatment of approved indications;
- our ability to maintain regulatory approvals without onerous restrictions or limitations in key markets;
- our ability to secure regulatory approvals in additional markets on a timely basis and with commercially feasible labels;
- our ability to obtain pricing and reimbursement approvals at adequate levels, where required, on a timely basis;
- presence of side effects or other safety issues associated with the use of RUCONEST® that could require us or our distributors to modify or halt commercialization;
- whether we will be required by regulatory agencies to conduct additional studies regarding the safety and efficacy of RUCONEST®, which we have not planned or anticipated;
- increased competition from competitors;
- obtaining and maintaining commercial distribution agreements with third-party distributors outside the United States and Europe;
- obtaining and maintaining patent protection and regulatory exclusivity; and
- adequately investing in the manufacturing, sales, marketing, market access, medical affairs and other functions that are supportive of our commercialization efforts.

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 and recombinant human alpha-galacosidase (rhaGAL) for the treatment of Fabry disease; and
- Platform improvement by Pharming Research in France to develop new programs with increased protein expression and/or improved glycosylation profiles.

Many of our product candidates are at an early stage. We may spend several years developing current or future product candidates, and failure can occur at any stage.

Other than leniolisib, which is currently being studied in a phase 2/3 trial, both our rhC1INH projects and our non-rhC1INH product candidates are all at an earlier stage of development. Our next generation enzyme replacement therapy, or ERT for Pompe disease is in preclinical development.

We may spend several years developing current or future product candidates, and failure can occur at any stage. The product candidates to which we allocate our resources may not end up being successful. Because we have limited resources, we may forego or delay pursuit of opportunities with certain programs or product candidates or for indications that later prove to have greater commercial potential than our product candidates. Our spending on current and future research and development programs may not yield any commercially viable product candidates. If we do not accurately evaluate the commercial potential for a particular product candidate, we may relinquish valuable rights to that product candidate through strategic collaborations, licensing or other arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate. If any of these events occur, we may be forced to abandon our development efforts with respect to a particular product candidate or fail to develop a potentially successful product candidate.

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
- 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.

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 Organization (CRO) or Contract Manufacturing Organization (CMO) involved not being able to deliver on time or to the quality required.

If the CROs do not perform preclinical studies and clinical trials in a satisfactory manner, breach their obligations to us or fail to comply with regulatory requirements and other compliance obligations, the development, regulatory approval and commercialization of our product candidates may be delayed, we may not be able to obtain regulatory approval and commercialize our product candidates, or our development programs may be materially and irreversibly harmed. If we are unable to rely on preclinical and clinical data collected by our CROs, we could be required to repeat, extend the duration of, or increase the size of any clinical trials we conduct and this could significantly delay commercialization and require significantly greater expenditures.

What are we doing to manage the risk?

- Pharming is constructing a comparable 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 .
- 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 for the conduct of significant aspects of our preclinical studies and clinical trials and we intend to rely on third parties in the future. If these third parties do not successfully carry out their contractual duties, our business may be adversely impacted.

We rely on third parties for the conduct of significant aspects of our preclinical studies and clinical trials. These third parties include Contract Research Organizations, or CROs, medical institutions, clinical investigators and contract laboratories. Although we design the clinical trials for our product candidates, we depend on these third parties for aspects of performing the trials. Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our regulatory or contractual.

The third parties we rely upon may fail to successfully carry out their contractual duties or meet expected deadlines, which may cause delays in the conduct of our preclinical and clinical studies.

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.

The results from our clinical trials may not be sufficiently robust to support the submission of marketing approval for our product candidates.

The results from our clinical trials may not be sufficiently robust to support the submission of marketing approval for our product candidates. The FDA normally requires two registrational trials to approve a drug or biologic product, and thus the FDA may require that we conduct additional clinical trials of our product candidates prior to a BLA or NDA submission. Also, the FDA may request additional data from clinical trials that are conducted outside the United States. This request may overrule the guidance of an international agreement that states that all clinical data coming from members of the International Council for Harmonisation of Technical Requirements for Registration of Pharmaceutical for Human Use (ICH), should be accepted.

The FDA typically does not consider a single clinical trial to be adequate to serve as a registrational trial unless it is, among other things, well-controlled and demonstrates a clinically meaningful effect on mortality, irreversible morbidity, or prevention of a disease with potentially serious outcome, and a confirmatory study would be practically or ethically impossible. Additionally, while the FDA recognizes the potential for natural history models to augment the need for placebo arms in trials for drugs that target very rare disease, where trial recruitment can be especially challenging, the FDA has found the use of natural history data as a historical comparator to be unsuitable for adequate and well-controlled trials in many circumstances. The FDA generally finds trials using historical controls to be credible only when the observed effect is large in comparison to variability in disease course.

Due to the nature of the indications our product candidates are designed to treat, and the limited number of patients with these conditions, a placebo-controlled and blinded study may not be practicable for ethical and other reasons. It is possible the FDA will not consider our comparisons to natural history data and, where available, historical transplant data, to provide clinically meaningful results. Additionally, even though a product candidate may have achieved the primary endpoints in a registrational clinical trial, it is possible that the FDA or EMA may require us to conduct additional registrational trials, possibly involving a larger sample size or a different clinical trial design, especially if the FDA or EMA does not find the results from these trials to be sufficiently persuasive to support a BLA/NDA or Marketing Authorization Application, or MAA, submission, as applicable. The FDA or EMA may also require that we conduct a longer follow-up period of patients treated with our product candidates prior to accepting our BLA/NDA or MAA submission, as applicable.

If the FDA or the EMA requires additional trials, we would incur increased costs and delays in the marketing approval process, which may require us to expend more resources than we have available. In addition, it is possible that the FDA and the EMA may have divergent opinions on the elements necessary for a successful BLA/NDA and MAA, respectively, which may cause us to alter our development, regulatory and/or commercialization strategies.

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 Executive Committee (ExCo) and planning and Implementation of any clinical study is subject to Board of Directors (BoD) 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 centers 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 Executive Committee and proposals for protocol changes with significant budget impact require Executive Committee approval;
- Development of formal processes for Project Management;
- Development of formal processes for Budgeting and Forecasting; and
- Negotiating contract research organization contracts with clear conditions and limited capacity for budget expansions.

Risks related to Regulatory Procedures

RUCONEST® has been approved by the FDA, the EMA and certain other regulatory authorities for the treatment of HAE attacks. Regulatory approval is limited to the specific indication for which approval has been granted and, unless we seek regulatory approval for additional indications, we will be prohibited from marketing RUCONEST® for other indications.

RUCONEST® is approved by the FDA, the EMA and certain other regulatory authorities for the treatment of HAE attacks, but is not currently approved for the treatment of other indications. Regulatory authorities strictly regulate the promotional claims that may be made about prescription products, and RUCONEST® may not be promoted for uses that are not approved, as reflected in its approved labeling. If we are not able to obtain regulatory approval for any desired future indications for our products and product candidates, our ability to effectively market and sell our products may be reduced and our business may be adversely affected.

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.

The laws, regulations, ethical standards and international pharmaceutical codes in the areas of sales and marketing of pharmaceutical products, and interacting with healthcare professionals and patients, are very complex, and require a robust compliance program.

The laws and regulations in the area of sales and marketing of pharmaceutical products, and in interacting with healthcare professionals and patients, are complex. We must comply with such laws in each jurisdiction in which we operate.

We must comply with a variety of laws and regulations, including regulatory, health and safety, license requirements, tax and Corporate Governance Regulations. We 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 us to alter our business strategy or operations, leading to additional costs or reductions of revenues, which may adversely affect its business.

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

Any contamination in the manufacturing process for our recombinant products, shortages of raw materials or failure of any of our key suppliers to deliver necessary components could result in delays in our clinical development or marketing schedules.
We use living mammals as the source for our recombinant products. Our transgenic manufacturing platform bears the risk of failure due to contamination of the produced milk, diseases of the producing livestock or a breakdown of the facilities. Any contamination could adversely affect our ability to produce, release or administer our recombinant products on schedule and could, therefore, harm our results of operations and cause reputational damage. Additionally, although our recombinant products are tested for contamination prior to release, if a contaminated product was administered to a patient, it could result in harm to the patient. A material shortage, contamination, recall or restriction on the raw materials we use in the manufacture of our recombinant products could adversely impact or disrupt the commercial manufacturing or the production of clinical material, which could adversely affect our development timelines and our business, financial condition, results of operations and prospects.

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.

We are dependent on a limited number of suppliers for some of our components and materials used in our product candidates and product.
We rely on a limited number of suppliers for certain essential materials incorporated into products and product candidates. Certain of our suppliers are based in Europe, while a significant percentage of RUCONEST® sales are conducted in the US. If international shipping is disrupted, we may not be able to supply sufficient quantities of RUCONEST® for sale in the US. 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 commercializing 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 its manufacturing processes. Pharming has begun to gradually in-source 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.

We depend on third-party manufacturers for the production of rhC1INH for commercial supply and clinical trials of RUCONEST®, as well as our other product candidates for clinical trials.
We have entered into (downstream) manufacturing and supply agreements for RUCONEST® with, among others, Sanofi and BioConnection. We are also in the process of developing additional downstream manufacturing capabilities of our own. It is uncertain whether and to what extent we will be able to develop such capabilities or enter into such partnerships or agreements on a timely basis and on acceptable terms. A failure to develop or sufficiently contract additional manufacturing capacity on a timely basis could have significant adverse effect on our business.

What are we doing to manage the risk?
Pharming has actively engaged in expanding its milk production capabilities in independent, geographically separated sites, thereby minimizing the risk of a complete production stop caused by contamination, diseases or catastrophe in one site.

Pharming has committed to the construction of a downstream facility to enable it to become less dependent from third party suppliers.

Risks related to quality control procedures

All quality control procedures essential for the release are performed by third parties.
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. We do not have our own Good Manufacturing Practice, or GMP, certified analytical lab capable of performing the quality control procedures needed for the release of product, and we rely on third parties for this task.

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

Our future success depends on our ability to hire and retain key executives and to attract, retain and motivate qualified personnel
Experienced employees in the biopharmaceutical and biotechnology industries are in high demand and competition for their talents can be intense, especially in the Netherlands, where we maintain our principal operations. We have entered into employment agreements with executive officers and other key employees, but any employee may terminate his or her employment at any time or may be unable to continue in his or her role. The loss of any executive or key employee, or an inability to recruit desirable candidates or find adequate third parties to perform such services on reasonable terms and on a timely basis, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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 minimize 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 organizational 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.

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

We rely, and will continue to rely, on a combination of patents, trademarks and confidentiality agreements with employees, consultants, collaborators, advisors and other third parties to protect the intellectual property related to our current and future product candidates. We use patents and licensing to protect our products and technology. We are also careful to develop products that don't infringe on the proprietary rights of third parties. Currently, we have 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.

The patents that we own now or the patents and patent applications that we may own or in-license in the future may not have patentable claims that protect our current and future product candidates in the relevant jurisdictions where we intend to commercialize such 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.

We may become involved in lawsuits to protect or enforce our patents, the patents of our licensors or our other intellectual property rights.

Competitors may infringe or otherwise violate our patents, the patents of our licensor or our other intellectual property rights. To counter infringement or unauthorized use, we may be required to file legal claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that an asserted patent is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that the asserted patent does not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of asserted patents at risk of being invalidated or interpreted narrowly and could put a related patent application at risk of not issuing. The initiation of a claim against a third party may also cause the third party to bring counter claims against us such as claims asserting that our patents are invalid or unenforceable.

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.

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.

Compliance risks

The risk that personal data is breached whilst Pharming is the data controller.

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.

The laws, regulations, ethical standards and international pharmaceutical codes in the areas of sales and marketing of pharmaceutical products, and interacting with healthcare professionals and patients, are very complex, and require a robust compliance program.

The laws and regulations in the area of sales and marketing of pharmaceutical products, and in interacting with healthcare professionals and patients, are complex. We must comply with such laws in each jurisdiction in which we operate.

We must comply with a variety of laws and regulations, including regulatory, health and safety, license requirements, tax and Corporate Governance Regulations. We 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 us to alter our business strategy or operations, leading to additional costs or reductions of revenues, which may adversely affect its business.

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.

We have identified weaknesses in our internal control over financial reporting. If we are unable to remediate these weaknesses, or if we identify additional weaknesses in the future or otherwise fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect our business and stock price.

In connection with the audits of our financial statements, we have identified weaknesses in our internal control over financial reporting across the principles for each component of the COSO framework at the entity level and accordingly, across the business and IT processes of the Company. Although the Company does have oversight and compliance processes in place, these processes are currently not sufficiently formalized as controls to identify and address the risks of material misstatements and risks arising from IT. Where such control activities exist, there is not formalized control descriptions for our relevant controls to evaluate the design and operating effectiveness of such controls. In addition, where control activities are dependent on Information Used in a Control, the Company does not perform or document controls to determine the completeness and accuracy of such information. We also did not have controls in place to monitor control activities and identified control deficiencies.

What are we doing to manage the risk?

We are in the process of remediating the weaknesses identified including further developing and implementing formal policies, processes, internal controls and documentation relating to our financial reporting. We are also currently in the process of finalizing a risk assessment framework and scoping to identify key processes and

controls that will require additional enhanced controls to be designed and implemented.

Financial Risks

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 Executive Directors and Officers, 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.

Exchange rate fluctuations may materially affect our results of operations and financial condition

Owing to the international scope of our operations, fluctuations in exchange rates, particularly between the Euro and the US dollar, may adversely affect us. While we are based in the Netherlands, we source materials, products and services from several countries outside the EU that are paid in local currencies. As a result of the commercialization of RUCONEST® in the United States and in other countries outside the EU, we will also receive payments and generate costs in US dollars and other currencies. As a result, our business may be affected by fluctuations in foreign exchange rates between the Euro and the US dollar, as well as other currencies.

Since the majority of Pharming's sales are invoiced and paid in US dollars, and the majority of its cost 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 minimize the net effect of foreign exchange rate differences on the accounts of the Company.

At 31 December 2020, the Company's cash and cash equivalents, including restricted cash, amounted to €168.3 million. This balance consisted of cash assets denominated in euros for a total amount of €10.1 million million and cash assets denominated in US dollars for a total amount of US$194.3 million (or €158.2 million, applying an exchange rate of €1=1.2280 at 31 December 2020). The US$ 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% strengthening or weakening of the euro versus the US dollar would have had a hypothetical loss or gain of approximately €17.7 million on sales. The balance of the cash and cash equivalents (including restricted cash) accounts receivables, inventories, contingent consideration and accounts payables, denominated in US dollars, at year-end amounts to US$189.4 million, a 10% strengthening or weakening of the euro versus US dollar would have an impact of €15.4 million on the Group's gain (weakening of the euro) or loss (strengthening of the euro).

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.

Interest rate fluctuations could negatively affect Pharming's financial position

Pharming's interest rate risk policy is aimed at minimizing 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.

As the new convertible bond has a fixed interest coupon, a change in interest rates does not affect them, and so the effect in the future would be that cash and cash equivalents and items held under finance leases.

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 9,8%. 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 7,9%. In the case of the convertible bonds, this conversion would also have the effect of eliminating the entire outstanding debt liability of €123.6 million, and in the case of the employee and management share options, this would lead to an influx of cash in the amount of €37.1 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.

The cash is denominated principally in 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 low, in the absence of a large transaction which would in all probability need shareholder approval. No such transaction is currently planned.

Corporate Governance

The following paragraphs set out our shareholder structure, the Company's compliance to the Dutch Corporate Governance Code, the management structure of the Company (including the change of the Company's governance structure from a two-tier board structure to a one-tier board structure), the curricula of the Executive Director, the Non-Executive Directors and the members of the Executives Committee.

Shareholder Structure

All ordinary shares issued by the Company are traded on Euronext Amsterdam under the symbol “PHARM”. In addition, American Depository Receipts (ADSs) are traded on the Nasdaq Global Market since 23 December 2020 under the symbol "PHAR".

As a foreign private issuer traded on Euronext Amsterdam, the Company is permitted to follow certain home country corporate governance practices in lieu of certain Nasdaq requirements. The rights of holders of ordinary shares and, therefore, certain of the rights of holders of the ADSs, are governed by Dutch law, including the provisions of the Dutch Corporate Governance Code, and by our Articles of Association, Reference is made to the subsequent sections and the Corporate Governance Statement on our website for a summary of the main governance practices applied by Pharming.

More details on the Company's authorized share capital and issued shares and the number of listed ADSs can be found in the "Financial Review" chapter of this Report and note 17 "Shareholder's Equity".

No Anti-Takeover Measures in place

The Board of Directors believes that Pharming 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 Directors regarding the advantages and disadvantages of such bid.

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

It is noted that the existing share-based incentive plans, including share option plans and LTIP schemes, will vest automatically and unconditionally in the event of a change of control of the Company, in accordance with the terms thereof. However, the automatic vesting of the share-based incentive plans in the event of a change of control no longer applies for the members of the Board of Directors and the members of the Executive Committee, respectively, following the entering into force of the new remuneration policies governing these members on 11 December 2020, for the incentive programs permitted by these policies.

According to these new policies, only in case of a change of control, approved by the General Meeting of Shareholders, becoming unconditional, the relevant executive director or officer will be entitled to pro-rata vesting of outstanding but unallocated shares for the performance period that has lapsed at that moment, subject to the achievement of the applicable performance measures and targets. The remaining shares will vest in accordance with the predetermined times (i.e. no accelerated vesting) subject to the achievement of the applicable performance measures and targets. Moreover, in case of an unsolicited change of control becoming unconditional, share-based incentive plans do not vest automatically as result of the change of control becoming unconditional.

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 Directors, without the participation of the Executive Director, can decide to settle the allocated shares in cash.

Moreover, on 14 January 2020, the Company entered into a Subscription agreement under which the Company issued €125 million of convertible bonds due 2025 (the “Bonds”) to investors in the EU. Under this agreement, the conditions of the Bonds specify that in the event of a change of control of the Company, the conversion price of the Bonds at which they may be converted into Pharming shares may change, depending on the time elapsed between initiation of the Bonds and the date of the change of control relative to the normal repayment date of the Bonds in 2025. Such a provision is standard for bond instruments of this kind.

Finally, it is noted that the execution of share-based incentive plans for our staff members each time requires a resolution by the Board of Directors to such effect. Such execution is not controlled by the staff members, but is governed by the detailed terms and conditions applicable to these plans.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code, or DCGC, contains both principles and best practice provisions for boards of directors, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. A copy of the DCGC can be found on www.mccg.nl. As a Dutch company listed on a stock exchange, we are subject to the DCGC and are required to disclose in our annual board report to what we extent comply with the principles and best practice provisions of the DCGC, and where we do not (for example, because of a conflicting Nasdaq requirement or otherwise), we must state why and to what extent we deviate in our annual report. Our most substantial deviations from the DCGC are summarized below:

- The DCGC recommends that the company should draw up regulations governing ownership of, and transactions in, securities by directors, other than securities issued by the company. We believe that our directors should not be limited by regulations in addition to the requirements under applicable law and regulations.
- The DCGC recommends against providing equity awards as part of the compensation of a non-executive director. However, we deviate from this recommendation and grant equity awards to our non-executive directors, consistent with U.S. market practice and in accordance with the Remuneration Policy for the Board of Directors as adopted by the General Meeting of Shareholders on 11 December 2020. To safeguard the independence of the Non-Executive Directors, consistent with the intentions of the DCGC, the number of shares awarded has been fixed and the grant has not been linked to the performance of Pharming. Moreover, all shares held by Non-Executive Directors will be a long-term investment only, in accordance with the best practice provisions of the DCGC.
- The DCGC recommends that all analyst meetings, analyst presentations, presentations to institutional investor or other investors and press conferences can be followed in real time, by means of webcasting, telephone or otherwise. Considering the company’s size, it would create an excessive burden to provide facilities that enable shareholders to follow in real time all the meetings with analysts, presentations to analysts, presentations to investors referred to in the best practice provision. However, the company ensures that presentations are posted on the website immediately after the meetings in question and is exploring ways to make some meetings (such as the annual general meeting) accessible in real time at least in audio format. The company also holds both pre-recorded and live webinars at which key events such as quarterly financial statements or large corporate actions can be discussed. Meetings discussing financial results and other significant news will be announced and conducted in accordance with this provision.
- The DCGC recommends the appointment of an internal auditor. 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 finance manager. As a result of the company operating in the highly regulated field of development and worldwide commercialization of human medicines, the company has a fully-staffed quality assurance department which is responsible, inter alia, for maintaining 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 the same as

an internal auditor. The audit committee has annually reviewed the need for an internal auditor. In its most recent reviews, in March 2020 and March 2021, the audit committee concluded that due to the controls in place and the size of the company, no internal auditor was needed at that point in time. The audit committee reconsiders this position at least annually. The fast rate of growth of the Company at present may cause a different determination at some point in the foreseeable future.

One-tier board structure

The Extraordinary General Meeting of shareholders (EGM), held on 11 December 2020, approved our proposal to change our board structure from a two-tier board structure (featuring a Management Board acting under the supervision of a separate Board of Supervisory Directors) to a one-tier board structure, with a single Board of Directors composed of one or more Executive Directors and one or more Non-Executive Directors (hereafter the "Board of Directors"). The one-tier board structure became effective on 11 December 2020 following the signing of a deed of amendment to our articles of association.

In our one-tier board structure, the statutory Board of Directors as a collective (i.e., the Executive Directors and the Non-Executive Directors) is charged with managing the Company's affairs and is responsible for the general course of affairs of the Company (including the Company's strategy and financial policy). Until 11 December 2020, the former statutory Board of Management was charged with the full management responsibility, supervised by the separate Board of Supervisory Directors.

In the new one-tier board structure, the Executive Directors manage the day-to-day business and operations of the Company and implement the Company's strategy, supported by an Executive Committee chaired by the Chief Executive Officer. The Non-Executive Directors share management responsibility, but will focus on the supervision on the policy and functioning of the performance of the duties by the Executive Directors and the Company's general state of affairs.

While the majority of Dutch companies traditionally apply a two-tier board structure, the DCGC also endorses and facilitates one-tier board structures and includes specific principles and best practice provisions for these structures. The Company complies with these principles and provisions.

Our one-tier board structure allows the Company to integrate and leverage the knowledge, experience and wide range of backgrounds, education and expertise among the Executive and Non-Executive Directors into one corporate body. We believe that the one-tier board structure will accordingly further improve the quality of our internal processes and decision-making. We also believe that we have sufficiently ensured the independent supervision by our Non-Executive Directors via the following safeguards, each time in accordance with the DCGC:

- The majority of our Board of Directors comprise of Non-Executive Directors. Our Board of Directors is currently seated by six Non-Executive Directors and one Executive Director.
- The chairman of our Board of Directors is a Non-Executive Director. Hence, our Board of Directors is not chaired by an Executive Director which safeguards the independence of the chairman of the Board of Directors.
- The Board of Directors' committees, comprising of the Audit Committee, Remuneration Committee and Corporate Governance Committee, exclusively comprise of Non-Executive Directors. Neither one of these committees is chaired by the chairperson of the Board of Directors, being Mr. Sekhri. Chairpersons of the Audit Committee, Remuneration Committee and Corporate Governance Committee respectively comprise of Mr. De Winter, Ms. Jorn and Dr. Ward.
- The Non-Executive Directors supervise the way in which the CEO, as Executive Director, supported by the Executive Committee, implements long-term value creation. Further, they report on their current term of office, their independence and evaluation of their role in key objectives of the Company and the correct skills and background knowledge for the benefit of the Company.

On the occasion of the implementation of the one-tier board structure, the articles of association of the Company were also amended to the effect that an indemnification arrangement was included for current and former directors and other officers or employees, consistent with market practice and including customary carve-outs. The Company entered into indemnification agreements with the individual (Executive and Non-Executive) Directors and the Executive Officers that are fully aligned with the indemnification arrangement in the articles of association.

Pharming's compliance with the Dutch Corporate Governance Code can be found in the next section Management Structure and in the Corporate Governance Statement and the additional outline as published on our website: https://www.pharming.com/about-us/corporate-governance.

Management Structure

In connection with the listing of our ADSs on Nasdaq, we converted our two-tier board structure (featuring a statutory Management Body supervised by a separate Board of Supervisory Directors) into a one-tier board structure, with a single Board of Directors consisting of Executive Directors and Non-Executive Directors. The conversion was effected pursuant to a deed of amendment to our articles of association that was approved by our shareholders and executed on 11 December 2020.

In the new one-tier board structure, the Board of Directors is jointly responsible for the management of the Company. The daily management of the Company and the execution of the strategy are entrusted to the CEO as Executive Director. The CEO is supported by the (non-statutory) Executive Committee, which is comprised of our Executive Director and our Executive Officers.

The Company is in the process of setting up a Works Council in the Netherlands. It was decided to give priority to obtaining input from staff on key themes from an employee perspective, to ensure adequate support for, and therefore an effective start of, the new Works Council. This process will be rolled-out in the coming months. The Works Council is expected to be in place in the second half of 2021.

The following paragraphs set out the two-tier board structure that was in place throughout 2020 until 11 December 2020, followed by an outline of the one-tier board structure, that became effective on that same day.

Our two-tier board structure for the period up to 11 December 2020

The Board of Management was entrusted with the management of the Company and responsible for the policy and the central management of the Company under the supervision of the Board of Supervisory Directors. The Board of Management was authorized to commit the Company in contractual obligations to third parties. The Board of Management Regulations governed the procedures and decision making of the Board of Management. The Board of Management was supported by a (non-statutory) senior management group (the Management Team) with the execution of the management and strategy of the Company.

In the two-tier structure, the Board of Supervisory Directors was charged with supervising the Board of Management, including the supervision of the execution of the strategy and the structure and operation of the internal risk management and control systems. The Board of Supervisory Directors assisted the Board of Management further by rendering advice. In performing their duties, the members of the Board of Management were obliged to act in the best interests of the Company and the enterprise connected therewith. The Board of Management Regulations and the Board of Supervisory Directors Regulations governed the procedures and decision-making of both corporate bodies.

Together with the Board of Management, the Board of Supervisory Directors determined the corporate governance structure of the Company and ensured compliance with the DCGC and other (foreign) applicable rules and regulations, assisted by its Corporate Governance Committee. Supported by the Audit Committee, it supervised the financial reporting process and assisted by its Remuneration Committee, it determined the remuneration of the individual members of the Board of Management within the remuneration policy adopted by the Annual General Meeting of Shareholders. The reports of the respective committees, including an extensive report of the Remuneration Committee, are presented separately in this report (please refer to section Report of the Board of Directors).

The members of the Board of Management and the members of the Board of Supervisory Directors were appointed at General Meetings of Shareholders from nominations made by the Board of Supervisory Directors. If the nomination comprised two or more persons for each vacancy, the nomination would be binding. In addition, the Board of Supervisory Directors was authorized to make a non-binding nomination for a vacancy, consisting of one person. If the Board of Supervisory Directors would have failed to submit the nominations in time, the General Meeting of Shareholders had the authority to appoint any person it chooses. Notwithstanding the foregoing, the General Meeting of Shareholders was 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, entitled to 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 could 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 could 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 had not been met, a new meeting would be convened in which a nomination could be rejected or a dismissal or suspension could be resolved by a majority of the votes cast.

Our Management and Board of Supervisory Directors for the period up to 11 December 2020

The following table sets forth information regarding the composition of our Board of Management, the Management Team and our Board of Supervisory Directors as of 1 January 2020 until 11 December 2020.

Board of Management			
Name	**Position**	**Member since**	**Term**
Dr Sijmen de Vries	Chief Executive Officer	October 13, 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	October 28, 2015	Stepped down on 11 March 2020
Management team			
Name	**Position**	**Member since**	**Term**
Mr Jeroen Wakkerman	Chief Financial Officer	November 16, 2020	n/a
Mrs Anne-Marie de Groot	Chief Ethics & Compliance Officer	01 January 2014	n/a
Mrs Mireille Sanders	Chief Operations Officer	01 August 2019	n/a
Mr Stephen Toor	Chief Commercial Officer and GM Americas	01 January 2017	n/a
Board of Supervisory Directors			
Name	**Position**	**Member since**	**Term**
Mr Paul Sekhri	Chairman	April 30, 2015	Up to AGM in 2023
Mr Juergen Ernst	Vice Chairman	April 15, 2009	Retired on 23 November 2020
Dr Barrie Ward	Member	May 23, 2007	Up to AGM in 2021
Mr Aad de Winter	Member	April 15, 2009	Up to AGM in 2021
Ms Deborah Jorn	Member, Vice Chair as of 23 November 2020	May 22, 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 22 May 2019.

On 11 March 2020, Mr Robin Wright announced that he had decided, for family reasons, not to put himself up for re-election as member of the Board of Management and thus Chief Financial Officer at the General Meeting of Shareholders on 20 May 2020. As a result, his term with the Company ended at that date. Mr. de Vries served as interim Chief Financial Officer, in addition to his position as CEO, from May 2020 through 16 November, 2020, upon the commencement of Mr. Jeroen Wakkerman's tenure as new Chief Financial Officer.

Effective 23 November 2020, our Vice Chairmen of the Board of Supervisory Directors, Mr Ernst, retired from our Board of Supervisory Directors, for personal reasons, after more than 11 years of distinguished service. Ms Jorn, a member of the Board of Supervisory Directors, succeeded Mr Ernst as Vice-Chair.

Ms. Barbara Yanni and Mr. Mark Pykett were appointed by our shareholders as new non-executive board members effective 11 December 2020. The Board of Supervisory Directors announced their nomination on 20 May 2020. Since that public announcement, Ms. Yanni and Mr. Pykett both served as observers to the Board of Supervisory Directors. Accordingly, they were able to gain insight into Pharming's operations, while the Board of Supervisory Directors could already benefit from their wealth of expertise.

Our one-tier board structure as of 11 December 2020

The new one-tier board structure, featuring a statutory Board of Directors composed of the CEO, as the only Executive Director, and the former Supervisory Directors as Non-Executive Directors, became effective on 11 December 2020. Mr Paul Sekhri, the Chairman of the former Board of Supervisory Directors, was designated as Chairman of the Board of Directors as of that same date.

The new one-tier board structure allows the Company to leverage the knowledge, experience and wide range of backgrounds, education and expertise among the Executive and Non-Executive Directors in one single corporate body with a joint management responsibility. The Company believes that the one-tier board structure will accordingly further improve the quality of its internal processes and decision-making.

In our one-tier board structure, the Board of Directors as a collective is charged with managing the Company's affairs and is responsible for the general course of affairs of the Company (including the Company's strategy and financial policy). The CEO, as the only executive director, is responsible to manage the day-to-day business and operations of the Company and to implement the Company's strategy. The CEO is supported by an Executive Committee chaired by him. The Non-Executive Directors share statutory management responsibility, but shall focus on the supervision on the policy and functioning of the performance of the duties by the Executive Director and the Company's general state of affairs.

The Board of Directors is inter alia jointly responsible for the following:

- 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 Directors determines the corporate governance structure of the Company and ensures compliance with the DCGC and other (foreign) applicable rules and regulations, assisted by its Corporate Governance Committee. Supported by the Audit Committee, it supervises the financial reporting process and assisted by its Remuneration Committee, it determines the remuneration of the individual members of the Board of Directors within the remuneration policy adopted by the Annual General Meeting of Shareholders. The reports of the respective committees, including an extensive report of the Remuneration Committee, are presented separately in this report (please refer to section Report of the Board of Directors).

The Board of Directors has adopted Board Rules that govern the procedures and decision making of the Board

of Directors. The Board of Directors has also adopted charters to govern the procedures and decision-making of the committees established by the Board of Directors. The Board Rules and charters have been drafted to ensure compliance by the Company with both Dutch Corporate law and the DCGC and applicable US rules, US listing, including without limitation the Sarbanes Oxley Act of 2002. The Board Rules and the charters have been published on the Company's website (www.pharming.com).

Since 11 December 2020, our Board of Directors comprised of the following members:

Board of Directors			
Name	**Position**	**Member since**	**Term**
Dr Sijmen de Vries	Chief Executive Officer, Executive Director	October 13, 2008	Up to AGM in 2021
Mr Paul Sekhri	Chairperson	April 30, 2015	Up to AGM in 2023
Ms Deborah Jorn	Vice Chairperson	May 22, 2019	Up to AGM in 2023
Dr Barrie Ward	Non-Executive Director	May 23, 2007	Up to AGM in 2021
Mr Aad de Winter	Non-Executive Director	April 15, 2009	Up to AGM in 2021
Ms Barbara Yanni	Non-Executive Director	December 11, 2020	Up to AGM in 2024
Dr Mark Pykett	Non-Executive Director	December 11, 2020	Up to AGM in 2024

The terms of two members of the Board of Supervisory Directors (Mr. Ward and Mr. De Winter) are scheduled to expire on the occasion of the next Annual General Meeting of Shareholders to be held in 2021 (the “2021 AGM”). These members are expected to step down at that time in view of the prevailing best practice recommendations concerning their tenure. The Board of Directors will ensure that its new composition will continue to reflect the Company’s growth ambitions and will be consistent with the profile of the Board of Directors, including diversity targets aligned with expected new Dutch gender diversity legislation. More details on the succession of Mr. Ward and Mr. de Winter will follow when appropriate.

Executive Committee

Since 11 December 2020, the non-statutory Executive Committee supports the CEO with the execution of his tasks and responsibilities as Executive Director. Accordingly, the CEO is supported by the Executive Committee members in managing Pharming's day-to-day operations, ensuring sufficient oversight, and the execution of the strategy and all other goals and objectives across the organization.

The Board of Directors adopted a Charter that governs the procedures and the tasks and responsibilities of the Executive Committee, in addition to the applicable provisions in the Board Rules. The Charter is compliant with Dutch Corporate law and the DCGC and applicable US rules. The charter has been published on the Company's website (www.pharming.com).

The members of the Executive Committee report to the CEO, but, as confirmed in the Board Rules, the Board of Directors regularly reviews and discusses the reports received from the Executive Committee. Accordingly, the members of the Executive Committee are invited to the scheduled quarterly meetings of the Board of Directors for

a business update and in addition monthly written reports are sent to the full Board of Directors. The members also attend, as guests, the meetings of the audit committee and the Board of Directors held to discuss the quarterly and full year results, the Annual Report, the annual goals and objectives and the annual budget. Finally, the Board Rules specify those matters that at least require a decision by the full Board of Directors.

The following table sets forth information regarding the members of the Executive Committee, who are referred to as Executive Officers, including their respective positions:

Executive Committee As of 11 December 2020, our Executive Committee comprised of the following members:		
Name	**Position**	**First appointed in managerial capacity**
Executive Director/Chair		
Dr Sijmen de Vries	Chief Executive Officer and Executive Director	October 13, 2008
Executive Officers		
Dr Bruno Giannetti	Chief Medical Officer	1 December 2006
Mr Jeroen Wakkerman	Chief Financial Officer	November 16, 2020
Mrs Anne-Marie de Groot	Chief Ethics & Compliance Officer	01 January 2014
Mrs Mireille Sanders	Chief Operations Officer	01 August 2019
Mr Stephen Toor	Chief Commercial Officer and GM Americas	01 January 2017

More details regarding the members of the Board of Directors and the Executive Committee can be found on the following pages.

Board of Directors

Sijmen de Vries, MD MBA (1959)

Title: Executive Director 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.

Dr. De Vries has been our Chief Executive Officer since 2008, and he has also served in the capacity of interim Chief Financial Officer from May 2020 through November 16, 2020, upon the commencement of Mr. Wakkerman's tenure as Chief Financial Officer. Dr. De Vries is responsible for daily management of the Company and the execution of the strategy. Prior to joining Pharming, Dr. De Vries was the CEO of 4-Antibody and Morphochem AG. Dr. De Vries also held senior business and commercial positions at Novartis, Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc. Dr. De Vries holds an MD degree from the University of Amsterdam and an MBA in General Management from Ashridge Management College (UK). Dr. De Vries is also a non-executive director of Midatech Pharma plc.

Paul Sekhri (1958)

Title: Chairman of the Board of Directors
Nationality: USA
Date of initial appointment: 30 April 2015
Other current board positions: Mr. Sekhri is President and CEO of eGenesis.

Mr. Sekhri has been the Chairman of our Board of Directors since 2016 and has served as a director since 2015. Mr. Sekhri was appointed the President and CEO of eGenesis, Inc. in January 2019. Prior to joining eGenesis, Inc., Mr. Sekhri served as President and CEO of Lycera Corp. from February 2015 through December 2018. From April 2014 through January 2015, Mr. Sekhri served as Senior Vice President, Integrated Care at Sanofi. From May 2013 through March 2014, Mr. Sekhri served as Group Executive Vice President, Global Business Development and Chief Strategy Officer for TEVA Pharmaceutical Industries Ltd. Prior to joining TEVA, Mr. Sekhri spent five years as Operating Partner and Head of the Biotechnology Operating Group at TPG Biotech, the life sciences venture capital arm of TPG Capital. From 2004 to 2009, Mr. Sekhri was Founder, President, and Chief Executive Officer of Cerimon Pharmaceuticals, Inc. Prior to founding Cerimon, Mr. Sekhri was President and Chief Business Officer of ARIAD Pharmaceuticals, Inc. Previously, Mr. Sekhri spent four years at Novartis, as Senior Vice President, and Head of Global Search and Evaluation, Business Development and Licensing for Novartis Pharma AG. Mr. Sekhri also developed the Disease Area Strategy for Novartis, identifying those specific therapeutic areas upon which the company would focus. Mr. Sekhri's first role at Novartis was as Global Head, Early Commercial Development. Mr. Sekhri completed graduate work in Neuroscience at the University of Maryland School of Medicine, where he also received his BS in Zoology. Mr. Sekhri is currently a member of the Board of Directors of BiomX Inc., Likeminds, Longboard Pharmaceuticals and Veeva Systems Inc. and Ipsen S.A., and Chairman of the Board of Compugen Ltd. Mr. Sekhri is an avid classical music enthusiast and is on the Boards of The Metropolitan Opera, The Knights and the Patrons Council of Carnegie Hall. Mr. Sekhri is also an active member of the Patrons Council of Carnegie Hall.

Deborah Jorn, MBA (1958)

Title: Vice-Chair of the Board of Directors, Chairwoman of the Remuneration Committee, and Member of the Audit Committee
Nationality: USA
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.

Ms. Jorn has served as a director since 2019. Ms. Jorn was Executive Vice President of Corporate and Commercial Development at Eyepoint Pharmaceuticals from 2016 to 2018. 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 also serves on the board of directors of ViveveMedical, Inc. and she served as a member of the board of directors of Orexigen Therapeutics, Inc. from May 2016 until July 2018.

J. Barrie Ward, PhD (1938)

Title: Non-Executive Director, Chairman of the Corporate Governance Committee and Member of the Audit 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.

Board of Directors

Aad de Winter, LLM (1953)

Title: Non-Executive Director, Chairman of the Audit Committee, and a 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 served as a director since 2009. Mr. De Winter began 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 Center 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, specializing in corporate law.

Barbara Yanni (1954)

Title: Non-Executive Director and Member of the Audit Committee
Nationality: USA
Date of initial appointment: 11 December 2020
Other current board positions: Member Board of Directors of Trevena, Inc, Vaccinex, Inc and Mesentech, Inc., respectively.

Chief Licensing Officer at Merck & Co. (MRK), a pharmaceutical company, from November 2001 until her retirement in March 2014. Prior to this, Ms. Yanni served in various roles at Merck including in corporate development, financial evaluation, and tax. Ms. Yanni currently serves on the board of directors of two public biotechnology companies: Trevena, Inc. and Vaccinex, Inc. Ms. Yanni is also a member of the board of directors of Mesentech, Inc., a private Canadian biotechnology company. Ms. Yanni earned a J.D. from Stanford Law School and an A.B. from Wellesley College. She also holds a Masters of Law in Taxation from New York University Law School. Before joining Merck in 1985 Barbara was a tax lawyer in New York City.

Mark Pykett, VMD, PhD (1964)

Title: Non-Executive Director
Nationality: USA
Date of initial appointment: 11 December 2020
Other current board positions: Chief Scientific Officer of PTC Therapeutics.

Dr. Pykett has served as a director since December 2020. Dr. Pykett has been the Chief Scientific Officer of PTC Therapeutics, Inc. since 2018. Dr. Pykett was the President and Chief Executive Officer of Agilis Biotherapeutics from 2014 until its acquisition by PTC Therapeutics in 2018. Prior to Agilis, Dr. Pykett served as CEO of Navidea Biopharmaceuticals, President of Alseres Pharmaceuticals, President of Cygenics, and President and CEO of Cytomatrix. Dr. Pykett holds a PhD in Molecular Biology from the University of Pennsylvania, a VMD from the University of Pennsylvania School of Veterinary Medicine and a B.A. in Biology from Amherst College.

Executive Committee

Sijmen de Vries, MD MBA (1959)

Title: Executive Director 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.

Dr. De Vries has been our Chief Executive Officer since 2008, and he has also served in the capacity of interim Chief Financial Officer from May 2020 through November 16, 2020, upon the commencement of Mr. Wakkerman's tenure as Chief Financial Officer. Dr. De Vries is responsible for daily management of the Company and the execution of the strategy. Prior to joining Pharming, Dr. De Vries was the CEO of 4-Antibody and Morphochem AG. Dr. De Vries also held senior business and commercial positions at Novartis, Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc. Dr. De Vries holds an MD degree from the University of Amsterdam and an MBA in General Management from Ashridge Management College (UK). Dr. De Vries is also a non-executive director of Midatech Pharma plc.

Jeroen Wakkerman (1969)

Title: Chief Financial Officer
Nationality: Dutch
Date of initial appointment: 16 November 2020

Mr. Wakkerman has been our Chief Financial Officer since November 2020. From 2015 to 2020, Mr. Wakkerman served as Chief Financial Officer of Nutreco N.V., a global leader in animal nutrition and aqua feed. Prior to that, Jeroen served as Chief Financial Officer of SHV Energy N.V., as finance director at Calor Gas (UK) and has also held several financial and commercial positions at Unilever and Rabobank. Jeroen also holds an MSc degree in Business Economics from the University of Groningen and is a Chartered Treasurer (UK) and a Chartered Management Accountant (UK).

Anne-Marie de Groot (1981)

Title: Chief Ethics & Compliance Officer
Nationality: Dutch
Date of Initial appointment: 1 January 2014

Prior to being appointed Chief Ethics & Compliance Officer on 15 December 2020, Ms. De Groot served as our Senior Vice President, Organizational Development since 2016. From 2014 to 2015, Ms. De Groot was our Director of Corporate Development. Prior to 2014, Ms. De Groot 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: Chief Operations Officer
Nationality: Dutch
Date of Initial appointment: 1 August 2019

Prior to being appointed Chief Operations Officer on 15 December 2020, Mrs. Sanders served as our Senior Vice President, Operations since 2019. From 2016 until 2019, Ms. Sanders served as Head of Clinical Supply Chain Strategic Management and Systems at Janssen Pharmaceuticals, a Johnson & Johnson company. Prior to Janssen, Ms. Sanders held senior positions at MSD/Merck, from 2009 until 2015. She holds an MSc in Chemical Engineering from the Technical University Eindhoven in the Netherlands.

Stephen Toor (1971)

Title: Chief Commercial Officer and General Manager Americas
Nationality: American
Date of initial appointment: 1 January 2017

Prior to being appointed Chief Commercial Officer and GM Americas on 15 December 2020, Mr. Toor served as President and General Manager of Pharming Healthcare, our US operations, since 2020. From 2017 to 2020, Mr. Toor was the Senior Vice President and General Manager, US. Prior to Pharming, Mr. Toor was Senior Director, Sales and Marketing – Immunology, Orphan and Mature Brands at Bausch Health (formerly Valeant) from 2013 to 2016. Prior to 2013, Mr. Toor held positions at Pharmacia/Pfizer and Schering Plough/ Merck. He holds a BA (Hons) in European and American History from Manchester Metropolitan University.

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

Title: Chief Medical Officer
Nationality: Italian
Date of initial appointment: 1 December 2006

Dr. Giannetti has been our Chief Medical Officer since 2019. Dr. Giannetti served as our Chief Operating Officer from 2006 until 2019. Prior to joining Pharming in 2006, Dr. Giannetti was the CEO of AM Pharma B.V., President and founder of CRM Clinical Trials GmbH (now Topcro GmbH) 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). Dr. Giannetti was also worldwide Vice-President Marketing and Medical Information at Immuno, Austria and Head of Clinical Research at Madaus AG.

Report of the Board of Directors

Board structure

Throughout the year 2020, until 11 December 2020, the statutory responsibility for the management of the Company was vested in the Board of Management, supervised by the separate Board of Supervisory Directors.

In connection with the listing of our ADSs on Nasdaq, we converted our two-tier board structure into a one-tier board structure, with a single board of directors consisting of the executive director and non-executive directors, pursuant to a deed of amendment to our articles of association that became effective on 11 December 2020. Since that date, the Board of Directors is jointly responsible for the management of the Company. The daily management of the Company and the execution of the strategy are entrusted to the CEO, as the only Executive Director. The CEO is supported by the non-statutory Executive Committee in the execution of his tasks and responsibilities. The Non-Executive Directors share statutory management responsibility, but shall focus on the supervision on the policy and functioning of the performance of the duties by the Executive Director and the Company's general state of affairs.

The Board of Directors is assisted by the Corporate Governance Committee in ensuring compliance by the Company with the DCGC and other (foreign) applicable rules and regulations. Supported by the Audit Committee, it supervises the financial reporting process and assisted by its Remuneration Committee, it determines the remuneration of the individual members of the Board of Directors within the remuneration policy adopted by the Annual General Meeting of Shareholders. The reports of the respective committees, including an extensive report of the Remuneration Committee, are presented separately in this section.

Reference is made to the section "Corporate Governance" for both an outline of the tasks and responsibilities and the composition of (i) the Board of Management and the Board of Supervisory Directors, respectively, until 11 December 2020 and (ii) the Board of Directors as of 11 December 2020. These sections are inserted herein by this reference. The procedures and decision-making of the Board of Directors are governed by Board Rules and available on our website at www.pharming.com.

Details on the remuneration paid to the members of the aforementioned bodies, including a summary of the remuneration policy applied until 11 December 2020 and the new remuneration policy for the Board of Directors as adopted by the General Meeting of Shareholders on 11 December 2020, can be found in the separate 2020 Remuneration Report. To the extent required, the Remuneration Report is also incorporated herein by reference.

In the opinion of the Board of Directors, the independence requirements referred to in best practice provisions 2.1.7 to 2.1.9 inclusive of the DCGC have been fulfilled, both for all members of the former Board of Supervisory Directors and the current Non-Executive Directors. Pharming does not require its Non-Executive Directors, nor did it require its members of the former Board of Supervisory Directors, to disclose any holdings in other listed and/or unlisted companies, although it does require that any other board positions are disclosed.

To preserve good governance, the Board of Supervisory Directors (currently, the Board of Directors) conducts a self-evaluation annually. These evaluations generally cover the work and functioning of the Board of Supervisory Directors (currently, the Board of Directors), including the activities in relation to the key objectives and long-term strategy of the Company, the interaction among the members and with the Executive Committee, the lessons learned and

the structure and composition of the Board of Supervisory Directors (currently, the Board of Directors) to ensure that the members bring the correct skills and background knowledge for the benefit of the Company.

The performance by the individual members and the committees of the Board of Directors is also covered by the annual evaluation process. With regard to the evaluation of the performance by the Executive Director/ CEO, the Corporate Governance Committee will also annually provide a recommendation to the Board of Directors, based on the performance on the agreed goals and objectives for each financial year. Reference is made to the section Remuneration Report 2020.

The next annual self-evaluation, following the evaluation in March 2020 that was reported on in the 2019 Annual Report, will be held later this year, in view of the recent changes to the corporate governance structure. The process will inter alia be facilitated by circulating a survey to the members of the Board and the committees to obtain their feedback. The findings will be discussed by the Board during a plenary session, in order to determine the follow-up actions that are deemed appropriate.

Activities

Frequency of meetings

The Board of Supervisory Directors (since 11 December 2020, the Board of Directors) met ten times in 2020, including one combined meeting with the Audit Committee on 25 March for the approval of the 2019 Annual Report). Due to the COVID-19 pandemic, all meetings were held using virtual platforms.

The individual presence of the Supervisory Directors (since 11 December 2020, the Non-Executive Directors) is reflected in the following schedule:

Date	3/4 March	25 March	13 May	19 May	29 July	25 September	13 October	27/28 October	23 November	15 December	% Present during 2020**
Mr. Sekhri	P		P	P	P	P	P	P	P	P	90%
Ms. Jorn	P	P	P	P	P	P	P	P	P	P	100%
Mr. Ward	P	P	P	P	P	P	P	P	P	P	100 %
Mr. De Winter	P	P	P	P	P	P	P	P	P	P	100%
Ms. Yanni	n/a	n/a	n/a	P*	p*	p*	p*	p*	p*	P	100%
Mr. Pykett	n/a	n/a	P*	p*	P*	P*	P*	p*	P*	P	100%
Mr. Ernst			P	P	P	P	P	P	n/a	n/a	75%

p: as observer*
***: as appointed supervisory director/non-executive director*

The members of the Board of Management (today, the Executive Director) attended these meetings, except when the composition, performance, remuneration of the Executive Director and the self-evaluation of the members of the Board of Supervisory Directors (currently, the Board of Directors) and its committees were discussed and voting took place. In addition, the members of the Management Team (today, the members of the Executive Committee) attended the scheduled quarterly meetings of the Board of Supervisory Directors (currently, the Board of Directors) for the business updates, the quarterly results, the 2019 Annual Report and the annual budget.

Summary of specific activities

The Board of Supervisory Directors was updated by the Board of Management during each meeting in 2020, and also between meetings whenever appropriate, on the developments due to the COVID-19 pandemic and their impact, if any, on Pharming. Accordingly, the Board of Supervisory Directors was able to conclude from the received information that, based on the intensive monitoring of the developments by the central COVID-19 crisis team and the guidelines and other implemented measures, the COVID-19 pandemic had no impact on the upscaling or continued production of RUCONEST® or on the availability or distribution of RUCONEST® to HAE patients throughout 2020 and in the first quarter of 2021. The Board of Directors will continue to monitor the developments in the coming quarters and update the market if appropriate.

The Board of Supervisory Directors was updated by the Board of Management on, and approved, the issue on 21 January 2020 of EUR 125 million of senior unsecured convertible bonds due 2025. The net proceeds of the issue of the bonds were used to redeem the balance of approximately $51 million of the Company's loan with Orbimed Advisors in full, reducing the Company's financing costs. The remaining balance of the net proceeds will be used by the Company to support capital expenditure in relation to the expansion of our commercialization and manufacturing infrastructure and also serve as funding for the launch of leniolisib, if approved, as well as for additional acquisitions/in-licensing opportunities.

Another important topic addressed during several meetings held by the Board of Supervisory Directors in 2020, was the progress made by the remuneration committee in drafting the new remuneration policy for the Board of Directors, following our decision on 20 May 2020 to withdraw the remuneration policy that had been submitted at the time to our shareholders. Reference is made to the section Report of the Remuneration Committee for more details on the (drafting process for the) new Remuneration Policy for the Board of Directors. The new policy was approved by the Board of Supervisory Directors on 28 October 2020 and adopted by our shareholders on 11 December 2020.

During the meetings in the second half of 2020, the Board of Supervisory Directors also focused inter alia on the preparations by the Board of Management for the listing of our ADSs on Nasdaq. The Board of Supervisory Directors was updated at regular intervals by the Board of Management on the plans and the progress made, inter alia during the special meetings held on 13 October 2020 and 23 November 2020. The Board of Supervisory Directors unanimously endorsed and approved the listing of ADSs on Nasdaq. The Board of Supervisory Directors shared the views of the Board of Management that the US listing of ADS will support Pharming in taking the next steps to advance the Company's long-term strategy, ambitions and business, expanding and building on our major presence in the US.

In the context of the preparations for the listing of our ADSs on Nasdaq, the Board of Supervisory Directors also reviewed, and unanimously approved, the proposals related to the transition of the Company's two-tier board structure into a one-tier board structure. The Board of Supervisory Directors concluded that the one-tier board model is expected to further improve the internal governance processes, as this model will encourage mutual interaction and an even stronger mutual sharing of expertise, by creating one single corporate body composed of executive and non-executive directors with a joint management responsibility. The new one-tier board structure became effective on 11 December 2020, pursuant to a deed of amendment to our articles of association approved by our shareholders and executed by the notary that same day.

Other topics regularly discussed and, to the extent applicable, approved at the meetings of the Board of Supervisory Directors (currently, the Board of Directors), were the Company's financial and operational targets, the long-term strategic objectives, the progress made on achieving these targets and objectives, and the accompanying risks, in view of the Company's strategy aimed at creating long-term value for the Company and its stakeholders. Reference is made to the section "Our Strategy" for an outline of the Company's mission and the supporting three-pillar strategy.

The Board of Management explained to the Board of Supervisory Directors its vision and views on to creation of long-term value for the Company, the enterprise and its stakeholders, and the long-term strategic targets to be developed to support such creation, inter alia on the occasion of the approval of the annual goals and objectives in the meeting held on 4 March 2020 and the approval of the 2021 budget. The Board of Management also explained to the Board of Supervisory Directors the ongoing project started for the review and, if appropriate, update of the long-term strategic plan, in view of the Company's mission and its efforts to strive for long-term value creation by the Company. The Board of Directors will be involved in the related dialogue and the definition of the updated plan.

Amongst other topics, a considerable amount of time was also spent in 2020 on the supervision of the management activities regarding the clinical trial and preparations for the launch of leniolisib, the other ongoing clinical trials and product development programs, and the set-up of a European distribution network, following the re-acquisition by the Company of all license territories from Sobi.

Recurring issues each time also receiving significant time and attention were the approval of the Annual Report, the quarterly and full year financial and operational results, the quarterly business updates (covering inter alia the commercial strategy, sales results, forecasts and other developments with regard to RUCONEST®, in the US, Europe and the rest of the world), the competitive landscape, commercial and production partnerships, potential business development opportunities, licensing opportunities, succession planning, the annual budget and targets and the operational and financial risks to which the Company is exposed. The Board of Supervisory Directors (today the Board of Directors) has received monthly written management reports since June 2020 that also enable the members to monitor the main current files and projects and related opportunities and risks.

In the execution of its responsibilities, the Board of Supervisory Directors (currently, the Board of 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 commercialization 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, as of 11 December 2020, the CEO and the members of the Executive Committee. Where possible, actions have been agreed to minimize the Company's exposure. Financial risks are actively monitored by the Finance department, whose findings are discussed with the CEO/Executive Director (formerly, the Board of Management) on a monthly basis or more often if deemed necessary. The risks are further described in the 'Corporate governance and risk management' chapter in this report.

The Board of Supervisory Directors (currently, the Board of Directors), based on a recommendation to that effect from the Audit Committee, concluded on 3 March 2021 that the Company does not yet require the establishment of an internal auditor function. Reference is made to the separate report of the Audit Committee, as included in this Annual Report, for a summary of the relevant observations in arriving at this conclusion. The Audit Committee is required to assess this position annually and to make recommendations to the Board of Directors, in compliance with the DCGC.

Audit Committee

The tasks performed by the audit committee include the supervision of the operation of our internal risk management and control systems, including supervision of the enforcement of the relevant legislation and regulations, and supervising the operation of codes of conduct; the provision of financial information by Pharming (such as choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the annual accounts, forecasts and work of external auditors); compliance with recommendations and observations of our external auditor; our policy on tax planning; relations with our external auditor, including, in particular, their independence, remuneration and any non-audit services for Pharming and our financing.

The audit committee is governed by a charter that complies with the best practice provisions of the DCGC and applicable Nasdaq rules, which charter is available on our website at www.pharming.com. The charter was updated on 23 November 2020, in anticipation of the listing of our American Depository Shares on Nasdaq.

The Audit Committee consisted throughout 2020 of Mr. De Winter (Chairperson) and Ms. Jorn. Mr. Ernst was also a member of the Audit Committee until his retirement on 23 November 2020. Ms. Yanni joined the Audit Committee on 11 December 2020. The composition of our Audit Committee is consistent with the best practice provisions of the DCGC.

The Audit Committee met five times in 2020, including one combined meeting with the Board of Supervisory Directors on the 2019 Annual Report held on 25 March 2020. Due to the COVID-19 pandemic, all meetings were held using virtual platforms. The external auditor, Deloitte Accountants B.V. (Deloitte) attended each meeting of the Audit Committee. All other members of the Board of Supervisory Directors were each time also invited to attend the meetings of the audit committee as observers. In addition, the members of the Board of Management and the Management Team (today, the Executive Director and the members of the Executive Committee) attended the meetings as guests.

The individual presence of the members of the Audit Committee is reflected in the following schedule:

Date	4 March	25 March	13 May	29 July	28 October	% Present during 2020**
Mr.de Winter	P	P	P	P	P	100%
Ms. Jorn	P	P	P	P	P	100%
Ms. Yanni	n/a	n/a	n/a	p*	P*	n/a
Mr. Ernst			P	P	P	60%

**: as observer*
***: as appointed member*

During the Audit Committee meetings held in 2020, the quarterly and full year financial statements and Annual Report were reviewed and discussed, each time leading to a recommendation to the Board of Supervisory Directors (currently, the Board of Directors) for approval and publication. The audit committee inter alia monitored during its review of the financial statements the sales revenues and underlying trends, the financing costs, cost control measures, the supply inventories, developments in the company's cash position and cash flow and the impact of currency exchange risks on the presented company results.

In addition, the audit committee reviewed and discussed the external auditor's 2020 audit plan and the management letter, verifying in particular the effectiveness of the internal risk controls and external audit processes in managing risks across the company. The audit committee approved the 2020 audit plan at the meeting held on 29 July 2020. The 2020 Audit Plan and the management letter were also shared and discussed with the full Board of Supervisory Directors (currently, the Board of Directors).

The audit committee was updated by the Chief Financial Officer (and by the CEO, as interim CFO in the period 20 May 2020 up to and including 16 November 2020) on the progress made in further strengthening the internal risk control environment and in developing and launching a new, company-wide enterprise resource planning (ERP) system. The Audit Committee was involved in the search process for the new Chief Financial Officer, that resulted in the appointment of Jeroen Wakkerman as of 16 November 2020.

The audit committee also evaluated in 2020 the performance by Deloitte of its duties as external auditor for the financial year 2019. The audit committee concluded to recommend to the Board of Supervisory Directors to approve the nomination of Deloitte as external auditor for the financial year 2020 to the general meeting of shareholders. The Board of Supervisory Directors followed the audit committee's recommendation and, as a result, Deloitte was appointed and instructed by the annual general meeting of shareholders held on 20 May 2020 to examine the Annual Report and the Financial Statements for the financial year 2020, to report to the Board of Supervisory Directors and the Board of Management (currently, the Board of Directors), and to issue an auditor's statement.

In accordance with the charter of the audit committee and the DCGC, the audit committee is required to assess annually whether it would be necessary to establish an internal auditor function. Such function does not exist within Pharming today. During the assessment on 3 March 2021, the audit committee concluded, and recommended the Board of Supervisory Directors (currently, the Board of Directors) to conclude also, that, due to the size of the company, no internal auditor is needed at this point in time. The audit committee considered inter alia the tasks and responsibilities of the Chief Financial Officer, the Quality Assurance department and the external auditors with regard to the assessment and testing of the risk management and control systems.

As a result of the Company operating in the highly regulated field of development and worldwide commercialization 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. However, the audit committee also noted the appointment of a new internal controller to strengthen the internal controls. The audit committee acknowledged that the fast rate of growth of the Company at present may cause a different determination at some point in the foreseeable future.

Finally, in the second half of 2020, the Audit Committee was updated by the external auditors on a regular basis on the results and findings during their audit of the financial statements included in the Registration Statement and other filing documents in preparation for the listing of the Company's ADSs on the Nasdaq Stock Exchange. The Audit Committee inter alia monitored the steps that were taken to ensure compliance with the applicable PCAOB standards.

Remuneration Committee

The tasks performed by the remuneration committee include the preparation of proposals to our Board of Directors for our remuneration policy; the preparation of proposals for the compensation of the individual members of our Board of Directors; and preparing our remuneration report to be included in our annual report.

The composition of our remuneration committee is consistent with the best practice provisions of the DCGC. The remuneration committee consisted throughout 2020 of Ms. Jorn (Chairperson) and Mr. Ward. Mr. Ernst was also a member of the Remuneration Committee until his retirement on 23 November 2020.

The remuneration committee met two times in 2020. Due to the COVID-19 pandemic, all meetings were held using virtual platforms.

The individual presence of the members of the remuneration committee is reflected in the following schedule:

Date	19 August	27 October	% Present during 2020*
Ms. Jorn	P	P	100%
Mr. Ward	Due to technical problems; input on items received	P	50%
Mr. Ernst	P	P	100%

**: as appointed member*

The remuneration committee is governed by a charter that complies with the best practice provisions of the DCGC and applicable Nasdaq rules, which charter is available on our website at www.pharming.com. This charter was updated on 23 November 2020, in anticipation of the listing of the American Depository Shares on Nasdaq.

The remuneration committee spent a significant amount of time and effort to the drafting of the new remuneration policy for the Board of Directors, following the decision taken by the Board of Supervisory Directors to withdraw the remuneration policy that had been submitted to the the General Meeting on 20 May 2020. The remuneration committee engaged Georgeson, as a recognized consultant, to support in drafting a new remuneration policy, that would be aligned with prevailing ‘best practices’ in the field of remuneration. The remuneration committee also engaged Radford, an international leading executive compensation consultant, for a benchmark of the remuneration levels of the board members.

During the meeting held on 19 August 2020, the remuneration committee discussed and approved the peer group selection for the review of the remuneration levels of the Board of Management and the Board of Supervisory Directors. The remuneration committee also discussed the status of the drafting of the new remuneration policy, following the withdrawal of the proposed policy in May 2020.

During the meeting on 27 October 2020, the remuneration committee discussed the collected benchmark results and the updated remuneration proposals, including the final draft remuneration policy that included feedback received by the remuneration committee during meetings held by the Chair of the remuneration committee with, amongst others, proxy advisors and representatives of the interests of institutional investors. The committee concluded to recommend to the Board of the Supervisory Directors to approve the proposed draft remuneration policy and the other related remuneration proposals and to submit these to our shareholders for adoption or approval, respectively.

In addition, the remuneration committee provided in November and December input and recommendations to the Board of Supervisory Directors and the Board of Directors on the proposed new remuneration policy for the members of the Executive Committee and the individual remuneration proposals for these members, respectively.

The Remuneration Report, as prepared by the remuneration committee, including details on the new remuneration policy for the Board of Directors, that was adopted by our shareholders on 11 December 2020, can be found in the separate section 'Remuneration Report 2020' of this Annual Report.

Corporate Governance Committee

The corporate governance committee consisted throughout 2020 of Mr. Ward (Chairperson) and Mr. De Winter. Mr. Ernst was also a member of the Corporate Governance Committee until his retirement on 23 November 2020. The composition of our corporate governance committee is consistent with the best practice provisions of the DCGC.

The tasks performed by the corporate governance committee include monitoring compliance with the DCGC. Since the changes to our corporate governance structure that became effective on 11 December 2020, the corporate governance committee has also become responsible for nominations of new Directors. The Committee is also charged with the review of, and is required to prepare recommendations to the Board of Directors relating to, the functioning of individual Directors.

In 2020, the corporate governance committee did not meet outside the meetings of the Board of Supervisory Directors (or the Board of Directors since 11 December 2020), but the members provided corporate governance related recommendations and other advice during these meetings. The members inter alia reviewed the new draft governance documents (including the new Board Rules and the charters for the audit committee, remuneration committee and corporate governance committee) that became effective on 23 November 2020, in anticipation of the listing of our American Depository Shares on Nasdaq. For 2021, regular meetings will be scheduled, in line with the extended scope of the committee.

The corporate governance committee is governed by a charter that complies with the best practice provisions of the DCGC and applicable Nasdaq rules, which charter is available on our website at www.pharming.com. This charter was updated on 23 November 2020, in anticipation of the listing of our American Depository Shares on Nasdaq.

Authorization of the Financial Statements

The Financial Statements of Pharming Group N.V. for 2020, as presented by the Board of Directors, have been audited by Deloitte Accountants N.V. Their report is included in this Annual Report in section 'Auditors Report'.

The Financial statements were unanimously approved by the Board of Directors and the members of the Board of Directors have signed these Statements on behalf of the Company.

The Board of Directors acknowledged that, following the Extraordinary General Meeting held on 11 December 2020, the two-tier board structure was replaced with a one-tier board structure, with a single Board of Directors consisting of Executive and Non-Executive Directors, pursuant to a deed of amendment to our articles of association. Since that date, the Board of Directors is jointly responsible for the management of the Company. Until this corporate reorganization on 11 December 2020, the former Board of Management was the statutory body jointly responsible for the management of the Company, supervised by the separate Board of Supervisory Directors.

Moreover, pursuant to best practice 1.4.3 of the Dutch Corporate Governance Code and Article 5:25c of the Financial Markets Supervision Act, and taking into due consideration the explanation provided in the preceding paragraph and in the various other sections of this Annual Report, the Board of Directors states that, to the best of their knowledge:

- 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 weaknesses or 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.

Accordingly, the Board of Directors 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 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 'Risk Management and Control' chapter in this report.

In accordance with the foregoing, the Board of Directors recommends the Annual General Meeting of shareholders to adopt the 2020 Financial statements and to discharge, and therefore to release from liability, the members of the Board of Directors, including the members of the former Board of Management and Board of Supervisory Directors, respectively, for the exercise of their duties during the financial year 2020.

Leiden, 6 April 2021

Paul Sekhri
Sijmen de Vries
Deborah Jorn
J. Barrie Ward
Aad de Winter
Barbara Yanni
Mark Pykett

Collectively the Board of Directors
of Pharming Group N.V.

Remuneration Report 2020

The Remuneration Committee is responsible for the preparation of proposals to our Board of Directors (formerly: the Board of Supervisory Directors) regarding the remuneration policy for the Board of Directors and the members of the Executive Committee, the preparation of proposals for compensation packages of the individual members and preparing our remuneration report to be included in our annual report.

This Remuneration Report 2020, as adopted by the Board of Directors and prepared by the Remuneration Committee, first summarizes the remuneration policy for the Board of Directors as adopted on 11 December 2020. Where appropriate, the main differences compared to the remuneration policy, that was applied for the members of the former Board of Management and the former Board of Supervisory Directors until 11 December 2020, are highlighted. The remuneration policy for the members of the Executive Committee is consistent with the Remuneration Policy for the Board of Directors. Further details for the Members of the Executive Committee are not disclosed in this report, in accordance with Dutch law.

The second part of this report accounts for the implementation of the applicable remuneration policy over the financial year 2020, in accordance with the requirements of the revised European Union Shareholder Rights Directive ("SRD II") as transposed into Dutch law.

Summary of Remuneration Policy

The remuneration policy for the Board of Directors was adopted by our shareholders on 11 December 2020 and governs the remuneration of both the Executive and the Non-Executive Directors (hereafter referred to as the "Remuneration Policy").

The Policy refers to an undefined number of Executive Directors and Non-Executive Directors. Since 11 December 2020, the Board of Directors is composed of one Executive Director (i.e., the CEO) and six Non-Executive Directors. In case of future appointments of additional Executive Directors, the Policy shall also be applicable to the remuneration packages for these additional Directors, if any, in accordance with the terms thereof. Therefore, any reference below to Executive Director in the singular also includes the plural, and vice-versa, subject to more restrictive deviations in the Policy and except for specific references to the CEO.

The remuneration packages of the individual members are determined by the Board of Directors, without the involvement of the Executive Director in the deliberations and decision-making concerning his own remuneration, and each time within the restrictions set by the remuneration policy, that has to be adopted every four years by our shareholders in accordance with Dutch law.

The remuneration policy as adopted in the Annual General Meeting of Shareholders in June 2014 (hereafter referred to as the "Former Policy") was applied until the adoption of the new Remuneration Policy by our shareholders on 11 December 2020. Until that moment, the general meeting of shareholders determined the remuneration for the members of the former Board of Supervisory Directors, as specified in that Former Policy.

Background to the new Remuneration Policy

The remuneration committee spent a significant amount of time and effort in 2020 on the drafting of the new Remuneration Policy for the Board of Directors, following the decision taken by the Board of Supervisory Directors on 20 May 2020 to withdraw the remuneration policy that had been submitted for adoption by the annual general meeting of shareholders scheduled for that same day.

Several of the Company's foreign institutional investors as well as proxy advisory firms had expressed concerns over the draft remuneration policy that was at the time proposed to govern the members of the former Board of Management and the former Board of Supervisory Directors. It was decided to draft a new remuneration policy, taking the received feedback into due consideration. This feedback was, in summary, predominantly related to the need to ensure that all variable remuneration will be fully performance-based and that the performance measures, their relative weightings and the payout limits are identified.

Due to the decision taken by the Board of Supervisory Directors on 20 May 2020, the Former Policy continued to apply for the remuneration of the members of the former Board of Management and the former Board of Supervisory Directors, to the extent possible, until a new remuneration policy would be adopted.

Pharming's Remuneration Committee engaged a recognized international consultant in the field of executive board remuneration (Georgeson) for supporting the Remuneration Committee in drafting a revised remuneration policy, that would be aligned with the Dutch Corporate Governance Code ("DCGC"), other relevant 'best practices' and the revised European Union Shareholder Rights Directive ("SRD II").

The remuneration committee also engaged Radford, an international leading executive reward consultant, for a benchmark of the remuneration levels of board members. The data gathered during this benchmark, that was completed in September 2020, were used both to align the total remuneration of the Executive and Non-Executive Directors with the position of the Company relative to the benchmark groups that are relevant to the Company, and to determine the other parameters for the new remuneration policy. Pharming has set the objective to align itself with European best practices in the field of remuneration, but will also need to ensure that it preserves the urgent need to remain competitive in the important US labor market.

The benchmark completed in September 2020 indicated that the Company was at the time positioned in the upper quartile of the EU benchmark group, with regards to revenues and profitability. For the US benchmark, the Company was found to be positioned well into the top 50% in relation to revenues and profitability. The market capitalization of Pharming was 45% compared to the US peer group and 40% compared to the European peer group.

In drafting the revised remuneration policy for the Board of Directors, the wages and other labor conditions of Pharming employees and internal pay ratios were also taken into account. The Remuneration Committee considered at the time the pay ratios within the Company and observed that, 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. The pay ratio for 2019 between the mean compensation of members of the Board of Management and the mean compensation of employees (excluding members of the Board of Management) was 5.4 to 1 (2018: 5.3 to 1). The Remuneration Committee concluded that these ratios were consistent with levels which are appropriate for Pharming, given its size and complexity.

For 2020, the pay ratio between the compensation of the CEO and the mean compensation of employees (excluding the CEO) was 13.8 to 1 (2019: 7.7 to 1). Compensation in each case comprises all salary, bonus, share-based compensation in cash or in kind and pension contributions. The amount of compensation of the CEO, however, does not only represent the actual pay-out to the CEO but also includes the (pro-rata) fair value of the restricted shares that have been granted to the CEO pursuant to the new LTI Program and the LTI One-Off Transition Arrangement, respectively, as approved by our shareholders on 11 December, 2020. For 2020, the pay ratio between the mean compensation of members of the former Board of Management and the mean compensation of employees (excluding these members of the Board of Management) was 8.1 to 1. The aforementioned pay ratios are deemed consistent with levels which are appropriate for Pharming, given its size and complexity.

In September and October, the Remuneration Committee engaged with numerous parties, including proxy advisors and representatives of the interests of institutional investors, to obtain their feedback on the revised draft remuneration policy. Following these engagements, further changes were implemented and this resulted in the final remuneration policy for the Board of Directors, that was submitted for adoption to the Extraordinary General Meeting of Shareholders held on 11 December 2020. The new policy addressed all feedback that was received, as all variable remuneration shall from now onwards be fully performance-based only and the performance measures, their relative weightings and the payout limits are clearly identified.

The new Remuneration Policy for the Board of Directors was adopted by our shareholders on 11 December 2020 with a 99,28% majority of the votes cast.

Arrangements in the form of shares or rights to subscribe for shares will each time remain subject to the approval of the shareholders at the General Meeting, notwithstanding the adopted policy. On 11 December 2020, the shareholders approved the proposals that were submitted accordingly for the new long-term incentive program for the Executive Director, as described in the Remuneration Policy, and the one-off transition arrangement for the implementation of that new program.

The new Remuneration Policy has been published on the company's website (www.pharming.com) and the contents are included herein by reference. The Remuneration Policy as published on the Company's website includes an outline of the performance metrics, their weightings and the payout limits for both the short-term and long-term incentive programs.

A high-level summary of the Remuneration Policy is provided in the following paragraphs. Where appropriate, the main differences compared to the Former Policy are highlighted. With regard to the other elements, the Former Policy included similar provisions (mutatis mutandis and to the extent applicable) for the members of the former Board of Management and the former Board of Supervisory Directors, respectively.

Main Principles of the Remuneration Policy

The Remuneration Policy has been designed to support the continuous efforts of the Company aimed at improving the overall performance, facilitating growth and sustainable success and enhancing the other long-term value objectives and interests of the Company, in accordance with the long-term strategy. Reference is made to the section Our Strategy for an outline of Pharming's strategy.

This goal is intended to be achieved by providing remuneration packages, that are competitive to attract the required top executive talent to execute the Company's long-term strategy and the required non-executive board expertise to effectively supervise such execution, creating long-term value and sustainable growth in the best interest of the Company and all of its stakeholders. In view of Pharming's major and still growing presence in the complex US market and the listing of our listing of ADS's on Nasdaq since 23 December 2020, the Remuneration Policy also enables the Company to compete in a global market, including the challenging US labor market, while aligning itself with European best practices in the field of remuneration,

For the Executive Directors, the variable part of the remuneration package is required to be linked to the individual's performance against a set of financial and non-financial targets that are consistent with, and supportive of, the strategy and long-term interests of the Company. Risk alignment is also embedded in the target setting to promote sound and effective risk management and to avoid risk-taking that exceeds the level of tolerated risk of the Company. The Remuneration Policy also aims at distributing the strategy of the Company into (inter-) departmental goals and objectives, which lead to the individual objectives of the Executive Directors, the Executive Officers and all other employees.

The Remuneration Policy is also based on the overarching principle that the average level of total remuneration of both the Executive Directors and the Non-Executive Directors, respectively, will each time be consistent with the position of the Company relative to the benchmark groups that are relevant to the Company.

Among the other adopted overarching principles for the Remuneration Policy are:

Executive Directors

- A consistent and competitive remuneration structure is applied across the workforce to promote a culture of shared purpose and performance, focusing the Executive Directors and all other executives and staff members on delivering on Pharming's mission, vision and strategy and creating long-term value for the Company and its stakeholders.
- All (short-term and long-term) variable remuneration is performance-based, never guaranteed and not rewarding failure. The total amount of remuneration is each time based on a combination of the assessment of the performance of the individual and the overall results of the Company and when assessing individual performance, quantitative (financial) criteria and qualitative (non-financial) criteria are taken into account.
- The Former Policy permitted by way of long-term variable remuneration for the members of the former Board of Management: (i) the annual grant of share option plans, approved by the Annual General Meeting of Shareholders and based on tenure, and (ii) the conditional grant of restricted shares, with a target value of 30% of gross annual salary, pursuant to the long-term incentive program ("LTIP"). The number of restricted shares that vested under the LTIP after three years was each time determined based on the relative performance of the Pharming share price compared to an initial group of 26 other European Small cap/ Mid cap listed companies active in life sciences over the preceding 36 months. No individual performance targets applied for the vesting of the shares.
- 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 material manner.

Non-Executive Directors

- The annual remuneration is based on the position an individual has in the Board of Directors, the Audit Committee, the Remuneration Committee and/or the Corporate Governance Committee.
- The remuneration package, including the shares to be granted, is fixed and not linked to the performance of the Company, to ensure the independence of the Non-Executive Directors in the discharge of their supervisory tasks and responsibilities.
- The Former Policy permitted the participation by the members of the former Board of Supervisory Directors in the Company's LTIP. The members, however, have no longer participated in the LTIP effective the financial year 2020.
- All shares acquired and/or held by the Non-Executive Directors shall be a long-term investment only.

The Remuneration Policy will evolve over time, to remain aligned with Pharming's strategy, market practice and the interests of its stakeholders. The remuneration committee annually reviews the Remuneration Policy and its implementation to ensure its effectiveness, including the testing of scenarios during the year to ensure that the policy remains competitive and fair. This was addressed in 2020 during the benchmark and drafting of the new Remuneration Policy.

Specific elements

Peer Group

The Remuneration Policy is based on the overarching principle that the average level of total remuneration of both the Executive Directors and the Non-Executive Directors is consistent with the position of the Company relative to the benchmark group relevant to the Company.

The peer group of the Company for comparison of remuneration levels will each time consist of a group of European and US integrated and commercial stage listed companies active in Life Sciences, in view of Pharming's important presence in the US. This peer group composed of European and US listed companies also reflects the listing of our shares on Euronext Amsterdam and of our ADS on Nasdaq.

The names of the companies in the current peer group are disclosed in the separate document published on the Company website (www.pharming.com) and incorporated herein by reference.

In the below paragraphs on variable remuneration, the separate peer group used for the long-term incentive program is explained.

Remuneration Executive Directors

The remuneration package permitted by the Remuneration Policy consists of annual fixed remuneration, variable remuneration (including a short-term incentive in cash and a performance-based long-term incentive program in shares) and other defined benefits (such as pension, holiday allowance and health insurance coverage). The performance of the Executive Directors is reviewed annually by the Board of Directors, without the participation of the Executive Directors, based on a set of financial and non-financial targets that are aligned with the Company's long-term strategy, in accordance with the outline in the Remuneration Policy.

The Former Policy permitted, in addition to annual fixed remuneration and the other defined benefits, the grant of variable remuneration composed of (i) an annual bonus either in cash or share options, and (ii) a long-term incentive program including an annual share option plan for the Board of Management and a long-term incentive plan for the annual conditional grant of restricted shares.

Fixed Remuneration

The remuneration package of the Executive Directors comprises a fixed remuneration in the form of an annual base salary. The following table reflects the gross annual base salary (fixed remuneration) of the CEO paid in the financial year 2020:

Position	Fixed remuneration amount
CEO	€538,000

The Board of Directors, without the participation of the Executive Directors, may upon proposal of the Remuneration Committee decide to increase the base salary of Executive Directors and Officers within the restrictions set by the Remuneration Policy, provided that (i) the amount of the increase does not exceed the average salary increase of the employees of our company and (ii) the resulting total remuneration continues to be aligned with the Company's position relative to the peer group. The remuneration policy applied until 11 December 2020, did not include the foregoing restrictions as mentioned in (i) and (ii).

Moreover, based on the benchmark analysis completed in September 2020, the Remuneration Policy permits the increase of the fixed remuneration of the CEO, divided into annual stages until the end of 2023, to bridge the 10% gap with the median, subject to continued (overall) satisfactory performance.

The remuneration committee ascertained that the aforesaid gap is the result of the rapidly changing nature and complexity of the Company's business over the last couple of years, when it suddenly transformed from a chronic loss-making small biotech into an integrated profitable bio-pharmaceutical organization, with own commercialization operations in both the US and EU and ongoing forward integrating into manufacturing.

Short-term variable remuneration Executive Directors

The Remuneration Policy permits the grant to the Executive Directors by the Board of Directors, upon proposal of the Remuneration Committee, of an annual bonus in cash (the "Short-Term Incentive" or "STI") based on personal performance and/or the achievement of predetermined objectives for a financial year, aligned with the Company's long-term strategy.

The individual on-target bonus for the CEO is set at 70% of the gross annual salary. The maximum annual bonus is capped at 140% of the gross annual salary. 80% of the annual bonus is related to company objectives, while the remaining 20% is related to the performance on individual performance objectives.

Under the Former Policy, the individual on-target bonus for the CEO was set at 60% of the gross annual salary and at 50% for the other members of the Board of Management. That policy did not include a cap for the annual bonus. The bonus could be paid either in cash or options.

Long-term variable remuneration Executive Directors

Share option plans and the grant of restricted shares under Long-Term Incentive Plans will no longer be applied for the Executive Directors under the new Remuneration Policy. The newly designed long-term incentive program (the "LTI"-program) has been aligned with prevailing 'best practices' and is performance-related only.

The on-target value of the shares to be awarded to the CEO under the new LTI program, as described in the Remuneration Policy, is set at 300% of the gross annual salary. The maximum value of the shares that can vest for the CEO under the LTI program is set at 450% of the gross annual salary.

The shares granted to the Executive Directors under the LTI program will vest three years after the grant date, subject to the achievement of the targets set by the Board of Directors, upon proposal of the Remuneration Committee, for the three-year performance period (i.e., double-trigger vesting), their relative weightings and the pay-out limits. All shares awarded will be subject to a retention period of five years from the date of grant (i.e., two years after vesting), in accordance with the best practice provisions of the DCGC.

The performance objectives include Total Shareholder Return (40% weighing) and the achievement of long-term strategy oriented objectives (60% weighing). The peer group used to determine the Total Shareholder Return is composed of the companies included in the AMX Index and the NASDAQ Biotechnology Index, represented by the IBB ETF, respectively, equally weighted, at the time of determination.

The thresholds and payout percentages for the LTI program are given by the following table, as to be determined for each of the AMX and IBB indices separately (each weighted at 50% of pay-out):

- TSR equal to index: 80% pay- out
- TSR 10% above index: 90% pay-out
- TSR 20% above index: 100% pay-out
- TSR 40% above index: 110% pay-out
- TSR 60% above index: 120% pay-out
- TSR 80% above index: 130% pay-out
- TSR 100% above index 150% pay-out
- TSR below index: 0% pay-out.

A one-off transition arrangement with the CEO was approved by our shareholders on 11 December 2020, to mitigate the impact of the first vesting of shares under the new LTI program in Q1 2024 on the existing contract with the CEO. This one-off transition arrangement provides for (i) the conversion of a total number of 8,400,000 options for the CEO (i.e., the total number of share options that was expected to be granted in 2021, 2022 and 2023 without the arrangement) into one grant of 4,200,000 ordinary shares for 2020, and (ii) the vesting of the performance shares in three annual tranches in the first quarter of 2021, 2022 and 2023, subject to the performance-based criteria of the new LTI program. This arrangement is subject to a waiver by the CEO of all (contractual and other) rights and entitlements under the share option and long-term incentive plans for the year 2020.

The one-off transition arrangement as agreed with the CEO, and approved by our shareholders, acknowledges inter alia the fully performance-based nature of the LTI program, which implies a significantly increased uncertainty with regard to the achievement of the applicable LTI targets (i.e, 60% strategy targets and 40% linked to TSR, without any pay-out in case of performance of the TSR below index) and therefore the actual vesting of these shares, compared to the guaranteed vesting of the (to be) waived share options pursuant to the applicable share option plans (see next paragraphs).

The Former Policy permitted, by way of long-term variable remuneration for members of the former Board of Management, (i) the grant of annual share option plans, if approved by the Annual General Meeting of Shareholders and based on tenure, and (ii) the conditional grant of restricted shares with a target value of 30% of gross annual salary, pursuant to the long-term incentive program ("LTIP"). The number of restricted shares that vested under the LTIP after three years was determined based on the relative performance of the Pharming share price compared to an initial group of 26 other European Small cap/Midcap listed companies active in life sciences over the preceding 36 months.

The last share option plan for the members of the Board of Management was approved by our shareholders in May 2019. Reference is made to the subsequent 2020 Remuneration Report herein, below for the outstanding options.

The Peer Group used to determine the number of shares vested under the LTIP plans, pursuant to the Former Policy, consists of the following 26 European Small-/Mid cap listed companies active in Life Sciences over the preceding 36 months:

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 for the LTIP plans 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%

Remuneration Non-Executive Directors

The Remuneration Policy permits the following remuneration packages for the Non-Executive Directors for 2020 and onwards, including the grant of a fixed number of shares (not linked to the performance of Pharming).

The following fee structure is permitted according to the Remuneration Policy:

- Chairman Board of Directors: €65,000 per annum in cash and €40,000 in shares (under the Former Policy: €50,000 per annum in cash)
- Non-Executive members Board of Directors: €45,000 in cash and €30,000 in shares (under the Former Policy: €36,000 per annum in cash).
- Corporate Governance Committee: Chairperson annual fee of €6,000 in cash; Members of this committee: €3,000 per annum in cash. (No remuneration was paid to the Chair and members of the Corporate Governance Committee pursuant to the Former Policy).
- Audit Committee: Chair €9,000 and Member €3,000 per annum in cash (unchanged);
- Remuneration Committee: Chair €6,000 and Member €3,000 per annum in cash (unchanged).

The aforementioned fee structure has been set in accordance with gathered benchmark data to ensure that the remuneration will each time be consistent with the position of the Company relative to the benchmark groups that are relevant to the Company. The fee structure also recognizes the increased responsibilities and time commitment of the Non-Executive Directors as members of the one-tier Board of Directors and their extended responsibilities as members of the committees.

The Former Policy also permitted the grant of restricted shares to the members of the former Board of Directors pursuant to the Company's LTIP. However, the supervisory directors have no longer participated in the LTIP effective the financial year 2020. The new Remuneration Policy does not permit the grant of shares, other than the shares part of the fixed remuneration package as identified herein above.

Implementation of Remuneration Policy

This section of the Remuneration Report accounts for the implementation of the applicable remuneration policy in the financial year 2020 for the members of the former Board of Management and the former Board of Directors and, as of 11 December 2020, for the CEO/Executive Director and the Non-Executive Directors as members of the Board of Directors. This section supplements the outline of the applicable remuneration policies in the preceding paragraph 'Summary of Remuneration Policy'. This outline is incorporated into this section by reference.

While a 73,79% majority of the votes was cast during the general meeting on 20 May 2020 in favor of the proposal to give a positive advice regarding the submitted 2019 remuneration report, which means that the proposal was adopted at the time, several shareholders recommended a more detailed disclosure of the performance by the executive board members against the agreed performance targets in each future annual remuneration report. This feedback was taken into due consideration for this 2020 Remuneration Report, as a retrospective disclosure of the performance of the CEO, as the only Executive Director, against the agreed targets will from now onwards be included in each annual remuneration report, aligned with prevailing best practices and based on the template that was shared with our shareholders on 11 December 2020.

The 2020 disclosure of performance also includes Mr. Bruno Giannetti, as Mr. Giannetti was a statutory Member of the former Board of Management until 11 December, 2020.

2020 performance indicators and remuneration Board of Management

The Corporate Governance Committee and the Remuneration Committee reviewed the performance by the CEO and the other members of the former Board of Management on the corporate and personal objectives that had been set for 2020. In addition, the Remuneration Committee considered the pay ratios within the company and how these compare with the peer group companies.

As further explained herein, below, the Board of Directors, upon proposal of the Corporate Governance Committee and the Remuneration Committee, concluded that the CEO and the other members of the former Board of Management satisfied the pre-set corporate and personal objectives for 2020 and had contributed accordingly to the efforts of the Company aimed at improving the overall performance, facilitating growth and sustainable success and enhancing the other long-term value objectives and interests of the Company, in accordance with the long-term strategy. Accordingly, the Board of Directors determined, upon the recommendation of the Remuneration Committee, the awards and pay-outs in accordance with the terms and conditions of the applicable short-term and long-term incentive programs as approved by our shareholders.

The following section provides a retrospective disclosure of performance on the targets that were set in 2020 for the short-term (STI) and long-term (LTI) incentive programs, respectively, or their equivalents for the members of the former Board of Management under the Former Policy, including the resulting awards and pay-outs.

During the EGM on 11 December, 2020, the new Remuneration Policy for the Board of Directors was adopted by our shareholders. We started 2020, however, with our existing policies regarding remuneration (i.e., the Former Policy), in which no specific procedures were included regarding the annual retrospective disclosure of performance on the targets set for the short-term and long-term incentive programs. Moreover, the metrics (including the weightings) applied for the 2020 performance measures pursuant to the Former Policy are not identical to those defined in the new Remuneration Policy. Therefore, 2020 should be considered as a transitional year regarding the disclosure of performance.

Below, the implementation of the remuneration policy in 2020 is summarized, based on the set of targets and weightings that had been agreed for 2020. From the

Remuneration Report 2021 onwards, the template will be completed reflecting the performance measures and weightings according to the new Remuneration Policy.

A) Annual Incentive (STI)

The Annual Incentive (STI) pay-out takes place in cash and is based on actual performance on the 2020 targets, as assessed by the Remuneration Committee and as summarized in the table below.

To support the performance culture across the entire company, the same targets had been set for the Executive Director/CEO and the Executive Officers. The 2020 realizations, shown in the following table, reflect the performance on the criteria that apply to the statutory board members only, in accordance with Dutch law.

Pharming Group Annual Incentive - Targets in % 2020

Themes	Performance measures	Weighting	Realized performance	Resulting payout as % of target
Commercial and operational execution	Sales targets, operating profit targets, EBITDA, manufacturing/supply management targets. Development new products/ indications (pipeline projects and new studies), including expansion 1 esterase inhibitor franchise beyond acute HAE attacks.	40%	100%	40%
Execution Strategy	Business Development projects, including initiatives aimed at in-licensing of late-stage assets.	20%	90%	18%
Cash	Net profit targets, cost control and cash flow targets.	20%	110%	22%
People and Culture	Development programs and targets (leadership and staff), programs for promoting core values and for strengthening the entrepreneurial and compliance focused company culture.	20%	100%	20%

Accordingly, the Board of Directors, upon a recommendation of the Remuneration Committee, set the total score for the 2020 annual bonus (STI) at 100% (on target), with reference to the scores on the equivalents to the short-term oriented targets for the new STI program, as included in the total set of targets that had been agreed with the CEO for 2020. The Board of Directors recognized, inter alia, for the targets related to Commercial and Operational Execution, the challenges that were set by the restrictions due to the COVID-19 pandemic for the sales force and other activities. The Board of Directors also recognized the high positive impact of the convertible bond issue in January 2020 on the Company's financing costs and cash flow and the importance of the Nasdaq listing in December 2020 in the context of the strategy execution. The Nasdaq listing was an additional achievement that was not included in the 2020 targets.

When applying the applicable weightings to the resulting payout, as % of target for the financial and individual targets, respectively, this leads to the following total Annual Incentive realization and payout in cash to the statutory board members for their performance in 2020:

Pharming Group Annual Incentive realization for 2020 (payout in 2021)

	Total pay-out as % of target	As % of gross annual salary
S. de Vries	100%	70%
B. Giannetti	100%	50%

B) Long-Term Incentive (LTI)

One-off transition arrangement for implementation of the LTI Program

Background

The implementation of the new vesting scheme under the new LTI Program (i.e., vesting after the three year performance period with initial vesting in the first quarter of 2024) has a major impact for the period 2020-2023 on the current remuneration packages of the CEO, as the current contract features annual option grants, with annual vesting of options based on continued tenure only. As a result of the switch-over to the new performance-based vesting scheme, there would be thus be no vesting of options in the first quarter of 2021, 2022 and 2023. The share-based remuneration under the existing packages and plans over this three-year period would have resulted in three option

grants, with guaranteed vesting on the basis of continued tenure over the period of in total 8,400,000 options for the CEO Sijmen de Vries (on the basis of the last approved annual option grant in 2019 of 2,800,000 options). In addition, three annual LTIP restricted share grants of up to 30% of the base salary would have been granted.

To mitigate the described impact of the implementation of the new LTI Program replacing the Executive Share Option Plan and the LTIP, a one-off transition arrangement was agreed with the CEO, in lieu of the entitlements under his contract with the Company. This one-off transition arrangement (the "LTI One-Off Transition Arrangement") provides for (i) the conversion of the total number of 8,400,000 options for the CEO, as identified herein, above, into one grant to the CEO of a total number of 4,200,000 shares for 2020 (applying a 2:1 conversion ratio in accordance with the guidelines used by Radford, the executive reward consultant engaged by the Company for the 2020 benchmark) and (ii) the vesting of these performance shares in three annual tranches in the first quarter of each of 2021, 2022 and 2023.

The LTI One-Off Transition Arrangement is subject to:

- a waiver by the CEO of all (contractual and other) rights and entitlements under the share option and LTIP plans for 2020;
- a five year retention period for the granted shares;
- the annual, pro-rata satisfaction of the long-term targets upon vesting; and
- the other terms and conditions applicable to the new LTI Program.

The LTI One-Off Transition Arrangement as described herein, above was approved by our shareholders on 11 December 2020. On 22 December 2020, the Board of Directors (conditionally) granted 4,200,000 shares to the CEO, subject to the terms and conditions of the LTI One-Off Transition Arrangement, and the CEO waived his contractual rights and entitlements with regard to the share option plans and LTIP for 2020.

Results under Long term incentive one-off transition arrangement

The first year of the 3-year performance period for the 2020 share grant pursuant to the LTI One-Off Transition Arrangement, ended on 31 December, 2020. Accordingly, the Board of Directors, upon a recommendation from the Remuneration Committee, determined in the first quarter of 2021 the vesting of the first annual tranche of the total number of 4,200,000 shares conditionally granted to the CEO (i.e., 1,400,000 shares). The results are explained below. In accordance with the applicable terms and conditions, as approved by our shareholders on 11 December 2020, the vesting was determined based on the pro-rata performance by the CEO on the applicable long-term targets, which were a combination of Total Shareholder Return and strategic corporate objectives.

The shares to be awarded to the CEO under the new LTI program, as approved by our shareholders on 11 December 2020, will not vest until the first quarter of 2024, applying the targets set at the start of the three year performance period in 2021. These targets are also a combination of Total Shareholder Return and strategic corporate objectives, as further described in the Remuneration Policy and the LTI program as published on our website (www.pharming.com).

TSR (40% weighting)

Pursuant to the Remuneration Policy, the peer group used to determine the Total Shareholder Return ("TSR") is composed of the companies included in the AMX Index and the NASDAQ Biotechnology Index, represented by the IBB ETF, respectively, equally weighted, at the time of determination. The thresholds and payout percentages for the LTI program are given by the following table (to be determined for each of the AMX and IBB indices separately - each weighted at 50% of pay-out):

- TSR equal to index: 80% pay- out
- TSR 10% above index: 90% pay-out
- TSR 20% above index: 100% pay-out
- TSR 40% above index: 110% pay-out
- TSR 60% above index: 120% pay-out
- TSR 80% above index: 130% pay-out
- TSR 100% above index 150% pay-out
- TSR below index: 0% pay-out.

The TSR for Pharming shares over the period 31 December 2019- 31 December 2020 was -19%: the AMX index increased by 2.6% and the IBB ETF increased by 25.7% over the aforementioned period. Therefore, in accordance with the table, the pay-out for TSR performance over 2020 under the LTI One-Off Transition Arrangement is zero percent (0%).

Strategy execution (60% weighting)

The Board of Directors, upon a recommendation of the Remuneration Committee, determined the total score for the corporate strategic objectives at 100%, with reference to the scores on the equivalents to the long-term oriented strategic targets for the LTI program (i.e., broadening the revenue base, leveraging the commercialization infrastructure and the expansion of the C1 esterase inhibitor franchise beyond acute HAE attack treatments) as included in the total set of targets that had been agreed with the CEO for 2020.

The Board of Directors recognized inter alia the successful listing of the ADSs on Nasdaq, on top of the agreed 2020 targets, expanding the opportunities for the Company to leverage on the strategy and its other long-term ambitions. The Board of Directors also recognized that the successful closing of the senior unsecured convertible bond issue in January 2020 will support Pharming's capital expenditure and funding in relation to the expansion of Pharming's commercialization and manufacturing infrastructure, new product launches (including leniolisib) and additional acquisitions/in-licensing opportunities.

The performance on both the TSR and the strategic corporate objectives, applying the respective weightings, leads to the following vesting level under the One-Off Transition Arrangement for the CEO (i.e., first annual tranche of 1,4000,000 shares):

Metric definition	Achievement	Weighting	Vesting level
TSR	—%	40%	—%
Strategic Objectives	100%	60%	60%
Total	n/a	100%	60%

In accordance with the resulting 60% vesting level, a total number of 840,000 shares vested for the CEO for the first annual tranche of the shares granted under the LTI One-Off Transition Arrangement. These shares are subject to a retention period of five years.

Overview Total Remuneration

The following table sets out the total remuneration for the members of the former Board of Management (in place up to 11 December 2020), including the awards and pay--outs

based on the outcome of the performance assessment for 2020, as described in the preceding section.

As of 11 December 2020, Mr. Sijmen de Vries has served as CEO and Executive Director and Mr. Bruno Giannetti as Chief Medical Officer and member of the Executive Committee.

	Fixed remuneration	Short term variable: annual bonus	Share based payments	Post-employment benefits	Other	TOTAL
Mr Sijmen de Vries, CEO and Executive Director	2020: 538 (21%) 2019: 507 (36%) 2018: 490 (36%) 2017: 475 (33%) 2016: 454 (29%)	2020: 377 (15%) 2019: 310 (22%) 2018: 428 (32%) 2017: 330 (23%) 2016: 258 (17%)	2020: 1,522 (59%) 2019: 487 (35%) 2018: 325 (24%) 2017: 536 (37%) 2016: 736 (47%)	2020: 94 (4%) 2019: 72 (5%) 2018: 81 (6%) 2017: 79 (5%) 2016: 79 (5%)	2020: 32 (1%) 2019: 32 (2%) 2018: 32 (2%) 2017: 32 (2%) 2016: 32 (2%)	2020: 2,563 2019: 1,408 2018: 1,356 2017: 1,452 2016: 1,559
Mr Bruno Giannetti, Chief Medical Officer	2020: 352 (28%) 2019: 331 (38%) 2018: 320 (38%) 2017: 309 (34%) 2016: 287 (29%)	2020: 176 (14%) 2019: 170 (20%) 2018: 233 (28%) 2017: 186 (20%) 2016: 148 (15%)	2020: 620 (50%) 2019: 289 (33%) 2018: 201 (24%) 2017: 328 (36%) 2016: 445 (45%)	2020: 74 (6%) 2019: 70 (8%) 2018: 77 (9%) 2017: 78 (9%) 2016: 75 (8%)	2020: 24 (2%) 2019: 8 (1%) 2018: 8 (1%) 2017: 15 (2%) 2016: 36 (4%)	2020: 1246 2019: 868 2018: 839 2017: 916 2016: 991
Mr Robin Wright, former Chief Financial Officer	2020: 136 (24%) 2019: 317 (53%) 2018: 306 (47%) 2017: 296 (44%) 2016: 264 (40%)	2020: 12 (2%) 2019: 149 (25%) 2018: 148 (23%) 2017: 135 (20%) 2016: 165 (25%)	2020: 94 (17%) 2019: 114 (19%) 2018: 167 (25%) 2017: 203 (30%) 2016: 205 (31%)	2020: 13 (2%) 2019: 23 (4%) 2018: 34 (5%) 2017: 34 (5%) 2016: 30 (5%)	2020: 306 (55%) 2019: - (0%) 2018: - (0%) 2017: - (0%) 2016: - (0%)	2020: 561 2019: 603 2018: 655 2017: 668 2016: 664

The remuneration amounts paid in 2020 to Executive Officers, other than those paid to Mr. Bruno Giannetti as a statutory member of the former Board of Management until 11 December 2020, are not required to be disclosed according to Dutch law and accordingly are not disclosed herein. Mr. Robin Wright, who previously served on our Board of Management and as our Chief Financial Officer, departed the company as of 20 May 2020.

The following table sets out the remuneration and company performance over the period 2015-2020 for the members of the former Board of Management (i.e., Mr. Sijmen de Vries, Mr. Bruno Giannetti and, until 20 May 2020, Mr. Robin Wright) and also visualizes the average employee salaries over the same period.

Annual % change	2020 vs 2019	2019 vs 2018	2018 vs 2017	2017 vs 2016	2016 vs 2015
Director's remuneration					
Members of the former Board of Management					
Sijmen de Vries, CEO and Executive Director	82%	4%	(7%)	(7%)	(13%)
Bruno Giannetti, CMO	44%	3%	(8%)	(8%)	(12%)
Robin Wright, CFO (until 20 May 2020)	(7%)	(8%)	(2%)	1%	n/a
Company performance - increase/ (decrease)					
Revenues	10%	25%	51%	465%	47%
Gross Profit	12%	31%	46%	590%	86%
Operating Result	10%	60%	73%	290%	10%
Net Result	(10%)	45%	133%	(356%)	(76%)
Employees (Full-time equivalent)	21%	21%	23%	49%	37%
Average remuneration of employees on a full-time					
Employees of the Group	4%	(2%)	3%	46%	(16%)

Pay ratio

The Remuneration Committee considered the pay ratios within the company and compared the pay-out of remuneration in 2020 to the members of the former Board of Management to an internal reference group.

For 2020, the pay ratio between the compensation of the CEO and the mean compensation of employees (excluding the CEO) was 13.8 to 1 (2019: 7.7 to 1). Compensation in each case comprises all salary, bonus, share-based compensation in cash or in kind and pension contributions. The amount of compensation of the CEO, however, does not only represent the actual pay-out to the CEO but also includes the (pro-rata) fair value of the restricted shares that have been granted to the CEO pursuant to the new LTI Program and the LTI One-Off Transition Arrangement, respectively, as approved by our shareholders on 11 December, 2020. The pay ratio between the mean compensation of the members of the former Board of Management and the mean compensation of employees (excluding the members of the former Board of Management) was 8.1 to 1 (2019: 5.4 to 1).

Share based compensation

Share options dependent on defined parameters:

Grant 2020 for period 2020 - 2025		
	Award (number of options)	Status
Mr Sijmen de Vries	0	n/a
Mr Bruno Giannetti	0	n/a
Grant 2019 for period 2019 - 2024		
	Award (number of options)	Status
Mr Sijmen de Vries	2,800,000	Vested (strike price €0.805)
Mr Bruno Giannetti	1,600,000	Vested (strike price €0.805)
Grant 2015 for period 2015-2020		
	Award (number of options)	Status
Mr Robin Wright	1,000,000	Vested (strike price €0.355)
Grant 2016 for period 2016 - 2021		
	Award (number of options)	Status
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)

The strike price of the 2019-2023 final remaining share 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.

The Board of Supervisory Directors decided on 20 May 2020 to not put the proposal for the grant of 2020 share option rights for the members of the former Board of Management up for a vote at the annual general meeting of shareholders scheduled for that same day.

The Remuneration Policy as adopted by our shareholders on 11 December 2020, no longer permits the grant of share options to the members of the Board of Directors. As explained herein, above, the CEO waived his contractual rights with regard to share options for 2020 on 22 December 2020.

LTIP

At 1 January 2021, after three years of the three-year period of the 2018 LTIP, the Pharming share price increased from €1.13, the closing price at 31 December 2017, to €1.272, the closing price at 31 December 2020. With this result, compared to the reference group, Pharming reached a rank of 6 out of 27 (including Pharming), which translates into a score 27% from the top of the reference group. As a result, 50% of the maximum allocated shares have vested and were issued to the LTIP participants.

The allocations under the 2019 and 2020 LTIP still have one and two years, respectively, to run. The minimum share prices (hurdles) for the 2019 and 2020 allocations to qualify for (part-)vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €0.757 being the closing price at 31 December 2018 for the LTI program 2019 and (2) €1.5675, being the closing price at 31 December 2019 for the LTIP 2020.

Following the approval of the new Remuneration Policy on 11 December 2020, the LTIP was replaced by the new LTI plan as of the financial year 2021. The CEO waived his rights with regard to the LTIP 2020 on 22 December 2020. Please refer to the preceding paragraphs for a report on the payout to the CEO under the LTI One-Off Transition Arrangement.

Details of the shareholdings and share options rights of Mr. de Vries and Mr. Giannetti can be found in note 23.

2020 remuneration Board of Supervisory Directors/Non-Executive Directors

In accordance with the Remuneration Policy adopted by our shareholders on 11 December 2020, the following annual compensation structure applied in 2020 to the members of the former Board of Supervisory Directors (the Non-Executive Directors as of 11 December 2020):

a. Board of Supervisory Directors (Board of Directors since 11 December 2020):
i. Chair: €65,000 per annum in cash and €40,000 per annum in ordinary shares in Pharming;
ii. Other Members: €45,000 per annum in cash and €30,000 per annum in ordinary shares in Pharming;
b. Audit Committee: Chair €9,000 and Member €3,000;
c. Remuneration Committee: Chair €6,000 and Member €3,000;
d. Corporate Governance Committee: Chair €6,000 and Member €3,000 per annum in cash;
e. An additional compensation of €1,000 per day is paid in case of extraordinary activities.

The annual remuneration paid was based on the position an individual had in the Board of Supervisory Directors and the respective committees.

Compensation overview per member in the period 2016-2020:

	Fixed remuneration	Share based payments	Total	Remarks
Mr. Paul Sekhri	2020: 65 2019: 50 2018: 50 2017: 50 2016: 44	2020: 52 2019: 33 2018: 30 2017: 32 2016: 12	2020: 117 2019: 83 2018: 80 2017: 82 2016: 56	
Mr. Barrie Ward	2020: 54 2019: 39 2018: 42 2017: 45 2016: 43	2020: 40 2019: 27 2018: 26 2017: 31 2016: 18	2020: 94 2019: 66 2018: 68 2017: 76 2016: 61	
Mr. Juergen Ernst	2020: 50 2019: 42 2018: 42 2017: 42 2016: 42	2020: 37 2019: 26 2018: 26 2017: 31 2016: 18	2020: 87 2019: 68 2018: 68 2017: 73 2016: 60	Retired on 23 November 2020
Mr. Aad de Winter	2020: 57 2019: 45 2018: 45 2017: 45 2016: 45	2020: 40 2019: 28 2018: 26 2017: 31 2016: 18	2020: 97 2019: 73 2018: 71 2017: 76 2016: 63	
Ms. Deb Jorn	2020: 54 2019: 26 2018: - 2017: - 2016: -	2020: 35 2019: 5 2018: - 2017: - 2016: -	2020: 89 2019: 31 2018: - 2017: - 2016: -	Appointed in May 2019
Ms. Barbara Yanni	2020: 31 2019: - 2018: - 2017: - 2016: -	2020: 21 2019: - 2018: - 2017: - 2016: -	2020: 52 2018: - 2017: - 2016: - 2015: -	Appointed 11 December 2020
Mr. Mark Pykett	2020: 31 2019: - 2018: - 2017: - 2016: -	2020: 21 2019: - 2018: - 2017: - 2016: -	2020: 52 2019: - 2018: - 2017: - 2016: -	Appointed 11 December 2020

LTIP

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 the shareholdings of the Non-Executive Directors can be found in note 24).

As result of a 50% pay-out of the Long Term Incentive Plan (LTIP) 2018, in March 2021, Mr Sekhri, Mr. Ward and Mr. de Winter received shares in the Company (details of the shareholdings of the Non-Executive Directors can be found in note 24).

As of and including 2020, the members of the former Board of Supervisory Directors did not participate in the Company's LTIP scheme.

No loans or other financial commitments were made to any member of the Board of Supervisory Directors on behalf of the Company in 2020.

Corporate Social Responsibility

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 well-being of our animals.

Our Animal Care Code of Conduct emphasizes 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 patients, animals and people. 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 utilize 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 2022 and approval in 2023 will also contribute. While we are now in Basis of Design Phase, our strategic direction is clear: sustainable facility design including high-quality isolation methods and full-electric concept (except for one natural gas boiler for extreme conditions). Solar panels are installed where possible to self-generate the electricity.

We also aim to improve our existing buildings. One of our existing office buildings at a production facility (build in 1965) has been improved in 2020 to reach energy label A (highest standard), coming from energy label G.

Our Headquarters in Leiden is located in a building that received the Breeam-NL label 'excellent', provided by the Dutch Green Building Council.

Due to the COVID situation, as from the end of February 2020, intercontinental travel has not taken place. Less than 5% of the planned national travelling occurred. We had to adjust quickly to new (web based) ways of communication to stay connected, as a company and with our customers.

Although unforeseen and highly undesirable, the exceptional situation last year did brought sustainability even more to the table. The society, including us, had to adjust quickly and come up with creative and sustainable solutions to stay connected. We professionalized in using online meeting tools and were able to perform on the highest level and business continuity has not been jeopardized. Personal contact remains a very important aspect of operational excellence, but there are several ways to manage.

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 specialized governmental regulatory 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 re-qualified for compliance with the total quality system in our entire supply chain.

Ethical conduct

At Pharming, we have made it our mission to develop innovative products for the safe, effective treatment of rare diseases and unmet medical needs. We are committed to go further and transform the future for our patients so that even more people living with rare diseases can believe in a better tomorrow.

To be successful at delivering on this commitment and to be considered as trusted partners by our patients and stakeholders, there is only one way forward: holding ourselves to the highest ethical standards across our entire business, further than what is required by the law, based on our values of integrity, quality and respect. This is because our ethical reputation, together with our scientific excellence, are the key to deliver this ambitious commitment to patients and stakeholders.

Ethical and regulatory expectations and scrutiny are increasingly growing in our sector, raising the level of complexity. Within this context, at Pharming, we always place business integrity at the core of our culture and as an essential part of the way we work. We firmly believe that any good business is unreservedly an ethical business and we demonstrate this in our everyday behavior, as we understand that a robust reputation is essential for any strong successful business today.

We have the trust of our patients and stakeholders because we conduct our business with integrity, transparency, quality and respect, collectively and as individual employees.

We always stand accountable as individual employees, showing patients, healthcare professionals, the authorities and society at large that they can trust our actions as well as our words and that we own business integrity, choosing to do the right thing even when it is hard, even when no one is watching.

We have adopted a set of values as to conduct our daily business activities:

- We reject corruption;
- We value our third parties;
- We act with financial integrity;
- We embrace fair competition;
- We embody diversity;
- We promote a safe work environment;
- We avoid conflict of interests;
- We reject insider trading;
- We value our healthcare stakeholders;
- We promote responsibility;
- We respect privacy;
- We uphold quality;
- We communicate responsibly;
- We respect confidentiality;
- We protect the environment;
- We report concerns.

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 well-being 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 2020. This is the result of strong enforcement of existing safety standards and procedures, improved implementation of accident investigation recommendations and good practice management.

Our 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 a pleasant work climate with regular ventilate air and 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 people of many nationalities and we see it as a priority to focus on the proper development of our Pharming family.

As our numbers grow, 24% in 2020 and 16% in 2019, 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 and Executive Committee to the wider employee base, we have capitalized 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.

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-committed people that adhere to our family values: Patient safety, ethical behavior and honest, transparent communication. We are still focused on learning and defining new roles, recognizing and solving gaps or reorganizing 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 endeavor 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 endeavor to offer opportunities for internal professional growth and promotions wherever and whenever possible. Our organizational structure allows for open communication. Our employees are encouraged to share their ideas and improvements with the Company's management. Our corporate culture program is working on improving our interdepartmental communications and enabling us to align an international work force.

During the beginning of 2020, we started the initiative to update our Pharming story. Our strategy, values, purpose and competencies were partially updated during 2020 to thrive and support our growth. The COVID-19 situation unfortunately caused a delay. As of Q4 2020 we actively restarted the process.

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. We strive to ensure there are equal opportunities for all. In 2020, we had 22 different nationalities amongst our employees. Also, the number of women in senior management positions is increasing.

Diversity policy for Board of Directors and Executive Committee

Although we have not set specific targets with respect to elements of diversity, we believe that it is important for the Board and the Executive Committee to represent a diverse composite mix of personal backgrounds, experiences, qualifications, knowledge, abilities and viewpoints. We seek to combine the skills and experience of long-standing members of the Board of Directors and the Executive Committee with the fresh perspectives, insights, skills and experiences of new members.

To further increase the range of viewpoints, perspectives, talents and experience within the Board and the Executive Committee, we strive for a mix of ages in the composition of those bodies, but do not set a specific target in this respect.

We are committed to seeking broad diversity in the composition of the Board and the Executive Committee and will consider these attributes when evaluating new candidates in the best interests of our Company and its stakeholders.

In terms of experience and expertise, we intend for the Board and the Executive Committee to be composed of individuals who are knowledgeable in one or more of the following areas:

- the industry in which the Company operates;
- general management;
- finance, administration and accounting;
- strategy;
- marketing and sales;
- manufacturing and production;
- innovation, research and development;
- safety and environment;
- human resources, personnel and organization;
- information technology; and/or
- legal and regulatory affairs.

Composition of our team in 2020

Male	9
Female	4 (30.7%)

Age	
70 – 80 years	2
60 – 70 years	6
50 – 60 years	3
40 – 50 years	1
30 – 40 years	1

Nationalities	5

Remuneration

During 2020, an independent consultant was hired to perform a remuneration benchmark exercise. Our remuneration policy starts from the principle that the average level of total remuneration for our staff should be on the 50th percentile of our US peer group and 75th percentile of our EU peer group, consistent with the position of the Company in the respective peer groups. The relevant peer group contains (Bio) pharmaceutical and biotech companies.

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

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 labor 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 2020, 262 people were employed (2019: 212). During 2020, the Company hired 69 new employees (2019: 54) and 24 employees left the Company (2019: 20). At the reporting date, we had grown further, to 278 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.

Headcount at December 31, 2020	2020	2019	2018
The Netherlands	174	138	112
France	15	13	12
Germany	1	2	3
United Kingdom	3	2	1
United States	69	57	55
Total	262	212	183
Headcount at December 31, 2020	**2020**	**2019**	**2018**
General & Administration	51	38	52
Research & Development	160	131	79
Marketing & Sales	51	43	52
Total	262	212	183

Information for Shareholders and Investors

Share Information

Pharming Group N.V. is listed on both Euronext Amsterdam (symbol: PHARM) and on Nasdaq through a level-2 ADR program where ADSs are tradeable (symbol: PHAR).

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

Pharming Group N.V.’s ADSs have also been tradable on Nasdaq's Global Market (symbol: PHAR) since Wednesday the 23rd of December. Each ADS (ISIN Code: NL0010391025) represents 10 of the Company’s ordinary shares of €0.01 nominal value (“Ordinary Shares”). Level II listing is sponsored by J.P. Morgan Chase Bank N.A. for further information please go to:

https://www.adr.com/drprofile/71716E105

Financial Calendar 2021	
13 May	Publication of financial results for the first three months of 2020 at 07:00 CET
19 May	Annual General Meeting of Shareholders
05 August	Publication of financial results for the first six months of 2020 at 07:00 CET
28 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	2020	2019
Revenues	5	**185,694**	**169,022**
Costs of sales	7	**(20,601)**	**(21,355)**
Gross profit		**165,093**	**147,667**
Other income	6	**1,601**	**435**
Research and development		(33,712)	(28,368)
General and administrative		(21,079)	(18,913)
Marketing and sales		(45,164)	(39,914)
Other Operating Costs	7	**(99,955)**	**(87,195)**
Operating profit		**66,739**	**60,907**
Fair value gain (loss) on revaluation derivatives		60	(209)
Other finance income	8	626	1,011
Other finance expenses	8	(29,151)	(15,259)
Finance cost, net		**(28,465)**	**(14,457)**
Share of net profits in associates using the equity method	13	**317**	**229**
Profit before tax		**38,591**	**46,679**
Income tax expense	9	(5,556)	(10,484)
Profit for the year		**33,035**	**36,195**
Basic earnings per share (€)	29	0.051	0.058
Diluted earnings per share (€)	29	0.048	0.054

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	2020	2019
Profit for the year		**33,035**	**36,195**
Currency translation differences	17	(17)	(39)
Items that may be subsequently reclassified to profit or loss		**(17)**	**(39)**
Other comprehensive income (loss), net of tax		**(17)**	**(39)**
Total comprehensive income for the year		**33,018**	**36,156**

The notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December

Amounts in € '000	notes	2020	2019
Non-current assets			
Intangible assets	10	76,615	70,809
Property, plant and equipment	11	9,956	8,553
Right-of-use assets	12	7,676	5,979
Deferred tax assets	9	25,957	28,590
Investment accounted for using the equity method	13	5,796	5,508
Restricted cash	14	415	2,268
Total non-current assets		**126,415**	**121,707**
Current assets			
Inventories	15	17,229	14,467
Trade and other receivables	16	29,236	25,737
Restricted cash	14	810	—
Cash and cash equivalents	14	167,068	66,299
Total current assets		**214,343**	**106,503**
Total assets		**340,758**	**228,210**

Equity			
Share capital		6,388	6,313
Share premium		396,799	392,266
Legal reserves		4,341	3,718
Accumulated deficit		(258,151)	(297,618)
Shareholders' equity	17	**149,377**	**104,679**
Non-current liabilities			
Convertible bonds	18	121,927	—
Lease liabilities	20	6,702	4,363
Other financial liabilities	26	173	17,282
Total non-current liabilities		**128,802**	**21,645**
Current liabilities			
Convertible bonds	18	1,661	—
Loans and borrowings	19	—	45,590
Derivative financial liabilities		147	268
Trade and other payables	21	38,816	36,247
Lease liabilities	20	1,598	1,946
Other financial liabilities	26	20,357	17,835
Total current liabilities		**62,579**	**101,886**
Total equity and liabilities		**340,758**	**228,210**

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: Reserve participating interest	Legal reserves: Capitalized development cost	Legal reserves: Translation reserve	Accumulated deficit	Total equity
Balance at January 1, 2019		**621,501**	**6,215**	**387,525**	—	**2,237**	**(590)**	**(333,636)**	**61,751**
Profit 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	17	—	—	—	—	2,110	—	(2,110)	—
Share-based compensation	17,22	—	—	—	—	—	—	3,825	3,825
Bonuses settled in shares	17	6	—	6	—	—	—	—	6
Shares issued for cash/ conversion of bonds	17	1,662	17	228	—	—	—	(245)	—
Warrants exercised/ issued	17	240	2	234	—	—	—	—	236
Options exercised / LTIP shares issued	17	7,914	79	4,273	—	—	—	(1,647)	2,705
Total transactions with owners, recognized directly in equity		**9,822**	**98**	**4,741**	**—**	**2,110**	**—**	**(177)**	**6,772**
Balance at December 31, 2019		**631,323**	**6,313**	**392,266**	**—**	**4,347**	**(629)**	**(297,618)**	**104,679**
Profit for the year			—	—	—	—	—	33,035	33,035
Other comprehensive income (loss) for the year			—	—	—	—	(17)	—	(17)
Total comprehensive income (loss) for the year			**—**	**—**	**—**	**—**	**(17)**	**33,035**	**33,018**
Legal reserves	17	—	—	—	544	96	—	(640)	—
Income tax benefit from excess tax deductions related to share-based payments			—	—	—	—	—	2,066	2,066
Share-based compensation	17,22	—	—	—	—	—	—	5,721	5,721
Bonuses settled in shares	17	34	—	45	—	—	—	—	45
Value conversion rights of convertible bonds	17	—	—	—	—	—	—	1,405	1,405
Warrants exercised	17	60	1	78	—	—	—	—	79
Options exercised / LTIP shares issued	17	7,404	74	4,410	—	—	—	(2,120)	2,364
Total transactions with owners, recognized directly in equity		**7,498**	**75**	**4,533**	**544**	**96**	**—**	**6,432**	**11,680**
Balance at December 31, 2020		**638,821**	**6,388**	**396,799**	**544**	**4,443**	**(646)**	**(258,151)**	**149,377**

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	2020	2019*
Profit before tax		**38,591**	**46,679**
Non-cash adjustments:			
Depreciation, amortization, impairment	7, 10,11,12	7,276	5,177
Equity settled share based payments	22	5,721	3,825
Fair value gain (loss) loss on revaluation of derivatives		(60)	209
Other finance income	8	(624)	(1,011)
Other finance expenses	8	29,151	15,259
Share of net profits in associates using the equity method	13	(317)	(229)
Other		(1,421)	(39)
Operating cash flows before changes in working capital		**78,317**	**69,870**
Changes in working capital:			
Inventories	15	(2,762)	3,067
Trade and other receivables	16	(3,499)	(8,492)
Payables and other current liabilities	21	2,569	8,677
Restricted cash	14	1,043	(1,064)
Release contract liabilities		—	(1,467)
Total changes in working capital		**(2,649)**	721
Interest received	8	626	1,011
Income taxes paid	9	(2,326)	(5,098)
Net cash flows generated from (used in) operating activities		**73,968**	**66,504**
Capital expenditure for property, plant and equipment	11	(4,076)	(2,362)
Investment intangible assets	10	(7,929)	(1,650)
Investment associate	13	(288)	(2,503)
Acquisition of license	10	(1,385)	(18,702)
Net cash flows used in investing activities		**(13,678)**	**(25,217)**
Repayment on loans and borrowings	19	(50,088)	(31,406)
Payment on contingent consideration	26	(18,136)	(17,634)
Payment of lease liabilities		(1,913)	(1,967)
Proceeds of issued convertible bond	18	125,000	—
Transaction costs related to issued convertible bond	18	(2,318)	—
Interests on loans	18, 19	(1,875)	(8,418)
Proceeds of equity and warrants	17	2,443	2,778
Net cash flows generated from (used in) financing activities		**53,113**	**(56,647)**
Increase (decrease) of cash		**113,403**	**(15,360)**
Exchange rate effects		**(12,634)**	1,348
Cash and cash equivalents at 1 January	14	**66,299**	80,311
Total cash and cash equivalents at December 31		**167,068**	**66,299**

The comparative figures of 2019 are restated, reference is made to note 2.4 of these financial statements.
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. ("the Company", "Pharming" or "the Group"), Leiden for the year ended 31 December 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 6 April 2021. The financial statements are subject to adoption by the Annual General Meeting of shareholders, which has been scheduled for 19 May 2021.

Pharming Group N.V. is a limited liability public company, which is listed on Euronext Amsterdam ("PHARM").

Effective 22 December 2020, the Company's American Depositary Shares ("ADSs") have been admitted for listing on the Nasdaq Global Market ("Nasdaq") under the symbol "PHAR" and trading began on 23 December 2020. Each ADS represents 10 of the Company's ordinary shares of €0.01 nominal value.

In January 2020, Pharming Group N.V. issued convertible bonds, see note 18. These bonds are listed on the Frankfurt Exchange (Börse Frankfurt: PHARMING GRP 20/25 CV).

The headquarters and registered office of Pharming Group N.V. is 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 2.3.

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 authorization.

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 2.5.

These financial statements are presented in euros (€) and rounded to the nearest thousand euro (€'000), unless stated otherwise.

2.2 New and revised IFRS standards

The Company applied for the first-time certain amendments, which are effective for annual periods beginning on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. The Company has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

- Amendments to IFRS 3: Definition of a business.
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest rate benchmark reform.
- Amendments to IAS 1 and IAS 8: Definition of material.
- Conceptual framework for financial reporting issued on 29 March 2018.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements, which the Group intends to adopt, if applicable, when they become effective, are disclosed below.

- IFRS 17: Insurance contracts.
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current.
- Reference to the Conceptual Framework – Amendments to IFRS 3.
- Property, Plant and Equipment: Proceeds before Intended Use Amendments to IAS 16.
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37.
- IFRS 1 First – time Adoption of International Financial Reporting Standards – Subsidiary as a first – time adopter.
- IFRS 9 Financial instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.
- IAS 41 – Agriculture – Taxation in fair value measurements.

Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

2.3 Basis of consolidation

The consolidated financial statements include Pharming Group N.V. and its 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 unrealized 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. In 2020 and 2019 there were no non-controlling consolidated 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 subsidiaries at 31 December 2020:

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
↳ 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

2.4 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 recognized 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 recognized 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 recognized in the statement of income as a component of the gain or loss on disposal.

The above-stated translation of foreign entities applies to the entity in the United States. The EUR/USD exchange rate applied at 31 December 2020 was 1.2280 (31 December 2019: 1.1214). The average exchange rate applied in 2020 was 1.1426 (2019: 1.1205).

Distinction between current and non-current

An item is classified as current when it is expected to be realized (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 recognized and measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the relevant expense category consistent with the function of the intangible asset.

Intangible assets are also recognized through the capitalization of certain types of expenditure, including particularly pharmaceutical research and development expenses. These are discussed in more detail under 'Research and Development' paragraph 2.5 of this note.

The remaining amortization periods for intangible assets at 31 December 2020 are:

Category	Description	Amortization period	
		Total	Remaining
Transgenic technology	Patents and licenses	6 to 10 years	Fully amortized
RUCONEST® for HAE (EU)	Development costs	10 years	Fully amortized
RUCONEST® for HAE (US)	Re-acquired commercial rights	20 years	16 years
RUCONEST® for HAE (EU)	Re-acquired commercial rights	12 years	11 years
Software expenses	Development costs	10 years	8 years
Development costs*	Development costs	Not yet in use	Not yet in use

** 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 amortized and now has a carrying value of €nil. The Company is developing new transgenic technology based on own technology that has been patented and is also using externally developed technology to produce certain founder transgenic animals. The new technology, if capitalized upon completion, will be amortized over its then useful life.

Biological Assets

Pharming's production system is dependent on biological assets, but these do not qualify to be recognized under the relevant standard IAS 41 Agriculture and thus all relevant costs are expensed through the income statement.

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 derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized. 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 capitalized. These costs include direct employee benefits, rent and testing costs. Capitalization 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 amortization and are tested at least annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized 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 for which an impairment loss is recorded, are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realizable 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 preclinical 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 realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. In case Pharming provides vials of RUCONEST® for external clinical trial studies the net realizable value of the vials is expensed. The costs of inventories are included in costs of 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 is recognized 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 realizable value whereupon the inventory so affected is carried at net realizable value.

Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized 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) amortized 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 recognizes a loss allowance for expected credit losses for financial assets measured at either amortized 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 amortized cost

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

The Company's financial assets measured at amortized 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 recognized in profit or loss.

A financial asset measured at fair value through profit or loss is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognized 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 recognizing 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 assets. The Company has no financial assets of this kind.

Trade and other receivables

Trade and other receivables are recognized initially at fair value. Subsequent measurement is at amortized 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. For trade receivables and contract assets, the Company applies a simplified approach in calculating expected credit loss. The Company assesses the expected credit loss that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment." 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 and do not include restricted cash. Restricted cash is cash held on short term deposits with certain banks as security mainly for credit card and lease cars and is not considered cash and cash equivalents.

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 recognized 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 amortized cost (borrowings and trade and other payables). All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs; 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 amortized cost using the effective interest method.

Gains and losses are recognized in the statement of income when the liabilities are paid off or otherwise eliminated as well as through the amortization process. Purchases and sales of financial liabilities are recognized at settlement date.

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

Convertible bonds

The Company has issued convertible bonds. At the time of the issue of bonds itself the split between equity and liability portion has been accounted for. The liability portion of the convertible bonds is the present value of the future cash flows, calculated by discounting the future cash flows of the bonds (interest and principal) at the market rate of interest with the assumption that no conversion option is available. The value of the equity portion will be the difference between the total proceeds received from the bonds and the present value (liability portion).

The equity component is not remeasured after initial recognition.

In the case the Company extinguishes the convertible bonds before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the convertible bond at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the convertible instrument was issued. Once the allocation of the consideration is made, any resulting gain or loss is treated as follows:

a. the amount of gain or loss relating to the liability component is recognized in profit or loss; and
b. the amount of consideration relating to the equity component is recognized in equity

If the convertible bonds are converted before maturity, the amount recognized in equity in respect of the shares issued should be the amount at which the liability for the debt is stated as at the date of conversion.

On conversion of the convertible bonds at maturity, the Company recognizes the liability component and recognizes it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity date.

The transaction costs that are directly attributable to the convertible bonds are deducted from the initial fair value of the convertible bonds. The transaction costs are allocated between the liability and the equity components in proportion to the allocation of the proceeds. The transaction costs of the liability component are recognized as part of interest costs.

Provisions

Provisions are recognized 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 recognized at fair value and subsequently measured at fair value through profit or loss with changes in the fair value recognized in the statement of income as they arise.

Trade and other payables

Trade and other payables are initially recognized at fair value. Subsequent measurement is at amortized 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 recognize 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. Recognize 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 recognized 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 recognized when the customer obtains control of the goods. For the Group's contracts the customer usually 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, 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 recognized 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. No significant financing component exists in relation to these upfront payments.

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 of vials used 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 realizable value if sales price is below actual costs.

Research and development costs

Research expenditure is recognized as an expense in the period in which it is incurred. An intangible asset arising from development expenditure on an individual project is recognized 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 considered high, 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 amortization and accumulated impairment losses.

Any expenditure capitalized is amortized 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 recognized 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.

Interest income

Interest income is recognized 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 operating 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 commercialize 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 recognized 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 under trade and other payables 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 recognized 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 recognized 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.

On December 11, 2020 the new LTIP for the Executive Director was implemented. The existing share option plans and the grant of restricted shares under LTIP, from December 11, 2020 onwards, will no longer be applied for the Executive Directors under the new Remuneration Policy. The newly designed LTIP has been aligned with prevailing 'best practices' and is perfomance-related only. The performance includes Total Shareholder Return (40% weighing) and achievement of long-term strategy oriented objectives (60% weighing). The Total Shareholders Return is compared to a peer group.

The shares granted to the Executive Director under the new LTIP, will vest in 3 years after the grant date, subject to the achievement of targets for a tree-year performance period, their relative weightings and the pay-out limits. All shares will be subject to a retention period of 5 years from the date of grant. In order to fully become entitled to the shares vesting under the LTI conditions the participant has to be a member of the Board of Directors as Executive Board Member at the vesting date.

The fair value of the new LTIP is determined using the Monte Carlo simulation. The costs of the LTIP are recognized in the income statement during the vesting period. The fair value at the grant date includes the financial performance condition of Pharming compared to the benchmark, the strategic performance condition as well as the service condition.

Leases

The Group assesses whether a contract is or contains a lease at the inception of the contract. The Group recognizes 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 recognizes 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 recognized 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. The related payments are recognized 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 lease component and the aggregate stand-alone price of the non-lease components. The Group had no such lease arrangements in 2020 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 realized, or the deferred income tax liability is settled.

Deferred tax assets are recognized 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 recognized in profit or loss, except to the extent that it relates to items recognized 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 profit before tax 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.

Classification of certain items in the cash flow statement for the year 2019 have been restated. The cash flow from operating activities presented herein presents a reconciliation from "profit before tax" instead of "operating profit" and additionally, in the statement of cash flows a reclassification has been made for the interest received in 2019 of €1.1 million, resulting in a decrease of the net cash flow generated from financing activities and an increase of the net cash flow generated from operating activities. Besides, the restricted cash is excluded from the total cash and cash equivalents as per reporting date (2019: €2.3 million). The movement of restricted cash is reported as a change in net cash flows generated from operating activities, resulting in a decrease of cash flows from operating activities of €1.1 million for 2019.

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.

As from 11 December 2020, the Executive Members of the Board of Directors, which make the Company's strategic decisions, have been identified as the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments. Up to 11 December 2020, the former Board of Management was the chief operating decision-maker

Alternative Performance Measures

Wherever used in this report, performance measures are not calculated in accordance with IFRS and we collectively refer to these as non-GAAP financial measures. These are defined as follows:

EBIT:

Earnings before Interest & Tax. Defined as Profit for the year adjusted to exclude Income Tax Credit (expense) and Financial cost, net.

EBITDA:

Earnings before Interest, Tax, Depreciation & Amortization.

Defined as Profit for the year adjusted to exclude Income Tax credit (expense), Financial cost, net, and Depreciation of Property, plant and equipment and Amortization of Intangible assets.

Adjusted EBITDA:

Defined as Profit for the year adjusted to exclude Income Tax credit (expense), Financial cost, net, and Depreciation of Property, plant and equipment and Amortization of Intangible assets and Impairments/(reversal) of certain capitalized development expenses as defined.

Net Debt:

Net Debt is defined as loans and borrowings plus convertible bonds minus cash and cash equivalents minus non-current and current restricted cash.

2.5 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:

Investment in BioConnection BV

In 2019, Pharming acquired a 43.85% stake in the equity of its fill & finish partner, BioConnection BV. In the Board of Directors' judgement, the investment in BioConnection constitutes an investment in an associated company and is therefore not consolidated as Pharming has significant influence but does not have control of BioConnection. In particular, the shareholders of BioConnection are prohibited from influencing any activity between the two parties which is in any significant way different from 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.

Swedish Orphan Biovitrum International AB

On 29 December 2019 Pharming and Swedish Orphan Biovitrum International AB ("Sobi") mutually agreed and terminated the distribution agreement by means of the termination, settlement and services agreement (together: 'The agreement').

By means of the agreement Pharming obtained the exclusive rights to import, sell, distribute, market and promote recombinant C1 inhibitor under the brand names RHUCIN® and RUCONEST® in Europe. These exclusive rights allowed Pharming in setting up its own commercial organization in Europe.

After the distribution agreement was terminated and the commercial rights were transferred, Pharming introduced a complete new infrastructure, including distribution and additional services (Regulatory, Medical, Pharmacovigilance, Reimbursement, Commercial). The infrastructure itself was in place before transferring the European countries from Sobi to Pharming and there was no transition of workforce.

In order to assess whether the distribution agreement constitutes a business combination or intangible asset, judgement is applied. Our main considerations to conclude that this transaction is not a business combination under IFRS 3 is based on the fact that no workforce or processes were transferred as part of the agreement. Consequently, the transaction should be accounted for under IAS 38 - Intangible assets, for which we also considered all recognition criteria were met.

In order to assess whether the rights reacquired by the termination agreement represent intangible asset for Pharming financial reporting purposes, an assessment was performed on whether the assets are identifiable, whether Pharming obtained control over those assets and whether future economic benefits are expected to be obtained by means of those assets.

The assets are separable from the entity and in a manner that it acquires them, Pharming could potentially sell those assets to any market participant together with the exclusive rights, meaning that assets are capable of being separated from the entity and transferred together with the related licensing agreement regardless of Pharming's intention to do so. As such Pharming exercises control over the acquired assets in its determination to benefit from the future benefits or to sell the assets. In addition, Pharming acquires assets through termination agreement, meaning the assets are transferred through contractual rights.

The agreement fullfills the criteria of IAS38, being separate identifiable, control and future economic benefits.

Development costs

Expenditures for development can be recognized as an intangible asset when the following criteria are being met as described in further detail in 'Intangible Assets' paragraph 2.4 of this note:

- 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 capitalized. 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 capitalization 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 capitalized.

Biological Assets

Pharming's production system is dependent on biological assets, but these do not qualify to be recognized under the relevant standard IAS 41 'Agriculture' and thus all relevant costs are expensed through the income statement.

Estimates:

Revenue

Revenue is recognized when control has been transferred to the customer. Revenue 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 sometime 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, mainly US Medicaid, 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 commercialization 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 recognized at its fair value at the acquisition-date, as part of the total consideration

transferred, according IFRS 3 paragraph 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. See note 26. 'Other financial liabilities including, business combinations and contingent consideration.' The amount originally arose on the acquisition of the commercialization rights from Valeant Pharmaceuticals in 2016.

In 2019, this represented the present value of the estimated amount probably payable by Pharming in the event of achieving sales milestones and was calculated by applying the milestone criteria to probabilities of forecast future revenues and cash flows. Sensitivity analysis is given in note 28 Financial risk management. The assumptions relating to future revenues and discount rates are based on business forecasts and are therefore inherently judgmental. Future events could cause the assumptions used in these projections to change with a consequent adverse effect on the future results of the Company.

In 2020 the last sales milestone was achieved. Accordingly Pharming will pay the last milestone in 2021 of €20.4 million (US$25 million) to reach the US$65 million based on achievement of sales milestones. The last payment as such is no longer an estimate.

Convertible bonds

The Company has issued convertible bonds. At the time of the issue of bonds itself the split between equity and liability portion has been accounted for. The liability portion of the convertible bonds is the present value of the future cash flows, calculated by discounting the future cash flows of the bonds (interest and principal) at the market rate of interest with the assumption that no conversion option is available. The value of the equity portion will be the difference between the total proceeds received from the bonds and the present value (liability portion).

The fair value of the liability component is measured first at the fair value of a similar liability that does not have any associated equity conversion option (IFRS 9 paragraph 5.1.1). This becomes the liability component's carrying amount at initial recognition. The equity component will be measured at the residual difference between the nominal value and the fair value of a similar liability that does not have any associated equity conversion option [IAS 32 paragraph 31].

Fair value measurements that cannot be fully based on observable market parameters involve judgment that could affect estimated fair value.

The fair value of the liability component involved judgement and was determined, based on term sheets of other credit facilities (without the conversion feature) of December 2019, the credit spread was 325 bps. As this term sheet is external independent information of the pricing of a credit facility without any associated conversion option this is deemed an appropriate benchmark to be used by Pharming in the measurement of the liability component.

3. GOING CONCERN ASSESSMENT

Looking forward, we see continuing uncertainties following the COVID-19 outbreak and market volatility. In the preparation of the financial statements, the future impact of the global pandemic COVID-19 outbreak has been considered as part of the adoption of the going concern. In particular, the Executive Directors and Officers have 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 12 months. While it is possible that sales growth may be slightly lower than expected if business 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.

In addition to the above, risk factors, possible future actions and other uncertainties remain, and it is currently not possible to reliably estimate the future impact thereof for the Company. Whilst uncertain, we do not believe, however, that the impact of the COVID-19 virus would have a material adverse effect on our financial condition or liquidity, and we expect to be able to meet our financial obligations.

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

The 2020 year-end cash balance (including restricted cash) of €168.3 million is expected to fund the Company for more than twelve months from the date of this report. The normal receipts of sales revenues from customers and normal costs together increased the Company's cash balance to approximately €176.7 million as of 31 March 2021. The receipts from commercial supply of product to our partners in Latin America, South Korea and Israel and proceeds from direct sales in the US 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.

As result of the steady continuing sales growth, the Company achieved in 2020 net profits in every quarter, ending the year at €33.0 million. Until the end of December 2020, Pharming achieved sales growth compared to prior year and achieved positive net results in every quarter. So to date the Company has not experienced a decline in revenues in 2020 compared to 2019 and the Company has not opted for any form of government assistance until now.

The Board of Executive Directors and Officers anticipate that during 2021 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 2020. We remain confident that the development of RUCONEST®, additional rhC1INH potential products and additional in-licensed products such as leniolisib, will enable this situation to continue.

So far, Pharming has not experienced any noteworthy disruption to its supply chain and none of the Company's (external) production facilities / sales locations have been closed.

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 or to raise debt, or through a combination of such instruments, to support an acquisition or in-licensing of additional assets, if appropriate terms can be obtained that are in the best interests of shareholders.

Overall, based on the outcome of this assessment, Pharming's 2020 financial statements have been drawn up on the basis of a going concern assumption. Notwithstanding their belief and confidence that Pharming will be able to continue as a going concern, the Executive Directors and Officers emphasize that the actual cash flows may potentially ultimately (significantly) deviate up or down from our projections to various reasons. In the absence of an (improbable) absolute catastrophe such as banning

of the product from sale in a major market, the Executive Directors and Officers believe that the Company will have more than sufficient resources to meet all obligations as they fall due.

4. SEGMENT INFORMATION

The Executive Members of the Board of Directors, who replaced the Board of Management per 11 December 2020, are the chief operating decision-maker. The Executive Members of the Board of Directors consider the business from both a geographic and product perspective.

From a product perspective, the Company's business is 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 Executive Members of the Board of Directors primarily measures revenues and gross profit to assess the performance of the geographic areas. Operating costs as well as non-current assets are not sub-allocated to the geographic areas.

Total external revenues and gross profit per geographic segment for the financial year 2020 and 2019 are:

Amounts in € '000	2020	2019
Revenues:		
US	177,388	162,690
Europe	7,205	5,041
RoW	1,101	1,291
Total revenues	**185,694**	**169,022**
Gross profit:		
US	161,057	144,780
Europe	3,093	1,911
RoW	943	976
Total gross profit	**165,093**	**147,667**

5. REVENUES

The increase in revenues was primarily a result of higher sales of RUCONEST® in the US market (€177.4 million in 2020 compared to €162.7 million in 2019). Revenue in Rest of the World (excluding Europe) decreased to €1.1 million (from €1.3 million in 2019). Revenues in Europe increased to €7.2 million in 2020 (from €5.0 million in 2019). This increase was mainly caused by the Company continuing to build out its EU commercial infrastructure and expanding into new territories following the re-acquisition of EU rights for RUCONEST® from Sobi in January 2020.

Two US customers represent approximately €141.5 million (76%) of our estimated net revenues in 2020. In 2019 the two US customers represent approximately €130.8 million (77%) of our estimated net revenues. These customers are largely specialty wholesale companies that are specialized in distribution of pharmaceuticals in our and competitors' disease area and distribute our product.

The revenue fully relates to the transfer of goods and is recognized at a point in time when the goods have been delivered to the customer. In 2019, revenues included €1.5 million deferred license revenue, reflecting license fee payments from Sobi. During 2020, Pharming no longer received license fee payments given the license agreement with Sobi ended upon re-acquiring commercialization rights to RUCONEST® for all remaining countries in Europe in December 2019, with the effective date of this transaction being January 2020.

6. OTHER INCOME

Other income related to grants and amounted to €1.6 million in 2020 (€0.4 million in 2019). 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 sales

Costs of sales in 2020 and 2019 were as follows:

Amounts in € '000	2020	2019
Costs of sales	(20,601)	(20,587)
Obsolescence inventory impairments	—	(768)
Total	**(20,601)**	**(21,355)**

Costs of sales in 2020 amounted to €20.6 million (2019: €21.4 million) and relate to actual product sales. Costs were lower for sales in 2020 than in 2019, mainly because in 2020 the new production facility was validated and became fully operational, which enabled Pharming to achieve greater and more efficient production.

Obsolescence inventory impairment stems from the valuation of the inventories against lower net realizable value. Impairments related to inventories designated for commercial activities amounted to a charge of €0.3 million in 2019. There was no impairment charge in 2020 as a result of the termination of the distribution agreement with Sobi (see note 10). The Company's own product sales have a higher net realizable value.

Costs of research and development

Research and development costs are specified as follows:

Amounts in € '000	2020	2019
Employee costs	(18,365)	(15,676)
Amortization costs IFA	(677)	(55)
Impairment losses IFA	—	732
Depreciation PPE and right of use assets	(1,805)	(1,772)
Impairment losses PPE	—	—
Direct Operating Expenses	(11,206)	(9,667)
Other indirect research and development costs	(1,659)	(1,930)
Total research and development costs	**(33,712)**	**(28,368)**
As percentage of net sales	*(18)%*	*(17)%*

Operating expenses for research and development activities increased to €33.7 million in 2020 from €28.4 million in 2019. The costs mainly relate to preparing for and initiating the clinical studies of rhC1INH in pre-eclampsia and acute kidney injury, phase 2/3 study Leniolisib, for the treatment of activated Phosphoinositide 3-kinase Delta

syndrome, clinical trials on Covid-19, and continuing work on the preparation and production of α-glucosidase for Pompe disease using the Pharming technology.

Costs of general and administrative activities

General and administrative costs are specified as follows:

Amounts in € '000	2020	2019
Employee costs	(9,817)	(7,657)
Amortization costs IFA	—	(5)
Impairment losses IFA	—	—
Depreciation PPE and right of use assets	(1,001)	(977)
Impairment losses PPE	—	—
Direct Operating Expenses	(8,355)	(7,973)
Other indirect general and administrative costs	(1,906)	(2,301)
Total general and administrative costs	**(21,079)**	**(18,913)**
As percentage of net sales	*(11)%*	*(11)%*

Operating expenses for general and administrative activities increased to €21.1 million in 2020 from €18.9 million in 2019. The increased costs of general and administrative activities are mainly related to additional administration resources to support the growing commercial and operations activities of the Company.

Costs of marketing and sales activities

Marketing and sales costs are specified as follows:

Amounts in € '000	2020	2019
Employee costs	(20,212)	(16,615)
Amortization costs IFA	(2,834)	(2,824)
Impairment losses IFA	—	—
Depreciation PPE and right of use assets	(757)	(277)
Impairment losses PPE	—	—
Direct Operating Expenses	(20,446)	(17,481)
Other indirect marketing and sales costs	(915)	(2,717)
Total marketing and sales costs	**(45,164)**	**(39,914)**
As percentage of net sales	*24%*	*24%*

Operating expenses for marketing and sales increased in 2020 to €45.2 million from €39.9 million in 2019. The increased costs are mainly related to the further expansion of the commercial organization and infrastructure in both the USA and Europe.

Employee benefits

Amounts in € '000	2020	2019
Salaries	(32,217)	(26,363)
Social security costs	(3,765)	(3,364)
Pension costs	(1,614)	(1,577)
Share-based compensation	(7,356)	(4,449)
Total	**(44,952)**	**(35,753)**

Salaries include holiday allowances and cash bonuses for staff not on the former Board of Management.

Employee benefits are included in:

Amounts in € '000	2020	2019
Research and development	(17,097)	(13,735)
General and administrative	(7,962)	(6,067)
Marketing and sales	(19,893)	(15,951)
Total	**(44,952)**	**(35,753)**

The number of employees

Weighted average full time equivalent	2020	2019
Research and development	136	115
General and administrative	43	31
Marketing and sales	50	43
Total	**229**	**189**

The weighted average number of full-time equivalents (fte's) working outside the Netherlands was 85 (2019: 73). The increase of the total number of fte's was in line with the overall business growth across the Company.

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 amortization charges

Amounts in € '000	notes	2020	2019
Property, plant and equipment	11	(1,789)	(1,573)
Intangible assets	10	(3,508)	(2,884)
Total		**(5,297)**	**(4,457)**
Right of use assets			
Buildings	12	(1,471)	(1,125)
Cars	12	(303)	(328)
Total		**(1,774)**	**(1,453)**

The increase of depreciation charges of property, plant and equipment in 2020 as compared to 2019 stems from new investments, mainly in production assets. For property, plant and equipment, in 2020 an amount of €1.5 million was charged to research and development costs (2019: €1.5 million).

Amortization 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, amortization related to the re-acquired commercialization rights for RUCONEST® in the USA were charged to Marketing and Sales expenses. In 2020 the amortization charges increased with €0.6 million as a result of the re-acquired European market rights in 2020. The amortization of the re-acquired US commercialization rights were in line with last year, which is applied over the economic useful life of 20 years.

Independent auditor's fees

Both the 2020 and the 2019 audit were performed by Deloitte Accountants B.V.

Amounts in € '000	2020	2019
Audit of the financial statements	(1,073)	(616)
Audit related activities	(593)	—
Tax advisory	—	—
Total	**(1,666)**	**(616)**

The increase of audit fees of the financial statements in 2020 compared to 2019 mainly relates to the fact that some €0.3 million of the 2019 audit fees were in fact incurred in 2020. The audit related activities relate to the listing on the Nasdaq on 22 December 2020.

8. OTHER FINANCIAL INCOME AND EXPENSES

Amounts in € '000	2020	2019
Interest income	626	1,011
Other financial income	**626**	**1,011**
Loan settlement	(3,775)	—
Foreign currency results	(16,832)	(460)
Interest loans and borrowings	(4,532)	(11,255)
Interest leases	(670)	(662)
Contingent consideration	(3,277)	(2,882)
Other financial expenses	(65)	—
Other financial expenses	**(29,151)**	**(15,259)**
Total other financial income and expenses	**(28,525)**	**(14,248)**

Loan settlement

In 2020 settlement fees and expenses were paid for an amount of €3.8 million as a result of the fact that the Company, in 2020, paid back and extinguished the loan from Orbimed Advisors completely. In 2019, no settlement fees were paid.

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 2020 are mainly a result of the revaluation of the bank balances in US dollars, incorporated in our Dutch entities. The US dollar weakened over the course of 2020.

Interest loans and borrowings

Interest on loans and borrowings in 2020 and 2019 relate to the amortized costs from loans and borrowings, 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.

In 2020 the amortized costs on loans and borrowings related to the convertible bonds issued in January 2020 and the current term loan from Orbimed Advisors, which was fully repaid in January 2020. In 2019 the amortized costs on loans and borrowings principally related to the current term loan from Orbimed Advisors.

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 (€20.4 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 first milestone, of US$20 million was triggered in 2019 and paid in March 2019. The second milestone, also of US$20 million, was triggered in the last quarter of 2019, and was paid in February 2020. The last milestone, of US$25 million, was triggered in the last quarter of 2020, and will be paid in the second quarter of 2021. See also note 26.

9. 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	2020	2019
Income tax expense		
Current tax		
Current tax on profit for the year	(2,367)	(4,315)
Adjustments for current tax of prior periods	1,310	242
Total current tax expense	(1,057)	(4,073)
Deferred income tax		
Deferred tax on profit for the year	(7,535)	(6,784)
Adjustments for deferred tax of prior periods	3,036	373
Total deferred tax expense	(4,499)	(6,411)
Income tax expense	**(5,556)**	**(10,484)**

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	2020	2019
Reconciliation of tax charge		
Profit, (loss) on ordinary activities before taxation	38,591	46,679
Profit/(loss) on ordinary activities multiplied by standard rate of tax in The Netherlands	(9,647)	(11,670)
Effects of:		
Tax rate in other jurisdictions	233	9
Non-taxable income (expense)	256	(628)
Adjustments of prior periods	1,857	373
Change in statutory applicable tax rate	2,489	2,877
Other	(744)	(1,445)
Income tax expense for the year	**(5,556)**	**(10,484)**

Factors affecting current and future tax charges

The main difference between the nominal tax and the effective tax for the year 2020 can be explained by the effects of non-taxable expenses, the effect of the enacted future increase in the 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.

At the end of 2018, the Company entered into a 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 utilized in the 2018 income tax calculation. 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, the Board of Directors considers 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.

Deferred tax

The balance of the net deferred tax assets/(liabilities) is therefore shown below:

Amounts in € '000	2020	2019
Total deferred tax assets	27,471	30,933
Total deferred tax liabilities	(1,514)	(2,343)
Total net deferred tax assets /(liabilities)	**25,957**	**28,590**

The deferred tax assets and liabilities are offset since there is a legally enforceable right to set off current tax assets against current tax liabilities and since the deferred tax income taxes relate to the same tax jurisdiction.

The significant components and annual movements of deferred income tax assets as of 31 December, 2020 and 1 January 2020 , are as follows:

Amounts in € '000	Notes	2020	2019
Intangible fixed assets		14,417	12,514
Short term assets		—	—
Other financial assets	26	—	8,186
Accruals		4,172	3,217
Other		4,182	1,102
Tax losses		4,700	5,914
Total deferred tax assets		**27,471**	**30,933**

Amounts in € '000	Intangible fixed assets	Short term assets / liabilities	Other financial liabilities	Accruals	Other	Tax losses	Total
At January 1, 2019	**11,822**	**907**	**10,941**	**786**	**—**	**10,626**	**35,082**
(Charged)/credited							
- to profit or loss	692	(907)	(2,755)	2,426	1,102	(4,712)	(4,154)
- to other comprehensive income	—	—	—	5	—	—	5
At December 31, 2019	**12,514**	**—**	**8,186**	**3,217**	**1,102**	**5,914**	**30,933**
(Charged)/credited							
- to profit or loss	1,903	—	(8,186)	1,185	1,019	(1,214)	(5,293)
- to other comprehensive income	—	—	—	(230)	(5)	—	(235)
- to accumulated deficit	—	—	—	—	2,066	—	2,066
At December 31, 2020	**14,417**	**—**	**—**	**4,172**	**4,182**	**4,700**	**27,471**

Based upon the Company's latest budget for 2021 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 realize the deferred tax assets, and therefore these assets should continue to be recognized 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 realized through the amortization of the intangible assets once in use within the fiscal unity.

In prior year, the deferred tax relating to the other financial liabilities primarily related to the tax effect on the temporary difference for the contingent consideration as described in Note 26. As the final milestone became due as per December 31, 2020, no residual difference between tax base and the carrying amount remain as per balance sheet date.

Accruals represent deferred tax assets recognized for temporary differences between the carrying amount and tax bases of accrued liabilities.

The increase in the deferred tax for other is primarily due to recognition of the DTA for future tax reductions related to share-based payments, of which an excess is recorded in equity.

The unused tax losses were incurred by the Dutch fiscal unity.

The calculation of the deferred tax asset is as shown below:

Amounts in € '000	2020	2019
Net Operating Losses - Netherlands		
Net Operating Losses at year-end	18,801	21,926
Portion selected for deferred tax asset	18,801	21,926
Tax rates used:		
2020 : 25% (25%)	—	5,482
2021 and later: 25% (21,7%)	4,700	—
Total tax effect Netherlands	**4,700**	**5,482**
Net Operating Losses - France		
Net Operating Losses at year-end	—	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	4,700	5,482
Tax effect France - losses deferred	—	432
Total deferred tax asset	**4,700**	**5,914**

The losses carried forward mainly expire in the period 2024 – 2025.

The current part of the net deferred tax assets is €8.9 million (2019: €18.4 million).

The component and annual movement of deferred income tax liabilities as of 31 December, 2020 and 1 January, 2020, are as follows:

Amounts in € '000	2020	2019
Tangible fixed assets	(1,343)	(1,135)
Other liabilities	(171)	(1,208)
Total deferred tax liabilities	**(1,514)**	**(2,343)**

Amounts in € '000	Tangible fixed assets	Other liabilities	Total
At January 1, 2019		(87)	(87)
(Charged)/credited			
- to profit or loss	(1,135)	(1,122)	(2,257)
- to other comprehensive income	—	1	1
At December 31, 2019	**(1,135)**	**(1,208)**	**(2,343)**
(Charged)/credited			
- to profit or loss	(230)	1,023	793
- to other comprehensive income	22	14	36
At December 31, 2020	**(1,343)**	**(171)**	**(1,514)**

10. 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	4,861	55,860	—	—	63,900
Accumulated:							
Amortization charges	(2,616)	(431)	—	(5,759)	—	—	(8,806)
Impairment charges	(35)	—	(2,624)	—	—	—	(2,659)
Carrying value at January 1, 2019	**—**	**97**	**2,237**	**50,101**	**—**	**—**	**52,435**
Amortization charges	—	(53)	—	(2,793)	—	(38)	(2,884)
Impairment charges	—	—	732	—	—	—	732
Capitalized 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:							
Amortization charges	(2,616)	(484)	—	(8,552)	—	(38)	(11,690)
Impairment charges	(35)	—	(1,892)	—	—	—	(1,927)
Carrying value at December 31, 2019	**—**	**44**	**4,304**	**47,308**	**18,702**	**451**	**70,809**
Amortization charges	—	(44)	—	(3,418)	—	(46)	(3,508)
Impairment charges	—	—	—	—	—	—	—
Capitalized development costs	—	—	139	—	—	—	139
Assets acquired	—	—	—	7,500	1,385	290	9,175
Movement 2020	**—**	**(44)**	**139**	**4,082**	**1,385**	**244**	**5,806**
At cost	2,651	528	6,335	63,360	20,087	779	93,740
Accumulated:							
Amortization charges	(2,616)	(528)	—	(11,970)	—	(84)	(15,198)
Impairment charges	(35)	—	(1,892)	—	—	—	(1,927)
Carrying value at December 31, 2020	**—**	**—**	**4,443**	**51,390**	**20,087**	**695**	**76,615**

Transgenic technology

In 2014, the Company acquired assets from Transgenic Rabbit Models SASU, for a total amount of €0.5 million, which was recognized 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 were recorded at historical cost and are fully amortized.

RUCONEST® for HAE (EU)

In 2020, the Company has capitalized development costs in the carrying amount of €nil (2019: €0.044 million) in relation to RUCONEST® for HAE in the European Union. Following market launch of the product in 2010 the amortization of the asset started, and no further development costs have been capitalized in respect to this item since then.

Development costs

In 2018, the Company started to modify the current product RUCONEST® for more convenient forms of administration by the patient. This will result in better variants of the existing product. One of these variants has been down-prioritized, as a result of better opportunities with another version. As a result, the Company had to eliminate the capitalized costs related to the previous variant by impairing of the

amount held. This has led to an impairment charge of €0.7 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 prioritized version has been capitalized during 2019 and has been recognized as an internally generated intangible asset as at 31 December 2019. In 2020 the Company incurred €0.1 million development costs, which was lower compared to 2019 as a result of the fact that trials decreased due to the Covid-19 pandemic.

Amortization 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.

Re-acquired rights and Licenses

The re-acquired rights relate to the acquisition of all North American commercialization rights from Bausch Health (formerly Valeant Pharmaceuticals) in 2016.

The re-acquired rights for 2020 relate to Pharming and Swedish Orphan International AB ("Sobi"). On 29 December 2019 Pharming and Sobi mutually agreed and terminated the distribution agreement by means of the termination, settlement and services agreement (together: 'The agreement'). In 2020, Sobi has provided transitional services for a period of 6 months. The transitional service was a continuation of the service based on the original agreement by SOBI until Pharming was able to take over the distribution.

By means of the agreement, Sobi assigned a certain list of items and perform certain transitional services, where Pharming acquires a certain list of items and receives the benefit of certain transitional services. The effective date of agreement has been set as 1 January 2020. The following non-comprehensive list of items were transferred to Pharming as part of the agreement:

a. All registrations, authorizations, import and export licenses, local labelling exemptions and/or permits related to the Product including all approvals and regulatory authority approvals for reimbursement for specific patents, if any provided that, if it is not possible to transfer any import and export licenses, such licenses shall be cancelled.
b. All marketing, promotional, educational and packaging materials and design and translations for the market that Product is distributed via the distribution agreement;
c. Scientific documentation, correspondence with customers and authorities, customer lists, distribution lists, track and trace information, marketing materials and records;
d. All goodwill and intellectual property rights relating solely to the Product;
e. All assignable reimbursement arrangements relating to the Product;
f. A list of all national databases relating to the Product, including printouts and/or screenshots of database listings relating to the Product which are held in the name of Sobi or any of its Affiliates or Sobi counterparties;
g. Local medical information and translations in Sobi's possession to the extent relating to the Product; and
h. The Transferring Contracts such as customer, distributor and reimbursement contracts and local contracts with pharmacovigilance personnel.

The Company paid €7.5 million to Sobi as a compensation for the early termination of the agreement. The commercial right is classified as an intangible asset. The estimated useful life of the acquired intangible asset is 12 years and will be amortized over the useful life on a straight-line basis.

Novartis license

In August 2019, Pharming entered into a development collaboration and license agreement with Novartis to develop and commercialize Leniolisib, a small molecule phosphoinositide 3-kinase delta (P13Kδ) 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 ($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 capitalized. The balance of the committed development funding will also be capitalized, whereafter the program will be assessed according to Pharming's normal criteria for capitalization of development expenses for internally generated programs. In 2020, the Company paid €1.4 million to Novartis for additional development.

Intangible assets not yet in use

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.

11. PROPERTY, PLANT AND EQUIPMENT

Amounts in € '000	Land and land improvements	Operational facilities	Leasehold Improvement	Manufacturing equipment	Other	Asset under construction	Total
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 January 1, 2019	**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 December 31, 2019	**27**	**2,950**	**10**	**1,673**	**3,588**	**305**	**8,553**
Investments	—	102	35	104	1,332	2,502	4,075
Internal transfer	—	(197)	407	—	234	(444)	—
Divestments	—	(49)	(407)	—	(384)	—	(840)
Depreciation charges	—	(298)	(207)	(786)	(1,265)	—	(2,556)
Depreciation of disinvestment	—	48	407	—	372	—	827
Currency translation	—	1	(1)	(1)	(77)	(25)	(103)
Movement 2020	**—**	**(393)**	**234**	**(683)**	**212**	**2,033**	**1,403**
At cost	27	5,025	2,016	5,367	7,820	2,338	22,593
Accumulated depreciation	—	(2,468)	(1,772)	(4,377)	(4,020)	—	(12,637)
Carrying value at December 31, 2020	**27**	**2,557**	**244**	**990**	**3,800**	**2,338**	**9,956**

Depreciation charges on manufacturing equipment of €0.8 million in 2020 (2019: €0.5 million million) have been charged to the value of inventories and an amount of €1.8 million of the total 2020 depreciation costs has been charged to the statement of income (2019: €1.6 million). In 2020 the Company invested €4.1 million, mainly in operational facilities, research and development facilities and laboratory equipment (2019: €2.4 million).

12. RIGHT-OF-USE ASSETS

This note provides information for leases where the Group is a lessee.

i. Amounts recognized 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 January 2019	**4,228**	**563**	**4,791**
Investments	2,338	303	2,641
Divestments	—	—	—
Depreciation charges	(1,125)	(328)	(1,453)
Depreciation of disinvestment	—	—	—
Currency translation	—	—	—
Movement 2019	**1,213**	**(25)**	**1,188**
At cost	6,566	866	7,432
Accumulated depreciation	(1,125)	(328)	(1,453)
Carrying value at December 31, 2019	**5,441**	**538**	**5,979**
Investments	3,261	1,260	4,521
Divestments	(559)	(236)	(795)
Investment in a sublease	(363)	—	(363)
Depreciation charges	(1,471)	(303)	(1,774)
Depreciation of disinvestment	70	115	185
Currency translation	(49)	(28)	(77)
Movement 2020	**889**	**808**	**1,697**
At cost	8,856	1,862	10,718
Accumulated depreciation	(2,526)	(516)	(3,042)
Carrying value at December 31, 2020	**6,330**	**1,346**	**7,676**

Investments in buildings in 2020 primarily relate to the office building in Warren in the US.

Per 1 April 2020, the Company subleased the office building in Bridgewater in the US. In 2020 the Company received rent from the sublease of €0.07 million. The loss on the total duration of the sublease amounts to €0.02 million.

The Company applies for the exemption of accounting of short-term leases and leases under EUR 5.000. The amounts recorded in the consolidated statement of income are immaterial to the financial statements.

ii. Amounts recognized in the statement of income

The statement of income shows the following amounts relating to leases:

Amounts in € '000 **Depreciation rights of use assets**	**2020**	**2019**
Buildings	(1,471)	(1,125)
Cars	(303)	(328)
	(1,774)	**(1,453)**
Interest expense (see note 8)	(670)	(662)
	(2,444)	**(2,115)**

iii. Lease charges

For the year 2020, the Company charged €2.4 million (2019: €2.1 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 2020 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 lease charges after the end of the reporting year have been disclosed in note 28 below. Allocations of the lease charges to costs or general and administrative expenses have been based on the nature of the asset in use.

iv. 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 €0.16 million (2019: €0.04 million).

13. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

As the investment in BioConnection BV (BioConnection) announced in April 2019 is significant and provides the Company with significant influence over BioConnection, it has been treated as an associate of the Group as at 31 December 2020. 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	
		2020	2019			2020	2019
BioConnection B.V.	**Oss, NL**	**43.85**	**43.85**	**Associate**	**Equity**		**5,078**
Balance at January 1						**5,508**	—
Movement during the year							
Share in net profit						316	229
Recognition of financial guarantee						—	221
Amortization of financial guarantee						(28)	(20)
Balance at December 31						**5,796**	**5,508**

Financial information of BioConnection B.V. per 31 December 2019 is filed at the Dutch Chamber of Commerce under number 17180803 (www.kvk.nl).

Financial information BioConnection as filed at the Dutch Camber of Commerce, for the year 2019 is as follows:

Amounts in € '000	31 December 2019
Total assets	11,281
Total equity	6,953

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 Director's judgement, the investment in BioConnection constitutes an investment in an associated company and is therefore not consolidated, 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 favor 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 26 Other financial liabilities.

14. RESTRICTED CASH, CASH AND CASH EQUIVALENTS

Amounts in € '000	2020	2019
Restricted cash (non-current)	415	2,268
Restricted cash (current)	810	—
Cash and cash equivalents	167,068	66,299

Cash is free at disposal of the Company, except for restricted cash, which amounts to €1.2 million in 2020. Restricted cash includes the value of banker's guarantees issued with respect to (potential) commitments towards third parties which is considered to be of a short-term nature. Furthermore, restricted cash includes a deposit for rent which is considered long-term. In 2019 restricted cash included a deposit issued in respect of lease cars of total US$1.1 million, which has been released in 2020.

As such, although temporarily restricted, the Company can access the current portion of this cash if necessary. For purposes of the cash flow statements all restricted cash is not considered as "cash and cash equivalents".

15. INVENTORIES

Inventories include batches RUCONEST®, work in progress and skimmed milk available for production of RUCONEST®.

Amounts in € '000	2020	2019
Finished goods	10,376	10,320
Work in progress	4,616	1,843
Raw materials	2,237	2,304
Balance at December 31	**17,229**	**14,467**

Changes in the adjustment to net realizable value:

Amounts in € '000	2020	2019
Balance at January 1	(830)	(927)
Addition to impairment	(1,269)	(1,010)
Release of impairment	1,043	328
Usage of impairment	530	779
Balance at December 31	**(526)**	**(830)**

The inventory valuation at 31 December 2020 of €17.2 million is stated net of an impairment of €0.5 million (2019: €0.8 million). The impairment includes an impairment for obsolescence and an impairment to write inventories down to their net realizable value.

Per 31 December 2020 the impairment for obsolescence amounts to €0.0 million (2019: €0.3 million).

Per 31 December 2020 the impairment to write inventories down to their net realizable value amount to €0.5 million (2019: €0.4 million). Inventories are available for use in commercial, preclinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of product, taking into account current and expected sales as well as preclinical and clinical programs. These estimates are reflected in the additions to the impairment. The releases to the impairment relate to amendments to the estimates as a result of the fact that actual sales can differ from forecasted sales and the fact that vials allocated to preclinical and clinical programs can be returned to inventory.

This amount decreased compared to prior year as a result of the termination of the distribution agreement with Sobi (see note 10), and the fact that the Company's own sales have a higher net realizable value. The costs of vials used in preclinical and clinical programs are presented under the research and development costs.

Cost of inventories included in the cost of sales in 2020 amounted €20.6million (2019: €21.4 million). The main portion of inventories at 31 December 2020 have expiration dates starting beyond 2022 and are all expected to be sold and/or used before expiration.

16. TRADE AND OTHER RECEIVABLES

Amounts in € '000	2020	2019
Trade receivables	19,149	21,427
Prepaid expenses	3,271	2,279
Value added tax	1,323	1,193
Other receivables	1,877	772
Taxes and social securities	3,616	66
Balance at December 31	**29,236**	**25,737**

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 decrease in trade receivables reflects the decrease in outstanding trade receivables in the USA which effect is partly due to the decrease of the USD.

The Company did not recognize any expected credit losses. The credit risk of the trade receivables, adjusted for forward looking factors specific to the debtors and the economic environment, does not increase since the initial recognition and no loss allowance for expected credit losses is recognized. Pharming has a limited number of customers with long term relationships, without a history of shortfalls.

The prepaid expenses increased in 2020 mainly due to increased prepayments to HAEA, the US organization that serves hereditary angioedema patients. Taxes and social securities, compared to 2019, mainly increased due to receivable balances on federal and state taxes in the US.

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 authorized share capital amounts to €8.8 million and is divided into 880,000,000 ordinary shares with a nominal value of €0.01 each. All 638,821,619 shares outstanding at 31 December 2020 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 29. The Consolidated statement of changes in equity and note 29 further describes the background of the main equity movements in 2020 and 2019.

Net result and accumulated deficit

Article 21.1 of the articles of association reads as follows: 'the Board of Directors shall annually determine the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.' The Board of Directors has proposed to forward the net profit for the year 2020 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 former Board of Management and employees in which payment is based in shares or options, based on current or future performance. For 2020 these transactions were valued at €5.7 million and for 2019 at €3.9 million (see note 22).

Bonuses settled in shares

In 2020 the Company issued 33,587.000 shares with an aggregate value of €45,134 in lieu of bonuses. In 2019 a total of 6,225 shares were issued in lieu of bonuses of €6,000.

Value conversion rights of convertible bonds

The original equity component of the convertible bonds as recorded at initial recognition amounts to €1.4 million. Reference is made to note 18.

Warrants

In 2020 warrants, representing a total of 60,000 shares (2019: 240,000 shares) were exercised in exchange for that number of shares. In relation to the exercises, the Company received €0.017 million (2019: €0.07 million) in cash.

Options exercised / LTIP shares issued

In 2020, options were exercised and LTIP shares were issued for a total of 7,404,565 shares. In 2019, options were exercised and LTIP shares were issued for a total of 7,913,912 shares.

Adjustment to share capital

There were no adjustments to the authorized share capital in 2020 and 2019.

Legal reserves

The legal reserves concern the reserve participating interest, currency translation differences of foreign investments and capitalized development expenses.

Adjustments of the reserve participating interest relate to the undistributed profits of the participating interest.

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 2020, a decrease of €0.002 million (2019: a decrease of €0.004 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 2020 include an increase of €0.1 million (2019: €2.1 million) for capitalized development expenses and an increase of €0.5 million for the participating interest in BioConnection.

18. CONVERTIBLE BONDS

Recognition and movements of the convertible bonds were as follows:

Amounts in € '000	2020
Balance at January 1	**—**
Carrying value initial recognition	121,277
Interest paid (cash flow)	(1,875)
Amortization transaction cost	650
Accrued interest	3,536
Balance at December 31	**123,588**
- Current portion	1,661
- Non-current portion	121,927

On January 21, 2020, the Company issued €125 million aggregate principal amount of 3.00% convertible bonds due 2025. The net proceeds of the issue of the bonds were used to redeem the balance of approximately US$ 51 million of the loan of Orbimed Advisors in full. The remaining balance of the net proceeds will be used to support capital expenditure in relation to the expansion of the Company's commercialization and manufacturing infrastructure and also serve as a funding for the launch of Leniolisib, if approved, as well as for additional acquisitions / in-licensing opportunities. The bonds were issued at par and bear interest at a rate of 3.00% per annum payable semi-annually in arrears in equal installments. Unless previously converted, redeemed or purchased and cancelled, the bonds will mature on January 21, 2025.

The bonds are convertible into the Company's ordinary shares at an initial conversion price of €2.0028. This initial conversion price is subject to customary adjustment provisions. The number of ordinary shares initially underlying the bonds is 62,412,622. Any adjustment to the conversion price resulting in an increase in the number of conversion shares may require the Company to obtain further authorization from the Company's shareholders to issue shares, grant rights to subscribe for shares and exclude preemptive rights. The Company has the option to redeem all, but not some only, of the outstanding bonds in cash at par plus accrued interest at any time, (a) if, on or after February 13, 2023, the parity value on each of at least 20 trading days in a period of 30 consecutive trading days shall have exceeded 130% of the principal amount or (b) if, at any time, 85% or more of the aggregate principal amount of the bonds originally issued shall have been previously converted and / or repurchased and cancelled.

The convertible bonds comprise of two components. The first component is a financial liability, which represents our contractual obligation to deliver cash or another financial asset for payment of interest and principal, if not converted. The second component is an equity instrument as it represents a written call option granting the holder the right, for a specified period of time, to convert it into a fixed number of the Company's ordinary shares.

The fair value of the consideration in respect of the liability components is measured at the fair value of a similar liability that does not have any associated equity conversion option (IFRS 9 paragraph 5.1.1). This is the liability component's carrying amount at initial recognition.

The equity component will be measured at the residual difference between the nominal value and the fair value of a similar liability that does not have any associated equity conversion option (IAS 32 paragraph 31). The original equity component as recorded at initial recognition amounts to €1.4 million.

19. LOANS AND BORROWINGS

Movements of the Orbimed loan were as follows:

Amounts in € '000	2020	2019
Carrying value at January 1	**45,590**	**72,502**
Amortized costs (financial income and expenses)	449	11,254
Interest paid (cash flow)	(346)	(8,418)
Repayment	(46,140)	(31,406)
Revaluation loan	447	1,658
Carrying value at December 31	**—**	**45,590**
- Current portion	—	45,590
- Non-current portion	—	—

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 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, the Company paid back and extinguished the loan from Orbimed completely with a settlement payment of US$55.6 million (€50.1 million). On repayment of the loan, the Company had to pay an exit fee of 5% (€3.8 million, see also note 8).

20. LEASES

Lease liabilities can be specified as follows:

Amounts in € '000	2020	2019
Balance at January 1	**6,309**	**5,218**
New Leases	3,308	2,641
Interest expense accrued	670	663
Payments of lease liabilities	(1,987)	(2,213)
Balance at December 31	**8,300**	**6,309**
- Current portion	1,598	1,946
- Non-current portion	6,702	4,363

Future minimum lease payments as at 31 December 2020 and 2019 are as follows:

	2020		2019	
Amounts in € '000	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	2,109	1,598	1,946	1,946
After one year but not more than five years	5,833	4,693	3,149	3,149
More than five years	2,615	2,009	1,214	1,214
Balance at December 31	**10,557**	**8,300**	**6,309**	**6,309**

21. TRADE AND OTHER PAYABLES

Amounts in € '000	2020	2019
Accounts payable	10,969	5,351
Taxes and social security	502	(209)
Other payables	143	254
Accruals for employees	6,607	5,581
Accruals for rebates and discounts	12,158	14,258
Accrual for production	3,353	3,101
Other accruals	5,084	7,911
Balance at December 31	**38,816**	**36,247**

The increase in accounts payable is due to increased production, increased operating costs and timing of payments.

22. SHARE-BASED COMPENSATION

The Company has a Long-Term Incentive Plan and two option plans in place: one option plan for the former Board of Management (per 11 December 2020 the Chief Executive Offer ("CEO") was integrated into the Board of Directors, see note 24) and one option plan for the Company's senior management and members of former Board of Management, not being a member of the Board of Directors ('the option plans'). The existing Long-Term Incentive Plan ('LTIP') and the two option plans remain in place after 11 December 2020 for the employees. For the CEO, as the only executive member of the new Board of Directors, a new long-term incentive plan has been designed.

On 11 December 2020, the General Meeting of Shareholders of the Company approved (i) the new Long-Term Incentive Program for executive members of the Board of Directors of Pharming Group N.V. (the "LTI program'), and (ii) the one-off transition arrangement agreed with the CEO, for the implementation of the new LTI Program. All these plans or arrangements are equity settled.

Pursuant to the one-off transition arrangement, the CEO has waived all his rights for the grant of restricted shares and option rights, respectively, under the LTIP and the existing option plans for the financial year 2020. The Remuneration Policy as adopted by our shareholders on 11 December 2020 no longer permits the grant of share options to the members of the Board of Directors. On 22 December 2020, a total number of 4,200,000 (restricted) shares was granted to the CEO in accordance with the terms of the one-off transition arrangement. Reference is made to the section Remuneration Report 2020 in the Annual Report. Following the above, the information as provided below under Board of Management, also include the information of the Board of Directors from 11 December 2020 up to 31 December 2020, unless indicated otherwise.

The total expense recognized in 2020 for share-based payment plans amounts to €7.4 million (2019: €4.4 million), of which €1.6 million relates to taxes (2019: €0.6 million).

The total expenses for share based payment plans in 2020 is specified as follows:

Share-based compensation	2020	2019
Board of Management options	75	557
Employee options	2,594	2,157
Long term incentive plan	4,642	1,735
Bonus shares	45	—
Balance at December 31	**7,356**	**4,449**

The employee options expense increased and reflects the increased fair value of the options granted in 2020. Long-term incentive plan expenses increased due to a higher fair value of the shares awarded and the transition agreement for the CEO.

In 2020, bonus shares were granted to certain high-performing employees for a total amount of €45.000.

22.1 Models and assumptions

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.

Models and assumptions option plans

The costs of option plans are measured by reference to the fair value of the options at the grant date 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.

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 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 Executive Committee 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. 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.

The following assumptions were used in the Black-Scholes model to determine the fair value of options at grant date:

	2020	2019
Expected time to maturity (employees)	1-4 years	1-4 years
Expected time to maturity (Board of Management)	not applicable	0.7 year
Volatility (employees)	53% - 60%	54% - 58%
Volatility (Board of Management)	not applicable	56%
Risk-free interest rate (employees)	(0.52%) - (0.27%)	(0.36%) - (0.3%)
Risk-free interest rate (Board of Management)	not applicable	(0.25%)

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 up to 11 December 2020 was determined by the Board of Supervisory Directors of Pharming, at its sole discretion. Up to 11 December 2020, the Board of Management proposed (i) whether the criteria for granting an option have been met by a potential participant and (ii) the number of options to be granted. As from 11 December 2020, the execution of the Company's remuneration policy and other benefits policies and incentive programs, as approved by the Board of Directors (to the extent required), for all staff members of the Company and its subsidiaries, excluding the CEO and the other members of the Executive Committee, is delegated to the Chief Executive Officer.

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.

Option plan Board of Management

Pursuant to a one-off transition arrangement agreed on 22 December 2020, the CEO has waived all his rights for the grant of restricted shares and option rights, respectively, under the LTIP and the existing option plans for the financial year 2020. The Remuneration Policy as adopted by our shareholders on 11 December 2020, no longer permits the grant of share options to the members of the Board of Directors.

Article 2.1 of the option plan for the former 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.

Models and assumptions Long Term Incentive Plan

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.

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 2019-2020 programs 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.

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:

	2020	2019
Volatilities	54%	56%
Risk-free interest rates	-0.24%	-0.21%
Dividend yields	0.00%	0.00%

Long Term Incentive Plan for the Executive Directors

The grant of restricted shares under the existing Long-Term Incentive plans will no longer be applied for Executive Directors under the new Remuneration Policy. The newly designed Long-Term Incentive program has been aligned with prevailing "best practices" and is performance related only.

For the Executive Directors, the on-target value of the shares to be awarded under the newly designed LTI Program, as described in the remuneration policy, is set at 300% of the gross annual salary for the CEO (representing 50% below the lowest quartile of the US benchmark group and just below the top quartile of the EU benchmark group for the executive directors) and 200% for other Executive Directors and Officers (representing between 20 and 30% below the lowest quartile of the US benchmark group and just in the top quartile of the EU benchmark group for the Executive Directors).

EU and US peer group:

Company Location	Location
Europe	
ALK-Albello	Horsholm, Denmark
Alliance Pharma	Chippenham, United Kingdom
Avadel Pharmaceuticals	Dublin, Ireland
Basilea Pharmaceutica	Basel, Switzerland
Bavarian Nordic	Hellerup, Denmark
BioGaia	Stockholm, Sweden
Biotest	Dreieich, Germany
Camurus	Lund, Sweden
Cosmo Pharmaceuticals	Dublin, Ireland
Merus	Utrecht, Netherlands
Mithra Pharmaceuticals	Liege, Belgium
Orchard Therapeutics	London, United Kingdom
Orexo	Uppsala, Sweden
Oxford Biomedica	Oxford, United Kingdom
uniQure	Amsterdam, Netherlands
Valneva	Nantes, France
Vecture Group	Chippenham, United Kingdom
Zealand Pharma	Copenhagen, Denmark
US	
Aerie Pharmaceuticals	Durham, NC
Akebia Therapeutics	Cambridge, MA
Anika Therapeutics	Bedford, MA
Clovis Oncology	Boulder, CO
Collegium Pharmaceutical	Stoughton, MA
Corcept Therapeutics	Menlo Park, CA
Enanta Pharmaceuticals	Watertown, MA
Heron Therapeutics	San Diego, CA
Ironwood Pharmaceuticals	Boston, MA
Ligand Pharmaceuticals	San Diego, CA
Omeros	Seattle, WA
Pacira BioSciences	Parsippany, NJ
Radius Health	Waltham, MA
Retrophin	San Diego, CA
Rigel Pharmaceuticals	South San Francisco, CA
Supernus Pharmaceuticals	Rockville, MD
Vanda Pharmaceuticals	Washington, DC

The maximum value of the shares that can vest under the LTI program is set at 450% of the gross annual salary for the CEO and 300% for other Executive Directors and Officers. Executive Directors are required to retain the shares awarded under the LTI program for a minimum of five years from the date of grant.

The shares granted to the Executive Directors under the LTI program will vest in three years after the grant date, subject to the achievement of the targets set by the Board of Directors, upon proposal of the Remuneration Committee, for the three-year performance period (i.e., double-trigger vesting), their relative weightings and the pay-out limits. All shares awarded will be subject to a retention period of five years from the date of grant (i.e., two years after vesting), in accordance with the best practice provisions of the DCGC.

The performance objectives include the Total Shareholder Return (40% weighing) and the achievement of long-term strategy oriented objectives (60% weighing). The peer group used to determine the Total Shareholder Return is composed of the companies included in the AMX Index and the NASDAQ Biotechnology Index, represented by the IBB ETF, respectively, equally weighted, at the time of the determination.

The thresholds and payout percentages for the LTI program are given by the following table, as to be determined for each of the AMX and IBB indices separately (each weighted at 50% of pay-out):

TSR equal to index	80% pay-out
TSR 10% above index	90% pay-out
TSR 20% above index	100% pay-out
TSR 40% above index	110% pay-out
TSR 60% above index	120% pay-out
TSR 80% above index	130% pay-out
TSR 100% above index	150% pay-out
TSR below index	0% pay-out

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:

	2020
Volatilities	53,46%
Risk-free interest rates	-0.528% - -0.551%
Dividend yields	0.00%

One-off transition arrangement for the Chief Executive Officer

The implementation of the new three-year vesting scheme under the LTIP has a major impact on the current remuneration packages of existing Executive Directors for the period 2020-2023, as the Executive Directors' current packages feature annual option and share grants. The share-based compensation under the existing packages and plans over this three-year period would have resulted in three option grants, with guaranteed vesting of a total of 8,400,000 options for the CEO on the basis of continued tenure over the three-year period. In addition, the CEO would have been eligible for three annual restricted share grants pursuant to the LTIP of up to 30% of the base salary.

To mitigate the described impact, the Company has agreed to a one-off transition arrangement with the CEO as approved at the General Meeting of Shareholders on 11 December 2020. This one-off transition arrangement provides for (i) the conversion of the total number of 8,400,000 options for the CEO (i.e., the total number of share options that was expected to be granted in 2021, 2022 and 2023 without the arrangement) into one grant for a total number of 4,200,000 shares for 2020, which vesting will be governed by the performance-based criteria of the new LTI program, and (ii) the vesting of the performance shares in three annual tranches in the first quarter of 2021, 2022 and 2023, subject to the performance-based criteria of the new LTI program for Executive Directors as described above in the Long Term Incentive Plan for the Executive Directors paragraph.

In addition, the grant and each of the three potential vestings of the granted shares under the Long-term Incentive One-Off Arrangement is subject to:

i. a five-year retention period for the granted shares;

ii. the annual pro-rata satisfaction upon vesting of the set long-term performance targets, as determined by the Board of Directors; and

iii. the other terms and conditions applicable to the LTI

Program pursuant to the Remuneration Policy for the Board of Directors dated 11 December 2020.

Pursuant to the one-off transition arrangement, the CEO has waived all his rights for the grant of restricted shares and option rights, respectively, under the LTIP and the existing option plans for the financial year 2020. On 22 December 2020, a total number of 4,200,000 (restricted) shares was granted to the CEO in accordance with the terms of the one-off transition arrangement.

22.2 Option plans

An overview of activity in the number of options for the year 2020 is as follows (please also refer to note 29 in respect of movements since the reporting date):

	2020		2019	
	Number	Weighted Average Exercise Price (€)	Number	Weighted Average Exercise Price (€)
Balance at January 1	**40,327,537**	**0.621**	**34,320,956**	**0.532**
Expired	(3,281)	0.294	(4,430,757)	1,022
Granted pre 2018				
Exercised	(5,343,268)	0.443	(7,913,912)	0.344
Granted under plan for:				
Board of Management			4,400,000	0.805
Employees	15,536,750	0.974	14,085,000	0.734
Forfeited under plan for:				
Board of Management	—		—	
Employees	(411,250)	0.521	(133,750)	0.712
Balance at December 31	**50,106,488**	**0.740**	**40,327,537**	**0.621**
- Vested	19,675,875	0.583	12,797,424	0.401
- Unvested	30,430,613	0.842	27,530,113	0.719

Exercised options 2020

In 2020 a total of 5,343,268 options have been exercised with an average exercise price of €0.443. In 2019 a total of 7,913,912 options have been exercised with an average exercise price of €0.344.

All options outstanding at 31 December 2020 are exercisable with the exception of the unvested options granted to the employees still in service. The 2020 share options for the employees vest after one year under the condition the employees are still in service at vesting date.

Exercise prices of options outstanding at 31 December 2020 and the exercise values are in the following ranges:

	2020		2019	
Exercise prices in €	**Number**	**Exercise value in €'000**	**Number**	**Exercise value in €'000**
0.063 - 0.25	3,225,000	674	4,737,500	990
0.25 - 0.50	6,742,863	2,259	9,187,537	3,100
0.50 – 0.75	12,974,375	9,458	13,202,500	9,625
0.75 – 2.50	27,164,250	24,686	13,200,000	11,324
Balance at December 31	**50,106,488**	**37,077**	**40,327,537**	**25,039**

Granted options to employees

In 2020, the Company granted 15,536,750 options to employees with a weighted average exercise price of €0.974; fair values for options granted in 2020 were in the range of €0.201 - €0.612. 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.

Granted options to former Board of Management

In 2020 no options were granted to former Board of Management.

22.3 Long Term Incentive Plan

An overview of the number of LTIP shares granted in 2018-2020 and in total as well as the fair value per share award is as follows:

Participant category	**2018**	**2019**	**2020**	**Total**
Non Executive members of the Board of Directors	100,000	205,000	—	305,000
Executive Members of the Board of Directors	130,131	201,050	—	331,181
Executive Committee	186,220	326,807	105,000	618,027
Senior managers	965,000	1,830,000	930,000	3,725,000
Total	**1,381,351**	**2,562,857**	**1,035,000**	**4,979,208**
Fair value per share award (€)	0.671	0.345	0.752	

The following table provides an overview of LTIP shares granted, forfeited or issued in 2018-2020 as well as the number of LTIP shares reserved at 31 December 2020:

Participant category	**Granted**	**Forfeited**	**Not vested**	**Reserved at December 31, 2020**
Non Executive members of the Board of Directors	305,000	(20,000)	(46,187)	238,813
Executive Members of the Board of Directors	331,181	—	(97,273)	233,908
Executive Committee	618,027	(85,005)	(76,432)	456,590
Senior managers	3,725,000	(81,210)	(619,969)	3,023,821
Total	4,979,208	(186,215)	(839,861)	3,953,132

The 2018 shares did vest at the end of the vesting period (31 December 2020) and a total of 50% of the granted LTIP shares were issued. LTIP shares reserved at 31 December 2020 relate to the 2019 shares available for participants still in service at the end of 2020. The Company expensed amounts of €0.9 million in 2020. (2019: €1.1 million).

Long-term incentive plan expenses decreased due to exclusion of former Board of Management and former Board of Supervisory Directors.

22.4 Long Term Incentive Plan for the Executive Directors

The General Meeting of Shareholders of the Company approved on 11 December 2020 the new Long-Term Incentive program for Executive members of the Board of Directors of Pharming Group N.V.. Reference is made to the transition arrangements for the Chief Executive officer paragraph 22.5 of this note.

22.5 Transition arrangement for the Chief Executive Officer

On 22 December 2020, a total number of 4,200,000 (restricted) shares was granted to the CEO in accordance with the terms of the one-off transition arrangement. These shares will vest in three equal annual tranches in Q1 2021, Q1 2022 and Q1 2023, subject to the pro-rata achievement of the long-term targets under the new LTI program.

The first year of the 3-year performance period for the 2020 share grant pursuant to the LTI one-off transition arrangement, ended on December 31, 2020. Accordingly the Board of Directors, upon a recommendation of the Remuneration Committee, determined in the first quarter of 2021 the vesting of the first annual tranche of the total number of 4,200,000 shares conditionally granted to the Chief Executive Officer (i.e., 1,400,000 shares).

The shares will not vest until the first quarter of 2024, applying the targets set at the start of the three year performance period in 2021.

The performance on both the TSR and the strategic corporate objectives, applying the respective weightings, leads to the following vesting level under the One-Off Transition Arrangement for the CEO (i.e., first annual tranche of 1,4000,000 shares):

Metric definition	Achievement	Weighting	Vesting level
TSR	—%	40%	—%
Strategic Objectives	100%	60%	60%
Total			**60%**

In accordance with the resulting 60% vesting level, a total number of 840,000 shares vested in 2021 for the CEO for the first annual tranche of the shares granted under the LTI One-Off Transition Arrangement. These shares are subject to a retention period of five years.

In 2020, 4.200.000 number of shares were granted under the new LTI program to the Executive Director. The fair value to the shares awarded amount to €0.979 million.

23. BOARD OF MANAGEMENT

Mr. S. de Vries (Chief Executive Officer), Mr. B.M Giannetti have been members of the former Board of Management up to 11 December 2020. Mr. R. Wright resigned from the former Board of Management on 20 May 2020.

On 11 December 2020 in the Extraordinary General Meeting of Shareholders (EGM) the proposal to switch to a one-tier board was approved. As a result, as of 11 December 2020, The Board of Management, was integrated into the Board of Directors (Mr. S. de Vries) and into Executive Committee (Mr. B.M. Giannetti).

Remuneration

Compensation of the members of the former Board of Management for 2020 was as follows and includes the entire year 2020, up to 31 December 2020.

Amounts in € '000	Year	Base salary	Bonus (i)	Share-based payment (ii)	Post-employment benefits (iii)	Other (iv)	Total
S. de Vries	2020	538	377	1,522	94	32	**2,563**
	2019	507	310	487	72	32	**1,408**
B.M. Giannetti	2020	352	176	620	74	24	**1,246**
	2019	331	170	289	70	8	868
R. Wright	2020	136	12	94	13	306	**561**
	2019	317	149	114	23	—	603
Total	**2020**	**1,026**	**565**	**2,236**	**181**	**362**	**4,370**
	2019	1,155	629	890	165	40	2,879

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 2020 relate to options of €0.07 million (2019: €0.6 million) and long-term incentive plan of €2.2 million (2019: €0.3 million).

iii. Post-employment benefits were in line with previous year.

iv. Includes car allowances and a termination payment of €0.306 million for Mr. R. Wright.

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	2020	—	30	**30**
	2019	—	24	**24**
B.M. Giannetti	2020	4	20	**24**
	2019	20	28	**48**
R. Wright	2020	—	10	**10**
	2019	—	18	**18**
Total	**2020**	**4**	**60**	**64**
	2019	**20**	**70**	**90**

Shares

At 31 December 2020, the members of the former Board of Management held the following numbers of shares:

Shares held	As at December 31, 2020
S. de Vries	6,638,869
B.M. Giannetti	1,707,714
Total	**8,346,583**

All shares held by members of the former 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 former Board of Management in 2020, the exercise prices and expiration dates up to 31 December 2020:

	January 1, 2019	Granted 2019-2020	Exercised 2019-2020	Forfeited/ Expired 2019-2020	December 31, 2020	Exercise Price (€)	Expiration date
S. de Vries	2,400,000			-2,400,000	—	1.130	17 June 2019
		2,800,000			2,800,000	0.805	20 Sept 2023
Total	**2,400,000**	**2,800,000**	**—**	**-2,400,000**	**2,800,000**		
B.M. Giannetti	1,440,000			-1,440,000	—	1.130	17 June 2019
		1,600,000			1,600,000	0.805	20 Sept 2023
Total	**1,440,000**	**1,600,000**	**—**	**-1,440,000**	**1,600,000**		
R. Wright	1,000,000		-1,000,000		—	0.355	28 Oct 2020
	4,000,000		-1,000,000		3,000,000	0.209 - 1.130	25 May 2021
Total	**5,000,000**	**—**	**-2,000,000**	**—**	**3,000,000**		
In service: December 31	**8,840,000**	**4,400,000**	**(2,000,000)**	**(3,840,000)**	**7,400,000**		

Upon termination, the Company agreed with Mr. R. Wright that all granted options of Mr. R. Wright remain exercisable until their expiry.

Long Term Incentive Plan

	Year	Granted	Settled	Forfeited	Not vested	Reserved at December 31, 2020
S. de Vries	2020	—	—	—	—	—
	2019	201,050	—	—	—	201,050
	2018	130,131	—	—	—	130,131
	2017	657,902	(657,902)	—	—	—
B.M. Giannetti	2020	—	—	—	—	—
	2019	131,331	—	—	—	131,331
	2018	85,005	—	—	—	85,005
	2017	429,762	(429,762)	—	—	—
R. Wright	2020	—	—	—	—	—
	2019	125,476	—	—	—	125,476
	2018	81,215	—	—	—	81,215
	2017	410,599	(410,599)	—	—	—
Total	**2020**	**—**	**—**	**—**	**—**	**—**
	2019	**457,857**	**—**	**—**	**—**	**457,857**
	2018	**296,351**	**—**	**—**	**—**	**296,351**
	2017	**1,498,263**	**(1,498,263)**	**—**	**—**	**—**

Upon termination, the Company agreed that Mr. R. Wright will continue to participate in each Long-Term Incentive Plan for which he has already been granted shares, but not in the 2020 plan or beyond regardless of grant date.

Loans or guarantees

During the year 2020, no loans or guarantees have been granted to former members of the Board of Management. No loans or guarantees to members of the former Board of Management were outstanding at 31 December 2020.

24. BOARD OF DIRECTORS

Per 11 December 2020, the Company changed its governance structure from a two-tier model, featuring a Board of Management acting under the supervision of a separate Supervisory Board, to a one-tier board model, with a unitary Board of Directors consisting of one or more Executive Directors and one or more Non-Executive Directors.

The Board of Directors as a collective is charged with managing the Company's affairs and would be responsible for the general course of affairs of the Company, including the Company's strategy and financial policy. The Executive Directors would manage the day-to-day business and operations of the Company and would implement the Company's strategy, supported by the Executive Committee chaired by the Chief Executive Officer. The Non-Executive Directors would focus on the supervision on the policy and functioning of the performance of the duties by the Executive Directors and the Company's general state of affairs.

Mr S. de Vries has become the Company's sole Executive member of the Board of Directors and is continuing to be the Chief Executive Officer.

As per December 11, 2020, the Board of Directors has the following members:

Mr. P. Sekhri	Chair of the Board of Directors and Non-Executive Board Member	
Ms D. Jorn	Vice Chair of the Board of Directors and Non-Executive Board Member	
Mr. A. de Winter	Non-Executive Board Member	
Mr J.B. Ward	Non-Executive Board Member	
Ms B. Yanni	Non-Executive Board Member	Appointed Appointed 11 December 2020
Mr M. Pykett	Non-Executive Board Member	Appointed Appointed 11 December 2020
Mr S. de Vries	Executive Board Member and Chief Executive Officer	

Per 20 November 2020, the Vice-Chair, Juergen Ernst retired from the Board of Supervisory Directors (BOSD).

Non-Executive members Board of Directors

Remuneration

The remuneration of the Non-Executive members of the Board of Directors and / or of the former Supervisory Board of Directors (up to 11 December 2020) was based on the position an individual had in the Board of Directors (BOD) or in the former Board of Supervisory Directors (BOSD), the Audit Committee (AC) and the Remuneration Committee (RC).

For 2019 the annual compensation of the Supervisory Board of Directors was as follows:

Responsibility	Cash in Euro's
Chair of Supervisory Board of Directors	50.000 per annum
Member of Supervisory Board of Directors	30.000 per annum
Chair Audit Committee	9.000 per annum
Member Audit Committee	3.000 per annum
Chair Remuneration Committee	6.000 per annum
Member Remuneration Committee	3.000 per annum
Chair Governance Committee	No remuneration
Member Governance Committee	No remuneration

An additional compensation of €1,000 per day is paid in case of extraordinary activities.

From 1 January 2020 onwards, the remuneration of the Non-Executive members of the Board of Directors is as follows:

Responsibility	Cash in Euro's	Ordinary shares in Euro's *
Chair of the Board of Directors	65.000 per annum	40.000 per annum
Non-Executive Director	45.000 per annum	30.000 per annum
Chair Audit Committee	9.000 per annum	
Member Audit Committee	3.000 per annum	
Chair Remuneration Committee	6.000 per annum	
Member Remuneration Committee	3.000 per annum	
Chair Governance Committee	6.000 per annum	
Member Governance Committee	3.000 per annum	

**) All shares to be valued at the 20 day VWAP preceding the Annual General Meeting of Shareholders, without further restrictions or grant.*

An additional compensation of €1,000 per day in case of extraordinary activities, as determined by the Chair of the Board of Directors

Compensation of the Non-Executive members of the Board of Directors and / or of former members of the Supervisory Board of Directors for 2020 and 2019 was as follows:

Amounts in € '000	Year	BOSD / BOD	AC	RC	GC	Share-Based Payment	Total
P. Sekhri	2020	65	—	—	—	52	**117**
	2019	50	—	—	—	33	**83**
Ms D. Jorn *	2020	45	3	6	—	35	**89**
	2019	20	2	4	—	5	**31**
J.H.L. Ernst ***	2020	41	3	3	3	37	**87**
	2019	36	3	3	—	26	**68**
J.B. Ward	2020	45	—	3	6	40	**94**
	2019	36	—	3	—	27	**66**
A. de Winter	2020	45	9	—	3	40	**97**
	2019	36	9	—	—	28	**73**
J. Egberts **	2020	—	—	—	—	4	**4**
	2019	15	—	1	—	—	**16**
B. Yanni ****	2020	31				21	**52**
	2019	—	—	—	—	—	—
M. Pykett *****	2020	31	—	—	—	21	**52**
	2019	—	—	—	—	—	—
Total	**2020**	**303**	**15**	**12**	**12**	**250**	**592**
	2019	**193**	**14**	**11**	**—**	**119**	**337**

* Ms D. Jorn was appointed on 22 May 2019

** Mr. J. Egberts retired from the BOSD at 22 May 2019

*** Mr.J.H.L Ernst retired from the BOSD at November 23, 2020

**** Mrs. B. Yanni was appointed on 11 December 2020

*****Mr. M. Pykett was appointed on 11 December 2020

Shares, options and warrants

Members of the former Board of Supervisory Directors did not participate in an option plan. In 2020 no LTIP shares were granted. 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 Non-Executive members of the Board of Directors and / or of the former Board of Supervisory Directors:

Amounts in € '000	Year	Granted	Settled	Forfeited	Not vested	Reserved at December 31, 2020
J.H.L. Ernst	2020		—	—	—	—
	2019	40.000	—	(40.000)	—	—
	2018	25.000	—	(25.000)	—	—
	2017	125.000	(125.000)	—	—	—
J.Blaak	2020	—	—	—	—	—
	2019	—	—	—	—	—
	2018	—	—	—	—	—
	2017	100.000	—	(100.000)	—	—
J.B. Ward	2020		—	—	—	—
	2019	35.000	—	—	—	35.000
	2018	25.000	—	—	—	25.000
	2017	125.000	(125.000)	—	—	—
A. de Winter	2020		—	—	—	—
	2019	40.000	—	—	—	40.000
	2018	25.000	—	—	—	25.000
	2017	125.000	(125.000)	—	—	—
P. Sekhri	2020		—	—	—	—
	2019	50.000	—	—	—	50.000
	2018	30.000	—	—	—	30.000
	2017	150.000	(150.000)	—	—	—
D. Jorn	2020		—	—	—	—
	2019	40.000	—	—	—	40.000
J. Egberts	2020	—	—	—	—	—
	2019	—	—	—	—	—
	2018	20.000	—	(20.000)	—	—
	2017	100.000		(100.000)	—	—
B. Yanni	2020	—	—	—	—	—
M. Pykett	2020	—	—	—	—	—
Total	**2020**	**—**	**—**	**—**	**—**	**—**
	2019	**205.000**	**—**	**(40.000)**	**—**	**165.000**
	2018	**125.000**	**—**	**(45.000)**	**—**	**80.000**
	2017	**725.000**	**(525.000)**	**(200.000)**	**—**	**—**

Shares

At 31 December 2020, the Non-Executive members of the Board of Directors held the following numbers of shares:

As at December 31, 2020	Ordinary shares	Certificates of shares
P. Sekhri	110,000	230,000
A. de Winter	213,125	—
J.B. Ward	328,313	—
Ms. D. Jorn	—	—
Ms. B. Yanni	—	—
M. Pykett	—	—
Total	**651,438**	**230,000**

All shares held by the Non-Executive members of the Board of Directors are unrestricted.

Loans or guarantees

During the year 2020, the Company has not granted loans or guarantees to any member of the Non- Executive members of the Board of Directors or former members of the Board of Supervisory Directors. No loans or guarantees to Non-Executive members of the Board of Directors or former members of the Board of Supervisory Directors were outstanding at 31 December 2020.

Executive members Board of Directors

Remuneration

The General Meeting of Shareholders of the Company approved on 11 December 2020 (i) the new Long-Term Incentive Program for executive members of the Board of Directors of Pharming Group N.V. (as described in note 24), and (ii) the one-off transition arrangement for the Chief Executive Officer, for the implementation of the new Long Term Incentive Program (as described in note 24). The Long-Term Incentive Program is subject to the terms and conditions as included in the Remuneration Policy for the Board of Directors dated 11 December 2020.

From 11 December and onwards, the Executive Board Member is entitled to the following remuneration packages:

I. Fixed remuneration: annual base salary;
II. Variable remuneration: the variable remuneration components are (a) an annual bonus in cash as a percentage of the fixed component (short-term incentive) and (b) a (share- based) long-term incentive;
III. Others: contribution pension premiums, travel allowance and holiday allowance.

The one-off transition arrangement as identified herein above provides for (i) the grant to the Chief Executive Officer, of a total number of 4,200,000 shares for the financial year 2020, and (ii) the vesting of these shares in three annual tranches in the first quarters of 2021, 2022 and 2023, respectively.

On 21 December 2020, the Chief Executive Officer signed a waiver of all (contractual and other) rights and entitlements under the existing share option and LTIP plans of the Company for the year 2020.

On 21 December 2020, the Board of Directors resolved to execute the LTI One-Off Arrangement and, accordingly, to grant to the Chief Executive Officer the total number of 4,200,000 shares for the financial year 2020, subject to the terms and conditions as set forth herein above.

For compensation 2020 and 2019, number of shares held at 31 December 2020, an overview of movements of options held in 2020 and an overview of the Long Term Incentive plan up to 31 December 2020 of the Executive members of the Board of Directors, reference is made to note 23.

Loans or guarantees

During the year 2020, no loans or guarantees have been granted to the Executive members of the Board of Directors. No loans or guarantees to the Executive member of the Board of Directors were outstanding at 31 December 2020.

The Executive member of the Board of Director is the sole statutory director.

25. RELATED PARTY TRANSACTIONS

Related parties' disclosure relates mainly to key management compensation and to transactions with the associated company Bioconnection B.V.

On 11 December 2020, the Company has changed its governance structure from a two-tier model to a one tier board model. Reference is made to note 23 and 24 for further explanation. Accordingly, key management includes members of the Board of Directors (and / or former members of the Board of Management and former members of the Board of Supervisory Directors of Pharming):

Amounts in € '000	2020	2019
Salaries and other short-term employee benefits	2,359	2,132
Post-employment benefits	181	165
Share-based compensation	2,486	1,009
Total	**5,026**	**3,306**

All direct transactions with members of the Board of Directors and the former Board of Management and the former Board of Supervisory Directors have been disclosed in notes 23 and 24 of these financial statements. At 31 December 2020, the Company had a payable balance of a total amount of €nil (2019: €nil) to members of the former Board of Management and to the Board of Directors.

Related party transactions with Bioconnection B.V. are in the ordinary course of that company's fill & finish business and amounted to €2.6 million (2019: €2.2 million since the effective date of the investment of 9 April 2019). At 31 December 2020, the Company owed a balance of €0.1 million (2019: €0.1 million) to Bioconnection for fill & finish services supplied. In addition, accrued expenses at the balance sheet date included €nil (2019: €0.3 million) in respect of batches of finished vials produced in 2020.

26. OTHER FINANCIAL LIABILITIES, INCLUDING BUSINESS COMBINATIONS AND CONTINGENT CONSIDERATION

Other Financial Liabilities:

Amounts in € '000	2020	2019
Current		
Contingent consideration	20,357	17,835
Total current	**20,357**	**17,835**
Non-current		
Contingent consideration	—	17,081
Financial guarantee contracts	173	201
Total non-current	**173**	**17,282**
Total	**20,530**	**35,117**

In 2016 Pharming completed the acquisition of all North American commercialization 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 one year. Accordingly, the Company has decreased the fair value of the contingent consideration from €34.9 million at year-end 2019 to €20.4 million at year-end 2020, by eliminating the payment of the second milestone of €18.1 million in first quarter of 2020 and by taking a charge to the income statement of €3.3 million (2019: €2.9 million). See also note 8.

The increased fair value of the contingent consideration reflects the increased probability of achieving the last milestone, which will be paid in second quarter of 2021.

27. COMMITMENTS AND CONTINGENCIES

Material agreements

At the end of 2020 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 €17.8 million (2019: €26 million), of which €15.3 million relates to 2021 and €2.5 million relates to 2022. 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 €2.1 million. This is expected to be paid during 2021, although a small portion may be paid in 2022 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.

Pharming has committed itself to building a new facility to expand the Company's downstream processing capacity for its lead product, RUCONEST® (recombinant C1 esterase inhibitor (rhC1INH)). The facility will include the purification, filtration and concentration of the starting material. Construction is planned to begin mid-2021 at Pivot Park in Oss, the Netherlands. Pivot Park is also the location of BioConnection B.V., Pharming's contracted fill and finish facility, in which Pharming holds a minority stake. At Pivot Park, Pharming will move into a new, sustainable, five-story building with a total floor space of approximately 4,000 m^2. The building has been specially designed for the Company and is located in a prominent position on the site. Pharming's arrival at Pivot Park will create at least 40 new jobs.

28. 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. Up to 11 December 2020, the former Board of Management was responsible for the management of currency, interest, credit and liquidity risks and as such ultimately responsible for decisions taken in this field. From 11 December 2020 onwards the Board of Directors 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, up to 11 December 2020, the former Board of Management's strategy is to achieve a capital structure which takes into account the best interests of all stakeholders. From 11 December onwards the Board of Directors' 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 profit 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. In 2020 repayments and interest payments of the loans were made in US dollar. Some direct payments of US activities are carried in US dollar through the Dutch entities. At 31 December 2020 the Group's cash and cash equivalents, including restricted cash, amounted to €168.3 million. This balance consists of cash assets denominated in euros for a total amount of €10.1 million and cash assets in US dollars for a total amount of US$194.3 million or €158.2 million (applying an exchange rate EUR/US$ at 31 December 2020 of 1.228). The US dollar cash balance will be used for the commercialization activities of the US organization 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 fully repaid in 2020. At the end of 2020 the Group has a contingent consideration of US$25.0 million or €20.4 million (2019: €34.9 million) as a liability on the balance sheet. Cash and cash equivalents (including restricted cash) , accounts receivables and inventories denominated in US$ amounted in total US$216.5 million (€176.3 million), respectively US$27.1 million (€22.1 million) for the contingent consideration and accounts payables denominated in US$. Pharming performed a sensitivity analysis by applying an adjustment to the spot rate at year-end. As the balance of the cash and cash equivalents (including restricted cash) accounts receivables, inventories, contingent consideration and accounts payables, denominated in US dollars, at year-end is US$189.4 million, a 10% strengthening or weakening of the euro versus US dollar would have an impact of €15.4 million on the Group's gain (weakening of the euro) or loss (strengthening of the euro).

In 2019 there was a natural hedge between receipts from US sales denominated in USD and the repayment of the Orbimed loan in USD. The fact that US sales are increasing in 2020, and the fact that the repayment of the Orbimed loan, denominated in USD, has been done in 2020, means that there is no natural hedge anymore between those amounts. The Company is making plans for the introduction of an integrated treasury policy 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 minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease liabilities. As the Orbimed loan has been fully paid back, and the interest rate on the convertible bond is a fixed percentage, Pharming concluded that the total risk on interest is not material.

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. More information on the Convertible Bonds due 2025 can be found in note 18.

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 2020 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 2020 amounted to €168.3 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 2020 amounted to €29.2 million. 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 2020, 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 2020. Other financial liabilities comprise the contingent consideration provision for the expected future milestone due to Bausch Health as explained further in note 26, together with the fair value of financial guarantees provided to BioConnection as explained in note 13.

Maturity profile of financial liabilities:

Amounts in €'000	2021	2022	2023	2024	2025 and onwards	Total	Prior year total
Trade and other payables	38,816	—	—	—	—	38,816	36,247
Derivative financial liabilities	147	—	—	—	—	147	268
Loans and borrowings	—	—	—	—	—	—	49,601
Other financial liabilities	20,530	—	—	—	—	20,530	40,269
Lease Liabilities	2,109	1,865	1,593	1,231	3,799	10,597	10,215
Convertible Bonds	3,750	3,750	3,750	3,750	126,875	141,875	—
Total	**65,352**	**5,615**	**5,343**	**4,981**	**130,674**	**211,965**	**136,600**

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 2020 and 2019:

	2020		2019	
Amounts in € '000	Level 3	Total	Level 3	Total
Derivative financial liabilities	147	147	268	268
Other financial liabilities	173	173	35,117	35,117
Balance at December 31	**320**	**320**	**35,385**	**35,385**

The liabilities measured at fair value have significantly decreased as a result of the fact that all milestones of the contingent consideration per 31 December 2020 have been met. Accordingly the contingent consideration is valued at amortized cost per 31 December 2020.

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:

	2020	2019
Expected time to maturity of warrants in issue	0.9 years	1.9 years
Volatility	53%	58%
Risk-free interest rate	-0.53%	-0.30%

As described in note 2.5 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:

	2020		2019	
Amounts in € '000	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents, including restricted cash	168,293	168,293	68,567	68,567
Trade and other receivables	29,236	29,236	25,737	25,737
Liabilities:				
Loans and borrowings	—	—	45,590	45,590
Convertible Bond	123,588	123,588	—	—
Lease Liabilities	8,300	8,300	6,309	6,309
Other financial liabilities	20,530	20,530	35,117	35,117
Trade and other payables	38,816	38,816	36,247	36,247
Derivative financial liabilities	147	147	268	268

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 table sets out an analysis for each of the period presented of the net position of Loans and borrowings, and Cash and cash equivalents, showing the remaining undiscounted contractual amounts due including nominal interest.

Amounts in € '000	2020	2019
Cash and cash equivalents	167,068	66,299
Loans and borrowings - repayable within one year	(1,661)	(49,601)
Loans and borrowings - repayable after one year	(121,927)	
Net debt	**43,480**	**16,698**
Cash and cash equivalents	167,068	66,299
Gross debt - fixed interest rates	(123,588)	(49,601)
Gross debt - variable interest rates	—	—
Net debt	**43,480**	**16,698**

Reconciliation of liabilities arising from financing activities:

Amounts in €'000	2019	Cashflows	Non - Cash changes						2020
			Acquisition	Interest Expense Accrued	Amortized costs	Fair Value Changes	Other		
Loans and borrowings	45,590	(50,088)	0	346	449	—	3,703	*	—
Convertible Bond	—	120,807	—	3,536	650	—	(1,405)	**	123,588
Other financial liabilities	35,117	(18,136)	—	—	—	3,249	300	***	20,530
Lease Liabilities	6,309	(1,913)	3,308	596	—	—	—		8,300
Derivative financial liabilities	268	—	—	—	—	(121)	—		147
Total liabilities from financing activities	**87,284**	**50,670**	**3,308**	**4,478**	**1,099**	**3,128**	**2,598**		**152,565**

** Represents for the majority exit fees paid.*
*** Represents value conversion rights of convertible bonds as reflected in the consolidated Shareholders' Equity.*
**** Represents foreign exchange result on the milestone payment.*

29. EARNINGS PER SHARE AND 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 2020 and 2019, the basic and diluted profit (loss) per share is:

	2020	2019
Net profit (loss) attributable to equity owners of the parent (in €'000)	33,035	36,195
Weighted average shares outstanding	636,268,929	626,315,013
Basic profit (loss) per share (in €)	0.051	0.058
Weighted average diluted shares outstanding	682,737,280	673,519,995
Diluted profit per share (in €)	0.048	0.054

The diluted net profit used in the calculation of dilutive profit per share amounts to €33.0 million. Difference between the weighted average shares outstanding and the weighted average diluted shares outstanding used for basic profits calculations per share relates to options, warrants and LTIP. The 60.702.687 average shares related to the convertible bonds are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

Diluted shares

The composition of the number of shares and share rights outstanding as well as authorized share capital as per 31 December 2020 and the date of these financial statements is provided in the following table.

Movements of shares and other instruments between 31 December 2020 and 6 April 2021 are shown in the table below:

	December 31, 2020	Shares issued	Shares reserved	6 April 2021
Shares	638,821,619	2,300,290	168,105	641,290,014
Warrants	148,944	(60,915)	—	88,029
Options	50,106,488	(1,217,500)	(300,363)	48,588,625
Convertible bonds	62,412,622	—	—	62,412,622
LTIP	9,979,208	(1,021,875)	(2,837,452)	6,119,881
Issued	**761,468,881**	—	(2,969,710)	**758,499,171**
Available for issue	118,531,119	—	2,969,710	121,500,829
Authorized share capital	**880,000,000**	—	—	**880,000,000**

COMPANY STATEMENT OF INCOME

For the year ended 31 December

Amounts in € '000	notes	2020	2019
Revenues	3	**25,399**	**17,343**
Operating expenses	4	**(25,682)**	**(17,676)**
Operating result		**(283)**	**(333)**
Fair value gain (loss) on revaluation derivatives		60	(209)
Other finance income and expenses	15	(20,765)	(13,919)
Finance cost, net		**(20,705)**	**(14,128)**
Result before tax		**(20,988)**	**(14,461)**
Income tax expense	7	(7,582)	(8,044)
Result before share in result of investments		**(28,570)**	**(22,505)**
Share in result of investments	11	55,165	53,242
Profit for the year	10	**26,595**	**30,737**

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	2020	2019
Non-current assets			
Intangible assets	5	27,432	19,171
Property, plant and equipment	6	841	866
Right-of-use assets	6	2,618	2,756
Deferred tax asset	7	19,237	26,665
Financial assets	11	147,714	88,823
Restricted Cash	9	166	367
Total non-current assets		**198,008**	**138,648**
Current assets			
Trade and other receivables	8	2,782	1,571
Restricted cash	9	200	—
Cash and cash equivalents	9	104,122	44,098
Total current assets		**107,104**	**45,669**
Total assets		**305,112**	**184,317**
Equity			
Share capital		6,388	6,313
Share premium		396,799	392,266
Legal reserves		4,341	3,718
Accumulated deficit		(258,151)	(291,178)
Shareholders' equity	10	**149,377**	**111,119**
Non current Liabilities			
Convertible bonds	12	121,927	—
Lease liabilities	6	2,337	2,323
Total non-current liabilities		**124,264**	**2,323**
Current Liabilities			
Loans and borrowings	12	—	45,590
Convertible bonds	12	1,661	
Derivative financial liabilities		147	268
Taxes payable		313	134
Intercompany payables		23,666	21,311
Trade and other payables	13	5,237	3,070
Lease liabilities	6	447	502
Total current liabilities		**31,471**	**70,875**
Total shareholders' equity and liabilities		**305,112**	**184,317**

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 and intercompany receivables and payables. Investments in subsidiaries are accounted for using the equity method. Intercompany receivables and payables are stated at nominal value.

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 recognized, 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.

3. REVENUES

The revenues of the Company relate to intercompany charges to Group Companies. Increase is due to increased operating expenses.

4. EXPENSES BY NATURE

Operating expenses in 2020 and 2019 were as follows:

Amounts in € '000	2020	2019
Direct operating expenses	6.505	3.176
Employee costs (excl. Share based compensation)	8.868	7.007
Facilities and infrastructure	1.196	1.585
Share-based compensation	7.356	4.449
Depreciation and amortization charges	1.312	580
Other	445	879
	25.682	**17.676**

Direct operating costs increased mainly as a result of increased audit related costs and additional advisory costs in connection with our listing on the Nasdaq. Employee costs increased due to the increased number of employees. Share-based compensation costs in the amount of €7.4 million and €4.4 million respectively, as disclosed in note 22 of the consolidated financial statements, include those related to members of the, Board of Directors, the former Board of Management and employees. Depreciation and amortization costs increased due to amortization of the re-acquired sales rights in Europe from Sobi of €0.6 million.

Employee information

All employees of Pharming Group N.V. in both 2020 and 2019 were based in the Netherlands and in France. The weighted average number of full-time equivalent employees in 2020 was 47 (2019: 35). The weighted average number of employees working outside the Netherlands was 14 (2019: 13).

5. INTANGIBLE ASSETS

Amounts in € '000	Development costs	Novartis License	Sobi	Total
At cost	469	—		469
Accumulated:				
Amortization charges	—	—		—
Impairment charges	—	—		—
Carrying value at January 1, 2019	**469**	**—**		**469**
Amortization charges	—	—		—
Impairment charges	—	—		—
Capitalized development costs	—	—		—
Assets acquired	—	18,702		18,702
Movement 2019	**—**	**18,702**		**18,702**
At cost	469	18,702		19,171
Accumulated:				
Amortization charges	—	—		—
Impairment charges	—	—		—
Carrying value at December 31, 2019	**469**	**18,702**		**19,171**
Amortization charges	—	—	(625)	(625)
Impairment charges	—	—		—
Capitalized development costs	—	1,386		1,386
Assets acquired	—		7,500	7,500
Movement 2020	**—**	**1,386**	**6,875**	**8,261**
At cost	469	20,088	7,500	28,057
Accumulated:				
Amortization charges	—	—	(625)	(625)
Impairment charges	—	—		—
Carrying value at December 31, 2020	**469**	**20,088**	**6,875**	**27,432**

Novartis license 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 paid in 2019 and the 2019 ongoing development costs for the registration-enabling studies of €0.8 million. In 2020 the ongoing development costs for the registration-enabling studies amount to €1.4 million. More information is available in note 10 of the consolidated financial statements.

On 29 December 2019 Pharming and Swedish Orphan International AB ("Sobi") mutually agreed and terminated the distribution agreement by means of the termination, settlement and services agreement, reference is made to note 10 of the consolidated financial statements.

6. TANGIBLE ASSETS

6.1. 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	722	922	2,391
Accumulated depreciation	(747)	(358)	(611)	(1,716)
Carrying value at January 1, 2019	**—**	**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 December 31, 2019	**—**	**351**	**516**	**867**
Investments	—	102	181	283
Depreciation charges	—	(124)	(185)	(309)
Disposals	(407)	(9)	(28)	(444)
Accumulated depreciation disposals	407	9	28	444
Movement 2020	**—**	**(22)**	**(4)**	**(26)**
At cost	340	948	1,151	2,439
Accumulated depreciation	(340)	(619)	(639)	(1,598)
Carrying value at December 31, 2020	**—**	**329**	**512**	**841**

6.2. LEASES

This note provides information for leases where the Company is a lessee.

i. Amounts recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right of use assets

Amounts in € '000	Buildings	Cars	Total
Carrying value at January 1, 2019	**672**	**8**	**680**
Investments	2,239	77	2,316
Divestment	—	—	—
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 December 31, 2019	**2,687**	**69**	**2,756**
Investments	—	264	264
Divestment	—	(24)	(24)
Depreciation charges	(318)	(60)	(378)
Movement 2020	**(318)**	**180**	**(138)**
At cost	2,911	325	3,236
Accumulated depreciation	(542)	(76)	(618)
Carrying value at December 31, 2020	**2,369**	**249**	**2,618**

Lease liabilities

Amounts in € '000	2020	2019
Current	447	502
Non-current	2,337	2,323
Balance at December 31	**2,784**	**2,825**

ii. Amounts recognized in the statement of income

The statement of income shows the following amounts relating to leases:

Amounts in € '000	2020	2019
Buildings	(318)	(224)
Cars	(60)	(16)
	(378)	**(240)**
Interest expense	(306)	(212)

7. INCOME TAX

Deferred income tax

The net balance of deferred tax assets and liabilities is specified as follows:

Amounts in € '000	2020	2019
Total deferred tax assets	20,175	27,687
Total deferred tax liabilities	(938)	(1,022)
Total net balance of deferred tax assets and liabilities	**19,237**	**26,665**

The significant components and annual movements of deferred income tax assets as of 31 December, 2020 and 1 January, 2020, are as follows:

Amounts in € '000	2020	2019
Deferred tax assets		
Intangible fixed assets	14,417	12,514
Short term assets / liabilities	1,057	1,072
Other financial liabilities	—	8,187
Tax losses	4,701	5,914
Total deferred tax assets	**20,175**	**27,687**

Amounts in € '000	Intangible fixed assets	Short term assets / liabilities	Other financial liabilities	Tax losses	Total
At January 1, 2019	**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 December 31, 2019	**12,514**	**1,072**	**8,187**	**5,914**	**27,687**
(Charged)/credited					
- to profit or loss	1,903	(15)	(8,187)	(1,213)	(7,512)
- to other comprehensive income	—	—	—		—
At December 31, 2020	**14,417**	**1,057**	**—**	**4,701**	**20,175**

For more information on deferred taxes see note 9 to the consolidated financial statements.

The component and annual movement of deferred income tax liabilities as of 31 December, 2020 and 1 January, 2020 are as follows:

Amounts in € '000	2020	2019
Deferred tax liabilities		
Tangible fixed assets	(938)	(1,022)
Total deferred tax liabilities	**(938)**	**(1,022)**

Amounts in € '000	Tangible fixed assets	Other liabilities	Total
At January 1, 2019	**—**	**(86)**	**(86)**
(Charged)/credited			
- to profit or loss	(1,022)	86	(936)
- to other comprehensive income	—	—	—
At December 31, 2019	**(1,022)**	**—**	**(1,022)**
(Charged)/credited			
- to profit or loss	84		84
- to other comprehensive income	—	—	—
At December 31, 2020	**(938)**	**—**	**(938)**

Income tax expenses

During 2018, the Company recognized 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 2020, the Company was liable to a tax charge this year of €7.6 million, which was set off against the deferred tax asset previously reserved.

8. TRADE AND OTHER RECEIVABLES

Amounts in € '000	2020	2019
Prepaid expenses	259	496
Value added tax	848	686
Other receivables	493	323
Taxes and Social Securities	1,182	66
Balance at December 31	**2,782**	**1,571**

Trade and other receivables at 31 December 2020 are substantially short-term in nature.

9. RESTRICTED CASH, CASH AND CASH EQUIVALENTS

Amounts in € '000	2020	2019
Restricted cash non-current	166	367
Restricted cash current	200	—
Cash and cash equivalents	104,122	44,098

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 2020 is jointly liable for commitments relating to bank guarantees from other group companies for an aggregate amount of €0.41 million with a maturity of more than one year after the end of the reporting year.

10. SHAREHOLDERS' EQUITY

The Company's authorized share capital amounts to €8.8 million and is divided into 880,000,000 ordinary shares with a nominal value of €0.01 each. All 638,821,619 shares outstanding at 31 December 2020 have been fully paid-up.

Movements in shareholders' equity for 2020 and 2019 were as follows:

Amounts in € '000	2020	2019
Balance at January 1	**111,119**	**73,649**
Net profit	26,595	30,737
Foreign currency translation	(17)	(39)
Total comprehensive income	**26,578**	**30,698**
Income tax benefit from excess tax deductions related to share-based payments	2,066	—
Share-based compensation	5,721	3,825
Bonuses settled in shares	45	6
Shares issued for cash	—	—
Warrants issued and exercised	79	236
Conversion rights of convertible bonds	1,405	—
Options exercised	2,364	2,705
Total transactions with owners	**11,680**	**6,772**
Balance at December 31	**149,377**	**111,119**

For a detailed movement schedule of equity for the years 2020 and 2019, please refer to the consolidated statement of changes in equity.

In 2019, the difference between parent company equity and equity as per the consolidated financial statements consisted of the shareholder's deficit of €6.4 million of Pharming Healthcare, Inc.

In 2019, the investment in Pharming Healthcare Inc. was included in the consolidated financial statements at its negative equity value €6.4 million, while in the parent company financial statements the investment in Pharming Healthcare, Inc. was valued at nil.

In 2020, Pharming Healthcare Inc, as included in the consolidated financial statements has a positive equity value. Accordingly the equity value of Pharming Healthcare Inc., as included in the 2020 consolidated financial statements equals the investment value in the 2020 company financial statements.

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	2020	2019
Consolidated financial statements	149,377	104,679
Negative equity Pharming Healthcare, Inc.	—	6,440
Parent company financial statements	**149,377**	**111,119**

The difference in net result between consolidated and parent company financial statements can be specified as follows:

Amounts in € '000	2020	2019
Consolidated financial statements	33,035	36,195
Net result Pharming Healthcare, Inc.	(6,440)	(5,458)
Parent company financial statements	**26,595**	**30,737**

11. FINANCIAL ASSETS

Movements of the provision for investments for the years 2020 and 2019 were as follows:

Amounts in € '000	2020	2019
Balance at January 1	**(124,804)**	**(178,007)**
Share in results of investments	61,601	58,700
Income tax benefit from excess tax deductions related to share-based payments	2,066	—
Revaluation investment Pharming Healthcare, Inc.	(6,440)	(5,458)
Exchange rate effects	(17)	(39)
Balance at December 31	**(67,594)**	**(124,804)**

At year-end 2020 and 2019, the provision for subsidiaries was set off against intercompany receivable balances in Pharming Group N.V.:

Amounts in € '000	2020	2019
Provision for investments	(67,594)	(124,804)
Receivable from group companies	215,308	213,627
Net financial assets	**147,714**	**88,823**

The investment in Pharming Healthcare, Inc. is in 2019 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 2020 Pharming Healthcare, Inc. had a shareholder's equity of €5.2 million (2019: a deficit of €6.4 million).

Pharming Healthcare, Inc. realized a net profit of €9.6 million in 2020 (2019 - €5.5 million).

See note 2.3 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%
Pharming Americas B.V.	The Netherlands	100%
Pharming Intellectual Property B.V.	The Netherlands	100%
Pharming Technologies B.V.	The Netherlands	100%
Broekman Instituut B.V.	The Netherlands	100%
Pharming Healthcare, Inc.	The United States	100%
ProBio, Inc.	The United States	100%

12. CONVERTIBLE BONDS AND LOANS AND BORROWINGS

The backgrounds of the convertible bonds and loans and borrowings have been provided in note 18 and 19 respectively of the consolidated financial statements.

13. TRADE AND OTHER PAYABLES

Amounts in € '000	2020	2019
Accounts payable	1,541	691
Other payables	3,696	2,379
Balance at December 31	**5,237**	**3,070**

14. RELATED PARTY TRANSACTIONS

Related parties' disclosure relates mainly to transactions with group companies and the associate company Bioconnection B.V. and with the key management of Pharming, up to11 December 2020 being represented by the members of the former Board of Management and the former Board of Supervisory Directors. For the change in governance structure reference is made to note 23 and 24 of the consolidated financial statements.

Related party transactions with group companies consist of recharged costs for €25.4 million and are recognized as revenues. These transactions take place in the ordinary course of business and are at arm's length.

Related party transactions with Bioconnection B.V. are in the ordinary course of that company's fill & finish business and amounted to approximately €2.6 million (2019: €2.2 million since the effective date of the investment of 9 April, 2019).

All direct transactions with members of the Board of Management up to 11 December 2020 (per 11 December 2020 replaced by the Board of Directors) and Board of Directors have been disclosed in notes 23 and 24 of the consolidated financial statements. At 31 December 2020, the Company owed €nil (2019: €nil) to members of the Board of Directors with respect to their compensation.

15. OTHER FINANCIAL INCOME AND EXPENSES

Other financial income and expenses relates mainly to foreign currency losses €12.3 million (2019: €1.7 million), interest paid on the convertible bonds and the loan from Orbimed during 2020 of €4.5 million (2019: €11.3 million), loan settlement in 2020 of €3.8 million (see note 8 of the consolidated financial statements), together with interest on leases of €0.3 million (2019: €0.7 million).

16. COMMITMENTS AND CONTINGENCIES

The backgrounds of the commitments and contingencies have been provided in note 27 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. DISTRIBUTION OF PROFIT

Appropriation of result

Article 25.1 of the articles of association reads as follows: 'the Board of Directors shall annually determine the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.'

The Board of Directors proposes to forward the net profit for the year 2020 of €26.6 million to the accumulated deficit.

Leiden, 6 April 2021

The Board of Directors:

Sijmen de Vries – Executive member of the Board of Directors, President and Chief Executive Officer

The original copy has been signed by the Board of Directors

Deloitte.

Independent auditor's report

To the shareholders and the Board of Directors of Pharming Group N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 INCLUDED IN THE ANNUAL REPORT

Our opinion
We have audited the financial statements for the year ended December 31, 2020 of Pharming Group N.V. (“the company”), based in Leiden, the Netherlands. The financial statements comprise 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.as at December 31, 2020, and of its result and its cash flows for the year ended December 31, 2020 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, 2020, and of its result for the year ended December 31, 2020 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, 2020.
2. The following statements for the year ended December 31, 2020: the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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, 2020.
2. The company statement of income for the year ended December 31, 2020.
3. The notes comprising a summary of the significant 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 2.040.000. 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 1.188.000.

We agreed with the Board of Directors that misstatements in excess of EUR 102.000, 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 engagement 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 analytical procedures at other components.

Scope of fraud and non-compliance with laws and regulations within our audit
In accordance with the 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. Non-compliance with law and regulation may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Consideration of fraud

In identifying potential risks of material misstatement due to fraud, we obtained an understanding of the company and its environment, including the company’s internal controls. We evaluated the company’s fraud risk assessment and made inquiries with the Board of Directors, those charged with governance and with others within the company. We evaluated several fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud. We involved our forensic specialists in our risk assessment and in determining the audit response.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls, including evaluating whether there was evidence of bias by the Board of Directors and the Executive Committee, which may represent a risk of material misstatement due to fraud.

As part of our audit procedures to respond to these fraud risks, we evaluated the design and implementation of the internal controls relevant to mitigate these risks. We performed substantive audit procedures, including detailed testing of journal entries, evaluating the accounting estimates for bias (including retrospective reviews of prior year’s estimates), review of the supporting documentation in relation to post-closing adjustments. We also incorporated elements of unpredictability in our audit. The procedures described are in line with the applicable auditing standards and are not primarily designed to detect fraud. Our procedures to address fraud risks did not result in a key audit matter.

Consideration of compliance with laws and regulations

We assessed the laws and regulations relevant to the company through discussion with Legal Department, the Board of Directors and reading minutes. We involved our forensic specialists in this evaluation.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered adherence to (corporate) tax law and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and 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. We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, the company 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 there is a risk of non-compliance with the requirements of such laws and regulations. Together with our specialists we identified the specific risk factors applicable to the company. In addition, we considered major laws and regulations applicable to listed companies.

Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on

the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to the company's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to (i) inquiry of the Board of Directors, the Global Business Integrity Officer, Legal Counsel and and others within the company as to whether the company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. (iii) For the specific risk factors identified we performed additional procedures such as obtaining third party documentation and assessing the procedures in place at the company to prevent non-compliance with these laws and regulations.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Because of the characteristics of fraud, particularly when it involves sophisticated and carefully organized schemes to conceal it, such as forgery, intentional omissions, misrepresentation and collusion, an unavoidable risk remains that we may not detect all fraud during our audit.

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 Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

The matters considered as key to our audit are consistent with those identified in prior year with the exception of Valuation and capitalization of Intangible Assets as a whole and First year audit. Different from prior year, no new intangible assets such as licenses or projects were recognized which needed to be evaluated based on the IFRS conceptual framework and IAS 38 except for the termination of the SOBI agreement. Therefore, we have not included a key audit matter for valuation and capitalization of intangibles as a whole but focused on the accounting for the termination agreement with SOBI. Lastly, different from last year, this is not a first year audit. Therefore, this was not included as key audit matter.

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

Revenues and trade and other payables —Rebate Accruals in the U.S.

Description

The company recognized revenues from product sales in the United States (“U.S.”) totaling EUR 177.4 million for the year ended December 31, 2020, and a payable of EUR 12.1 million relating to government and other insurance programs as at December 31, 2020. The sales in the United States are subject to rebates relating directly to customers or to ultimate reimbursement claims from government or insurance payers, which are referred to as gross-to-net adjustments, mainly U.S. Medicaid (“U.S. revenue rebate accrual”). These are accounted for on an estimated basis.

The U.S. revenue rebates related liability involves the use of significant assumptions and judgments in its calculation. These significant assumptions and judgments include historical claims experience, unbilled claims, and claims submission time lags. Given the complexity of this estimate, together with the limited amount of historical data available and judgments necessary to develop this estimate, and the internal control over financial reporting deficiencies identified, auditing this estimate required both extensive audit effort due to the complexity of the estimation and a high degree of auditor judgment when performing auditing procedures and evaluating the results of those procedures .

The company’s disclosures concerning these estimates are included in notes 2.4, 2.5, 5 and 21 to the consolidated financial statements.

How the key audit matter was addressed in the audit

Our audit procedures related to the assumptions and judgments made by the Board of Directors in estimating the U.S. revenue rebate accrual included the following, amongst others:

- We evaluated the appropriateness and consistency of the company’s methods and assumptions used to calculate the U.S. revenue rebate accrual.
- We tested mathematical accuracy of the U.S. revenue rebate accrual calculation.
- We tested significant assumptions and key inputs used to calculate the U.S. revenue rebate accrual, namely, testing rebate claims received during the financial year against source documentation and assessing the reasonableness of the Board of Directors’ forecast of reclaimed vials by comparing to historical claims.
- We evaluated the company’s ability to estimate U.S. revenue rebate accrual accurately by comparing actual amounts incurred for U.S. revenue rebate accrual to historical estimates.
- We created data visualizations to compare recorded U.S. revenue rebates revenue against historic data and followed up on any unusual trends.

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.

Intangible Assets – Termination of SOBI distribution agreement

Description

Prior to January 1, 2020, the license to distribute RUCONEST® in mainly European countries was held by Swedish Orphan Biovitrum International AB (“SOBI”) as a result of a license agreement entered into between the company and SOBI.

On December 29, 2019, the company entered into a contract with SOBI to terminate the distribution agreement by means of the termination, settlement, and services agreement effective as of January 1, 2020 (together “the agreement”). The contract consideration was EUR 7.5 million. The company accounted for the transaction as an acquisition of an intangible asset under IAS 38 – “Intangible Assets” and recognized a re-acquired license amount of EUR 7.5 million. The determination of the accounting treatment of the acquisition required the Board of Directors to use a high degree of judgment in determining whether the transaction should be recognized as an intangible asset (under IAS 38 – “Intangible Assets”) or whether a business was acquired (under IFRS 3 – “Business Combinations”).

Given the determination of the accounting treatment required a high degree of the Board of Directors’ judgment, performing audit procedures to evaluate the reasonableness of these, required a high degree of auditor judgment and an increased extent of effort, including the need to involve our technical accounting specialists.

The company’s disclosures concerning this transaction are included in notes 2.5 and 10 to the consolidated financial statements.

How the key audit matter was addressed in the audit

Our audit procedures related to the judgment in evaluating the applicable accounting standards for the transaction included the following, amongst others:

- We read the applicable contracts and compared the terms to the facts applied by the Board of Directors in its analysis of the accounting treatment.
- We tested the accuracy of the recorded amount, by tracing to contractual terms and payments.
- We read the minutes of the Board of Directors and other communications with SOBI, to assess the assumptions included by the Board of Directors within their determination of the accounting treatment.
- With the assistance of our technical accounting specialists, we evaluated the reasonableness of the Board of Directors’ judgement that the agreement should be accounted for under IAS 38 - “Intangible Assets” instead of IFRS 3 - “Business Combinations” and the compliance of such judgements with the applicable IFRS. Our procedures included verifying whether there were any processes or groups of processes transferred under the agreement and evaluation of the nature of such processes to determine whether these would be deemed substantive. We also evaluated the recognition criteria under IAS 38 - “Intangible Assets” including an assessment as to whether such assets were deemed identifiable and evidence that these would provide future economic benefits.

Our observations

The valuation and capitalization of the intangible assets as per December 31, 2020 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 addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Directors’ Report 2020.
- Remuneration Report 2020.
- Report of the Board of Directors.
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that 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.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Directors’ 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 initially engaged by a resolution at the Annual General Meeting of Shareholders as auditor 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 financial year. For the audit for the year 2020, we were appointed by the General Meeting held on May 20, 2020.

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 the Board of Directors for the financial statements

The Board of Directors 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, and for the preparation of the Report of the Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code . Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors 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 Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors 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 non-executive directors from the Board of Directors are 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 among others:

- 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 Directors.
- Concluding on the appropriateness of the Board of Directors' 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 a 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 the non-executive directors from the Board of Directors 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 Board of Directors 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 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 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, April 6, 2021

Deloitte Accountants B.V.

I.A. Buitendijk

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 organization for the development and manufacturing of injectable (bio)pharmaceutical products.

BLA To commercialize 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.

BOD The Board of Directors.

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 Organizations.

CMO Contract Manufacturing Organization.

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 Organization.

CSIPI China State Institute of Pharmaceutical Industry, a Sinopharm company.

Cytobioteck Privately-owned Bogota, Colombia based specialty healthcare company.

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.

EBIT Earnings before Interest & Tax. Defined as Profit for the year adjusted to exclude Income tax credit (expense) and Financial cost, net

EBITDA Earnings before Interest, Tax, Depreciation & Amortization. Defined as Profit for the year adjusted to exclude Income tax credit (expense), Financial cost, net and Depreciation of Property, plant and equipment and Amortization of Intangible assets.

(Adjusted) EBITDA Defined as Profit for the year adjusted to exclude Income tax credit (expense), Financial cost, net, Depreciation of Property, plant and equipment, Amortization of Intangible assets and Impairments/ (reversal) of certain capitalized development expenses as defined.

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.

ExCo Executive Committee

Fabry's disease (also known as Anderson-Fabry disease and alpha-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 recognized 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 organization).

Hemophilia A Hemophilia 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.

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 (PI3K) inhibitor developed for the treatment of Activated Phosphoinositide 3-kinase Delta Syndrome ("APDS").

LTIP Long Term Incentive Plan.

MAA Marketing Authorization 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.

Net Debt Defined as Loans and borrowings plus Convertible bonds minus cash and cash equivalents minus

non-current restricted cash.

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 Pediatric Investigation Plan.

POC Proof of Concept.

Pompe is a rare multisystem genetic disorder that is characterized 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 AKT 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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