

# Corporate Governance Statement 2019

## Group legal structure

Pharming Group N.V. (hereinafter: “the Company” or “Pharming”) is a limited liability and public company organized and existing under the laws of the Netherlands, with its headquarters and registered office at Darwinweg 24, 2333 CR Leiden, the Netherlands.

The Company is the ultimate parent company and owns 100% of all shares in the capital of the affiliated companies listed in Note 2.2 of the Financial Statements.

As a Dutch listed company, Pharming is obliged to clarify in its annual report the extent to which it complies with the regulations and the best practices provision of the Dutch Corporate Governance Code, applicable as of December 8, 2016 (the “Code”// [www.mccg.nl](http://www.mccg.nl)) insofar as they affect the Board of Management and the Board of Supervisory Directors and, if they do not apply, to explain the reasons why that is the case. The Code provides that if a company’s General Meeting of Shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have applied the Code.

Pharming acknowledges the importance of good corporate governance and generally agrees with the Code’s basic provisions. Pharming fully supports the principles and best practice provisions of the Code and applies the relevant best practice provisions of the Code, subject to the exceptions set out on pages 4 and 5 of this Statement.

## Articles of Association and amendment

The Articles of Association of the Company are posted on the Company’s website. The Articles of Association of the Company were most recently amended on 13 October, 2016. A resolution of the General Meeting of Shareholders to amend the Articles of Association may only be adopted upon a proposal of the Board of Management, which has been approved by the Board of Supervisory Directors.

## Authorized capital, shares, warrants and options

As of March 28, 2019, the Company’s authorized capital amounts to eight million Euros (€8,000,000). The authorized capital is divided into eight hundred million (800,000,000) ordinary shares with a nominal value of one Eurocent (€0.01) each. On April 10, 2019, the issued share capital of the Company amounted to €6,225,343 consisting of 622,534,345 shares of one Eurocent (€0.01) each. Currently the number of registered shares amount to less than 2% of all issued ordinary shares. There are no cumulative preference shares or depositary receipts of shares issued by the Company or issued with its knowledge by any of its shareholders. The Company has not vested or agreed to any pledges, usufruct, liens or other special voting rights with respect to any of the shares. Further information with respect to the shares, option plans for the Board of Management, the Board of Supervisory Directors and for employees, options to and warrants on shares is provided in Notes 24 to 27 to the Financial Statements.

## Issuance of shares or granting of warrants and options

The Board of Management has the authority to issue shares or grant rights to subscribe for shares (for example warrants and options) if and insofar as the Board of Management has been designated by the General Meeting of Shareholders as the authorized corporate body for this purpose and subject to the approval of the Board of Supervisory Directors, all in accordance with the Articles of Association and Dutch company law. As per a resolution of the Annual General Meeting of Shareholders (“Annual General Meeting”) of May 23, 2018, the Board of Management has been granted authority to issue such shares limited to 20% of the authorized share capital at the moment of the resolution of the Board of Management to issue shares and/or grant rights to acquire shares. This authorization on the Board of Management applies for the period until 23 July 2019.

A revised authorization to designate the Board of Management for a period ending on 22 July 2020 as the Company body authorized to, subject to the approval of the Board of Supervisory Directors:

- (i) issue shares;
- (ii) grant rights to acquire shares; and
- (iii) limit or exclude pre-emptive rights,

in each case limited to 10% of the issued share capital and within the limitation of the authorized share capital as per the moment of the Annual General Meeting of May 22 2019, to issue shares and/or grant rights to acquire shares, will be submitted for approval to the Annual General Meeting of May 22, 2019.

## Pre-emptive rights

Under the Articles of Association, each holder of shares generally has a pre-emptive right to subscribe to its *pro rata* portion of any issue of shares or grant of options to subscribe for shares, except for certain issuances to employees and issuances for non-cash consideration. The Board of Management has the authority to restrict or exclude the rights of pre-emption for a period not exceeding five years, if and insofar as the Board of Management has been designated by the General Meeting of Shareholders as the authorized corporate body for this purpose and subject to the approval of the Board of Supervisory Directors. As per resolution of the Annual General Meeting of May 22, 2018, the Board of Management has been granted such authorization for a period ending on July 23, 2019. A renewal of this authorization for a period ending on July 22, 2020 will be submitted for approval to the Annual General Meeting of May 22, 2019.

## Insider trading of shares

The Board of Management has adopted insider trading regulations which were last amended by Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation, or MAR). It is the Company’s policy that all employees and consultants shall adhere to these regulations. The enforcement and compliance of such regulations is monitored electronically and under the shared responsibility of the Company’s Compliance Officer and the Company Secretary. These policies were updated to reflect changes in the Market Abuse Regulations and adopted by the Board of Management in March 2019.

## Change of control

The Company has entered into only one agreement that will come into effect, change or terminate as a consequence of a change of control of the Company following a public offer on the shares as referred to in Financial Supervision Act (*Wet op het financieel toezicht*), and that is the Loan agreement with Orbimed Advisors. This agreement provides an option for Orbimed to require repayment of the outstanding amount of the loan and any accrued interest in the event of a change of control, at their option. Such a provision is absolutely standard for loan instruments of this kind.

## Board of Management and Board of Supervisory Directors

The management of the Company is entrusted to the Board of Management, under the governance supervision of the Board of Supervisory Directors. The Board of Management, as well as any two members of the Board of Management jointly, are authorized to bind the Company towards third parties.

During the year 2018, the composition of the Board of Management was as follows:

- S. de Vries, Chief Executive Officer, appointed as of October 13, 2008 (appointed up to the Annual General Meeting in 2021);
- B.M.L. Giannetti, Chief Operations Officer, appointed as of December 1, 2006 (appointed up to the Annual General Meeting in 2019);
- R. Wright, Chief Financial Officer, appointed as of October 28, 2015 (appointed up to the Annual General Meeting in 2020).

During the year 2018, the composition of the Board of Supervisory Directors was as follows:

- P. Sekhri, Member, date of initial appointment: April 30, 2015, and Chairman as of 25 May 2016 (appointed up to the Annual General Meeting in 2019);
- J. Blaak, Member, date of initial appointment: May 23, 2007 and Chairman as of April 16, 2008 up to and including 25 May 2016 (resigned at the Annual General Meeting in May 2018);
- J.H.L. Ernst, Vice Chairman, date of initial appointment: April 15, 2009 (appointed up to the Annual General Meeting in 2021);
- J.B. Ward, Member, date of initial appointment: May 23, 2007 (appointed up to the Annual General Meeting in 2019);
- A. de Winter, Member, date of initial appointment: April 15, 2009 (appointed up to the Annual General Meeting in 2021);
- J. Egberts, Member, date of initial appointment: April 30, 2015 (appointed up to the Annual General Meeting in 2019).

An application and resolution to appoint Ms D Jorn to the Board of Supervisory Directors to replace Mr Blaak will be submitted for approval to the Annual General Meeting of May 22, 2019.

## ***Board of Management***

All members of the Board of Management are statutory directors of the Company, appointed by the Shareholders in General Meeting. Remuneration and other employment conditions of the members of the Board of Management are proposed by the Remuneration Committee and approved by the Board of Supervisory Directors. The remuneration of members of the Board of Management is in accordance with the current remuneration policy set by the Board of Supervisory Directors. Mr. De Vries was the Chairman of the Board of Management and had primary responsibility for the overall short term and long-term strategy, commercialization and external affairs, as well as a supervisory role over all other departments. Mr. Giannetti was responsible for manufacturing activities, research and development, pre-clinical and clinical development, drug safety, medical information and regulatory affairs. Mr.

Wright was responsible for finance and administration, legal affairs, communications and investor relations. Mr. Wright and Mr. De Vries jointly oversee business development.

### ***Board of Supervisory Directors***

The members of the Board of Supervisory Directors are proposed by the Board of Supervisory Directors and appointed by the General Meeting of Shareholders.

In 2018 the Board of Supervisory Directors consisted of Mr. Sekhri (Chairman as of May 25, 2016), Mr. Blaak, Mr. Ward, Mr. Ernst (Vice Chairman), Mr. De Winter, and Mr. Egberts. Mr Blaak stepped down from the Board of Supervisory Directors as of May 23, 2018.

In 2005, the Board of Supervisory Directors approved, and the Board of Management subsequently adopted the Board of Management Regulations, which provide for certain duties, composition, procedures and decision making of the Board of Management and which are posted on the Company's website and amended from time to time. The Board of Supervisory Directors Regulations, adopted at the same time, as amended from time to time, are posted on the Company's website as well.

Certain important decisions proposed from the Board of Management, as are listed in the Articles of Association, require the prior approval of the Board of Supervisory Directors. The Board of Management has delegated certain of its powers to designated functions within the Company, as described in the Company's internal Chart of Authority in force and last amended as of January 2018.

### **Representation of 30% women in the Board of Supervisory Directors and Board of Management**

The statutory recommended minimum percentage of 30% representation of women in the Board of Supervisory Directors and the Board of Management has not been met. As of January 1, 2019, no women are represented in the Board of Supervisory Directors and the Board of Management. The primary selection criteria for its members are always qualification and experience. However, the Company continues to strive for a higher diversity within its Board of Supervisory Directors and Board of Management. If Ms Deb Jorn is appointed to the Board of Supervisory Directors by the Annual General Meeting on May 22, 2019 the representation of women on that Board will be 20%.

### **Diversity Policy**

Building on our core values, we aspire to sustain a diverse and inclusive culture where all Pharming stakeholders feel respected and valued, from our employees and shareholders to our customers and partners. We are committed to attracting, developing and retaining a diverse and talented workforce. Their variety of perspectives helps us to create strong connections wherever and however we do business. We foster diversity and inclusion through a wide range of programs and activities. These include company-wide talent plans to ensure our people are progressing irrespective of gender, ethnicity or other differences. We also have employee and leadership awareness and development programs as well as mentoring initiatives, flexible working, and a network of resource groups. We continually look for new ways to improve our inclusive culture.

### **Related party transactions and conflict of interest**

In 2018, no material transactions have taken place between members of the Board of Management, members of the Board of Supervisory Directors and the Company. The Company has no shareholders holding over 10% of the equity interest or voting power of the Company.

Mr. De Vries and Mr. Giannetti are under an employment contract by the Company. Mr. Wright is employed pursuant to a management agreement with the Company. As part of the terms of their contracts, each member of the Board of Management has undertaken not to compete with Company's activities. No conflicts of interest were reported between members of the Board of Management and the Company or its subsidiaries.

All members of the Board of Supervisory Directors are independent of the Company within the meaning of best practice provision in sections 2.1.7 – 2.1.9 of the Code. None of the members of the Board of Supervisory Directors are a member of the Board of Management of a listed company in the Netherlands. None are or were in the past employed by the Company and/or directly or indirectly represent a shareholder of the Company, or a supplier or customer of the Company. None of the members of the Board of Supervisory Directors provides any services to the Company outside their Board memberships or has any direct or indirect ties with the Company or any of its subsidiaries outside their Board of Supervisory Directors membership. The Board of Supervisory Directors regulations contain provisions with regard to potential conflicts of interest.

### **Mandates with third parties**

No member of the Board of Management is a member or chairman of the Board of Supervisory Directors of another listed company in the Netherlands. Acceptance of more than two mandates as a Board of Supervisory Directors member or of a mandate as chairman of the Board of Supervisory Directors of a listed company requires the prior approval of the Board of Supervisory Directors. Other appointments of material importance need to be notified to the Board of Supervisory Directors.

### **Loans or guarantees**

As a matter of policy and as reflected in the Board of Management and Board of Supervisory Directors regulations posted on the Company's website, the Company does not extend any loans or guarantees to the members of the Board of Management or to the members of the Board of Supervisory Directors.

### **Risk management and control**

Pharming has in place an internal risk management and control systems that provide a reasonable assurance that the financial reporting does not contain any errors of material importance. The key-characteristics of Pharming's internal risk management and control systems are further described in the chapter: "Statement of the Board of Management" in the Annual Report 2018. The complete internal risk management and control systems of the Company are regularly discussed by the Board of Management with the Board of Supervisory Directors and its Audit Committee and, in addition, procedures and controls are reviewed and areas requiring improvement are identified in audits from external parties. It also has a whistleblowers' procedure, which is published on the Company's website.

A Code of Conduct has been implemented in 2011 and has been updated in 2018 and posted on the Company's website. The Code of Conduct is effective in governing management of the affairs of the Company. As at the date of this Statement, there are no matters in which the Company has deviated from its Code of Conduct, and the Company remains in complete compliance with this code. The Company's risk assessment plan has been updated and approved by the Board of Supervisory Directors during a session which took place on December 20, 2018.

The Company has a Compliance Officer and Company Secretary. The key risk factors applicable to the Company were addressed at several of the Board of Supervisory Directors meetings and most of the Board of Management meetings in 2018. The Board of Management and the Board of Supervisory Directors have committed themselves to update and improve the internal management and control systems on a regular basis. Further information concerning risk factors is provided in the chapters "Management report" and "Corporate Governance and Risk Management" of the Annual Report 2018.

### **Appointment of the external auditor**

At the Annual General Meeting held on May 23, 2018, PricewaterhouseCoopers Accountants N.V. was

appointed as the Company's external auditor for the financial year 2018. It is the intention to nominate and propose to the Annual General Meeting to be held on May 22, 2019 the appointment of Deloitte Accountants B.V. as the Company's external auditor for the financial year 2019. It should be noted that 2018 was the last year for which PricewaterhouseCoopers Accountants N.V. could be proposed as auditors to the Company under the EU audit continuance and independence provisions, as it was their 10th consecutive year of audit.

## **Responsibility statement**

The Company's Responsibility Statement is made by means of the Statement of the Board of Management on page 35 of the Annual Report 2018.

## **Deviations from the Corporate Governance Code**

The practices where the Company deviates from the Code are the following:

### **1. Options for the Management Board (section 3.1.2 under vii of the Code)**

With respect to section 3.1.2 under vii of the Code, the Company believes that its future success will depend in large part on the continued services of its members of the Board of Management and key employees. The Company believes it is essential that it can offer internationally competitive remuneration packages to qualified members of the Board of Management. In line with the recommendations of the Remuneration Committee and in line with industry practice, the options granted to members of the Board of Management to acquire shares in the capital of the Company will be a conditional remuneration component which becomes unconditional when a member of the Board of Management is still in the service of the Company at the start of the following year. These options may not be exercised within the first three years of granting, provided that these options have vested in line with conditions set by the Board of Supervisory Directors and approved by the shareholders. The Board of Supervisory Directors considers the total compensation for the members of the Board of Management to be in line with international industry practice and significantly driven by long-term incentives, the potential values of which are fully dependent on value creation for all shareholders.

### **2. Regulations governing ownership of and transactions in securities, other than issued by the Company, by the Management Board or the Board of Supervisory Directors Members (section 2.7.2 of the Code)**

The Company believes that the members of the Board of Management and Board of Supervisory Directors should not be further limited by regulations in addition to commitments which are already applicable pursuant to Dutch law and regulations.

### **3. Shares for the Supervisory Board of Directors (section 3.3.2 of the Code)**

To continue to be able to attract and retain top talent in a competitive and global environment and to focus the Supervisory Board of Directors on creation of sustainable added value, the Company believes it is in line with international standards to have its Board of Supervisory Directors participate in the Company's Long Term Incentive Plan ("LTIP"). The LTIP is further described in the Annual Report 2018.

### **4. Follow all meetings in real time (section 4.2.3 of the Code)**

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

#### **5. Independent third party to hold proxies (section 4.3.2 of the Code)**

Given its size, the Company does not believe it is appropriate at this time to appoint an independent third party to hold proxies. The Company does make provision for shareholders to appoint their own independent third-party proxies.

#### **6. Outline policy on bilateral contacts with the shareholders (section 4.2.2 of the Code)**

The Company values interactions with its shareholders and is prudent in maintaining bilateral contacts.

#### **7. Internal Auditor (sections 1.3 - 1.7 of the Code)**

Due to the size of the Company, Pharming has not created a specific position for an internal auditor, but it has provided for the assessment and testing of the risk management and control systems to be supported by the Finance Manager. As a result of the Company operating in the highly regulated field of development and worldwide commercialisation of human medicines, the Company has a fully-staffed Quality Assurance department which is responsible, 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 reviewed the need for an internal auditor on March 27, 2019. Based on this review, the Supervisory Board has recommended to the Management Board that due to the size of the company no internal auditor is needed at this point in time. The audit committee reconsiders this position at least annually. The growth of the Company at present may cause a different determination at some point in the foreseeable future. This recommendation is included in the Report of the Supervisory Board in the Annual Report 2018.