

# Corporate Governance Statement 2015

## 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.

Except for its majority interest of 51% in DNage BV (put into voluntary liquidation as per January 31, 2011 and declared bankrupt as per February 22, 2011), 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 to 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 January 1, 2009 (the “Code”/ [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl)) in so far they affect the Board of Management and the Board of Supervisory Directors and, if they do not apply, to explain the reasons why. 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 its basic provisions. Pharming fully supports the principles and best practice provisions of the Code and applies with the relevant best practice provisions of the Code, subject to the exceptions set out on page 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 July 25, 2014. 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 December 31, 2014, the Company’s authorized capital amounts to five million five hundred thousand Euros (€5,500,000). The authorized capital is divided into five hundred fifty million (550,000,000) ordinary shares with a nominal value of one Eurocent (€0.01) each. On March 19, 2015, the issued share capital of the Company amounted to € 4,080,713 consisting of 408,071,265 shares of one Eurocent (€0.01) each. Currently the number of registered shares amount to less than 1% 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 and 25 to the Financial Statements.

## Issuance of shares or granting of options

The Board of Management has the authority to issue shares or grant rights to subscribe for shares (so called 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 resolution of the Annual General Meeting of Shareholders (“AGM”) of June 18, 2014, the Board of Management has been granted such authorization to issue shares or grant of rights to subscribe for shares up to hundred percent of the authorized capital of the Company for a period ending on June 30, 2015. A renewal of the authorization for a period ending on June 30, 2015 will be submitted for approval to the AGM of April 30, 2015.

## 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

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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 AGM of June 18, 2014, the Board of Management has been granted such authorization for a period ending on June 30, 2015. A renewal of this authorization for a period ending on June 30, 2016 will be submitted for approval to the AGM of April 30, 2015.

### **Insider trading of shares**

The Board of Management has adopted insider trading regulations which were lastly amended per March 20, 2006. It is the Company's policy that all employees and consultants shall adhere to these regulations. The enforcement and compliance hereof is monitored under the shared responsibility of the Company's Compliance Officer and the Company Secretary.

### **Change of control**

The Company has not entered into any 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*).

### **Board of Management and Board of Supervisory Directors**

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

### **During the year 2014, 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 AGM in 2017);  
B.M.L. Giannetti, Chief Operations Officer, appointed as of December 1, 2006 (appointed up to the AGM in 2015).

### **During the year 2014, the composition of the Board of Supervisory Directors was as follows:**

J. Blaak, Member, date of initial appointment: May 23, 2007 and Chairman as of April 16, 2008 (appointed up to the AGM in 2015);  
J.B. Ward, Member, date of initial appointment: May 23, 2007 (appointed up to the AGM in 2015);  
J.H.L. Ernst, Vice Chairman, date of initial appointment: April 15, 2009 (appointed up to the AGM in 2017);  
A. de Winter, Member, date of initial appointment: April 15, 2009 (appointed up to the AGM in 2017).

All members of the Board of Management are statutory directors of the Company. 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. Mr. De Vries and Mr. Giannetti are employed by the Company. The remuneration of members of the Board of Management is in accordance with the current remuneration policy set by the Board of Supervisory Directors. In 2014 the Board of Management consisted of Mr. de Vries and Mr. Giannetti. Mr. de Vries was the Chairman of the Board of Management and had primary responsibility for the long term strategy, financial and financing activities and investor relations. Mr. Giannetti was responsible for research and manufacturing activities, pre-clinical and clinical development, drug safety, medical information and regulatory affairs.

The members of the Board of Supervisory Directors are selected by the Board of Supervisory Directors and appointed by the General Meeting of Shareholders. In 2014 the Board of Supervisory Directors consisted of Mr. Blaak (Chairman), Mr. Ward, Mr. Ernst (Vice Chairman) and Mr. De Winter.

In 2005, the Board of Supervisory Directors has approved and the Board of Management has 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, as amended from time to time, are posted on the Company's website as well.

Certain important decisions 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 August 2014.

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

All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in accordance with the Code and are further described in Notes 23 and 24 to the Financial Statements. In 2014, no other material transactions have taken place between members of the Board of Management and the Company. All related party transactions are compliant with sections II.3.2 until II.3.4 as well as sections III.6.1 until III.6.3 of the Code.

Both current members of the Board of Management are under employment contract by the Company. As part of the terms of their employment contract 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 III.2.2 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 outside his Board memberships or has any direct or indirect ties with the Company or any of its subsidiaries outside his 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. 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. There have been no such notifications or appointments during the year 2014.

### **Loans or guarantees**

As a matter of policy and as is 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 system that provide a reasonable assurance that the financial reporting does not contain any errors of material importance. 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 posted on the Company's website. 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 18, 2014.

The Company has in place a Project Evaluation Committee (PEC) to further strengthen the internal controls of the Company. The PEC includes managers from the product, research and manufacturing departments. The Chairman of the PEC is the Chief Operations Officer.

The Company has a Finance Manager, also acting as Compliance Officer, and a Legal Counsel also acting as Company Secretary. In addition, key risk factors applicable to the Company were addressed at several of the Board of Supervisory Directors meetings in 2014. The Board of Management and the Board of Supervisory Directors have committed themselves to further developing the internal management and control systems. For this reason this subject is discussed at every board meeting. Further information concerning risk factors is provided in the annual report, both in the context of the information provided in the management report and also in the risk management section of the Annual Report.

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

At the AGM held on June 18, 2014, PricewaterhouseCoopers Accountants N.V. was appointed as the Company's external auditor for the financial year 2014. It is the intention to submit to the AGM to be held on April 30, 2015,

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the appointment of PricewaterhouseCoopers Accountants N.V. to become the Company's external auditor for the financial year 2015.

### **Responsibility statement**

Reference is made to the Statements of the Board of Management on page 18 of the Annual Report.

### **Deviation from the Code**

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

1. **Options for the Management Board (section II.2.4 of the Code)**

With respect to section II.2.4 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 end of the year. These options may be exercised within the first five 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. **Option exercise price (section II.2.6 of the Code)**

Considering the volatility of the Company's share price and for the purpose of fair value determination, the Company believes it is appropriate to measure the option exercise price in line with a verifiable price average during a period of 20 trading days prior to and including the day on which the options are granted.

3. **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 III.6.5 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.

4. **Shares for the Supervisory Board of Directors (section III.7.1 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 re-participate in the Company's Long Term Incentive Plan ("LTIP"). The LTIP is further described in the annual report 2014.

5. **Follow in real time all the meetings (section IV.3.1 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. Meetings discussing financial results and other significant news will be announced and conducted in accordance with this provision.

6. **Independent third party to hold proxies (section IV.3.12 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 allow for shareholders to appoint their own independent third party proxies.

7. **Outline policy on bilateral contacts with the shareholders (section IV.3.13 of the Code)**

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

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### 8. **Internal Auditor (sections III.5.4c-III.5.4d and V.3.1-V.3.3 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, who is also the Company's Compliance Officer.