ANNUAL REPORT PHARMING

2016

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FORWARD-LOOKING STATEMENTS

This Annual Report 2016 of Pharming Group N.V. and its subsidiaries ('Pharming', the 'Company' or the 'Group') may contain forward-looking statements including without limitation those regarding Pharming's financial projections, market expectations, developments, partnerships, plans, strategies and capital expenditures. The Company cautions that such forward-looking statements may involve certain risks and uncertainties, and actual results may differ. Risks and uncertainties include without limitation the effect of competitive, political and economic factors, legal claims, the Company's ability to protect intellectual property, fluctuations in exchange and interest rates, changes in taxation laws or rates, changes in legislation or accountancy practices and the Company's ability to identify, develop and successfully commercialise new products, markets or technologies.
As a result, the Company's actual performance, position and financial results and statements may differ materially from the plans, goals and expectations set forth in such forward-looking statements. The Company assumes no obligation to update any forward-looking statements or information, which should be taken as of their respective dates of issue, unless required by laws or regulations.

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The following sections of this annual report form the director's report within the meaning of section 2:391 of the Dutch Civil Code: Highlights of 2016, About Pharming Group N.V., Chief Executive Officer's statement, Management report, Statement of the Board of Management, Management structure, Corporate governance and risk management, Report of the Remuneration Committee, Corporate Social Responsibility.
For other information within the meaning of section 2:392 of the Dutch Civil Code, please refer to the subsection Information for shareholders and investors, Report of the Board of Supervisory Directors, Other financial information and Glossary.

HIGHLIGHTS '16

Operational highlights

- Pharming re-acquired all commercial rights to sell RUCONEST® in the United States of America, Canada and Mexico from Valeant Pharmaceuticals International, Inc. ('Valeant') in December 2016 in a deal valued at $125 million. Of this amount, $60 million was paid upfront in December 2016 and an additional $65 million in total of (self-funding) sales based milestones will be payable when the Company achieves certain specified sales levels.
- In order to enable this transaction, the Company increased its authorised capital from 650 million shares to 800 million shares at an EGM in October.
- In July, the Company announced positive results from a Phase 2 clinical study of RUCONEST® (recombinant human C1 esterase inhibitor, 50 IU/kg) for prophylaxis in patients with hereditary angioedema (HAE), meeting its primary and secondary endpoints. RUCONEST® showed a clinically relevant and statistically significant reduction in attack frequency for both the twice-weekly and once-weekly treatment regimens as compared with placebo.
- Mr. Paul Sekhri took over as Chairman in May 2016 from Mr Jaap Blaak, who remains on the Supervisory Board.
- The company extended its distribution agreement with Cytobioteck S.A.S. to include Argentina, Costa Rica, the Dominican Republic and Panama in addition to Colombia and Venezuela.
- The label for RUCONEST® in Europe was changed in February to remove the need for any pre-exposure testing and to permit use for adolescents with HAE. Since the year end, the EMA has further amended the marketing authorisation in Europe to allow self-administration of RUCONEST® for acute hereditary angioedema (HAE) attacks by adolescents and adults with a new custom-designed RUCONEST® Administration Kit in the comfort and privacy of their own homes or at any other place they choose, without the necessity of a healthcare professional (HCP) being present. This followed a positive opinion from the Committee for Medicinal Products for Human Use during 2016.
- In July, Pharming and Swedish Orphan Biovitrum AB (SOBI) amended their distribution agreement so that Pharming is now able to market and sell RUCONEST® directly into an additional 21 countries. These countries are Algeria, Andorra, Bahrain, Belgium, France, Ireland, Jordan, Kuwait, Lebanon, Luxembourg, Morocco, Oman, Portugal, Qatar, Syria, Spain, Switzerland, Tunisia, United Arab Emirates, United Kingdom and Yemen.

Financial highlights

- As part of the Valeant transaction, the Company raised €104 million in new funding through a combination of a rights issue, a new senior loan and convertible bond issues. The previous loan facility from Oxford Finance and Silicon Valley Bank was repaid in full from the proceeds of this funding. The upfront amount to Valeant under the deal of $60 million was also paid from this funding. The balance will be used to promote RUCONEST® in all direct markets and to increase the capacity for manufacture of the product as necessary.
- Revenues from product sales increased to €13.7 million (2015: €8.6 million) mainly as a result of better sales in the US, plus the effect of receiving all the revenue from product sales for the last three weeks of the year after the Valeant transaction (instead of the previous 30% supply agreement share of net sales).
- Total revenues increased to €15.9 million (including €2.2 million of license revenue) in 2016 from €10.8 million in 2015 (including €2.2 million in license revenue).
- Operating results improved to a loss of €11.5 million from a loss of €12.8 million, in spite of a considerable increase in R&D and commercialisation activity.
- The net result of a loss of €17.5 million increased significantly from a loss of €10.0 million in 2015, entirely as a result in the change in financial income and expenses, from a gain in 2015 (due to positive revaluation of the Company's warrant schemes under IFRS) to a loss of €6.0 million in 2016 as a result of the costs of the financing and loan repayment as part of the Valeant deal. Excluding these effects, the net result would have improved.
- The equity position improved from €23.8 million in 2015 to €27.5 million in 2016, mainly due to the new financing brought in, including a rights issue which raised €8.8 million.

- Inventories increased from €16.2 million in 2015 to €17.9 million in 2016, largely due to the need to cover the improving sales level in the US and to prepare for the launch of the self-administration kits in Europe.
- The cash position including restricted cash increased from €31.8 million at year-end 2015 to €32.1 million at year-end 2016. This was mainly due to cash outflows related to the increase of inventories of RUCONEST®, a considerable increase in R&D activities and cash inflows of the straight debt facility of $40 million (€37.5 million) at a fixed coupon of 8.25% per annum from Kreos Capital and Silicon Valley Bank, a rights issue of €8.8 million, an ordinary bond issue of €12.5 million and an amortizing bond issue of €45 million and €0.5 million from the prepayment of supplies to our Latin American partner Cytobioteck. The debt facility and bond issues were used to pay for the Valeant transaction, repay the existing debt of $17 million (€15.7 million) debt facility from Oxford Finance and Silicon Valley and to provide funds to invest in the direct commercialization of RUCONEST® in the US and European markets.

After the year end

Since 31 December 2016, the following additional events have occurred:

- The EMA has further amended the marketing authorisation in Europe to allow self-administration of RUCONEST® for acute hereditary angioedema (HAE) attacks by adolescents and adults with a new custom-designed RUCONEST® Administration Kit in the comfort and privacy of their own homes or at any other place they choose, without the necessity of a healthcare professional (HCP) being present. This followed a positive opinion from the Committee for Medicinal Products for Human Use (CMPH) during 2016.
- A total of €6.0 million of the €45 million amortizing bonds raised as part of the Valeant transaction have been converted into shares so that no cash repayment will be required in respect of those bonds. This change will be reflected in the Company's financial results for the first quarter of 2017.
- The Executive Committee that supports the Board of Management was expanded in January to include Esther van Stralen (Technical Operations), Erica Kerkvliet (R&D), Stephen Toor (US Operations) and Paul Janssen (European & RoW Commercial Operations) in addition to the existing committee, comprising of the Board of Management and Anne Marie de Groot (Organisational Development). The Executive Committee works to ensure strong overall interdepartmental management.

ABOUT PHARMING

Pharming is a specialty pharmaceutical company developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs. Pharming's lead product, RUCONEST® (conestat alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute 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.

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

RUCONEST® is distributed by Swedish Orphan Biovitrum AB (publ) (SS: SOBI) in all other EU countries, and also in Azerbaijan, Belarus, Georgia, Iceland, Kazakhstan, Liechtenstein, Norway, Russia, Serbia and Ukraine.

RUCONEST® is distributed in Argentina, Colombia, Costa Rica, the Dominican Republic, Panama, and Venezuela by Cytobioteck, in South Korea by HyupJin Corporation and in Israel by Megapharm.

RUCONEST® is also being investigated in a Phase II clinical trial for the treatment of HAE in young children (2-13 years of age) and evaluated for various additional follow-on indications.

Pharming's technology platform includes a unique, GMP-compliant, validated process for the production of pure recombinant human proteins that has proven capable of producing industrial quantities of high quality recombinant human proteins in a more economical and less immunogenetic way compared with current cell-line based methods. Leads for enzyme replacement therapy ('ERT') for Pompe and Fabry's diseases are being optimized at present, with additional programs not involving ERT also being explored at an early stage.

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

Pharming has declared that the Netherlands is its 'Home Member State' pursuant to the amended article 5:25a paragraph 2 of the Dutch Financial Supervision Act.

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

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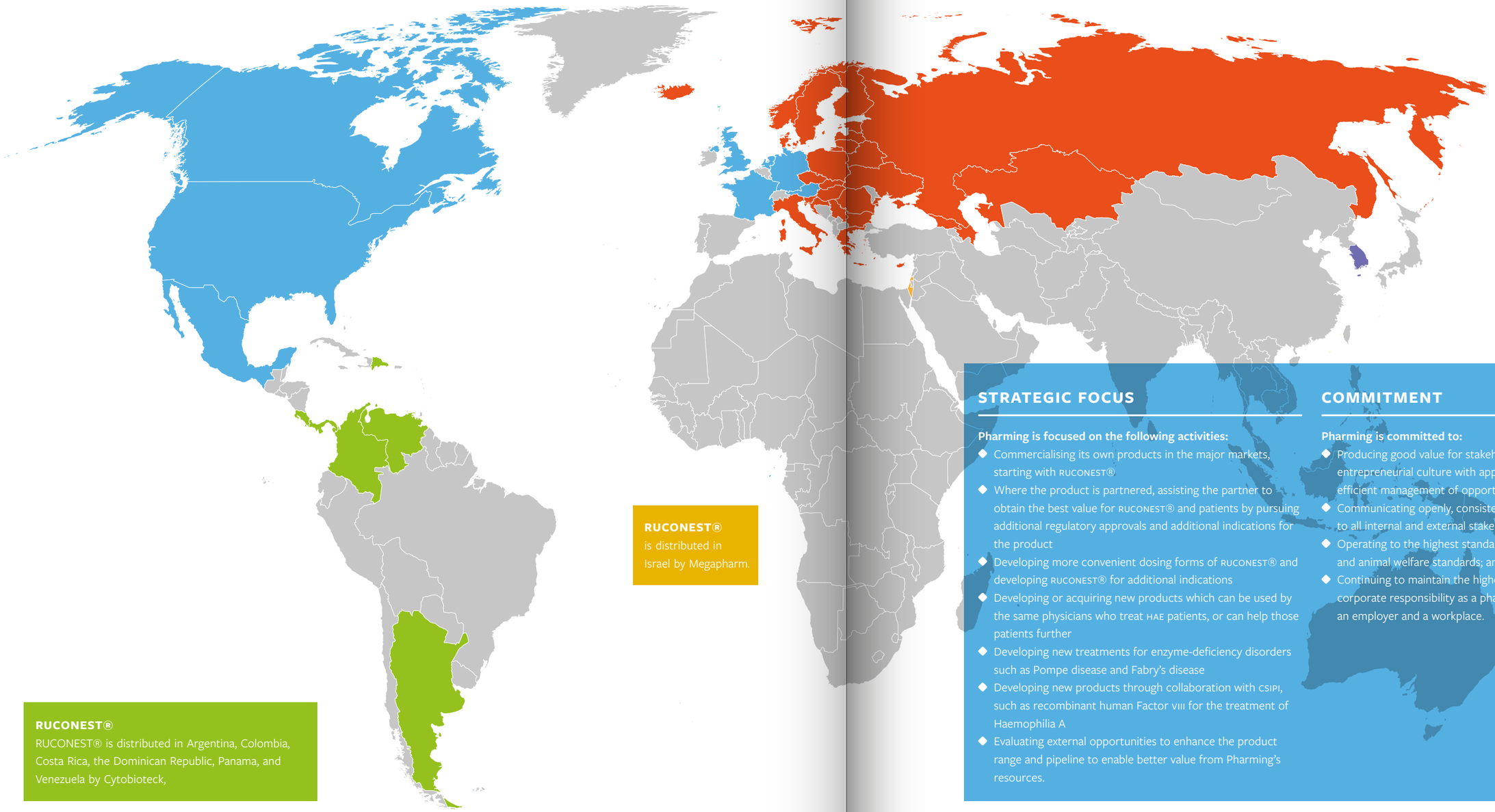

RUCONEST®
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RUCONEST®
is distributed in Israel by Megapharm.

RUCONEST®
RUCONEST® is distributed in Argentina, Colombia, Costa Rica, the Dominican Republic, Panama, and Venezuela by Cytobioteck,

STRATEGIC FOCUS

Pharming is focused on the following activities:

- Commercialising its own products in the major markets, starting with RUCONEST®.
- Where the product is partnered, assisting the partner to obtain the best value for RUCONEST® and patients by pursuing additional regulatory approvals and additional indications for the product
- Developing more convenient dosing forms of RUCONEST® and developing RUCONEST® for additional indications
- Developing or acquiring new products which can be used by the same physicians who treat HAE patients, or can help those patients further
- Developing new treatments for enzyme-deficiency disorders such as Pompe disease and Fabry's disease
- Developing new products through collaboration with CSIPI, such as recombinant human Factor VIII for the treatment of Haemophilia A
- Evaluating external opportunities to enhance the product range and pipeline to enable better value from Pharming's resources.

COMMITMENT

Pharming is committed to:

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

STATEMENT
CHIEF EXECUTIVE OFFICER

2016 was a good year for Pharming. During the year we achieved a number of positive milestones that culminated in December in the game-changing re-acquisition of the commercialisation rights for RUCONEST® in NorthAmerica from subsidiaries of Valeant Pharmaceuticals International, Inc.

Early in the year we extended our collaboration with Cytobioteck S.A.S. our partner in Latin America, adding the rights to sell RUCONEST® in Argentina, Costa Rica, Panama and the Domincan Republic. In July we amended our agreement with our partner SOBI to arrange the return of the commercialisation rights for RUCONEST® in certain western European, North- African and Middle- Eastern markets which became effective in October.
This accelerated our goal towards becoming a fully integrated specialty pharma-company

In May, the European Medicines Agency (EMA) confirmed that pre-exposure testing was no longer necessary for RUCONEST®. Later in the year a positive opinion from the Committee for Medicinal Products for Human Use (CHMP) was obtained recommending permission for home treatment with RUCONEST®, with a custom-designed self-administration kit, which was confirmed by the EMA with the appropriate label adjustment early in 2017. This EU approval of self-administration is further to the US approval received in 2014.

In July, we obtained positive results; RUCONEST® met the primary and secondary endpoints in our randomised double-blind Phase II clinical trial in prophylaxis of HAE. This trial showed that RUCONEST® used once weekly achieved similar reduction of HAE attack frequency to that obtained with twice weekly dosing of the only currently approved product for the prophylaxis of HAE, (i.e. approximately 50% reduction in attack frequency in approximately 50% of patients). RUCONEST® dosed twice weekly

achieved an exceptional response rate (reduction of attack frequency of at least 50%) of 96% and an average 72% reduction in attack frequency, when measured across the entire treatment period. These results demonstrate, yet again, that the appropriate dosing of our C1 inhibitor leads to results that patients can rely on.

In order to provide alternative convenient forms of RUCONEST®, our R&D scientists have formulated a highly concentrated vial of RUCONEST®. We are now looking to enter clinical trials with intra-muscular and/ or sub-cutaneous administration of RUCONEST® within the next twelve months.

Following a preliminary announcement of the conditional deal in August, in December we announced the definitive acquisition of the North American commercialization rights for RUCONEST® from Valeant Pharmaceuticals International Inc. for an upfront payment of US$60 million and future undisclosed, self- financing sales based milestones of up to US$65 million.

This agreement required the Company to raise sufficient financing to pay the upfront amount to Valeant and to make additional investments in the commercialization of RUCONEST® in both the US and Europe. A very substantial financing package of €104 million (relative to our market capitalization) enabled us to proceed and close the deal on 7 December. In addition, the package was structured with the aim to minimize dilution for our shareholders. We achieved this through a combination of a small rights issue, a significant straight debt facility and two convertible bonds, each of which were due to convert at a significant premium compared to the share price at the date of completion.

The transition of the sales force that we acquired as part of the deal was smoothly executed, with the team selling RUCONEST® one day for Valeant and the next day for Pharming. Immediately after the close of the deal, we initiated our plans to increase awareness and sales of RUCONEST® in the US market. We have now hired additional experienced HAE/rare disease sales force members, medical science liaison professionals and a very seasoned management team with expertise in marketing, sales, commercial activity and patient support.

‘As always, the support and hard work of our employees makes Pharming what it is’

As result of these EU and US transitions, we now operate with an appropriate commercial presence in both Western Europe and the US and can focus fully on delivering on our commitment to become an operationally profitable company during 2017.

As always, the support and hard work of our employees makes Pharming what it is. I would like to take this opportunity again to thank all Pharming employees, as well as all of our investors, partners and debt providers, for their support and commitment throughout 2016, which enabled us especially to close on the Valeant deal in December and to create the platform for very significant growth.

I look forward with confidence to accelerating the upward story of Pharming in 2017, with increased sales, a new exciting pipeline and new opportunities for enhanced shareholder value.

Leiden, 22 March 2017

Sijmen de Vries
Chief Executive Officer and Chairman of the Board of Management Pharming Group N.V.

MANAGEMENT REPORT

OPERATING REVIEW 2016

Transaction with Valeant Pharmaceuticals International, Inc.

On 7 December 2016, Pharming announced that it had completed a definitive agreement with its partner Valeant for Pharming to acquire all North American commercialisation rights to its own product RUCONEST® (recombinant human C1 esterase inhibitor), including all rights in the US, Mexico and Canada. This transaction (the Transaction) will accelerate Pharming's development into a profitable specialty pharmaceutical company with its own independent commercial infrastructure, which will form the foundation for growth in the future. The company anticipates that the Transaction, after taking full account of the costs of the Transaction and the Financing (including interest), will be accretive to earnings and will enable the Company to reach operating profitability in 2017.

STRUCTURE OF THE DEAL

Under the terms of the agreement with Valeant, Pharming paid certain subsidiaries of Valeant an upfront payment of US$60 million. In addition, over the coming years the Company will make one-time-only payments to Valeant on achievement of a small number of specific sales milestones events, totalling a maximum of US$65 million. The payments of these milestones will be self-funding because they occur at levels of sales at which the product may be expected to produce incremental profits which will themselves be sufficient for payment of the milestone once it is incurred.

GROWTH OF SALES FORCE AND SUPPLEMENTARY MARKETING EFFORTS CRUCIAL FOR SUCCESS

The dedicated RUCONEST® sales force, a total of 11 people, accepted offers to join Pharming upon release by Valeant to continue the RUCONEST® sales effort in the US. Pharming has increased the size of the sales force to drive growth in product sales, and has also increased investments in medical science liaison personnel and additional marketing activities, including patient advocacy programs and the provision of significant unconditional support for the HAEA (the US HAE patients' association) and its programs as well as other HAE centres of excellence in the US. In addition, Pharming is planning further investment to make RUCONEST® available in Canada and Mexico.

Valeant and Pharming are working closely on the transition for customers and HAE patients under a transitional services agreement entered into at the same time as the Transaction. This enables Pharming to replace core functions previously undertaken by Valeant and its contractors in a timely and efficient manner.

DEBT COMPONENTS

The Transaction was funded by the combination of proceeds from a new senior loan (the New Debt Facility), new convertible debt instruments (the Convertible Bonds) and the issue of new shares in a rights issue completed in December 2016 (the Rights).

The Convertible Bonds were being placed with institutional investors. There are two series of Convertible Bonds: €12.5 million of Ordinary Bonds and €45 million of Amortizing Bonds.

The Ordinary Bonds have a fixed term of 5 years unless previously converted or redeemed, and carry a fixed coupon of 8.5% per annum (payable semi-annually). They are convertible at the option of the holder until shortly before the maturity date, into 44,154,930 new Pharming shares (Shares) at a conversion price of €0.284. The Ordinary Bonds are redeemable at the Company's option at par (i.e. their face value) after 3 years under certain circumstances. The Ordinary Bonds are neither guaranteed nor secured but will rank behind the secured debt facility. The Ordinary Bondholders received warrants entitling them to subscribe for 8,830,986 Shares at a warrant strike price of €0.284.

The Amortizing Bonds have a maturity of 18 months and carry no coupon, although there was an arrangement fee payable to the holders upon closing of €5.0 million. The Company began repaying the Amortizing Bonds after two months in 16 equal instalments, in either Shares or cash at the Company's sole discretion, although the first three such payments were to be in cash only. The maximum total payment in cash (other than for an early repayment) is capped at 70% of the principal amount. Any repayments in cash will be at a premium of 5% to the repayment amount. The Shares used to meet a repayment will be priced at a discount of 14% to the volume-weighted average price of the Shares over the month preceding the repayment. The Amortizing Bonds are convertible at the option of the holder at a conversion price of €0.289. The Amortizing Bonds are redeemable at the Company's option at a premium within the 18 months duration. The Amortizing Bonds are not guaranteed nor secured, but will rank behind the senior debt facility. The Amortizing Bondholders have received warrants entitling them to subscribe for 62,283,737 Shares at a warrant strike price of €0.284.

The New Debt Facility was obtained from Kreos Capital v (UK) Ltd and Silicon Valley Bank (the New Lenders). The New Lenders have provided US$40 million (approximately €37.5 million) secur

Regional market and product overview

US

We continue to believe that RUCONEST®, as the first and only recombinant C1- inhibitor in HAE, remains the only C1- inhibitor product in the HAE space which combines the ability to dose at sufficiently high levels necessary to treat HAE attack with reliable and consistent results with an excellent safety and tolerability profile. In addition, by nature of its recombinant production, RUCONEST® has no exposure to and carries no potential liability whatsoever to known and presently unknown viral infections that could be derived from usage of blood plasma derived products.

For a third year running, our US sales activity changed fundamentally in 2016. In December, after a relatively slow year growing sales, we were able to re-acquire all commercial rights to the product from our partner Valeant Pharmaceuticals International Inc.. The transition was executed smoothly, with sales activity up immediately, but also due to patient enthusiasm for the change.

Since taking over the product on 8 December 2016, Pharming has immediately instituted a complete overhaul of the whole sales activity in the US. The sales force who were responsible for selling the product under Valeant have all been employed by Pharming, and new sales staff have also been hired since the year end. A new General Manager for the US has started as well as highly experienced people with relevant experience in HAE as Vice President of Commercial Affairs, Director of Marketing, Director of Patient Care Support and Director of Medical Affairs. New medical sales liaison personnel and new nursing and patient support staff are being hired to ensure the best possible environment for patients, physicians and reimbursement agencies alike.

The US market for acute and prophylactic treatment of HAE continued to expand in 2016, and is now estimated by most observers as between $1.6 billion and $1.7 billion. All currently-approved products except one (ecallantide, marketed by Shire PLC, which has a black box FDA label

warning for a risk of anaphylaxis and must be administered in a clinic setting, and sales in 2016 US$52 million) are self-administered by injection at home. The market leader in the $700 million prophylaxis market is a plasma-derived C1-inhibitor (pdC1INH) marketed by Shire PLC (with sales of US$639 million in 2016), which is only approved for prophylactic use as it failed in clinical trials for acute treatment. Although not yet approved for prophylaxis of HAE, RUCONEST® has shown positive data in a Phase 2 clinical study: RUCONEST® taken twice a week reduced attacks by 72% on average with 96% of patients demonstrating a clinical response. Within the limits of an indirect comparison, the pivotal study for the approved pdC1INH showed a 50% reduction in attacks with 50% of patients achieving a clinical response. Data protection for the approved pdC1INH expires in 2020, although its orphan drug exclusivity expired in 2015. Supplies of the approved pdC1INH were exhausted in November 2016 due to an issue with the external manufacturing organisation which supplied the drug to its owner Shire PLC, although this shortage is in the process of being resolved. This type of shortage is one of the risks with plasma-derived drugs which is not usually experienced with recombinant versions of human biologic therapies.

The acute segment is estimated at approximately $850 million, led by Icatibant from Shire PLC ($511 million in 2016) and another plasma-derived C1-inhibitor product only approved for acute use from CSL Behring. Icatibant is identified as a bradykinin inhibitor,and blocks the main Bradykinin B2 receptor but does not stop the production of bradykinin or its effects (through the other Bradykinin B1 receptor) on vascular leakage, the principal mechanism of HAE symptoms although not the only mechanism.

RUCONEST® is a recombinant human C1-inhibitor (enzyme replacement therapy) dosed at 50 U/kg (max 4200 U), which is higher than the dose provided by Shire PLC's pdC1INH(1000 U) in prophylaxis or CSL Behring's pdC1INH for acute use (20 U/kg or around 1700U). This is important, because clinical data shows that a dose of 50 U/kg of C1-Inhibitor is required to return C1-Inhibitor function to normal in patients who have either an impaired ability to produce C1-inhibitor or who produce a version of this protein which does not work properly.

EUROPE

The commercialization of RUCONEST® by SOBI in the EU and other European states continues to progress, albeit more slowly. Sales growth has been good in Eastern Europe, but the entrenched positions of competing products in Western Europe continues to be the main obstacle to full potential.

Pharming has made progress in direct commercialisation of Germany, Austria and the Netherlands through its own sales force, with sales starting to come through in those territories now. In addition, new patients are now being treated in France and the United Kingdom following the amendment of the distribution agreement with SOBI effective in October 2016.

The RucoVitae™ patient care program, offered by Pharming to all eligible HAE patients in Austria, Germany and Netherlands, continues to be a differentiating factor in the treatment of HAE, with some physicians transferring care of their HAE patients, treated with RUCONEST®, completely to the program once they have experience of how well it works for the patient.

CHINA

Our collaboration with China State Institute of Pharmaceutical Industry ('CSIPI', formerly called Shanghai Institute of Pharmaceutical Industry) continues to progress well. In 2015 we completed the transfer of our technology to CSIPI, who are planning to produce recombinant proteins from a brand new facility in Xengdu, where the facility has been able to produce new transgenic animals that produce recombinant human C1- esterase inhibitor under Pharming's EMA and FDA compliant quality assurance and quality control processes, ensuring that their output will be exactly the same product as RUCONEST® and thereby meet standards for the production of biological drugs in the EU and US, in addition to meeting the stringent Chinese CFDA standards for biological development.

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

The first new product being developed jointly is Factor VIII for Haemophilia A, which is at the lead optimisation stage. Haemophilia A is a X-Chromosome-linked hereditary disorder caused by defects in the Factor VIII gene that leads to lower levels than normal of the Factor VIII protein. Lack of functional Factor VIII protein diminishes the body's blood-clotting ability, which in turn leads to damaging or even fatal bleeding episodes. By the time this product is ready, it is expected that the global market for Factor VIII will be around $6.5 billion. At present, only around 50% of the estimated medical need for Factor VIII can be supplied by existing means, so a new up scalable source will go a long way to meet this need in the rest of the developed world as well as in China and other countries where the need is still unmet.

OTHER MARKETS

RUCONEST® approval was obtained in South Korea in December 2015 through our partner there HyupJin.

In Turkey, we terminated our distribution agreement with Eczacibaşi Ilac Pazarlama A.S. who have been struggling to obtain regulatory approval, and we are in a process to find an alternate partner.

In Israel, RUCONEST® is being marketed by our local partner Megapharm.

In April 2015 we originally agreed a distribution deal with Cytobioteck SAS, a leading Colombian pharmaceutical company. This agreement produced initial sales on a named-patient compassionate use basis already in 2015. Early in 2016 we agreed to extend this distribution agreement to four additional countries: Argentina, Costa Rica, the Dominican Republic and Panama.

HAEI GLOBAL ACCESS PROGRAMME ('HAEI- GAP')

Following a request from the international HAE patient organisation (HAEi) we entered into an agreement to make RUCONEST® the first therapy available under the HAEi- GAP. This programme seeks to ensure that in countries where no adequate HAE therapies are approved or otherwise available, all eligible HAE patients can, through their treating physicians, have access to safe and effective treatment for their HAE. As part of this programme, several requests have been received and the initial treatments were started.

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

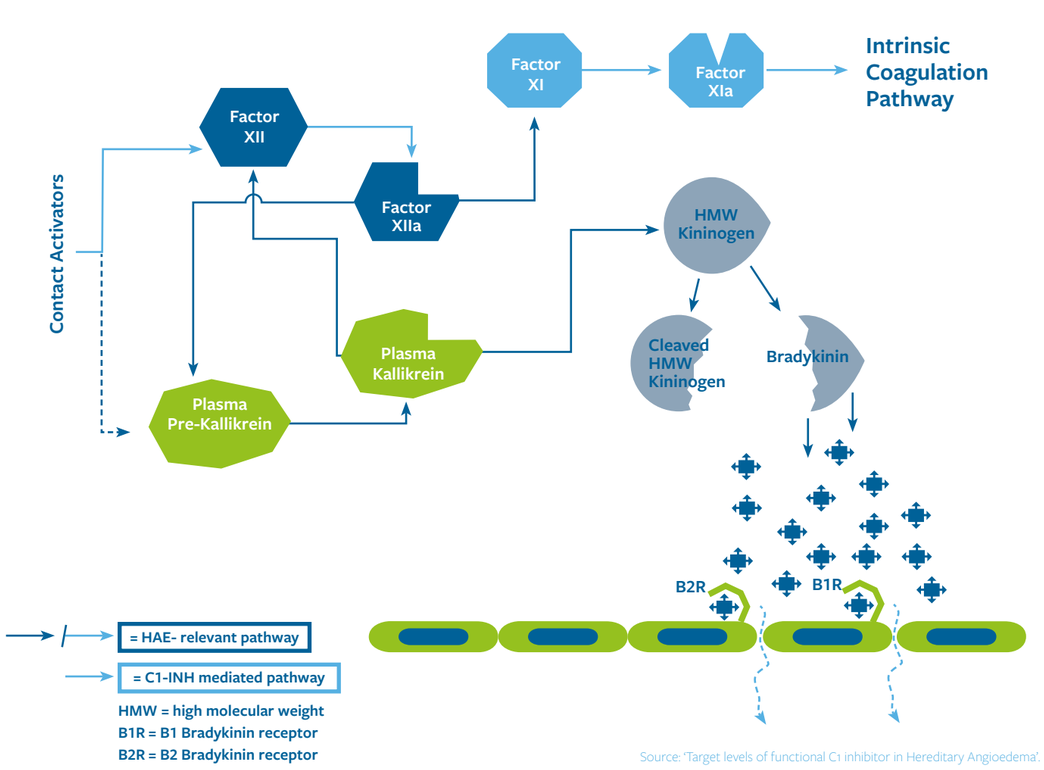
RESEARCH AND DEVELOPMENT

Microinjection is the foundation of our research, during this process the genetic material that codes for a type of protein is injected into the nucleus of an early stage embryo. This key process takes place at our French branch in Evry.

Development of RUCONEST®

RUCONEST® FOR HEREDITARY ANGIOEDEMA (HAE)

RUCONEST® was originally developed for the treatment of acute attacks of HAE. HAE is a rare genetic disorder in which the patient's body is unable to manufacture a fully-functioning version of C1 esterase inhibitor, a protein which is responsible for stopping inflammatory attacks and associated swelling in the body at an appropriate point in disease cycles. These attacks, when uncontrolled, result in local swelling (edema) which may present as abdominal pain, airway swelling and obstruction, peripheral swelling or skin swelling. These attacks are usually painful and disabling, and attacks (especially those obstructing the airway) can be fatal. Estimates of the occurrence of the disease vary between 1 in 10,000 to 1 in 50,000, depending on the genetic diversity of the population. Acute attacks usually begin to be noticed in childhood or adolescence, but due to the disorder's rarity, the condition is often not correctly diagnosed for several years. The frequency of HAE attacks varies between patients, from extreme cases with several attacks per week to milder cases with a few attacks per year. A typical patient has around 18-24 treated attacks per year.



Source: 'Target levels of functional C1 inhibitor in Hereditary Angioedema'. Allergy, C. E. Hack, A. Relan, E. S. van Amersfoort & M. Cicardi

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

BIOCHEMICAL PATHWAYS FOR DEVELOPMENT OF HAE ATTACKS

Hereditary angioedema is caused a by deficiency of the plasma protein C1 esterase inhibitor (C1-inhibitor). This deficiency leads to the uncontrolled activation of the contact system pathway resulting in the overproduction of some proteins including especially bradykinin. Bradykinin is necessary to enable tissues to swell in certain shock situations or other circumstances, and acts on two receptors, B1 and B2. This has the effect of opening channels in the vascular wall, leading to the leaking of fluid from blood vessels to the tissue space. An HAE attack is caused mainly by overproduction of the bradykinin protein and thus excessive leakage of fluid into tissue spaces (edema or swelling). Originally, it was thought that only the B2 receptor was active in the pathophysiology of HAE, but recent data suggest that the B1 receptor may also be involved.

At a dose of 50 U/kg, RUCONEST® normalizes C1 inhibitor effects in virtually all HAE patients. Returning C1 inhibitor activity levels to normal has been shown to be clinically relevant in HAE attack treatment and prevention, although some positive effects can be achieved in some patients given lower levels of C1-inhibitor too.

After administration, RUCONEST® irreversibly binds to several target molecules, including importantly the coagulation factor FXII and a protease called kallikrein, which cleaves a plasma protein into bradykinin and other products. By binding to and deactivating these molecules, RUCONEST® stops the production of bradykinin and thereby stops or aborts the HAE attack.

INTRAMUSCULAR AND SUBCUTANEOUS RUCONEST®

It has been clear from patient feed-back that, in the absence of any other factors, some patients prefer a subcutaneous injectable product to an intravenous injectable product, because of the lower level of training and care needed to make the injection safely and effectively. This general trend is changing, however, and some patients are coming to prefer the speed and absolute reliability of a protein-replacement therapy dosed intravenously to the much slower and usually much more painful subcutaneous delivery route. Intramuscular delivery may also have speed or convenience advantages for some patients. Accordingly, the Company is developing a new very small injection version of the full dose of RUCONEST® which can be used for IV, intramuscular or subcutaneous delivery to enable patients to benefit from its power and efficacy in whichever form they find most convenient. We now have a good formulation of RUCONEST® suitable for these purposes. The new form of RUCONEST® will need to be tested in some clinical settings, and this testing program is expected to start in late 2017. Successful oral delivery of large proteins such as C1-inhibitor is very difficult, but we are also exploring whether this is possible for RUCONEST®.

Additional indications for RUCONEST®

PROPHYLAXIS OF HAE

In acute HAE, each individual HAE attack is treated. In prophylaxis therapy, the patient is given the drug on a regular basis with the aim of preventing attacks occurring or reducing the frequency of breakthrough attacks that do occur. In the US, the size of the prophylactic indication is significant, with the only drug approved specifically for that indication, PdC1INH marketed by Shire PLC, having world- wide sales of more than $680 million in 2016.

Pharming's Phase II study of RUCONEST® was a randomized, double-blind placebo-controlled cross-over study in 30 patients with three arms: two doses of placebo per week, one dose of RUCONEST® and one of placebo per week and two doses of RUCONEST® per week. In July 2016 we announced positive results from this clinical study of RUCONEST® for prophylaxis in patients with Hereditary Angioedema (HAE). In the study, RUCONEST® showed a clinically relevant and statistically significant reduction in attack frequency for both the twice-weekly and once-weekly treatment regimens as compared with placebo.

Thirty-two HAE patients deficient in C1 esterase inhibitor and with a history of at least four attacks per month were enrolled in the study. The patients received either RUCONEST® twice weekly, RUCONEST® and placebo each once weekly or placebo twice weekly in each of three four-week treatment periods in a cross-over design. The primary efficacy endpoint was the number of HAE attacks per 28 day treatment period and the secondary endpoint was clinical response, defined as a ≥ 50% reduction in the number of attacks from treatment with placebo to treatment with RUCONEST®.

In the intent-to-treat analysis (ITT), the study found a statistically significant difference in the mean number of HAE attacks that patients experienced during treatment with both the twice-weekly (p-value <0.0001) and once-weekly (p-value =0.0004) RUCONEST® regimen as compared with placebo.

Patients on placebo had a mean of 7.2 attacks (95% confidence interval[CI]: 5.8-8.6) per four week treatment period which was reduced to a mean of 2.7 attacks on RUCONEST® twice weekly (95% CI: 1.8-3.7) and a mean of 4.4 attacks on RUCONEST® once-weekly (95% CI: 3.1-5.6).

For the analysis of the secondary endpoint in the ITT population, 74% of patients (95% CI: 57-86) on the twice-weekly RUCONEST® regimen had at least a 50% reduction in their attack frequency.

This was confirmed in the per-protocol population of patients, which included patients who completed the study without any major deviations (n=23), where 96% of patients (95% CI: 79-99) on the twice-weekly RUCONEST® regimen and 57% (95%CI: 37-74) on the once weekly RUCONEST® regimen had at least a 50% reduction in their attack frequency. Furthermore, in this group, twice weekly RUCONEST® treatment reduced the attack frequency by 72% (95% CI: 63-81) and once weekly RUCONEST® treatment reduced attack frequency by 44% (95% CI: 27-62) as compared with placebo.

RUCONEST® was well-tolerated in the study. No patients withdrew from the study due to adverse events and were no related serious adverse events. There were no thrombotic or thromboembolic events observed. There were no hypersensitivity or anaphylactic reactions. There were also no neutralizing antibodies detected.

HAE IN CHILDREN

Pharming is conducting an open-label Phase II study evaluating RUCONEST® for the treatment of acute attacks of HAE in paediatric patients. This study has been agreed with the European Medicines Agency Paediatric Committee and will enrol approximately 20 patients aged 2 up to 13. If successful and approved by regulatory agencies, this study would broaden the label for RUCONEST® in Europe and would extend the regulatory exclusivity period, which are both valuable benefits. Currently, RUCONEST® has regulatory exclusivity in Europe until 2025.

As at the date of this report, 19 children had been treated on demand for over 70 HAE attacks at 50 IU/kg body weight (up to a maximum of 4200 IU). The efficacy endpoints measured were time to onset of relief and to minimal symptoms, assessed by the patient (assisted by their parent), using a visual analogue scale (VAS) and by physicians using an Investigator Score. An interim analysis was conducted after 10 patients were treated. Median time to beginning of relief was 60 minutes as determined by the patients and the investigators. Using the VAS, 93% of patients had onset of relief within 2 hours at the same point of the study. No related serious adverse events of any kind have been reported. The study is expected to be completed by the end of the third quarter of 2017, with full data shortly thereafter.

ISCHAEMIC REPERFUSION INJURY (IRI)

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

This can occur in traumatic injury involving haemorrhagic shock, in organs prior to and during transplantation, in the brain as a result of stroke and in the heart as a result of myocardial infarction (a main type of 'heart attack'). It has been shown in various preclinical models that C1 esterase inhibitor can reduce the extent and effects of IRI in such cases. These indications, although they are all unmet medical needs, are extremely difficult to study in a clinical setting, and so Pharming is working with different potential partners to find a way to explore the use of RUCONEST® to help patients with these problems.

These include an ongoing preclinical study with the US Army Institute of Surgical Research into the use of RUCONEST® for some of these indications.

DELAYED GRAFT FUNCTION (DGF)

DGF, a form of IRI, is a serious and costly complication in the clinical transplantation setting. When DGF occurs, it necessitates the use of dialysis and leads to prolonged hospitalisation, which results in adverse long term outcomes and significantly higher costs. Current interventions focus on activities that occur after the organ is harvested from the donor (e.g. cold storage or machine perfusion of the organ). As demonstrated with a preclinical model, donor pre-treatment with rhC1INH prior to transplantation represents a novel approach to addressing some of the limitations of current strategies to reduce the impact of DGF. This study was conducted by Dr Luis Fernandez of the University of Wisconsin, who showed that RUCONEST® pre-treatment of harvested organs significantly reduced the incidence of DGF in transplant operations. The mechanism of action was the inhibition of the complement cascade inflammatory response pathway. A further study is now under review.

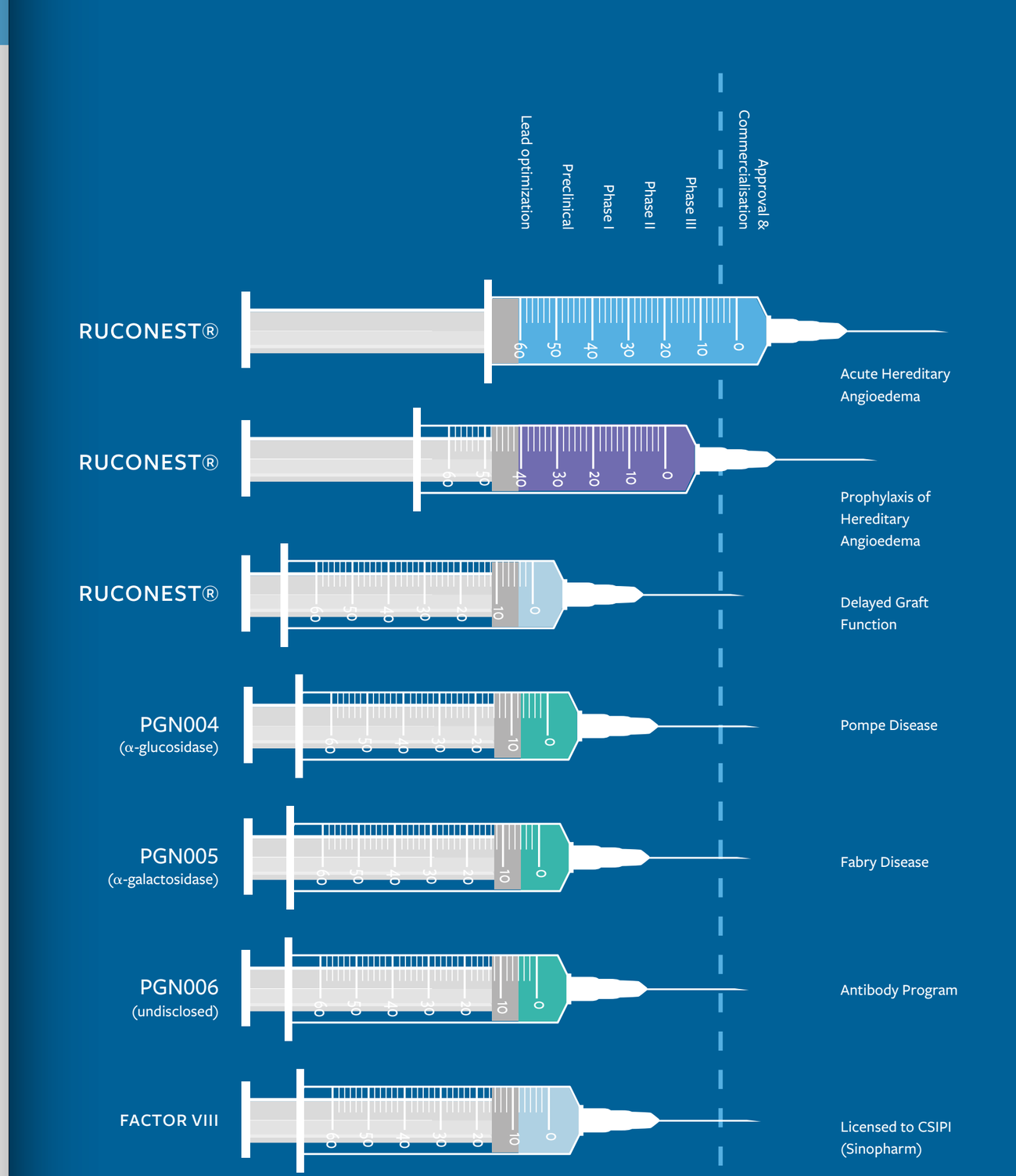
Pipeline development

Pharming's R&D team is now continuing formal work on two major projects in Pompe disease and Fabry's disease, with two others in early stage development. In addition, the team is working on bringing new forms of RUCONEST® to clinical testing and approval, including new small IV (IV Lite), intramuscular and subcutaneous versions. An oral version is also being explored.

ALPHA-GLUCOSIDASE FOR THE TREATMENT OF POMPE DISEASE

Pompe disease (also known as Acid Maltase Deficiency or Glycogen Storage Disease type II) is an inherited muscular myopathy disorder caused by the build-up of a complex sugar called glycogen in the body's cells. It affects around 1 in 40,000 people in general, varying within different ethnic groups. Pompe disease is a rare multisystem genetic disorder that is characterised by absence or deficiency of the lysosomal enzyme alpha-glucosidase (GAA). This enzyme is required to breakdown (metabolise) the complex carbohydrate glycogen and convert it into the simple sugar glucose. Glycogen is a thick, sticky substance and failure to achieve proper breakdown results in massive accumulation of lysosomal glycogen in cells, particularly in cardiac, smooth, and skeletal muscle cells. Pompe disease is a single disease continuum with variable rates of disease progression and different ages of onset. The infantile form is characterised by severe muscle weakness and abnormally diminished muscle tone (hypotonia) without muscle wasting, and usually manifests within the first few months of life. Additional abnormalities may include enlargement of the heart (cardiomegaly), the liver (hepatomegaly), and/or the tongue (macroglossia). Without treatment, progressive cardiac failure usually causes life-threatening complications by the age of 12 to 18 months. Pompe disease can also present in childhood, adolescence or adulthood, collectively known as late-onset Pompe disease. The extent of organ involvement may vary among affected individuals, but skeletal muscle weakness is usually present with minimal cardiac involvement. Initial symptoms of late-onset Pompe disease may be subtle and may go unrecognised for years. Pompe disease is caused by mutations of the GAA gene and is inherited as an autosomal recessive trait. The only approved therapy to date is Enzyme Replacement Therapy (ERT) wherein recombinant human α-glucosidase, produced by Chinese Hamster Ovary (CHO) cells (Myozyme®/Lumizyme® from Genzyme – now Sanofi-Aventis), is administered intravenously (I.V.) every 2 weeks with a dosing of 20 mg/kg body weight. Patients receiving ERT need treatment during their entire life. The major drawbacks in ERT are immune responses which can be raised towards an impure recombinant protein and low efficacy due to limited ability of the protein to reach and bind to its specific receptors on target cells, which seems to be the main reason for the high dosing. Several alternatives to Myozyme® are under development, including α-glucosidase with a different glycosylation pattern (Oxyrane, Amicus Therapeutics) and a gene therapy approach by Duke University.

Human recombinant α-glucosidase has been produced in transgenic animals before. Until 2002, Genzyme together with Pharming generated transgenic rabbits producing α-glucosidase. Production levels were as high as 8 g/L (Bijvoet et al. 1998, 1999). The transgenic material was shown to be active in clinical trials. In 2002 all assets related to the α-glucosidase program (animals, constructs, notebooks, IP, etc.) were transferred to Genzyme under the Settlement Arrangements of 15 August 2002. Genzyme then stopped the program, preferring to continue with the better-understood CHO-cell program which became Myozyme®, but scaling issues forced it to develop a second almost identical cell-line version to achieve capacity, which became Lumizyme®. Pharming's new product is intended to have better immunogenicity, safety and efficacy profiles than Myozyme®/Lumizyme®. The product will not be considered a 'Biosimilar' by the authorities as it is produced on a totally different production platform. The approach by Pharming (if successful) may therefore result in a so-called 'Biobetter'. In 2015, sales of Myozyme®/Lumizyme® were €650 million, an increase of 12.4%.



On this basis, assuming a similar growth for the products in 2016, the size of the US Pompe disease market globally may be estimated at approximately US$730 million. In addition to lower costs of goods, which allow for a forecast lower price for the new product as compared to Myozyme®/ Lumizyme®, Pharming is aiming for greater ease of administration. Pharming believes that a significant market share can be obtained, even though Genzyme currently holds 100% of the Pompe market.

ALPHA-GALACTOSIDASE FOR THE TREATMENT OF FABRY DISEASE

Fabry's disease (also known as Anderson-Fabry disease, angiokeratoma corporis diffusum, and alpha-galactosidase A deficiency) is another rare genetic lysosomal storage disease resulting from the deficient activity of a different enzyme, alpha-galactosidase A (a-Gal A), 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. a-Gal A functions to break down specific complex sugar-lipid molecules called glycolipids, specifically, globotriaosylceramide (GL-3 or Gb3), lyso-GL-3/Gb3 and related glycolipids, by removing the terminal galactose sugar from the end of these glycolipid molecules. The enzyme deficiency causes a continuous build-up of GL-3/Gb3 and related glycolipids in the body's cells, resulting in the cell abnormalities and organ dysfunction that particularly affect the heart and kidneys. The GLA gene is located on the X-chromosome and therefore, Fabry disease is inherited as an X-linked disorder. Males are typically more severely affected than females. Females have a more variable course and may be asymptomatic or as severely affected as males (see Genetics section below). There are two major disease phenotypes: the type 1 "classic" and type 2 "later-onset" subtypes. Both lead to renal failure, and/or cardiac disease, and early death). Type 1 males have little or no functional a-Gal A enzymatic activity (<1% of normal mean), and marked accumulation of GL-3/Gb3 and related glycolipids in capillaries and small blood vessels which cause the major symptoms in childhood or adolescence. These include acroparesthesia (excruciating pain in the hands and feet which occur with exercise, fevers, stress, etc.); angiokeratomas (clusters of red to blue rash-like discolorations on the skin); anhidrosis or hypohidrosis (absent or markedly decreased sweating); gastrointestinal symptoms including abdominal pain and cramping, and frequent bowel movements; and a characteristic corneal dystrophy (star-burst pattern of the cornea seen by slit-lamp ophthalmologic examination) that does not affect vision. With increasing age the systemic GL-3/Gb3 deposition, especially in the heart, leads to arrhythmias, left ventricular hypertrophy (LVH) followed by hypertrophic cardiomyopathy (HCM); in the kidneys it leads to progressive insufficiency followed by renal failure, and/or in the central nervous system to cerebrovascular disease including transient ischaemic attacks (TIAs) and strokes.

There are only two approved treatments at present, Fabrazyme®, also from Genzyme (now Sanofi-Aventis), which is agalsidase beta, a form of the human enzyme produced by recombinant DNA technology, also in CHO cells, and Replagal from Shire PLC, also a recombinant form of agalsidase beta produced in a human cell line. The FDA has granted Orphan Drug status to another investigational therapy called AT1001, manufactured by Amicus Therapeutics, Inc., for the treatment of Fabry disease. This oral therapy is designed to improve a patient's residual alpha-galactosidase A activity. With any genetic disorder which involves the patient being unable to produce a protein (enzyme) correctly, supply of the correctly produced enzyme is

'Lysosomes function as the primary digestive units within cells'

normally the standard of care, and other approaches tend to leave patients at risk of relapse or breakthrough symptoms, as has been seen for HAE. As for α-glucosidase, Pharming believes that its own platform technology can produce a very pure, less immunogenetic α-galactosidase that will compare favourably with Fabrazyme on efficacy and ease of administration. In 2015, sales of Fabrazyme® increased 17.2% to €592 million. For 2016, Shire PLC reported annual sales of Replagal of US$452 million. Assuming similar growth in 2016 for Fabrazyme, the approximate size of the Fabry's disease market in the US may be estimated at in excess of US$1,1billion .

FACTOR VIII FOR THE TREATMENT OF HEMOPHILIA-A

Hemophilia-A, also known as classical hemophilia, is a genetic bleeding disorder caused by insufficient levels of a plasma protein called factor VIII. Factor VIII is a clotting factor. Clotting factors are specialised proteins that are essential for proper clotting, the process by which blood clumps together to plug the site of a wound to stop bleeding. In individuals with Hemophilia-A bleedings do not occur faster or more profusely than in healthy individuals, but, because their blood clots poorly, the flow of blood from a wound doesn't stop easily.

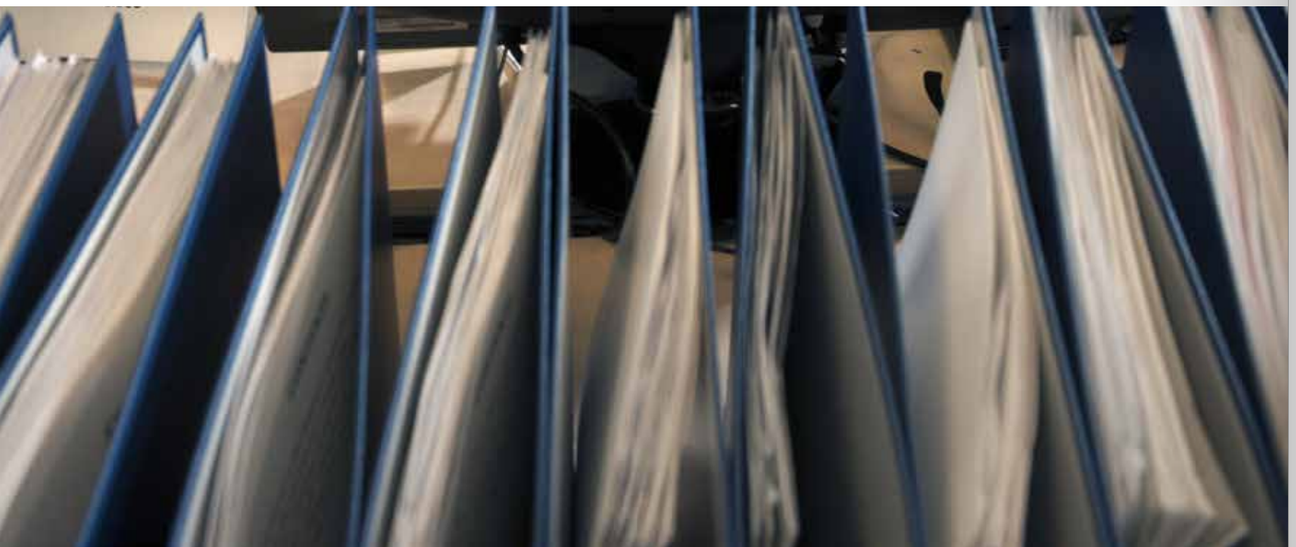
Hemophilia-A can be mild, moderate or severe, depending on the baseline level of factor VIII made by that individual. The approximate size of the global market for recombinant versions of clotting Factor VIII in 2014 was $2.7 billion. As for the liposomal storages diseases, the recognised standard of care for Hemophilia-A is replacement of the missing factor, in this case Factor VIII.. Replacement of this protein may be obtained through recombinant factor VIII, which is artificially created in a laboratory manufacturing practice. Many physicians and voluntary health organisations favour the use of recombinant factor VIII because it does not contain components derived from human blood. Factor VIII can also be obtained from plasma (i.e., blood donations). Human blood donations do carry a risk of transmitting viral infection such as hepatitis. The FDA has approved several recombinant forms of factor VIII for the treatment of hemophilia-A including Helixate®FS (CSL Behring); Recombinate® (Baxter); Kogenate®FS (Bayer HealthCare); Advate® (Baxter); ReFacto® (Pfizer); Eloctate® (Biogen-Idec) and Xyntha® (Pfizer). Human plasma-derived preparations include Monarc-M (Baxter), Monoclate-P® (CSL Behring), Hemofil M (Baxter), and Koate-DVI (Kedrion). Nuwiq was approved by the FDA in 2015, an intravenous therapy for adults and children. The medication is manufactured by Octapharma. In 2015, Adynovate was approved for use in adults and adolescents, aged 12 years and older. It is made by Baxalta U.S. Inc. In 2016, the FDA approved the drug Kovaltry Antihemophilic factor (recombinant) for the treatment of hemophilia-A in children and adults. Kovaltry is made by Bayer.

Pharming is assisting its Chinese partner (CSIPI) in producing a quality recombinant Factor VIII replacement therapy product. Further details on this program will be released once the program enters into clinical studies.

TRANSGENIC PLATFORM

Pharming's main technology platform is the development of human recombinant proteins with excellent therapeutic properties and good safety profiles through the generation of transgenic animals which only express the human protein in their milk. This enables the safe, pure production of the protein without the animal suffering or being biologically affected. Pharming is open to discussion about various partnerships to generate additional income through expanding the geographical reach of its RUCONEST® franchise and out-licensing of its transgenic platform.

‘In my job, quality is the most important factor’



TESTIMONIAL
ZHEN

The happiness here drives all employees to share the same vision: to develop innovative products and to provide life-changing solutions to patients.

I joined Pharming less than a year ago as Quality Control (QC) scientist. My favourite aspect of working at Pharming is the core company culture, to be happy at work. The happiness here drives all employees to share the same vision: to develop innovative products and to provide life-changing solutions to patients.

Happy at work

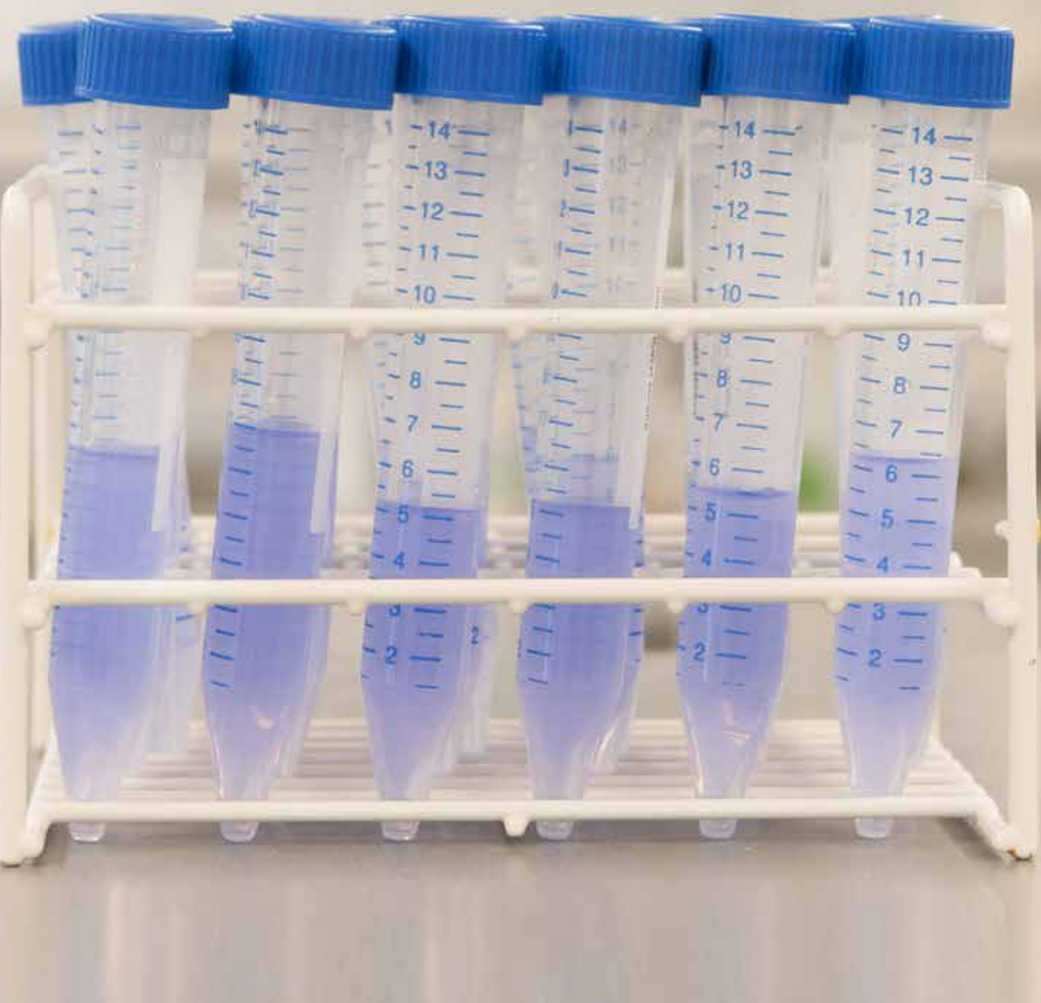
At Pharming my mornings always start with warm, welcoming greetings from my colleagues. The joyful environment here creates comfort that strengthens working relationships and enables us to conduct open, honest communication. My experience here has taught me that people with good relationships do not just accept diverse people and opinions, but they welcome them; respect them and learn from each other. With all the support and trust I have received from Pharming, I have learned what it takes for me to be a strong QC scientist, learning new skills and knowledge along the way. To quote Mencius, we must learn from other people’s strengths, to counteract one’s own weaknesses. It is my privilege to grow in my function and learn from my colleagues across all the different departments.

High quality, always

In my job, quality is the most important factor. Pharming develops and produces products of high quality and safety. Our transgenic platform remains the only technology delivering recombinant human proteins of high yields in a scalable way that retains its quality through-out. To produce high-end products, Pharming imposes high quality standards, not only on our products but also in our everyday work. Our production teams are leaders in their expertise; Our manufacturing processes comply with regulatory GMP-guidelines; Our researchers are at the frontline of innovation, all with one thing in mind: providing reliable and innovative products. Together we are moving forward to provide the best solutions to our patients; because in everything we do, we work to provide quality for our patients, and their families.

MANAGEMENT REPORT

FINANCIAL REVIEW 2016



The financial objectives for 2016 were originally focused on:

- Ensuring that the pace of research and development costs was in line with the development of sales of RUCONEST® so that cash balances were preserved without additional finance; and
- Ensuring that the company had sufficient financial resources for its needs without recourse to further dilutions for shareholders.

Both of these objectives were achieved. For 2017, the main objectives remain similar, with an important addition:

- Ensuring that sales of RUCONEST® in all markets is optimized so that the maximum potential for the product can be achieved;
- Ensuring that the pace of research and development costs continues in line with the development of sales of RUCONEST® so that profitability is achieved at both the operating and eventually the net level, so that cash resources now can be sufficient for the company's future needs excluding new opportunities; and
- Ensuring that any opportunities for acquisitions or new development projects or products are captured on a financial basis that is optimised for shareholders.

FINANCIAL SUMMARY

Amounts in €m, except per share data	2016	2015	% IMPROVEMENT/(WORSENING)
INCOME STATEMENT			
Revenue	15.9	10.8	47%
Gross profit	11.2	6.0	87%
Operating result	(11.5)	(12.8)	10%
NET RESULT	**(17.5)**	**(10.0)**	**(75%)**
BALANCE SHEET			
Cash and marketable securities	32.1	31.8	1%
SHARE INFORMATION			
Earnings per share before dilution (€)	(0.042)	(0.024)	(75%)

REVENUES AND GROSS PROFIT

Revenues increased to €15.9 million in 2016 from €10.8 million in 2015. Both years include €2.2 million of deferred license revenue released, reflecting a portion of earlier license fee payments from partners including SOBI, Salix and CSIPI which have been allocated across a number of financial years in accordance with accounting guidelines. As part of the Valeant transaction, all balances held at the transaction date in respect of Santarus or Salix license income was released and used to defray the acquisition cost of the intangible asset created in the deal representing the value of the commercialisation rights acquired.

During 2015, it emerged that a significant number of patients in the US were subject to government-imposed discounting arrangements, which offer members of certain health insurance schemes such as government departments or ex-military personnel special drug purchase rates.

As a result of the discount claims made already by these patients and a provision for later claims which may be made by other patients in these schemes, Valeant has been obliged to reduce recorded revenue by these chargeback amounts. Pharming has recognized these chargebacks and provisions for later claims throughout 2016, but in the last quarter as a result of the final calculations in respect of the Valeant transaction, it became clear to Valeant that they had slightly over-accrued for these chargebacks, and as a result a one-off adjustment of a receipt of €0.5 million reflecting a reversal of the reduced supply payments from Valeant over the first 11 months of the year was received. As the product goes forward, Pharming will accrue these amounts from gross sales in reporting net sales, and as these patients become easier to identify and as more historical data becomes available in the coming quarters based on actual reimbursements, the accuracy of these accruals can be improved further.

Revenues from product sales to Pharming increased to €13.7 million (2015: €8.6 million) mainly as a result of almost one month's full net US sales following the Valeant transaction in December 2016 on top of a slightly better year overall for RUCONEST® sales in the US (€11.8 million, up from €6.3 million in 2015). This shows the immediate effect of the Valeant transaction on the top line – Income from sales from the US in the first nine months of 2016 were €5.8 million, whereas in the fourth quarter it was €6.0 million.

Sales for RUCONEST® in Europe and the Rest of World ('RoW') were €1.9 million, reflecting largely flat sales in Europe after a stock adjustment by SOBI in Q1 2016.

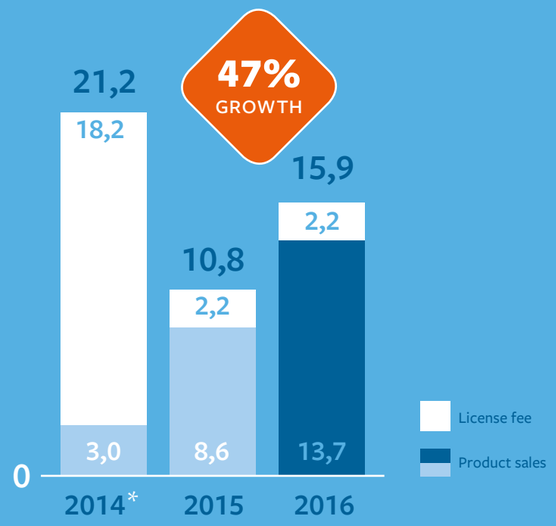
Costs of product sales in 2016 to Pharming amounted to €4.7 million, down from €4.8 million in 2015, reflecting volume savings obtained by better inventory management resulting from the increased levels of sales in the US.

In 2016, the Company added €0.3 million of impairment costs of inventories (2015: reversal of €0.2 million). Impairment costs relate to costs of goods exceeding the anticipated sales price of the product in certain markets, usually due to imperfections in the product or short times before expiry of a batch of product.

Gross profit increased from €6.0 million in 2015 to €11.2 million in 2016, an increase of 87%. The main reasons for this increase were increased sales in the US and the effect of the Valeant transaction in December 2016 above the increase in sales and marketing costs added in the US.

REVENUE

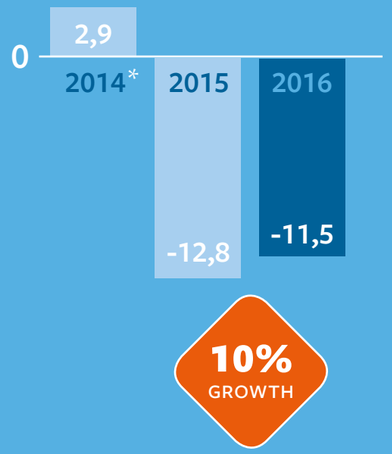
in million €



47% GROWTH

OPERATING RESULT

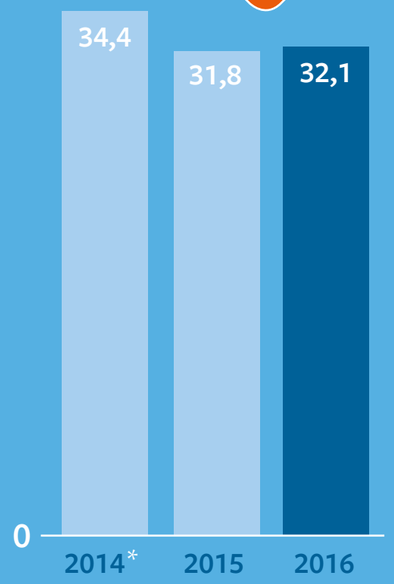
in million €



10% GROWTH

CASH

in million €

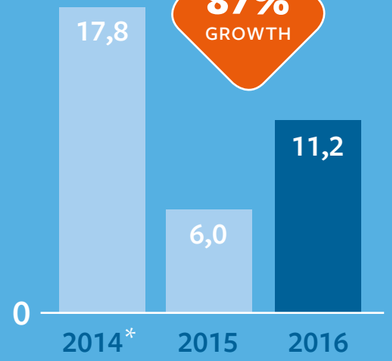


1% GROWTH

* including one-off milestone €16.0m

GROSS PROFIT

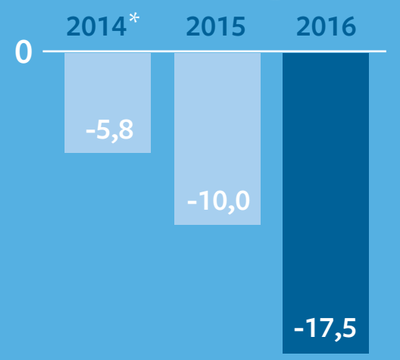
in million €



87% GROWTH

NET RESULT

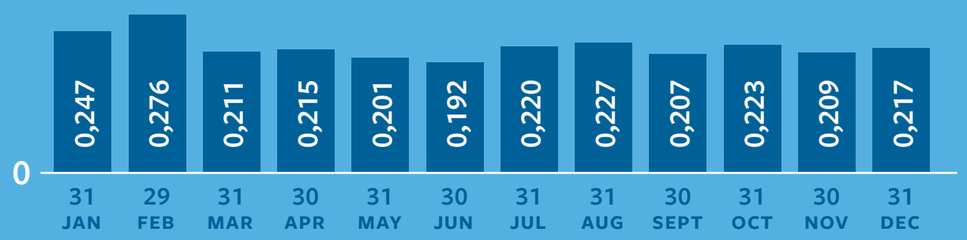
in million €



75% DECLINE

SHARE PRICE 2016

in €



OPERATING COSTS

Operating costs increased from €19.0 million in 2015 to €23.1 million in 2016. This increase reflected the increased R&D costs of the new pipeline programs, and the added cost of new personnel to handle the marketing and sales costs in the US and in the new territories taken over from SOBI in October 2016, mainly as result of initiation of direct commercialization of RUCONEST® by Pharming in the US, France and the United Kingdom.

R&D costs within these figures increased to €15.4 million from €14.2 million in 2015. In 2016, the costs have mainly been incurred in developing the two new major pipeline programs and the ongoing clinical trial programme for prophylaxis of HAE.

General and administrative costs increased to €4.6 million from €3.7 million in 2015. The increase is mainly related to costs incurred in connection with the Valeant transaction and the addition of senior management in the US.

Marketing and sales costs of €3.1 million reflect Pharming's additional new direct commercialization activities in the US and in France and the United Kingdom in Europe. This cost has increased compared with the cost of €1.1 million in 2015.

OPERATING RESULT

The operating result improved noticeably to a loss of €11.5 million from a loss of €12.8 million in 2015 in spite of a considerable increase in R&D and marketing and sales activity in 2015. This is largely due to the effect of the Valeant transaction. At September 2016, the operating loss for nine months of 2016 was already €9.4 million (€3.1 million per quarter), meaning that the fourth quarter showed an operating loss of only €2.2 million despite the transaction and other costs taken in that period.

FINANCIAL INCOME AND EXPENSES

The 2016 net loss on financial income and expenses was €6.0 million, compared with a net gain of €2.9 million a year earlier. This is mainly due to a much smaller gain on revaluation of warrants of €0.1 million (2015: €3.4 million), and the non-recurring costs of the repaying the existing debt and obtaining the other financing instruments totalling €6.1 million.

NET RESULT

As a result of the above items, the net loss increased from €10.0 million in 2015 to €17.5 million in 2016.

INVENTORIES

Inventories increased from €16.2 million in 2015 to €17.9 million in 2016, largely due to the need to cover the improving sales level in the US and to prepare for the launch of the self-administration kits in Europe.

CASH AND CASH EQUIVALENTS

The total cash and cash equivalent position (including restricted cash) increased from €31.8 million at year-end 2015 to €32.1 million at year-end 2016, mainly related to increased R&D spend, increased inventories of RUCONEST® and the major outlay on the Valeant transaction ($60 million upfront payment and various fees to the banks and advisors) and the consequent repayment of a straight debt facility of $17 million (€15.7 million) from Oxford Finance and Silicon Valley Bank obtained in July 2015, as well as €0.5 million received in chargeback over-accrual reversals and the prepayment for supplies to Cytobioteck in Latin America. This was balanced by the inflow from financing of €104 million in December 2016, and the net loss for the year.

The principal elements of cash flow were the operating loss of €11.5 million (2015: operating loss of €12.8 million), payment of the upfront amount of $60 million to Valeant, an increase in inventories of €1.7 million, increase in trade receivables of €4.2 million, increase in trade and other payables of €7.0 million and cash inflow from equity and debt financing of €77.3 million.

At the year-end the other receivables included an amount of €4.4 million which had not been received on time in respect of an investor in the Amortising bond which was received shortly after the year-end. Current liabilities included an amount provided of €9.4 million in respect of a contingent liability recognising the current fair value of the milestones potentially due in connection with the Valeant transaction, and an amount of €2.2 million in respect of that part of the advisers fees for the transaction which had not been invoiced as at the year-end.

EQUITY

The equity position improved from €23.8 million in 2015 to €27.5 million in 2016, mainly due to the net financing from the rights issue and convertible financings balanced by the net loss for the year. It should be noted that the Company continues to hold an amount of €3.2 million of deferred license fee income (year-end 2015: €10.0 million) related to non-refundable license fees received in 2010-2013 which are released to the Income Statement over the life of the license agreements involved. As a result of the crystallization of the amounts in respect of the US license in the Valeant transaction, an amount of €4.6 million of the 2015 balance was released and set off against the effective cost of the intangible asset created by buying back those rights.

PERFORMANCE OF PHARMING SHARES

During 2016, the Pharming stock price fluctuated around an average price of €0.23 per share. The year-end price was €0.22 (2015: €0.28), with a high of €0.31 and a low of €0.17 in June 2016.

New issues of stock were made to investors during the year related to; the rights issue, as a result of which 42,981,939 new shares were issued; in respect of warrants, of which 100,000 new shares were issued on exercise of the underlying warrants; and 533,584 new shares were issued to members of the Board of Management and employees in lieu of cash bonuses with an aggregate value of €0.1 million for a total of 43,615,523 new shares issued during the year. Since the year end, a further 20,723,193 new shares have been issued pursuant to conversion of some of the amortizing bonds due 2017/18, reducing the amount outstanding of those bonds from €45.0 million to €38.9 million.

Outlook 2017

FOR THE REMAINDER OF 2017, THE COMPANY EXPECTS:

- Continued growth in revenues from sales of RUCONEST®, mainly driven by the US operations;
- Achievement of quarterly profitable Operating Results in the course of the year;
- Continued investment in the production of RUCONEST® in order to ensure continuity of supply to the growing markets in the US, Europe and the rest of the world;
- Investment in the approval or further clinical trial program for RUCONEST® in prophylaxis of HAE and the development of a small IV version and new intramuscular and subcutaneous versions of RUCONEST®;
- We will also continue to invest carefully in the new pipeline programs in Pompe disease and Fabry's disease, and other new development opportunities and assets as these occur. To this end, we will be adding to our milk production sites in the Netherlands;
- Increasing selected marketing activity where this can be profitable for Pharming, such as in our current major territories of the United States, Austria, France, Germany, the United Kingdom and the Netherlands;
- We will continue to support all our marketing partners in order to enable the maximization of the sales and distribution potential of RUCONEST® for patients in all territories, as we continue to believe that RUCONEST® represents the fastest, most effective, most reliable and safest therapy option available to HAE patients.

No financial guidance for 2017 is provided.

Although the requirement to produce quarterly reports has been discontinued under the new EU Transparency Directive and the Amended Transparency Directive Implementation Act, Pharming intends to continue to provide quarterly operating and financial reports on a voluntary basis.

Going concern

Pharming's 2016 financial statements have been drawn up on the basis of a going concern assumption.

The 2016 year-end cash balance of €32.1 million is expected to fund the Company for more than one year from the date of this report. The receipts from commercial supply of product to our partners in Europe, the Middle East, Latin America, South Korea and Israel and proceeds from direct sales in the US, Austria, France, Germany, the Netherlands and the United Kingdom will further support our financial reserves.

Pharming has a history of operating losses and anticipates that it will continue to incur losses until such quantities of RUCONEST® are being sold (directly or by our partners) that the proceeds to Pharming from such sales become sufficient to meet our operating costs. This is expected to occur within 2017.

Presently, no further assurance can be given both on the timing and size of future profits and whether consistent net profitability can be achieved on this basis. We remain confident that the development of RUCONEST® will enable this situation to occur.

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.

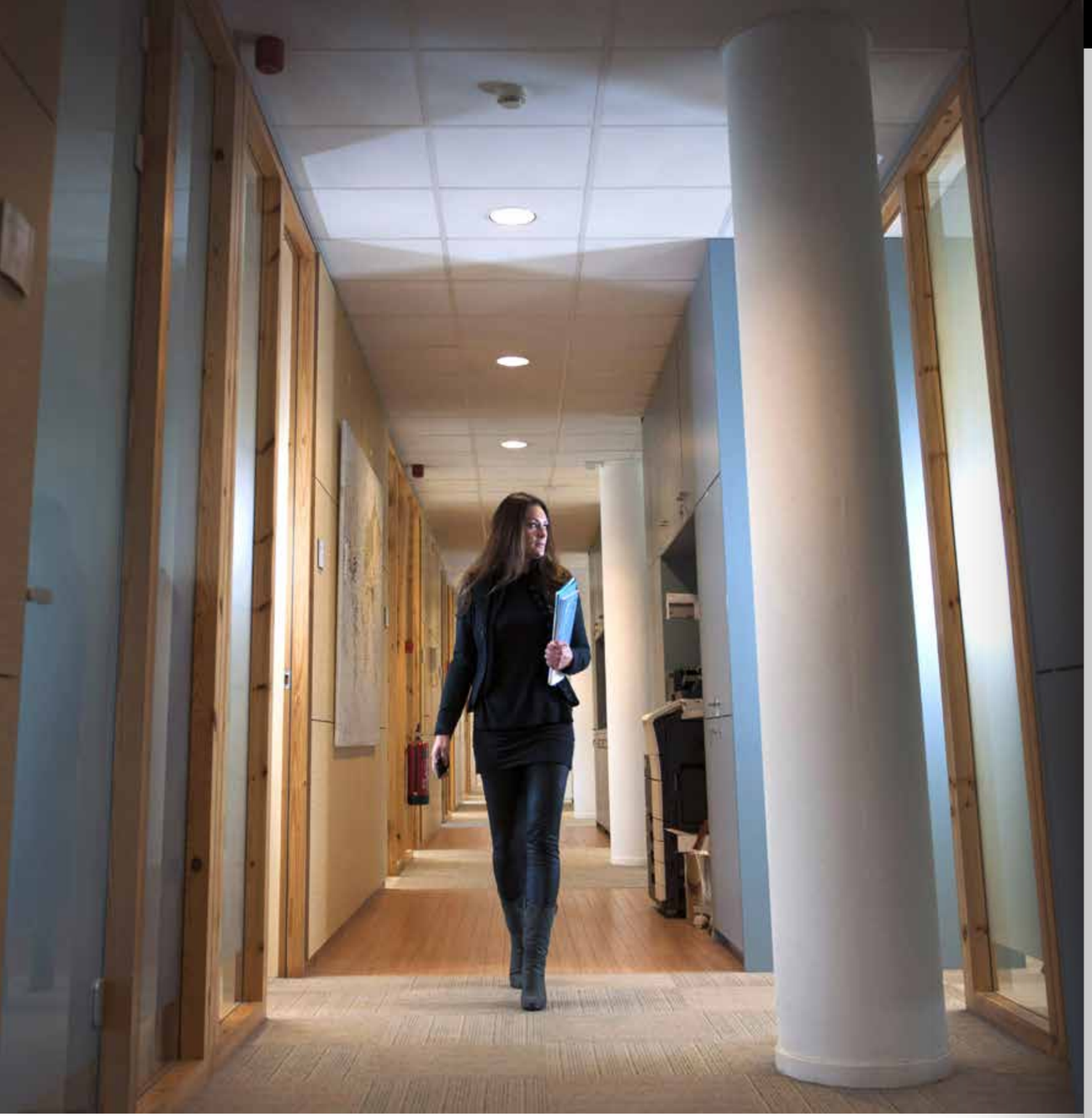
Summary of goals for 2017

- Achievement of (internal) market share/sales targets for RUCONEST®, in the US;
- Achievement of (internal) market share/sales targets for RUCONEST® in Europe and other territories by our partners SOBI, HyupJin, Cytobioteck and MegaPharm and by direct commercialisation in the remaining territory;
- Resolution of the next steps for RUCONEST® in development for Prophylaxis with the US Food & Drug Administration (FDA);
- Prioritisation of new development projects and release in due course of the new products' clinical strategy and development plans, including introduction of new RUCONEST® forms;
- Development of the Company's visibility amongst institutional investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

No guidance on total revenues from sales/ operational results is provided for 2017, except that the Company has stated its expectation to achieve profitability (at least at the operating profit level) within 2017.

RESEARCH AND DEVELOPMENT

Process Development
One of the most important aspects of our Research and Development processes is the purification development for new products. Using cutting edge technology we purify new products from raw materials to eliminate impurities and ensure quality.



‘Challenging? Sometimes. Valuable? Without a doubt!’

TESTIMONIAL
MISCHA

‘I love being part of something bigger where I can make a real difference to real people’

Within the Marketing and Sales department, I am proud to work closely with doctors and patients helping to make a difference in so many people’s lives. Selling therapies requires creativity, drive, and communicative skills. Challenging? Sometimes. Valuable? Without a doubt!

When I first started working for Pharming 9 years ago, I worked at the Regulatory Affairs department. At the time we were all working hard on the filing of the RUCONEST® dossier to the European Medicines Agency. Back then, I read every single page of the 50,000 page dossier. I learnt a lot about both the unique technology platform and RUCONEST® as a therapy.

From product to patient

After RUCONEST’s approval in Europe in 2010 and in the US, in 2014; it became increasingly important to monitoring the product’s safety. Therefore, I changed my focus to drug safety in the Pharmacovigilance department. Moving to the Pharmacovigilance department added a new dimension to my work. Previously my work in the Regulatory Affairs Department was more focused on the therapy, in the Pharmacovigilance department it was more focused on the safety of the patient. During my time working in the Pharmacovigilance department I realized what it is about my work that motivates me; the welfare of our patients and working towards an effective solution for them in their daily struggles with HAE.

The perfect opportunity

I never intended to work for the same company for so long. However, I never felt like I was ready to leave; my work here is not done. All my knowledge and experience with RUCONEST® and the disease it treats, seeing up close how HAE effects patients and their families lives motivates me on a daily basis. For this reason, I was very excited when Pharming gave me the chance to join the Marketing and Sales department last year. This was the perfect opportunity to put my knowledge of the therapy together with my motivation to contribute to making a difference to patients in need.

I am proud to work for a Biotech company that has not only succeeded in developing an effective therapy, but has also brought it to the market. It has not always been easy but I am glad to be a part of it. I look forward to what 2017 will bring and where the future will take us.

STATEMENT OF THE BOARD OF MANAGEMENT

On the basis of the above and in accordance with best practice II.1.5 of the Dutch Corporate Governance Code effective as of 1 January 2009, and Article 5:25c of the Financial Markets Supervision Act, the Board of Management confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and confirms that these controls functioned properly in the year under review. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.
The Board of Management declares that to the best of its knowledge and in accordance with applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report incorporated in this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group. For a detailed description of the risk factors, we refer to the 'Corporate governance and risk management' chapter in this report.

Leiden, 22 March 2017
The Board of Management
The original copy has been signed by the Board of Management.

MANAGEMENT STRUCTURE

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

MANAGEMENT POWERS AND FUNCTION

The Board of Management is entrusted with the management of the Company and is responsible for the policy and the central management of the Company under the supervision of the Board of Supervisory Directors.
The Board of Management is authorised to commit the Company in contractual obligations to third parties.
The Board of Management has adopted the Board of Management Regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Management.
The Board of Supervisory Directors is charged with supervising the policy of the Board of Management and the general course of the Company's affairs and the enterprise connected therewith. The Board of Supervisory Directors assists the Board of Management by rendering advice.
In performing their duties, the members of the Board of Management are obliged to act in the best interests of the Company and the enterprise connected therewith. The Board of Supervisory Directors has adopted the Board of Supervisory Directors Regulations, which provide for certain duties, composition, procedures and decision-making of the Board of Supervisory Directors.

The members of the Board of Management and the members of the Board of Supervisory Directors are appointed at General Meetings of Shareholders from nominations made by the Board of Supervisory Directors. If the nomination comprises two or more persons for each vacancy, the nomination shall be binding. In addition, the Board of Supervisory Directors is authorised to make a non-binding nomination for a vacancy, consisting of one person. If the Board of Supervisory Directors fails to submit the nominations in time, the General Meeting of Shareholders has the authority to appoint any person it chooses. Notwithstanding the foregoing, the General Meeting of Shareholders may at all times, by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital, deprive the nominations of their binding effect. The General Meeting of Shareholders may adopt or reject a non-binding nomination by a resolution adopted with a majority of the votes cast.

The members of the Board of Management and the members of the Board of Supervisory Directors may at any time be suspended or dismissed by a resolution adopted by a majority of the votes cast representing more than one third of the Company's issued share capital. The members of the Board of Management may also be suspended by a resolution of the Board of Supervisory Directors. If in the aforementioned cases, the quorum of one third of the Company's issued share capital is not met, a new meeting will be convened in which a nomination can be rejected or a dismissal or suspension can be resolved by a majority of the votes cast.

BOARD OF MANAGEMENT & EXECUTIVE COMMITTEE

Bruno Giannetti

Sijmen de Vries

Robin Wright

Anne-Marie de Groot

Sijmen de Vries MD MBA

TITLE
Chairman of the Board of Management and Chief Executive Officer

NATIONALITY
Dutch, 1959

DATE OF INITIAL APPOINTMENT
13 October 2008

TERM
Up to AGM in 2017

OTHER CURRENT BOARD POSITIONS
Mr. De Vries is a non executive director of Midatech Pharma PLC.

During 2016, Mr. De Vries was responsible for the overall management of the Company. Mr. De Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joined Pharming from Switzerland-based 4-Antibody where he was CEO. Mr. De Vries has also been CEO of Morphochem AG and prior to this he worked at Novartis Pharma and Novartis Ophthalmics and at Smith-Kline Beecham Pharmaceuticals plc where he held senior business and commercial positions. Mr. De Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

Bruno M.L. Giannetti MD PHD

TITLE
Member of the Board of Management and Chief Operations Officer

NATIONALITY
Italian, 1952

DATE OF INITIAL APPOINTMENT
1 December 2006

TERM
Up to AGM in 2017

OTHER CURRENT BOARD POSITIONS
Mr. Giannetti holds no other board positions.

During 2016, Mr. Giannetti was responsible for the Company's operations including research and development and manufacturing activities as well as medical governance and non-clinical and clinical development, regulatory affairs, drug safety, and medical information teams. He has more than 25 years of experience in the pharmaceutical and biotech industry. Previously, he was the President and founder of CRM Clinical Trials GmbH (now Topcro GmbH), CEO of AM-Pharma B.V. and President and CEO of Verigen AG. He has served as senior management consultant for pharmaceutical R&D projects at Coopers & Lybrand (in Switzerland and the UK). Mr. Giannetti was also worldwide Vice-President Marketing and Medical Information at Immuno, Austria and Head of Clinical Research at Madaus AG. Mr. Giannetti holds a PhD in Chemistry and a MD PhD degree in Medicine from the University of Bonn and has been appointed visiting Professor at the Pharmaceutical Faculty of the University of Seville (Spain).

Robin Wright BA FCA

TITLE
Member of the Board of Management and Chief Financial Officer

NATIONALITY
British, 1964

DATE OF INITIAL APPOINTMENT
28 October 2015

TERM
Up to AGM in 2020

OTHER CURRENT BOARD POSITIONS
Mr. Wright holds no other board positions.

Mr. Wright is responsible for the financial management, accounting and investor relations activities of the company within the CFO role. He has extensive senior level experience as a CFO of public companies in both the pharmaceutical and biotechnology industries. He is a qualified accountant and joins Pharming from Sweden-based Karolinska Development AB (publ.) (KDEV: SS), where he was CFO and Head of Business Development. Mr. Wright was also CFO and Head of Business Development at Orexo AB (publ.) (ORX: SS) in Sweden. Prior to this, he worked in private equity and corporate finance advisory roles, including long periods at Citibank Salomon Smith Barney and Barclays de Zoete Wedd. He has completed over 165 global license and M&A transactions as well as many financing transactions within the pharma/biotech sector. Mr. Wright holds a BA degree in Chemistry from Oxford University and is a Fellow of the Institute of Chartered Accountants in England and Wales in the UK.

Anne-Marie de Groot

TITLE
Member of the Executive Committee and Senior Vice President Organisational Development.

NATIONALITY
Dutch, 1981

DATE OF INITIAL APPOINTMENT
1 January 2014

Mrs. De Groot is responsible for developing and executing internal strategic development within the Company to drive performance and identify and implement best business practices, including continuous education and alignment of the organization to be prepared to deliver on new challenges. She has extensive and hands-on experience leading the Human Resources, Corporate Communications, Information Technologies and Support Services groups and plays a key role in aligning talent to business strategy, cultivating an environment of high employee engagement and in developing the organizational design. Mrs. De Groot has over 12 years of experience crossing the full spectrum of the HR discipline including leadership and talent development, talent acquisition, corporate culture development, organization design and restructuring, mergers and acquisitions, compensation and benefits, payroll and performance management. She held various Human Resources and Talent Acquisition positions at Randstad, Janssen Pharmaceuticals (the pharmaceutical companies of Johnson and Johnson) and Pharming. She holds a Bachelor in Social Work and a Bachelor in Human Resources Management from Hogeschool Leiden.

BOARD OF SUPERVISORY DIRECTORS

Paul Sekhri

TITLE
Chairman from 25 May 2016
NATIONALITY
American, 1958
DATE OF INITIAL APPOINTMENT
30 April 2015
TERM
Up to AGM in 2019
OTHER CURRENT BOARD POSITIONS
Mr. Sekhri is a board member of Lycera Corp.

Mr. Sekhri (1958) has 30 years of operational experience in life sciences with in-depth knowledge of multinational pharmaceutical and biotechnology markets and products. Mr. Sekhri is currently President and Chief Executive Officer of Lycera Corp., a biopharmaceutical company developing breakthrough medicines to treat cancer and autoimmune disease. Prior to joining Lycera, Mr. Sekhri was Senior Vice President, Integrated Care at Sanofi, where he led the creation of innovative solutions and business models to meet patient needs. Previously, he served as Group Executive Vice President, Global Business Development and Chief Strategy Officer at Teva Pharmaceutical Industries Ltd. Mr. Sekhri has held positions in small biopharmaceutical companies, large and small pharmaceutical companies, and venture capital/private equity firms, including TPG, Cerimon Pharmaceuticals, Ariad Pharmaceuticals and Novartis AG. Mr. Sekhri completed postgraduate studies in clinical anatomy and neuroscience at the University of Maryland, School of Medicine and received his BSc degree from the University of Maryland. In addition to his board position with Lycera, he currently serves on several public and private boards including Enumeral Holdings, Inc., Pharming Group N.V., Nivalis Therapeutics, Inc., and Veeva Systems, Inc.; as well as several non-profit boards including, Caramoor Music and Arts Center, Young Concert Artists, Inc., the TB Alliance, the Cancer Research Institute, and is a member of the Patrons Council of Carnegie Hall where he served as a member of the Board of Trustees from 2010-2012.

Jaap Blaak MSC

TITLE
Chairman until 25 May 2016 and now Member, and member of the Remuneration Committee
NATIONALITY
Dutch, 1941
DATE OF INITIAL APPOINTMENT
23 May 2007
TERM
Up to AGM in 2019
OTHER CURRENT BOARD POSITIONS
Mr. Blaak is co-founder & shareholder of VenGen Holding B.V. and the founder & shareholder of TailWind B.V.

Mr. Blaak has held executive positions with Hoogovens, Indivers N.V. and Interturbine Holding B.V. in the Netherlands, U.S. Germany and Singapore. In 1983, he got involved with the foundation of the MIP Equity Fund, one of the largest venture capital groups in Europe, and was appointed CEO in 1986. MIP made several investments in Life Science companies and was the driving force behind the BioScience Park in Leiden. Later on MIP merged with the ABN AMRO Venture Capital Group to form Alpinvest. Mr. Blaak has been an advisor to the Dutch Ministry of Economic Affairs for the Biopartner and Technopartner Program and other innovative projects related to Entrepreneurship and Innovation.
Mr. Blaak holds an MSc in Physics and Business Economics from the Free University in Amsterdam and followed the Advanced Management Program of the Harvard Business School (AMP '81)

Juergen H.L. Ernst MBA

TITLE
Vice Chairman, member of the Audit, Corporate Governance and Remuneration Committees
NATIONALITY
German, 1939
DATE OF INITIAL APPOINTMENT
15 April 2009
TERM
Up to AGM in 2017
OTHER CURRENT BOARD POSITIONS
Mr. Ernst is board member of the supervisory board of Aeterna Zentaris Inc.

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

J. Barrie Ward PHD

TITLE
Member, Chairman of the Corporate Governance and Remuneration Committees. Member of the Audit Committee (until 25 May 2016)
NATIONALITY
British, 1938
DATE OF INITIAL APPOINTMENT
23 May 2007
TERM
Up to AGM in 2019
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.

Aad de Winter LLM

TITLE
Member, Chairman of the Audit Committee and member of the Corporate Governance Committee
NATIONALITY
Dutch, 1953
DATE OF INITIAL APPOINTMENT
15 April 2009
TERM
Up to AGM in 2017
OTHER CURRENT BOARD POSITIONS
Other current board positions: Mr. De Winter holds no other board positions.

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

Jan Egberts MD MBA

TITLE
Member, member of the Audit Committee (from 25 May 2016)
NATIONALITY
Dutch, 1958
DATE OF INITIAL APPOINTMENT
30 April 2015
TERM
Up to AGM in 2019
OTHER CURRENT BOARD POSITIONS
Mr. Egberts is a board member of Agendia Inc. and supervisory board member of CHDR, Implanet SA and Lead Pharma.

Mr. Egberts has over 25 years of executive experience in the pharmaceutical and medical device sectors, most recently as Chief Executive Officer at Agendia inc., a molecular diagnostics company. Prior to this, Mr. Egberts was Chief Executive Officer of Octoplus N.V., a specialty pharmaceutical company, which was acquired by Dr. Reddy's Laboratories Ltd. In 2013. Mr. Egberts also served as a senior healthcare advisor for 3i Group plc, a private equity firm, and as President, Chairman and Chief Executive Officer of Novadel Pharmaceuticals Inc., where he developed a portfolio of pre-clinical and clinical compounds, gaining FDA approval for two compounds. In addition, Mr. Egberts has held multiple business development and general management positions at Johnson & Johnson, Merck & co. and Mölnlycke Health Care. Mr. Egberts graduated from Erasmus University Medical School in the Netherlands and he obtained his MBA from Stanford after which he worked as a management consultant for McKinsey & Cco.
Mr. Egberts continues to serve on the supervisory board of CHDR (Center for Human Drug Research) and Implanet SA.

BOARD OF SUPERVISORY DIRECTORS: COMMITTEES

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

The Audit Committee consists of Mr. De Winter (Chairman), Mr. Ernst, Mr. Ward until 25 May 2016 and thereafter Mr. Egberts. The tasks performed by the Audit Committee include reviewing the scope of internal controls and reviewing the implementation by the Board of Management recommendations made by the independent external auditor of Pharming.

The Remuneration Committee consists of Mr. Ward (Chairman), Mr. Ernst and Mr. Blaak. The Remuneration Committee advises the Board of Supervisory Directors with regard to salaries, grants and awards under incentive plans, benefits and overall compensation for the individual members of the Board of Management.

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

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

RESEARCH AND DEVELOPMENT

Cell culture lab We conduct studies in our cell culture laboratorium to test product effectiveness. We use cells to test uptake and reaction of new products in target cells.
This is a fundamental stage of development before embarking on clinical studies.

TESTIMONIAL HARRIE

I was involved in the purification, characterization and registration of recombinant human C1 inhibitor and am proud that the resulting therapy RUCONEST® is approved and available for the treatment of attacks in patients with hereditary angioedema.

I work as a senior scientist heading the Process Development team within the Research and Development department of Pharming. I first became interested in protein purification as a student in the research group of professor Herman de Boer at the University of Leiden and joined Pharming after graduation. Herman de Boer had a vision of expressing human therapeutic proteins in the milk of transgenic animals, which is the basis of Pharming's technology.

Expression, purification and characterization

In addition to the milk expression analysis of the recombinant human proteins of interest comes protein purification and characterization, to make sure they are safe and effective for the treatment of patients suffering from life-threating diseases. This is where my passion lies.

Fundamental research

As well as biopharmaceutical drug development, Pharming participates in fundamental research to continue innovation. The company has collaborations with several universities and partnering companies. I am involved in a project with the University of Leiden aimed at understanding the structure-function relationship of human C1 inhibitor. Recently, we published an article describing the protein structure of the functional domain of C1 inhibitor and proposed a model for potentiation of the protein's activity by polysaccharides. Overall, I believe the work we do at Pharming will further improve the lives of patients' taking RUCONEST®, and that our future products will prove just as effective.

'The work we do here at Pharming improves patients' quality of life'

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Corporate governance

The Board wishes to draw attention to Pharming's compliance with the majority of the provisions in the prevailing Corporate Governance Code. Details of Pharming's position regarding our formal Corporate Governance Statement as required by Dutch law can be found on our website: www.pharming.com.

Risk management and control

Pharming's Board of Management is responsible for designing, implementing and operating the Company's internal risk management and control systems. The purpose is to provide reasonable assurance that strategic, operational, financial and compliance objectives can be met. The control systems are designed to manage in an effective and efficient manner the significant risks to which the Company is exposed and that provide reasonable assurance that the financial reporting does not contain any errors of material importance. The Company has developed an internal risk management and control system that is tailored to the risk factors that are relevant to the Company, allowing for its small size. Such systems can never provide absolute assurance regarding achievement of Company objectives, nor can they provide an absolute assurance that material errors, losses, fraud, and the violation of laws or regulations will not occur.

A summary of the risks that could prevent Pharming from realising its objectives is included in the section 'Risk factors' of this report.

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

- Annual evaluation by the Board of Supervisory Directors of the realised objectives;
- Periodical updates to the Board of Supervisory Directors reviewing developments in the areas of operations, finance, research and development, business development, clinical development, and investor relations;
- Periodic operational review meetings of the Board of Management with departmental managers;
- Quarterly review of the financial position and projections as part of the meetings of the Board of Management with the Board of Supervisory Directors;
- A planning and control cycle consisting of annual, quarterly and monthly procedures, including budgets which incorporate both financial and operational objectives, cash flow forecasts and subsequent follow-up on achievements of targets set;
- A whistle-blower's procedure, which is published on the Company's website.
- Regular meetings of the Audit Committee with each of the Board of Management and the Independent Auditor to discuss the financial results and the controls and procedures;
- Periodical update of the Risk Assessment by an internal Risk Assessment Team.

The Company maintains records and procedures designed to:

- Ensure the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only by authorised employees in accordance with documented authorisations;
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The internal risk management and control systems of the Company are regularly discussed by the Board of Management with the Board of Supervisory Directors, its Audit Committee and Corporate Governance Committee and, in addition, procedures and controls are reviewed and areas requiring improvement are identified in audits from external parties, for example financial and IT experts, including findings in the internal controls regarding financial reporting reported in the Management Letter of the independent external auditor.

Pharming is subject to many risks and uncertainties that may affect its financial performance. If any of the events or developments described below (see Risk factors) occurs, Pharming's business, financial condition or results of operations could be negatively affected. In that case, the trading price of the shares could decline and investors could lose all or part of their investment in the shares.

With respect to the financial reporting risks reference is made to the 'Statements of the Board of Management' in this report. Refer to the 'note to the consolidated financial statements' under note 30. 'Financial risk management'.

Risk factors

In the description of the risk factors below we focus on the risks we consider the main threats to achievement of our objectives. Although many risk factors have been identified in a Risk Assessment, we are limiting the description to six factors that we consider the principal ones. The risk factors are determined with the risk appetite of the Company. We describe these risks together with the risk-mitigating actions we have taken to address them.

To determine if a risk is acceptable, the Board of Management has set a risk appetite, which is the level of risk the Company deems acceptable to achieve its objectives. The risk appetite is based upon our strategic goals, our business principals, our policies and procedures, and taking into consideration the highly regulated markets we operate in.

Our risk appetite differs per risk type:

- Strategic risks: we aim to deliver on our strategic ambitions and priorities, and are willing to accept reasonable risks to achieve this;
- Operational risks: we face operational challenges which require an appropriate level of management attention. The overall objective is to avoid risks that could negatively impact on our goal to achieve operational efficiency, while ensuring our quality standards are unaffected;
- Financial risks: our financial strategy is focused on a strong financial position and creating long-term value of our shareholders;
- Legal and regulatory risks, compliance: we strive to be fully compliant with our code of conduct and national and international laws and regulations of the markets in which we operate and do not accept deviations.

‘The risk appetite is based upon our strategic goals, our business principals, our policies and procedures, and taking into consideration the highly regulated markets we operate in’

The Company has selected the following 6 risk factors as the principal ones at this moment:

1 COMMERCIAL RISK

Pharming faces and expects to remain confronted with intense competition in the various markets for its products

Although Pharming is the sole provider of a recombinant therapy (either on the market or in development) for the treatment of Hereditary Angioedema (HAE) attacks, the Company faces intense competition from products used to treat HAE attacks. In Europe, two other non-recombinant C1 inhibitor products and one product using another mechanism of action have been approved in the European Union (EU), each for the treatment of acute HAE attacks.

In the United States of America (US) one non-recombinant C1 inhibitor product and two products with alternative mechanisms of action have been approved for certain types of acute HAE attacks as well as one non-recombinant C1 inhibitor product for preventive treatment of HAE attacks. As a consequence, Pharming may not obtain a sufficient market penetration with RUCONEST® or a sufficient level of sales of the product to allow it to become profitable. For the products under development, Pharming is also exposed to the risk that a competitor may bring a product with similar effects to the market faster than the Company does, which may result in Pharming’s sales of its products to fall short of the level needed to reach profitability.

New technologies from competitors can make RUCONEST® or any other products under development and Pharming’s technology obsolete. Several competitors are active in the market for therapeutic products with more resources and significantly greater experience in, amongst others, obtaining regulatory approvals. The above events may have a material adverse effect on Pharming’s business, financial position, results of operations, prospects and market price of the Shares.

Pharming’s future success may depend upon the ability to enter into partnerships with third parties

Pharming’s strategy for the commercialisation of some of its products, in particular those for larger indications, is to partner or out-license such products to third parties. Pharming currently has a product portfolio which focuses on the commercialisation and further development of RUCONEST® for HAE. The other products of Pharming are in pre-clinical stage. There are currently no partnerships on the development or commercialisation of any of Pharming’s products, other than for RUCONEST® and Factor VIII. If Pharming is not able to locate and enter into favourable agreements with suitable third parties, it may have difficulties commercialising the relevant products and bringing the sales of the relevant product to the level needed to reach profitability. The process of establishing partnerships is difficult and time-consuming and involves significant uncertainty. Pharming’s ability to predict the success of any partnership it may enter into is limited due to (amongst other factors) the complexity and uncertainty of these arrangements.

Pharming’s products may not gain market acceptance

Sales of medical products depend on physicians’ willingness to prescribe the treatment, which is likely to be based on a determination by these physicians that the products are safe and efficacious from a therapeutic and cost perspective relative to competing treatments. Pharming cannot predict whether physicians will make this determination in respect of its products.

Even if Pharming’s products achieve market acceptance, the market may fluctuate in size and may end up not being large enough to allow Pharming to generate sufficient revenues.

RESEARCH AND DEVELOPMENT

ELISA We use the Enzyme-Linked Imunosorbant Assay or ELISA to conduct the screening of our samples to select the sample with the highest expression level of new product. We do this to select the producer with the highest yield in a bid to continuously innovate and refine our production process.

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

For some of the essential materials incorporated into product candidates, Pharming relies on a single supplier. Any disruption in the supply of these materials could adversely affect its ability to complete the clinical trials and other studies of its product candidates successfully, delay submissions of the regulatory applications or affect adversely its ability to commercialise its product candidates in a timely and/or commercially-valuable manner, or at all.

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

Development methods and technologies which Pharming uses include, among others, genetic transfer technology and genetic modification. These and other activities have been, and may in the future be, the subject of debate and negative publicity. In the past, organisations and individuals have tried to stop genetic modification through different ways of putting pressure on companies relating to these activities, including by use of media campaigns. These actions may have a material adverse effect on Pharming's business, financial position, operational performance and prospects and the market price of the shares.

Furthermore, the Company needs the market to accept its products in order to be able to commercialise them. Market acceptance is dependent on the opinions of the medical community, partners and competitors about numerous factors including the safety and efficacy of the relevant products. Any failure to obtain market acceptance may also have a material adverse effect on Pharming's business, financial position, operational performance and prospects and the market price of the shares.

Disappointing reimbursements paid by third parties and disappointing cost-effectiveness of Pharming's products once approved for marketing may have a material adverse effect on Pharming's financial results

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

In addition to reimbursements from third parties, if the Company succeeds in bringing a product to the market, it also faces uncertainties about the cost-effectiveness and profitability of the product. The prices for the product that health care insurers and/or consumers are willing to pay may be lower than the production costs which may make the product uncompetitive and may thereby adversely affect Pharming's business, financial position, operational performance and prospects and the market price of the shares.

Pharming is dependent on its ability to obtain and hold rights to proprietary technology and to develop its technology and products without infringing the proprietary rights of third parties and to protect its proprietary technology

Patents, trade secrets and other proprietary rights are important to Pharming's business. The Company sometimes has to protect its products and technology through patenting and licensing and at the same time develop its products without infringing the proprietary rights of third parties. The patent positions of pharmaceutical companies are sometimes uncertain and can involve complex legal and factual questions. In addition, the breadth of claims that will be allowed by patent authorities cannot be predicted with certainty. Pharming has several patent applications granted and pending in the US, Europe, Japan and other countries. It is not certain that the pending patent applications will result in patent issues, that these patents will afford adequate protection or that the existing patents will not be challenged. As a result, not being granted the applied-for patents or more probably the risk of expensive and protracted proceedings to defend the Company's proprietary rights may have a material adverse effect on Pharming's business, financial position, operational performance and prospects and the market price of the Shares. The success of Pharming also depends, in part, on the ability of its licensors to obtain, maintain and enforce their intellectual property rights to the extent required by Pharming to develop and commercialise its products.

The Company seeks protection of its other proprietary know-how through confidentiality and other agreements with employees and third parties. No assurance can be given that these agreements offer an adequate protection or that equivalent or superior know-how is not independently developed by competitors.

Pharming operates in an industry sector that has a relatively high risk of facing litigation

Pharming participates and will participate in an industry that has been subject to significant product liability and intellectual property claims and other litigation. Pharming cannot be certain that it was the first to invent the subject matter of its patent applications and patents, that it was the first to apply for such a patent, or that those technologies or products used by Pharming will not infringe third party intellectual property rights or that existing patents remain valid and enforceable. Pharming may therefore face litigation or other legal proceedings concerning its intellectual property. These processes can be time-consuming and very costly. In the event of an unfavourable ruling in patent or intellectual property litigation, Pharming could be subject to significant liabilities to third parties, or be required to cease developing, manufacturing or selling the affected products or technology or be required to in-license the disputed rights from third parties. Each of these outcomes may adversely affect Pharming's business, financial position, results of operations and prospects and the market price of the Shares. Although Pharming is not aware of any such pending litigation and does not believe that there is any material litigation or other proceeding pending or threatened, it cannot be excluded that it will face such claims in the future or that such claims, although not considered material, will impose on Pharming considerable costs or will consume significant management resources. In addition, it cannot be excluded that Pharming will be confronted with claims which are raised with the main aim of exploiting the nuisance value of publicly raised claims. In order to prevent infringement of third party intellectual property rights, Pharming may need to acquire licenses for patents held by third parties to re-establish or maintain its freedom to operate, possibly on unfavourable terms. A failure to obtain licenses for patents held by third parties, or failure to obtain them on favourable terms, may have a material adverse effect on Pharming's business, financial position, results of operations, prospects and market price of the shares.

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

Pharming has entered into (downstream) manufacturing and supply agreements for the production of rhC1INH, the drug substance of RUCONEST®, namely with Sanofi and BioConnection. Pharming may have to develop and/or contract additional (upstream) manufacturing capabilities and may have to develop or contract additional (downstream) manufacturing capacity. It is uncertain

whether and to what extent Pharming will be able to develop such capabilities or enter into such partnerships or agreements on a timely basis and on acceptable terms. Even if a partnership or agreement has been concluded, the possibility exists that these partners fail to live up to the agreements made with them or that Pharming is unable to maintain such agreements. A failure to develop and/or sufficiently contract additional manufacturing capacity on a timely basis could have significant detrimental consequences for Pharming's business, financial position, results of operations, prospects and market price of the shares.

Risk-mitigation actions – Commercial Risk

Pharming had initially established partnerships in the most important geographical areas with partners, capable of commercialising RUCONEST® in their local markets. The North-American market, which we believe is the most important one, was partnered with Santarus, which was acquired by Salix in January 2014 and in April 2015 acquired by Valeant. In December 2016 the Company re-acquired the market license and ended the license agreement with Valeant. As result of this transaction, Pharming has engaged in direct US commercialisation. From the outset, the entire sales force who had sold the product for Valeant joined Pharming. Since then, upscaling of commercialisation activities has been initiated and in addition an experienced management team has been hired. The US commercialisation efforts are monitored by a US Commercial Advisory Board consisting of highly experienced US biotech and HAE executives and the Pharming CEO.

The European market has been partnered with SOBI. SOBI has a specialised sales team that works closely with the physicians that treat the HAE patients in order to gain market acceptance for our product.

Pharming initiated commercialisation in Austria, Germany and the Netherlands in 2014, and these activities are now starting to result in sales. In 2016, the Company amended the license agreement with SOBI by taking back 21 countries.

The issue of reimbursement mainly affects the European market. SOBI is addressing this on a country-by-country basis, and reimbursement has been obtained in the majority of the EU countries. In the US, the product, once approved, will have to be covered under the various reimbursement programmes that are applicable for various groups of US citizens. This can result in adjustments to sales as a result of discounts which are required by law for certain special interest groups such as Medicare patients or armed forces veterans, and these discounts can take some time to be applied. Where there are a lot of such patients, it is sometimes necessary to make provisions for such discounts to be claimed, and the result can be an adjustment to sales.

Information on sales progression and marketing and sales planning and execution will be exchanged on a regular basis with our commercial partners through Joint Steering Committees.

To ensure the development of prophylaxis HAE Pharming carefully evaluates the development costs and risks. Correct execution of the clinical trial programme is closely monitored.

Continuous evaluation and implementation of improvements in both up-stream and down-stream manufacturing processes should reduce the COGS and the margin pressure.

Furthermore, Pharming has started to mitigate the issue of dependency on third parties in the downstream production process, however it will take several years before this mitigation has been fully implemented to cover all aspects of the downstream production process, including inspection and approval by governmental regulatory agencies. The chosen approach is to engage other partners to create alternatives and/or additional capacity to existing suppliers in an effective and cost-efficient way.

2 MACRO RISKS

The macroeconomic environment is volatile

The macro environment cannot be influenced by Pharming but it does have impact on Pharming's objectives. The biotech industry historically has been resilient through the economic cycle, however the voltile economic situation is still impacting all industries, including biotech, especially through the limited availability of funds. The US market is reviving since the year 2014 and also the EU market is slowly recovering.

High profile failures of biotech companies alters the investment environment.

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

Risk-mitigation actions

Pharming tries to mitigate the impact of the macro environment by planning financing activities well in advance to ensure that the Company is not running out of cash. In order to do so, Pharming maintains relationships/contacts with an international spread of banks and investors. Besides that, Pharming needs to identify the different audiences, determine their relative importance for the Company's immediate future and assess the information needs for the audiences. Pharming communicates important developments in press releases, on their website and in the Annual Report.

Pharming needs to communicate its investment case clearly but also needs to identify the different audiences, determine their relative importance for the Company's immediate future and assess the information needs for the audiences. We do this in part by having professional PR consultants to advise us on our communication methods attending selected investor conferences both in Europe and US and meeting interested investors.

Pharming needs to deliver operationally so that its communications can be seen to under-promise and over-deliver. This is achieved by careful messaging in press releases, the website and the annual report.

3 RESEARCH RISKS

The Company's development pipeline is dependent on the C1 franchise

Up to now, the pipeline has been dependent on C1 franchise as this was the only product available. Any negative finding on the properties, efficacy or safety of the source of the recombinant protein (rabbit milk) may have a vital impact on the Company's existence.

The development pipeline is at an early stage

Pharming has been focusing on identifying potential projects with a relatively short development time based on the assumption that the main advantage of a potential new product as compared to existing alternatives on the market should derive from the advantages provided by the Company's proprietary rabbit platform including a significant commercial upside due to lower cost of goods.

Risk-mitigation actions

The Company is looking to reduce risk by diversifying the pipeline, including searching for new projects or products in areas where core competence and know-how are already

available in the Company, and where commercialisation of such new products is synergistic with the existing channels through which the Company's product is sold.

A set of new activities to expand the pipeline according to the results of the Pipeline Team has been implemented including but not limited to:

- **Collaboration with Chinese company CSIPI to further develop the FVIII project;**
- **A new French R&D facility has been established in Evry, France, with the aim to develop new rabbit lines. The first transgenic rabbits for α-Glu based on a gDNA construct were recently born. Transgenic rabbits (cDNA) for FVIII, FIX, α-Glu and α-Gal have also been produced and milk expression has been confirmed for α-Glu and α-Gal.**

Pharming may not obtain all regulatory approvals for its products

The process of undertaking and completing preclinical studies and clinical trials, and obtaining regulatory approvals, may take several years and requires the expenditure of substantial cash resources. There can be no assurance that applicable regulatory approvals for the Company's products will be granted in a timely manner, or at all. Any failure or delay in commencing or completing clinical trials for Pharming's products could severely harm its business.

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

Once a product receives regulatory approval, such approval can nonetheless be subject to limitations with regard to the indications for which it may be marketed. The approval may also be given subject to conditions, such as additional proof of the product's effectiveness and safety. Even after approval is granted, the product, its manufacturer and the manufacturing facilities are subject to ongoing scrutiny and regular inspections by the relevant agencies. If previously unknown problems are discovered in connection with the product, the manufacturer or the manufacturing facilities, this can result inter alia in restrictions on use and withdrawal of the product from the market and may adversely affect Pharming's business, financial position, results of operations, prospects and market price of the Shares.

Pharming relies on third parties to conduct preclinical and clinical trials

Pharming does not have the ability to conduct preclinical and clinical trials for product candidates independently.

Pharming must rely on third parties, such as contract research organisations, medical institutions, clinical investigators and contract laboratories to conduct the preclinical and clinical trials. Pharming has entered into agreements with third parties to conduct these trials for and on behalf of Pharming. The Company remains responsible that each of the preclinical and clinical trials is conducted in accordance with its general investigation plan and protocol. Moreover, the European Medicines Agency (EMA) and the US Food and Drug Administration (FDA) require the Company to comply with regulations and standards, commonly referred to as good clinical practices, for conducting, recording and reporting the results of preclinical and clinical trials to ensure that data and reported results are credible and accurate and that trial participants are adequately protected. The reliance on third parties does not relieve Pharming of these responsibilities and requirements. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, or the third parties need to be replaced or if the quality or accuracy of the date they obtain is compromised due to the failure to adhere to Pharming's preclinical and clinical protocols or regulatory requirements or for other reasons, the preclinical or clinical trials may be extended, delayed, suspended or terminated and Pharming may not be able to obtain regulatory approval for, or successfully commercialise, product candidates. These events may have a material adverse effect on Pharming's business, financial position, results of operations, prospects and market price of the Shares.

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

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

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

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

The development of a therapeutic drug up to marketing approval by the competent authority is a lengthy process. During this time a research project must proceed through preclinical and several clinical stages of development, as well as the regulatory approval process. The consequence of this lengthy process and the uncertainties in connection with the research and development (R&D) of pharmaceuticals is that only a small fraction of initial product candidates ultimately receive regulatory approval. In addition to its lead product, the therapeutic protein recombinant human C1 inhibitor RUCONEST® and its other products in development, Pharming seeks to discover products in a number of long-term research projects for which clinical trials have not been initiated yet. A failure to develop additional products successfully and within a reasonable time frame could have significant detrimental consequences for Pharming's business, financial position, results of operations, prospects and market price of the shares.

4 FINANCIAL RISKS

Pharming generates insufficient cash from commercial activities to meet all its present and future anticipated requirements. Pharming does not exclude the possibility that it may continue to incur losses for the foreseeable future and remain dependent on financing arrangements with third parties, as has been the case since its incorporation

Pharming currently generates insufficient cash from commercial activities to meet all its present and future anticipated requirements and is dependent on financing arrangements with third parties, as has been the case since its incorporation. The available net cash (cash and cash equivalents) at the date of the Annual Report is not expected to deplete before the end of March 2018, however.

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

Pharming has thus far incurred losses in each year since incorporation. These losses have arisen mainly from costs incurred in R&D of Pharming's products and general and administrative expenses. The acquisition by Pharming of all commercialisation rights to RUCONEST® in North America (US, Canada and Mexico) from Valeant Pharmaceuticals International Inc. (Valeant, NYSE/TSX: VRX), should enable Pharming to achieve sufficient revenues in the future and to generate profits.

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

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

No assurance can be given that Pharming will achieve profitability in the future. Furthermore, if Pharming's products fail in clinical trials or do not gain regulatory approval, or if Pharming's products do not achieve market acceptance, Pharming may never achieve profitability. Even if Pharming achieves profitability in the future, Pharming may not be able to sustain profitability in subsequent periods.

Pharming does not exclude the possibility that it may need additional funding in the future, which may not be available to Pharming on acceptable terms or at all, which could force Pharming to delay or impair its ability to develop or

commercialise its products. There can be no assurance that additional funds will be available on a timely basis, on favourable terms, or at all, or that such funds, if raised, would be sufficient to enable Pharming to continue to implement its long term business strategy. If Pharming is unable to raise such additional funds through equity or debt financing, it may need to delay, scale back or cease expenditures for some of its longer term research, development and commercialisation programs, or grant rights to develop and market products that Pharming would otherwise prefer to develop and market itself, thereby reducing their ultimate value to Pharming. Pharming's inability to obtain additional funds necessary to operate the business could materially and adversely affect the market price of the shares and all or part of an investment in the shares could be lost. In addition, to the extent Pharming raises capital by issuing additional shares, shareholders' equity interests may be diluted.

Pharming may not be able to develop a business selling RUCONEST® which enables it to reach profitability within the time frame currently expected by the Management Board

There will be considerable changes and updating required to the way the product is sold in the US in order to accelerate growth of sales further. In the event that patients regard Pharming as a less attractive company for supply of their drugs than Valeant was, and subsequently choose to use a different product to treat their HAE attacks, it is possible that the current growth may stop and that as a result of that decrease in growth the Company may not be able to reach profitability earlier than under the Valeant license.

Exchange rate fluctuations could negatively affect Pharming's financial condition

Pharming is based in the Netherlands, but sources materials, products and services from several countries outside the EU-territory which are paid in local currencies. As a result of the commercialisation of RUCONEST® in the US and in other countries outside the EU and the US, Pharming will also receive payments or generate costs in US dollars or possibly in other currencies. Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies, in particular of the US dollar. Certain milestone payments and sales of RUCONEST® in the US are being and will be received in US$. Repayments of the loans are carried in US$. Some direct payments of US activities are carried in US$ through the Dutch entities. At 31 December 2016 the Company's cash and cash equivalents, including restricted cash, amounted to €32.1 million. This balance consisted of cash assets denominated in EUR for a total amount of €28.0 million and cash assets denominated in US$ for a total amount of US$4.4 million or €4.1 million (applying an exchange rate EUR to US$ at 31 December 2016 of 0.9474 to 1). The US$ cash balances are currently mainly used for the repayment of the loans. The Company performed a sensitivity analysis by applying an adjustment to the spot rate at year-end. A 10 percent strengthening or weakening of the euro versus the US dollar has a hypothetical result of respectively a loss or gain of €0.4 million. As a result, Pharming's business and share price may be affected by fluctuations in foreign exchange rates between the Euro and these 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.

The Company performed sensitivity analyses regarding the effect of a 1% interest increase or a 1% interest decrease on the carrying value of the financial instruments at year-end 2016. Pharming concluded that the total effect taking place on the carrying value of these items in either case would have been less than €0.1 million at year-end 2016. However, a rise in the interest rates on its liabilities may cause Pharming to pay more interest than anticipated, negatively impacting the profitability and liquidity position of the Group, which could have a significant impact on Pharming's reported results of operations and cash flows from year to year.

Risks relating to the dilution relating to the senior debt and the convertible bonds

Dilutive effects may reduce future potential earnings per share and subsequently the market price of the shares.

Full exercise of all the 2016 warrants would result in a dilution of shareholders in their proportionate ownership and voting rights of (i) 18.5% if they did not exercise any of their rights and (ii) 16.5% if they exercised all of their Rights. Full conversion of the convertible bonds (both ordinary and amortizing convertible bonds) would result in a dilution of shareholders in their proportionate ownership and voting rights of 33.7%. Full conversion of the minimum amount of amortizing bonds required to be amortised in shares, assuming that the share price of amortisation was the price as at 17 March 2016, would result in a dilution of shareholders in their proportionate ownership and voting rights of approximately 9.8% . Full redemption of the ordinary bonds for cash and/or full or partial redemption of the amortizing bonds for cash would result in a dilution of shareholders in their proportionate ownership and voting rights of 0% in either case, but would reduce the assets attributable to shareholders by the same amount.

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

Future sales, or the possibility or expectation of future sales, of a substantial number of shares may temporarily depress the price of the shares.

Future sales of shares, or the perception that such sales will occur, could cause a decline in the market price of the shares. Pharming cannot predict whether substantial numbers of shares will be sold in the open market. In particular, there can be no assurance that the current shareholders of Pharming will not reduce their holdings of shares. Future sales of shares could be made by shareholders or through a capital increase undertaken by the Company for additional working capital, to fund an acquisition or for another purpose. A sale of a substantial number of shares, or the perception that such sale could occur, could materially affect the market price of the shares and could also impede Pharming's ability to raise capital through the issue of equity securities in the future.

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

The market price of the shares is subject to many factors, including the liquidity of the market for the shares, the public opinion about general economic and market conditions and the public sentiment about the Company and the biotech industry. In addition, the market price of the shares could fluctuate substantially due to any of the risks described herein materializing or the sale of large blocks of shares. Moreover, stocks of life science companies which are currently not profitable, such as Pharming, and stock markets in general, have from time to time experienced extreme price and volume fluctuations that may be unrelated or disproportional to the operational performance of particular companies. Because of all these different factors, the market price of the shares has been, and may be in the future, highly volatile.

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

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

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

The trading market for the shares may be influenced by the research and reports that industry or securities analysts publish about Pharming or Pharming's business. Currently there are several institutions which publish independent research reports on the Company, including Stifel, Roth and First Berlin Equity Research GmbH.

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

Risk-mitigation actions – Financial risks.

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

In addition, to the extent we raise capital by issuing additional ordinary shares, existing shareholders' equity interests may be diluted as to voting power and may also be diluted (or enhanced) as to value, depending on the terms of such additional share issues and the reasons for the issue. The Finance team monitors market developments, including the position of the banks. All cash in EUR has been placed at ABN Amro, which is a Dutch government owned bank. The Dutch government has an excellent credit rating. The cash is denominated in Euro and US dollars and cash in Euro is kept in flexible deposits.

5 PERSONNEL RISKS

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

Pharming depends to a large degree on the performance and expertise of its management, sales and technical personnel. Competition for qualified employees is intense in the fields in which Pharming is engaged and there is no guarantee that qualified employees will not leave Pharming. The loss of one or more of these employees could lead to significant delays in product development and thus negatively influence Pharming's business activities. Pharming's continued success depends on recruiting and retaining highly qualified employees, especially in management and in the areas of product sales and of R&D. The loss of individual employees or failure to attract new highly qualified employees could have significant detrimental consequences for Pharming's business, financial position, results of operations, prospects and market price of the shares.

Risk-mitigation actions – Personnel risks

Pharming strives to be an employer of excellence. The Company is dedicated to providing our employees with the opportunity to learn, grow and accelerate by providing internal and external training programs and development opportunities. Together with offering competitive remuneration packages Pharming is able to minimize employee turnover, attract higher quality talent and provide accountability to stakeholders.

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

6 LEGAL RISKS

A material change in the laws and regulations to which Pharming is subject, or in their interpretation or enforcement, could materially 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 other laws and regulations. The Company 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 the Company to alter its business strategy or operations, leading to additional costs or loss of revenue, which could materially adversely affect its business, results of operation and financial condition.

Risk-mitigation actions – Legal risks

The Company has developed a system with external parties to signal and inform changes in any law or regulation.

TESTIMONIAL TYRON

Pharming has helped me to test the boundaries of my capabilities in my journey to becoming a more well-rounded and highly knowledgeable researcher, growing for the future.

Given a chance

I began working at Pharming as a Research Assistant within the Research and Development department almost 4 years ago. I started my work here developing biochemical assays (such as Elisa and Activity) for two therapeutic proteins. After sometime, and as I gained more experience within the biochemical assays field, I began making the assays my own.

I was extremely happy for the opportunity to gain more know-how into the different High Performance Liquid Chromatography (HPLC) techniques, and to work on my technical skills and understanding for both the determination of the concentration and the activity of several proteins. I also gained hands-on experience with determining the profile, purity, and aggregate content in multiple protein samples by HPLC.

Testing the boundaries

I believe that working for Pharming has provided me with insight into two out of the three research processes within the Research and Development organization, this is truly unique. For this reason, I can say that Pharming has helped me to test the boundaries of my capabilities in my journey to becoming a more well-rounded and highly knowledgeable researcher, growing for the future.

Thinking back on my time at Pharming, I followed the path of opportunity and it lead me to Pharming. When I first started, I was given the responsibility to carry-out biochemical assays – something that I had ample experience with at the time – a choice which I see now as the right one for me. It was through that experience, working within the research and development team; that I came to develop my result-oriented mindset and perfectionism when it comes to producing data. I believe Pharming's confidence in me is what lead me to where I am now.

I will always be grateful for the chance to be part of this inventive company, being surrounded by a diverse intellectual group of colleagues. Building and learning from one and others work is proof that innovation is not a straight line.

'Innovation is not a straight line'

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

The Board of Supervisory Directors, in general, supervises the Board of Management in its duty to manage the Company. It performs its duties and activities in accordance with the Articles of Association of the Company, its regulations, which are posted on the Company's website, the applicable law and the Dutch Corporate Governance Code applicable as of January 1, 2009 (the 'Code'). Pharming is aware of the revised Dutch Corporate Governance Code and will report in 2018 on compliance with the revised Code in the 2017 financial year, provided that the revised code is implemented in Dutch Law by the Dutch government.

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

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

The Board of Supervisory Directors determines, together with the Board of Management, the corporate governance structure of the Company and ensures compliance with the Code and other (foreign) applicable rules and regulations, assisted by its Corporate Governance Committee. Through the Audit Committee, it supervises the financial reporting process and assisted by its Remuneration Committee, it determines the remuneration of the individual Board of Management members within the remuneration policy adopted by the Annual General Meeting of shareholders. The report of the Remuneration Committee is presented separately in this report.

Composition and remuneration

In 2016 the composition of the Board of Supervisory Directors was as follows: Mr. Blaak (Chairman until the 2016 AGM), Mr Sekhri (Chairman from 2016 AGM), Mr. Ward, Mr. Ernst, Mr. De Winter, Mr. Egberts.

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

For 2016 the annual compensation was as follows:

- Board of Supervisory Directors: Chairman €50,000 and Member €36,000;
- Audit Committee: Chairman €9,000 and Member €3,000;
- Remuneration Committee: Chairman €6,000 and Member €3,000;
- An additional compensation of €1,000 per day is paid in case of extraordinary activities.

As result of a 20% pay- out of the LTIP 2013, in February 2017, Mr. Blaak, Mr. Ernst, Mr. Ward and Mr. de Winter received shares in the Company. Mr Egberts, Mr. Ernst and Mr. Ward also purchased shares on the open market during one of the open trading periods in 2016 (details of Supervisory Directors shareholdings can be found in note 25).

The members of the Board of Supervisory Directors do participate in the Company's LTIP. No loans or other financial commitments were made to any member of the Board of Supervisory Directors on behalf of the Company.

In the view of the Board of Supervisory Directors, best practice provision III.2.1 of the Code has been fulfilled by the Company and all members of the Board of Supervisory Directors consider themselves independent, within the meaning of the Code. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies.

Activities

The Board of Supervisory Directors met 7 times in 2016. The individual presence of the Supervisory Directors is reflected in the following schedule:

Date	27 February	9 March	23 March	17 May	27 July
EXTRA PARTICIPANTS	CEO*/COO*/ CFO*/STAFF*	CEO/COO/ CFO/STAFF	CEO/CFO*/ STAFF	CEO/COO*/ CFO/STAFF	CEO/COO/ CFO/STAFF
Mr. Blaak	P*	P	P	P	P
Mr. Ernst	P*	P	–	P*	P
Mr. Ward	P*	P	P*	P*	P
Mr. De Winter	P*	P	P	P	P
Mr. Egberts	P*	P	P*	P*	–
Mr. Sekhri	P*	P	–	P*	P

Date	26 October	15 December
EXTRA PARTICIPANTS	CEO/COO/ CFO/STAFF	CEO/COO/ CFO/STAFF
Mr. Blaak	P	P
Mr. Ernst	P	P
Mr. Ward	P	P
Mr. De Winter	P	P
Mr. Egberts	P	P
Mr. Sekhri	P	P

* Joined by teleconference call

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

The Board of Supervisory Directors has received from each of the committees a report of its deliberations and findings.

As part of good governance, the Board of Supervisory Directors conducts a self-evaluation annually. These evaluations cover two parts; one part is the work of the Board of Supervisory Directors in relation to key objectives of the Company and the second part is the structure of the Board of Supervisory Directors to ensure that the members bring the correct skills and background knowledge for the benefit of the Company. The annual self-evaluation took place after the BOSD meeting of 15 December 2016 on the basis of a questionnaire completed by all members.

At the meetings of the Board of Supervisory Directors, the Company's financial and operational targets, strategy and accompanying risks, the latter always formulated in an appropriated Risk Assessment document, were extensively discussed.

Amongst other topics, a considerable amount of time was spent on RUCONEST discussing commercialisation, with a significant emphasis on the position in the US, and regulatory issues with regard to RUCONEST®, the competitive landscape, partnerships, licensing opportunities, refinancing of the Company, succession planning, corporate governance, the financial performance and structure of the Company, the targets for 2016 and the operational and financial risks to which the Company is exposed.

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

- The Company's progress on the achievement of objectives. There is no certainty that these objectives will actually be achieved;
- The Company does not yet have a positive operational cash flow and therefore will be dependent on financial markets for funding;
- The Company is largely dependent on the success of one key product; RUCONEST® in one market, the US. In other markets, the execution of its commercialisation strategies and outcome of any registration process is uncertain and may be influenced by unpredictable events;
- During 2016, the Company was almost entirely dependent on third party commercial performance for the receipts of proceeds from sales, however as of 8 December 2016, the Company has taken us commercialisation under its own control;
- The Company is active on a niche market for an orphan drug product with at least three competitors and with at least two expected new major competitive entries within the coming 18 months;
- The timely development of the Company's products is dependent on the ability to attract and retain experienced commercial staff, particularly for its us operations and capital under attractive conditions.
- Pipeline development of other indications, products and production locations.

All these risks have been thoroughly discussed with the Board of Management and, where possible, actions have been undertaken to minimise the Company's exposure. Financial risks are actively monitored by the finance department, whose findings are discussed with the Board of Management on a monthly basis or whenever deemed necessary. The finance department also maintains a close working relationship with the legal counsel and company secretary to monitor other corporate and contractual risks. The risks are further described in the 'Corporate governance and risk management' chapter in this report. Due to the current size of the Company, there is no internal auditor function within the organisation.

Audit committee

The Audit Committee in 2016 consisted of Mr. De Winter (Chairman), Mr. Ernst, Mr. Ward (until May 25, 2016) and Mr. Egberts (from May 25, 2016).

During the four Audit Committee meetings held in 2016, the financial statements were discussed with a special emphasis on complex transactions and the impact of IFRS related issues. In addition, the external Auditor's audit plan 2016, its management letter and board report were discussed. The main topics discussed related to revenue recognition, the valuation of inventories, the development of the finance function and funding.

The quarterly financial statements are circulated to the full Board of Supervisory Directors in advance of every Audit Committee meeting.

The individual presence of its Members is reflected in the following schedule:

Date	9 March	23 March	17 May	27 July	26 October
EXTRA PARTICIPANTS	CEO/COO/CFO/ STAFF/PWC/ MR. BLAAK/ MR. EGBERTS/ MR. SEKHRI	CEO/CFO*/STAFF/ PWC/MR. BLAAK/ MR. EGBERTS*	CEO/COO*/CFO/ STAFF/PWC/ MR.BLAAK/ MR.EGBERTS*/ MR.SEKHRI*	CEO/COO/CFO/ STAFF/PWC*/ MR.BLAAK/ MR.SEKHRI/ MR.WARD	CEO/COO/CFO/ STAFF/PWC/ MR.BLAAK/ MR.SEKHRI/ MR. WARD
Mr. Ernst	P	–	P*	P	P
Mr. Ward	P	P*	P*	n/a	n/a
Mr. De Winter	P	P	P		P
Mr. Egberts	n/a	n/a	n/a	P	P

PwC = PricewaterhouseCoopers Accountants N.V.
* Joined by teleconference call

Corporate governance committee

The Corporate Governance Committee consisted of Mr. Ward (Chairman), Mr. Ernst and Mr. De Winter. During 2014, it was decided to include Corporate Governance as a mandatory and separate topic during every meeting of the Board of Supervisory Directors, and this was continued during 2016. The Corporate Governance Committee did not meet outside the Board of Supervisory Directors meetings during 2016.

Remuneration committee

A report of the Remuneration Committee can be found on pages 87-95.

Financial statements

The Financial statements of Pharming Group N.V. for 2016, as presented by the Board of Management, have been audited by PricewaterhouseCoopers Accountants N.V. Their report is included in this Annual Report on pages 109-176.

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

The Board of Supervisory Directors recommends the Annual General Meeting of shareholders to adopt the 2016 Financial statements and to discharge the Board of Management and the Board of Supervisory Directors from liability for their management and supervisory activities on behalf of the Company.

The Board of Supervisory Directors

Leiden, 22 March 2017

The original copy has been signed by the Board of Supervisory Directors

REPORT OF THE REMUNERATION COMMITTEE

2016 Remuneration policy and structure

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

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

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

The remuneration policy for 2016 was a continuation of the 2015 and 2014 policy and was approved in the Annual General Meeting of June 2014.

The main items of this policy are:

- The remuneration of each member of the Board of Management consists of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long-term incentives by way of shares and/or options to shares in the Company and benefits in kind such as health insurance and participation in a pension plan, as further specified in note 24 to the Financial Statements. In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/or extraordinary performance and/or the achievement of predetermined objectives. These contracts have included provisions for an individual bonus in cash or shares of up to 60% (for the CEO) and up to 50% for the other member(s) of the gross annual salary (including holiday allowance). Other benefits, such as health insurance and pension schemes are in accordance with the applicable staff manual of the Company. Severance pay cannot exceed the member's gross annual salary. The notice period for each member is two months;
- Members of the Board of Management as well as other key individuals are eligible to participate in the Company's Long Term Incentive Plan (LTIP). Under the plan, participants receive shares in the Company, the number of which is dependent upon the performance of the Company share price, during a three-year period, compared to a peer group of European biotech companies (see page 94).

Meeting and composition

During the 2016 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met twice in 2016. The individual presence of its Members is reflected in the following schedule:

Date	6 January	15 December
EXTRA PARTICIPANTS	CEO / MR. DE WINTER	CEO / MR. SEKHRI / MR. EGBERTS / MR. DE WINTER
Mr. Blaak	P	P
Mr. Ernst	P	P
Mr. Ward	P	P

During these meetings the performance of the Board of Management in general and its individual members in particular were reviewed and discussed relative to pre-agreed targets and to define targets for the coming year. The remuneration packages, long-term incentive plan and achievements versus 2016 objectives were also discussed and agreed in the last meeting.

Remuneration report 2016

In 2014, following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant 19,200,000 stock options to the Board of Management; (12,000,000 options to Mr. de Vries and 7,200,000 options to Mr. Giannetti). These options will vest in five equal tranches on 31 January of 2015, 2016, 2017, 2018 and 2019, as outlined below under the terms and conditions of the Board of Management Option Plan (as approved by the AGM on 18 June 2014), in line with the achievement of targets for the Board of Management.

The exercise price of these options, on a tranche by tranche basis, shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting. For the second tranche of 3,840,000 (2,400,000 options for Mr. de Vries and 1,440,000 options for Mr. Giannetti) this resulted in a strike price of €0.209; being the VWAP measured over the 20 trading days prior to 25 May 2016. The stock options will expire on 17 June 2019.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2016. The Remuneration Committee recommended and the Board of Supervisory Directors concurred that the Board of Management had to a major extent met the corporate and personal objectives set for 2016 and contributed to positioning the Company for the future in particular by the following accomplishments.

- Increased the value of the RUCONEST® franchise through support of our existing partners, through geographical expansion of partnerships and the implementation of direct commercialisation in Austria, Germany and the Netherlands;
- Built the C1 inhibitor franchise by progressing the development of C1 inhibitor in indications beyond acute HAE attacks;
- Initiated the development of the new pipeline projects according to plan;

- Operated within agreed budgets at the department and company level;
- Created a basis for long-term sustainability through rationalisation of the current portfolio and concurrently broaden the portfolio with new projects, through a rational process of commercially led asset evaluations;
- Improved the Company's visibility amongst investors and other market participants (both buy- and sell-side analysts and financial press and trade press journalists).

In addition to this, during 2016, the North American rights for RUCONEST were re-acquired from Valeant Pharmaceuticals International Inc.

As this transaction could potentially accelerate the Company into profitability, up to three years ahead of expectations, the Remuneration Committee recommended and the Board of Supervisory Directors concurred that expectations for 2016 were exceeded and that a 100% achievement score versus objectives was therefore warranted for all members of the Board of Management.

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

A detailed overview of the compensation of the members of the Board of Management can be found in note 24 of this Annual Report.

The individual remuneration of the members of the Board of Management was reviewed and it was decided that, taking into account their individual performance, market developments and the timing of the previous review (01 Jan 2016), the Committee recommended and the Board of Supervisory Directors agreed, to increase the base salaries of both Mr de Vries and Mr. Giannetti by 5% from 01 January 2017. Following a review of salaries in comparable companies the base salary of Mr Wright was increased by 10% as from 01 January 2017.

Remuneration policy 2017 and the future

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

For 2017, the Remuneration Committee will continue to implement the compensation policy as approved at the 2010 AGM. All remuneration elements described below are consistent with and covered by the current compensation policy.

- Fixed salary determined by the Board of Supervisory Directors;
- Target bonus in cash and/ or shares percentage to be adopted.

In accordance with the compensation policy approved at the 2010 AGM, with the development of the Company now potentially entering into profitable operating results, the basis for the annual cash bonus for 2017 and going forward shall be, subject to the achievement of at least two consecutive quarters of operational profitability during 2017, adjusted as follows: :

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

The issuance of any share-based bonus component for the cash bonus 2017 shall be valued at the VWAP measured over the 20 trading days prior to 31 January 2018. Payment of the bonus remains dependent on the achievement of pre-defined milestones, which are a combination of corporate and personal milestones.

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

The Board of Supervisory Directors has defined a mix of corporate and personal milestones that will be used to measure performance and potential award of bonus payments for 2017.

The main corporate objectives for 2017 for the Board of Management can be summarised as follows:

- Achievement of the agreed Operating Results targets and YE cash balance targets by a combination of cost control and timing of implementation of R&D investments, balanced by actual revenue growth;
- De-risking of the Company by broadening the territorial and indication revenue base for RUCONEST® and/or acquisition of new assets for development and/ or leveraging of US/EU commercialisation infrastructure ;
- Build the C1 inhibitor franchise by progressing the development of C1 inhibitor in indications beyond acute HAE attacks;
- Develop the new pipeline projects according to plan;
- Drive shareholders long-term returns, increase investor awareness and improve the shareholder base.

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

SHARE OPTIONS DEPENDENT ON DEFINED PARAMETERS

From 2014 onwards, the Board of Management has had the expectation that, following a considerable period of significant dilution of the share capital necessary to maintain the operations, such further highly dilutive financings for the purpose of ordinary spending should not appear on the agenda going forward.

In the light of these expectations and in order to improve the longer-term alignment of interests of the shareholders and Board of Management, it was decided and approved by the Annual General Meeting at 18 June 2014, that share options should no longer be given annually but to grant share options in 2014 onward to the Board of Management that will vest in equal tranches over a five-year period going forward. This implied that the approved 2014 option grants for the Board of Management are covering the period 2015-2019, with annual vesting of tranches as outlined below. No additional options are therefore now granted.

Description of the approved option grants, covering the period 2015-2019 and the division of the annually vesting tranches to the Board of Management:

Mr. Sijmen de Vries	Number of options Grant 2014 for period 2014-2018
	12,000,000

Annual vesting tranches	Parameters
2,400,000	Vested (strike price €0,505)
2,400,000	Vested (strike price €0,341)
2,400,000	Vested (strike price €0,209)
2,400,000	In service at 31 January 2018
2,400,000	In service at 31 January 2019

Mr. Bruno Giannetti	Number of options Grant October 2014 for period 2014-2018
	7,200,000

Annual vesting tranches	Parameters
1,440,000	Vested (strike price €0,505)
1,440,000	Vested (strike price €0,341)
1,440,000	Vested (strike price €0,209)
1,440,000	In service at 31 January 2018
1,440,000	In service at 31 January 2019

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

Mr. Robin Wright	Number of options Grant for period 2016-2019
	4,000,000

Annual vesting tranches	Parameters
1,000,000	Vested (strike price €0,209)
1,000,000	In service at 31 January 2018
1,000,000	In service at 31 January 2019
1,000,000	In service at 31 January 2020

It is proposed to reserve an additional 7,500,000 options for the Staff option pool during 2017.

The strike price of the 2017 share option grants for the Board of Management (being the fourth tranche of 2,400,000 options for Mr. Sijmen de Vries and 1,440,000 options for Mr. Bruno Giannetti and the second tranche of 1,000,000 options for Mr. Robin Wright) and the additional Staff option pool options for 2017 shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders (24 May 2017). Going forward the strike price of the options will be set each year at a value equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders.

In the event of a change of control of the Company all of the above options will vest immediately at the strike price of the last tranche. In case of an event resulting in a change of control and in case of the announcement of a (contemplated) public offer for the shares in the Company, the Board of Supervisory Directors can decide that the Company shall settle the options for the Board of Management in cash.

The Long Term Incentive Plan (LTIP)

Under this LTIP, restricted shares are granted conditionally to the Board of Management and certain eligible managers each year with a target value of 30% of annual salary.

These shares will vest after three years provided that the share price has increased (i.e. increased total shareholder value). The number of shares vested will be based on the relative performance of the share price compared to an initial group of 30 other European Small Cap (< €500 million) listed companies active in Life Sciences over the preceding 36 months.

THE REFERENCE GROUP CONSISTS OF THE FOLLOWING COMPANIES:

Ablynx (BE)	Addex Therapeutics (CH)	Allergy Therapeutics (UK)
Diaxonhit (FR)	Basilea Pharmaceutica (CH)	Bavarian Nordic (DK)
Genmab (DK)	Cellectis (FR)	Galapagos (BE)
ImmuPharma (UK)	Evotec (DE)	Hybrigenics (FR)
Medivir (SE)	GW Pharmaceuticals (UK)	Medigene (DE)
Newron Pharmaceuticals (IT)	Innate Pharma (FR)	Neurosearch (DK)
Renovo (UK)	Morphosys (DE)	Photocure (NO)
Transgene (FR)	Oxford Biomedica (UK)	Ti-Genix (BE)
Wilex (DE)	Santhera Pharmaceuticals (CH)	Vernalis (UK)
Veloxis Pharmaceuticals (DK)	Premier Veterinary Group PLC (UK)	Kuros Biosciences (CH)

THE VESTING SCHEDULE WILL BE AS FOLLOWS:

Ranking in the top	5% of the group:	100%
Ranking in the top	5-10% of the group:	80% of maximum
Ranking in the top	10-20% of the group:	60% of maximum
Ranking in the top	20-30% of the group:	50% of maximum
Ranking in the top	30-50% of the group:	20% of maximum
Ranking lower than	50% of the group:	0%

LTIP 2014 EXPIRED WITH A 20% PAY-OUT

At 1 January 2017, after three years of the three-year period of the 2014 LTIP, the Pharming share price increased from €0.143; the closing price at 31 December 2013, to €0.217; the closing price at 31 December 2016. With this result, compared to the reference group, Pharming reached a rank of 13 out of 32, which translates into a score more than 30%, but less than 50% from the top of the reference group. As a result, 20% of the allocated shares have vested and were issued to the LTIP participants.

The allocations under the 2015 and 2016 LTIP still have one and two years respectively to run. The minimum share prices (hurdles) for the 2015 and 2016 allocations to qualify for (part-)vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €0.389, being the closing price 31 at December 2014 for the LTIP 2015 and (2) €0.282, being the closing price at 31 December 2015 for the LTIP 2016.

LTIP 2017

For 2017, the Board of Supervisory Directors, following the recommendation of the Remuneration Committee, has determined that the number of shares (calculated at the closing price of 31 December 2016 of €0.217) shall be equal to 30% of each of the Board of Management's 2017 base salaries.

This results in the following allocations:

Board of Management: Mr. S. de Vries 657,902 shares, Mr. B.M. Giannetti 429,762 shares, Mr. R. Wright 410,599 shares.

Senior managers: For a selected group of senior managers, 2,400,000 shares are available. A maximum number of 100,000 shares per senior manager can be allocated.

The Annual General Meeting of 18 June 2014 approved the reinstallation of LTIP participation for members of the Board of Supervisory Directors. At the Annual General Meeting of 2016, the following allocations of LTIP shares will be proposed:

Board of Supervisory Directors: Chairman 150,000 shares, Vice-Chairman and/or Board Committee Chairs 125,000 shares, other members 100,000 shares.

In the event of a change of control of the Company, all outstanding LTIP share allocations will vest automatically and unconditionally. In case of an event resulting in a change of control and in case of the announcement of a (contemplated) public offer for the shares in the Company, the Board of Supervisory Directors can decide to settle the allocated shares for the Board of Management and for the Board of Supervisory Directors in cash.

The Notes to the financial statements contain further details with regard to the remuneration of the Board of Supervisory Directors and the Board of Management, as well as the Company's remuneration policy and pension schemes.

TESTIMONIAL
ANDREA

‘Coming to work at Pharming was a significant turning point in my career as a scientist’

When I joined the Research and Development department at Pharming 4 months ago, I knew that I was part of an organization that holds the patient health and product efficacy foremost. As someone who has spent many years in a university research setting I saw this as my opportunity to work for a small but rapidly expanding innovative company, where I could make my mark for the future.

A link in a bigger chain

The research we do here at Pharming is supported by an environment that encourages initiative. This fosters an atmosphere of working independently while simultaneously being part of a larger collaborative effort. At Pharming I feel that we are all important links that make up a big chain, working towards the same goal.

Open doors

The working culture was from my first day, open, friendly and supportive. I know that whenever I have a question the doors are always open for me. I feel I am part of a team here at Pharming. A team with an incredible future.

I enjoy working with my friendly colleagues, and the positive attitude of all the people that surround me. The relationship I have with my manager, and team members is incredibly supportive. I know that my ideas and suggestions are always valued, sometimes challenged but never overlooked. This makes me feel an integrated and productive member of the company.

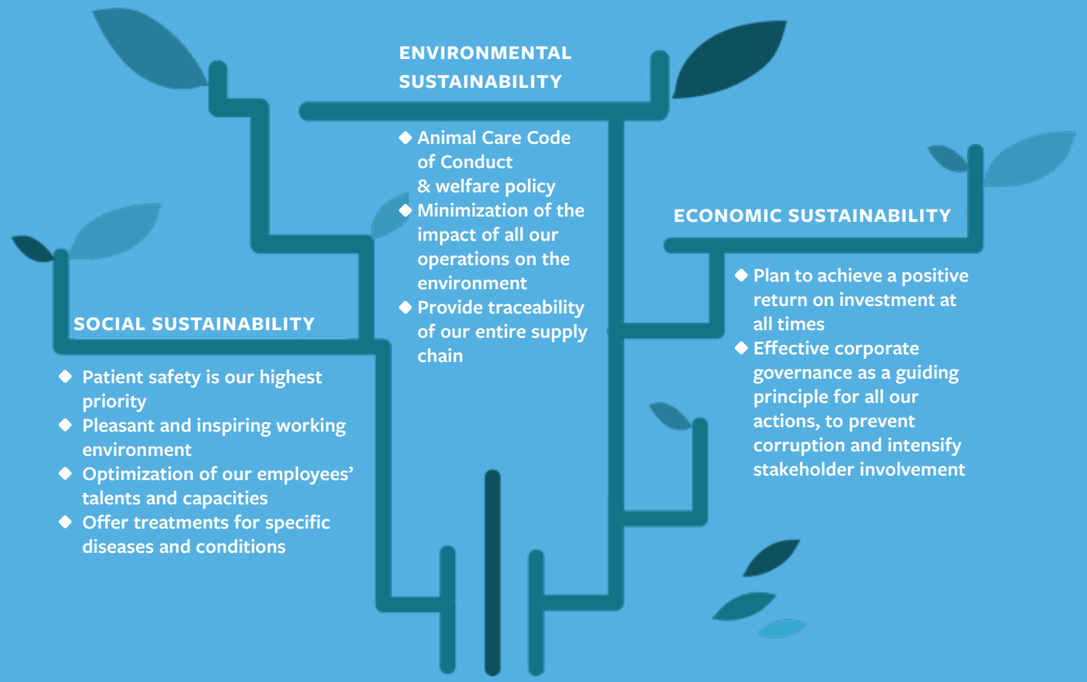
‘My research is supported by an environment that encourages initiative’

CORPORATE SOCIAL RESPONSIBILITY

We enable our employees to reach their full potential in themselves. This starts with our governance structure that ensure we 'walk the talk', which enable us to create a working environment in which people feel confident and can be accountable for their actions. This way, we can take our responsibility towards all stakeholders.

Our employees dedicate themselves to providing high-end, safe, high quality products. The quality, safety and efficacy of our products and the animal welfare are our top priority.

Our Corporate Social Responsibility pillars at a glance:



Medical need

Pharming is developing therapeutic products for specific rare diseases (Orphan Drug development) and other significant medical needs. Through our current product RUCONEST® and the development of new products currently in its pipeline, Pharming can offer alternative treatment options to patients, improve the quality of life and in some cases save lives. As such, we believe that Pharming makes a valuable contribution to society.

'Pharming sees its employees as the key driver of business success'

Patient safety

Pharmaceutical products need to be as safe as possible and fully compliant with regulatory guidelines. Therefore, in the development of therapeutics, the evaluation of safety and efficacy of the products is mandatory. Several studies need to be performed, ranging from early research studies in animals to clinical studies in healthy volunteers and patients. These studies are highly regulated and thoroughly monitored, reviewed and evaluated both by Pharming and the regulatory authorities. The risk benefit of the products in each indication under development or marketed is continuously evaluated. Findings, and Pharming's interpretation thereof, are reported to the relevant authorities according to legal timelines, and result in appropriate actions such as updating investigator brochures and product labelling. In the most extreme cases, a safety concern can result in suspension of enrolment in a clinical trial or withdrawal of the product from the market.

Clinical studies are carried out in compliance with legal and regulatory requirements and according to Good Clinical Practice (GCP) guidelines. All production processes and analytical testing comply with regulatory current Good Manufacturing Practice (cGMP) guidelines and are warranted by Pharmacovigilance.

Pharming's Quality Assurance department conducts internal and external audits of manufacturing facilities, testing laboratories and suppliers of materials and services on a regular basis. All these procedures have been implemented to monitor, control, ensure and continuously improve the quality of Pharming's products.

Ethical conduct

Pharming endeavours to carry out its business fairly and honestly, at the same time taking into account the interests of all those who may in any way be affected by its activities. In order to achieve success, the members of the Board of Supervisory Directors, Board of Management and employees must comply with a number of behavioural standards, which have been stated in a set of general principles referred to as the Code of Conduct. Our current Code of Conduct has been in place across our business since 2013. It ensures our people all over the world understand what is expected of them when acting on behalf of the Company. The Code of Conduct is available on the Company's website.

Whistle-blowers procedure

Pharming has a whistle-blowers policy which can be found on the Company's website. This policy describes the internal reporting procedures of suspected irregularities with regard to a general, operational and financial nature in the Company. The whistle-blowers procedure applies to all Pharming entities. Pharming will not discharge, demote, suspend, threaten, harass, or in any other matter discriminate against an employee in the terms and conditions of employment because of any lawful or other actions by the employee with respect to good faith reporting of complaints or participation in a related investigation.

Health and safety

'Safety First' is our number one company behaviour within our business strategy. We are therefore extremely proud that the accident frequency rate within our Company fell to no accidents and near miss accidents in 2016. This is the result of strong enforcement of existing safety standards and procedures, improved quality of accident investigations and good practice management.

Safety is continuously monitored in everything we do. For that reason, we pay serious attention to education and information on all aspects of Safety.

Animal Care Code of Conduct and welfare policy

Pharming's transgenic technology involves animals and therefore animal safety and welfare are crucial. The Company produces products in animal systems, i.e. in the milk production of rabbits. Pharming's specific protein products are purified from the milk of these transgenic animals.

Pharming has an Animal Care Code of Conduct in place, which focuses on the strict regulatory control of transgenic materials and animals in regard to the environment and continuous wellbeing of the animals.

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

Special attention is given to the strict separation 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 amongst others, ensures that Pharming will not develop products with unacceptable 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.

Environment and traceability of supply chain

As a biotechnology company that manufactures and develops biopharmaceuticals, Pharming complies with the applicable environmental rules and regulations. Such rules include disposal of animal waste products from our farm, the environmental impact of which is compensated for.

The entire supply chain; from animal feed to animal waste products and from rabbit milk to the finished pharmaceutical product is covered by our highly detailed and fully cGMP compliant (industry standards) quality systems. Suppliers and contractors are audited on a regular basis. All elements of our operations are inspected by various specialised governmental agencies on a regular basis. As per the international biopharmaceutical regulations, the entire supply chain is fully traceable. Our staff is permanently trained and periodically requalified on a regular basis for compliance with the total quality system in our entire supply chain.

New suppliers and contractors related to our primary processes have to be pre-qualified and are therefore audited by our Quality Assurance department prior to engagement.

Our offices are located in a modern and environmental friendly building. We encourage the use of telephone and video conferencing to limit business travel and encourage the use of public transport, bicycles and environmentally friendly cars for business travel. Our office waste is separated prior to disposal for recycling wherever possible.

Human capital

Pharming sees its employees as the key driver of business success. Our Human resources policy aims to assure the Company of the necessary expertise, skills and knowledge. We are committed to attracting, developing and retaining the most talented employees within our expertise field.

Pharming is operating in a fast-paced environment. Our organisation and thus our employees need to keep up with increasing internal and external changes. Our year ended with the acquisition of all North American commercialisation rights for RUCONEST® from Valeant. This achievement gave us the opportunity to expand our US team with top-notch and experienced employees. We incorporated a team that could hit the ground running in the field. We will continue expanding the US team and building a governance structure that is most efficient and lean.

Throughout the year, we continued attracting highly-talented employees in all fields. Our staff members grew by 28% percent in 2016.

As we have become a fast-growing, international and multicultural organisation, we have installed an onboarding procedure for new employees that enables them to get them up and running quickly with our company policies and company culture. Together with an external specialist consultancy, our HR department continued the project on creating a company culture that fits our still relatively small and entrepreneurial company. This has been an effective and pleasant way to create awareness for the internal and external changes and employee satisfaction. We aim to provide an efficient motivating working environment to increase (cross-functional) international and multicultural collaboration. We strongly encourage employees to take ownership and responsibility and provide individual or external coaching and courses to employees enabling them to develop their technical, communications and management skills.

Organisational Development

We want to ensure Pharming remains an effective and efficient organization that is well-founded to manage its current and future growth trajectory but which at the same time is also an enjoyable place to work and one where people feel motivated by their achievements at work and that their talent is provided with great opportunities to grow and develop.

With our recent expansions in France, the UK and the US, but also with the initiation of commercialisation activities in various countries, the company not only spans the entire scope from conceptual R&D to marketed products, but also continues to grow considerably in size. Our sphere of activity is continuously expanding globally in response to this growth, and organizational complexity is increasing. International management of the various cultures and simultaneous total compliance with all rules and regulations in the various jurisdictions where Pharming is active, as well as effective processes for and long-distance leadership have become much more important and will continue to drive change in our Organisational Development approach over the coming years.

Diversity and inclusion

Diversity and inclusion are central to our company culture. A workforce diverse in, among others 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. We seek diversity within our own workforce, in the collaborations and partnerships that we forge, and in our supply chains.

With operations in five countries and stakeholders all over the world, cultural diversity is a strong point. We want to make sure there are equal opportunities for all. We monitor the nationalities of our workforce, to make sure there is a balanced representation by nationality and gender. In 2016, we had 15 different nationalities amongst our employees. The average age of our workforce is 39 years.

Following the internal promotion (after external search) of two female colleagues to the highest level Executive Committee, as Heads of Technical Operations and of Research & Development, the proportion of women in senior management positions has significantly increased. The Executive Committee now comprises three women and five men, including the Board of Management.

The number of women in senior management positions is still relatively modest, though, and this has been and remains a point for attention. However, as a small and highly specialised organisation, Pharming is committed to recruiting and promoting employees on the basis of talent and ability, without negative or positive bias and irrespective of gender, nationality or age in the organisation. No reports of gender discrimination have ever been made.

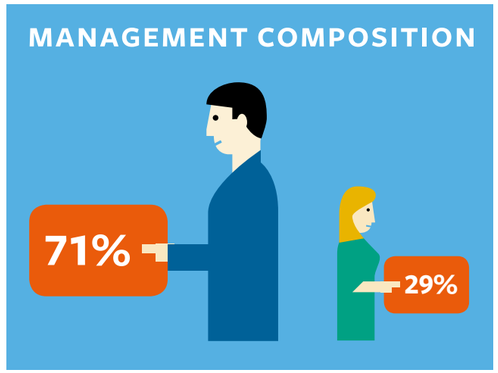
Employee statistics

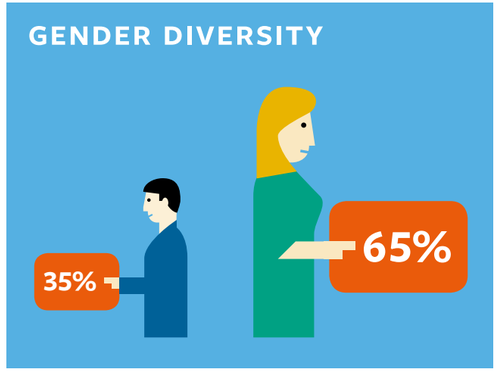
At 31 December 2016, 101 people (94 FTE) were employed (2015: 79). During 2016, the Company hired 39 new employees (2015: 26) and 10 employees left the Company (2015: 4).

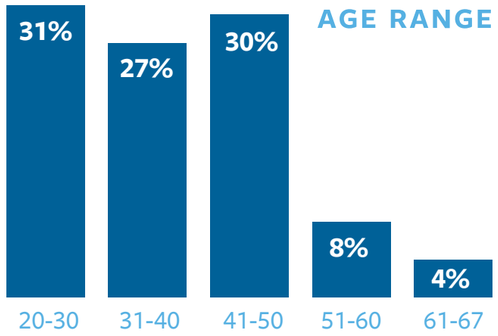
The majority of staff are employed at Pharming's headquarters in Leiden, with approximately fourty-five employees working at other locations in the Netherlands, the US, Germany and France at the year-end 2016. The Company's business involves specific high-technology processes and requires the employment 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 31 DEC	2016	2015	2014
G&A	13	12	9
Operations (formerly Manufacturing)	40	27	19
R&D	34	40	29
Marketing & Sales	14	–	–
TOTAL	**101**	**79**	**57**

Performance management cycle







Pharming carries out a yearly performance management cycle: Performance Management and Development System (PMDS). PMDS is a process for establishing shared understanding about what is to be achieved and an approach to managing and developing people in such a way that the individual and company goals can most likely be achieved. It is all about the achievement of job-related success for individuals so that they can make the best use of their abilities, realise their potential and maximise their contribution to the success of Pharming. Final individual reviews are enhanced and objectives identified during 'calibration sessions' where the management team discuss their reviews.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

GENERAL

Pharming's policy is to provide all shareholders and other parties with timely, equal and simultaneous information about matters that may influence the share price.
In addition, we aim to explain our strategy, business developments and financial results.
We communicate with our shareholders and investors through the publication of the Annual Report, meetings of shareholders, press releases and our website. Pharming organises analysts and press meetings and/or conference calls, when presenting half year and annual financial results or other significant news. These meetings and/or conference calls are announced in advance by means of press releases and on Pharming's website. Audio and/or web casts of these conference calls and corporate presentations are made available on the website after the meetings. In addition to the scheduled half-yearly and yearly result presentations, we maintain regular contact with financial analysts and institutional investors through meetings and road shows. The Company is regularly present at conferences and corporate and scientific presentations are made available at the Company's website.

Activities in 2016 for shareholders and investors included:

- A full presentation of our annual results to financial journalists and analysts, including audio commentary, Q&A sessions and posting on our website;
- Various additional conference calls with analysts, investors and providers of finance;
- Regular road show meetings with potential and existing shareholders and sell side analysts;
- Timely updates in the Investor Relations section of our website;
- A new 'in the news' section on our website to provide additional updates aside from press releases.

SHARE INFORMATION

Pharming Group N.V.'s shares are listed on Euronext Amsterdam (symbol: PHARM) since 1999.
The shares (ISIN Code: NL0010391025) are only traded through the book-entry facilities of Euroclear Nederland.
The address of Euroclear Nederland is:
Herengracht 459-469, 1017 BS Amsterdam,
the Netherlands.
ABN AMRO Bank N.V. is the paying agent with respect to the shares. The address of the paying agent is:
ABN AMRO Bank N.V., Gustav Mahlerlaan 10,
1082 PP Amsterdam, the Netherlands.

FINANCIAL CALENDAR FOR 2017	
17 MAY	Publication of first quarter 2017 financial results at 07.00 CET.
24 MAY	Annual General Meeting of shareholders
27 JULY	Publication of first six months 2017 financial results at 07.00 CET.
26 OCTOBER	Publication of first nine months 2017 financial results at 07.00 CET.

For more information please visit the Company corporate website: **www.pharming.com**

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December

Amounts in € '000	NOTES	2016	2015
Product sales	5	13,689	8,621
License fees	5	2,184	2,207
REVENUES	5	**15,873**	**10,828**
COSTS OF SALES	7	**(4,683)**	**(4,800)**
GROSS PROFIT		**11,190**	**6,028**
OTHER INCOME	6	**335**	**147**
Research and development		(15,388)	(14,180)
General and administrative		(4,642)	(3,744)
Marketing and sales		(3,035)	(1,085)
COSTS	7	**(23,065)**	**(19,009)**
OPERATING RESULT		**(11,540)**	**(12,834)**
Fair value gain (loss) on revaluation derivatives	8	79	3,380
Other financial income and expenses	9	(6,075)	(503)
FINANCIAL INCOME AND EXPENSES		**(5,996)**	**2,877**
RESULT BEFORE INCOME TAX		**(17,536)**	**(9,957)**
Income tax expense	10	–	–
NET RESULT FOR THE YEAR		**(17,536)**	**(9,957)**
Attributable to: Owners of the parent		(17,536)	(9,957)
TOTAL NET RESULT		**(17,536)**	**(9,957)**
Basic and diluted earnings per share (€)	31	(0.042)	(0.024)

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	2016	2015
NET RESULT FOR THE YEAR		**(17,536)**	**(9,957)**
Currency translation differences	17	(6)	30
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		**(6)**	**30**
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(6)**	**30**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(17,542)**	**(9,927)**
Attributable to: Owners of the parent		(17,542)	(9,927)

The notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

Amounts in € '000	NOTES	2016	2015
NON-CURRENT ASSETS			
Intangible assets	11	56,680	724
Property, plant and equipment	12	6,043	5,661
Long-term prepayments	13	1,622	–
Restricted cash	14	248	200
TOTAL NON-CURRENT ASSETS		**64,593**	**6,585**
CURRENT ASSETS			
Inventories	15	17,941	16,229
Trade and other receivables	16	12,360	3,220
Cash and cash equivalents	14	31,889	31,643
TOTAL CURRENT ASSETS		**62,190**	**51,092**
TOTAL ASSETS		**126,783**	**57,677**
EQUITY			
Share capital	17	4,556	4,120
Share premium	17	301,876	283,396
Legal reserves	17	60	66
Accumulated deficit	17	(279,025)	(263,743)
SHAREHOLDERS' EQUITY		**27,467**	**23,839**
NON-CURRENT LIABILITIES			
Loans and borrowings	18	40,395	11,757
Deferred license fees income	19	2,270	7,808
Finance lease liabilities	20	599	798
Other financial liabilities	28	4,674	–
TOTAL NON-CURRENT LIABILITIES		**47,938**	**20,363**
CURRENT LIABILITIES			
Loans and borrowings	18	26,136	3,047
Deferred license fees income	19	943	2,207
Derivative financial liabilities	21	9,982	953
Trade and other payables	22	14,054	7,005
Finance lease liabilities	20	263	263
TOTAL CURRENT LIABILITIES		**51,378**	**13,475**
TOTAL EQUITY AND LIABILITIES		**126,783**	**57,677**

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	SHARE CAPITAL	SHARE PREMIUM	LEGAL RESERVES	AACCUMULATED DEFICIT	TOTAL EQUITY
		Attributable to owners of the parent					
BALANCE AT 1 JANUARY 2015		**407,686,599**	**4,077**	**282,260**	**36**	**(256,530)**	**29,843**
Result for the year			–	–		(9,957)	(9,957)
Other comprehensive income for the year			–	–	30	–	30
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			**–**	**–**	30	**(9,957)**	**(9,927)**
Share-based compensation	17, 23	–	–	–	–	2,744	2,744
Bonuses settled in shares	17	523,813	5	168	–	–	173
Shares issued for cash	17	–	–	–	–	–	–
Warrants exercised/ issued	17, 26	3,405,128	34	949	–	–	983
Options exercised	17	356,250	4	19	–	–	23
TOTAL TRANSACTIONS WITH OWNERS, RECOGNIZED DIRECTLY IN EQUITY	17	**4,285,191**	**43**	**1,136**	**–**	**2,744**	**3,923**
BALANCE AT 31 DECEMBER 2015		**411,971,790**	**4,120**	**283,396**	**66**	**(263,743)**	**23,839**
Result for the year			–	–	–	(17,536)	(17,536)
Other comprehensive income for the year			–	–	(6)	–	(6)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			–	–	**(6)**	**(17,536)**	**(17,542)**
Share-based compensation	17, 23	–	–	–	–	2,254	2,254
Bonuses settled in shares	17	533,583	5	121	–	–	126
Shares issued for cash	17	42,981,939	430	8,381	–	–	8,811
Warrants exercised/ issued	17, 26	100,000	1	9,978	–	–	9,979
Options exercised	17	–	–	–	–	–	–
TOTAL TRANSACTIONS WITH OWNERS, RECOGNIZED DIRECTLY IN EQUITY		**43,615,522**	**436**	**18,480**	**–**	**2,254**	**21,170**
BALANCE AT 31 DECEMBER 2016		**455,587,312**	**4,556**	**301,876**	**60**	**(279,025)**	**27,467**

The notes are an integral part of these financial statements.

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	2016	2015
OPERATING RESULT		**(11,540)**	**(12,834)**
NON-CASH ADJUSTMENTS:			
Depreciation, amortization		756	546
Accrued employee benefits	23	2,254	2,744
Deferred license fees		(2,184)	(2,207)
OPERATING CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL		**(10,714)**	**(11,751)**
CHANGES IN WORKING CAPITAL:			
Inventories	15	(1,712)	(2,825)
trade and other receivables	16	(4,695)	(1,666)
payables and other current liabilities	22	7,049	(776)
TOTAL CHANGES IN WORKING CAPITAL		**642**	**(5,267)**
Changes in non-current assets, liabilities and equity		63	(223)
CASH GENERATED FROM OPERATIONS BEFORE INTEREST AND TAXES		**(10,009)**	**(17,241)**
Interest received		5	141
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**(10,004)**	**(17,100)**
Capital expenditure for property, plant and equipment	12	(1,193)	(898)
Investment intangible assets	11	(321)	–
Acquisition of business	11, 28	(55,960)	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(57,474)**	**(898)**
Proceeds of debt loans and borrowings	18	68,524	15,524
Payments of transaction fees and expenses		(5,133)	(608)
Repayment and interest on loans	18	(4,889)	(359)
Proceeds of equity and warrants	17	8,825	483
NET CASH FLOWS FROM FINANCING ACTIVITIES		**67,327**	**15,040**
INCREASE (DECREASE) OF CASH	14	**(151)**	**(2,958)**
Exchange rate effects		445	416
Cash and cash equivalents at 1 January		31,843	34,385
TOTAL CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**32,137**	**31,843**

The notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The consolidated financial statements of Pharming Group N.V., Leiden for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Supervisory Directors on 22 March 2017. The financial statements are subject to approval of the Annual General Meeting of shareholders, which has been scheduled for 24 May 2017.

Pharming Group N.V. is a limited liability public company, which is listed on Euronext Amsterdam ('PHARM'), with its headquarters and registered office located at:

Darwinweg 24 | 2333 CR Leiden | The Netherlands

Pharming 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® (constant alfa) is a recombinant human C1 esterase inhibitor approved for the treatment of acute Hereditary Angioedema ('HAE') attacks in patients in Europe, the US and RoW.

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.

In 2016 the Company changed the consolidated statement of cash flows from the direct method to the indirect method. The main difference is the presentation and determination of cash flows from operating activities. Under the indirect method the figure is produced by adjusting the profit and loss by removing the effects of non-cash items and changes in working capital. The Company has chosen the operating result as a starting point for the reconciliation because most of the other elements in the net result have a non-cash nature. This way the statement properly reflects the cash flows.

The reasons for the Company for this change are: clear reconciliation with income statement through operating result, and balance sheet through working capital changes, more relevant information about the Company's cash flow and more consistency with market standards.

The preparation of financial statements in conformity with IFRS and book 2 title 9 of the Dutch Civil Code requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.4.

A number of new or amended IFRS became applicable for the current reporting period. However, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these IFRS.

2.2 Basis of consolidation

The consolidated financial statements include Pharming Group N.V. and its effectively controlled subsidiaries, after the elimination of all intercompany transactions and balances. Subsidiaries are consolidated from the date the acquirer obtains effective control until control ceases.

An entity is considered effectively controlled if the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain

benefits from its activities. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting year as Pharming Group N.V., using the same accounting policies. Intercompany transactions, balances and 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.

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 investments at 31 December 2016

ENTITY	REGISTERED OFFICE	INVESTMENT %
Pharming B.V.	The Netherlands	100.00
Pharming Americas B.V.	The Netherlands	100.00
Pharming Intellectual Property B.V.	The Netherlands	100.00
Pharming Technologies B.V.	The Netherlands	100.00
Broekman Instituut B.V.	The Netherlands	100.00
DNage B.V. (in liquidation)	The Netherlands	51.00
Pharming Healthcare, Inc.	The USA	100.00
ProBio, Inc.	The USA	100.00

2.3 Accounting principles and policies

Business combinations

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

Foreign currency translation

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

The resulting transaction gains or losses are 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 US$/€ exchange rates applied at 31 December 2016 amounted to €1.0555 (31 December 2015: €1.0902).

Distinction between current and non-current

An asset is classified as current when it is expected to be realized (settled) within twelve 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.

The remaining amortization periods for intangible assets at 31 December 2016

CATEGORY	DESCRIPTION	AMORTIZATION PERIOD	
		TOTAL	REMAINING
Transgenic technology	Patents and licenses	6 to 10 years	Not applicable*
RUCONEST® for HAE (EU)	Development costs	10 years	4 years
RUCONEST® for HAE (VS)	Re-acquired commercial rights	20 years	20 years
New product leads**	Development costs	Not yet in use	Not yet in use

* Intangible assets with carrying value at 31 December 2016 of €nil. ** Regarding Pompe and Fabry's disease and modifications of RUCONEST®

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 derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is 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 capitalised. These costs include direct employee benefits, rent and testing costs. Capitalisation will be done until the asset is capable of operating in the manner intended by management.

The depreciation periods for property, plant and equipment

CATEGORY	DEPRECIATION PERIOD
Land	Not depreciated
Land improvements	20 years
Operational facilities	10-20 years
Leasehold improvements	5-10 years
Manufacturing equipment (or less, based on actual use compared to standards)	5-10 years
Other	3-10 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. Other property, plant and equipment apply to laboratory and office equipment, furniture, hardware and software.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortization and are tested 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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realizable value.

The Company has three inventory categories:

- **Finished goods: consists of batches of RUCONEST®. These batches comprise therapeutic product available for sales, clinical development and pre-clinical activities. Initial recognition is at cost, including raw materials used, external manufacturing and testing fees incurred to bring the product in a saleable or useable 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® and water for injection used in self-administration kits. Valuation per unit skimmed milk is based on the total costs of the rabbit 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, or, in case the products will be used for a clinical trial, the net realizable value is the reimbursement we expect to receive from partners in this trial. The costs of inventories are recognized as expense and included in costs of product sales if related to the sale of products. If related to the use in a clinical trial the expenses are included in the operating costs.

A provision is provided for inventories if no future use or sale is expected before the expiration date.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases and sales of financial assets are recognized using settlement date accounting.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- **The rights to receive cash flows from the asset have expired;**
- **The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or**
- **The Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.**

Impairment of financial assets

The Company assesses at each year-end of the reporting year whether there is any objective evidence that a financial asset or a group of financial assets is impaired, which is deemed the case if there is objective evidence as a result of one or more events that has occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Trade and other receivables

Trade and other receivables are initially stated at fair value. Subsequent measurement is at amortized cost using the effective interest method less provision for impairment.

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.

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 within the scope of IAS39 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 derecognized as well as through the amortization process. Purchases and sales of financial liabilities are recognized using settlement date accounting.

A financial liability is derecognized 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 derecognizing 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.

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 stated at fair value. Subsequent measurement is at amortised cost using the effective interest method.

Revenue recognition

In general, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue and the costs (to be) incurred in the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts to specialty pharmacies, rebates for government healthcare programs, value added taxes and duties.

Revenue for the sale of products is recognized when delivery has occurred and the risks and rewards of ownership have been transferred to the customer. Provisions for rebates, product returns and discounts to customers are provided for as reductions to revenue in the same period as the related sales are recorded. The provisions made at the time of revenue recognition are based on historical experience and updated for changes in facts and circumstances including the impact of new legislation and loss of a product's exclusivity. These provisions are recognized as a reduction to revenues.

License fees and royalties

Revenue from license agreements is recognized when significant risks and rewards have been transferred to the license fee partner, it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably and no continuing performance obligation exists.

Upfront license fee payments received from third parties under license agreements with a continuing performance obligation are initially recognized as deferred license fee income within the statement of financial position and released to the statement of income in accordance with the substance of the agreement. If no reliable estimate of the Company's performance throughout the remaining license period can be made, the deferred income is equally released as revenues to the statement of income throughout the remaining license period.

Certain license agreements provide for additional non-refundable fees to be paid to the Company upon the achievement of (research, development or regulatory) milestones by the Company. These milestones, if deemed substantive (see below), are recognized as revenue when the milestones are achieved and the milestone payments are due and collectible under the terms of the agreement.

Milestones are considered substantive if all of the following conditions are met:

- **The milestone payments are non-refundable under the terms of the agreement;**
- **Achievement of the milestone involved a degree of risk and was not reasonably assured at the inception of the agreement;**
- **Substantial effort is involved in achieving the milestone;**
- **The amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and**
- **A reasonable amount of time passed between the upfront license fee payment and the first milestone payment as well as between each subsequent milestone payment.**
- **If any of these conditions are not met, the Company recognized the proportionate amount of the milestone payment upon receipt as revenue that corresponds with the percentage of work already completed. The remaining portion of the milestone payment would be deferred and recognized as revenue as performance obligations are completed.**
- **Royalties on license agreements are recognized in accordance with the substance of the agreement.**
- **Product Sales**
- **Revenues from product sales are recognized when:**
- **The significant risks and rewards of ownership of the products have been transferred to the buyer;**
- **The Company does not retain either managerial involvement to the degree usually associated with ownership or effective control over the products sold;**
- **The amount of revenue and the costs (to be) incurred in the transaction can be measured reliably;**
- **It is probable that the economic benefits associated with the transaction will flow to the Company.**

Costs of product sales

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

Research and development costs

Research expenditure is 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 Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure 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.

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. Companies in this sector generally present governmental grants as income since these often are a significant source of income.

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 since the Company considers these interest items as the outcome of working capital management.

Operating costs and finance expenses

Operating costs and finance expenses are expensed as incurred. Costs of research and development cover those activities that are carried out to gain new scientific or technical knowledge and understanding as well as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products. Costs of general and administrative nature apply to overhead expenses. Costs of marketing and sales relate to all expenses incurred to commercialise the product.

Interest expense is recognized as interest accrues, using the effective interest method.

For the purpose of the consolidated statement of cash flows, interest expense and interest income derived from cash and cash equivalents have been presented as operating cash flows since the Company considers these interest items as a result of working capital management.

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 as current employee benefit obligations in the balance sheet.

Pension plan

For all Dutch employees, the Company participates in defined contribution pension plans with an independent insurance company. Defined contributions are expensed in the year in which the related employee services are rendered.

Employees in the United States are enabled to participate in a 401k plan, which also qualifies as a defined contribution plan. To become an eligible participant, an employee must complete six months of service and attain the age of 21 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 granted options immediately with a maximum exercise period of five years, but can only transfer the shares acquired upon exercise according to a sliding scale of up to 48 months or 4 or 5 years. For accounting purposes, the period in which the options become unconditional is defined as the vesting period. As a result of the sliding scale according to which the options become unconditional, graded vesting is applied.

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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against the statement of income.

Lease agreements in which the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Lease incentives

In certain lease agreements for property, plant and equipment, the lessor funds' assets in use and effectively controlled by the Company. Such constructions qualify as a 'lease incentive', in which case the Company fully capitalises the contribution of the lessor in property, plant and equipment with a corresponding increase in liabilities. The investment is depreciated in accordance with the accounting policies for property, plant and equipment, with the accrued lease incentive released to operational lease charges in the statement of income throughout the lease agreement period and on a straight-line basis.

Deferred income tax

Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the end of the reporting year and are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets and liabilities are stated at face value. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Cash flow statement

Operating cash flows in the statement of cash flows are reported using the indirect method. Compared to the financial statements for the year ended 31 December 2015, the Company has changed the consolidated statement of cash flows from the direct method to the indirect method. The main difference is the presentation and determination of cash flows from operating activities. Under the indirect method the figure is produced by adjusting the profit and loss by removing the effects of non-cash items and changes in working capital. The Company has chosen the operating result as a starting point for the reconciliation as most of the other elements in the net result have a non-cash nature. The cash flow used in financing activities changed with the reclassification of the payments of finance lease liabilities to the cash flows used in operating activitities. The reason for the reclassification is that the payment of the finance lease liabilities are included in the payment of the manufacturing costs, thus part of the working capital. This way the statement properly reflects the cash flows.

The reasons for the Company for this change are: clear reconciliation with income statement through operating result, and balance sheet through working capital changes, more relevant information about the Company's cash flow and more consistency with market standards.

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 provided to the chief operating decision-maker.

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

2.4 Significant accounting judgment 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.

Revenue

Revenue is recognised when title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. Gross turnover is reduced by rebates for government healthcare programs, discounts to specialty pharmacies, and product returns given or expected to be given, which vary by buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the estimated rebates and discounts or returns to be made, 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 buying group and product sales mix. The level of accrual is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions.

Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

In 2010 - 2013, license fee payments were received according to the license agreements with partners. These license fees relate to the sales rights of RUCONEST®, have therefore been recognized as deferred revenue, and are released over the expected life of the license. In the event of re-acquiring the sales right and license the deferred revenue will be released.

In 2016 no milestone payments have been received.

Business combinations

Any contingent consideration included in the consideration payable for a business combination is recorded at fair value at the date of acquisition and based on the estimated cash flows over the remaining economic useful life. These fair values are generally based on risk-adjusted future cash flows discounted using appropriate interest 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 2016, the liability for contingent consideration amounted to €4.7 million (see note 28 'Business combinations'). The amount arose on the acquisition of the commercialisation rights from Valeant Pharmaceuticals at December 7, 2016. This represents the present value of the estimated amount payable by Pharming in the event of achieving the sales milestones and is calculated by applying market-based multiples to forecast future cash flows. Sensitivity analysis is given in note 30 'Financial risk management'. The assumptions relating to future cash flows and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these projections or the market-based multiples to change with a consequent adverse effect on the future results of the Group. The Intangible asset will be amortised over the useful economic life and is determined at 20 years.

Inventories

At year-end 2016, the Company has capitalised batches of RUCONEST® as well as skimmed milk with an aggregate carrying value of €17.9 million. These inventories are available for use in commercial, pre-clinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected sales as well as pre-clinical and clinical programmes for both HAE project and other indications of the rhC1INH product. In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected remaining shelf life of the product involved. The actual cash proceeds from these product sales are difficult to predict in terms of volumes, timing and reimbursement amounts.

Inventories are stated at the lower of cost and net realisable value. The estimation of the net realisable value is based on the allocation of inventories to the different markets with different prices, based on sales forecasts by management and commercial partners, and clinical programmes. Actual sales can differ from these forecasts.

Derivative instruments presented as financial liabilities

Derivative instruments which are not equity instruments under IAS 32, IAS 39 and IFRS 13 and other standards, such as warrants to acquire Pharming shares which have a cashless exercise option and the conversion option for repayment of the instalments into shares, are presented as financial liabilities.

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

As at 31 December 2016, the Company has presented such derivative instruments as financial liabilities with a carrying value of €10.0 million. The revaluation shown in the profit & loss account represents the notional adjustment necessary to reflect the market values of similar warrant rights as if they were issued on the measurement date (31 December 2016) with the same terms and are based on models using assumptions with respect to, inter alia, the exercise of the warrants on or before maturity dates as well as (historical) volatility. Actual share price developments may trigger exercise of these warrants at a different time than assumed in the model, or result in their expiry unexercised, and may also result in the issue of shares to warrant holders at a time when the Pharming share price is higher or lower than anticipated at 31 December 2016. As a result, the difference between the open market value of shares transferred to warrant holders upon exercise and the carrying value at year-end 2016 as charged to the statement of income may be material, but will be a non-cash movement to profit & loss or equity as described above.

A sensitivity analysis on the possible effects has been included in note 30 of these consolidated financial statements.

Property, plant and equipment

At year-end 2016, Pharming has property, plant and equipment with a carrying value of €6.0 million. These assets are dedicated to the production of RUCONEST® inventories (€3.8 million) and other corporate purposes (€2.2 million). It is assumed these asset groups will continue to be used in ongoing production, research and development or general and administrative activities over its anticipated lifetime. The carrying value of these assets may be impaired in the future in case of a decision to cancel and/or defer certain activities.

2.5 Effect of new and forthcoming accounting standards

The IASB and IFRS IC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. The adoption of these standards and interpretations did not have a material effect on the Company's financial performance or position.

Effect of new accounting standards

No new standards and interpretations became effective as of 1 January 2016 which impact the amounts reported in these consolidated financial statements.

Effect of forthcoming accounting standards

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements.

IFRS 9, 'financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Contemporaneous documentation is still required so the Company is yet to assess IFRS 9's full impact.

IFRS 15, 'revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'revenue' and IAS 11 'construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is assessing the impact of IFRS 15 in 2017.

IFRS 16, 'Leases' defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Company is assessing the impact of IFRS 16 in 2017.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have material impact on the company's financial statements.

3 GOING CONCERN ASSESSMENT

The Board of Management of Pharming has, upon preparing and finalising the 2016 financial statements, assessed the Company's ability to fund its operations for a period of at least one year after the date of signing these financial statements.

Based on the assessment on a going concern basis, the Company has concluded that funding of its operations for a period of 12 months after the signing date of these financial statements is realistic and achievable.

In arriving at this conclusion, the following main items and assumptions have been considered:

- **Cash and cash equivalents of approximately €30.3 million as per the date of publication of these financial statements;**
- **The Company commercializes its own product in the US, based on current sales prices and volumes;**
- **The Company's current finance structure with interest and repayment obligations, including assumed repayments in shares.**
- **Additional new investment in sales force, medical science liaison, personnel and marketing activities in the US and Europe;**
- **The projected, however undisclosed sales revenues for the period involved, related to the markets in which the Company has market approval;**
- **The Company's operating cash outflows, its investments in (in)tangible assets for one year after the end of the financial statements. The cash outflow is expected to increase as a result of the increase in marketing and sales activities, production costs, development costs, and investments in production facilities.**

Pharming has not taken into account other potential sources of cash income, including but not limited to the following:

- **Proceeds from the exercise of warrants or options outstanding as per the date of these financial statements (see note 25);**
- **Capital raised by means of an additional capital markets transaction, such as non-dilutive (debt) financing, issuance of equity or a combination thereof. The timing and proceeds from such a transaction are subject to, for instance, market conditions (e.g. the share price in relation to the nominal value per share), availability of assets to secure debt transactions as well as approvals of boards and/or shareholders (e.g. To issue additional shares);**
- **Receipts from existing or new license partners.**

In addition, the Company may decide to cancel and/or defer certain activities in order to limit cash outflows until sufficient funding is available to resume them. Deferrals substantially relate to the timing of marketing and sales activities, manufacturing-related expenses and planned future clinical development activities for additional indications carried out on the initiative of Pharming.

Notwithstanding the above, the Board of Management of the Company emphasises that the funding of the Company's operations beyond one year after these financial statements is largely affected by its ability to increase product sales from both own marketing and sales activities as from partnerships to generate positive cash flows in the future. With regards to its ability to generate operating cash flows from product sales, the commercial success of RUCONEST® in the US has been identified as an uncertainty.

Overall, based on the outcome of this assessment, these financial statements have been prepared on a going concern basis. Notwithstanding their belief and confidence that Pharming will be able to continue as a going concern, the Board of Management emphasizes that the actual cash flows for various reasons may ultimately (significantly) deviate from their projections.

Therefore, in a negative scenario (actual cash inflows less than projected and/or actual cash outflows higher than projected) the going concern of the Company could be at risk in the period beyond 12 months as per the date of these financial statements.

4 SEGMENT INFORMATION

The Board of Management is the chief operating decision-maker. The Board of Management considers the business from both a geographic and product perspective. From a product perspective, the Company's business is almost exclusively related to the recombinant human C1 esterase inhibitor business. From a geographic perspective, the Company is operating in the areas: the US, EU and the Rest of the World (RoW). The Board of Management primarily measures revenues to assess the performance of the geographic areas. Costs and assets are not allocated to the geographic areas.

Total revenues per geographic segment for the financial year 2016 and 2015

AMOUNTS IN € '000	2016	2015
US	12,864	7,458
Europe	2,265	2,822
RoW	744	548
Total revenues	**15,873**	**10,828**

5 REVENUES

AMOUNTS IN € '000	2016	2015
Product sales	13,689	8,621
License fees	2,184	2,207
Total	**15,873**	**10,828**

Product sales relate to supplies of RUCONEST® to partners for the US market (Valeant), the EU market (SOBI) and own direct sales in the EU market, RoW and in the US after closing the transaction with Valeant. The product sales significantly increased due to higher sales in the US market of €11.8 million compared to €6.3 million 2015 including €3.3 million direct sales after closing the transaction with Valeant.

In 2016, the Company's income from license fees includes an amount of €2.2 million related to deferred revenue (2015: €2.2 million). In 2016 the deferred license fees of our partner in the US is fully released as result of the re-acquisition of the commercialisation rights from Valeant. The deferred license fees are released to the income statement and net off against the settlement loss on the pre-existing relationship and the negative goodwill, please refer to note 28.

6 OTHER INCOME

Other income related to grants exclusively and amounted to €0.3 million in 2016 (€0.1 million in 2015). Grants in both years reflect an annual payroll tax deduction granted by the Dutch government for a range of certain research and development activities.

7 EXPENSES BY NATURE

Cost of product sales are in 2016 and 2015

AMOUNTS IN € '000	2016	2015
Cost of product sales	(4,340)	(5,000)
Inventory impairments	(343)	200
Total	**(4,683)**	**(4,800)**

Cost of product sales in 2016 amounted to €4.3 million (2015: €5.0 million) and relates to actual supplies. Inventory impairments related to inventories designated for commercial activities amounted to an addition of €0.3 million in 2016 (2015: reversal of €0.2 million). The impairment stems from the valuation of the inventories against lower net realisable value.

Costs of research and development increased to €15.4 million in 2016 from €14.2 million in 2015. The €1.2 million increase is a result of the new R&D sites in France and the Netherlands.

Pharming's general and administrative costs increased to €4.6 million in 2016 from €3.7 million in 2015; the increase stems from new hiring and insourcing of activities.

The costs for marketing and sales increased in 2016 to €3.0 million from €1.1 million in 2015. The increase is related to more direct marketing activity in the EU and the start-up costs for the new sales organisation in the US.

Employee benefits

AMOUNTS IN € '000	2016	2015
Salaries	(7,482)	(5,854)
Social security costs	(740)	(579)
Pension costs	(449)	(364)
Share-based compensation	(2,254)	(2,744)
TOTAL	**(10,925)**	**(9,541)**

Salaries include holiday allowances and cash bonuses.

The number of employees

WEIGHTED AVERAGE FULL TIME EQUIVALENT	2016	2015
Research and development	70	52
General and administrative	12	9
Marketing and sales	3	1
TOTAL	**85**	**62**

The weighted average number of employees working outside the Netherlands was 18 (2015: 11).

Employee benefits are charged to research and development costs, or general and administrative costs, or marketing and sales costs based on the nature of the services provided.

Inventories

In 2016, the Company incurred expenses of €0.1 for batches of RUCONEST® (2015: €0.3) for research and development and €0.2 million for impairment charges (2015: reversal of €0.2 million).

Depreciation and amortisation charges

AMOUNTS IN € '000	NOTES	2016	2015
Property, plant and equipment	12	(530)	(493)
Intangible assets	11	(226)	(53)
TOTAL		**(756)**	**(546)**

The increase of depreciation charges of property, plant and equipment in 2016 as compared to 2015 stems from new investments. For property, plant and equipment, in 2016 an amount of €0.4 million was charged to research and development costs (2015: €0.4 million) and €0.1 million to general and administrative expenses (2015: €0.1 million).

Amortisation charges of intangible assets have been allocated to research and development costs and marketing and sales costs in the statement of income. In 2016 the amortisation charges increased due to the amortisation of the re-acquired US commercialisation rights which will be depreciated over the economic useful life of 20 years.

Operating lease charges

For the year 2016, the Company charged €1.4 million (2015: €0.9 million) to the statement of income with regard to lease commitments for office rent, equipment, facilities and lease cars.

These non-cancellable leases at 31 December 2016 have remaining terms of between one to ten years and generally include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The expected operating lease charges after the end of the reporting year have been disclosed in note 29. Allocations of the operating lease charges to research and development costs or general and administrative expenses have been based on the nature of the asset in use.

Independent auditor fees

Fees of PricewaterhouseCoopers Accountants N.V. incurred in relation to 2016 and 2015 audit services were as followed:

AMOUNTS IN € '000	2016	2015
Audit of the financial statements	(170)	(166)
Audit related activities	(119)	-
TOTAL	**(289)**	**(166)**

8 FAIR VALUE GAIN (LOSS) ON REVALUATION DERIVATIVES

AMOUNTS IN € '000	2016	2015
Revaluation warrants	398	2,854
Issued warrants Rights Offer	(325)	-
Revaluation warrants exercised	6	526
TOTAL	**79**	**3,380**

In 2016, the Company incurred a gain (non-cash) through revaluation of the derivatives against fair value like in 2015. Refer to note 21 for the Derivative financial liabilities. The issued warrants of the Rights Offer are initially recognised at fair value and recorded as an expense directly through profit and loss.

9 OTHER FINANCIAL INCOME AND EXPENSES

AMOUNTS IN € '000	2016	2015
Interest income	5	119
Interest expenses	(106)	(124)
Foreign currency results	(11)	276
Interest loans and borrowings	(3,481)	(774)
Transaction fees and expenses	(813)	-
Settlement fees loans	(1,669)	-
TOTAL	**(6,075)**	**(503)**

Interest income

Interest income from cash has decreased compared to previous year as a result of a decrease of interest rates and cash position.

Interest expenses

Interest expenses from financial leases has decreased compared to 2015 as a result of expiration of the various finance arrangements entered into 2011.

Foreign currency results

These results primarily follow from the revaluation of bank balances 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.

Interest loans and borrowings

Interest loans and borrowings related to the amortised costs from loans and borrowings.

Transaction fees and expenses

Transaction fees and expenses are related to the conversion option of the bonds. These expenses are separated from the total of €3.6 million for the issue of the bonds.

Settlement fees loans

Settlement fees loans are related to the prepayment of the old loans from Oxford Finance LLC and the Silicon Valley Bank.

10 INCOME TAXES

No current or deferred income taxes applied to the statement of income in both 2015 and 2016 and no other tax items apply to either equity or comprehensive income in both years. The Dutch fiscal unity at year-end 2016 has approximately €150 million of taxable losses that can be offset in the years 2017-2025. Besides the fiscal unity, the Company has taxable losses in foreign investments of total €11 million that can be offset in the years 2017 – 2036.

The Board of Management has considered the Company's history of losses and concluded that it is not probable that the benefits of these tax loss carry forward will be realised in the near term. Accordingly, the Company did not record a deferred tax asset.

11 INTANGIBLE ASSETS

Amounts in € '000	TRANSGENIC TECHNOLOGY	RUCONEST® FOR HAE (EU)	NEW PRODUCT LEADS	RE-ACQUIRED COMMERCIAL RIGHTS*	TOTAL
At cost	2,651	528	469	–	3,648
Accumulated Amortisation charges	(2,616)	(220)	–	–	(2,836)
Accumulated Impairment charges	(35)	–	–	–	(35)
CARRYING VALUE AT 1-1-2015	**–**	**308**	**469**	**–**	**777**
Amortisation charges	–	53	–	–	(53)
Impairment charges	–	–	–	–	–
Assets acquired	–	–	–	–	–
MOVEMENT 2015	**–**	**(53)**	**–**	**–**	**(53)**
At cost	2,651	528	469	–	3,648
Accumulated Amortisation charges	(2,616)	(273)	–	–	(2,889)
Accumulated Impairment charges	(35)		–	–	(35)
CARRYING VALUE AT 31-12-2015	**–**	**255**	**469**	**–**	**724**
Amortisation charges	–	(53)	–	(173)	(226)
impairment charges	–	–	–	–	–
Capitalised development costs	–	–	322	–	322
Assets acquired	–	–	–	55,860	55,860
MOVEMENT 2016	**–**	**(53)**	**322**	**55,687**	**55,956**
At cost	2,651	528	791	55,860	59,830
Accumulated Amortisation charges	(2,616)	(326)	–	(173)	(3,115)
Accumulated Impairment charges	(35)	–	–	–	(35)
CARRYING VALUE AT 31-12-2016	**0**	**202**	**791**	**55,687**	**56,680**

Refer to note 28 'Business combination'.

In 2016 the Company has started to modify the current product RUCONEST® for a more convenient use for the patient. A total amount of € 0.3 million is recognized as intangible asset in 2016. Amortisation will start after completion which is expected within two years

In 2014, the Company acquired assets from Transgenic Rabbit Models SASU, for a total amount of €0.5 million which is recognised as intangible assets regarding development costs of two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease.

As a result of this transaction Pharming has a gain in their time-to-market for these two product leads. The assets are recorded at historical costs, related to the development costs that Pharming avoids or saves by acquiring these assets. The development of these new product leads is expected not to be completed within 5 years.

The Company has capitalised development costs in the amount of €0.5 million in relation to RUCONEST® for HAE in the European Union. Following market launch of the product in 2010 the amortisation of the asset has started and no more development costs have been capitalised.

12 PROPERTY, PLANT AND EQUIPMENT

Amounts in € '000	LAND & LAND IMPROVE-MENTS	OPERA-TIONAL FACILITIES	LEASEHOLD IMPROVE-MENT	MANU-FACTURING EQUIPMENT	OTHER	ASSET UNDER CON-STRUCTION	TOTAL
At cost	27	1,946	1,969	5,228	1,465	_	**10,635**
Accumulated depreciation	–	(1,505)	(1,663)	(726)	(1,143)	–	(5,037)
CARRYING VALUE AT 1-1-2015	**27**	**441**	**306**	**4,502**	**322**		**5,598**
Investments	–	**371**	–	–			898
Divestments					(4)	–	(4)
Depreciation charges	–	(144)	(203)	(363)	(147)	–	(857)
Depreciation of disinvestment	–	–	–	–	2	–	2
Revaluation manufacturing equipment				24			24
MOVEMENT 2015	**–**	**227**	**(203)**	**(339)**	**378**		**63**
At cost	27	2,317	1,969	5,252	1,988	–	11,553
Accumulated depreciation	–	(1,649)	(1,866)	(1,089)	(1,288)	–	(5,892)
CARRYING VALUE AT 31-12-2015	**27**	**668**	**103**	**4,163**	**700**		**5,661**
Investments	–	174	–	–	894	125	1,193
Divestments							–
Depreciation charges	–	(161)	(102)	(299)	(267)	–	(829)
Depreciation of disinvestment	–	–	–	–	–	–	–
revaluation manufacturing equipment	–	–	–	18	–	–	18
MOVEMENT 2016	**–**	**13**	**(102)**	**(281)**	**627**	**125**	**382**
At cost	27	2,491	1,969	5,270	2,882	125	12,764
Accumulated depreciation	–	(1,810)	(1,968)	(1,388)	(1,555)	–	(6,721)
CARRYING VALUE AT 31-12-2016	**27**	**681**	**1**	**3,882**	**1,327**	**125**	**6,043**

Depreciation charges on manufacturing equipment of €0.3 million in 2016 (2015: €0.4 million) are charged to the value of inventories and accordingly an amount of €0.5 million of total 2016 depreciation charges have been charged to the statement of income (2015: €0.5 million).

At year-end 2016, the carrying value of the assets hired under a financial lease arrangement – and thus with a restricted title - was €1.3 million (31 December 2015: €1.4 million) and related to manufacturing equipment.

13 LONG-TERM PREPAYMENT

The Long term prepayment is related to the new manufacturing agreement with BioConnection B.V. and represents two of a total of four instalments, of €0.5 million each. These instalments represents prepaid production costs of Drug Product batches. BioConnection may decide at its sole discretion to lower the total amount of the last 2 instalments that are due in 2017. The prepayment will be settled by Bioconnection with future production of Drug Product batches.

14 RESTRICTED CASH, CASH AND CASH EQUIVALENTS

AMOUNTS IN € '000	2016	2015
Non-current restricted cash	248	200
Cash and cash equivalents	31,889	31,643
BALANCE AT 31 DECEMBER	**32,137**	**31,843**
BALANCE AT 1 JANUARY	31,843	34,385
Exchange rate effects on cash	445	343
Increase (decrease) of cash	(151)	(2,885)

Restricted cash represent the value of banker's guarantees issued with respect to (potential) commitments towards third parties and are primarily related to rental agreements.

15 INVENTORIES

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

AMOUNTS IN € '000	2016	2015
Finished goods	9,731	11,397
Work in progress	5,103	3,232
Raw materials	3,107	1,600
BALANCE AT 31 DECEMBER	**17,941**	**16,229**

The inventory valuation at 31 December 2016 is stated net of a provision of €0.6 million (2015: €0.5 million) to write inventories down to their net realisable value.

Changes in the adjustment to net realisable value:

AMOUNTS IN € '000	2016	2015
BALANCE AT 1 JANUARY	**(462)**	**(1,691)**
Reversal of (addition to) impairment for the year	(547)	247
Related to costs of product sales	362	548
Related to operating costs	5	434
BALANCE AT 31 DECEMBER	**(642)**	**(462)**

In 2016, the addition of €0.5 million was based on adjusted forecasts for sales and clinical studies (2015: reversal of €0.2 million). The impaired amount related to operating costs in 2015 (€0.4 million) represents the costs of the number of vials used for IMP drugs in clinical studies.

Cost of inventories included in the cost of product sales in 2016 amounted €4.3 million (2015: €5.0 million). The main portion of inventories at 31 December 2016 has expiration dates starting beyond 2018 and is expected to be sold or used before expiration.

16 TRADE AND OTHER RECEIVABLES

AMOUNTS IN € '000	2016	2015
Trade receivables	6,280	2,106
Prepaid expenses	974	227
Value added tax	648	298
Other receivables	4,458	589
BALANCE AT 31 DECEMBER	**12,360**	**3,220**

The trade receivables increased significantly in 2016 due to the direct sales in the us for the last three weeks of December of €3.5 million. The Company's outstanding receivables are mainly related to the own direct sales in the us and the 30% reimbursement of the net royalty report of former partner Valeant for the sales of Q4 till closing of the transaction.

The other receivables are mainly related to the outstanding proceeds from an investor of the amortizing bonds of €4.4 million. In 2015 the other receivables are related to the reimbursement of the Prophylaxis trial expenses of €0.5 million from partner Valeant.

Trade and other receivables at 31 December 2016 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

17 SHAREHOLDER EQUITY

The Company's authorised share capital amounts to €8.0 million and is divided into 800,000,000 ordinary shares with a nominal value of €0.01 each. All 455,587,312 shares outstanding at 31 December 2016 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. This note further describes the background of the main equity movements in 2016 and 2015.

Adjustment share capital

In 2016 the Company's shareholders approved the increase of the share capital from €5.5 million to €8.0 million. The increase is related to the capital raises for closing the transaction/ re-acquiring the market license at 7 December 2016. The overall effect of the adjustment on shareholders' equity was €nil.

Rights offer

On 21 November 2016, the Company offered existing shareholders to buy 1 new share for 7 shares held against a fixed price of €0.205 with a 10% discount of the VWAP of the 20 business days prior to the issue date of the Rights Offer. In total 42,981,939 shares were issued and the total capital raise for the Rights Offer amounted €8.8 million. Transaction fees related to the offer amounted €0.6 million.

Legal reserves

The legal reserves concern the currency translation differences of foreign investments. Adjustments of the currency translation reserve reflect the effect of translating us operations denominated in USD since their functional currency is different from the reporting currency.

In 2016, a slight decrease took place due to the small difference between the result of the foreign investments and the total exchange rate differences of the investment and the current account

Net loss and accumulated deficit

Article 25.1 of the articles of association reads as follows: 'the management board shall annually determine, subject to the approval of the Board of Supervisory Directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.' the Board of Management has proposed to forward the net loss for the year 2016 of €17.5 million to the accumulated deficit. Anticipating the approval of the financial statements by the shareholders at the AGM, this proposal has already been reflected in the financial statements and accordingly accumulated deficit has increased to €279.0 million at year-end 2016.

Share-based compensation

Share-based compensation within equity includes those transactions with third parties, the Board of Management and employees in which payment is based in shares or options based on current or future performance. For 2016 these transactions were valued at €2.3 million and for 2015 at €2.7 million (see note 23).

Bonuses settled in shares

The Company in 2016 issued 533,584 shares to members of the Board of Management and various managers in lieu of bonuses with an aggregate value of €0.1 million. In 2015 a total of 523,813 shares were issued to pay off bonuses of €0.2 million.

Warrants

On 7 December 2016 the Company issued 88,025,158 warrants with an exercise period of 5 years and an exercise price of €0.284 to the investors of the financial instruments to finance the transaction with Valeant. The warrants are initially recognised in equity for €11.1 million.

In 2016, a total of 100,000 warrants were exercised in exchange for 100,000 shares and 21 million warrants, of the Private Placement in 2014, expired in April 2016. The received cash amount and derecognition to their Fair value prior to exercise of the exercised warrants were €nil.

In 2015, a total of 3,405,128 warrants were exercised in exchange for 3,405,128 shares. The Company received a cash amount of €0.5 million in connection with these exercises and derecognised their Fair values prior to exercise of in total €0.5 million.

Options exercised

In 2016, no options were exercised. In 2015, a total of 356,250 options were exercised in exchange for 356,250 shares.

18 LOANS AND BORROWINGS

On 7 December 2016 the Company entered into a new debt facility with Silicon Valley Bank and Kreos Capital V (UK) Limited (the Lenders). The existing debt facility with Oxford Finance LLC and Silicon Valley Bank had been paid off with the proceeds of the new debt facility for a total amount of $16.7 million (€15.7 million). The prepayment fees of the repayment of the old loans before maturity date amounted $1.8 million (€1.7 million) and recognised as financial expense.

The new debt facility is attracted as part of financing the transaction with Valeant Pharmaceuticals, to setup the US marketing and sales organisation, to ensure future activities for development of new transgenic lines and to develop indications of Ruconest©.

Under the terms and conditions of the new debt facility, the Lenders provided an EUR equivalent amount of $40 million (€37.5 million) secured senior debt funding against 42 months promissory notes with a 8.25% fixed interest per annum. The initial 12 months of the notes are interest only, followed by monthly re-payment of the notes in a 30 months straight amortization scheme. The Company has the option to prepay the loans before maturity date. As further consideration for the facility, the Lenders received a 10% warrant coverage (13,237,318 warrants) with a strike price of €0.284 representing the average closing price of Pharming shares over the last ten days prior to the closing date, 1.5% commitment fee and a final payment on maturation date 1 May 2020 of 9% of the principal sum. Other facility fees of €1.3 million have been deferred from the original loans. The warrants have been separated from the loans and recognised in Equity.

The Company, and her subsidiaries, have pledged all receivables, movable assets and intellectual property rights as security to the Lenders.

Amortizing bonds

On 7 December 2016, the Company issued an amortizing bonds for a principal amount of €45.0 million (or $47.7 million), which after costs of €7.3 million, including investors fees of €5.0 million, has produced proceeds of approximately €37.7 million. In connection to the issue of the amortizing bonds the Company also incurred transaction fees and expenses of €2.3 million in total which has been allocated to the amortizing bonds, the derivative financial liabilities and the financial expenses based on their relative weight in the €40.0 million as received and accordingly an amount of €1.6 million was charged to the carrying value of the amortizing bonds, €0.2 million to financial expenses and €0.5 million to equity.

The Company will begin repaying the amortizing bonds after two months in 16 equal instalments, in either shares or cash at the Company's sole discretion, although the first three such payments will be in cash only. The maximum total payment in cash (other than for an early repayment) is capped at 70% of the principal amount. Any repayments in cash will be at a premium to the repayment amount. The investors received a total of 63,380,282 warrants in connection with this financing. The warrants have been separated from the bonds and recognised in equity. The transaction was approved at the Extraordinary General Meeting of shareholders that was held on 25 October 2016.

For accounting purposes, the amortizing bonds were initially recognized at the aggregate value of the value received minus the fair value of the derivative financial liabilities and the portion of transaction fees and expenses allocated to the bond. (Pre)Payments of the monthly installment could take place either in cash or shares.

INITIAL RECOGNITION AND MOVEMENTS OF THE AMORTIZING BONDS	€'000
Received in cash	40,000
Fair value of warrants issued	(8,009)
Fair value of conversion right	(3,866)
Transaction fees and expenses	(1,611)
Carrying value initial recognition	26,514
Effective interest convertible bonds	1,150
CARRYING VALUE AT 31-12-2016	**27,664**
Non-current portion	(6,226)
Current portion	21,438

Convertible bonds

Following an announcement in November 2016, the Company issued €12.5 million private ordinary convertible bonds ('Ordinary Bonds') carrying 8.5% annual interest In December 2016. The Ordinary Bonds are redeemable at the Company's option at par after 3 years, if in a period of 30 consecutive trading days the volume weighted average price of the Shares is 30% above the conversion price, unless the holders elect to convert their Ordinary Bonds instead of being redeemed. The holders may request redemption at par of any unredeemed or unconverted Bonds on maturity. The investors received a total of 8,830,982 warrants in connection with this financing. The warrants have been separated from the Bonds and recognised in equity.

In connection to the issue of the Ordinary Bonds, the Company also incurred transaction fees and expenses of €1.3 million in total of which have been allocated to the Ordinary Bonds, the derivative financial liabilities and the financial expenses based on their relative weight in the €12.5 million as received and accordingly an amount of €0.6 million was charged to the carrying value of the Ordinary Bonds, €0.6 million to financial expenses and €0.1 million to equity.

For accounting purposes, the convertible bond portion was initially recognized at the aggregate value of the value received minus the fair value of the derivative financial liabilities and the portion of transaction fees and expenses allocated to the convertible bond. Payments of the bi-yearly interest takes place in cash.

INITIAL RECOGNITION AND MOVEMENTS OF THE CONVERTIBLE BONDS	€'000
Received in cash	12,540
Fair value of warrants issued	(1,116)
Fair value of conversion right	(5,574)
Transaction fees and expenses	(620)
Carrying value initial recognition	5,230
Effective interest convertible bonds	103
CARRYING VALUE AT 31-12-2016	**5,333**
Non-current portion	(4,448)
Current portion	885

The Loans and borrowings for 2016 and 2015 can be summarised as follows:

AMOUNTS IN € '000	2016	2015
Loans from banks	33,534	14,804
Amortizing bonds	27,664	-
Convertible bonds	5,333	-
TOTAL BALANCE AT 31-12-2016	**66,531**	**14,804**
Current portion of the long-term loans due within one year	(26,136)	(3,047)
Non-current portion of long-term loans	**40,395**	11,757

The remaining lifetimes of the loans and borrowings are no longer than 5 years.

19 DEFERRED LICENSE FEES INCOME

In 2010, the Company entered into a distribution agreement for RUCONEST® with SOBI under which a €3.0 million upfront payment and a €5.0 million milestone payment were received in cash. The €8.0 million is released to the statement of income in accordance with the remaining lifetime of the agreement following market approval for RUCONEST® in October 2010 and subsequent start of supplies. In both 2016 and 2015 €0.8 million was released from this agreement.

In 2010 Pharming received an upfront payment of $15.0 million or €11.7 million in cash from Santarus, Inc. with respect to a RUCONEST® license agreement for recombinant human C1 estarase inhibitor in the US, Canada and Mexico. Since the Company has to perform clinical, regulatory and commercial activities, the amount is released to the statement of income over the full lifetime of the agreement as of its effective date. Accordingly, an amount of €1.1 million in license fees income was recognised as revenues from license fees in both 2016 and 2015. In 2016, the deferred license fees were fully released due to the transaction with Valeant.

In 2013, Pharming received an upfront payment of €1.1 million in cash from the China Shanghai Institute of Pharmaceutical Industry (CSIPI) with respect to a strategic collaboration in China for the development, manufacturing and commercialisation of new products at CSIPI, funded by CSIPI up to IND stage, based on the Pharming technology platform. In addition, Pharming has also granted CSIPI an exclusive license to commercialise RUCONEST® in China. In 2016 €0.3 million was recognized as revenue from this agreement (2015: €0.3 million).

AMOUNTS IN € '000	2016	2015
TOTAL BALANCE AT 1 JANUARY	**10,015**	**12,222**
Revenues from deferred license fees	(2,184)	(2,207)
Release deferred license fees Santarus	(4,618)	–
TOTAL BALANCE AT 31 DECEMBER	**3,213**	**10,015**
Current balance at 31 December	(943)	(2,207)
NON-CURRENT BALANCE AT 31 DECEMBER	2,270	**7,808**

The revenues from deferred license fees are the release of upfront payments of €2.2 million (2015: €2.2 million). The slightly decrease of the revenues from deferred license fees is caused by ending the release of the upfront payment from Santarus at 7 December 2016. Please refer to note 28.

20 FINANCE LEASE LIABILITIES

Certain assets of the Company are subject to finance leases. These leases mainly relate to manufacturing equipment.

AMOUNTS IN € '000	2016	2015
TOTAL BALANCE AT 1 JANUARY	**1,061**	**1,591**
Revaluation of finance lease liabilities	18	24
Interest expense accrued	106	124
Payments of finance lease liabilities	(323)	(678)
TOTAL BALANCE AT 31-12	**862**	**1,061**
Current balance at 31 December	(263)	(263)
NON-CURRENT BALANCE AT 31-12	**599**	**798**

Pharming has entered into a finance lease arrangement related to an existing manufacturing agreement, in which a service provider invested into certain assets exclusively in use by the Company but operated by the service provider. The Company will reimburse the service provider an aggregate amount of €2.8 million over the lifetime of the agreement through payments of a variable service fee charge based on the realised production.

The amount of the net present value of the investment of €1.8 million has been presented as manufacturing equipment with a simultaneous increase of finance liabilities. An estimated 11.0% annual interest charge applies to this agreement. The service provider is and will remain to be the legal owner of the assets in use. The fair value of the finance lease obligations approximates their carrying amount. No arrangements have been entered into for contingent rental payments.

Future minimum lease payments under finance leases as at 31 December 2016 and 2015 are as follows:

	2016		2015	
AMOUNTS IN € '000	MP	PVOP	MP	PVOP
Within one year	281	263	281	263
After one year but not more than five years	764	599	1,088	798
More than five years	–	–	–	–
TOTAL BALANCE AT 31-12	**1,045**	**862**	**1,369**	**1,061**

MP = Minimal payments **PVOP** = Present value of payments

At year-end 2016, the carrying value of the assets involved as leased was €1.3 million (2015: €1.4million) and related to manufacturing equipment.

21 DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities include conversion options embedded in borrowings and warrants issued in relation to the issue of equity and the loans in 2013 and 2015.

In 2016, the Company issued bonds which consist of a conversion option related to the repayment in shares, please refer to note 18 Loans and Borrowings. The conversion option is recognised as liability and separated from the bonds.

Derivative financial liabilities recognised in 2015 related to 2,315,517 warrants issued in relation with the Loan and Security Agreement with Oxford Finance LLC and Silicon Valley Bank amounting $17.0 million.

In April 2016, the 21,000,000 warrants issued in relation to the April 2014 private placement expired.

In 2016, 100,000 warrants were exercised and the Company derecognised their fair values prior to exercise of in total €0.01 million. Following the exercise of 3,405,128 warrants in 2015, the Company derecognised their fair values prior to exercise of in total €0.5 million.

Movement of derivative financial liabilities for 2016 and 2015 can be summarised as follows:

AMOUNTS IN € '000	NOTES	2016	2015
BALANCE AT 1 JANUARY		**953**	**4,266**
Initial recognition upon issue		9,439	590
Fair value losses (gains) derivatives	8	(404)	(3,380)
Exercise of warrants	17	(6)	(523)
BALANCE AT 31 DECEMBER		**9,982**	**953**

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

22 TRADE AND OTHER PAYABLES

AMOUNTS IN € '000	2016	2015
Accounts payable	5,652	1,016
Taxes and social security	218	187
Deferred compensation due to related parties	742	434
Other payables and provisions	7,442	5,368
BALANCE AT 31 DECEMBER	**14,054**	**7,005**

The increase in accounts payable mainly relates to the manufacturing expenses (€3.5 million year-end). The other payables increased due to accrued expenses for fees of the transaction, estimates of rebates of sales and the receipt of prepaid commitment fees. The rebates and chargebacks, for government insurance programs, are related to the direct sales in the us of the last three weeks in December.

The amount of deferred compensation due to related parties involves members of the Board of Management and Board of Supervisory Directors and includes bonuses, holiday allowances and holiday rights.

23 SHARE-BASED COMPENSATION

The Company has a long term incentive plan and two option plans in place: one for the Board of Management and one for employees ('the option plans'). All these plans or arrangements are equity settled. The total expense recognised in 2016 for share-based payment plans amounts to €2.3 million (2015: €2.7 million).

Models and assumptions

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

IFRS 2 describes a hierarchy of permitted valuation methods for share-based payment transactions. If possible, an entity should use market prices at measurement date to determine the fair value of its equity instruments. If market prices are unavailable, as is the case with Pharming's option plans and long term incentive plan, the entity shall estimate the fair value of the equity instruments granted. A valuation technique should be used to estimate the value or price of those equity instruments as it would have been at the measurement date in an arm's length transaction between knowledgeable, willing parties.

The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments and shall incorporate all factors and assumptions that knowledgeable market participants would consider in setting the price.

Whatever pricing model is selected, it should, as a minimum, take into account the following elements:

- **The exercise price of the option;**
- **The expected time to maturity of the option;**
- **The current price of the underlying shares;**
- **The expected volatility of the share price;**
- **The dividends expected on the shares;**
- **The risk-free interest rate for the expected time to maturity of the option.**

The six elements above are all incorporated in the Black-Scholes model used to determine the fair value of options. The exercise price of the option and the share price are known at grant date. Volatility is based on the historical end-of-month closing share prices over 5 years prior to the option grant date. It is assumed no dividend payments are expected.

For the long term incentive plan, the following elements of Pharming and/or the peer group are included in order to determine the fair value of long term incentive plan share awards, using Monte Carlo simulation:

- **Start and end date of performance period;**
- **The grant date;**
- **The share prices;**
- **Exchange rates;**
- **Expected volatilities;**
- **Expected correlations;**
- **Expected dividend yields;**
- **Risk free interest rates.**

Volatilities are based on the historical end-of-month closing share prices over the 3 years.

Correlations are based on 3 years of historical correlations based on end-of-month closing quotes, taking into account exchange rates. Expected dividend yields for peers and risk-free interest rates (depending on the currency) are obtained from Bloomberg.

Long Term Incentive Plan

At the AGM of 16 April 2008 a long term incentive plan was approved with an effective date of 1 January 2008. Under the LTIP, restricted shares are granted conditionally each year with shares vesting based on the market condition in which the total shareholder return performance of the Pharming share is compared to the total shareholder return of a peer group of other European biotech companies.

The reference group for the 2014-2016 programmes consists of the following 30 companies:

MAIN LOCATION	NUMBER	COMPANY
Belgium	3	Ablynx, Galapagos, Ti-Genix
Denmark	4	Bavarian Nordic, Neurosearch, Veloxis Pharmaceuticals, Genmab
France	5	Cellectis, Diaxonhit, Hybrigenics, Innate Pharma, Transgene
Germany	4	Evotec, Medigene, Morphosys, Wilex
Italy	1	Newron Pharmaceuticals
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex Therapeutics, Basilea Pharmaceutica, Santhera Pharmaceuticals, Kuros Biosciences
United Kingdom	7	Allergy Therapeutics, Gw Pharmaceuticals, Immupharma, Oxford Biomedica, Renovo, Vernalis, Premier Veterinary Group PLC

The vesting schedule is as follows. Ranking in the top:

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 shares will vest automatically.

An overview of the maximum number of LTIP shares granted in 2014-2016 and in total as well as the fair value per share award is as follows:

PARTICIPANT CATEGORY	2014	2015	2016	TOTAL
Board of Supervisory Directors	525,000	725,000	725,000	1,975,000
Board of Management	1,497,062	550,334	1,084,340	3,131,736
Senior managers	800,000	1,095,000	1,340,000	3,235,000
TOTAL	**2,822,062**	**2,370,334**	**3,149,340**	**8,341,736**
Fair value per share award (€)	0.088	0.267	0.079	

The following table provides an overview of LTIP shares granted, forfeited or issued in 2014-2016 as well as the number of LTIP shares reserved at 31 December 2016:

PARTICIPANT CATEGORY	GRANTED	FORFEITED	NOT VESTED	RESERVED AT DECEMBER 2016
Board of Supervisory Directors	1,975,000	–	(420,000)	1,555,000
Board of Management	3,131,736	–	(1,197,649)	1,934,087
Senior managers	3,235,000	(50,000)	(600,000)	2,585,000
TOTAL	**8,341,736**	**(50,000)**	**(2,217,649)**	**6,074,087**

The 2014 shares did vest at the end of the vesting period (31 December 2016) and a total of 20% of the granted LTIP shares will be issued. LTIP shares reserved at 31 December 2016 relate to the 2015 and 2016 shares available for participants still in service at the end of 2016. The Company expensed amounts of €0.4 million in 2016 compared to €0.2 million in 2015.

Main characteristics of the option plans

The total number of shares with respect to which options may be granted pursuant to the option plans accumulated, shall be determined by Pharming, but shall not exceed 10% of all issued and outstanding shares of Pharming on a fully diluted basis. Shares transferred or to be transferred, upon exercise of options shall be applied to reduce the maximum number of shares reserved under the plans. Unexercised options can be re-used for granting of options under the option plans.

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

- **At the time of a performance review;**
- **Only in relation to an individual: a date within the first month of his or her employment;**
- **In case of an extraordinary achievement;**
- **In case of a promotion to a new function within Pharming.**

The option exercise price is the price of the Pharming shares on the stock exchange on the trading day prior to the date of grant or on the trading day prior to the meeting of the Board of Supervisory Directors during which it was resolved to grant options. Options can be exercised at any time within five years following the date of grant. Unexercised options shall be deemed lapsed and shall cease to exist automatically after five years. Exercise of options is subject to compliance with laws and regulations in the Netherlands. Exercise of options is including withholding taxes. Each option is equal to one share unless otherwise stated. Options are not applicable for early retirement.

Option plan Board of Management

Article 2.1 of the option plan for the Board of Management states: 'the Board of Supervisory Directors may, at its sole discretion, (i) grant options to any member (ii) define the conditions attached to the options which need to be fulfilled before the options can be exercised (iii) determine the criteria for the granting of the options. The compensation committee of Pharming will propose (i) the criteria for the granting of options, (ii) whether the criteria for granting an option have been met by a potential participant and (iii) the number of options to be granted.

The options will at all times be granted under the condition that the granting of such options will be approved by the general meeting of shareholders of Pharming.

Article 4.4 of the option plan for the Board of Management reads as follows: 'in case of the termination of the membership of a participant of the Board of Management, except for retirement and death, Pharming at its sole discretion is entitled to decide that the options of the participant shall lapse if the conditions set out in the option granting letter have not been fulfilled at the time of the termination of the membership of the Board of Management'. The Company in its sole discretion may decide to deviate from article 4.4.

At the AGM of 18 June 2014 the two members of the Board of Management were granted a total of 19,200,000 options for the period 2014-2018 with annual vesting conditions for the period 2015-2019. The exercise price of the granted options for the first tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.505, having fair values of €0.177 - €0.366. For the second tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.341, having fair values of €0.177 - €0.366.

At the AGM of 25 May 2016 one member of the Board of Management was granted a total of 4,000,000 options for the period 2016-2020 with annual vesting conditions for the period 2017-2020. The exercise price of the granted options for the first tranche of 1,000,000 options for Mr. R. Wright is €0.209, having fair values of €0.045 - €0.114.

Vesting of the next tranche of the granted options in 2014 and 2016 per individual member of the Board of Management was based on the requirement to be in service at 31 January 2017. For the options of S. de Vries (12,000,000 options valued at grant date for €3.5 million), B.M. Giannetti (7,200,000 options valued at grant date for €2.1 million) and R. Wright (4,000,000 options valued at grant date for €0.3 million), Pharming expensed a total amount of €1.3 million in 2016 (2015: €1.6 million).

Option plan employees

Article 2.1 of the option plan for employees' states: 'Pharming may grant options to any employee. The criteria for the granting of the options will be determined by the Board of Supervisory Directors of Pharming, at its sole discretion. The Board of Management will propose (i) whether the criteria for granting an option have been met by a potential participant and (ii) the number of options to be granted. Article 4.4 of the employee option plan deals with the vesting scheme of employee options and reads as follows: 'in case of the termination of the employment of a participant, except for retirement and death, Pharming at its sole discretion is entitled to decide that the options of the participant shall lapse. The following schedule shall apply for the cancellation:

In the event of termination of employment within one year as of a date of grant, all options shall lapse;

In the event of termination of employment after the first year as of a date of grant, all options, less 1/4 of the number of options shall be lapsed. The number of options to be cancelled decreases for each month that the employment continued for more than one year as of that date of grant by 1/48 of the number of options granted of that date of grant.'

In 2016 the Company granted 10,575,000 options to employees with a weighted average exercise price of €0.209; fair values for options granted in 2016 was €0.063 - €0.124.

In 2015 the Company granted 3,977,225 options to employees with a weighted average exercise price of €0.344; fair values for options granted in 2015 were €0.065 - €0.237.

An overview of activity in the number of options for the years 2016 and 2015 is as follows:

	2016		2015	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)
BALANCE AT 1 JANUARY	40,436,161	0.455	37,534,551	0.481
Expired	(1,305,942)	1.412	(483,206)	1.712
Exercised	–		(356,250)	0.063
Granted under plan for Board of Management	4,000,000	0.209	1,000,000	0.335
Granted under plan for Employees	6,575,000	0.209	2,977,225	0.344
Forfeited under plan for Board of Management	–	–	–	–
Forfeited under plan for Employees	(381,434)	0.375	(236,159)	0.504
BALANCE AT 31 DECEMBER	**49,323,785**	**0.296**	**40,436,161**	**0.455**

In 2016 no options have been exercised compared to 2015 wherein 356,250 options have been exercised with an average exercise price of €0.063.

All options outstanding at 31 December 2016 are exercisable with the exception of the options granted to the Board of Management and employees still in service.

The 2014 and 2015 share options for the Board of Management vest annually, two of five tranches is 7,930,000 options at 31 January 2016, for the period 2014-2018 under the condition the board members are still in service at vesting date.

For the employees the vesting period and conditions are similar, except the annually vesting date, starting at 1 September 2015 with the first of four tranches. For employees' subsequent sale of the shares is subject to the vesting conditions of the option. The weighted average remaining contractual life in years of the outstanding options at 31 December 2016 is 3.4 years (2015: 3.3 years).

Exercise prices of options outstanding at 31 December 2016 and the exercise values are in the following ranges:

EXERCISE PRICES IN €	NUMBER	TOTAL RANGE EXERCISE VALUE IN €'000
0.063 - 0.25	28,102,861	5,117
0.25 - 0.50	8,323,332	2,905
0.50 – 0.75	12,857,048	6,526
0.75 – 1.00	40,319	33
1.00 – 2.50	225	1
BALANCE AT 31-12	**49,323,785**	**14,582**

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

	2016	2015
Expected time to maturity (employees)	3.4 years	3.3 years
Expected time to maturity (Board of Management)	2.6 years	3.0 years
Volatility (employees)	66-74%	90 - 102%
Volatility (Board of Management)	75-84%	90%
Risk-free interest rate (employees)	-0.2-0.03%	0.02 - 0.21%
Risk-free interest rate (Board of Management)	-0.09-0.15%	-0.05 - 0.10%

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:

	2016	2015
Volatilities	25-215%	15-196%
Risk-free interest rates	-0.603-1.284%	-0.10 - 1.22%
Dividend yields	0.00%	0.00%

SHARE-BASED COMPENSATION	2016	2015
Board of Management options	1,264	1,698
Employee options	621	786
Long term incentive plan	369	303
BALANCE AT 31 DECEMBER	**2,254**	**2,787**

The decrease of Board of Management options expense in 2016 compared to 2015 results mainly from the lower fair value of the 2016 options compared to previous year. The employee options expense slightly decreased and reflects the fair value of the options granted in 2015.

Long term incentive plan expenses increased due to the effects of a higher number of shares granted compared to 2015.

24 BOARD OF MANAGEMENT

Mr. S. de Vries (Chief Executive Officer), Mr. B.M. Giannetti (Chief Operations Officer) and Mr. R. Wright (Chief Financial Officer) have been members of the Board of Management for the entire year 2016.

In October 2015, the Company appointed Mr. R. Wright as Chief Financial Officer of the Company and nominated him to the Board of Management.

The members of the Board of Management are statutory directors.

Remuneration

Compensation of the members of the Board of Management for 2016 and 2015 was as follows:

Amounts in € '000	YEAR	BASE SALARY	BONUS[1]	SHARE-BASED PAYMENT[2]	POST-EMPLOYMENT BENEFITS[3]	OTHER[4]	TOTAL
S. de Vries	**2016**	454	258	736	79	32	**1,559**
	2015	432	194	1,055	76	32	**1,789**
B.M. Giannetti	**2016**	287	148	445	75	36	**991**
	2015	282	106	636	72	25	**1,121**
R. Wright*	**2016**	264	165	205	30	–	**664**
	2015	44	–	7	2	–	**53**
TOTAL	2016	**1005**	**571**	**1,386**	**184**	**68**	**3,214**
TOTAL	**2015**	**758**	**300**	**1,698**	**150**	**57**	**2,963**

* Remuneration as of appointment in 2015. **1** – 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. **2** – Share-based payments are long term benefits and for 2016 relates to options of €1.3 million (2015: €1.6 million) and long term incentive plan of €0.1 million (2015: €0.1 million). **3** – Post-employment benefits increased due to compensation in pension earnings due to the change in maximum earnings of €0.1 million per annum. **4** – Includes lease- and car compensation and other related expenses.

Shares

At 31 December 2016, the members of the Board of Management held the following number of shares:

MEMBER	SHARES HELD
B.M. Giannetti	723,098
S. de Vries	1,452,992
R. Wright	220,000
TOTAL	**2,396,090**

All shares held by members of the Board of Management are unrestricted.

Options

The following table gives an overview of movements in number of option holdings of the individual members of the Board of Management in 2016 and 2015, the exercise prices and expiration dates:

	1 JANUARY 2015	GRANTED 2015	GRANTED 2016	FORFEITED/ EXPIRED 2015-2016	31 DECEMBER 2016	EXERCISE PRICE (€)	EXPIRATION DATE
B.M. GIANNETTI							
	25,000	–	–	(25,000)	–	4.01	26 May 2015
	227,500	–	–	(227,500	–	1.54	10 May 2016
	243,750	–	–	–	243,750	0.56	13 May 2017
	1,625,000	–	–	–	1,625,000	0.09	14 May 2018
	7,200,000	–	–	–	7,200,000	0.209 -0.505	17 Jun 2019
	9,321,250	–	–	(252,500)	9,068,750		
S. DE VRIES							
	75,000	–	–	(75,000)	–	4.01	26 May 2015
	350,000	–	–	(350,000)	–	1.54	10 May 2016
	375,000	–	–	–	375,000	0.56	13 May 2017
	2,500,000	–	–	–	2,500,000	0.09	14 May 2018
	12,000,000	–	–	–	12,000,000	0.209 -0.505	17 Jun 2019
	15,300,000	–	–	(425,000)	14,875,000		
R. WRIGHT							
	–	1,000,000	–	–	1,000,000	0.335	28 Oct 2020
	–	–	4,000,000	–	4,000,000	0.209	25 May 2021
	–	1,000,000	4,000,000	–	5,000,000		
IN SERVICE: 31-12-2016	**24,621,250**	**1,000,000**	**4,000,000**	**(677,500)**	**28,943,750**		

Loans or guarantees

During the year 2016, no loans or guarantees have been granted to members of the Board of Management. No loans or guarantees to members of the Board of Management were outstanding at 31 December 2016.

25 BOARD OF SUPERVISORY DIRECTORS

Remuneration

The remuneration is based on the position an individual has in the Board of Supervisory Directors (BOSD), the Audit Committee (AC) and the Remuneration Committee (RC). For both 2016 and 2015 the annual compensation is as follows:

BOSD – chairman €50,000 and member €36,000;
AC – chairman €9,000 and member €3,000; and
RC – chairman €6,000 and member €3,000.

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

Compensation of the members of the Board of Supervisory Directors for 2016 and 2015 was as follows:

Amounts in € ‘000	YEAR	BOSD	AC	RC	EXTRAORDINARY	SHAREBASED PAYMENT	TOTAL
P. Sekhri	**2016**	44				12	**56**
	2015	36	–	–	–	9	**45**
J. Blaak	**2016**	42	–	3		22	**67**
	2015	50	–	3	–	13	**66**
J.H.L. Ernst	**2016**	36	3	3		18	**60**
	2015	36	3	3	5	11	**58**
J.B. Ward	**2016**	36	1	6		18	**61**
	2015	36	3	6	–	11	**56**
A. de Winter	**2016**	36	9			18	**63**
	2015	36	9	–	–	11	**56**
J. Egberts	**2016**	36	2			12	**50**
	2015	36	–	–	–	9	**45**
TOTAL	**2016**	**230**	**15**	**12**	**–**	**100**	**357**
TOTAL	**2015**	**230**	**15**	**12**	**5**	**64**	**326**

Shares, options and warrants

Members of the Board of Supervisory Directors do not participate in an option plan. In 2016 a total of 725,000 LTIP shares were granted at the AGM, held on 26 May 2016.

The following table gives an overview of movements in number of LTIP shares of the individual members of the Board of Supervisory Directors:

Amounts in € '000	YEAR	GRANTED	FORFEITED	NOT VESTED	RESERVED AT DECEMBER 2016
J. Blaak	2016	150,000	–	–	150,000
	2015	150,000	–	–	150,000
J.H.L. Ernst	2016	125,000	–	–	125,000
	2015	125,000	–	–	125,000
J.B. Ward	2016	125,000	–	–	125,000
	2015	125,000	–	–	125,000
A. de Winter	2016	125,000	–	–	125,000
	2015	125,000	–	–	125,000
P. Sekhri	2016	100,000	–	–	100,000
	2015	100,000	–	–	100,000
J. Egberts	2016	100,000	–	–	100,000
	2015	100,000	–	–	100,000
TOTAL	**2016**	**725,000**	**–**	**–**	**725,000**
TOTAL	**2015**	**725,000**	**–**	**–**	**725,000**

Shares

At 31 December 2016, the members of the Board of Supervisory Directors held the following number of shares:

MEMBER	SHARES HELD
J.B. Ward	50,000
J. Ernst	100,000
J. Egberts	150,000
TOTAL	**300,000**

All shares held by members of the Board of Supervisory Directors are unrestricted.

Loans or guarantees

During the year 2016, the Company has not granted loans or guarantees to any member of the Board of Supervisory Directors. No loans or guarantees to members of the Board of Supervisory Directors were outstanding at 31 December 2016.

26 WARRANTS

An overview of activity in the number of warrants for the years 2016 and 2015 is as follows:

	2016		2015	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)
BALANCE AT 1 JANUARY	**25,303,125**	**0,510**	**26,392,736**	**0.481**
Issued	88,025,158	0,284	2,315,517	0.290
Exercised	(100,000)	0,135	(3,405,128)	0.135
Expired	(21,000,000)	0,570	–	–
BALANCE AT 31 DECEMBER	**92,228,283**	**0.281**	**25,303,125**	**0.510**

The weighted average of the remaining contractual life in years of the outstanding warrants at 31 December 2016 is 4.96 years.

In 2016, the Company issued a total of 88,025,158 warrants with an exercise price of €0.284 in connection with the new debt instruments of the total capital raise for the transaction with Valeant. These warrants are classified as equity.

In 2015, the Company issued a total of 2,315,517 warrants with an exercise price of €0.29 in connection with the Loan Secured Agreement of the lenders Oxford Finance LLC and Silicon Valley Bank. These warrants are classified as liability.

Overall, the number of outstanding warrants at 31 December 2016 consisted of:

WARRANT PRICES IN €	NUMBER
0.093175	50,000
0.135	1,837,608
0.284	88,025,158
0.290	2,315,517
BALANCE AT 31 DECEMBER	**92,228,283**

In order to protect the warrant holders from the (potential) effects of dilution, both the number of warrants as well as their exercise prices can be adjusted in the event of issue of new shares or share rights (e.g. Warrants) for conditions more favourable than for existing warrant holders (e.g. Issue of new shares at a consideration below the existing exercise price); a number of transactions, such as the issue of options to members of the Board of Management and employees, are excluded from these adjustment clauses.

27 RELATED PARTY TRANSACTIONS

Related parties' disclosure relates entirely to key management compensation. Key management includes the members of the Board of Management and the Board of Supervisory Directors of Pharming.

AMOUNTS IN € '000	2016	2015
Salaries and other short-term employee benefits	1,900	1,377
Post-employment benefits	185	150
Share-based compensation	1,486	1,762
TOTAL	**3,571**	**3,289**

All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in notes 24 and 25 of these financial statements. At 31 December 2016, the Company owed a total amount of €0.7 million (2015: €0.4 million) to members of the Board of Management and Board of Supervisory Directors.

28 BUSINESS COMBINATIONS

On 8 December 2016 Pharming completed the acquisition of all North American commercialization rights for its own product RUCONEST® from Valeant. The rights have an indefinite life. Pharming has paid an upfront payment fee of $60 million, and futures payments up to a further $65 million, based on achievement of certain sales milestones. After this acquisition, Pharming is responsible for selling RUCONEST® directly in the US.

As Valeant and Pharming had a relationship before this transaction occurred, the Company recognised a loss for the settlement of this pre-existing relationship, which is reduced by the release of remaining deferred license fee. This loss is offset by a gain, as a result of negative goodwill on the assets identified. As a consequence, the transaction can be broken down in the following gains and losses:

Settlement loss on termination of the Valeant agreement:

PURCHASE CONSIDERATION	2016
Amount paid	55,960
Contingent consideration	4,674
Total consideration	60,634
Less: separate pre-existing relationship	(55,860)
NET PURCHASE CONSIDERATION	**4,774**

ASSETS ACQUIRED	2016
Intangible asset	55,860
Total net assets acquired	55,860
Negative goodwill	(51,084)

RECOGNISED IN INCOME STATEMENT	2016
Settlement loss on pre-existing relationship	55,860
Release remaining deferred license fee	(4,618)
	51,242
Negative goodwill	(51,084)
Transaction cost	844
NET IMPACT OF TRANSACTION, LOSS	**1,002**

The fair value of the Intangible asset is based on the estimated cash flows over the remaining economic useful life. The contingent consideration is measured at fair value at acquisition date. The fair value reflects the probability that future payments will be made based on achieving sales milestones. The deferred license fees, which were received in the past, have been taken into account in determining the purchase consideration. The value of the workforce has been charged to the income statement.

The acquired business contributed revenues of €2.2 million and operating result of €1.4 million to the Group for the period of 8 December to 31 December 2016, excluding one-off transaction costs.

If Pharming had acquired this business combination as of January 1st 2016, it would have increased the Company's total revenue by an additional €18.9 million. Operating results would have been improved by approximately €7.4 million.

The transaction costs expensed to the income statement in 2016 amounted to €1.0 million, including the value of the workforce.

29 COMMITMENTS AND CONTINGENCIES

The Company has lease agreements for the rent of office and laboratory facilities, as well as lease cars for employees. Due to an extended lease agreement for the location in Evry (France), the total commitments as per 31 December 2016 increased to €9.4 million (2015: €4.8 million).

AMOUNTS IN € '000	2016	2015
Within one year	2,493	1,556
After one year but not more than five years	5,640	2,851
More than five years	1,292	350
TOTAL	**9,425**	**4,757**

Operating lease charges of €1.4 million were taken to the profit and loss in 2016 (2015: €0.9 million).

Material agreements

At end of 2016 the Company had several agreements with third parties related to the manufacturing of RUCONEST©. In these agreements certain minimum volumes are committed. Total potential liabilities under these agreements are approximately €58 million (2015: €54 million), of which €13 million for 2017 and €45 million for 2018-2021.

30 FINANCIAL RISK MANAGEMENT

General

Pharming is exposed to several financial risks: market risks (being currency risk and interest rate risk), credit risks and liquidity risks. The Board of Management is responsible for the management of currency, interest, credit and liquidity risks and as such ultimately responsible for decisions taken in this field.

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern. This includes a regular review of cash flow forecasts and, if deemed appropriate, subsequent attraction of funds through execution of equity and/or debt transactions. In doing so, the Board of Management's strategy is to achieve a capital structure which takes into account the best interests of all stakeholders. Pharming's capital structure includes cash and cash

equivalents 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 future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Pharming's policy for the management of foreign currency risks is aimed at protecting the operating results and positions held in foreign currencies, in particular of the United States dollar (USD). Certain milestone payments and sales of RUCONEST® in the US are being and will be received in USD. Repayments of the loans are carried in USD. Some direct payments of US activities are carried in USD through the Dutch entities. At 31 December 2016 the Company's cash and cash equivalents, including restricted cash, amounted to €32.1 million.

This balance consists of cash assets denominated in € for a total amount of €28.0 million and cash assets in USD for a total amount of $4.4 million or €4.1 million (applying an exchange rate US$/ EUR at 31 December 2016 of 1.0555). The USD cash balance will mainly be used for the setup of the US organization. We performed a sensitive analysis by applying an adjustment to the spot rate at year-end. A 10 percent strengthening or weakening of the euro versus US dollar has a hypothetical result of respectively a loss or gain of €0.4 million.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pharming's interest rate risk policy is aimed at minimising the interest rate risks associated with the financing of the Company and thus at the same time optimising the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease liabilities. The Company performed a sensitivity analysis in which the effect of a 1% interest increase or 1% interest decrease on the carrying value of the financial instruments at year-end 2016 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be less than €0.4 million.

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 2016 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 per 31 December 2016 amounted to €32.1 million and was held through financial institutions with a BBB+ and an A rating from Standard & Poor's, A1-A3 ratings from Moody's and A+ ratings from Fitch.

Trade and other receivables at 31 December 2016 amounted to €12.4 million. As per 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.

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 describe the Company's going concern assessment.

The following table presents the financial liabilities at year-end 2016, 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 2016. The derivative financial liabilities relate to the fair value of the conversion option for the repayment of the bonds and the warrant rights which can be exercised by warrant holders throughout the remaining lifetime.

AMOUNTS IN €'000	2017	2018	2019	2020	2021	TOTAL	TOTAL 2016-2020
Trade and other payables	14,054	–	–	–	–	14,054	6,818
Derivative financial liabilities	9,982	–	–	–	–	9,982	953
Loans and borrowings	36,217	31,663	17,600	9,952	13,606	109,038	14,560
Finance lease liabilities	281	281	281	211	–	1,054	1,049
TOTAL	**60,534**	**31,944**	**17,881**	**10,163**	**13,606**	**134,128**	**23,380**

Fair value estimation

The Company uses the following hierarchy for determining the fair value of financial instruments measured at fair value:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the liabilities that are measured at fair value at year-end 2016 and 2015:

	2016		2015	
AMOUNTS IN € '000	LEVEL 3	TOTAL	LEVEL 3	TOTAL
Financial liabilities at fair value through profit or loss	9,982	9,982	953	953
BALANCE AT 31-12	**9,982**	**9,982**	**953**	**953**

The financial liabilities measured at fair value through profit or loss include warrants not publicly traded and for which no other observable inputs are available and accordingly the fair value of the warrants has been determined through the Black-Scholes model, applying the following parameters per the end of:

	2016	2015
Expected time to maturity of warrants in issue	5.5 years	1.4 years
Volatility	66 - 72%	73 - 83%
Risk-free interest rate	-0.19 - 0.51%	-0.11 - 0.97%

The balance also includes fair value of conversion options embedded within borrowings which have been separated as derivative liabilities. As per note 2.4 (Significant accounting judgments and estimates) the Company has performed a sensitivity analysis which demonstrates the potential possible effects in the event that derivative financial liabilities are settled for shares at a fair value price different from the exercise value. The following table provides an overview of the effect on the statement of income assuming all repayments of bonds will be converted into 199,864,273 shares and the 4,203,125 warrants outstanding at 31 December 2016 with a total fair value of €0.5 million and an exercise value of €0.9 million are exercised with the fair value per share upon exercise ranging between €0.01 and €1.00 while applying a number of different intervals.

Impact on statement of income if 4,203,125 warrants outstanding at year-end 2016 are exercised and all the bonds are converted into 199,864,273 shares at an assumed fair value per share between €0.01 and €1.00:

The following table includes carrying values and the estimated fair values of financial instruments:

FAIR VALUE PER SHARE UPON EXERCISE IN €	EXERCISE VALUE IN €'000	ACTUAL FAIR VALUE IN €'000	FAIR VALUE AT 31-12-2016 IN €'000	ADDITIONAL (PROFIT)/ LOSS IN €'000
0.01	58,464	2,041	9,615	(7,574)
0.05	58,464	10,203	9,615	589
0.10	58,464	20,407	9,615	10,792
0.15	58,464	30,610	9,615	20,995
0.20	58,464	40,813	9,615	31,199
0.25	58,464	51,017	9,615	41,402
0.30	58,464	61,220	9,615	51,606
0.40	58,464	81,627	9,615	72,012
0.50	58,464	102,034	9,615	92,419
0.60	58,464	122,440	9,615	112,826

The following table includes carrying values and the estimated fair values of financial instruments:

	2016		2015	
AMOUNTS IN € '000	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents, including restricted cash	32,137	32,137	31,843	31,843
Trade and other receivables	11,387	11,387	2,922	2,922
LIABILITIES				
Loans and borrowings	66,531	66,531	14,804	14,804
Finance lease liabilities	862	862	1,061	1,061
Trade and other payables	13,836	13,836	6,818	6,818
Derivative financial liabilities	9,982	9,982	953	953

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.

31 EARNINGS PER SHARE AND FULLY-DILUTED SHARES

Basic earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the year.

For 2016 and 2015, the basic loss per share is:

	2016	2015
Net loss attributable to equity owners of the parent (in €'000)	(17,536)	(9,957)
Weighted average shares outstanding	415,381,324	408,680,289
Basic and diluted loss per share (in €)	(0.042)	(0.024)

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. There is no difference in basic and diluted net loss per share recorded by the Company because the impact of the arrangements referred to is anti-dilutive in all periods.

Fully-diluted shares

The composition of the number of shares and share rights outstanding as well as authorised share capital as per 31 December 2016 and the date of these financial statements is provided in the following table.

Movements between 31-12-2016 and 22-3-2017:

	31 DECEMBER 2016	SHARES ISSUED	OTHER	22 MARCH 2017
Shares	455,587,312	–	20,723,193	476,310,505
Warrants	92,228,283	–	–	92,228,283
Options	49,323,785	–	–	49,323,785
LTIP	6,074,087	–	–	6,074,087
Issued	603,213,467	–	20,723,193	623,936,660
Available for issue	196,786,533	–	(20,723,193)	176,063,340
Authorised share capital	800,000,000	–	–	800,000,000

32 EVENTS AFTER THE REPORTING YEAR

No events have occurred after the balance sheet date that could influence the users' economic decisions taken on the basis of these financial statements.

COMPANY STATEMENT OF INCOME

For the year ended 31 December

The notes are an integral part of these financial statements.

Amounts in € '000	NOTES	2016	2015
License fees		264	264
REVENUES		**264**	**264**
Research and development		(4,421)	(3,943)
General and administrative		(4,642)	(3,636)
Marketing and sales		(881)	(73)
COSTS		**(9,944)**	**(7,652)**
OPERATING RESULT	11	**(9,680)**	**(7,388)**
Fair value gain (loss) on revaluation derivatives		79	3,380
Other financial income and expenses		(6,067)	(434)
FINANCIAL INCOME AND EXPENSES		**(5,988)**	**2,946**
RESULT BEFORE INCOME TAX		**(15,668)**	**(4,442)**
Income tax expense		–	–
NET RESULT FOR THE YEAR		**(15,668)**	**(4,442)**
Share in result of investments		(1,868)	(5,515)
TOTAL NET RESULT		**(17,536)**	**(9,957)**

COMPANY BALANCE SHEET

As at 31 December

(after proposed appropriation of net loss)

Amounts in € '000	NOTES	2016	2015
Intangible assets		469	469
Property, plant and equipment	3	658	585
Financial assets	7	70,284	17,652
NON-CURRENT ASSETS		**71,411**	**18,706**
Trade and other receivables	4	5,349	516
Cash and cash equivalents	5	31,257	21,993
CURRENT ASSETS		**36,606**	**22,509**
TOTAL ASSETS		**108,017**	**41,215**
Share capital	6	4,556	4,120
Share premium	6	301,876	283,396
Legal reserves	6	60	66
Accumulated deficit	6	(279,025)	(263,743)
SHAREHOLDERS' EQUITY	6	**27,467**	**23,839**
Loans and borrowings	8	40,395	11,757
Deferred license fees income		–	136
NON-CURRENT LIABILITIES		**40,395**	**11,893**
Loans and borrowings	8	26,136	3,047
Deferred license fees income		136	264
Derivative financial liabilities	9	9,982	953
Trade and other payables	10	3,901	1,219
CURRENT LIABILITIES		**40,155**	**5,483**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**108,017**	**41,215**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 GENERAL

Within Pharming, the entity Pharming Group N.V. acts as a holding company of the operating companies. Its activities are limited to the arrangement of financial transactions with third parties and to provide the operating companies with support in the field of legal, financial, human resources, public relations, it and other services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands. The accounting policies applied are the same as those used in the consolidated financial statements in accordance with the provisions of article 362-8 of book 2 of the Dutch Civil Code, except for investments in subsidiaries which are accounted for using the equity method.

Investments in subsidiaries are those investments with a positive equity value. In the event the equity value of a group company together with any long-term interests that, in substance, form part of our net investment in the group company, becomes negative, additional losses are provided for, and a liability is recognized, only to the extent that we have incurred legal or constructive obligations or made payments on behalf of the subsidiary.

3 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	–	434	**1,181**
Accumulated depreciation charges	(631)	–	(356)	**(987)**
CARRYING VALUE AT 1 JANUARY 2015	**116**	**–**	**78**	**194**
Investments	–	372	153	**525**
Depreciation charges	(77)	(33)	(24)	**(134)**
MOVEMENT 2015	**(77)**	**339**	**129**	**391**
At cost (*)	747	372	588	**1,707**
Accumulated depreciation charges	(708)	(33)	(381)	**(1,122)**
CARRYING VALUE AT 31 DECEMBER 2015	**39**	**339**	**207**	**585**
Investments	–	172	87	**259**
Depreciation charges	(38)	(97)	(51)	**(186)**
MOVEMENT 2016	**(38)**	**75**	**36**	**73**
At cost	747	544	675	**1,966**
Accumulated depreciation charges	(746)	(130)	(432)	**(1,308)**
CARRYING VALUE AT 31 DECEMBER 2016	**1**	**414**	**243**	**658**

4 TRADE AND OTHER RECEIVABLES

AMOUNTS IN € '000	2016	2015
Prepaid expenses	258	193
Value added tax	637	298
Other receivables	4,454	25
BALANCE AT 31 DECEMBER	**5,349**	**516**

Trade and other receivables at 31 December 2016 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

5 RESTRICTED CASH, CASH AND CASH EQUIVALENTS

AMOUNTS IN € '000	2016	2015
Cash and cash equivalents	31,257	21,993
BALANCE AT 31 DECEMBER	**31,257**	**21,993**

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 2016 is jointly liable for commitments relating to bank guarantees from other group companies for an aggregate amount of €0.2 million with a maturity of more than one year after the end of the reporting year.

6 SHAREHOLDERS' EQUITY

The Company's authorised share capital amounts to €8.0 million and is divided into 800,000,000 ordinary shares with a nominal value of €0.01 each. All 455,587,312 shares outstanding at 31 December 2016 have been fully paid-up.

Movements in shareholders' equity for 2016 and 2015 were as follows:

AMOUNTS IN € '000	2016	2015
BALANCE AT 1 JANUARY	**23,839**	**29,843**
Net loss	(17,536)	(9,957)
Foreign currency translation	(6)	30
Share-based compensation	2,254	2,744
Bonuses settled in shares	126	173
Shares issued for cash	8,811	–
Warrants issued and exercised	9,979	983
Options exercised	–	23
Rights issue		
BALANCE AT 31 DECEMBER	**27,467**	**23,839**

For a detailed movement schedule of equity for the years 2016 and 2015, please refer to the consolidated statement of changes in equity.

7 FINANCIAL ASSETS

Movement of financial assets and the provision for investments for the years 2016 and 2015 was as follows:

Amounts in € '000	INVESTMENTS IN SUBSIDIARIES	PROVISION FOR INVESTMENTS	NET TOTAL
BALANCE AT 1 JANUARY 2015	–	(198,547)	(198,547)
Share in results of investments	–	(5,515)	(5,515)
Exchange rate effects	–	(2,068)	(2,068)
BALANCE AT 31 DECEMBER 2015	–	(206,130)	(206,130)
Share in results of investments	1,892	(3,760)	(1,868)
Exchange rate effects	–	(732)	(732)
BALANCE AT 31 DECEMBER 2016	**1,892**	**(210,622)**	**(208,730)**

At year-end 2016 and 2015, the provision for subsidiaries was off-set with the following receivable balances from Pharming Group N.V.:

AMOUNTS IN € '000	2016	2015
Provision for investments	(208,730)	(206,130)
Receivable	279,014	223,782
Investment	70,284	17,652
Of which classified as provision for investments	–	–
Receivable from group companies	70,284	17,652

The receivables do not bear interest and nothing has agreed in respect of repayments.

8 LOANS AND BORROWINGS

The backgrounds of the loans and borrowings have been provided in note 18 of the consolidated financial statements.

9 DERIVATIVE FINANCIAL LIABILITIES

The backgrounds of the derivative financial liabilities have been provided in note 21 of the consolidated financial statements.

10 TRADE AND OTHER PAYABLES

AMOUNTS IN € '000	2016	2015
Accounts payable	998	337
Taxes and social security	117	93
Deferred compensation due to related parties	742	434
Other payables	2,044	355
BALANCE AT 31 DECEMBER	**3,901**	**1,219**

The amount of deferred compensation due to related parties involves members of the Board of Management and includes bonuses, holiday allowances and holiday rights.

11 OPERATING RESULTS

Other results in 2016 and 2015 include costs of share-based compensation in the amount of respective €2.3 million and €2.7 million, as disclosed in note 23 of the consolidated financial statements. These charges include those related to members of the Board of Management and employees.

12 EMPLOYEE INFORMATION

All employees of Pharming Group N.V. in both 2016 and 2015 were based in the Netherlands and France. The average number of full-time equivalent employees in 2016 was 22 (2015: 9) and the number of employees at 31 December 2015 was 23 (31 December 2015: 12).

13 RELATED PARTY TRANSACTIONS

Related parties' disclosure relates entirely to the key management of pharming, being represented by the members of the Board of Management and the Board of Supervisory Directors. All direct transactions with members of the Board of Management and Board of Supervisory Directors have been disclosed in notes 24 and 25 of the consolidated financial statements. At 31 December 2016, the Company owed a total amount of €0.7 million to members of the Board of Management with respect to their compensation (see note 10 of the company financial statements).

14 COMMITMENTS AND CONTINGENCIES

The Company has lease agreements for the rent of office and laboratory facilities, as well as lease cars for employees. Due to a renewal of the lease agreement for the R&D site in France, the total commitments as per 31 December 2016 increased to €1.4 million (2015: €0.8 million).

AMOUNTS IN € '000	2016	2015
Within one year	450	722
After one year but not more than five years	919	123
More than five years	–	–
TOTAL	**1,369**	**845**

Operating lease charges of €0.5 million were taken to the profit and loss in 2016 (2015: €0.2).

INDEPENDENT AUDITOR'S REPORT

To the general meeting and supervisory board of Pharming Group N.V.

REPORT ON THE FINANCIAL STATEMENTS 2016

OUR OPINION

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 31 December 2016 and of its result and cash flows for the year then ended 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 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.**

WHAT WE HAVE AUDITED

We have audited the accompanying financial statements 2016 of Pharming Group N.V., Leiden ('the company'). The financial statements include the consolidated financial statements of Pharming Group N.V. and its subsidiaries (together: 'the group') and the company financial statements.

The consolidated financial statements comprise:

- **The consolidated balance sheet as at 31 December 2016;**
- **The following statements for 2016: the consolidated statement of income and the consolidated statements of comprehensive income, changes in equity and cash flows; and**
- **The notes, comprising a summary of significant accounting policies and other explanatory information.**

The company financial statements comprise:

- **The company balance sheet as at 31 December 2016;**
- **The company statement of income for the year then ended; and**
- **The notes, comprising a summary of the accounting policies and other explanatory information.**

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

THE 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 section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Pharming Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OUR AUDIT APPROACH

Overview and context

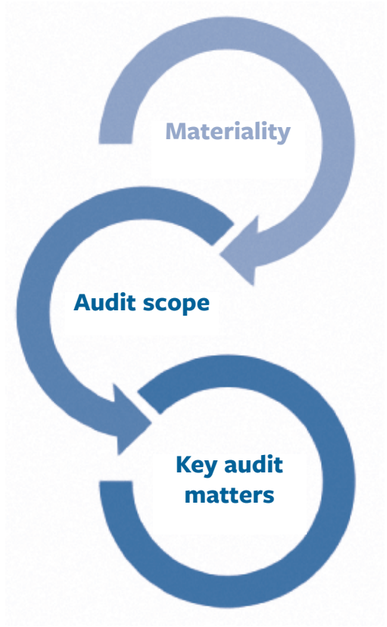
Pharming Group N.V. is a specialty pharmaceutical company headquartered in the Netherlands.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2.4 of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and judgement related to the re-acquisition of commercial rights, valuation of inventory and revenue recognition, we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, we identified classification, valuation and disclosure of derivative financial instruments as a key audit matter because of the complexity of these transactions in 2016. Funding is identified as a key audit matter as the company has yet to generate structual positive operating cash flows.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a pharmaceutical company. We included specialists in the areas of financial instruments, share based payments and valuations in our team.

The outlines of our audit approach were as follows:



Materiality

- **Overall materiality: €430,000 which represents approximately 3% of the result before tax (excluding non-recurring financial expenses in connection with the settlement fees of loans and transaction fees and expenses for an amount of € 2,482,000).**

Audit scope

- **The group audit team performed most of the audit work, since the accounting for the group's activities takes place at the headquarters in Leiden, the Netherlands.**
- **Inventory counts at the external inventory locations in United States and France were conducted by local auditors based on our instructions.**

Key audit matters

- **Re-acquisition of commercial rights**
- **Classification, valuation and disclosure of derivative financial instruments**
- **Valuation of inventory**
- **Revenue recognition**
- **Funding**

MATERIALITY

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality
€430,000 (2015: €400,000).

How we determined it
3% of result before tax (excluding non-recurring financial expenses in connection with the settlement fees of loans and transaction fees and expenses for an amount of € 2,482,000).

Rationale for benchmark applied
We have applied the benchmark result before tax, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. We have excluded settlement fees of loans and transaction fees and expenses for an amount of € 2,482,000. Those expenses are non-recurring because they relate the refinancing. Since the company is transforming itself from a research and development company to a more sales oriented company in the past years, we believe that this benchmark is a relevant metric for the financial performance of the company for which we applied a percentage of 3%.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €21,500 (2015: €20,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

THE SCOPE OF OUR GROUP AUDIT

Pharming Group N.V. is the head of a group of entities with a similar internal control environment and one management. Accounting for the group's activities takes place at the headquarters in Leiden, the Netherlands. As a consequence, we were able to perform most of the audit work for the group at that location. The financial information of this group is included in the consolidated financial statements of Pharming Group N.V. Inventory counts at the external inventory locations in United States and France were conducted by the local auditors based on our instructions. We have sent instructions to the local auditors to perform these inventory counts. These instructions included the scope and timing of the procedures to perform. In addition we have reviewed their results.

By performing the procedures above, we believe we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion on the consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.
The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

The key audit matters 'valuation of inventory, revenue recognition and funding' are similar in nature to the key audit matters we reported in 2015 while, based on the developments within the company, the key audit matters 'classification, valuation and disclosure of derivative financial instruments' and 're-acquisition of commercial rights' were added. Last year's key audit matter on the 'development of the finance function' is no longer applicable due to amongst others the appointment of the CFO towards the end of 2015.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Re-acquisition of commercial rights **See note 2.4 and note 11 and note 28** The Company re-acquired all commercial rights to sell RUCONEST® in the United States of America, Canada and Mexico from the commercial partner in the U.S. The purchase price was USD 60 million and future payments up to a further USD 65 million, based on achievement of certain sales milestones. Based on the conditions agreed in the applicable contracts and the transition process of the business, including the settlement of the pre-existing relationship and hiring of employees, the company has accounted for this transaction as a business combination under IFRS3R or as the acquisition of a group of individual assets and liabilities in accordance with other IFRS's. Management applied judgment to determine whether this transaction needed to be accounted for as a business combination in accordance with IFRS 3R or as the acquisition of a group of individual assets and liabilities in accordance with other IFRS's. Management determined that this transaction was the acquisition of a business and therefore IFRS 3R should be applied. The final outcome of the purchase price allocation on the balance sheet shows an intangible asset related to re-acquired commercial rights of an amount of €55.9 million calculated by management based on a multiple excess earnings model. Due to limited historical sales data there is significant estimation uncertainty and judgement in key assumptions such as sales forecasts and anticipated development of margins and expenses. Furthermore, in determining the purchase consideration the company recognised a liability for the contingent consideration of €4.7 million, which is based on the estimated likelihood of meeting the sales milestones. Given the high level of management judgement regarding the accounting for the transaction and the assumptions used by management in the purchase price allocation we considered this area to be a key audit matter.	We assessed the appropriateness of accounting for this transaction as a business combination by means of reviewing the contract terms and the way the business has been continued after the re-acquisition and we determined that the accounting of this transaction under IFRS 3R is appropriate. With respect to the valuation aspects in the purchase price allocation, our audit procedures comprised of an assessment of the methodology and the appropriateness of the valuation model used by management based on generally accepted industry practise to value commercial rights. We evaluated and challenged management's future cash flow forecasts and tested the underlying calculations. We tested the sales forecasts by comparing next year's forecast with the company's actual performance in 2016 and with the budgets approved by management. We compared the profit margins to historical market data in the industry and determined that these are within an acceptable bandwidth. Also, we tested the mathematical accuracy of the valuation model. In addition we have tested the sufficiency of the related disclosures.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Classification, valuation and disclosure of derivative financial instruments **See note 2.4, 8, 9, 17, 18, 21, 26 and 30** The company entered into new financing arrangements as part of financing the transaction with the former U.S. commercial partner, to setup the US marketing and sales organisation, to ensure future activities for development of new transgenic lines and to perform continuous development of Ruconest®. These financing arrangements include derivatives and embedded derivatives such as conversion options, prepayment options and grants of warrants to the holders of the loans and bonds. Management judgement was required related to the identification of the nature of these financial instruments and determination of the classification regarding the presentation as equity or liability. Furthermore, management judgement was required regarding the valuation of these derivatives. Classification, valuation and disclosure of derivative financial instruments was significant to our audit and considered as a key audit matter due to the complexity of the different derivative financial instruments within these contracts which led to management's judgement how to account and value for and to disclose these derivative financial instruments.	Our audit procedures included, amongst others, the review of the contracts and the assessment of the identification and classification of the different derivative financial instruments. We determined that identification and classification of these derivative financial instruments are in accordance with the requirements of IAS 32 and IAS 39. Regarding valuation, our audit procedures comprised of an assessment of the methodology and the appropriateness of the valuation models used by management based on generally accepted industry practise to value derivative financial instruments. Further, we tested the valuation of a sample of each type of derivative financial instruments to assess whether the valuations performed by the company were within a pre-defined tolerable differences threshold determined by us based on the volatility of the inputs used in the valuation of the derivatives. We found no material differences. Also, we assessed the accuracy of key inputs used by management in the valuations such as contractual cash flows, risk free rates, stock price volatility and quoted prices from market data providers and found them to be consistent. We also assessed the sufficiency of the company's disclosure in the notes to the consolidated financial statements.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Valuation of inventory **See note 2.4 and note 15** The Company has significant inventory to cover future demand for its product as expected by management. Making assumptions on expected sales and considering future events are inherently uncertain. Due to limited historical sales related data it is difficult for management to make robustly supported estimates concerning obsolescence of inventory taking into account the expiration dates of the inventory. Furthermore, the estimation of the net realisable value is based on an allocation of inventory to the different markets with different prices, based on sales forecasts by management and clinical programs foreseen. Valuation of inventory was important to our audit given the level of judgement, as well as the magnitude of the inventory balance at 31 December 2016 of € 17.9 million net of a provision of € 0.6 million (2015: € 16.2 million net of a provision of € 0.5 million).	We challenged the estimates made by management by assessing whether forecasts of sales volumes are in line with historical revenues to date. Also, we tested if all expiration dates of the inventory are in accordance with the underlying product release reports. In addition, specifically regarding the net realisable value, we tested the estimates regarding sales prices by reconciling these integrally with the existing contracts with the company's clients. We found no material exceptions in the above tests. Furthermore, we read the board minutes and the available written communication with the commercial partners and the main production partner, such as communication around sales forecasts and production forecasts, to identify potential indicators for an impairment.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Revenue recognition **See note 2.4** Revenue recognition is based on realised sales in different territories. Until the Company completed the re-acquisition of all North American commercialization rights, on 7 December 2016, recognition of product sales to the u.s. was based on a percentage of the revenue recognized by the commercial partner. On a quarterly basis the commercial partner reported its sales and inventory reports. The supply price of products sold by Pharming to the commercial partner is subject to rebates and chargebacks to be provided by the commercial partner to buying groups and the payers of the products (insurance companies). The rebates to be paid to the insurance companies are finally settled after the reporting date and therefore have to be partly estimated. Pharming recognised revenue based on quarterly confirmations by the commercial partner. After the re-acquisition of the above described rights, Pharming recognizes revenue for the full gross prices excluding deductions for rebates and chargebacks. Management is still required to make certain judgements in respect to the level rebates and chargebacks that will be realised against the Companies sales. Revenue recognition is considered as a key audit matter as it involves significant management judgement.	We ensured the completeness of the recorded sales volumes by reconciliation of the flow of goods to external delivery documents on a sample basis, as well as by inventory observations. We tested revenue transactions on a sample basis in order to verify that revenue is recognized in the appropriate period and that pricing conditions reconcile to the underlying contract as well as to sales and inventory reports received from the (former) commercial partner in the U.S. We obtained an understanding of the estimations made around rebates and chargebacks including assumptions used by management. Management made an estimate based on the available historical data and we compared the estimation uncertainty to the materiality level used in our audit and determined that the uncertainty is within acceptable range. We also performed look back procedures on the estimates of prior year and compared them to the actual numbers and determined that the differences were within acceptable range. For the period after the re-acquisition we assessed the contracts with customers and determined that the company correctly recognizes revenue for the full gross prices excluding deductions for rebates and chargebacks in accordance with IAS 18. Furthermore, we read the board minutes, the available written communication with the sales partners in order to identify information that could have an impact on revenue recognition.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Funding **See note 3** Pharming has not been able to generate enough cash from product revenues to meet its current working capital requirements and is dependent on financing arrangements with third parties. As the funding is not guaranteed, a risk in relation to the company continuing as a going concern exists. As reflected in the management report and note 3 of the financial statements, management concluded that the 2016 year-end cash balance of €31.9 million is expected to be sufficient to fund the company for at least one year from the date on which the financial statements are signed by the board of management and the date of our auditor's report. Management also assessed the possibility that actual cash inflows might be less than projected and/or actual cash outflows might be higher than projected. Due to the nature of the business and its stage of development, additional funding might be required in the period beyond 12 months as per the date of signing these financial statements and the date of our auditor's report. For the longer term, management is projecting increasing cash inflows from sales, mainly from the u.s. market. Funding is identified as a key audit matter as the company has yet to generate structural positive operating cash flows.	We evaluated management's future cash flow forecasts, and the process by which they were prepared, and challenged the underlying key assumptions such as expected cash inflow from product sales and cash outflow from purchases of inventory, R&D expenses and other operating expenses. Regarding revenue expectations, we challenged the estimates made by management by assessing whether the estimates regarding sales forecasts and sales prices are in line with historical revenues to date and current contracts in place. We also assessed an alternative scenario analysis of management using the low end of revenue forecasts and accompanying key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would lead to alternative conclusions. Furthermore, we read the board minutes and available written communication with commercial partners and the main production partner in order to understand the future plans and to identify potential contradictory information. relevant in light of this key audit matter. Additionally, we assessed the adequacy of the disclosures with respect to the going concern assertion.

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:

- **The director's report as defined on page 4 of the annual report;**
- **The other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.**
- **The other information included in the information for shareholders and investors, Report of the Board of Supervisory Directors and the glossary;**

Based on the procedures performed as set out below, we conclude that the other information:

- **Is consistent with the financial statements and does not contain material misstatements;**
- **Contains all information that is 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 in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Our appointment

We were appointed as auditors of Pharming Group N.V. on 25 May 2016 following the passing of a resolution by the shareholders at the annual meeting representing a period of engagement appointment of one year. We have been the auditors of Pharming Group N.V. for a total period of uninterrupted engagement appointment of 8 years.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- **The preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for**
- **Such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.**

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going-concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Board of Supervisory Directors is responsible for overseeing the company's financial reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 22 March 2017
PricewaterhouseCoopers Accountants N.V.
R.M.N. Admiraal RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2016 OF PHARMING GROUP N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

THE AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- **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 intentional 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 management.**
- **Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.**
- **Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.**

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the supervisory board 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 supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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.

OTHER FINANCIAL INFORMATION

For the year ended 31 December 2016

1 APPROPRIATION OF RESULT

Article 25.1 of the articles of association reads as follows: 'the management board shall annually determine, subject to the approval of the Board of Supervisory Directors, the amount of the distributable profit – the surplus on the profit and loss account – to be reserved.'

Leiden, 22 March 2017

The Board of Management

The original copy has been signed by
the Board of Management

GLOSSARY

AGM
Annual General Meeting of shareholders.

Angioedema
See HAE.

BOM
The Board of Management of Pharming Group N.V.

C1INH
C1 esterase inhibitor or C1INH is a serine protease inhibitor protein present in human blood. C1INH is involved in the regulation of the first protein in the complement system (C1), which is part of the immune system. Insufficient C1 inhibitor activity or amounts can cause inflammation and HAE attacks.

Clinical trials/studies
Clinical trials are tests on human individuals, either healthy individuals or patients, to evaluate safety and efficacy of new pharmaceutical products before they can be approved. Clinical trials required for regulatory approval typically range from phase i to phase iii.

Code
Dutch Corporate Governance Code, applicable as of 1 January 2009.

COGS
Cost of Goods Sold.

Company
In this Annual Report the "Company" refers to Pharming Group N.V. and its subsidiaries.

CSIPI
China State Institute of Pharmaceutical Industry

DGF
DGF or Delayed Graft Function is a common complication affecting all solid organs in the post-transplant period and may be the result of Ischaemia-Reperfusion Injury (see IRI). DGF results in significant morbidity and mortality from early graft dysfunction and from decreased long-term graft survival. The condition also prolongs hospitalisation and requires substitute therapies for these patients, such as dialysis or ventilation support. DGF remains a critical unmet medical need despite improvements in immunosuppression, organ preservation and surgical technique. C1 inhibitor has been shown to improve early graft function in various models of organ transplantation. In the US alone, over 25,000 solid organs were transplanted in 2005, including kidney, liver, lung and heart transplants.

EMA
The European Medicines Agency (EMA) is the regulatory office for pharmaceuticals in the European Union and is responsible for approving new drugs prior to marketing of the product ensuring their safety and efficacy.

ERT
Enzyme Replacement Therapy.

EU
Europe.

Fabry's disease
Fabry's disease is a rare, genetic lysosomal storage disease typically occurring in male children. A deficiency in the alpha-galactosidase a (GLA) enzyme leads to excessive deposition of glycosphingolipids in endothelium, epithelium and smooth muscle cells. The progressive accumulation of glycosphingolipids in the lining of the blood vessels accounts for the associated clinical abnormalities of skin, eyes, kidneys, heart, brain and peripheral nervous system. Disease progression varies, but ultimately the disease is fatal.

FDA
The FDA or Food and Drug Administration is the regulatory office responsible for drug approval in the United States.

FIFO
First in, first out.

GMP
GMP status or 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.

Group
In this Annual Report the "Group" refers to Pharming Group N.V. and its subsidiaries.

HAE
HAE or Hereditary Angioedema is a human genetic disorder caused by insufficient activity of the C1 inhibitor protein. HAE patients suffer from recurrent unpredictable acute attacks of painful and in some cases fatal swelling of soft tissues (EDEMA), including regions of the skin, abdomen, the mouth or throat. Attacks can last up to five days when untreated. In the western world, approximately 1 in 30,000 individuals suffers from hereditary angioedema, having an average of eight acute attacks per year.

HAEi
Hereditary Angioedema International (patient organisation).

IFRS, 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
An IND (Investigational New Drug Application) is the vehicle through which a sponsor advances to the next stage of drug development known as clinical trials (human trials) in the US.

IRI
Ischaemia-Reperfusion Injury (IRI) is a complication arising from lack of oxygen due to an interruption of the blood supply (ischaemia) resulting in tissue damage. This can occur in a transplanted organ, in the brain in case of stroke, and in the heart in case of myocardial infarction ('heart attack').

LTIP
Pharming's Long-Term Incentive Plan.

Orphan drug
A drug being developed to treat a rare disease (affecting less than 200,000 individuals in the US) can receive orphan drug designation from the FDA. This status is granted under the US orphan drug act of 1983, which was established to encourage, support and protect the development of treatment for rare, but serious diseases. Orphan drug status provides several advantages including market exclusivity for seven years, various financial incentives and a well-defined regulatory approval path. The EMA can grant a similar status to products being developed to treat rare diseases (affecting not more than 5 in 10,000 persons in Europe), namely orphan medicinal product. This status is granted under European parliament and council regulation (EC) no 141/2000 of 16 December, 1999, on orphan medicinal products, which introduces incentives for orphan medicinal products research, development and marketing, in particular by granting exclusive marketing rights for a ten-year period.

Pompe disease
Glycogen-Storage Disease Type Ii (GSDII), also referred to as Pompe disease, is one of the rare, genetic lysosomal storage diseases. It results from the deficiency of alpha-glucosidase (GAA), leading to accumulation of glycogen in organs, particularly skeletal and respiratory muscles, liver and nerves. In the infantile onset form, also the muscles in the heart are affected. This form is marked by a progressive and rapidly fatal course. Juvenile and adult-onset forms are less progressive and typically not accompanied by cardiac disease. These patients experience muscle weakness and ultimately succumb to respiratory failure.

Protein
Proteins are large organic molecules, such as C1 inhibitor, fibrinogen and collagen, and form the basis to all living organisms. They are composed of one or more chains of amino acids joined together by peptide bonds. The length of the chains and sequence of amino acids is defined by genes, which are present in the DNA.

QA
Quality Assurance.

QC
Quality Control.

Recombinant
Recombinant refers to the combination of genetic material (DNA) from different biological sources. Pharming, like all biotechnology firms, uses recombinant technology to produce proteins such as recombinant human C1 inhibitor.

RHC1INH
Recombinant human C1 esterase inhibitor or RHC1INH is the active component of RUCONEST®. Natural C1 inhibitor DNA from a human source is used in pharming's protein production technology to ensure expression of the C1 inhibitor protein. In addition to its use in treating HAE attacks, this product might also be useful in certain other clinical indications, such as the prevention of complications that sometimes arise after organ transplantation.

RHFVIII
Recombinant human Factor VIII is a recombinant form of the human blood clotting factor and is in early-stage development for treatment of Haemophilia A. Haemophilia A is a hereditary disorder caused by defects in the Factor VIII gene. Lack of functional Factor VIII diminishes the body's clotting ability, which in turn can lead to damaging or fatal bleeding episodes. On this project, Pharming has a service agreement with Renova life.

RUCONEST®
RUCONEST® is the global registered trademark for Pharming's recombinant human C1 esterase inhibitor. Human C1 inhibitor is a protein involved in the regulation of the first protein in the complement system (C1), which is part of the immune system. Insufficient C1 inhibitor action or amounts in the blood plasma can cause inflammation and HAE attacks.

Salix
Salix Pharmaceuticals Ltd. (NASDAQ: SLXP). This company was acquired by Valeant Pharmaceuticals International Inc. in April 2015.

Santarus
Santarus, Inc. This company was acquired by Salix Pharmaceuticals, Ltd. in January 2014.

SEC
Securities and Exchange Commission in the United States.

SOBI
Swedish Orphan Biovitrum Ab (Publ) (SS: SOBI).

Transaction
The transaction is the deal with Valeant Pharmaceuticals, Inc. for the re-acquisition of the commercialisation rights including the financing.

Transgenic
An organism is called transgenic when its cells carry genetic material from another species in addition to its own genetic material. Pharming produces specific human proteins in the milk of transgenic rabbits carrying the human recombinant gene responsible for expressing that protein.

US
The United States of America.

Valeant
Valeant Pharmaceuticals International Inc. (NASDAQ: VRX).

VWAP
Volume Weighted Average Price of shares.

APPENDIX

Publications on RUCONEST® 2016:

1

Campbell JC, Li Y, van Amersfoort E, Relan A, Dubick M, Sheppard F, Pusateri

A, Niemeyer D, Tsokos GC, Dalle Lucca JJ. C1 Inhibitor Limits Organ Injury and

Prolongs Survival in Swine Subjected to Battlefield Simulated Injury. Shock. 2016

Sep;46(3 Suppl 1):177-88. doi: 10.1097/SHK.0000000000000677. PubMed PMID:

27405065.

2

van den Elzen MT, van Os-Medendorp H, Röckmann-Helmbach H, van Hoffen E,

Lebens AF, van Doorn H, Klemans RJ, Bruijnzeel-Koomen CA, Hack CE, Kaufman L,

Relan A, Knulst AC. Allergenicity and safety of recombinant human C1 esterase

inhibitor in patients with allergy to rabbit or cow's milk. J Allergy Clin

Immunol. 2016 Aug;138(2):476-481.e1. doi: 10.1016/j.jaci.2016.04.019. PubMed

PMID: 27321437.

3

Hofman ZL, Relan A, Hack CE. Hereditary Angioedema Attacks: Local Swelling at

Multiple Sites. Clin Rev Allergy Immunol. 2016 Feb;50(1):34-40. doi:

10.1007/s12016-014-8463-6. PubMed PMID: 25527240.