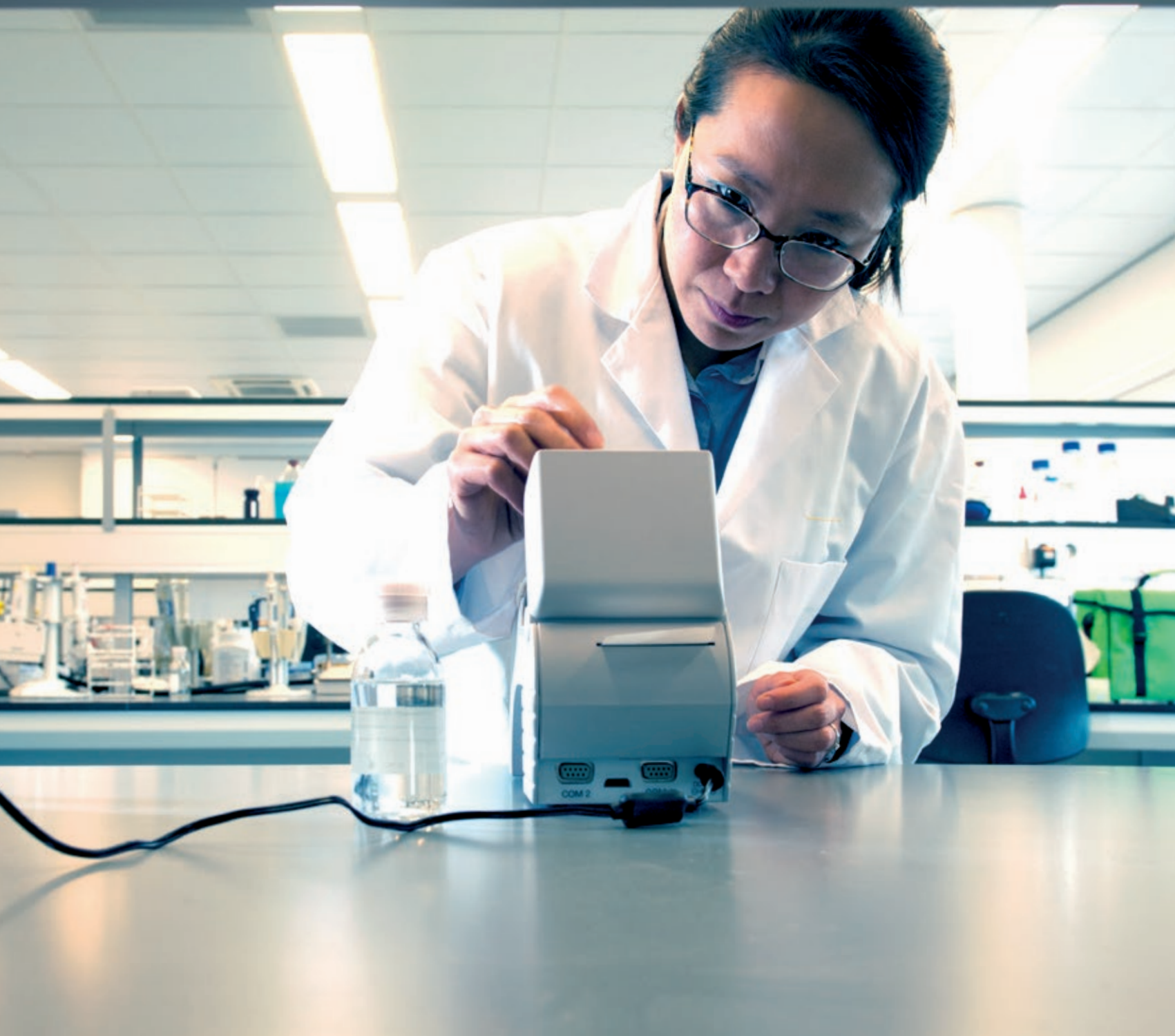
ANNUAL REPORT PHARMING

2017



ANNUAL REPORT **PHARMING** 2017

Pharming

FORWARD-LOOKING STATEMENTS

This Annual Report 2017 of Pharming Group N.V. and its subsidiaries ("Pharming", the "Company" or the "Group") may contain forward-looking statements including without limitation those regarding Pharming's financial projections, market expectations, developments, partnerships, plans, strategies and capital expenditures. The Company cautions that such forward-looking statements may involve certain risks and uncertainties, and actual results may differ. Risks and uncertainties include without limitation the effect of competitive, political and economic factors, legal claims, the Company's ability to protect intellectual property, fluctuations in exchange and interest rates, changes in taxation laws or rates, changes in legislation or accountancy practices and the Company's ability to identify, develop and successfully commercialise new products, markets or technologies.

As a result, the Company's actual performance, position and financial results and statements may differ materially from the plans, goals and expectations set forth in such forward-looking statements. The Company assumes no obligation to update any forward-looking statements or information, which should be taken as of their respective dates of issue, unless required by laws or regulations.

The following sections of this annual report form the director's report within the meaning of section 2:391 of the Dutch Civil Code: Highlights of 2017, 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.

Operational highlights 2017

THROUGHOUT THE YEAR,
we have been building sales capability in the USA to enable sales of RUCONEST® (C1 esterase inhibitor [recombinant]) for the treatment of acute hereditary angioedema (HAE) attacks, taking advantage of the reacquisition of rights to commercialise the product in North America from certain subsidiaries of Valeant Pharmaceuticals International, Inc. in December 2016. We have also been increasing our European sales capability to build commercial activities in the major countries taken back from SOBI in October 2016, principally France and the UK. These two activities have resulted in sales which are growing well, producing worldwide product sales growth in 2017 of 547%, up from €13.7 million in 2016 to €88.7 million in 2017. In US product sales (in US dollars) the growth was even more marked, from US$12.6 million in 2016 to US$94.6 million in 2017, a gain of 651%. These large differences reflect that during most of 2016, the product was sold by Valeant and Pharming only received a supply price, but after the reacquisition all revenues have accrued to Pharming. This enabled us to produce operating profits for the first time in Pharming's history, and we did so throughout the year.

IN JANUARY,
following the positive opinion of the Committee for Medicinal Products for Human Use (CHMP), the European Commission adopted the Commission Implementing Decision to amend the marketing authorisation for RUCONEST® to include self-administration using the RUCONEST® Administration Kit. This decision allowed for 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, without the need for a healthcare professional (HCP) to be present. The Administration Kit is now available for use in the various EU markets, following approval of the Educational Materials by the local authorities.

IN JULY,
one of the world's premier peer-reviewed journals, The Lancet, published data from Pharming's Phase II, double-blind, placebo-controlled, randomized clinical trial (NCT02247739) evaluating the efficacy and safety of RUCONEST® (C1 esterase inhibitor [recombinant]) for the prevention of hereditary angioedema (HAE) attacks. As previously reported, in a study with 32 patients RUCONEST® 50 IU/kg (max 4200 IU) demonstrated a statistically significant and clinically relevant reduction in attack frequency for both twice-weekly and once-weekly treatment regimens when compared to placebo and was generally safe and well-tolerated in the study.

IN SEPTEMBER,
we announced that the Company had concluded its End-of-Phase 2 interactions with the U.S. Food and Drug Administration (FDA) with respect to use of RUCONEST® in prophylaxis of HAE. As part of these interactions, Pharming provided the FDA with the results of two completed Phase 2 trials of RUCONEST® for the prophylaxis of HAE attacks: a randomized, double-blind, placebo-controlled trial and an open-label study. The two studies enrolled a total of 56 patients and showed consistent efficacy and safety results. Based on the feedback from the FDA, Pharming committed to submit a BLA supplement (sBLA) to the FDA for review in Q4 of 2017, to include routine prophylaxis against angioedema attacks in adolescent and adult patients with Hereditary Angioedema (HAE) as an expanded indication for RUCONEST®. This BLA supplement application was duly submitted to the FDA for review in November 2017, and the file was accepted for review by the FDA in January 2018.

ALSO IN SEPTEMBER,
in association with HAEi, the international umbrella organization for the world's Hereditary Angioedema (HAE) patient groups, Pharming announced the appointment of Inceptua Medicines Access as their new distribution partner for the "HAEi Global Access Program" (HAEi GAP) enabling patients in all countries where Pharming's product RUCONEST® is not commercially available to gain access to the drug through an ethical and regulatory compliant mechanism. It is the only known program of this type which has been initiated through a patient group. The program is the only Global Access Program in hereditary angioedema RUCONEST® is the first treatment to be made available through the HAEi GAP program in countries where it is not commercially available. Physicians wishing to request RUCONEST® for their patients through the HAEi GAP program should contact HAEIGAP@INCEPTUA.COM or alternatively ring +44 20 3910 7670. Please note that direct patient inquiries cannot be handled by Pharming.

IN OCTOBER,
the Company announced positive data from a clinical trial with the use of RUCONEST® for the treatment of HAE attacks in children. The open-label, single arm, Phase II clinical trial was designed in agreement with the European Medicines Agency (EMA) as part of a Paediatric Investigation Plan (PIP) to assess the pharmacokinetic, safety and efficacy profiles of RUCONEST® at a dose of 50 IU/kg in paediatric HAE patients ages 2-13 years in support of a paediatric indication for treatment of HAE attacks. A total of 20 children with HAE were treated for 73 HAE attacks at a dose of 50 IU/kg (up to a maximum of 4200 IU). The study reported clinically meaningful relief of symptoms assessed using a visual analogue scale (VAS) completed by the patient (assisted by their parent). The median time to onset of relief was 60 minutes (95% confidence interval: 60-63), and the median time to minimal symptoms was 122 minutes (95% confidence interval: 120-126). Only 3/73 (4%) attacks were treated with a second dose of RUCONEST®. RUCONEST® was generally safe and well-tolerated in the study. No patients withdrew from the study due to adverse events. There were no related serious adverse events, hypersensitivity reactions, or neutralizing antibodies detected.

Financial highlights 2017

- As part of the Valeant transaction in December 2016, the Company raised €104 million in new funding through a combination of a rights issue, a new senior loan and both ordinary and amortizing convertible bond issues. As the amortizing bonds were starting to convert into significant numbers of shares, the Company took the decision early in 2017 to refinance these bonds, which also meant refinancing the senior debt facility as well, as this facility held the senior charge on the Company. This refinance was completed by way of a bridge finance in May 2017 with Orbimed Advisors, on slightly better cash terms for the Company than the instruments it replaced and, more importantly, with the recovery of 115 million unissued shares which had been reserved against conversion of the amortizing convertible bonds due 2017/18.

  The facility was used to redeem the amortizing convertible bonds, and to refinance the Company's senior debt facility with Silicon Valley Bank and Kreos Capital, together with the associated prepayment fees and the legal and other costs of the transaction. The loan, initially structured as a bridge facility, was replaced within 60 days by a full loan agreement with a maturity date of June 2021 under the terms and conditions as described below. The new facility was a four year US$100 million (equivalent to €83.5 million at reporting date) Senior Secured Debt facility on more favourable terms to redeem a total of €35.9 million (US$43.0 million) of amortizing convertible bonds and US$40 million of Senior Debt, together with associated prepayment fees and costs. Other terms of the new facility were not disclosed. The net effect of the refinance, apart from slightly lower running costs, was the release of 124.2 million shares reserved against the amortizing convertible bonds, minus just under 9.2 million warrants for Orbimed, which eliminated the risk of at least 24% dilution for existing shareholders. These net recovered shares would currently be worth some €135.7 million (US$167.7 million) if issued at the current market price of approximately €1.18, or almost twice the value of the new debt. This refinance had no significant effect on the Company's cash balance at the time. The refinance also allowed the Company to withdraw a previously-notified request to increase its authorized share capital at the Annual General Meeting in May.

- The combination of revenues and cash generation well ahead of targets during the year also enabled the Company to offer an option for cashless exercise of all the outstanding warrants of the Company, to decrease the dilutive share overhang caused by the existence of so many warrants. This resulted in normal and cashless exercise of 86,151,655 million warrants and a return of 28,028,548 million shares to the Company and thus a reduction of the fully diluted share capital by 4.8%. Further warrants and options have been exercised cashlessly in 2018.

- Total annual revenues increased to €89.6 million (including €0.9 million of license revenue) in 2017 from €15.9 million in 2016 (including €2.2 million in license revenue). The remaining unamortised license revenue will be exhausted in 2019.

- Operating results improved very strongly to a profit of €21.9 million from a loss of €11.5 million in 2016, in spite of considerable increases in Marketing and Sales and R&D activity, mainly due to the effect of strong sales growth and efficient production of RUCONEST®. Operating costs increased further, especially in the fourth quarter, reflecting the increased activity around the shortage of a competitor product during the last four months of the year and support offered to patients left without therapy by this shortage. As this product was for prophylaxis for which RUCONEST® is not yet approved, this extra activity mainly involved making RUCONEST® available as an on-demand therapy for patients suffering increased attacks as a result of shortage of their prophylactic therapy. Many of those patients were able to experience for themselves the reliability and effectiveness of RUCONEST®, and some are expected to continue on the therapy.

- The net result of a loss of €80.0 million was much larger than the loss of €17.5 million in 2016, due to two main factors. The first factor is the very large adjustments to profit required in connection with the amortizing bonds and their subsequent refinance in the first two quarters, together with the large adjustment to fair value of derivative financial liabilities (essentially a non-cash fair value adjustment under IFRS for the fact that the ordinary convertible bonds are convertible and not just debt). Both of these adjustments were caused and driven by the very large share price rise in the year. As the ordinary bonds were almost all redeemed in the fourth quarter (and were completely redeemed in January 2018), these charges are not expected to recur after the first quarter of 2018. The second factor is the reassessment of contingent consideration reflecting a much greater likelihood of hitting the milestones due to Valeant under our agreement for the reacquisition of the commercial rights for RUCONEST® in North America in December 2016 as described below.

- The strong sales performance was so much better than previous years that the Board of Management has increased the book value of the contingent consideration from €4.6 million in 2016 to €28.3 million (US$33.9 million) in 2017. This is essentially a provision for potential future costs (in particular the potential sales milestone payments to Valeant) of contingent liabilities taken on in the context of an acquisition, in this case the reacquisition of the commercial rights for RUCONEST® in North America in December 2016. This is a strong expression of confidence in the sales growth in the USA for RUCONEST®, which we believe will continue for the time being despite increased competition in the HAE marketplace. As and when a milestone amount does become payable in a future reporting period, this provision will be used to reduce any charge against profit at the time it is paid.

- At the same time, because we believe that we will generate positive net quarterly results in 2018, we expect to be making taxable profits in the foreseeable future and so have recorded a deferred tax asset of €9.4 million (2016: Nil) in respect of net operating losses which we expect to be able to use in future periods. After many years of operating losses, this is a strong statement in support of our belief in the underlying performance of the Company.

- The equity position changed from €27.5 million in 2016 to €18.8 million in 2017, mainly due to the balance of: the equity increases from redemption of warrants and bonds; the creation of a deferred tax asset reflecting confidence that taxable profits will be able to use up net operating losses from prior years; the negative non-cash-adjustments relating to the refinance; changes in fair value of financial derivatives in the year; and the negative effect of the adjustment to contingent consideration described above.

- Inventories increased slightly from €17.9 million in 2016 to €18.3 million in 2017, largely due to the acceleration of production to cover the shortages of competitor products and the naturally improving sales level especially in the US and the launch of the self-administration kits in Europe, which meant conversion of low-value raw materials inventory into high-value finished goods inventory, with the latter quickly reduced by the higher supply levels to the US and EU markets, so that overall quantities of inventory reduced but the average value increased.

- The cash position including restricted cash increased from €32.1 million at year-end 2016 to €60.0 million at year-end 2017. This was mainly due to the strong sales performance of RUCONEST® especially in the third and fourth quarters, and occurred despite considerable increases in marketing and R&D activities. Cash generation has increased strongly across all four quarters of 2017, as the investments made in commercial teams saw strong increases in sales revenues and as faster credit collection was achieved.

After the year end 2017

Since 31 December 2017, the following additional events have occurred:

- Following the submission of the supplemental Biologics License Application for RUCONEST® in prophylaxis of HAE in November 2017, the FDA informed the Company in January 2018 that it had accepted the file for complete review with a decision date of 21 September 2018.

- Since the year end, all remaining ordinary bonds dated 2021 which had not previously been redeemed (€1.2 million) have been redeemed in accordance with their terms. None of the Company's ordinary convertible bonds or amortizing convertible bonds taken out prior to the refinancing remain outstanding as at the date of this report.

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

RUCONEST® is distributed by Swedish Orphan Biovitrum AB (publ) (SS: SOBI) in the other EU countries, and 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® has recently completed a clinical trial for the treatment of HAE in young children (2-13 years of age) and is also evaluated for various additional follow-on indictions.

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 at present.

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.

Pharming will begin to report financial and related in formation in both euros and US dollars during 2018, beginning with the first quarter results statement in May 2018. This reflects the increasing importance of US dollars as a functional currency within Pharming, and the wider audience now seeking Pharming's published information. A decision will be taken later in the year as to the presentation currency in 2019 and beyond, based on the continued development of the business through 2018.

Additional information is available on the Pharming website: WWW.PHARMING.COM

STRATEGIC FOCUS

Pharming is focused on the following activities:

- Commercialising its own products in the major markets, with RUCONEST® as its lead product at present
- Where the product is partnered, assisting the partner to obtain the best value for RUCONEST® and patients by pursuing additional regulatory approvals and additional indications for the product
- Developing 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, or can be commercialised using the same infrastructure
- Developing new protein replacement treatments for enzyme-deficiency disorders such as Pompe disease and Fabry's disease, and other possible approaches
- 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 all stakeholders through an entrepreneurial culture with appropriate recognition and efficient management of opportunities and risks; and
- Communicating openly, consistently, fairly and in a timely manner to all internal and external stakeholders; and
- Operating to the highest standards of ethics, environmental responsibility and animal welfare; and
- Continuing to maintain the highest levels of social and corporate responsibility as a pharmaceutical company, a research organization, an employer, a partner and a workplace.

Distribution of RUCONEST®

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

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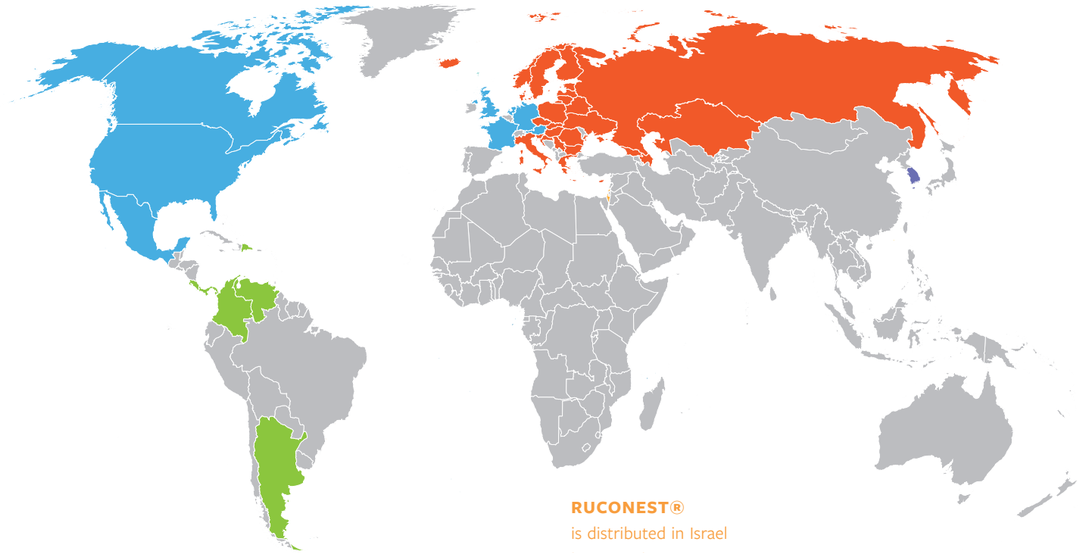

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RUCONEST®
is distributed in Israel by Megapharm.

RUCONEST®
is distributed in South Korea by HyupJin Corporation.

STATEMENT

Chief Executive Officer

"2017 was the year in which Pharming turned profitable from revenues for the first time in its history. This means that we have now established a financially-sustainable basis for our business. HAE patients will be able, therefore, to rely on having a plasma-free (recombinant) C1-inhibitor protein replacement therapy available to treat their HAE attacks"

The availability of a reliable and fast scalable plasma free (recombinant) therapy is turning out to be an important aspect, as twice over the last eighteen months a plasma -derived C1 inhibitor product has had serious issues with supplies as result of manufacturing problems.

This sustainable base allows us to now broaden our scope and focus on the near-time clinical development of more convenient ways for HAE patients to use RUCONEST® such as intramuscular and sub-cutaneous injections, but also on research into the application of needle-free and pain-free technologies with RUCONEST®.

The further development of RUCONEST® to extend the HAE franchise also accelerated: The filing with the FDA of our sBLA for propyhylaxis of HAE in November and acceptance for review by the FDA of the dossier, in January of this year and the completion of our paediatric trial to treat HAE attacks in children from the age of 2 years of age and upwards were significant step forward to underpin the proven efficacy and safety of RUCONEST® further. During the year we have also taken the next steps in the initiation of clinical development for additional indications for RUCONEST® outside of HAE, including support for as-yet undisclosed Investigator Sponsored Studies and results of one of these studies may already become available later this year.

Over the year, we have continued to make progress on bringing forward our pre- clinical pipeline of products developed using our proprietary technology platform. The first of these new products; human recombinant α-glucosidase for the treatment of Pompe disease, is now undergoing upscaling of manufacturing to produce supplies for the clinical testing and is expected to complete the final steps to IND filing stage in 2018, and we will be providing more clarity on these timelines during the course of 2018.

Our business success in 2017 was driven by the game-changing reacquisition of commercialisation rights

Foto Peter Boer

for RUCONEST® in North America from certain subsidiaries of Valeant Pharmaceuticals International, Inc. and strong growth in some of the EU markets, growing product sales from €13.7 million in 2016 to €88.7 million in 2017, an increase of 547%.

Throughout the year, the transition of the sales force that we were building for RUCONEST® was our focus. Immediately after the acquisition of the commercial rights in North America, we initiated our plans to increase awareness and sales of RUCONEST® in the US market. We have now hired a complete experienced HAE/rare disease sales force, an excellent medical science liaison team and a very capable management team expert in marketing, sales, commercial activity, market access and patient support. Competition has increased and will continue to increase and change in the HAE market, but these newer products are not currently suitable for (and are not expected to be approved for) acute treatment of HAE at this time. RUCONEST® therefore remains the only product that could, in due time, become approved for both prophylaxis and treatment of acute attacks of HAE. As result of these EU and US transitions, we now operate with an appropriate commercial presence in both Western Europe and the USA and we delivered on our commitment to deliver an operationally profitable company within 2017, and I am delighted to say that not only did we achieve operating profits in every quarter but that the total operating profit for the year was €21.9 million, which represents an operating margin of more than 24%, despite very considerable investments in marketing and sales activities and investments. The refinancing of the complex financing structure that was needed to re-acquire the North American commerciali sation rights in December 2016 by obtaining a single US$100 million debt facility from Orbimed Advisors in May of this year meant that we were also able to prevent very significant dilution for our shareholders.

These improvements in commercialisation performance, the achievement of regulatory milestones and the financial restructuring contributed to Pharming achieving significant value for its shareholders in 2017, with our share price appreciating by over 400% during the year. This rapid growth of our share price in turn led to the exercising of almost all of the outstanding warrants during 2017 and the remainder in early 2018, which now means that for most of 2018 we will not have the very significant non-cash quarterly adjustments and can deliver on our commitment to become a net earnings-generating company during 2018.

The support, expertise and hard work of all our employees makes Pharming what it is. I would like to take this opportunity once more to thank all Pharming employees as well as all of our investors, partners and debt providers for their support and commitment throughout 2017, which enabled us especially to execute on the commercial development of the Company to create the platform for very significant growth.

I look forward with confidence to continuing the upward story of Pharming in 2018, with sales increasing further, a new exciting pipeline and new opportunities for enhanced shareholder value.

Leiden, 28 March 2018
Sijmen de Vries
Chief Executive Officer
and Chairman of the Board of Management

TESTIMONIAL MOURAD

Despite the ups and downs, despite the painstakingly slow progress, today I look back and say: It was more than worth it.

“I have been at Pharming for 23 years. In all those years, I have witnessed amazing things. At Pharming ‘amazing things’ was first how we referred to the birth of a new transgenic cattle founder. Then it was being able to produce biotherapeutics under Good Manufacturing Practice. Much later it was the daunting task of successfully completing clinical trials. More recently it became obtaining approval for the technology platform by successfully passing EMA and FDA inspections.

Then it was gaining the market authorization. Today, the amazing thing is the opportunity we were given to fully integrate our processes and buy back the distribution rights for our own product.

Having started as a veterinary scientist, my job has always covered a variety of responsibilities and tasks but it always evolved around solving complex issues associated with ensuring the welfare, maintenance, breeding and milking of animals. This was aimed at providing not only the highest quality starting material for the production of therapeutic proteins, but also offering the housing conditions and the required care necessary to preserve the health and welfare of our animals. Today I coordinate the above activities in a leadership position without losing touch with the animals. This in itself helps breaching the gap between the highest level of management in the company and the animal facility work floor.

Being in the core of a unique and continuously improving technology and addressing unmet medical needs is what we look forward to and is what will keep me and most of my colleagues going for many years to come.”

MANAGEMENT REPORT

Operating review 2017

Regional market and product overview

GROWTH OF SALES DRIVEN BY PATIENT UPTAKE AND SUPPLEMENTARY MARKETING EFFORTS

The RUCONEST® sales effort in the USA is made by a full team of sales representatives, backed by a first class marketing, managed care, patient access and support team. Pharming has increased the size of its US presence from 11 at the end of 2016 to more than 50 at the end of 2017 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), the HAEi (the international HAE patients'association) and their programs as well as other HAE centres of excellence.

Pharming is working closely on further improvements for HAE patients, involving a new much smaller injection volume which will hopefully become available following clinical trials and the approval process for subcutaneous delivery and intramuscular delivery as well as for new routes of administration designed to reduce pain and increase convenience for patients.

USA

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 will (if approved for prophylaxis) be able both to treat HAE acute attacks with reliable and consistent results and an excellent safety and tolerability profile and to deliver significant reduction in attacks if used prophylactically . In addition, by nature of its rapidly scaleable recombinant production, RUCONEST® supplies are not dependent on availability of (paid) blood donations. Furthermore, there is no exposure to known and presently unknown viral infections that could be derived from usage of human blood plasma-derived products.

In September, after one competitor ran out of their plasma derived C1-inhibitor product and another did not have sufficient plasma derived C1- inhibitor product to meet all the demands on launch of that product, we began making emergency free of charge supplies of RUCONEST® available to patients for treatment of their acute attacks on demand, to ensure that they did not suffer because of these unfortunate shortages. A number of those patients have remained with RUCONEST® since that time, because they prefer its effectiveness at dealing with their attacks before those attacks have led to any symptoms or discomfort.

The overhaul of the whole sales activity in the USA in the first half of the year has led to a very significant growth in sales, with US product sales reaching a record €81.9 million.

The US market for acute and prophylactic treatment of HAE continued to expand in 2017, and is now estimated by most observers as between US$1.7 billion and US$1.8 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) are self-administered by injection at home.

The market leader in the over US$800 million prophylaxis market is a plasma-derived C1-inhibitor (pdC1INH) marketed by Shire PLC (with sales of US$699 million in 2017), which is only approved for prophylactic use as it failed in clinical trials for acute treatment. Although not yet approved, RUCONEST® has shown positive data in a Phase 2 clinical study: RUCONEST® taken twice a week reduced attacks by 72% on average with a 96% response rate. We have now filed for a supplementary biologics license approval (sBLA) with a due date for response of 21 September 2018.

The acute segment is estimated at approximately US$900 million, led by icatibant from Shire PLC (US$663 million in 2017) 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 Bradykinin B2 receptor, one of the principal mechanisms triggering HAE symptoms.

RUCONEST® provides a very efficacious enzyme replacement therapy dosed at 50 U/kg (max 4200 U), which is higher than the dose provided by Shire's pdC1INH(1000 U) in prophylaxis or CSL Behring's pdC1INH for acute use (20 U/kg or between 1500 and 2000U in adults). Clinical data shows that a dose of 50 U/kg of C1-Inhibitor exerts an optimal effect in returning C1-Inhibitor function to normal in HAE patients.

A new product, pdC1INH for prophylactic use, was launched by CSL Behring during the year and is dosed at 60U/kg twice weekly, each time normally in two subcutaneous injections of 4 and 6 ml. Although this product appears to be as effective as RUCONEST® for prophylactic use, when comparing peer-reviewed published data, the subcutaneous injection of such a large volume, twice weekly, is described as very painful by some patients.

EUROPE

The takeover by Pharming of commercialization of RUCONEST® from SOBI in Western Europe and other states has been very successful, with sales growing by over 150% in 2017 compared to 2016. Sales growth has been positive in Eastern Europe, but the entrenched positions and historical commercial arrangements of certain competing products in Western Europe continues to be the main obstacle to realise the full potential. Our partner SOBI also continues to increase sales gradually in their Eastern European markets.

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, a Sinopharm company, continues to progress well.

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

In 2017 we assisted CSIPI and CDIP, the biologicals manufacturing subsidiary of Sinopharm, who are planning to produce recombinant proteins from a brand-new facility in Xengdu, to manufacture RUCONEST® for their own commercialisation, but also to be able to supply Pharming's for the US and EU/ ROW markets. In addition Sinopharm continues to work on the

development of human recombinant Factor VIII for the treatment of Haemophilia A.

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 US$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 worldwide need.

OTHER MARKETS

RUCONEST® continues to be commercialised in Colombia through our partner there Cytobioteck. Sales activity has also begun in the new countries agreed with Cytobioteck in 2016: 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 Global Access Program" (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. In September, in association with HAEi, Pharming announced the appointment of Inceptua Medicines Access as their new distribution partner for HAEi GAP enabling patients in all countries where Pharming's product RUCONEST® is not commercially available to gain access to the drug through an ethical and regulatory compliant mechanism. It is the only known program of this type which has been initiated through a patient group.

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

Development of RUCONEST®

RUCONEST® FOR HEREDITARY ANGIOEDEMA (HAE)

RUCONEST® was originally developed for the treatment of acute attacks of HAE. HAE is a rare genetic disorder in which the patient's body is unable to manufacture sufficient amounts of a fully-functioning version of C1 esterase inhibitor, a protein which is responsible for stopping inflammatory attacks and associated swelling in the body at an appropriate point in disease cycles. Abdominal attacks cause abdominal swelling and vomiting, potentially leading to misdiagnosis and unnecessary surgery, and swelling of the skin can lead to disfigurement, disability and pain. Untreated, attacks can last between 48 and 120 hours and can be fatal, especially if the swelling starts at or reaches the throat area. Estimates of the prevalence of the disease vary between 1 in 10,000 to 1 in 50,000, depending on the genetic diversity of the population. Acute attacks usually begin to be noticed in childhood or adolescence, but due to the disorder's rarity, the condition is often not correctly diagnosed for several years. The frequency of HAE attacks varies between patients, from extreme cases with two to three attacks per week to milder cases with a few attacks per year. A typical patient has around 18-24 treated attacks per year.

Additional information about the condition can be found on the international HAE patient's association website at WWW.HAEI.ORG .

PROPHYLAXIS OF HAE

In acute HAE, each individual HAE attack is treated. In prophylaxis, the patient is given the drug on a regular basis with the aim of preventing attacks or reducing the frequency of breakthrough attacks. In the US, the size of the prophylactic indication is significant, with only two drugs approved specifically for that indication, pdC1INH versions marketed by Shire PLC and CSL Behring, having worldwide sales of more than US$800 million in 2017. RUCONEST® achieved positive results in two independent clinical trials with very high responder rates and reduction of frequency of attacks. Following discussions with the FDA, Pharming filed for a supplementary Biologics License Approval (sBLA) for RUCONEST® in December 2017, and the file has been accepted for review by the FDA since the year end with a response date of 21 September 2018.

HAE IN CHILDREN

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

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

A total of 20 children with HAE were treated for 73 HAE attacks at a dose of 50 IU/kg (up to a maximum of 4200 IU). The study reported clinically meaningful relief of symptoms assessed using a visual analogue scale (VAS) completed by the patient (assisted by their parent). The median time to onset of relief was 60 minutes (95% confidence interval: 60-63), and the median time to minimal symptoms was 122 minutes (95% confidence interval: 120-126). Only 3/73 (4%) attacks were treated with a second dose of RUCONEST®.

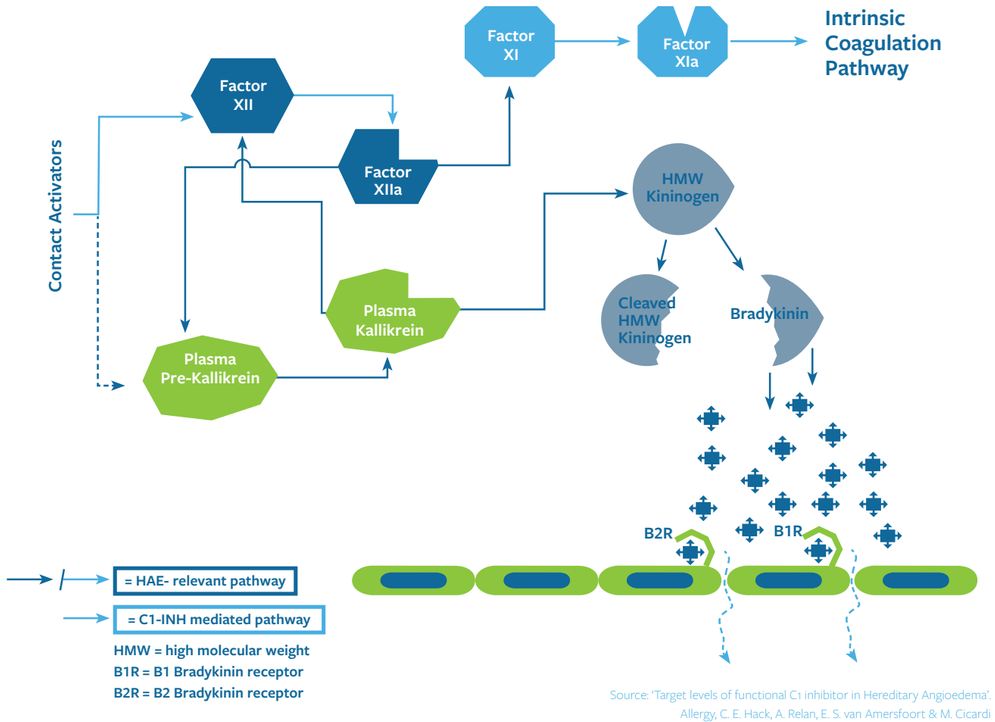
RUCONEST® was generally safe and well-tolerated in the study. No patients withdrew from the study due to adverse events. There were no related serious adverse events, hypersensitivity reactions, or neutralizing antibodies detected.

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 over-production of some mediators including bradykinin. Bradykinin is necessary to enable tissues to swell in certain shock situations or other circumstances, and acts on two receptors, B1 and B2. This has the effect of opening channels in the vascular wall, leading to the leaking of fluid from blood vessels to the tissue space. The symptoms of an HAE attack is caused mainly by overproduction of the bradykinin initiator protein kallikrein and thus excessive leakage of fluid intotissue spaces (edema or swelling).

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

After administration, RUCONEST® irreversibly binds to several target molecules, including importantly the coagulation factor FXII and the protease kallikrein, which



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

"RUCONEST® was generally safe and well-tolerated in the study"

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.

Other therapies are available or are being developed which do not deal with all pathways to HAE, but instead focus on kallikrein or bradykinin themselves. This can have the effect of reducing or stopping the symptoms, but often the attack continues in the background, causing a relapse or worsening effect necessitating a second or even a third dose. RUCONEST® deals with all pathways by restoring the normal concentration of C1 esterase inhibitor, thereby stopping essentially all attacks with no observed relapse or worsening effects for nearly all patients. In addition, because RUCONEST® is a protein replacement therapy, whereby the missing protein that the patient cannot effectively produce themselves is replaced by injection with RUCONEST®, it does not carry any risks which may be associated with stopping any other pathway completely. The long term risks of prophylaxis using the blocking of bradykinin or kallikrein pathways, effectively causing a deficiency in one or both of those proteins, have not been elucidated, and so it is not known whether it is safe in the long term to manage one protein deficiency by creating a second chronic protein deficiency. The kallikrein and bradykinin pathways serve a useful purpose in other situations than HAE. It remains to be explored, therefore, whether this will be a good approach to the problem.

INTRAMUSCULAR, SUBCUTANEOUS AND OTHER FORMS OF RUCONEST®

In the absence of any other factors, some patients prefer a subcutaneous injectable product or an intramuscular injection to an intravenous injectable product, because of the lower level of training and care needed to make the injection safely and effectively. C1-inhibitors can be administered during the prodromal phase of an attack, which in this case is that period when the attack has started and the patient is aware of it, but symptoms have not yet appeared. This period can be more than 2 hours, and if a C1-inhibitor, adequately dosed, is taken during that time, normally the symptoms do not develop and the patient usually does not progress to the painful stage of an attack. The Company is developing a new very small injection version of the full dose of RUCONEST® which can be used for intravenous, 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 and are filing this for direct approval as an alternate form of RUCONEST® intravenous treatment. The new form of RUCONEST® will thus be available on approval for intravenous administration, where it will be quicker and easier, but will need to be tested in some clinical settings for intramuscular and subcutaneous delivery, and this clinical testing program is now expected to start in the second half of 2018. The program is slightly behind schedule because of the need to divert RUCONEST® production to cover shortfalls of competitor products in late 2017.

We are also exploring other routes of administration which are not injection-based and so are not painful at all.

Additional indications for RUCONEST®

RUCONEST® works by inhibiting the formation of a C1 complex at the top of the complement system. The complement system, sometimes known as the complement cascade is a part of the immune system that enhances (complements) the ability of antibodies and phagocytic cells (a type of white blood cells) to clear microbes and damaged cells from our bodies, promotes inflammation, and attacks the pathogen's cell membrane. It is part of the innate immune system,[1] which is not adaptable and does not change over the course of an individual's lifetime. The complement system can be recruited and brought into action by antibodies generated by the adaptive immune system.

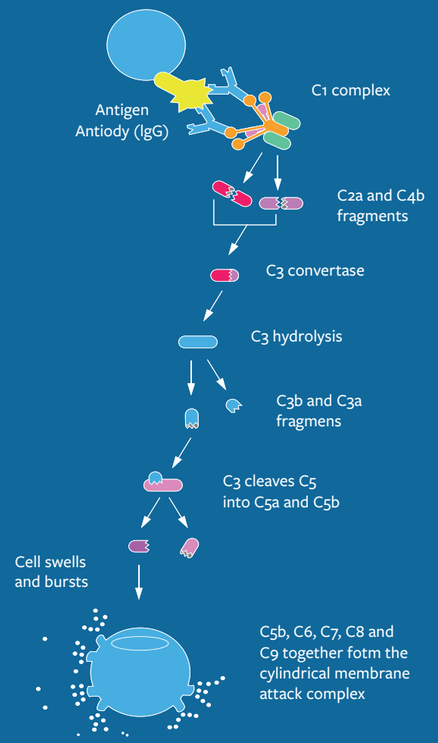
The complement system consists of a number of small proteins found in the blood, in general synthesized by the liver, and normally circulating as inactive precursors (pro-proteins).

When stimulated by one of several triggers, proteases in the system cleave specific proteins to release active fragments called cytokines and initiate an amplifying cascade of further cleavages. The end result of this complement activation or complement fixation cascade is stimulation of the phagocytes to clear foreign and damaged material, inflammation to attract additional phagocytes, and activation of the cell-killing membrane attack complex. Over 30 proteins and protein fragments make up the complement system, including serum proteins, and cell membrane receptors.

This system is the villain in many disease conditions and injury situations, where out-of-control inflammation or vascular leakage are responsible for the symptoms of those conditions. In others, hypoxic conditions where blood has not been able to circulate properly bringing oxygen to various tissues, the detrimental effects of such hypoxia can be exacerbated upon reperfusion by the complement cascade. In some of those conditions, there may be a role to play for a C1 esterase inhibitor which could act as the handbrake on that system, allowing the body to have a more measured response or to prevent the symptoms entirely.

This has led the Company to explore a number of new indications for RUCONEST® as indicated below

Classical Pathway of Complement Activation



ISCHAEMIC REPERFUSION INJURY (IRI)

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

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

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

DELAYED GRAFT FUNCTION (DGF)

DGF, a form of IRI, is a serious and costly complication in the clinical transplantation setting. When DGF occurs, it necessitates the use of dialysis and leads to prolonged hospitalization, which results in adverse long term outcomes and significantly higher costs. Current interventions focus on activities that occur after the organ is harvested from the donor (e.g. cold storage or machine perfusion of the organ). As demonstrated with a preclinical model, donor pre-treatment with RUCONEST® prior to transplantation represents a novel approach to addressing some of the limitations of current strategies to reduce the impact of DGF. 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 clinical study is now being prepared.

Other indications are also possible, and the Company will make public announcements of any new internal or external studies into which RUCONEST® is entered.

Pipeline development

Pharming's R&D team is now continuing formal work on two major projects in Pompe disease and Fabry's disease, with others in early stage development.

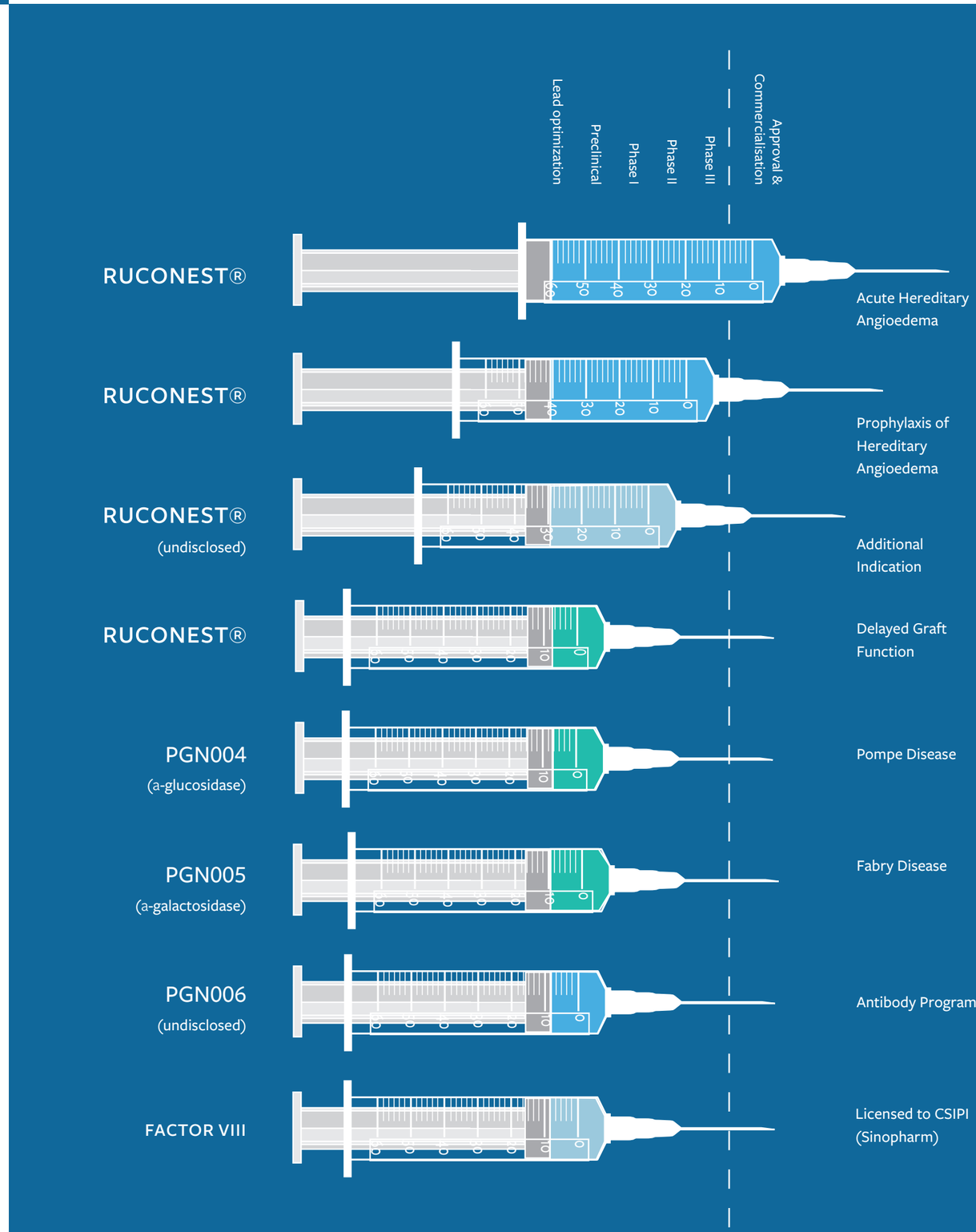
ALPHA-GLUCOSIDASE FOR THE TREATMENT OF POMPE DISEASE

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 -glucosidase, produced by Chinese Hamster Ovary (CHO) cells (Myozyme®/Lumizyme® from Genzyme – now Sanofi-Aventis), is administered intravenously 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.. 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. All of the approved therapies have so-called boxed warnings for immunogenicity, the general term for this kind of toxicity. The main reason for it seems to be the body's response to the artificial molecule and the difficulty of getting the artificial molecule into the relevant cells, which means larger doses of drug are required.

Human recombinan α-glucosidase has been produced in several new lines of transgenic animals. Pharming's new product is intended to have better immunogenicity, safety and potentially efficacy profiles than existing products, because of inter alia the differences in glycosylation patterns. 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 2017, sales of Myozyme®/Lumizyme® were €789 million.

On this basis, assuming a similar growth for the products in 2018, the size of the US Pompe disease market globally may be estimated at approximately US$800 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 almost 100% of the Pompe market. Most other therapies involve trying to improve delivery of the currently available recombinant CHO-cell alphaglucosidase, whereas we believe the problem lies in this molecule itself.

ALPHA-GALACTOSIDASE FOR THE TREATMENT OF FABRY'S 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's disease is inherited as an X-linked disorder. Males are typically more severely affected than females. Females have a more variable course and may be asymptomatic or as severely affected as males (see Genetics section below).

There are two major disease phenotypes: the type 1 "classic" and type 2 "later-onset" subtypes. Both lead to renal failure, and/or cardiac disease, and early death). 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 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's 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 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 2017, sales of Fabrazyme® were €722 million. For 2016, Shire PLC reported annual sales of Replagal of US$452 million. Assuming similar growth in 2017 for Replagal, the approximate size of the Fabry's disease market may be estimated at in excess of US$1.3 billion.

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 US$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 infections such as hepatitis.

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.

During the year, we made significant progress in developing the platform technically so that greater quantities of target substances can be generated from fewer animals without any distress to the animals, reducing the number of animals involved even further and allowing for better costs of production in the future.

TESTIMONIAL
JOYCE

Growing up in the Pharming family

“I was 19 when I started working at Pharming, young and unexperienced, but eager to learn. In my last year of education as a veterinarian assistant and biotechnician I applied for a job at Pharming. That’s when the journey started and as of today, I’m still a part of the Pharming family after more than 12 years.

I consider myself lucky to have grown up as part of the Pharming family, getting familiar with the working life and gaining a lot of techniques and knowledge. I work in the Netherlands, where our production facility is housed. As a team we work; not only in the care for the animals - which is our number one priority - but also on quality, regulations, data collection and interpretation, constant improvement of techniques and processes, personal growth, personnel planning, external and internal auditing are part of our job. With such a variety of tasks, I enjoy the versatility and freedom to learn such broad disciplines.

Over the years Pharming has undergone a lot of changes, despite the turbulent times our team remained committed to hard work and collaboration. During my years at Pharming, I have been given the opportunity to develop myself in many different ways, for me it meant that I grew from junior biotechnician to team leader. Not only a title, but also expanding my experience and knowledge.

Alongside all that I have learned, and continue to learn here at Pharming, there is also another side of our job, the patients who use our product. I go to work every day knowing that - indirectly - I make someone’s life more bearable, that makes everything worthwhile. “

Financial review 2017

The financial objectives for 2017 were originally focused on:

- 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 potential new opportunities; and
- Ensuring that any opportunities for acquisitions or new development projects or products are captured on a financial basis that is optimized for shareholders.

All of these objectives were achieved. For 2018, the main objectives remain the same

Financial summary

AMOUNTS IN €M EXCEPT PER SHARE DATA	2017	2016	% CHANGE
INCOME STATEMENT			
Product sales	88.7	13.7	547%
License income	0.9	2.2	(59%)
Revenue	89.6	15.9	464%
Gross profit	77.2	11.2	589%
Operating result	21.9	(11.5)	290%
Financial income, expenses and net adjustments*	(101.9)	(6.0)	n/a
NET RESULT	**(80.0)**	**(17.5)**	**(357%)**
BALANCE SHEET			
Cash & marketable securities	60.0	32.1	87%
SHARE INFORMATION			
Earnings per share before dilution (€)	(0.160)	(0.042)	(281%)

** Includes non-cash fair value adjustments, contingent consideration adjustments and net tax credits*

REVENUES AND GROSS PROFIT

Revenues increased to €89.6 million in 2017 from €15.9 million in 2016. Both years include amounts of deferred license revenue released, reflecting a portion of earlier license fee payments from partners including SOBI, Salix and SIPI which have been allocated across a number of financial years in accordance with accounting guidelines. These amounts were €0.9 million in 2017 and €2.2 million in 2016.

Revenues from product sales by Pharming and its partners increased to €88.7 million (2016: €13.7 million) reflecting a very much better year overall for RUCONEST® sales in the US (€83.7 million (US$94.6 million), up from €11.8 million in 2016). This shows the immediate effect on the top line of the concentrated effort in the US with a full sales activity.

Sales for RUCONEST® in Europe and the Rest of World ("RoW") were €5.0 million (2016: €2.0 million), reflecting sales by SOBI in Europe coupled with strong growth in direct sales by Pharming in the countries recovered from SOBI in 2016.

Costs of product sales in 2017 amounted to €12.4 million, up from €4.7 million in 2016, reflecting the strongly increased sales volume and savings obtained by better inventory management, plus the cost of contributing to patients during the stock limitations at competitors in the fourth quarter.

Gross profit increased from €11.2 million in 2016 to €77.2 million in 2017, an increase of 589%. The main reasons for this increase were the increased sales in the US and EU.

OPERATING COSTS

Operating costs increased from €23.1 million in 2016 to €56.1 million in 2017. This increase was substantially due to the added cost of marketing and sales activities both in the US and in the new territories taken over from SOBI in October 2016, mainly in France and the United Kingdom.

Research and Development (R&D) costs within these figures increased from €15.4 million in 2016 to €18.7 million in 2017. In 2017, the costs have mainly been incurred in developing the two new major pipeline programs for Pompe and Fabry's disease, new routes of administration and opportunities for RUCONEST® including the pediatric study in HAE and improvement in the technology platform to enable better versions of new products.

General and administrative costs increased slightly to €6.0 million from €4.6 million in 2016. The increase is mainly related to the addition of senior management in the US, and costs incurred in connection with management of the more internationally active Company in 2017, as well as increases in provision for share-based compensation following the large share price rise.

Marketing and sales costs of €31.4 million (2016: €3.0 million) reflect Pharming's additional new full direct commercialization activities in the US and in France and the United Kingdom in Europe.

OPERATING RESULT

The operating result improved from a loss of €11.5 million in 2016 to an operating profit of €21.9 million, in spite of a considerable increase in R&D expense and marketing and sales activity in 2017. This is mainly due to the last two quarters, once sales growth was firmly established with the completion of the US sales infrastructure and the EU sales and marketing team expansion.

FINANCIAL INCOME AND EXPENSES

The 2017 net loss on financial income and expenses was €111.3 million, compared with a loss of €6.0 million a year earlier. This is mainly due to four items: (i) the IFRS non-cash adjustments to fair value in respect of derivative financial liabilities assessed against the amortizing convertible bonds and ordinary bonds during the year, largely as a result of the very large share price change

(€40.3 million); (ii) the interest on loans and borrowings (€9.3 million) and non-cash adjustments of approximately €8.2 million; (iii) the settlement fees associated with the refinance and redemption of the bonds (€34.9 million) and (iv) the increase in the provision for contingent consideration (i.e. the milestones due to Valeant upon reaching certain sales targets) of €23.6 million. A gain of €5.2 million was recorded on the change in book value of the loans and borrowings due to the movement in exchange rates. Of this total financial expense amount, over 85% (€95.2 million) comprises non-cash adjustments required under IFRS.

TAXATION

As a result of the growth in sales, it is now probable that the Company will be able to use its net operating (taxable) losses from previous years against taxable profits going forward. The Board of Management has therefore elected to report a deferred tax asset in accordance with IFRS, reflecting the timing differences between the tax value of those losses and the time when they can be exercised. This has led to a credit to the income tax charge (i.e. a positive movement) of €9.4 million in 2017 (2016: Nil).

NET RESULT

As a result of the above financial items, the net loss increased from €17.5 million in 2016 to €80.0 million in 2017. Nearly all of the deductions from operating profits are non-recurring, although interest and related costs will appear in 2018 and beyond, and if progress continues additional provisions for the fair value of contingent consideration may be required in later reporting periods.

INVENTORIES

Inventories increased slightly from €17.9 million in 2016 to €18.3 million in 2017, largely due to the need to convert raw materials into higher value stock types including finished goods to cover the improving sales level in the USA and to make RUCONEST® available to patients who were left without adequate therapy by stock limitations of competitor products. A provision against impairment of inventories of €0.3 million was applied (2016: €0.6 million), reflecting small amounts of older stock, as well as stock allocated to SOBI and to clinical activities which is not expected to sell for its full book value.

CASH AND CASH EQUIVALENTS

The total cash and cash equivalent position (including restricted cash) increased from €32.1 million at year-end 2016 to €60.0 million at year-end 2017.

The principal elements of cash flow were the positive operating cash flow (before changes in working capital as shown in that statement) of €27.1 million (2016: negative operating cash flow of €10.7 million), improvement in working capital management of €11.1 million (2016: €0.6 million); capital expenditure on new assets of €6.0 million (2016: €57.5 million, including the upfront payment for the Valeant transaction), and the net cash used for all of the refinance, repayments and interest on loans, bonds and warrant exercise transactions of €3.3 million (2016: net cash inflow of €67.3 million including all the new finance for the Valeant transaction in December 2016).

As the Company's sales are largely in US dollars and the Company's debt is largely in US dollars, a natural hedge exists which means that any decline in the US dollar exchange rate over the year to reduce sales reported in euros has a balancing effect of reducing the size of the debt liability when reported in euros. The effect of the exchange rate movements on amounts held in cash had a total effect of a loss of €1.1 million (2016: gain of €0.4 million).

EQUITY

The equity position reduced from €27.5 million in 2016 to €18.8 million in 2017, mainly due to the net loss for the year balanced by the redemption effects of conversion of the ordinary bonds and warrants and the recognition of the deferred tax asset, as well as the costs of the refinancing.

Outlook 2018

PERFORMANCE OF PHARMING SHARES

During 2017, the Pharming stock price fluctuated around an average price of €0.67 per share. The year-end price was €1.13 (2016: €0.22), with a high of €1.34 in November 2017 and a low of €0.22 in January 2017.

The closing number of shares as at the reporting date was 579,014,891 (2016: 455,587,312). New issues of stock representing a total of 123,427,579 shares were made to investors during the year related to the conversion of some of the amortizing bonds due 2017/18, all of the ordinary bonds due 2021 and exercise of warrants, reducing the amount outstanding of those bonds from €38.9 million to €1.2 million. Since the reporting date, these remaining bonds have also been redeemed, as have most of the remaining warrants. As at the date of this report, the number of shares in issue is 600,449,076. More information on the current share capital of the company can be found in Note 32 to the Financial Statements.

ANTI-TAKEOVER MEASURES

The Board of Management believes that Pharming shareholders are the best persons to judge whether a takeover bid for the company is fair at the time of offer, after receiving an informed opinion from the Board of Management regarding the advantages and disadvantages of such bid. At present, therefore, there are no anti-takeover measures in place which would restrict the shareholders from accepting or rejecting a genuine bid for their shares.

For the remainder of 2018, the Company expects:

- Continued growth in revenues from sales of RUCONEST®, mainly driven by the USA and Western Europe operations.
- Achievement of positive quarterly net earnings during the year.
- Continued investment in the expansion of production of RUCONEST® in order to ensure continuity of supply to the growing markets in the US, Europe and the Rest of the World.
- Investment in further clinical trial programs for RUCONEST® in acute treatment and prophylaxis of HAE and the development of a small intravenous version and new intramuscular and subcutaneous versions of RUCONEST® as well as research into other routes of administration.
- Investment in clinical trials to explore additional indications for RUCONEST®
- Investment in development of the new pipeline programs in Pompe disease and Fabry's disease, and other new development opportunities and assets as these occur.
- Increasing marketing activity where this can be profitable for Pharming.
- We will continue to support all our teams and 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 a fast effective, reliable and safe therapy option to treat acute angioedema attacks in patients with HAE.

No further financial guidance for 2018 is provided.

Going concern

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.

Throughout 2018, starting with the quarterly report for the first quarter to be published on 17 May 2018, Pharming will report all financial figures in both euros and US dollars. This decision reflects the growing importance of US dollars as a functional currency within the group, and the appetite for Pharming information from a much wider audience as the Company continues to grow. A decision as to the presentation currency for 2019 will be taken later in the year once we can see how the business is developing.

Pharming's 2017 financial statements have been drawn up on the basis of a going concern assumption.

The 2017 year-end cash balance of €60 million is expected to fund the Company for more than eighteen months 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 USA, Austria, France, Germany, Luxembourg, the Netherlands and the United Kingdom currently generate more cash than the Company requires for day to day expenses or to supply those sales, and thus the surplus cash generated will support our financial reserves further.

Pharming has a history of operating losses. The Board of Management, however, anticipates that it will shortly reach the point where such quantities of RUCONEST® are being sold (directly or by our partners) that the proceeds to Pharming from such sales are more than sufficient to meet our operating costs, finance costs and all other cash requirements, including capital expenditure. This is expected to occur within 2018.

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. The Company sees no need to raise capital to support its current operations, but may take an opportunity to do so in either equity issue or debt to support future expansion or costs if appropriate terms can be obtained that are in the best interests of shareholders.

STATEMENT OF THE BOARD OF MANAGEMENT

The original copy has been signed by the Board of Management

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

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

The Board of Management declares that to the best of its knowledge and in accordance with applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit 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, 28 March 2018,
The Board of Management

TESTIMONIAL

MIRANDA

I am proud to have made a contribution in the development of a safe and effective solution for HAE.

"Having worked for Pharming for over ten years, I've seen the company grow from 30 people to as many as 150 people. Currently I work as a Project Coordinator in the Clinical Development department, a small but great team. Our team works in different parts of the world, with people in the US, Italy and in our Leiden office, but despite the distance we still work closely together.

Since starting in the Clinical Department I have worked on several studies with HAE patients from countries all over the world and have seen firsthand the progress that has been made and continues to be made within Pharming. In 2010 we received approval for Marketing Authorization in Europe, and in 2014 when we received FDA approval in the US. In 2016 we took back distribution rights for some European territories and then later in December 2016 we bought back Commercialisation Rights in the US for Ruconest. I feel privileged to have been able to witness these fantastic milestones at Pharming. The past few years we have grown from a relatively small biotech company to a fast growing fully integrated pharmaceutical company that is actively working towards the future.

The work that we do here in the Clinical Department at Pharming is incredibly important as it results in Ruconest being available to treat a disease that is seriously incapacitating people. Having heard and seen the testimonies from people that are using our medicine and talking to the physicians prescribing. I am proud to have made a contribution in the development of a safe and effective solution for HAE.

We are currently preparing new studies, investigating new indications along with other developments that will improve the quality of life of our patients. I am looking forward to all the exciting new possibilities and the progress that we are going to make here at Pharming."

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). In addition, an Executive Committee sits immediately below the Board of Management and is responsible to the Board of Management for day to day operations in certain key functions.

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.

Executive Committee

The Company also has a senior management group which supports the Board of Management in its work, which it calls its Executive Committee. This is not an executive committee in the sense implicit in the Dutch Corporate Governance Code and is included here for reference only. The Board of Management retains all executive decision-making authority for the Company under the supervision of the Board of Supervisory Directors.

BOARD OF MANAGEMENT

DURING 2017, THE BOARD OF MANAGEMENT WAS COMPOSED OF THE FOLLOWING MEMBERS:

NAME	POSITION	MEMBER SINCE	TERM
Mr. Sijmen de Vries	Chief Executive Officer	13 October 2008	Up to AGM in 2021
Mr. Bruno Giannetti	Chief Operations Officer	1 December 2006	Up to AGM in 2019
Mr. Robin Wright	Chief Financial Officer	28 October 2015	Up to AGM in 2020

EXECUTIVE COMMITTEE

DURING 2017, THE EXECUTIVE COMMITTEE WAS COMPOSED OF THE BOARD OF MANAGEMENT PLUS THE FOLLOWING MEMBERS:

NAME	POSITION	MEMBER SINCE
Mrs. Anne-Marie de Groot	Senior Vice President Organisational Development	1 January 2014
Mr. Paul Janssen	Head of Non-US Commercial Operations	1 January 2017
Mrs. Erica Kerkvliet	Head of Research & Development	1 January 2017
Mrs. Esther van Stralen	Head of Technical Operations	1 January 2017
Mr. Stephen Toor	General Manager Pharming USA	1 January 2017

BOARD OF SUPERVISORY DIRECTORS

DURING 2017, THE BOARD OF SUPERVISORY DIRECTORS WAS COMPOSED OF THE FOLLOWING MEMBERS:

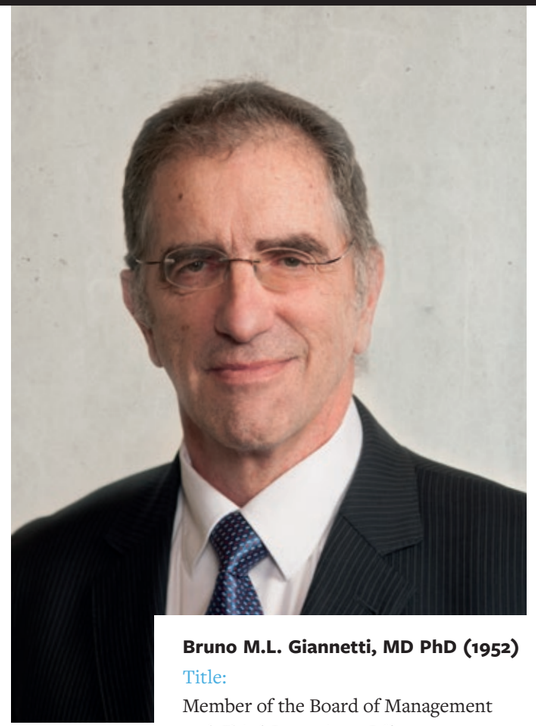
NAME	POSITION	MEMBER SINCE	TERM
Mr. Paul Sekhri	Chairman	30 April 2015	Up to AGM in 2019
Mr. Juergen Ernst	Vice Chairman	15 April 2009	Up to AGM in 2021
Mr. Jaap Blaak	Member	23 May 2007	Up to AGM in 2019
Mr. Barrie Ward	Member	23 May 2007	Up to AGM in 2019
Mr. Aad de Winter	Member	15 April 2009	Up to AGM in 2021
Mr. Jan Egberts	Member	30 April 2015	Up to AGM in 2019

BOARD OF MANAGEMENT

Sijmen de Vries, MD MBA (1959)

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

During 2017, Mr. De Vries was responsible for the overall management of the Company, including specifically commercial activities and animal welfare. Mr. De Vries has extensive senior level experience in both the pharmaceutical and biotechnology industry. He joined Pharming from Switzerland-based 4-Antibody where he was CEO.
Mr. De Vries has also been CEO of Morphochem AG and prior to this he worked at Novartis Pharma and Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc where he held senior business and commercial positions. Mr. De Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).



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

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

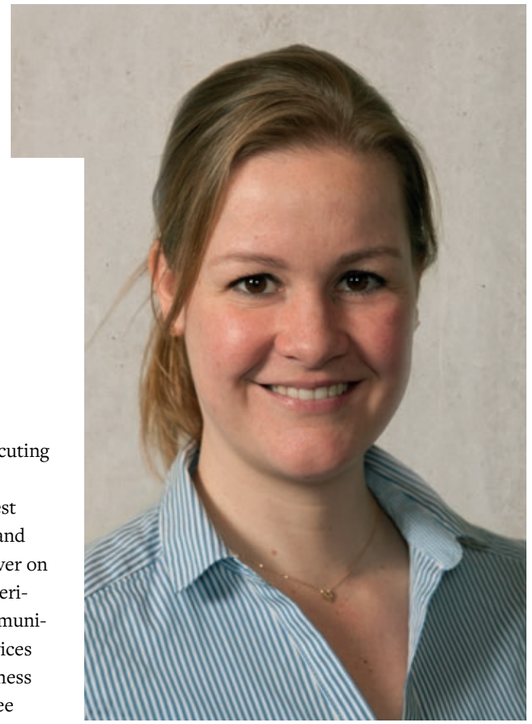
During 2017, Mr. Giannetti was responsible for the Company's operations including research and development and manufacturing activities as well as medical governance and non-clinical and clinical development, regulatory affairs, drug safety, and medical information teams. He has more than 25 years of 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 (1964)

Title:
Member of the Board of Management
and Chief Financial Officer
Nationality:
British
Date of initial appointment:
28 October 2015
Other current board positions
Mr. Wright holds 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.

EXECUTIVE COMMITTEE



Anne-Marie de Groot (1981)
Title:
Member of the Executive Committee and
Senior Vice President Organisational Development
Nationality:
Dutch
Date of initial appointment:
1 January 2014

Mrs. De Groot is responsible for developing and executing internal strategic development within the Company to drive performance and identify and implement best business practices, including continuous education and alignment of the organization to be prepared to deliver on new challenges. She has extensive and hands-on experience leading the 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.

Erica Kerkvliet (1968)
Title:
Member of the Executive Committee and
Senior Director of Research & Development.
Nationality:
Dutch
Date of initial appointment:
1 January 2017

Mrs. Kerkvliet is responsible for Pharming's Research and Development (R & D). She leads the research team, the development teams (process development, analytical development and non-clinical development) and the R&D production team. In this role she is responsible for developing new products by R&D. Furthermore, R&D plays a key role in bringing new products to Technical Operations and supports improvements in the production of the current product RUCONEST®.

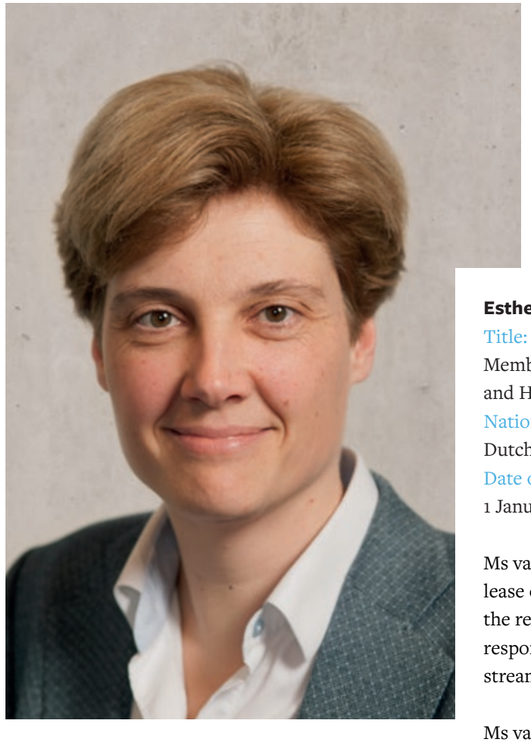
Mrs. Kerkvliet has been working at R&D departments of various pharmaceutical and biotechnological companies for more than 18 years and has more than 10 years of experience in leading various development departments. As a result, she has extensive experience in developing therapeutic proteins and vaccines for treating various diseases. She studied Biology at the University of Leiden and holds an PhD in Cell biology from the University of Amsterdam.

Stephen Toor (1971)
Title:
Member of the Executive Committee and
Senior Vice President and General Manager US
Nationality:
American
Date of initial appointment:
1 January 2017

Mr. Toor is responsible for Pharming's US subsidiary, Pharming Healthcare Inc (PHI). In this role he oversees all aspects of PHI's US operations including the commercialization of RUCONEST® for patients with hereditary angioedema.

Mr. Toor has over 23 years' experience leading commercial operations, brand launches and portfolios (rare disease, biologics and small molecule) in Europe, globally and in the US. His former companies include Pharmacia/Pfizer, Schering-Plough/Merck and Bausch and Lomb. He holds a BA (Hons) in European and American History from the Manchester Metropolitan University.

EXECUTIVE COMMITTEE

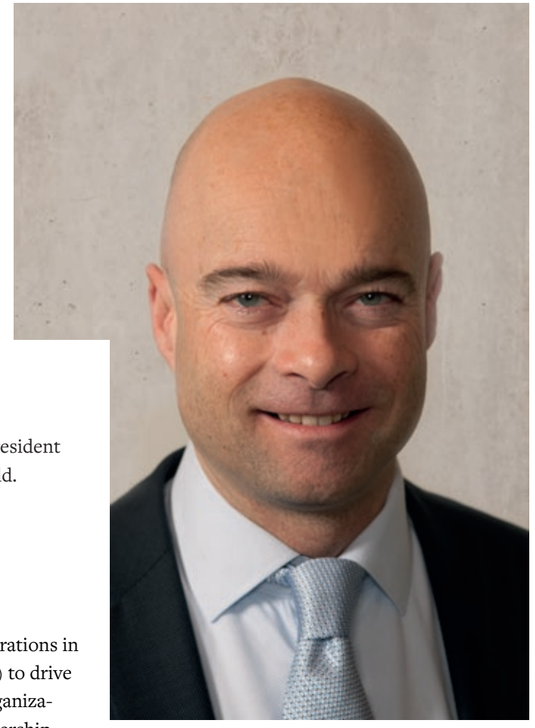


Esther van Stralen (1974)

Title:
Member of the Executive Committee and Head of Technical Operations.
Nationality:
Dutch
Date of initial appointment:
1 January 2017

Ms van Stralen is responsible for the manufacture and release of all Phase 3 and commercial products according to the required quality systems. In this role, Ms van Stralen is responsible for leading the manufacturing facilities, downstream processing and quality control departments.

Ms van Stralen, has over 19 years' experience including more than 7 years in biopharmaceuticals. Her experience encompasses the management of products, from early development up to and including commercialization and project management. Her leadership skills include communication, change management, and collaboration with cross-functional groups and external vendors. She holds a PhD in Immunology from the University of Utrecht and a Bachelor degree in Biotechnology from the Hogeschool in Amsterdam.



Paul Th. Janssen (1969)

Title:
Member of the Executive Committee and Vice President Commercial Operations Europe and Rest of World.
Nationality:
Dutch
Date of initial appointment:
1 September 2014

Mr. Janssen is responsible for all commercial operations in Europe and Rest of World (exc. USA and Canada) to drive performance of all direct Marketing and Sales organizations and support the growing professional partnership networks in the world. He also holds the primary contacts with the HAE patient associations in the world connected under the HAEi umbrella.

Paul has extensive and successful experience in multiple leadership roles (Business Unit Manager, Business Unit Director, Managing Director within National and European Boards) within Big Pharma (Merck Sharp & Dohme and Bristol-Myers Squibb), Medical Devices (Menarini Diagnostics and Atrium Medical), Biopharmaceuticals (Baxter Biosciences) and Biotechnology companies (ViroPharma and Shire) in the rare disease field.

Mr. Janssen has over 22 years of experience in the global pharmaceutical industry. He holds a Master's Degree in Economics and Business Administration of Maastricht University and an MBA/MSc Degree of the Dual Degree Program of Mannheim Business School and School of Economics and Management of Tongji University (Shanghai). Mr. Janssen is currently working towards a PhD (Economics) within the Institute of Family Business at the private business school WHU Otto Beisheim School of Management, Vallendar.

BOARD OF SUPERVISORY DIRECTORS

Paul Sekhri (1958)
Title:
Chairman
Nationality:
American
Date of initial appointment:
30 April 2015
Other current board positions
Mr. Sekhri is a board member of Lycera Corp.

Mr. Sekhri has 30 years of operational experience in life sciences with in-depth knowledge of multinational pharmaceutical and biotechnology markets and products. Mr. Sekhri is 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 Alpine Immune Sciences, Compugen Ltd., Petra Pharma Corporation, Topas Therapeutics GmbH and Veeva Systems, Inc.; as well as several non-profit boards including Caramoor Music and Arts Center, Young Concert Artists, Inc., the TB Alliance, the English Concert in America, the Patrons Council of Carnegie Hall, the orchestra of St Luke's, The Knights, and the Metropolitan Opera.

Jaap Blaak, MSc (1941)
Title:
Member and member of the Remuneration Committee
Nationality:
Dutch
Date of initial appointment:
23 May 2007
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 (1939)
Title:
Vice Chairman, member of the Audit, Corporate Governance and Remuneration Committees
Nationality:
German
Date of initial appointment:
15 April 2009
Other current board positions
Mr. Ernst is board member of the supervisory board of Aeterna Zentaris Inc.

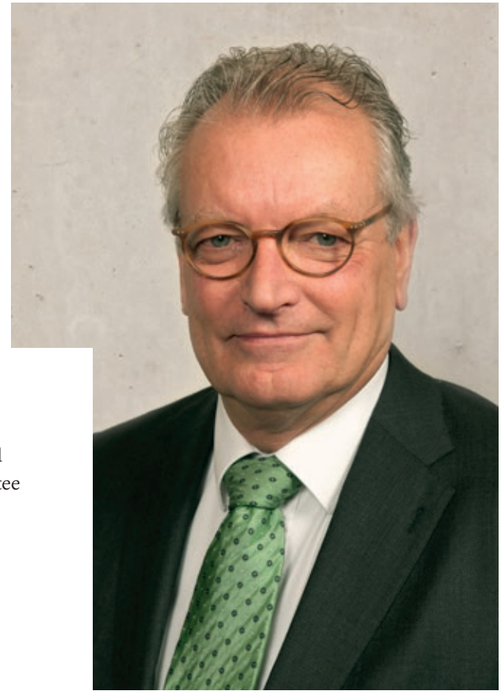
Mr. Ernst has extensive senior level experience in the field of pharmaceutical development and marketing. From 1969 until 1989 he held several positions at Kali-Chemie AG (subsidiary of Solvay SA), including Head of Pharmaceutical Marketing and Head of Pharmaceutical Division. In 1989, Mr. Ernst continued 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 (1938)
Title:
Member and Chairman of the Corporate Governance and Remuneration Committees
Nationality:
British
Date of initial appointment:
23 May 2007
Other current board positions
Mr. Ward is a board member of ADC Therapeutics SARL.

Mr. Ward has a broad international network and experience in managing and financing biopharmaceutical companies. He has held senior management positions in the UK, US and Singapore at several pharmaceutical and biotechnology companies, including Glaxo Group Research Ltd, Virus Research Institute Inc., Avant Immunotherapeutics Inc. and KuDOS Pharmaceuticals Ltd. and board positions at Cancer Research Technology Ltd., Spirogen SARL, CellCenteric Ltd. and BergenBio AS. His most recent senior management position was CEO of KuDOS Pharmaceuticals Ltd, which was sold to Astra-Zeneca in 2006. Mr. Ward holds a PhD in microbiology from the University of Bath, UK.

Jan Egberts, MD, MBA (1958)
Title:
Member and member of the Audit Committee
Nationality:
Dutch
Date of initial appointment:
30 April 2015
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 & Co. Mr. Egberts continues to serve on the supervisory board of CHDR (Center for Human Drug Research) and Implanet SA.



Aad de Winter, LLM (1953)
Title:
Member, Chairman of the Audit Committee and member of the Corporate Governance Committee
Nationality:
Dutch
Date of initial appointment:
15 April 2009
Other current board positions
Mr. De Winter holds no other board positions.

Mr. De Winter has extensive financial experience. He started his career at AMRO Bank in 1980. He worked in the areas of capital markets, investment banking and institutional investor relationship management. In 1990, Mr. De Winter became senior Advisor Corporate and Institutional Finance at NIBC (formerly 'De Nationale Investerings Bank').
As of 1998, Mr. De Winter was at NYSE Euronext (now Euronext), Amsterdam responsible for advising and admitting companies to the stock exchange in Amsterdam as Director Listing & Issuer Relations. As of January 2009, until July 2015, Mr. De Winter was an Associate Partner at First Dutch Capital, Amsterdam and from 2008 to end of 2013, he was a member of the China and India working group at the Holland Financial Centre which was, inter alia, focused on attracting Chinese and Indian companies to a (cross) listing on 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.

Board of Supervisory Directors: Committees

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

THE AUDIT COMMITTEE

The Audit Committee consists of Mr. De Winter (Chairman), Mr. Ernst, and 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

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

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

TESTIMONIAL PIETER

Quality, Quality, Quality...

I've been working for Pharming for a little over a year now in the QA (Quality Assurance) department. My main responsibilities include preparing product batches for release and reviewing internal processes and procedures. Together with the national Quality Assurance team we carefully analyse all changes or anomalies at our (QRB) Quality Review Board meetings to ensure that at every stage of the production process is of high quality and that the materials we use, the documentation we follow and everything in between is handled with care.

Having worked in the pharmaceuticalindustry for over 30 years, my main interests have always been the GMP (Good Manufacturing Practice) environment, the rules and regulations that define and control all pharmaceutical manufacturing. Working within GMP guidelines allows me to make a contribution to the production of medicines. At Pharming we work as a team to not only follow the GMP regulations but to go above and beyond and to innovate our quality protocols making sure we provide the safest and most efficacious product possible.

Working at Pharming has inspired me. I do what I do because Pharming produces a unique product. Pharming is the only Dutch Bio-Pharma company that has successfully seen its own product through development, manufacturing and is now actively distributing its own medicine.

We have to be sure that the product we release is, in every stage of the process, of the highest quality. I think it's important that the patient feels assured that our product is carefully controlled at each stage of the production process.

We are building a platform for the future, we do everything we can to make sure that we are providing the best quality.

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 purposeis 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, based on the Five Components Cube of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), 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 occurs (see Risk factors), 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 'Notes to the consolidated financial statements' under Note 31: '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. 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 conducts a risk assessment to identify the level of risk the Company deems acceptable to achieve its objectives. The risk assessment 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, so the objective is to avoid risks which could negatively impact on this long-term value.
- Legal, regulatory and compliance risks: 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 we do not accept deviations.

The risk assessment is based on our strategic goals, our business principles, policies and procedures and is arrived at after taking into |consideration the highly-regulated markets in which we operate.

1 Strategic Risks

The two main strategic risks identified by the Company are Commercial Risk and Macroeconomic Risk

COMMERCIAL RISK

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

Pharming's strategy for the commercialization 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 commercialization and further development of RUCONEST® for HAE. The other products of Pharming are about to enter the clinical stage. There are currently no partnerships on the development or commercialization of any of Pharming's products, other than for RUCONEST® and Factor VIII. If Pharming is not able to commercialize a new product itself, it may have difficulties locating and entering into favourable agreements with suitable third party to bring 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 the complexity and uncertainty of these arrangements (amongst other factors).

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 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 USA one human blood plasma-derived C1-inhibitor product and two products with alternative mechanisms of action have been approved for certain types of acute HAE attacks as well as two blood plasma-derived C1-inhibitor products 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 or remain 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 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 sometimes from a 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.

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

For some of the essential materials incorporated into products and product candidates, Pharming relies on a single supplier. Any disruption in the supply of these materials could adversely affect its ability to deliver product or complete the clinical trials and other studies of its product candidates successfully, delay submissions of the regulatory applications or affect adversely its ability to commercialize 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, organizations 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 commercialize 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.

Pharming accepts this risk because the unmet medical need for such products is very high, the products can and do save human lives, and because such products very often provide much less toxic or damaging ways of treating human patients with life-threatening conditions.

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 organizations. 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 reimbursement, 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 USA, 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 commercialize 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 or downstream) manufacturing capabilities and may have to develop or contract additional (downstream) purification 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 mitigating actions: Establishment of partnerships and reacquisition of market licenses

In order to mitigate some of these risks, 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 re-acquired from Valeant in 2016. As result of this transaction, Pharming has engaged in direct US commercialisation.

The Eastern European market has been partnered with SOBI. SOBI has a specialised sales team that works well in certain Eastern European countries 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, and sales in the largest of those markets, the UK and France, have now begun and are growing strongly.

The issue of reimbursement affects both the European market and the USA. SOBI originally addressed 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, needs to be covered under the various reimbursement programmes that are applicable for various groups of US citizens which are required by law for certain federal government funded special interest groups such as Medicare patients or armed forces veterans, and these discounts can take some time to be applied. Pharming reports net sales to the market. Net sales mean that an amount out of the funds received for sale of the product (Gross Sales) is deducted from the Gross Sales to allow payment (Allowances) for such discount claims and other discounts such as fast payment and listing discounts. Such allowances funds are however held by Pharming until claims for the relevant discounts have been received and become payable. In case of an unexpected increase in eligible patients, it is sometimes necessary to make additional provisions over and above the original allowances for such discounts to be claimed, and the result is normally 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.

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 gradually in- source manufacturing activities and/ or engage other partners to create alternatives and/or additional capacity to existing suppliers in an effective and cost-efficient way.

MACROECONOMIC RISKS

The macroeconomic environment is volatile

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

The cycle of biotechnology investment

Biotech investment tends to occur in cycles. The market is fairly volatile, with the sector often being seen as reliable for star performances in a downturn.

Pharming needs to be aware of the money flows into biotech funds and the geographical differences between the Netherlands/Benelux/Europe and the US, so that advantage can be taken if a need should arise. Pharming needs to be aware of the risk assessment of investors at any point in the investment cycle. The biotech industry historically has been resilient through the economic cycle, but economic downturns tend to impact all industries including biotech.

Pharming needs to recognize any improvements/deteriorations of the biotech investment climate and needs to ensure that if funding is required from external sources, it raises funds when these are available at acceptable terms. Pharming maintains relationships/contact with a spread of international banks and investors (both equity and debt).

The large financing completed to achieve the reacquisition of commercial rights to RUCONEST® in the USA and its subsequent refinancing has left Pharming with a very solid, dependable balance sheet and no immediate need of funding. For reliability's sake, however, Pharming continues to monitor the biotech investment sentiment by following (financial and operational) sector news, keep in close contact with banks both in the USA and Europe and discuss funding and shareholder opportunities with them. The Company will continue to visit selected investor conferences and organize non-deal road shows in order to inform (potential) investors.

Cost of funding varies with the macro environment

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

The Company cannot influence the global changes that are taking place; however, it can strive to beat the trends by a number of things:

- Changing the investor base towards more institutional shareholders, and informing our existing shareholders base to create a better understanding of the fundamentals of biotech development and pharmaceutical sales markets;
- Ensuring that it has, or has access to, sufficient capital to carry out its plans;
- Delivering on its promises consistently.

High profile failures of biotech companies alter the investment environment

Next to economic behaviour investors in biotechnology are also driven by sentiment and news flow. Performance of other biotech companies can 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 andinvestors. 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 and by attending selected investor conferences both in Europe and the USA and meeting interested investors.

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

2 Operational Risks

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

RESEARCH & DEVELOPMENT RISK

The Company's development pipeline is dependent on the RUCONEST® franchise.

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

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

- Development of recombinant human alpha-glucosidase (rhaGLU) for the treatment of Pompe disease;
- Development of recombinant human alpha-galactosidase (rhaGAL) for the treatment of Fabry's disease;
- Collaboration with Chinese company CSIPI to produce rhFVIII; and
- Platform improvement by Pharming R&D at Evry in France to develop new platforms with increased protein expression and/or improved glycosylation profiles.

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

New ad hoc activities are sometimes introduced and ongoing activities are continued as much as possible while the data is promising.

Progress of the projects is discussed each quarter with the Board of Supervisory Directors.

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 advantages of a potential new product as compared to existing alternatives on the market should be efficacy and safety derived from the advantages provided by the Company's proprietary platform including a significant commercial upside due to lower cost of goods.

Since 2015, significant effort has been applied to identifying suitable pipeline candidates, resources and infrastructure needed to mitigate the risk associated with focusing on a single product. At present, our R&D department is further structuring different subdivisions to accommodate the work needed for our new potential product development. However, our pipeline products are still in an early phase (pre-clinical) and the chance is high that the products fail during development.

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

Pharming is looking to reduce the development timelines further by searching for new projects in areas where core competence and know-how are already available in the Company.

A professional project structure will be further developed so that projects are properly monitored and needs are met.

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

Outsourced activities performed for process development do not give the quality we are used to obtaining when processes are developed in house. In addition, outsourcing of these activities is relatively costly and often inefficient. The risk involves a delay in process development because the contract research organisation (CRO) or contract manufacturing organisation (CMO) involved cannot deliver in time.

- The Pharming process development team closely monitors the progress and sometimes repeats process steps; Analytical Development colleagues are also closely involved and repeat tests regularly.
- In order to maintain control and management of the outsourced processes, we hold periodic meetings with the CROs/CMOs involved.

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/or where commercialisation of such new products is synergetic with the existing channels through which the Company's product is sold.

REGULATORY RISK

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 in its own facilities. Pharming must therefore rely on third parties, such as contract research organizations, 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 commercialize, 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® (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.

Risk-mitigation actions

The Company is has strengthened its in-house team in regulatory affairs for both the USA and EU, and continues to do so. At the same time, the Company has also strengthened and continues to strengthen its pharma covigilance team, to ensure downstream compliance and fast response to issues arising for patients.

CLINICAL RISK

Clinical trials in new indication(s) fail

Pharming is currently developing new galenic formulations of RUCONEST® in several indications, on its own or co-development with its partners. Furthermore, a number of additional indications is pursued as Investigator Initiated Trials.

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

With regards to the new indications for RUCONEST®, in most of the cases the biochemical rationale for a postulated efficacy of RUCONEST® in such indications is not as evident as in acute HAE (where the drug provides an active protein enzyme which is known to be missing or defective in the patient) and therefore the success of the treatment of more uncertain. At the same time, the evidence for the importance of the biochemical processes on which RUCONEST® acts in those new indications is robust, and so there is good reason to proceed.

Project Plans are evaluated by the Executive Committee (EC). Planning and Implementation of any clinical study is subject to Board of Management (BOM) approval. Development programs at Pharming may be partnered and sometimes co-funded, and therefore also may be subject to the review processes of the partner or funding entity.

Cost of trials overrun

Clinical trials are expensive and costly protocol amendments are regularly required. The costs of clinical trials have increased significantly in recent years mainly due to increased regulatory requirements.
Additional reasons for cost overruns include: a prolongation of the recruitment period for test patients, addition of centers to gather patients and test results, and a decision at some point to have an interim analysis for efficacy.

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

- **Clinical studies are managed by the Project Team.**
- **Deviations from the budget are flagged to the Executive Committee and proposals for protocol changes with significant budget impact require Board of Management approval.**
- **Development of formal processes for Project Management;**
- **Development of formal processes for Budgeting and Forecasting;**
- **Negotiate contract research organization contracts with clear conditions and very limited capacity for budget expansions.**

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

Pharming strives to be an employer of excellence. The Company is dedicated to providing our employees with the opportunity to enjoy their work, to learn and to grow 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 and employee development, succession planning, company culture and branding are focal points in the organizational development activities.

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

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

3 Financial Risks

Pharming generates insufficient cash from commercial activities to meet all its potential 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 potential 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 2019, however.

Product sales are currently exclusively related to RUCONEST® and are realised directly by the Company and through Pharming's commercialization 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 commercialization rights to RUCONEST® in North America (USA, 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 commercialize 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 commercialization 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.

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 commercialization of RUCONEST® in the USA and in other countries outside the EU and the USA, Pharming will also receive payments or generate costs in US dollars or possibly in other currencies.

At present, the total of Pharming's net sales in the USA of US$98.1 million approximately balances the Company's outstanding loan of US$100 million, thereby providing a natural hedge to movements in the euro: US dollar exchange rate. Any change in the exchange rate means an increase in the euro value of sales and hence an increase in the loan balance in euros, or a decrease in the euro value of sales balanced by a reduction in the loan balance in euros. As sales grow, of course, it will be necessary to make more conservative assumptions and to begin proper external hedging policies by buying dollars and/or euros at forward rates in an integrated treasury policy.

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 payments and sales of RUCONEST® in the USA are being made and will be received in US dollars. Repayments and interest payments of the loan will be made in US$. Some direct payments of US activities are carried in US$ through the Dutch entities. At 31 December 2017, the Company's cash and cash equivalents, including restricted cash, amounted to €60.0million. This balance consisted of cash assets denominated in euros for a total amount of €4.1 million and cash assets denominated in US dollars for a total amount of US$66.9 million or €55.9 million (applying an exchange rate of €1=$1.1977 at 31 December 2017). The US$ cash balances are currently mainly used for the repayment of the loans and US costs in US dollars, and are otherwise converted to euros for payment of non-US obligations.
The Company performed a sensitivity analysis by applying an adjustment to the spot rate at year-end. A 10 percent strengthening of the euro versus the US dollar has a hypothetical result of respectively a loss or gain of approximately €2.2 million on sales and a similar amount in reduction of the holding value of debt. 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.

In addition, the Company will report all financial statements and notes in both euros and US dollars, starting with the first quarter of 2018, and will make a decision as to whether to change the functional and reporting currency to the US dollar for years after 2018 later in the 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 approximately €0.81 million at year-end 2017. 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 warrants, options 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 remaining warrants would result in a dilution of shareholders in their proportionate ownership and voting rights of 3.0%. All of the convertible bonds (both ordinary and amortizing convertible bonds) have been redeemed, and so will have no effect on the shareholding from the date of this report. Full conversion of all outstanding employee and management options would result in a dilution to shareholders in their proportionate ownership and voting rights of 10.0%.

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. 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 Oppenheimer, Stifel, HC Wainwright, Roth and First Berlin Equity Research GmbH. Other institutions have made enquiries about beginning such research activities.

If one or more of the analysts who cover Pharming or Pharming's industry downgrade the shares in a research report, the market price of the shares would probably decline. 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, or at Silicon Valley Bank, a very highly accredited US bank with a high credit rating, which has been a lender to the Company before now. The Dutch government has an excellent credit rating. The cash is denominated in euros and US dollars and is kept in flexible deposits.

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

The Board of Supervisory Directors, in general, supervises the Board of Management in its duty to manage the Company. It performs its duties and activities in accordance with the Articles of Association of the Company, its regulations, which are posted on the Company's website, the applicable law and the Dutch Corporate Governance Code applicable as of 8 December 2016 (the "Code"), as adopted into law in the Netherlands on 7 September 2017.

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

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

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

Composition and remuneration

In 2017, the composition of the Board of Supervisory Directors was as follows: Mr. Sekhri (Chair), Mr. Ernst (Vice- Chair), Mr. Blaak, Mr. Ward, 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 2017, the annual compensation was as follows:

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

As result of a 60% pay-out of the Long Term Incentive Plan (LTIP) 2015, in February 2018, Mr Sekhri, Mr. Blaak, Mr. Ernst, Mr. Ward, Mr Egberts and Mr. de Winter received shares in the Company (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 opinion of the Board of Supervisory Directors, the independence requirements referred to in best practice provisions 2.1.7 to 2.1.9 inclusive have been fulfilled and all members regard themselves and their colleagues on the Board of Supervisory Directors as independent. Pharming does not require its Board of Supervisory Directors members to disclose any holdings in other listed and/or unlisted companies.

Activities

The Board of Supervisory Directors met 8 times in 2017. The individual presence of the Supervisory Directors is reflected in the following schedule:

Date	22 February	7/8 March	23 March	16 May	24 May
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	p
Mr. Sekhri	P*	P	p*	p*	P

Date	25/26 July	25/26 October	14 December
EXTRA PARTICIPANTS	CEO/COO/CFO/ STAFF, MR M. RIZZO, MR P LALLY (ORBIMED)	CEO/COO/CFO/STAFF MR P LALLY (ORBIMED)	CEO/COO/CFO/ Staff
Mr. Blaak	P	P	p
Mr. Ernst	P	P	p
Mr. Ward	-	p	p
Mr. De Winter	P	P	p
Mr. Egberts	P	P	p
Mr. Sekhri	P	P	p

* Joined by teleconference call

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

As part of good governance, the Board of Supervisory Directors conducts a self-evaluation annually. These evaluations generally cover two parts; one part is the work of the Board of Supervisory Directors in relation to key objectives of the Company and the second part is the structure of the Board of Supervisory Directors to ensure that the members bring the correct skills and background knowledge for the benefit of the Company. The annual self-evaluation took place after the BOSD meeting of 14 December 2017 in the light of the changing emphasis of the activities of the company and the composition of the board as from 2019. The conclusions reached were that the balance of skills and experience in the Board of Supervisory Directors and in the Board of Management were appropriate and suitable to the needs of the Company at this time and the levels of information sharing and supervision were effective. In 2018, we are also considering ways to increase the number of women contributing to the management of Pharming.

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 2017 and the operational and financial risks to which the Company is exposed.

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

- The Company's progress on the achievement of objectives. There is no certainty that these objectives will actually be achieved;
- The Company is largely dependent on the success of one key product; RUCONEST® in one market, the US. In other markets, the execution of its commercialisation strategies and outcome of any registration process is uncertain and may be influenced by unpredictable events;
- The Company is active on a niche market for an orphan drug product with at least 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 more often if 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 organization.

Audit committee

The Audit Committee in 2017 consisted of Mr. De Winter (Chairman), Mr. Ernst, and Mr. Egberts.

During the four Audit Committee meetings held in 2017, the financial statements were discussed with a special emphasis on complex financing transactions, such as the refinancing of the Company's debt instruments (originally taken out during the Valeant transaction December 2016) in May and July 2017, as well as the impact of IFRS-related issues. In addition, the external Auditor's audit plan 2017, its management letter and board report were discussed. The main topics discussed related to revenue recognition, the valuation of inventories, and the impact of the non-cash IFRS-related issues as result of the complex financing transactions that took place in 2016 and 2017 in relation to the re- acquisition of the US rights for RUCONEST®. Lastly, but importantly, the committee is satisfied that the internal controls and external audit processes are effective in managing risks across the company, and has made recommendations for alterations related to the changing nature of the organisation to improve the control environment further.

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

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

- Due to the size of the Company, Pharming has not created a specific position for an internal auditor but it has provided for the assessment and testing of the risk management and control systems to be supported by the Chief Financial Officer and external auditors.
- As a result of the Company operating in the highly regulated field of development and world- wide commercialisation of human medicines, the Company has a fully staffed Quality Assurance department which is responsible for, inter alia, maintaining, auditing and testing an extensive system of Standard Operating Procedures throughout the Company and for the execution of Audits on all (major) suppliers, subcontractors, licensees and internal departments of the Company including the Finance department, although this is not exactly the same as an internal auditor function.
- The audit committee has reviewed the need for an internal auditor as at March 28, 2018. Based on this review, the Supervisory Board has recommended to the Management Board that due to the size of the company no internal auditor is needed at this point in time.
- The audit committee will reconsider this position annually and make recommendations to the Board of Supervisory Directors accordingly.
- The growth of the Company at present may cause a different determination at some point in the foreseeable future.

Date	8 March	22 March	16 May	26 July	25 October
EXTRA PARTICIPANTS	CEO/COO/CFO/ STAFF/PWC/ MR.BLAAK/ MR.WARD/ MR.SEKHRI	CEO/COO*/ CFO*/ STAFF/ PWC/MR.BLAAK/ MR.WARD*	CEO/COO/CFO/ STAFF/PWC/ MR.BLAAK/ MR.WARD/ MR.SEKHRI*	CEO/COO/CFO/ STAFF/ PWC*/ MR.BLAAK/ MR.SEKHRI/	CEO/COO/CFO/ STAFF/PWC*/ MR.BLAAK/ MR.SEKHRI/ MR. WARD
Mr. Ernst	P	P*	P	P	P
Mr. De Winter	P	P	P	P	P
Mr. Egberts	p	P*	p	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 2017. The Corporate Governance Committee did not meet outside the Board of Supervisory Directors meetings during 2017. The principal focus of meetings during 2017 was the introduction and ramifications of the new Dutch Corporate Governance Code, revised 8 December 2016 and passed into law on 7 September 2017.

Remuneration committee

A report of the Remuneration Committee can be found on pages 82-89

Financial Statements

The Financial statements of Pharming Group N.V. for 2017, 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 156-167

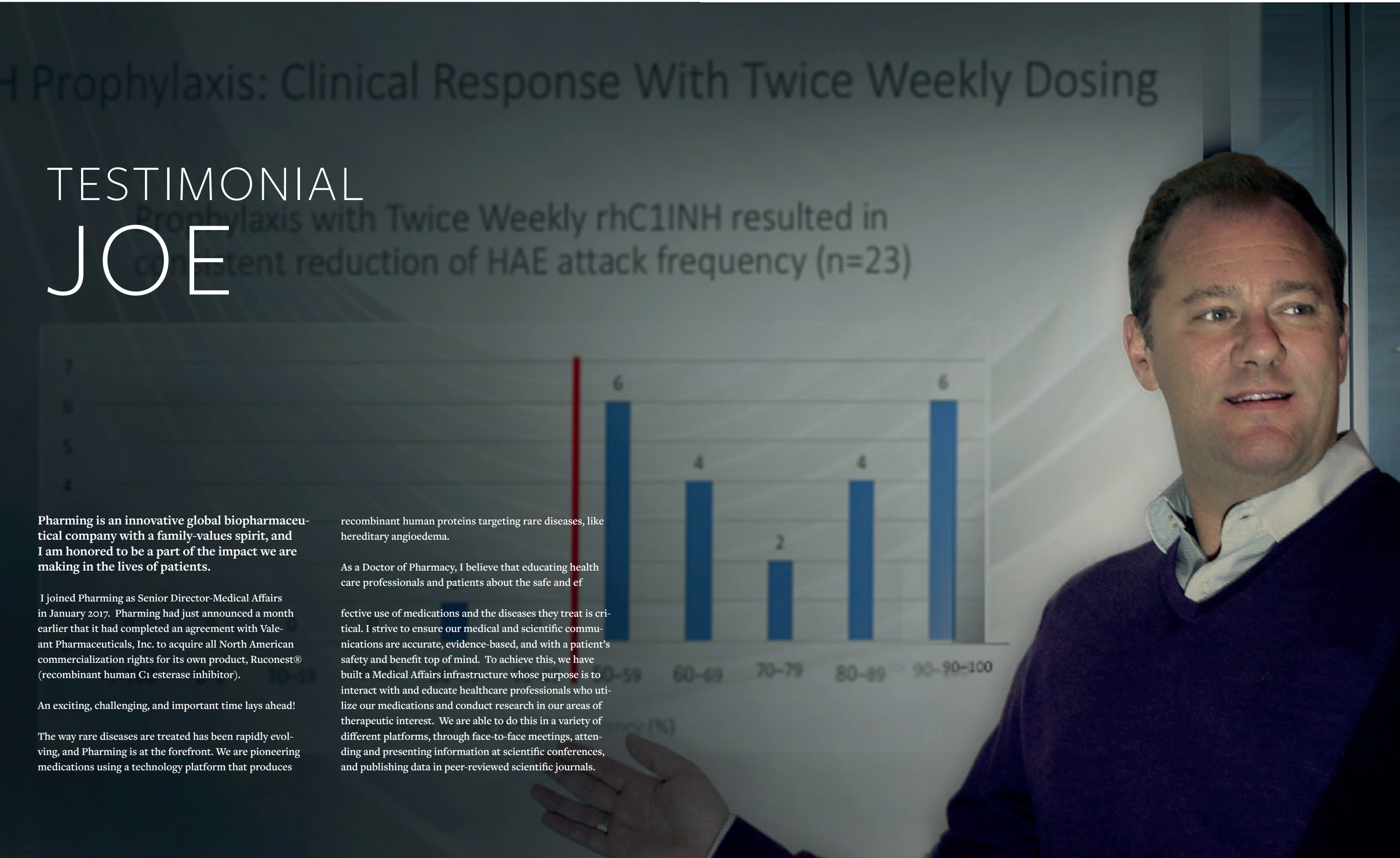
The Financial statements were unanimously approved by the Board of Supervisory Directors and the Board of Management has signed these Statements.

The Board of Supervisory Directors recommends the Annual General Meeting of shareholders to adopt the 2017 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.

Leiden, 28 March 2018
The Board of Supervisory Directors

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

TESTIMONIAL
JOE



Pharming is an innovative global biopharmaceutical company with a family-values spirit, and I am honored to be a part of the impact we are making in the lives of patients.

I joined Pharming as Senior Director-Medical Affairs in January 2017. Pharming had just announced a month earlier that it had completed an agreement with Valeant Pharmaceuticals, Inc. to acquire all North American commercialization rights for its own product, Ruconest® (recombinant human C1 esterase inhibitor).

An exciting, challenging, and important time lays ahead!

The way rare diseases are treated has been rapidly evolving, and Pharming is at the forefront. We are pioneering medications using a technology platform that produces recombinant human proteins targeting rare diseases, like hereditary angioedema.

As a Doctor of Pharmacy, I believe that educating health care professionals and patients about the safe and ef

fective use of medications and the diseases they treat is critical. I strive to ensure our medical and scientific communications are accurate, evidence-based, and with a patient's safety and benefit top of mind. To achieve this, we have built a Medical Affairs infrastructure whose purpose is to interact with and educate healthcare professionals who utilize our medications and conduct research in our areas of therapeutic interest. We are able to do this in a variety of different platforms, through face-to-face meetings, attending and presenting information at scientific conferences, and publishing data in peer-reviewed scientific journals.

REPORT OF THE REMUNERATION COMMITTEE

2017 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 2017 was a continuation of the 2016, 2015 and 2014 policy and was approved in the Annual General Meeting of June 2014. The main items of this policy are:

The main items of this policy are:

- The remuneration of each member of the Board of Management consists of a fixed salary, an annual bonus as a percentage of the fixed component, short- or long-term incentives by way of shares and/or options to shares in the Company and benefits in kind such as health insurance and participation in a pension plan, as further specified in note 24 to the Financial Statements. In general, employment contracts or management contracts, with members of the Board of Management, provide for annual bonuses based on personal and/or extraordinary performance and/or the achievement of predetermined objectives. These contracts have included provisions for an individual target bonus in cash or shares of up to 60% (for the CEO) and 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 88-89).

Meetings and composition

During the 2017 financial year the Remuneration Committee consisted of Mr. Ward (Chairman), Mr. Blaak and Mr. Ernst. The Remuneration Committee met twice in 2017. The individual presence of its Members is reflected in the following schedule:

Date	6 January	14 December
EXTRA PARTICIPANTS	CEO / MR. DE WINTER	CEO / MR.WINTER / MR. SEKHRI / MR. EGBERTS
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 2017

In 2014, following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to grant 19,200,000 share options to the Board of Management; (12,000,000 options to Mr. de Vries and 7,200,000 options to Mr. Giannetti). These options 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 fourth tranche of 3,840,000 (2,400,000 options for Mr. de Vries and 1,440,000 options for Mr. Giannetti) and also for the second tranche of 1,000,000 options for Mr. Wright, this resulted in a strike price of €0.335; being the VWAP measured over the 20 trading days prior to 24 May 2017. The share options will expire on 17 June 2019 for Mr. de Vries and Mr. Giannetti and on 25 May 2021 for Mr. Wright.

The Remuneration Committee carefully reviewed the performance of the Board of Management against both the corporate and personal objectives that had been set for 2017. In addition, the Remuneration Committee considered the pay ratios within the company and how these compare with the peer group companies.

For 2017, the pay ratio between the compensation of the CEO and the mean compensation of employees was 8.63 to 1.

The Remuneration Committee recommended and the Board of Supervisory Directors concurred that the Board of Management had met the corporate and personal objectives set for 2017 and contributed to positioning the Company for the future in particular by the following accomplishments.

- Achievement of the agreed Operating Profit and YE cash balance 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
- Achievement of agreed R&D targets on RUCONEST® and progress of the new product pipeline
- Expansion of manufacturing capacity to meet future demands
- Drive shareholders' long-term returns by limiting (future) dilution, improve shareholder base and increase investor awareness

During 2017, the execution of direct commercialisation in the USA, as initiated in December 2016 and extension of EU commercialisation led to immediate operational profitability. Commercialisation targets were very significantly exceeded and as result of this operating and cash profitability was achieved and well in excess of targets.

The successful commercialisation in turn allowed for the re-financing of the complex financing structure that was needed to re-acquire the US commercialisation rights, which very significantly reduced the potential for future shareholder dilution.

These achievements, in combination with also meeting the other corporate objectives, led the Remuneration Committee to conclude that the Corporate Objectives in toto were significantly exceeded. The Remuneration Committee therefore recommended a pay-out percentage of 150% for the 2017 bonus for all members of the Board of Management, which was confirmed by the , Board of Supervisory Directors.

Following the recommendations of the Remuneration Committee, the Board of Supervisory Directors decided to pay out 2/3 of the bonus in cash and 1/3 in shares.

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 and market developments and the timing of the previous review (01 Jan 2017), the Committee recommended and the Board of Supervisory Directors agreed, to increase the base salaries of all three members of the Board of Management by 3% from 01 January 2018.

Remuneration policy 2018 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 2018, 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 entering into profitability, the basis for the annual cash bonus for 2018 and going forward shall be, subject to the achievement of at least two consecutive quarters of net profitability during 2018, 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 2019. 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 2018.

The main corporate objectives for 2018 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:

	Number of options Grant 2014 for period 2014-2018	
Mr.Sijmen de Vries	12,000,000	
	Annual vesting tranches	Parameters
	2,4000,00	Vested (strike price €0,505)
	2,400,000	Vested (strike price €0,341)
	2,400,000	Vested (strike price €0,209)
	2,400,000	Vested (strike price €0,335)
	2,400,000	In service at 31 January 2019

	Number of options Grant 2014 for period 2014-2018	
Mr.Bruno Giannetti	7,200,000	
	Annual vesting tranches	Parameters
	1,4400,00	Vested (strike price €0,505)
	1,4400,00	Vested (strike price €0,341)
	1,4400,00	Vested (strike price €0,209)
	1,4400,00	Vested (strike price €0,335)
	1,4400,00	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.

	Number of options Grant for period 2016-2019	
Mr.Robin Wright	4,000,000	
	Annual vesting tranches	Parameters
	1,0000,00	Vested (strike price €0,209)
	1,000,000	Vested (strike price €0,335)
	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 6,500,000 options for the Staff option pool during 2018.

The strike price of the 2018 share option grants for the Board of Management (being the fifth tranche of 2,400,000 options for Mr. Sijmen de Vries and 1,440,000 options for Mr. Bruno Giannetti and the third tranche of 1,000,000 options for Mr. Robin Wright) and the additional Staff option pool options for 2018 shall be equal to the VWAP measured over the 20 trading days prior to the date of the Annual General Meeting of Shareholders (23 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 becoming irrevocable 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 Interactive 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 29 other European Small Cap (<€1 Billion) listed companies active in Life Sciences over the preceding 36 months. The reference group consists of the following companies:

COUNTRY	NUMBER	PEER COMPANIES
Belgium	3	Alblynx. Galapagos, Tigenix
Denmark	4	Bavarian Nordic, Neurosearch, Veloxis, Genmab
France	5	Cellectis, Diaxonhit, Hybrigenics, Innate,Pharma, Transgene
Germany	4	Evotec, Medigene, Morphotec, Heidelberg Pharma
Italy	1	Newron Pharmaceuticals
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex Therapeutics, Basilea Pharmaceutica, Kuros Biosciences, Santhera Pharma
United Kingdom	6	Allergy Therapeutics, GW Pharmaceuticals, Immupharma, Oxford Biomedica, Vernalis Premier Veterinary Group

ACHIEVEMENT LEVEL	% OF GRANT ATTAINED
5% of the index:	100%
5-10% of the index:	80% of maximum
10-20% of the index:	60% of maximum
20-30% of the index:	50% of maximum
30-50% of the index:	20% of maximum
Lowe than 50% index:	0%

LTIP 2015 expired with a 60% pay-out

At 1 January 2018, after three years of the three-year period of the 2015 LTIP, the Pharming share price increased from €0.389; the closing price at 31 December 2014, to €1.132; the closing price at 31 December 2017. With this result, compared to the reference group, Pharming reached a rank of 5 out of 30 (including Pharming), which translates into a score more than 80%, but less than 90% from the top of the reference group. As a result, 60% of the allocated shares have vested and were issued to the LTIP participants.

The allocations under the 2016 and 2017 LTIP still have one and two years respectively to run. The minimum share prices (hurdles) for the 2016 and 2017 allocations to qualify for (part-)vesting, subject to meeting the relative performance criteria as outlined above, are: (1) €0.282, being the closing price 31 at December 2015 for the LTIP 2016 and (2) €0.217, being the closing price at 31 December 2016 for the LTIP 2017.

LTIP 2018

For 2018, 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 2017 of €1.13) shall be equal to 30% of each of the Board of Management's 2018 base salaries.

This results in the following allocations:

Board of Management: Mr. S. de Vries 130,131 shares, Mr. B.M. Giannetti 85,005 shares, Mr. R. Wright 81,215 shares.

Senior managers: For a selected group of senior managers, 1,000,000 shares are available. A maximum number of 20,000 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 2018, the following allocations of LTIP shares will be proposed:

Board of Supervisory Directors: Chairman 30,000 shares, Vice-Chairman and/or Board Committee Chairs 25,000 shares, other members 20,000 shares.

In the event of a change of control of the Company, becoming unconditional, 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.

CORPORATE SOCIAL RESPONSIBILITY

Main Responsibilities:

PATIENT SAFETY

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

FAMILY VALUES

We see our employees as the key drivers of success, and we actively encourage employee development and growth. In 2017 our headcount grew by 48.5%. We opened a new office in the USA, expanded our Dutch facilities and our production capabilities. This growth has given us the opportunity to re-examine our processes and workflows, to take time to group together motivated and highly-intelligent people that adhere to our family values: honest, transparent communication, ethical behaviour and patient safety. We have focused on learning and defining new roles, recognising and solving gaps or reorganising departments to tackle better the issues that our growth presents.

"Family values: honest transparent communication, ethical behaviour and patient safety"

"Patient safety is our highest priority."

SUSTAINABLE CORPORATE CULTURE

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

PROVIDING SUSTAINABLE RETURN ON INVESTMENT

Economic sustainability is one of our top priorities. In order to provide a sustainable return on investment for our shareholders we aim to innovate, become more efficient and increase value in every department. Our policy is to provide all stakeholders with timely, equal and simultaneous information regarding matters that may have an influence on our share price. One way that we are working towards this future is by holding many non-deal roadshows across the Netherlands in which we meet with our investors to provide clarity on our published information and to ensure their questions are answered.

"Innovating for the future. Transforming the future for our patients"

"We endeavour to carry out all business in a highly ethical, fair and honest manner."

Ethical conduct

Pharming endeavours to carry out its business ethically and honestly, simultaneously considering the interests of all those who may be affected by its activities in any way. 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 across the world understand what is expected of them when acting in or on behalf of the Company. The Code of Conduct is available on the Company's website.

Whistle-blowers procedure

Pharming's whistle-blowers policy can be found on the Company's website. This policy describes the internal reporting and investigation procedures for suspected irregularities pertaining to the general, operational and/or financial activities in the Company. The whistle-blowers procedure applies to all Pharming entities. Pharming will not discharge, demote, suspend, threaten or harass an employee in the process of any lawful actions by the employee regarding good faith reporting of complaints or participation in a related investigation.

"As our numbers grow, 48.5% in 2017; we have invested in fostering employee engagement and alignment."

Health and safety

'Safety First' is one of our highest priorities within our business strategy. We are therefore extremely proud that the accident frequency rate within our Company continued at zero accidents and zero near-miss events in 2017. This is the result of strong enforcement of existing safety standards and procedures, improved implementation of accident investigation recommendations and good practice management. Safety is continuously monitored in everything we do. For that reason, we pay great 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 is crucial. Pharming produces products in animal systems, such as in the milk of rabbits. Pharming's current specific human protein products are purified from the milk of these transgenic animals. Pharming has an Animal Care Code of Conduct procedure in place, which enforces strict regulatory control of transgenic materials and animals with special regard to the environment and continuous well-being of our animals.

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

Special attention is given to the strict 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 values animal health and welfare very highly. The Company has an animal welfare policy, which ensures that Pharming will not develop products with adverse effects on animal health and welfare in either use or production. Accordingly, Pharming carefully and continuously monitors the health and welfare of its animals.

Environment and traceability of supply chain

As a biotechnology company that manufactures and develops biopharmaceuticals, Pharming complies with the applicable environmental rules and regulations. The entire supply chain, from animal feed to animal waste products and from rabbit milk to the finished pharmaceutical product, is covered by our highly-detailed and fully cGMP-compliant (industry standard) 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. In accordance with the international biopharmaceutical regulations, the entire supply chain is fully traceable. Our staff are highly trained and periodically requalified on a regular basis for compliance with the total quality system in our entire supply chain.

Human capital

Pharming places confidence in its employees as the most essential stakeholder in our business. Only through the outstanding skill of our people can we continue to succeed. We are dedicated to attracting, developing and retaining the most talented employees within our field. Our human resource policies aim not only to engage employees with the necessary expertise, skill and knowledge, but also to cultivate a corporate culture of inclusion and diversity. Building a team of diverse international people is not a simple task, but we see it as a priority to grow and to ensure the continuing success of our Pharming family.

As our numbers grow, 48.5% in 2017, we have invested in fostering employee engagement and alignment. By reviewing our internal processes and assessing possible gaps, we are learning and defining new roles, innovating for the future of our company. Through open and transparent communication from the Executive Committee to the wider employee base, we have capitalised on our internal knowledge and experience to engage our global workforce by encouraging initiative, responsibility and communication. Our employees are unified under our corporate values of honesty, ethical behaviour and patient safety.

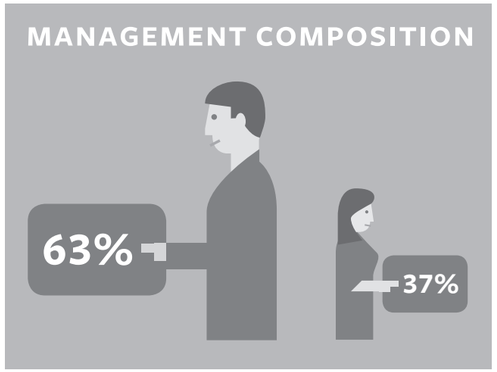
‘Safety First’ is one of our highest priorities within our business strategy’

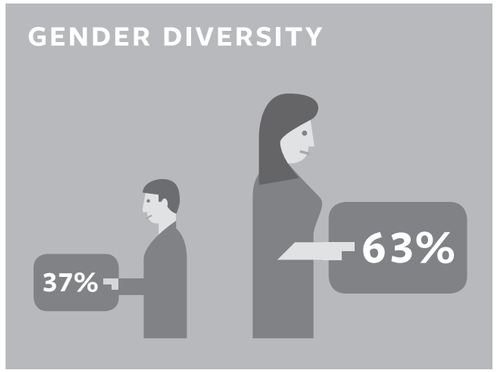
Organizational Development

2017 was the first year our company was able to demonstrate fully the scope of our capabilities. Our international team comprises offices in France, the UK, the US and Germany and with multiple production facilities and headquarters in the Netherlands. Our company now fully incorporates the full business cycle from conceptual research to marketed product and still we continue to grow. Throughout 2017, we have placed a greater emphasis on quality, efficiency and consistency in our organisation. We have created more structural efficiency and streamlined processes. As our organisation continues to grow, we will extend our new processes to improve performance further and ensure high quality communication internally. Maintaining our high-standard in international management, ensuring effective processes and active long-distance leadership while simultaneously ensuring total compliance with rules and regulations in the various jurisdictions in Pharming activities, has become a key change driver in our organisation’s development and will remain so in the future.

Diversity and inclusion

Diversity and inclusion are essential to our company culture. A workforce diverse in, among other things, age, race, gender, nationality, sexual orientation, physical ability, thinking style and background enriches our work environments and helps to ensure our long term success. With operations and stakeholders all over the world, we see cultural diversity as a strength. We strive to ensure there are equal opportunities for all. In 2017, we had 18 different nationalities amongst our employees. The number of women in senior management positions is still relatively modest, although improvements are being made. This has been and remains a point for attention. 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 2017, 150 people (127 FTE) were employed (2016: 101). During 2017, the Company hired 66 new employees (2016: 39) and 11 employees left the Company (2016: 10).

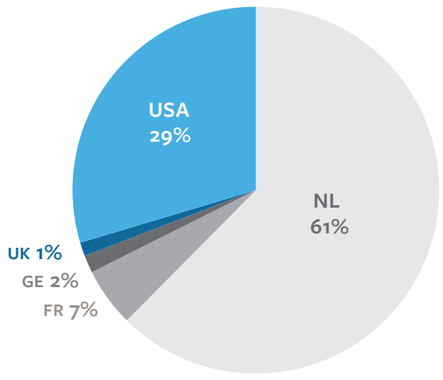
The Company's business involves specific high-technology processes and requires the employment of highly skilled and motivated personnel. Therefore, it is important for Pharming to create an attractive work environment that retains and motivates a diverse range of personnel and attracts talent in a competitive and global marketplace. The turnover rate is relatively low (7.3%), and has no significant effect on the continuity of our business.

Employee Global distribution

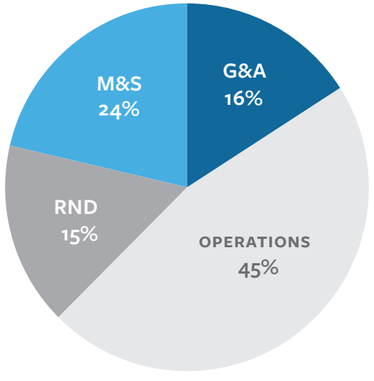
HEADCOUNT AT 31 DECEMBER 2017	2017
The Netherlands	92
France	10
Germany	3
United Kingdom	1
United States	44
TOTAL	**150**

HEADCOUNT AT 31 DECEMBER 2017	2017	2016	2015
G&A	24	13	12
Operations (formerly Manufacturing)	61	40	27
R&D	29	34	40
Marketing & Sales	36	14	-
TOTAL	**150**	**101**	**79**

Employee global distribution



Department overview



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 2017 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;
- Regional meetings with groups of existing shareholders in the Netherlands and France to explain public announcements or results;
- Timely updates in the Investor Relations section of our website;
- An "in the news" section on our website to provide additional updates from third parties 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 2018	
17 MAY	Publication of first quarter 2018 financial results at 07.00 CET.
23 MAY	Annual General Meeting of shareholders
26 JULY	Publication of first six months 2018 financial results at 07.00 CET.
25 OCTOBER	Publication of first nine months 2018 financial results at 07.00 CET.

Financial Statements 2017

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December

Amounts in € '000	NOTES	2017	2016
Product sales		88,677	13,689
License fees		943	2,184
REVENUES	5	**89,620**	**15,873**
COSTS OF SALES	7	**(12,445)**	**(4,683)**
GROSS PROFIT		**77,175**	**11,190**
OTHER INCOME	6	**790**	**335**
Research and development		(18,657)	(15,388)
General and administrative		(5,974)	(4,642)
Marketing and sales		(31,422)	(3,035)
COSTS	7	**(56,053)**	**(23,065)**
OPERATING RESULT		**21,912**	**(11,540)**
Fair value gain (loss) on revaluation derivatives	8	(40,284)	79
Other financial income and expenses	9	(71,027)	(6,075)
FINANCIAL INCOME AND EXPENSES		**(111,311)**	**(5,996)**
RESULT BEFORE INCOME TAX		**(89,399)**	**(17,536)**
Income tax credit (expense)	10	9,442	-
NET RESULT FOR THE YEAR		**(79,957)**	**(17,536)**
ATTRIBUTABLE TO: Owners of the parent		(79,957)	(17,536)
TOTAL NET RESULT		**(79,957)**	**(17,536)**
Basic earnings per share (€)	32	(0.160)	(0.042)

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	2017	2016
NET RESULT FOR THE YEAR		**(79,957)**	**(17,536)**
Currency translation differences	**17**	(998)	(6)
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		**(998)**	**(6)**
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		**(998)**	**(6)**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**(80,955)**	**(17,542)**
ATTRIBUTABLE TO: Owners of the parent		(80,955)	(17,542)

The notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

Amounts in € '000	NOTES	2017	2016
NON-CURRENT ASSETS			
Intangible assets	11	56,631	56,680
Property, plant and equipment	12	8,234	6,043
Long-term prepayments	13	2,296	1,622
Deferred tax assets	28	9,442	-
Restricted cash	14	1,336	248
TOTAL NON-CURRENT ASSETS		**77,939**	**64,593**
CURRENT ASSETS			
Inventories	15	18,334	17,941
Trade and other receivables	16	11,260	12,360
Cash and cash equivalents	14	58,657	31,889
TOTAL CURRENT ASSETS		**88,251**	**62,190**
TOTAL ASSETS		**166,190**	**126,783**
EQUITY			
Share capital		5,790	4,556
Share premium		370,220	301,876
Legal reserves		(938)	60
Accumulated deficit		(356,270)	(279,025)
SHAREHOLDERS' EQUITY	17	**18,802**	**27,467**
NON-CURRENT LIABILITIES			
Loans and borrowings	18	58,684	40,395
Deferred license fees income	19	1,467	2,270
Finance lease liabilities	20	390	599
Other financial liabilities	29	28,319	4,674
TOTAL NON-CURRENT LIABILITIES		**88,860**	**47,938**
CURRENT LIABILITIES			
Loans and borrowings	18	21,962	26,136
Deferred license fees income	19	804	943
Derivative financial liabilities	21	8,301	9,982
Trade and other payables	22	27,198	14,054
Finance lease liabilities	20	263	263
TOTAL CURRENT LIABILITIES		**58,528**	**51,378**
TOTAL EQUITY AND LIABILITIES		**166,190**	**126,783**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

Attributable to owners of the parent

Amounts in € '000	NOTES	NUMBER OF SHARES	SHARE CAPITAL	SHARE PREMIUM
BALANCE AT 1 JANUARY 2016		**411,971,790**	**4,120**	**283,396**
Result for the year			-	-
Other comprehensive income (loss) for the year			-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			**-**	**-**
Share-based compensation	17, 23	-	-	-
Bonuses settled in shares	17	533,583	5	121
Shares issued for cash	17	42,981,939	430	8,381
Warrants exercised/ issued	17, 26	100,000	1	9,978
Options exercised	17	-	-	-
TOTAL TRANSACTIONS WITH OWNERS, RECOGNIZED DIRECTLY IN EQUITY		**43,615,522**	**436**	**18,480**
BALANCE AT 31 DECEMBER 2016		**455,587,312**	**4,556**	**301,876**
Result for the year			-	-
Other comprehensive income (loss) for the year			-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			**-**	**-**
Share-based compensation	17, 23	-	-	-
Bonuses settled in shares	17	908,437	9	246
Shares issued for cash/ conversion of bonds	17	63,476,808	635	50,274
Warrants exercised/ issued	17, 26	58,123,107	581	17,657
Options exercised	17	919,227	9	167
TOTAL TRANSACTIONS WITH OWNERS, RECOGNIZED DIRECTLY IN EQUITY		**123,427,579**	**1,234**	**68,344**
BALANCE AT 31 DECEMBER 2017		**579,014,891**	**5,790**	**370,220**

Attributable to owners of the parent

Amounts in € '000	NOTES	LEGAL RESERVES	ACCUMULATED DEFICIT	TOTAL EQUITY
BALANCE AT 1 JANUARY 2016		**66**	**(263,743)**	**23,839**
Result for the year			(17,536)	(17,536)
Other comprehensive income (loss) for the year		(6)	**-**	(6)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**(6)**	**(17,536)**	**(17,542)**
Share-based compensation	17, 23	-	2,254	2,254
Bonuses settled in shares	17	-	-	126
Shares issued for cash	17	-	-	8,811
Warrants exercised/ issued	17, 26	-	-	9,979
Options exercised	17	-	-	-
TOTAL TRANSACTIONS WITH OWNERS, RECOGNIZED DIRECTLY IN EQUITY		**-**	**2,254**	**21,170**
BALANCE AT 31 DECEMBER 2016		**60**	**(279,025)**	**27,467**
Result for the year		-	(79,957)	(79,957)
Other comprehensive income (loss) for the year		(998)	**-**	(998)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**(998)**	**(79,957)**	**(80,955)**
Share-based compensation	17, 23	-	2,712	2,712
Bonuses settled in shares	17	-	-	255
Shares issued for cash/ conversion of bonds	17	-	-	50,909
Warrants exercised/ issued	17, 26	-	-	18,238
Options exercised	17	-	-	176
TOTAL TRANSACTIONS WITH OWNERS, RECOGNIZED DIRECTLY IN EQUITY		**-**	**2,712**	**72,290**
BALANCE AT 31 DECEMBER 2017		**(938)**	**(356,270)**	**18,802**

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	2017	2016
OPERATING RESULT		**21,912**	**(11,540)**
NON-CASH ADJUSTMENTS:			
Depreciation, amortization	7	3,415	756
Accrued employee benefits	23	2,712	2,254
Deferred license fees	19	(943)	(2,184)
OPERATING CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL		**27,096**	**(10,714)**
CHANGES IN WORKING CAPITAL:			
Inventories	15	(393)	(1,712)
Trade and other receivables	16	(3,345)	(4,695)
Payables and other current liabilities	22	14,837	7,049
TOTAL CHANGES IN WORKING CAPITAL		**11,099**	**642**
Changes in non-current assets, liabilities and equity		15	63
CASH GENERATED FROM (USED IN) OPERATIONS BEFORE INTEREST AND TAXES		**38,210**	**(10,009)**
Interest received	9	3	5
NET CASH FLOWS GENERATED FROM (USED IN) OPERATING ACTIVITIES		**38,213**	**(10,004)**
Capital expenditure for property, plant and equipment	12	(3,248)	(1,193)
Investment intangible assets	11	(2,797)	(321)
Acquisition of business	11, 29	-	(55,960)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(6,045)**	**(57,474)**
Proceeds of loans and borrowings	18	91,333	68,524
Payments of transaction fees and expenses	18	(3,352)	(5,133)
Prepayment on loans and borrowings	18	(86,258)	(1,669)
Redemption bonds	18	(3,934)	-
Interests on loans	18	(7,877)	(3,220)
Proceeds of equity and warrants	17	6,833	8,825
NET CASH FLOWS GENERATED FROM (USED IN) FINANCING ACTIVITIES		**(3,255)**	**67,327**
INCREASE (DECREASE) OF CASH	14	**28,913**	**(151)**
Exchange rate effects	14	(1,057)	445
Cash and cash equivalents at 1 January	14	32,137	31,843
TOTAL CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	**59,993**	**32,137**

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 2017 were authorized for issue in accordance with a resolution of the Board of Supervisory Directors on 28 March 2018. The financial statements are subject to approval of the Annual General Meeting of shareholders, which has been scheduled for 23 May 2018.

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

Darwinweg 24
2333 CR Leiden
The Netherlands

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

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

2 ACCOUNTING PRINCIPLES AND POLICIES

2.1 Basis of preparation

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

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

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. Further information is presented in note 2.5. These financial statements are presented in euros (€) and rounded to the nearest thousand euro (€'000), unless otherwise stated.

2.2 Basis of consolidation

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

An entity is considered effectively controlled if the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The financial statements of the subsidiaries are prepared for the same reporting year as Pharming Group

N.V., using the same accounting policies. Intercompany transactions, balances and 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 2017:

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
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 recognized as an expense.

Foreign currency translation

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

The resulting transaction gains or losses are recognized in the statement of income. Assets and liabilities of foreign entities are translated to euros using year-end spot foreign exchange rates. The statements of income of foreign entities are translated at weighted average exchange rates for the year. The effects of translating these operations are taken directly to other comprehensive income within equity. On disposal of a foreign entity, the accumulated exchange difference is recognized in the statement of income as a component of the gain or loss on disposal. The above-stated translation of foreign entities applies to the entity in the United States. The EUR/USD exchange rates applied at 31 December 2017 was 1.1977 (31 December 2016: 1.0555).

Distinction between current and non-current

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

Intangible assets

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

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

The remaining amortization periods for intangibleassets at 31 December 2017 are:

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	3 years
RUCONEST® for HAE (US)	Re-acquired commercial rights	20 years	19 years
New product leads**	Development costs	Not yet in use	Not yet in use

* Carrying value at 31 December 2017 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 capitalized. These costs include direct employee benefits, rent and testing costs. Capitalization will be done until the asset is capable of operating in the manner intended by management.

The depreciation periods for property, plant and equipment are:

CATEGORY	DEPRECIATION PERIOD
Land	Not depreciated
Land improvements	20 years
Operational facilities	10-20 years
Leasehold improvements	5-10 years
Manufacturing equipment*	5-10 years
Other property, plant & equipment	5-10 years

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

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 amortized 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 milstone;
- 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; and
- 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 realizable value if sales price is below actual costs.

Research and development costs

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

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the asset, and to use or sell it
- Its ability to use or sell the asset
- The probability of future economic benefits
- The availability of resources to complete the development
- 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 commercialize 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 6 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 capitalized 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 capitalizes 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 are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making their issue assessment.

Cash flow statement

Operating cash flows in the statement of cash flows are reported using the indirect method. Under the indirect method the figure is produced by adjusting the profit and loss by removing the effects of non-cash items and changes in working capital. The Company has chosen the operating result as a starting point for the reconciliation as most of the other elements in the net result have a non-cash nature. Payments of the finance lease liabilities are included in the operating cash flows. They are part of the manufacturing costs, thus part of the working capital. This way the statement properly reflects the cash flows.

Earnings per share

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

Segment reporting

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

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 judgements and estimates

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

Revenue

Revenue is recognized 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. 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, 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. 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.

Business combinations and contingent consideration

In 2016 Pharming completed the acquisition of all North American commercialization rights for its own product RUCONEST® from Valeant. The re-acquired rights are determined as an intangible asset, as part of a business combination. Pharming has paid an upfront payment fee of US$60 million, and agreed to pay future payments up to a further US$65 million based on achievement of sales milestones. The future payments, based on achieving milestones, are considered to be contingent consideration. As the payments will be made in cash the contingent consideration is classified as a financial liability. It is recognized at its fair value at the acquisition-date, as part of the total consideration transferred, according IFRS 3 para 39. Fair value at acquisition-date was based on the probability of achieving the milestones. These fair values

are based on risk-adjusted future cash flows discounted using appropriate discount rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement.

At 31 December 2017, the liability for contingent consideration amounted to €28.3 million (2016: €4.7 million; see note 29 'Business combinations and contingent consideration'). The amount originally arose on the acquisition of the commercialization rights from Valeant Pharmaceuticals in 2016. This represents the present value of the estimated amount probably payable by Pharming in the event of achieving the sales milestones and is calculated by applying the milestone criteria to probabilities of forecast future revenues and cash flows. Sensitivity analysis is given in note 31 'Financial risk management'. The assumptions relating to future revenues and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these projections to change with a consequent adverse effect on the future results of the Company.

The intangible asset resulting from the re-acquired rights is being assessed for impairment annually or whenever there is an indication that the intangible assets may be impaired. Impairment testing is based on discounted future cash flows. These future cash flows are based on business forecasts by management. Changes in expected cash flows or assumed discount rates have impact on impairment testing. In 2017 the impairment testing did not lead to an impairment of these re-acquired rights.

Inventories

At year-end 2017, the Company has capitalized batches of RUCONEST® as well as skimmed milk with an aggregate carrying value of €18.3 million. These inventories are available for use in commercial, pre-clinical and clinical activities. Estimates have been made with respect to the ultimate use or sale of the product, taking into account current and expected sales as well as pre-clinical and clinical programmes for both HAE projects and other indications of the rhC1INH product. In doing so, best estimates have been made with respect to the timing of such events in view of both the existing and expected remaining shelf life of the product involved. The actual cash proceeds from these product sales are difficult to predict in terms of volumes, timing and reimbursement amounts.

Inventories are stated at the lower of cost and net realizable value. The estimation of the net realizable 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 2017, the Company has presented such derivative instruments as financial liabilities with a carrying value of €8.3 million. The revaluation shown in the profit & loss account represents the notional adjustment necessary to reflect the market values of similar warrant rights as if they were issued on the measurement date (31 December 2017) 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 2017. 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 2017 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 31 of these consolidated financial statments.

Property, plant and equipment

At year-end 2017, Pharming has property, plant and equipment with a carrying value of €8.2 million. These assets are dedicated to the production of RUCONEST® inventories (€5.9 million) and other corporate purposes (€2.3 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.

Deferred tax assets

The Board of Management has considered the Company's history of losses and current financial performance, and has concluded that it is probable that the benefits of some of the tax loss carry forward will be realized in the near term, either through taxable profits or through profits generated in a loss refreshment scheme approved by the Dutch Tax Authorities. Accordingly, the Company has recorded deferred tax assets as set out in note 28. The balance of the deferred tax assets is a credit to the income tax charge in the income statement of an equal and opposite amount, which for 2017 was €9.4 million (2016: Nil). These amounts may be adjusted in future periods if the Dutch Tax Authorities do not give approval, or give approval only for a different amount based on conditions existing at the time of approval.

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

The new standard IFRS 15 "Revenues from contracts with customers" is being adopted on the modified retrospective basis by the Company for 2018. Accordingly, it had no impact on the amounts reported in these consolidated financial statements. IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. New qualitative and quantitative disclosures will also be required if necessary.

Transition method

Pharming will adopt IFRS 15 as at January 1, 2018 and will not restate its 2017 comparative figures. The transition effect on equity as at January 1, 2018, is negligible.

Sale of goods

All of the Company's revenue from contracts with customers is derived from delivery of goods, specifically vials of pharmaceutical products, except for the legacy release of license revenue from previous transactions, which is accounted for separately and is not treated differently under IFRS 15. Currently, revenue is recognized when the significant risks and rewards have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. For revenue from sales of goods these conditions are almost always met at the time the product is shipped and delivered to the customer, depending on the delivery conditions.

In accordance with IFRS 15, revenue should be recognized when the customer obtains control of the goods. Based on

our assessment, we do not expect the application of IFRS 15 to result in any meaningful impact on our consolidated financial statements, as this is precisely how the contracts for revenue that we have at present are accounted for.

Variable consideration
The vast majority of the Company's contracts for revenue with customers are subject to chargebacks for discounts and/or rebates relating to ultimate reimbursement claims from government or insurance payers. These are accounted for on an estimated net basis, with any actual discounts and rebates used to refine the estimates in due course. These variable elements are deducted in arriving at our Net Sales Revenue figures, and so the treatment under IFRS will not change the calculation of these amounts. The Company therefore came to the same conclusion for the accounting treatment of variable consideration, including inter alia rebates, bonuses, discounts and payments to customers, that the impact on the financial statements relating to the new accounting standard will be negligible.

Equipment or services provided to customers
Pharming does not provide any equipment or services to its customers. Under IFRS 15, the delivery of such items would qualify as a separate performance obligation.

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 2018, and have not yet 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 required for accounting periods beginning on or after 1 January 2018. Updated documentation is still required so the Company is yet to assess IFRS 9's full impact, but the current expectation is that while there will be additional information shown, the effect of such changes is unlikely to be material, as the majority of financial assets and liabilities which are treated differently under IFRS 9 to the current treatment under IAS 39 will have been eliminated within the first quarter of 2018, with no continuing effect.

IFRS 16, 'Leases' defines a lease as a contract, or part of a contract, that conveys the right to use an 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 applying IFRS 16 in 2018, but the net effects are not expected to be material in terms of effect on the Company's results, although there will be significantly greater disclosure on the balance sheet of certain contracts, particularly operating leases which are currently accounted for as the lease expense only.

There are no other IFRS or IFRIC interpretation changes that are not yet effective that would be expected to have material impact on the Company's financial statements.

3 GOING CONCERN ASSESSMENT

In preparing and finalising the 2017 financial statements, the Board of Management of Pharming has assessed the Company's ability to fund its operations for a period of at least eighteen months after the date of signing these financial statements.

Based on the assessment on a going concern basis, the Company has concluded that funding of its operations for a period of 18 months after the signing date of these financial statements is realistic and achievable. In arriving at this conclusion, the following main items and assumptions have been considered:

- **Cash and cash equivalents of approximately €53 million (including restricted cash) as at the date of publication of these financial statements, which is almost sufficient on its own to meet anticipated obligations;**
- **The Company commercializes its own product in the US and certain major Western European markets. Based on current sales prices and volumes, and the pattern of sales growth in each of those markets, we believe the Company will generate more than sufficient cash to meet all its obligations as they fall due for the foreseeable future;**
- **The Company's current finance structure including both interest and repayment obligations is included in the assessment of future obligations.**
- **The completion of the new investment in sales force, medical science liaison, personnel and marketing activities in the US and Europe and the profound effect they have been having on sales growth levels;**
- **The (undisclosed) projected sales revenues and operating costs for the period involved, related to the markets in which the Company has market approval;**
- **The Company's anticipated operating cash outflows, and its planned and expected investments in (in)tangible assets for eighteen months from the date of this report. The cash outflow is expected to increase as a result of the increase in marketing and sales activities, production costs, development costs, and investment in assets will increase due to investments in production facilities, but these are expected to increase to a lesser extent than sales revenue increase, enabling sustained net cash generation. Large elements of the anticipated operating cash flows are postponable, cancellable or both, which allows for great control over the use of existing cash resources and inflows.**

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

- **Proceeds from the exercise of warrants or options outstanding as per the date of these financial statements (see note 26);**
- **Capital raised by means of an additional capital markets transaction, such as additional non-dilutive (debt) financing, issuance of equity or a combination thereof. The timing and proceeds from such transactions are subject to, inter alia, market conditions (such as the transaction share price in relation to the then prevailing market price per share), availability of assets to secure debt transactions as well as approvals of boards and/or shareholders (e.g. to authorise the issue of additional shares) and/or existing lenders; and**
- **Receipts from existing or new license partners.**

In addition, if revenues from other sources do not develop as anticipated, the Company may decide to cancel and/or defer certain activities in order to limit cash outflows either permanently or 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 eighteen months after these financial statements is largely determined by its ability to increase product sales from both its own marketing and sales activities and from partnerships to continue 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 probable, although any future event is always 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 may potentially ultimately (significantly) deviate up or down from our projections for various reasons.

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 eighteen months as per the date of these financial statements, but in the absence of an (improbable) absolute catastrophe such as banning of the product from sale in a major market, the Board of Management believe that the Company will have more than sufficient resources to meet all obligations as they fall due.

4 SEGMENT INFORMATION

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

Total revenues and gross profit per geographic segment for the financial year 2017 and 2016 are:

AMOUNTS IN € '000	2017	2016
REVENUES:		
US	83,715	12,864
Europe	5,093	2,265
RoW	812	744
TOTAL REVENUES	**89,620**	**15,873**
GROSS PROFIT:		
US	75,451	9,998
Europe	1,067	638
RoW	657	554
TOTAL GROSS PROFIT	**77,175**	**11,190**

5 REVENUES

AMOUNTS IN € '000	2017	2016
Product sales	88,677	13,689
License fees	943	2,184
TOTAL	**89,620**	**15,873**

The overall product sales (excluding license fee) significantly increased due to higher sales in both the US market (€83.7 million compared to €11.8 million in 2016) and Europe (€4.3 million compared to €1.5 million in 2016). In 2016 the revenues from product sales in the US existed of net royalties of 30% of the net product sales from ex-partner Valeant of total €8.5 million, and direct revenues from product sales of €3.3 million for the period of 8-31 December 2016. Product sales in Rest of the World in 2017 was €0.7 million (2016: €0.4 million).

In 2017, the Company's income from license fees includes an amount of €0.9 million related to deferred revenue (2016: €2.2 million).

6 OTHER INCOME

Other income related exclusively to grants and amounted to €0.8 million in 2017 (€0.3 million in 2016). Grants in both years reflect an annual payroll-tax reimbursement granted by the Dutch government for a range of research and development activities actually conducted by the Company.

7 EXPENSES BY NATURE

Cost of product sales

AMOUNTS IN € '000	2017	2016
Cost of product sales	(12,535)	(4,340)
Inventory impairments	90	(343)
TOTAL	**(12,445)**	**(4,683)**

Cost of product sales in 2017 amounted to €12.5 million (2016: €4.7 million) and relates to actual product sales. Inventory impairments related to inventories designated for commercial activities amounted to a reversal of €0.1 million in 2017 (2016: cost of €0.3 million). The impairment stems from the valuation of the inventories against lower net realizable value.

Costs of research and development increased to €18.7 million in 2017 from €15.4 million in 2016. The increased costs are mainly related to the activities around new forms of administration of RUCONEST®, together with late

preclinical activities on the new Pompe and Fabry's disease programs.

Cost of general and administrative increased to €6.0 million in 2017 from €4.6 million in 2016. The increased costs are mainly related to additional administration and management of the US activities.

Cost for marketing and sales increased in 2017 to €31.4 million from €3.0 million in 2016. The increased costs are almost entirely related to the new sales organization and infrastructure in the US.

Employee benefits

Salaries include holiday allowances and cash bonuses:

AMOUNTS IN € '000	2017	2016
Salaries	(18,837)	(7,482)
Social security costs	(1,651)	(740)
Pension costs	(642)	(449)
Share-based compensation	(2,712)	(2,254)
TOTAL	**(23,842)**	**(10,925)**

The number of employees:

WEIGHTED AVERAGE FULL TIME EQUIVALENT	2017	2016
Research and development	77	70
General and administrative	21	12
Marketing and sales	29	3
TOTAL	**127**	**85**

The weighted average number of employees working outside the Netherlands was 51 (2016: 18).

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.

Depreciation and amortization charges

AMOUNTS IN € '000	NOTES	2017	2016
Property, plant and equipment	12	(569)	(530)
Intangible assets	11	(2,846)	(226)
TOTAL		**(3,415)**	**(756)**

The increase of depreciation charges of property, plant and equipment in 2017 as compared to 2016 stems from new investments. For property, plant and equipment, in 2017 an amount of €0.5 million was charged to research and development costs (2016: €0.4 million) and €0.1 million to general and administrative expenses (2016: €0.1 million).

Amortization charges of intangible assets have been allocated to research and development costs and marketing and sales costs in the statement of income. In 2017 the amortization charges increased due to the amortization of the re-acquired US commercialization rights, which is applied over the economic useful life of 20 years.

Operating lease charges

For the year 2017, the Company charged €1.6 million (2016: €1.4 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 2017 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 30. Allocations of the operating lease charges to research and development costs or general and administrative expenses have been based on the nature of the asset in use.

Independent auditor's fees

Fees of PricewaterhouseCoopers Accountants N.V. incurred in relation to 2017 and 2016 audit services were as followed:

AMOUNTS IN € '000	2017	2016
Audit of the financial statements	(264)	(170)
Audited related activities	-	(119)
TOTAL	**(264)**	**(289)**

8 FAIR VALUE GAIN (LOSS) ON REVALUATION DERIVATIVES

AMOUNTS IN € '000	2017	2016
Revaluation warrants	(14,349)	79
Revaluation conversion rights	(25,935)	-
TOTAL	**(40,284)**	**79**

In 2017, the Company incurred (non-cash) adjustment losses through revaluation and exercises of the derivative components of issued instruments (principally the ordinary convertible bonds and the warrants) against fair value, largely stemming from the very large increase in the Company's share price over the year. Refer to note 21 for more information on the Derivative financial liabilities. The changes in value on the exercised conversion rights are related to the redemption by conversion of the bonds.

9 OTHER FINANCIAL INCOME AND EXPENSES

AMOUNTS IN € '000	2017	2016
Interest income	3	5
Interest expenses	(87)	(106)
Foreign currency results	5,225	(11)
Interest loans and borrowings	(17,651)	(3,481)
Transaction fees and expenses	-	(813)
Settlement fees and expenses	(34,872)	(1,669)
Contingent consideration	(23,645)	-
TOTAL	**(71,027)**	**(6,075)**

Interest income

Interest income from cash decreased to nil compared to previous year as a result of a further reduction of interest rates.

Interest expenses

Interest expenses, from financial leases, decreased compared to 2016 as a result of expiration of several of the various finance arrangements entered in 2011.

Foreign currency results

These results primarily follow from the revaluation of bank balances and loan denominated in foreign currencies, mainly US dollars, and the timing of foreign currency payments against the actual exchange rate as compared to the original exchange rate applied upon the charge of fees or expenses. The gain realized is the result of revaluation of the loan set off against the revaluation of the bank balances, both denominated in US dollar.

Interest loans and borrowings

Interest loans and borrowings related to the amortized costs from loans and borrowings, principally the current term loan from Orbimed Advisors and the previous loans from Kreos Capital and Silicon Valley Bank, which were repaid in May using the refinance term loan from Orbimed Advisors.

Transaction fees and expenses

Transaction fees and expenses are related to the conversion option calculations for the Ordinary Convertible Bonds, which are made by an external party in accordance with the terms of the bonds.

Settlement fees and expenses

Settlement fees and expenses are related to the refinancing of the old loans and the amortizing bonds by the new loan from Orbimed and the adjustments of the amortized costs of the old instruments and the Convertible bonds. The total cash paid, for redemption fees of the amortizing bonds, prepayment fees of the loans and paid interest, was €16.1 million. The extra amortized costs, as result of redemption and prepayment, was €18.8 million non-cash. In 2016, these fees were related to the prepayment of the old loans from Oxford Finance LLC and the Silicon Valley Bank.

Contingent consideration

The expense for the contingent consideration is related to the present value of the estimated likelihood of meeting all or some of the $65 million potential sales milestones which form part of the reacquisition transaction for North American commercial rights to RUCONEST® .

10 INCOME TAX CREDIT (EXPENSE)

The Dutch fiscal unity at year-end 2017 has approximately €119.3 million of taxable losses that can be offset in the years 2018-2026, not including the taxable result of 2017. Besides the fiscal unity, the Company has taxable losses in foreign investments totalling €11.0 million that can be offset in the years 2017 – 2037, of which the largest part is in the US (US$11.8 million or €9.9 million).

The Board of Management has considered the Company's history of losses and current financial performance, and has concluded that it is probable that the benefits of some of the tax loss carry forward will be realized in the near term, either through taxable profits or through profits generated in a loss refreshment scheme approved by the Dutch Tax Authorities. Accordingly, the Company has recorded deferred tax assets as set out in note 28. The balance of the deferred tax asset is a credit to the income tax charge in the income statement of an equal and opposite amount, which for 2017 was €9.4 million (2016: Nil). These amounts may be adjusted in future periods if the Dutch Tax Authorities do not give approval, or give approval only for a different amount based on conditions existing at the time of approval.

The used tax rates for the Dutch fiscal unity is 20% - 25% and for the US 21% - 35%.

Movements in deferred tax balances during 2017:

AMOUNTS IN € '000	2017	2016
Balance at 1 January	-	-
Income tax charge:		-
Provision for income tax recovery	9,442	
BALANCE AT 31 DECEMBER	**9,442**	**-**

11 INTANGIBLE ASSETS

Amounts in € '000	TRANSGENIC TECHNOLOGY	RUCONEST® FOR HAE (EU)	NEW PRODUCT LEADS	RE-ACQUIRED RIGHTS	TOTAL
At cost	2,651	528	469	-	3,648
Accumulated amortization charges	(2,616)	(273)	-	-	(2,889)
Accumulated impairment charges	(35)	-	-	-	(35)
CARRYING VALUE AT 1 JANUARY 2016	**-**	**255**	**469**	**-**	**724**
Amortization charges	-	(53)	-	(173)	(226)
Impairment charges	-	-	-	-	-
Capitalized 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 amortization charges	(2,616)	(326)	-	(173)	(3,115)
Accumulated impairment charges	(35)	-	-	-	(35)
CARRYING VALUE AT 31 DECEMBER 2016	**-**	**202**	**791**	**55,687**	**56,680**
Amortization charges	-	(53)	-	(2,793)	(2,846)
Impairment charges	-	-	-	-	-
Capitalized development costs	-	-	2,797	-	2,797
Assets acquired	-	-	-	-	-
MOVEMENT 2017	**-**	**(53)**	**2,797**	**(2,793)**	**(49)**
At cost	2,651	528	3,588	55,860	62,627
Accumulated amortization charges	(2,616)	(379)	-	(2,966)	(5,961)
Accumulated impairment charges	(35)	-	-	-	(35)
CARRYING VALUE AT 31 DECEMBER 2017	**0**	**149**	**3.588**	**52,894**	**56,631**

In 2016, the Company has started to modify the current product RUCONEST® for a more convenient use for the patient. A total amount of €3.1 million has been recognized as internally generated intangible assets as at 31 December 2017. Amortization will start after completion which is expected between one and three years, depending on the different usages of the product.
In 2014, the Company acquired assets from Transgenic Rabbit Models SASU, for a total amount of €0.5 million which have been recognized as intangible assets regarding development costs of two new product leads: alpha-glucosidase for Pompe disease and alpha-galactosidase for Fabry's disease. The assets are recorded at historical 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 capitalized 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 amortization of the asset has started and no more development costs have been capitalized ever since.
The re-acquired rights relate to the acquisition of all North American commercialization rights from Valeant in 2016. We refer to note 29 "Business combinations and contingent consideration".

12 PROPERTY, PLANT AND EQUIPMENT

Amounts in € '000	LAND & LAND IMPROVEMENTS	OPERATIONAL FACILITIES	LEASEHOLD IMPROVEMENT	MANUFACTURING EQUIPMENT	OTHER	ASSET UNDER CONSTRUCTION	TOTAL
At cost	27	2,317	1,969	5,252	1,988	-	**11,553**
Accumulated depreciation	-	(1,637)*	(1,866)	(1,089)	(1,300)*	-	(5,892)
CARRYING VALUE AT 1 JANUARY 2016	**27**	**680***	**103**	**4,163**	**688***	**-**	**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	-	(1,798)*	(1,968)	(1,388)	(1,567)*	-	(6,721)
CARRYING VALUE AT 31 DECEMBER 2016	**27**	**693***	**1**	**3,882**	**1,315***	**125**	**6,043**
Investments	-	83	11	-	730	2,423	3,247
Divestments	-	-	-	-	-	-	-
Depreciation charges	-	(177)	(1)	(487)	(391)	-	(1,056)
Depreciation of disinvestment	-	-	-	-	-	-	-
Revaluation manufacturing equipment	-	-	-	-	-	-	-
MOVEMENT 2017	**-**	**(94)**	**10**	**(487)**	**339**	**2,423**	**2,191**
At cost	27	2,575	1,980	5,270	3,612	2,548	16,012
Accumulated depreciation	-	(1,976)	(1,969)	(1,875)	(1,958)	-	(7,778)
CARRYING VALUE AT 31 DEC 2017	**27**	**599**	**11**	**3,395**	**1,654**	**2,548**	**8,234**

* € 12k reclassified between these categories compared to prior year (2016) financial statements

Depreciation charges on manufacturing equipment of €0.5 million in 2017 (2016: €0.3 million) have been charged to the value of inventories and an amount of €0.6 million of total 2017 depreciation charges has been charged to the statement of income (2016: €0.5 million).
In 2017 the Company invested €2.4 million in building a second milk facility. This facility will be put in use during 2018.

At year-end 2017, the carrying value of assets hired under financial lease arrangements – and thus with a restricted title - was €0.8 million (31 December 2016: €1.3 million). This was related to manufacturing equipment.

13 LONG-TERM PREPAYMENT

The Long-term prepayment (€2.3 million as at 31 December 2017) is related to the manufacturing agreement with BioConnection, a contract manufacturing organization, and represents three instalments, of €0.5 million each, plus prepaid batches, made to secure and guarantee sufficient future production capacity. These instalments and prepayments

represent prepaid production costs of Drug Product batches. The prepayment will be settled by BioConnection by deductions from the cost of future production of finished goods batches.

14 RESTRICTED CASH, CASH AND CASH EQUIVALENTS

AMOUNTS IN € '000	2017	2016
Non-current restricted cash	1,336	248
Cash and cash equivalents	58,657	31,889
BALANCE AT 31 DECEMBER	**59,993**	**32,137**
BALANCE AT 1 JANUARY	32,137	31,843
Exchange rate effects on cash	(1,057)	445
Increase (decrease) of cash	28,913	(151)

Restricted cash represent the value of banker's guarantees issued with respect to (potential) commitments towards third parties and a deposit issued in respect of lease cars of total US$1.3 million.

15 INVENTORIES

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

AMOUNTS IN € '000	2017	2016
Finished goods	8,271	9,731
Work in progress	6,334	5,103
Raw materials	3,729	3,107
BALANCE AT 31 DECEMBER	**18,334**	**17,941**

The inventory valuation at 31 December 2017 is stated net of a provision of €0.3 million (2016: €0.6 million) to write inventories down to their net realizable value, and net of a provision for obsolescence of €1.0 million (2016: €0.1 million).

Changes in the adjustment to net realizable value:

AMOUNTS IN € '000	2017	2016
BALANCE AT 1 JANUARY	**(642)**	**(462)**
Reversal of (addition to) impairment for the year	90	(547)
Related to costs of product sales	207	362
Related to operating costs	9	5
BALANCE AT 31 DECEMBER	**(336)**	**(642)**

In 2017, the reversal of €0.1 million was based on adjusted forecasts for sales and clinical studies (2016: addition of €0.5 million). The changes related to the costs of product sales (€0.2 million) is the adjustment of sold vials which were valued at net realizable value. The changes related to the operating costs represent the costs of the number of vials used for investigational medicinal product drugs for clinical studies.

Cost of inventories included in the cost of product sales in 2017 amounted €12.5 million (2016: €4.3 million). The vast majority of inventories at 31 December 2017 has expiration dates starting beyond 2019 and is expected to be sold or used before expiration

16 TRADE AND OTHER RECEIVABLES

AMOUNTS IN € '000	2017	2016
Trade receivables	8,895	6,280
Prepaid expenses	1,077	974
Value added tax	588	648
Other receivables	700	4,458
BALANCE AT 31 DECEMBER	**11,260**	**12,360**

The Company's outstanding trade receivables are mainly related to the sales in the US.
The other receivables decreased in 2017 as result of the receipt of €4.4 million in relation to the amortizing bonds which was outstanding at the end of 2016.
Trade and other receivables at 31 December 2017 are substantially short-term in nature and have substantially been settled as per the date of these financial statements.

17 SHAREHOLDERS' EQUITY

The Company's authorised share capital amounts to €8.0 million and is divided into 800,000,000 ordinary shares with a nominal value of €0.01 each. All 579,014,891 shares outstanding at 31 December 2017 have been fully paid-up. Other reserves include those reserves related to currency translation, share-based compensation expenses and other equity-settled transactions. Please refer to the Consolidated statement of changes in equity and to note 32. This note further describes the background of the main equity movements in 2017 and 2016.

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 2017 of €80.0 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 €356.3 million at year-end 2017.

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 2017 these transactions were valued at €2.7 million and for 2016 at €2.3 million (see note 23).

Bonuses settled in shares

In 2017 the Company issued 908,437 shares with an aggregate value of €0.3 million to members of the Board of Management and various managers in lieu of bonuses. In 2016 a total of 533,583 shares were issued to pay off bonuses of €0.1 million.

Warrants

On 21 July 2017 the Company issued 9,174,372 warrants with an exercise period of 7 years and an exercise price of €0.455 to the new lender Orbimed Royalty Opportunities for the refinancing of the old loans and the amortizing bonds. The warrants were initially recognized in equity for €2.5 million.

During the year the warrant holders were offered a cashless exercise mechanism in order to stimulate exercise of warrants and to minimize the issuance of shares to warrant holders and thus dilution to existing shareholders. This mechanism, together with the redemption of most of the ordinary convertible bonds due 2021 and the refinance, enabled the very large share overhang at the end of the previous year from warrants, convertible bonds and options to be minimised during the year. The remaining warrants have been reclassified to liabilities as at the date of the offer. From that date until their exercise date, the fair value changes have been reflected in the P&L, resulting in a loss of €8.3 million. Warrants, representing a total of 86,151,655 shares, were exercised in exchange for an actual total of 58,123,107 shares. In relation to the exercises, the Company received €6.7 million in cash and recovered 28,028,548 in total shares through the cashless exercise.

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 recognized 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.

Options exercised

In 2017, a total of 1,091,651 options were exercised in exchange for 919,227 shares. In 2016, no options were exercised.

Conversions of bonds

In 2017, a total of 63,476,808 shares were issued through conversions to redeem amortizing convertible bonds and ordinary convertible bonds with a face value of €18.1 million. Derecognition prior to conversion of the fair values of the derivative financial liabilities recorded on issue resulted in adjustment in equity of €32.8 and a (non-cash) financial expense of 27.2 million.

Adjustment to share capital

There was no adjustment to the authorised share capital in 2017.

In 2016 the Company's shareholders approved the increase of the share capital from €5.5 million to €8.0 million. The increase was related to the capital raises for closing the transaction to re-acquire the commercialization rights to RUCONEST® in North America at 7 December 2016. The overall effect of the adjustment on shareholders' equity was €nil.

Rights offer

There was no rights offer in 2017.

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 to €8.8 million. Transaction fees related to the offer amounted to €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 US dollar since their functional currency is different from the reporting currency.

In 2017, a significant decrease took place due to the difference between the result of the foreign investments and the total exchange rate differences of the investment and the current account.

18 LOANS AND BORROWINGS

On 15 May 2017, the Company entered into a new debt facility with Orbimed Royalty Opportunities II, LP to raise US$100 million (€91.3 million). The new debt facility has been used to redeem the amortizing convertible bonds due 2017/2018 and to refinance (i.e. replace) the Company's senior debt facility with Silicon Valley Bank and Kreos Capital, together with the associated prepayment fees and the legal and other costs of the transaction. The loan, initially structured as a bridge facility on 15 May 2017, was replaced on 20 July 2017 by a full loan agreement with a maturity date of 20 July 2021 under the same terms and conditions. The fees for the early repayment of US$80.5 million (€73.5 million) for the old loans and the Amortizing Bonds before maturity amounted to US$13.9 million (€12.7 million) and were recognised as financial expenses. The expenses associated with the new facility itself, including bridge loan interest, upfront fees, legal and other advisory fees, comprised the balance of €5.2 million.

Under the terms and conditions of the new debt facility, the Lenders provided an amount of US$100 million (€91.3 million) secured senior debt funding against 48 months promissory notes with interest of the sum of (i) the Applicable Margin of 11% plus (ii) the greater of (x) One-Month LIBOR and (y) 1.00%. Repayment of the loan and starts in September 2018 in quarterly instalments. The Company has the option to prepay the loan before its maturity date. As further consideration for the facility, the Lenders received a 4% warrant coverage (9,174,372 warrants) with a strike price of €0.455 representing the closing price of Pharming shares immediately prior to the closing date, plus a 2.5% commitment fee of the principal sum and an assignment fee on the maturity date of US$3.7 million. The warrant strike price was increased from the maximum originally announced because of the increasing price of Pharming shares prior to closing of the loan. Other facility fees of €1.1 million have been deferred from the original loans. The warrants have been separated from the loan and recognised in Equity.

The Company, and its subsidiaries, have pledged all receivables, movable assets and intellectual property rights as security to the new lenders, in the same way as those assets were pledged to the original lenders.

Initial recognition and movements of the loans were as follows:

AMOUNTS IN € '000	Orbimed	KREOS	SVB
Principal amount		21,147	16,346
Fair value of warrants issued		(941)	(732)
Transaction fees and expenses		(1,439)	(1,175)
CARRYING VALUE INITIAL RECOGNITION		**18,767**	**14,439**
Amortized costs		184	144
CARRYING VALUE AT 31 DECEMBER 2016		**18,951**	**14,583**
Principal amount	91,333		
Fair value of warrants issued	(2,468)		
Transaction fees and expenses	(3,321)		
CARRYING VALUE INITIAL RECOGNITION	**85,544**	-	-
Amortized costs	7,406	1,087	849
Interest paid	(5,726)	(726)	(565)
Prepayment	-	(24,401)	(18,898)
Release of remaining unamortized costs	-	5,089	4,031
Revaluation loan	(7,412)	-	-
CARRYING VALUE AT 31 DECEMBER 2017	**79,812**	-	-
- Current portion	(21,451)	-	-
- Non-current portion	58,361	-	-

Amortizing convertible bonds due 2018

On 7 December 2016, the Company issued amortizing bonds for a principal amount of €45.0 million (or US$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 amortizing bonds were repaid with the proceeds of the new debt facility of Orbimed on 15 May 2017.

The investors received a total of 63,380,282 warrants in connection with this financing. The warrants have been separated from the bonds and recognized 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 were as follows:

AMOUNTS IN € '000	2017	2016
BALANCE AT 1 JANUARY	**27,664**	-
Initial recognition	-	26,514
Amortized costs	7,058	1,150
Release remaining amortized costs	18,971	-
Prepayment	(42,959)	-
Redemption	(10,734)	-
BALANCE AT 31 DECEMBER	**-**	**27,664**
- Current portion	-	(21,438)
- Non-current portion	-	6,226

Ordinary 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 amortized cost. Payments of the bi-yearly interest took place in cash.

All of the remaining bonds at year end 2017 were redeemed in accordance with their terms within January 2018.

Initial recognition and movements of the convertible bonds were as follows:

AMOUNTS IN € '000	2017	2016
BALANCE AT 1 JANUARY	**5,333**	-
Initial recognition	-	5,230
Amortized costs	1,251	103
Interest paid	(860)	-
Adjustment net present value	6,402	-
Redemption	(11,292)	-
BALANCE AT 31 DECEMBER	**834**	**5,333**
- Current portion	(511)	(885)
- Non-current portion	323	4,448

The adjustment of the net present value at initial recognition of the convertible bonds reflects the portion of amortised costs related to the significant redemption.

The Loans and borrowings for 2017 and 2016 can be summarised as follows:

AMOUNTS IN € '000	2017	2016
Loans from banks	79,812	33,534
Amortizing bonds	-	27,664
Convertible bonds	834	5,333
BALANCE AT 31 DECEMBER	**80,646**	**66,531**
- Current portion	(21,962)	(26,136)
- Non-current portion	58,684	40,395

The remaining lifetimes of the loans and borrowings are no longer than 4 years.

Reconciliation of the movements in the financial instruments with the Consolidated statement of cash flows:

AMOUNTS IN € '000	LOAN ORBIMED	LOAN KREOS	LOAN SVB	AMORTIZING BONDS	CONVERTIBLE BONDS	TOTAL	CASH	NON-CASH
BALANCE 31 DECEMBER 2016	-	(18,951)	(14,583)	(27,664)	(5,333)	**(66,531)**		
Proceeds of loans and borrowings	(91,333)					(91,333)	91,333	-
Fair value of warrants issued	2,468					2,468		(2,468)
Transaction fees and expenses	3,321					3,321	(3,352)	31
Amortized costs	(7,406)	(1,087)	(849)	(7,058)	(1,251)	(17,651)	-	17,651
Release of remaining unamortised costs		(5,089)	(4,031)	(18,971)		(28,091)	-	28,091
Interests on loans	5,726	726	565		860	7,877	(7,877)	-
Revaluation loan	7,412					7,412	-	(7,412)
Prepayment on loans and borrowings		24,401	18,898	42,959		86,258	(86,258)	-
Redemption amortizing bonds (in cash)				3,934		3,934	(3,934)	-
Redemption amortizing bonds (by conversion)				6,800		6,800	-	(6,800)
Redemption convertible loan (by conversion)					11,292	11,292	-	(11,292)
Adjustment net present value					(6,402)	(6,402)	-	6,402
BALANCE 31 DECEMBER 2017	**(79,812)**	**-**	**-**	**-**	**(834)**	**(80,646)**	**(10,088)**	**24,203**

** Excludes €6.833m of cash received through warrant and option exercises (not included in these instruments)

19 DEFERRED LICENSE FEE 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 2017 and 2016 €0.8 million was released from this agreement.

In 2010 Pharming received an upfront payment of US$15.0 million or €11.7 million in cash from Santarus, Inc. with respect to a RUCONEST® license agreement for recombinant human C1 esterase inhibitor in the US, Canada and Mexico. Since the Company has to perform clinical, regulatory and commercial activities, the amount was 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 recognized as

revenues from license fees in 2016. At the end of 2016, the remaining deferred license fees relating to Santarus 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 2017 the last remaining €0.1 million was recognized as revenue from this agreement (2016: €0.3 million).

AMOUNTS IN € '000	2017	2016
BALANCE AT 1 JANUARY	3,213	10,015
Revenues from deferred license fees	(943)	(2,184)
Release deferred license fees Santarus	-	(4,618)
BALANCE AT 31 DECEMBER	2,270	3,213
- Current portion	(804)	(943)
- Non-current portion	1,467	2,270

The revenues from deferred license fees are the release of upfront payments of €0.9 million (2016: €2.2 million). The decrease of the revenues from deferred license fees is caused by crystallizing the release of all remaining balances from the upfront payments from Santarus in 2016 and from CSIPI in 2017.

20 FINANCE LEASE LIABILITIES

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

AMOUNTS IN € '000	2017	2016
TOTAL BALANCE AT 1 JANUARY	862	1,061
Revaluation of finance lease liabilities	-	18
Interest expense accrued	84	106
Payments of finance lease liabilities	(293)	(323)
TOTAL BALANCE AT 31 DECEMBER	653	862
- Current portion	(263)	(263)
- Non-current portion	390	599

Pharming has 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 realized 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 is approximately their carrying amount. No arrangements have been entered into for contingent rental payments.

Future minimum lease payments under finance leases as at 31 December 2017 and 2016 are as follows:

	2017		2016	
AMOUNTS IN € '000	MP	PVOP	MP	PVOP
Within one year	281	263	300	263
After one year but not more than five years	472	390	764	599
More than five years	-	-	-	-
TOTAL BALANCE AT 31-12	753	653	1,064	862

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

At year-end 2017, the carrying value of the assets involved as leased was €0.8 million (2016: €1.3million) 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, 2015 and 2016.

In 2017, a total of 39,755,280 shares were issued to convert and redeem €11.3 million of the convertible bonds by. For the instalments of the Amortizing bonds, a total of 23,721,528 shares were issued to convert and redeem the amortizing bonds by €6.8 million.

The total number of conversion rights, related to the convertible and amortizing bonds, decreased from 199,864,272 to 2,746,476 conversion rights at year-end. During the year, a total of 63,476,808 were converted into shares and 133,640,988 have been expired due to redemptions and prepayments in cash.

In 2016, the Company issued those convertible 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 recognized as liability and separated from the bonds. At the same time, an exercise by the Company to encourage cashless exercise of warrants and conversions enabled a major reduction in the shares issued as a result, and a reclassification of part of the carrying value of those equity components involved a transfer from equity to derivative financial liabilities of €19.6 million in accordance with IAS 39.

In 2017, in total 67,526,210 warrants were exercised compared to the exercise of in total 100,000 warrants in 2016.

Movement of derivative financial liabilities for 2017 and 2016 can be summarised as follows:

AMOUNTS IN € '000	NOTES	2017	2016
BALANCE AT 1 JANUARY		9,982	953
Initial recognition upon issue		-	9,439
Reclassification from equity		19,552	-
Fair value losses (gains) derivatives	8	40,284	(410)
Conversions into shares		(61,517)	-
BALANCE AT 31 DECEMBER		8,301	9,982

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

22 TRADE AND OTHER PAYABLES

AMOUNTS IN € '000	2017	2016
Accounts payable	9,430	5,652
Taxes and social security	-	218
Deferred compensation due to related parties	751	742
Other payables and provisions	17,017	7,442
BALANCE AT 31 DECEMBER	27,198	14,054

The increase in accounts payable mainly relates to the manufacturing expenses (an increase of €3.4 million compared with 2016), related to manufacturing efforts connected with the increase of sales related to the shortage in the market of a major competitor's product.

The other payables increased mainly as a result of an amount of €4.7 million to be settled with our logistics partner in the US for mainly the free supplied vials and accrued expenses for rebates, chargebacks related to government insurance programs, and nursing costs.

The rebates and chargebacks for government insurance programs are related to sales in the US and are accounted for in product sales.

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 not yet delivered.

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 recognized in 2017 for share-based payment plans amounts to €2.7 million (2016: €2.3 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 98 months 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 2015-2017 programmes consists of the following 29 companies:

COUNTRY	NUMBER	PEER COMPANIES
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, Heidelberg Pharma
Italy	1	Newron Pharmaceuticals
Norway	1	Photocure
Sweden	1	Medivir
Switzerland	4	Addex Therapeutics, Basilea Pharmaceutica, Kuros Biosciences, Santhera Pharmaceuticals
United Kingdom	6	Allergy Therapeutics, GW Pharmaceuticals, Immupharma, Oxford Biomedica, Vernalis, Premier Vetrinary Group

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

ACHIEVEMENT LEVEL	% OF GRANT ATTAINED
5% of the index:	100%
5-10% of the index:	80% of maximum
10-20% of the index:	60% of maximum
20-30% of the index:	50% of maximum
30-50% of the index:	20% of maximum
Lower than 50% index:	0%

Upon a change of control, all shares will vest automatically.

An overview of the maximum number of LTIP shares granted in 2015-2017 and in total as well as the fair value per share award is as follows:

PARTICIPANT CATEGORY	2015	2016	2017	TOTAL
Board of Supervisory Directors	725,000	725,000	725,000	2,175,000
Board of Management	550,334	1,084,340	1,498,263	3,132,937
Senior managers	1,095,000	1,340,000	1,290,000	3,725,000
TOTAL	**2,370,334**	**3,149,340**	**3,513,263**	**9,032,937**
Fair value per share award (€)	0.267	0.079	0.407	

The following table provides an overview of LTIP shares granted, forfeited or issued in 2015-2017 as well as the number of LTIP shares reserved at 31 December 2017:

PARTICIPANT CATEGORY	GRANTED	FORFEITED	NOT VESTED	RESERVED AT 31 DECEMBER 2017
Board of Supervisory Directors	2,175,000	-	(290,000)	1,885,000
Board of Management	3,132,937	-	(220,134)	2,912,803
Senior managers	3,725,000	(150,000)	(398,000)	3,177,000
TOTAL	**9,032,937**	**(150,000)**	**(908,134)**	**7,974,803**

The 2015 shares did vest at the end of the vesting period (31 December 2017) and a total of 60% of the granted LTIP shares will be issued. LTIP shares reserved at 31 December 2017 relate to the 2016 and 2017 shares available for participants still in service at the end of 2017. The Company expensed amounts of €0.8 million in 2017 compared to €0.4 million in 2016.

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 two members of the Board of Management were granted a total of 19,200,000 options for the period 2014-2018 with annual vesting conditions for the period 2015-2019. The exercise price of the granted options for the first tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.505. For the second tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.341. For the third tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.209. For the fourth tranche of 2,400,000 options for Mr. S. de Vries and 1,440,000 options for Mr. B.M. Giannetti is €0.335. The Fair values of the options vary between €0.177 and €0.366.

At the EGM of 28 October 2015, one member of the Board of Management was granted a total of 1,000,000 options upon appointment with a strike price of €0.335 based on the 20-day VWAP prior to the EGM, immediate vesting and a life of five years from that date. At the AGM of 25 May 2016 one member of the Board of Management was granted a total of 4,000,000 options for the period 2016-2020 with annual vesting conditions for the period 2017-2020. The exercise price of the granted options for the first tranche of 1,000,000 options for Mr. R. Wright is €0.209, and €0.335 for the second tranche. The fair values of the options vary between €0.045 and €0.114 per option.

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 2018. 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 €0.8 million in 2017 (2016: €1.3 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 2017, the Company granted 7,715,000 options to employees with a weighted average exercise price of €0.335; fair values for options granted in 2017 were in the range of €0.228 - €0.272.

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.
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An overview of activity in the number of options for the years 2017 and 2016 is as follows: (please also refer to note 32 in respect of movements since the reporting date):

	2017		2016	
	NUMBER	WEIGHTED AVERAGE	NUMBER	WEIGHTED AVERAGE
BALANCE AT 1 JANUARY	**49,323,785**	**0.296**	**40,436,161**	**0.455**
Expired	(660,194)	0.575	(1,305,942)	1.412
Exercised	(1,091,651)	0.216	-	
GRANTED UNDER PLAN FOR:				
Board of Management	-		4,000,000	0.209
Employees	7,715,000	0.335	6,575,000	0.209
FORFEITED UNDER PLAN FOR:				
Board of Management	-		-	-
Employees	(385,311)	0.388	(381,434)	0.375
BALANCE AT 31 DECEMBER	**54,901,629**	**0.408**	**49,323,785**	**0.296**

In 2017 a total of 1,091,651 options have been exercised with an average exercise price of €0.216.

All options outstanding at 31 December 2017 are exercisable with the exception of the unvested options granted to the Board of Management and employees still in service.

The 2014, 2015 and 2016 share options for the Board of Management vest annually. Three of five tranches of the 2014 grant and 2 of four tranches of the 2015 and one tranche of the 2016 grant are vested as at year-end, 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 2017 is 3.1 years (2016: 3.4 years).

Exercise prices of options outstanding at 31 December 2017 and the exercise values are in the following ranges:

EXERCISE PRICES IN €	NUMBER	TOTAL RANGE EXERCISE VALUE
0.063 - 0.25	16,647,463	2,825,465
0.25 - 0.50	20,700,280	7,070,067
0.50 – 0.75	11,713,886	5,915,506
0.75 – 2.50	5,840,000	6,599,200
BALANCE AT 31 DECEMBER	**54,901,629**	**22,410,238**

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

	2017	2016
Expected time to maturity (employees)	3.1 years	3.4 years
Expected time to maturity (Board of Management)	1.6 years	2.6 years
Volatility (employees)	66-74%	66-74%
Volatility (Board of Management)	75-84%	75-84%
Risk-free interest rate (employees)	-0.24 – 0.07%	-0.2 – 0.03%
Risk-free interest rate (Board of Management)	-0.09 – 0.15%	-0.09 – 0.15%

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:

	2017	2016
Volatilities	68%	25-215%
Risk-free interest rates	-0.151%	-0.603 – 1.284%
Dividend yields	0.00%	0.00%

SHARE-BASED COMPENSATION	2017	2016
Board of Management options	786	1,264
Employee options	1,166	621
Long term incentive plan	760	369
BALANCE AT 31 DECEMBER	**2,712**	**2,254**

The decrease of Board of Management options expense in 2017 compared to 2016 results mainly from the decrease of the expense from the options granted in 2014 and 2015 compared to the expense in 2016. The employee options expense increased and reflects the increased fair value of the options granted in 2017.

Long term incentive plan expenses increased due to he effects of a higher fair value of shares granted compared to 2016.

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 2017.
The members of the Board of Management are statutory directors.

Remuneration

Compensation of the members of the Board of Management for 2017 and 2016 was as follows:

Amounts in € '000	YEAR	BASE SALARY	BONUS (i)	SHARE-BASED PAYMENT (ii)	POST-EMPLOYMENT BENEFITS (iii)	OTHER (iv)	TOTAL
S. de Vries	**2017**	475	330	536	79	32	**1,452**
	2016	454	258	736	79	32	1,559
B.M. Giannetti	**2017**	309	186	328	78	15	**916**
	2016	287	148	445	75	36	991
R. Wright	**2017**	296	135	203	34	-	**668**
	2016	264	165	205	30	-	664
TOTAL	2017	**1,080**	**651**	**1,067**	**191**	**47**	**3,036**
	2016	1,005	571	1,386	184	68	3,214

(i) Bonuses are related to the achievement of the corporate and personal objectives. Refer to the report of the Remuneration Committee for the review of the performance and the extent the goals have been met.
(ii) Share-based payments are long term benefits and for 2017 relates to options of €0.8 million (2016: €1.3 million) and long term incentive plan of €0.3 million (2016: €0.1 million).
(iii) Post-employment benefits increased due to compensation in pension earnings due to the change in maximum earnings of €0.1 million per annum.
(iv) Includes lease- and car compensation and other related expenses.

Shares

At 31 December 2017, the members of the Board of Management held the following number of shares:

Since 31 December 2017, all members of the Board of Management have increased their holdings during a regulated open period. All shares held by members of the Board of Management are unrestricted.

MEMBER	SHARES HELD
B.M. Giannetti	779,885
S. de Vries	1,568,177
R. Wright	220,000
TOTAL	**2,568,062**

Options

The following table gives an overview of movements in number of option holdings of the individual members of the Board of Management in 2017 and 2016, the exercise prices and expiration dates:

	1 JANUARY 2016	GRANTED 2016	GRANTED 2017	FORFEITED/ EXPIRED 2016-2017	31 DECEMBER 2017	EXERCISE PRICE (€)	EXPIRATION DATE
B.M. GIANNETTI							
	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 June 2019
TOTAL	**9,296,250**	**-**	**-**	**(471,250)**	**8,825,000**		
S. DE VRIES							
	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 June 2019
TOTAL	**15,225,000**	**-**	**-**	**(725,000)**	**14,500,000**		
R. WRIGHT							
	1,000,000	-	-	-	1,000,000	0.355	28 Oct 2020
	-	4,000,000	-	-	4,000,000	0.209 - 0.335	25 May 2021
TOTAL	**1,000,000**	**4,000,000**	**-**	**-**	**5,000,000**		
IN SERVICE: 31-12-2017	**25,521,250**	**4,000,000**	**-**	**(1,196,250)**	**28,325,000**		

Loans or guarantees

During the year 2017, 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 2017.

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 2017 and 2016 the annual compensation is as follows:

BOSD	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.

Compensation of the members of the Board of Supervisory Directors for 2017 and 2016 was as follows:

Amounts in € ‘000	YEAR	BOSD	AC	RC	SHAREBASED PAYMENT	TOTAL
P. Sekhri	**2017**	50	-	-	32	82
	2016	44	-	-	12	56
J. Blaak	**2017**	36	-	3	31	70
	2016	42	-	3	22	67
J.H.L. Ernst	**2017**	36	3	3	31	73
	2016	36	3	3	18	60
J.B. Ward	**2017**	36	3	6	31	**76**
	2016	36	1	6	18	61
A. de Winter	**2017**	36	9	-	31	76
	2016	36	9	-	18	63
J. Egberts	**2017**	36	3	-	25	64
	2016	36	2	-	12	50
TOTAL	**2017**	**230**	**18**	**12**	**181**	**441**
	2016	**230**	**15**	**12**	**100**	**357**

Shares, options and warrants

Members of the Board of Supervisory Directors do not participate in an option plan. In 2017 a total of 725,000 LTIP shares were granted at the AGM, held on 25 May 2017.

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	EXERCISED	FORFEITED	NOT VESTED	RESERVED AT 31 DECEMBER 2017
J. Blaak	**2017**	100,000	-	-	-	100,000
	2016	150,000	-	-	-	150,000
	2015	150,000	-	-	-	150,000
	2014	150,000	(30,000)	-	(120,000)	-
J.H.L. Ernst	**2017**	125,000	-	-	-	125,000
	2016	125,000	-	-	-	125,000
	2015	125,000	-	-	-	125,000
	2014	125,000	(25,000)	-	(100,000)	-
J.B. Ward	**2017**	125,000	-	-	-	125,000
	2016	125,000	-	-	-	125,000
	2015	125,000	-	-	-	125,000
	2014	125,000	(25,000)	-	(100,000)	-
A. de Winter	**2017**	125,000	-	-	-	125,000
	2016	125,000	-	-	-	125,000
	2015	125,000	-	-	-	125,000
	2014	125,000	(25,000)	-	(100,000)	-
P. Sekhri	**2017**	150,000	-	-	-	150,000
	2016	100,000	-	-	-	100,000
	2015	100,000	-	-	-	100,000
J. Egberts	**2017**	100,000	-	-	-	100,000
	2016	100,000	-	-	-	100,000
	2015	100,000	-	-	-	100,000
TOTAL	**2017**	**725,000**	**–**		**–**	**725,000**
	2016	725,000	–		–	725,000
	2015	725,000	-	-	-	725,000
	2014	525,000	(105,000)	-	(420,000)	-

Shares

At 31 December 2017, the members of the Board of Supervisory Directors held the following number of shares:

MEMBER	SHARES HELD
J. Blaak	30,000
A. de Winter	25,000
J.B. Ward	75,000
J.H.L. Ernst	125,000
J. Egberts	150,000
TOTAL	**405,000**

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

Loans or guarantees

During the year 2017, 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 2017.

26 WARRANTS

An overview of activity in the number of warrants for the years 2017 and 2016 is as follows:

	2017		2016	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE (€)
BALANCE AT 1 JANUARY	**92,228,283**	**0.281**	**25,303,125**	**0.510**
Issued	9,174,372	0.455	88,025,158	0.284
Exercised	(86,151,655)	0.283	(100,000)	0.135
Expired	-	-	(21,000,000)	0.570
BALANCE AT 31 DECEMBER	**15,251,000**	**0.373**	**92,228,283**	**0.281**

The weighted average of the remaining contractual life in years of the outstanding warrants at 31 December 2017 is 5.2 years.

In 2017, the Company issued a total of 9,174,372 warrants with an exercise price of €0.455 in connection with the refinancing of the old loans and the amortizing bonds. In 2016, the Company issued a total of 88,025,158 warrants with an exercise price of €0.284 in connection with the total capital raise for the transaction with Valeant. All of these warrants have been reclassified as derivative financial liabilities.

Overall, the number of outstanding warrants at 31 December 2017 consisted of:

WARRANT PRICES IN €	NUMBER
0.135	1,410,257
0.284	4,666,371
0.455	9,174,372
BALANCE AT 31 DECEMBER	**15,251,000**

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	2017	2016
Salaries and other short-term employee benefits	2,038	1,900
Post-employment benefits	191	185
Share-based compensation	1,248	1,486
TOTAL	**3,477**	**3,571**

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 2017, the Company had a payable balance of a total amount of €0.7 million (2016: €0.7 million) to members of the Board of Management and Board of Supervisory Directors.

28 DEFERRED TAX ASSETS

The Company recorded deferred charges during the year ended December 31, 2017, related to the deferral of income tax expense. This is a recognition under IAS 12 that, if the Company believes that it will start to make taxable profits within the near future, it should take a part of its available net operating losses as a deferred tax asset, which is then depreciated as those taxable profits are extinguished by the net operating losses. The net operating losses are taxable losses from previous years which can be carried forward for up to 9 years in the Netherlands and up to 20 years in other jurisdictions in which the Company has operated. As Pharming has not previously made taxable profits, it has substantial net operating losses of approximately €119.3 million accumulated over the previous nine years back to 2009 in the Netherlands, excluding the tax result for 2017 which is not yet filed. The Company has a further US$11.8 million (€9.9 million) of net operating losses relating to its activities in the US since 1999.

During the year, the Board of Management assessed that one year's worth of net operating losses in the Netherlands and all of the US net operating losses should be used to determine the deferred tax asset and related income tax charge reduction. The amount transferred to deferred taxation is the expected tax effect on corporate income tax which use of those net operating losses would have, and this has been determined at €9.4 million for 2017 (2016: Nil).

AMOUNTS IN € '000	2017	2016
Balance at 1 January	-	-
Income tax charge: Provision for income tax recovery	9,442	-
BALANCE AT 31 DECEMBER	**9,442**	**-**

The calculation of the deferred tax amount is as shown below for 2017. There was no equivalent calculation in 2016.

AMOUNTS IN € '000	2017
NET OPERATING LOSSES - NETHERLANDS	
Net Operating Losses at year-end	104,159
Portion selected for deferred tax asset	28,598
TAX RATE USED:	
First €200,000: 20%	40
Thereafter: 25%	7,100
TOTAL TAX EFFECT NETHERLANDS	7,140
NET OPERATING LOSSES - US	
Net Operating Losses at year-end ($ 11,824)	9,873
Portion selected for deferred tax asset	9,873
TAX RATE USED:	
2017: $1,962,000: 35%	573
0.21	1,729
TOTAL TAX EFFECT US	2,302
Tax effect Netherlands - losses deferred	7,140
Tax effect US - losses deferred	2,302
TOTAL DEFERRED TAX ASSET	**9,442**

29 BUSINESS COMBINATIONS AND CONTINGENT CONSIDERATION

In 2017, the Company did not complete any new acquisition of business.

In 2016 Pharming completed the acquisition of all North American commercialization rights for its own product RUCONEST® from Valeant.

Pharming paid an upfront amount of US$60 million, and committed future payments up to a further US$65 million, based on achievement of certain sales milestones. After this acquisition, Pharming became responsible for selling RUCONEST® directly in the US.

At the time of the transaction and for much of 2017, the likelihood of reaching the first milestone level in the near future was considered remote. Accordingly, little of the total possible contingent consideration was provided for in the accounts. At the time of the transaction, the amount recognised was €4.7 million. The fair value of the contingent consideration is based on the estimated probability of payment at any time in the future. Over the course of 2017, as sales have continued to grow and to accelerate, and with the strong performance in the fourth quarter in particular, the Board of Management now believes that it is probable that at least one of the sales milestones will be reached and there is a chance that the rest will also be achieved. Accordingly, we have increased the fair value of contingent consideration from €4.7 million to €28.3 million by taking a charge to the income statement of €23.6 million. If the first milestone is reached, this provision will cover a major part of the corresponding charge to the income statement at the time of payment. If sales continue to grow or decline, then further adjustments to the fair value of the contingent consideration in "Other financial liabilities" will reflect such changes in the probabilities of payment of future milestones as the sales change suggest.

30 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 one of the buildings in the Netherlands and new lease cars in the US, the total commitments as per 31 December 2017 increased to €9.7 million (2016: €9.4 million).

AMOUNTS IN € '000	2017	2016
Within one year	1,828	2,493
After one year but not more than five years	5,770	5,640
More than five years	2,103	1,292
TOTAL	9,701	9,425

Operating lease charges of €1.6 million were taken to the profit and loss in 2017 (2016: €1.4 million).

Material agreements

At end of 2017 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 €66 million (2016: €58 million), of which €22 million relates to 2018 and €44 million for 2019-2022.

31 FINANCIAL RISK MANAGEMENT

General

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

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern. This includes a regular review of cash flow forecasts and, if deemed appropriate, subsequent raising of funds through execution of equity and/or debt transactions. In doing so, the Board of Management's strategy is to achieve a capital structure which takes into account the best interests of all stakeholders. Pharming's capital structure includes cash and cash equivalents, debt and equity. Compared to last year there have been no significant changes in risk management policies.

Currency risk

This is the risk that the fair value of 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 (US dollar). Certain payments and sales of RUCONEST® in the US are being and will be received in US dollar. Repayments and interest payments of the loans are made in US dollar. Some direct payments of US activities are carried in US dollar through the Dutch entities. At 31 December 2017 the Company's cash and cash equivalents, including restricted cash, amounted to €60.0 million. This balance consists of cash assets denominated in € for a total amount of €4.1 million and cash assets in US dollar for a total amount of US$66.9 million or €55.9 million (applying an exchange rate EUR/US$ at 31 December 2017 of 1.1977). The US dollar cash balance will mainly be used for the commercialisation activities of the US organization and to cover partially the operating costs of the activities in the EU and RoW.

The carrying value of the loan at 31 December 2017 was US$95.6 million or €79.8 million. The other assets and liabilities denominated in USD amounted in total respectively US$9.5 million (€8.0 million) and US$7.1 million (€5.9 million). We 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 US dollar has a hypothetical result of respectively a loss or gain of €2.2 million on the holding values of the loan, cash and cash equivalents, and other assets and liabilities denominated in USD.

The fact that US sales are approximately the same size as the amount of the Company's debt denominated in US dollars has provided a natural hedge for currency movements between the euro and the US dollar. As the euro strengthens, the sales fall but so does the carrying value of the debt. If the US dollar strengthens, then sales go up but so does the holding value of the debt. This situation will no longer apply as and when repayments of the loan begin or sales increase, and so the Company is making plans for the introduction of an integrated treasury policy involving non-speculative hedging instruments such as forward purchases and sales to enable this risk to be managed and contained.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pharming's interest rate risk policy is aimed at minimising the interest rate risks associated with the financing of the Company and thus at the same time optimising the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating interest positions, including those generated by cash and cash equivalents and those paid on finance lease liabilities. The Company performed a sensitivity analysis in which the effect of a 1% interest increase or 1% interest decrease on the carrying value of the financial instruments at year-end 2017 was measured. Pharming concluded that the total effect taking place on the carrying value of these items would be approximately €0.81 million. If interest rates begin to rise, then the Company plans to begin a policy of non-speculative interest rate hedges using ordinary commercial instruments designed for that purpose.

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 2017 is represented by the carrying amounts of cash and cash equivalents and trade and other receivables.

The carrying amounts of the cash and cash equivalents (including restricted cash) as at 31 December 2017 amounted to €60.0 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 2017 amounted to €11.3 million. As at the date of these financial statements, these amounts have largely been settled, including receipts in cash and receipt of goods and services in exchange of prepaid expense items. Based on the credit ratings of cash and cash equivalents (including restricted cash) as well as the position taken with respect to trade and other receivables, the Company considers that this risk is adequately managed.

Liquidity risk

The liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Pharming's objective is to maintain a minimum level and certain ratio of cash and cash equivalents (including short-term deposits). The strategy of the Company is to repay its obligations through generation of cash income from operating activities such as product sales and licensing agreements. In case such cash flows are insufficient, the Company relies on financing cash flows as provided through the issuance of shares or incurring financial liabilities. Note 3 of these financial statements more extensively describe the Company's going concern assessment.

The following table presents the financial liabilities at year-end 2017, 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 2017. Other financial liabilities comprise the contingent consideration provision for the expected future milestones due to Valeant, as explained further in Note 29.

AMOUNTS IN €'000	2018	2019	2020	2021	2022	TOTAL	TOTAL 2017-2021
Trade and other payables	27,198	-	-	-	-	27,198	14,054
Derivative financial liabilities	8,301	-	-	-	-	8,301	9,982
Loans and borrowings	24,387	35,104	31,726	15,410	-	106,627	109,038
Other financial liabilities*	-	16,699	16,699	20,873		54,271	-
Finance lease liabilities	281	281	211	-	-	773	1,054
TOTAL	**60,167**	**52,084**	**48,636**	**36,283**	**-**	**197,170**	**134,128**

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 or which are based on the probability of future events occurring (that is, unobservable inputs) (level 3).

The following table presents the liabilities that are measured at fair value at year-end 2017 and 2016

	2017		2016	
AMOUNTS IN € '000	LEVEL 3	TOTAL	LEVEL 3	TOTAL
Derivative financial liabilities	8,301	8,301	9,982	9,982
Other financial liabilities*	28,319	28,319	4,674	4,674
BALANCE AT 31-12	**36,620**	**36,620**	**14,656**	**14,656**

** This amount represents the fair value of the Contingent consideration.*

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

	2017	2016
Expected time to maturity of warrants in issue	3.4 years	5.5 years
Volatility	81%	66 - 72%
Risk-free interest rate	-0.26 - 0.16%	-0.19 - 0.51%

The balance also includes fair value of conversion options embedded within borrowings which were separated as derivative liabilities. As described in note 2.4 (Significant accounting judgments and estimates) the Company has performed a sensitivity analysis which demonstrates the potential possible effects in the event that derivative financial liabilities are settled for shares at a fair value price different from the exercise value.

The following table includes exercise 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 31-12-2017 IN €'000	ADDITIONAL (PROFIT)/ LOSS IN €'000
0.900	2,296	7,941	8,301	(360)
0.950	2,296	8,382	8,301	81
1.000	2,296	8,823	8,301	522
1.050	2,296	9,264	8,301	963
1.100	2,296	9,705	8,301	1,404
1.150	2,296	10,147	8,301	1,846
1.200	2,296	10,588	8,301	2,287
1.250	2,296	11,029	8,301	2,728
1.300	2,296	11,470	8,301	3,169
1.350	2,296	11,911	8,301	3,610

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

	2017		2016	
AMOUNTS IN € '000	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents, includingrestricted cash	59,993	59,993	32,137	32,137
Trade and other receivables	11,260	11,260	11,387	11,387
LIABILITIES				
Loans and borrowings	80,646	80,646	66,531	66,531
Finance lease liabilities	653	653	862	862
Trade and other payables	27,198	27,198	13,836	13,836
Derivative financial liabilities	8,301	8,301	9,982	9,982

The above fair values of financial instruments are based on internal calculations with the exception of the warrant and conversion option in the derivative financial liabilities as calculated by an independent valuator. Cash and cash equivalents, trade and other receivables as well as trade and other payables are stated at carrying amount, which approximates the fair value in view of the short maturity of these instruments. The fair values of finance lease liabilities and loans and borrowings (both non-current and current portion) are based on arm's length transactions.

The net debt sets out an analysis for each of the period presented, showing the remaining undiscounted contractual amounts due including nominal interest.

AMOUNTS IN € '000	2017	2016
Cash and cash equivalents	58,657	31,889
Loans and borrowings - repayable within one year	(25,381)	(36,498)
Loans and borrowings - repayable after one year	(81,753)	(73,594)
NET DEBT	**(48,477)**	**(78,203)**
Cash and cash equivalents	58,657	31,889
Gross debt - fixed interest rates	(105,410)	(110,092)
Gross debt - variable interest rates	(1,724)	-
NET DEBT	**(48,477)**	**(78,203)**

32 EARNINGS PER SHARE AND FULLY-DILUTED SHARES

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

For 2017 and 2016, The basic loss per share is:

	2017	2016
Net loss attributable to equity owners of the parent (in €'000)	(79,957)	(17,536)
Weighted average shares outstanding	500,412,774	415,381,324
Basic loss per share (in €)	(0.160)	(0.042)

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 2017 and the date of these financial statements is provided in the following table.

Movements between 31 December 2017 and 28 March 2018:

	31 DECEMBER 2017	SHARES ISSUED	SHARES RESERVED	28 MARCH 2018
Shares	579,014,891	21,434,185	-	600,449,076
Warrants	15,251,000	(14,028,289)	-	1,222,711
Options	54,901,629	(7,378,093)	(250,000)	47,273,536
Convertible bonds	2,746,476	(2,746,476)	-	-
LTIP	7,974,803	(961,114)	1,040,265	8,053,954
ISSUED	**659,888,799**	**(3,679,787)**	**790,265**	**656,999,277**
Available for issue	140,111,201	3,679,787	(790,265)	143,000,723
AUTHORISED SHARE CAPITAL	**800,000,000**	**-**	**-**	**800,000,000**

33 EVENTS AFTER THE REPORTING YEAR

Since 31 December 2017, the following additional events have occurred:

- **Following the submission of the supplemental Biologics License Application for RUCONEST® in prophylaxis of HAE in November 2017, the FDA informed the Company in January 2018 that it had accepted the file for complete review**
- **Since the year end, all remaining ordinary bonds dated 2021 which had not previously been redeemed (€1.2 million) have been redeemed in accordance with their terms. None of the Company's ordinary convertible bonds or amortizing convertible bonds remain outstanding as at the date of this report.**
- **On 7 March 2018, a warrant holder exercised on request 9,174,372 warrants cashlessly, resulting in an issue of 6,315,235 shares.**
- **On 15 March 2018, the Company announced that it has been included in the Euronext Amsterdam SmallCap-index (AScX) with its shares (PHARM).**

COMPANY STATEMENT OF INCOME

For the year ended 31 December

Amounts in € ‘000	NOTES	2017	2016
License fees		136	264
REVENUES		**136**	**264**
Research and development		(3,751)	(4,421)
General and administrative		(4,928)	(4,642)
Marketing and sales		(1,941)	(881)
COSTS		**(10,620)**	**(9,944)**
OPERATING RESULT	12	**(10,484)**	**(9,680)**
Fair value gain (loss) on revaluation derivatives		(40,284)	79
Other financial income and expenses		(46,193)	(6,067)
FINANCIAL INCOME AND EXPENSES		**(86,477)**	**(5,988)**
RESULT BEFORE INCOME TAX		**(96,961)**	**(15,668)**
Income tax credit (expense)		7,139	-
NET RESULT FOR THE YEAR		**(89,822)**	**(15,668)**
Share in result of investments		9,865	(1,868)
TOTAL NET RESULT		**(79,957)**	**(17,536)**

The notes are an integral part of these financial statements.

COMPANY BALANCE SHEET

For the year ended 31 December
(after proposed appropriation of net loss)

Amounts in € ‘000	NOTES	2017	2016
Intangible assets		469	469
Property, plant and equipment	3	689	658
Deferred tax asset	4	7,139	-
Financial assets	8	91,795	70,284
NON-CURRENT ASSETS		**100,092**	**71,411**
Trade and other receivables	5	894	5,349
Cash and cash equivalents	6	9,032	31,257
CURRENT ASSETS		**9,926**	**36,606**
TOTAL ASSETS		**110,018**	**108,017**
Share capital		5,790	4,556
Share premium		370,220	301,876
Legal reserves		(938)	60
Accumulated deficit		(356,270)	(279,025)
SHAREHOLDERS’ EQUITY	7	**18,802**	**27,467**
Loans and borrowings	9	58,684	40,395
Deferred license fees income		-	-
NON-CURRENT LIABILITIES		**58,684**	**40,395**
Loans and borrowings	9	21,962	26,136
Deferred license fees income		-	136
Derivative financial liabilities	10	8,301	9,982
Trade and other payables	11	2,269	3,901
CURRENT LIABILITIES		**32,532**	**40,155**
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES		**110,018**	**108,017**

The notes are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 GENERAL

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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	372	588	**1,707**
Accumulated depreciation	(708)	(21)*	(393)*	**(1,122)**
CARRYING VALUE AT 1 JANUARY 2016	**39**	**351***	**195***	**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	(746)	(118)*	(444)*	**(1,308)**
CARRYING VALUE AT 31 DECEMBER 2016	**1**	**426***	**231***	**658**
Investments	-	82	131	**213**
Depreciation charges	-	(113)	(69)	**(182)**
MOVEMENT 2017	**-**	**(31)**	**62**	**31**
At cost	747	626	806	**2,179**
Accumulated depreciation	(746)	(231)	(513)	**(1,490)**
CARRYING VALUE AT 31 DECEMBER 2017	**1**	**395**	**293**	**689**

** € 12k reclassified between categories compared to prior year financial statements*

4 DEFERRED TAX ASSET

The Company recorded deferred tax charges during the year ended December 31, 2017, related to the deferral of income tax expense. The deferred tax asset in the Company financial statement relate to deferred taxes in the Netherlands. We refer to note 28 'Deferred tax assets' of the consolidated financial statements for more details.

5 TRADE AND OTHER RECEIVABLES

AMOUNTS IN € '000	2017	2016
Prepaid expenses	285	258
Value added tax	588	637
Other receivables	21	4,454
BALANCE AT 31 DECEMBER	**894**	**5,349**

Trade and other receivables at 31 December 2017 are substantially short-term in nature and have largely been settled as per the date of these financial statements.

6 CASH AND CASH EQUIVALENTS

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 2017 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.

AMOUNTS IN € '000	2017	2016
Cash and cash equivalents	9,032	31,257
BALANCE AT 31 DECEMBER	**9,032**	**31,257**

7 SHAREHOLDERS' EQUITY

The Company's authorised share capital amounts to €8.0 million and is divided into 800,000,000 ordinary shares with a nominal value of €0.01 each. All 579,014,891 shares outstanding at 31 December 2017 have been fully paid-up.

Movements in shareholders' equity for 2017 and 2016 were as follows:

AMOUNTS IN € '000	2017	2016
BALANCE AT 1 JANUARY	**27,467**	**23,839**
Net loss	(79,957)	(17,536)
Foreign currency translation	(998)	(6)
TOTAL COMPREHENSIVE INCOME	**(80,955)**	**(17,542)**
Share-based compensation	2,712	2,254
Bonuses settled in shares	255	126
Shares issued for cash	-	8,811
Warrants issued and exercised	18,238	9,979
Conversion option exercised	50,909	-
Options exercised	176	-
TOTAL TRANSACTIONS WITH OWNERS	**72,290**	**21,170**
BALANCE AT 31 DECEMBER	**18,802**	**27,467**

For a detailed movement schedule of equity for the years 2017 and 2016, please refer to the consolidated statement of changes in equity

8 FINANCIAL ASSETS

Movement of financial assets and the provision for investments for the years 2017 and 2016 was as follows:

AMOUNTS IN € '000	INVESTMENTS IN SUBSIDIARIES	PROVISION FOR INVESTMENTS	NET TOTAL
BALANCE AT 1 JANUARY 2016	-	(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)
Share in results of investments	15,469	(5,604)	9,865
Exchange rate effects	-	2,183	2,183
Reclassification	-	-	-
BALANCE AT 31 DECEMBER 2017	**17,361**	**(214,043)**	**(196,682)**

At year-end 2017 and 2016, the provision for subsidiaries was off-set with the following receivable balances from Pharming Group N.V.:

AMOUNTS IN € '000	2017	2016
Provision for investments	(196,682)	(208,730)
Receivable	288,477	279,013
INVESTMENT	**91,795**	**70,284**
Of which classified as provision for investments	-	-
RECEIVABLE FROM GROUP COMPANIES	**91,795**	**70,284**

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

9 LOANS AND BORROWINGS

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

10 DERIVATIVE FINANCIAL LIABILITIES

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

11 TRADE AND OTHER PAYABLES

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

AMOUNTS IN € '000	2017	2016
Accounts payable	852	998
Taxes and social security	173	117
Deferred compensation due to related parties	751	742
Other payables	493	2,044
BALANCE AT 31 DECEMBER	**2,269**	**3,901**

12 OPERATING RESULTS

Other results in 2017 and 2016 include costs of share-based compensation in the amount of respective €2.7 million and €2.3 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.

13 EMPLOYEE INFORMATION

All employees of Pharming Group N.V. in both 2017 and 2016 were based in the Netherlands and France. The weighted average number of full-time equivalent employees in 2017 was 23 (2016: 22) and the number of employees at 31 December 2017 was 27 (31 December 2016: 23). The weighted average number of employees working outside the Netherlands was 10 (2016: 10).

14 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 2017, the Company owed a total amount of €0.7 million to members of the Board of Management with respect to their compensation (see note 11 of the Company financial statements).

15 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 2017 increased to €2.3 million (2016: €1.4 million).

Operating lease charges of €0.3 million were taken to the profit and loss in 2017 (2016: €0.5).

AMOUNTS IN € '000	2017	2016
Within one year	283	450
After one year but not more than five years	1,124	919
More than five years	943	-
TOTAL	**2,350**	**1,369**

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS 2017

OUR OPINION

In our opinion:

- **Pharming Group N.V.'s consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of its result and its 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;**
- **Pharming Group N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 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 2017 financial statements 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 2017;**
- **the following statements for 2017: 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 2017;**
- **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.

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

Independence

We are independent of Pharming Group N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties'(Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands.

Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

OUR AUDIT APPROACH

Overview and context

Pharming Group N.V. is a specialty pharmaceutical company headquartered in the Netherlands developing innovative products for the safe, effective treatment of rare diseases and unmet medical needs.

The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below. The financial year 2017 was characterised by the impact of the reacquisition of the commercial rights to RUCONEST® in North America in 2016. Furthermore, the Company settled the loans entered into in 2016 and replaced these with new loans in 2017 with other commercial terms.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important 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 a higher inherent risk of material misstatement in revenue recognition in the United States of America, valuation of the contingent consideration and intangible asset recognised for the reacquisition of the commercial rights to RUCONEST® in North America and valuation of deferred tax assets, 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 2017. Funding is identified as a key audit matter as the Company has yet to generate structural positive operating cash flows.
As in all of our audits, we 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.

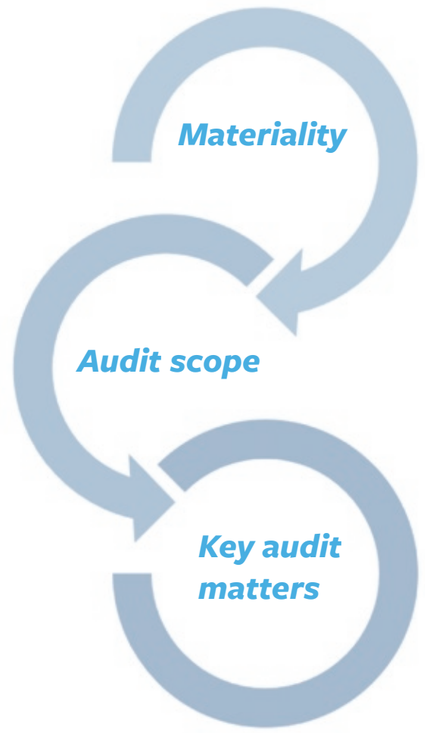
We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a pharmaceutical company. We therefore included specialists in the areas of financial instruments specialists, share based payments specialists and valuation experts in our team.

The outlines of our audit approach were as follows:

Materiality
- Overall materiality: €570,000.

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.
- We visited the Pharming United States office in New Jersey.
- Inventory counts at the external inventory locations in the United States and France were conducted by local auditors based on our instructions.
- Our audit scope covered all subsidiaries included in Pharming Group N.V.

Key audit matters
- Revenue recognition in the United States of America;
- Classification, valuation and disclosure of derivative financial instruments;
- Valuation of the contingent consideration and related intangible asset 'Re-acquired rights';
- Valuation of deferred tax assets;
- 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'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. 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, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality
€570,000 (2016: €430,000).

Basis for determining materiality
4% of result before tax (excluding non-recurring financial expenses).

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 the following non-recurring financial expenses, specifically settlement fees of loans and transaction fees and expenses for an amount of €34,872,000. In addition we excluded the fair value loss on revaluation of derivatives upon settling of the loans and warrants amounting €40,284,000). These expenses are non-recurring because they relate to the refinancing and to specific agreements included in the loan agreements. Since the Company has transformed itself from a research and development company, to a more sales oriented company in the past years, we believe that result before tax is a relevant metric for the financial performance of the Company, for which we applied a percentage of 4%.

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

We agreed with the board of supervisory directors that we would report to them misstatements identified during our audit above €28,500 (2016: €21,500) 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. Even though the Company established its own sales organization in the United States during the financial year 2017, accounting for the group's activities takes place at the headquarters in Leiden, Netherlands. As a consequence, we were able to perform most of the audit work for the group at that location. Our audit scope covered all subsidiaries of Pharming Group N.V. 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 the United States and France were conducted by local auditors based on instructions sent by us. These instructions included the scope and timing of the procedures to perform. In addition we reviewed their results.

By performing the procedures above, we believe we have been able to obtain sufficient and appropriate audit evidence on the group's financial information, as a whole, to provide a basis for our opinion on the 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 board of supervisory directors. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, 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 separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

The key audit matters 'Revenue recognition in the United States of America and Funding' are similar in nature to the key audit matters we reported in 2016. Based on the developments within the Company, the key audit matter 'Classification, valuation and disclosure of derivative financial instruments' changed due to the new loans in 2017. The key audit matter related to 'Re-acquisition of commercial rights' in 2016 was replaced by the key audit matter 'Valuation of the contingent consideration and intangible asset 'Re-acquired rights''. 'Valuation of deferred tax assets' is a new key audit matter based on the fiscal profits forecasted by management for the foreseeable future.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Revenue recognition in the United States of America See note 2.4 The supply price of the product sold by Pharming in the United States of America ("US") is subject to different governmental rebate programs. As a result management is required to assess the different rebate programs when recognising revenue. Which rebate program is applicable on the sale, depends in which program the patient is enrolled. Management is dependent of information received from different parties in the supply chain to make this assessment. The rebates for the financial year 2017, to be paid to the insurance companies, will be finally settled after the reporting date. Therefore, the amount recognized is subject to management estimates. Once the Company has gathered the information, management is required to make certain estimates in respect of the amount of patients in the different rebate programs to accrue for rebates and chargebacks that will be realised against the Company's sales. Management's estimate is based on historical, as well as actual year to date sales information. Revenue recognition is considered as a key audit matter as it involves significant management judgement to estimate the accrued rebates per program at year-end	We ensured the completeness of the recorded sales volumes by reconciliation of the flow of goods to external delivery documents on a sample basis. In addition we attended physical inventory observations at both client and third party warehouse service providers. We tested revenue transactions on a sample basis in order to verify that revenue is recognized accurately and in the appropriate period. Therefore we tested pricing conditions with underlying contracts, and transactions based on inventory reports received from commercial partners in the US. We updated our understanding of the estimations process made around rebates and chargebacks including assumptions used by management. We agreed the actual sales figures used in the calculation, to the figures audited by us. We confirmed the actual patient data for the government programs available up to mid-2017, with a third party service provider. Using the actual patient data available for the first half year, we recalculated the estimated sales for the government programs for the sales for the remainder of the year. We verified that management applied the same proportion of total sales as in the first half of the year to estimate the number of patients per program for the remainder of the year. Subsequently, we verified that management accrued for the same rebates and chargebacks as the first half of the year. Furthermore, we read the board minutes and the available written communication with the sales partners in order to identify information that could impact revenue recognition. Based on the procedures performed, we consider managements' estimates to be reasonable and therefore revenue for the financial year to be appropriate.

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 31 In relation to the re-acquisition of the commercial rights in December 2016, the Company at the time raised funding through a combination of a rights issue, a senior loan and an amortising convertible bond issue. In 2017 the Company refinanced the senior loan and the amortising convertible bond with new loans with other commercial terms. Both the old and new financing arrangements include derivatives and embedded derivatives such as conversion options and grants of warrants to the holders of the loans and bonds. Management judgement was required to determine the nature of these financial instruments and the classification as equity or liability. Furthermore, management judgement was required regarding how to account and value these derivatives. The main assumptions relate to the fair value of underlying shares, the expected volatility of the share price, dividends expected on the underlying shares and the risk free interest rate over the life of the option or warrant. Due to the complexity of the contracts, the significance of the balances involved and the impact of management judgements and estimates we considered this a key audit matter.	Our audit procedures included, amongst others, the review of the loan agreements and the assessment of the identification and classification of the different derivative financial instruments, such as whether the contracts meet the fixed-for-fixed criteria. Regarding valuation, we performed our audit procedures with support of valuation and financial instrument specialists. Our procedures comprised of an assessment of the methodology and the appropriateness of the valuation models used based on generally accepted industry practice to value derivative financial instruments and judgements made by management in this process. With respect to the determined fair values, we assessed the assumptions based on the closing price of the common shares, the exercise price as included in the loan agreements, the historical volatility of the Pharming shares using our own source DataStream, the maturity date in the loan agreement, and the ECB yield at the date of measurement. Based on these procedures, we assessed that the valuation of a sample of each type of derivative financial instruments is within a pre-defined tolerable differences threshold and no material exceptions were noted.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Valuation of the contingent consideration and related intangible asset 'Re-acquired rights' See note 2.4 and note 11 and note 29 In 2016 the Company re-acquired all commercial rights to sell RUCONEST® in North America. The purchase agreement included potential future payments up to an additional USD 65 million, based on achievement of certain sales milestones. This led to an initial recognition of the intangible asset 'Re-acquired rights' of € 55.8 million and a contingent consideration of € 4.7 million recognised in the Other financial liabilities. The contingent consideration recognised in 2016 was based on the estimated likelihood of meeting the sales milestones. Due to the significant increase in sales during 2017, the likelihood of reaching milestones in 2018 and beyond has increased. As a result management reassessed their estimate. Due to limited historical sales data there is significant judgement on the key assumptions in the sales forecasts. This reassessment resulted in an increase of the contingent consideration with € 23.6 million to € 28.3 million. Based on the expected developments in 2018 and beyond no impairment triggers with regards to the intangible asset 'Re-acquired rights' have been identified by management, and therefore no impairment calculation was performed. Given the significant judgement on the key assumptions, such as sales forecasts and anticipated development of margins and expenses, this area is considered to be a key audit matter.	For the contingent consideration we evaluated and challenged management's sales forecast and evaluation of different scenarios. We compared the sales forecasts by comparing prior year's forecast with the Company's actual performance in 2017. In addition, the sales forecast was evaluated by agreeing the sales to the budget approved by management and by benchmarking management's sales forecast against external data obtained from market research by financial analysts. In addition we checked the mathematical accuracy of management's reports. We reconciled the milestones included in the calculation of the contingent consideration to the sales milestones included in the contract. The above procedures did not result in any material exceptions. Furthermore, related to potential impairment triggers on the intangible asset 'Re-acquired rights', we found that the assessment made by management was based on reasonable assumptions consistently applied. In addition, we evaluated the adequacy of the related disclosures and found these to be appropriate.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Valuation of deferred tax assets See note 28 The Company has incurred significant tax losses in previous years. In these years, management did not record a deferred tax asset as they considered it not to be probable that this asset would be realized. The operating result for 2017 developed positively compared to 2016, and management expects to have taxable profits in the near foreseeable future. Based on these conditions, management expects it to be probable that the Company will be able to recover a portion of the tax losses. The recoverable deferred tax asset was determined based on the expected future taxable income, the applicable tax rates and expiry periods of tax loss settlement. As a result, management recognised a deferred tax asset for an amount of €9.4 million. Due to the inherent level of uncertainty, the potential limitations in the recoverability of deferred income tax assets and the significant management judgement involved, we considered the recoverability of deferred income tax assets to be a key audit matter for our audit.	We evaluated management's future forecasts, and challenged the underlying key assumptions such as expected revenues from product sales and expenses. Regarding revenue expectations, we challenged the estimates made by management by assessing whether the estimates regarding sales forecast and sales prices are in line with historical revenues to date and current contracts in place. We also assessed the 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. The forecasts were also assessed by benchmarking management's forecast against external data obtained from market research by financial analysts. We recalculated the recoverable tax based on the applicable tax rate and considered the local expiry periods together with any applicable restrictions in recovery. Additionally, we assessed the adequacy of the disclosures with respect to the deferred tax assets. Based on the audit procedures performed, we found that the assumptions made by management were supported by available evidence.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Funding See note 3 Prior to 2017, the Company was not able to generate enough cash from product revenues to meet its working capital requirements. It was dependent on financing arrangements with third parties. As reflected in the management report and note 3 of the financial statements, management concluded that the 2017 year-end cash balance of € 60.0 million is expected to be sufficient to support the ongoing operations of 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 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 inherent risk of the Company's business, as also described in the director's report under paragraph Corporate Governance and Risk Management and Going Concern, a risk in relation to the Company continuing as a going concern exists. Due to the nature of the business and its stage of development, additional funding might be required in the period beyond 12 months after the date of signing these financial statements. 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 forecast and sales prices are in line with historical revenues to date and current contracts in place. We also performed a sensitivity analysis on alternative scenarios by using the low end of revenue forecast, and accompanying key assumptions to ascertain the extent of change in those assumptions that either individually or collectively could 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 directors' 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 report of the board of supervisory directors, information for shareholders and investors 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 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 24 May 2017 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 9 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

We provided no other services, in addition to the audit, to the Company and its controlled entities, for the period to which our statutory audit relates.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of management and the board of supervisory directors 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, 28 March 2018
PricewaterhouseCoopers Accountants N.V.
R.M.N. Admiraal RA

APPENDIX TO OUR AUDITOR'S REPORT

on the financial statements 2017 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 board of supervisory directors 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. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of supervisory directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of supervisory directors, we determine 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 2017

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, 28 March 2018
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.

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.

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

Ruconest 2017 Published Manuscripts

1. Riedl MA, Li HH, Cicardi M, Harper JR, Relan A. Recombinant human C1 esterase inhibitor for acute hereditary angioedema attacks with upper airway involvement. Allergy Asthma Proc. 2017;38(6):462-466.

2. Li HH, Reshef A, Baker JW, Harper JR, Relan A. Efficacy of recombinant human C1 esterase inhibitor for the treatment of severe hereditary angioedema attacks. Allergy Asthma Proc. 2017;38(6):456-461.

3. Riedl MA, Grivcheva-Panovska V, Moldovan D, Baker J, Yang WH, Giannetti BM, Reshef A, Andrejevic S, Lockey RF, Hakl R, Kivity S, Harper JR, Relan A, Cicardi M. Recombinant human C1 esterase inhibitor for prophylaxis of hereditary angio-oedema: a phase 2, multicentre, randomised, double-blind, placebo-controlled crossover trial. Lancet. 2017;390(10102):1595-1602.

4. Bernstein JA, Relan A, Harper JR, Riedl M. Sustained response of recombinant human C1 esterase inhibitor for acute treatment of hereditary angioedema attacks. Ann Allergy Asthma Immunol. 2017;118(4):452-455.

5. Baker JW, Reshef A, Moldovan D, Harper JR, Relan A, Riedl MA. Recombinant human C1-esterase inhibitor to treat acute hereditary angioedema attacks in adolescents.
J Allergy Clin Immunol Pract. 2017;5(4):1091-1097.

Ruconest 2017 Published Abstracts

1. Hakl R, Anna Valerieva A, Farkas H, Jesenak M, Hrubiskova K, Zanichelli A, Staevska MT, Bellizzi L, Relan A, Cicardi M. Results from an interim analysis of a recombinant human C1 esterase inhibitor treatment registry in Europe. Ann Allergy Asthma Immunol. 2017;119(5): S47-48.

2. Hakl R, Kuklinek P, Krcmova I, Kralickova P, Hanzlikova J, Vachova M, Sobotkova M, Strenkova J, Litzman J. Hereditary angioedema laryngeal attacks treated with recombinant C1-INH: report from the Czech National Registry. Ann Allergy Asthma Immunol. 2017;119(5): S43.

3. Hakl R, Staevska M, Farkas H, Jesenak M, Hrubiskova K, Bellizzi L, Relan A, Cicardi M. Results from an interim analysis of a Ruconest treatment registry in Europe. Allergy Asthma Clinical Immunol. 2017;13(Suppl 2): P-10.

4. Veszeli N, Kőhalmi V, Varga L, Farkas H. Home treatment with conestat alfa in attacks of hereditary angioedema due to C1- inhibitor deficiency. Allergy Asthma Clinical Immunol. 2017;13(Suppl 2): P-24.

5. Valerieva A, Krusheva B, Petkova E, Dimitrov V, Staevska M. Off-label intramuscular administration of Conestat Alfa (rhC1inh) in HAE patients: a case series. Allergy Asthma Clinical Immunol. 2017;13(Suppl 2):P-39.

6. Baker JW, Bernstein JA, Harper JR, Relan A, Riedl MA. Efficacy of recombinant human C1 esterase inhibitor across anatomical locations in acute hereditary angioedema (HAE) attacks. J Allergy Clin Immunol. 2017;139(2 Suppl):AB235.

7. Yang WH, Li HH, Moldovan D, Grivcheva-Panovska V, Harper JR, Relan A, Riedl MA. Recombinant human C1 inhibitor (rHC1INH) is efficacious and well tolerated as prophylaxis for prevention of hereditary angioedema (HAE) attacks: a randomized, phase 2 trial. J Allergy Clin Immunol. 2017;139(2 Suppl):AB231.

8. Valerieva A; Krusheva B; Dimitrov V; Staevska M. Off-label intramuscular prophylactic treatment with conestat alfa (4200 U/20 mL) in HAE patient with difficult peripheral venous access. Allergy. 2017; 72(S103): AB1309.


REYKJAVIK
Trondheim
SWEDEN
NORWAY
Sundsvall
Faroe I. (Den.)
2470
Galdhöpiggen
Shetland Island (U.K.)
Bergen
OSLO
Örebro
Orkney Islands
Stavanger
Kristiansand
Göteborg
Hebrides I.
SCOTLAND
UNITED-KINGDOM
NORTH SEA
DENMARK
COPENHAGEN
Malmö
Almhult
Glasgow
Edinburgh
Odense
NORTH IRELAND
Belfast
Manchester
Hamburg
DUBLIN
ENGLAND
IRELAND
WALES
Cork
Cardiff
BELGIUM
BRUSSELS
GERMANY
Essen
Köln
Leipzig
LONDON
Lille
Plymouth
Frankfurt
Channel I. (U.K.)
LUX.
Strasbourg
Stuttgart
Brest
FRANCE
Munich
VIENNA
AUSTRIA
Loire
Nantes
Tours
Zürich
LIECHT.
VADUZ
BERN
SWITZERLAND
SLOVENIA
Lyon
Geneva
LJUBLJANA
Gulf of Gascony
Bordeaux
Mt Blanc
Turin
SAN MARINO
Milan
La Coruna
Bilbao
Nice
MONACO
Marseille
Corsica
VATICA
ANDORRA
Aneto
Barcelona
ROME
Naples
Bari
Porto
MADRID
Tajos
Valencia
Minorca
Sardinia
Azores (Port.)
PORTUGAL
LISBON
SPAIN
Balearic Is.
Ibiza
Palermo
Terceira
Pico
San Miguel
Santa Maria
Sevilla
Gibraltar (U.K.)
Strait of Gibraltar
Tangier
ALGIERS
TUNIS
Sicily
Etna
Oran
Sfax
RABAT
Casablanca
Madeira (Port.)
Funchal
MOROCCO
TUNISIA
Touggourt
TRIPOLI
Marrakech
Bechar
ATLAS MTS
Canary Islands (Spain)
Lanzarote
Palma
Tenerife
Gomera
Las Palmas
Gran Canaria
La'youn
ALGERIA

Pharming