Annual Report
2016

ZEALAND PHARMA

Entering a new era.

Zealand Pharma A/S
Company reg. no. 20045078

We are a Danish biotech company discovering and developing novel peptide-based medicines.

We are passionate about improving patients' lives and committed to delivering value for all our stakeholders.

We intend to be a world leader in medicines focusing on specialty gastrointestinal and metabolic diseases.

Contents.

Management review

Financial statements

Front page: Louise from Molecular Pharmacology, working in one of Zealand's laboratories.

In brief.

Branded products in diabetes care commercialized by Sanofi under an exclusive worldwide license

Lixisenatide is marketed as Adlyxin® in the U.S. and is approved as Lyxumia® in more than 60 countries worldwide and marketed in over 40 of these by Sanofi. Commercial launches include most EU countries, Japan, Brazil, Mexico and India.

Soliqua™ 100/33 is a combination of lixisenatide and Lantus® and is marketed by Sanofi in the U.S. The product was approved as Suliqua™ in the EU in January 2017. Suliqua™ will be delivered in two pre-filled SoloSTAR® pens, providing different dosing options.

Product pipeline

3 fully owned product candidates in Phase 2

- Glepaglutide* for short bowel syndrome (SBS)
- Dasiglucagon* for acute, severe hypoglycemia
- Dasiglucagon* for type 1 diabetes care

3 product candidates in partnerships

- Elsiglutide for chemotherapy-induced diarrhea
- A dual GLP1-GLU for obesity/type 2 diabetes
- An undisclosed target for obesity/type 2 diabetes

Scientific focus and platform

Drug discovery

We invent and develop medicines focusing on specialty gastrointestinal and metabolic diseases.

Peptides

Zealand has a successful 18-year history of discovering and optimizing peptide therapeutics as novel drugs.

* Glepaglutide and dasiglucagon are proposed International Nonproprietary Names (pINN).

Our approach

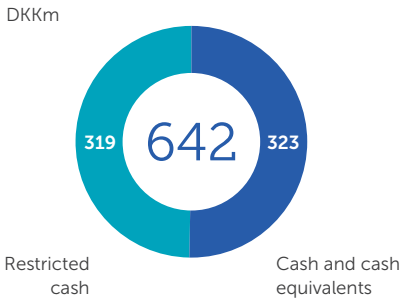
We build for success by maintaining a lean and agile organization and by partnering with the best in their fields, leading to greater efficiency and better results.

We have a history of successful outlicensing partnerships. Going forward, we will engage in partnerships across all stages of the value chain, but we will retain greater control and profitability.

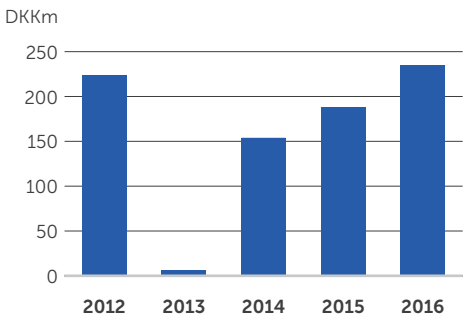
In 2016, we partnered with high-quality device and drug manufacturers and leading centers and hospitals to run our clinical development.

Financials

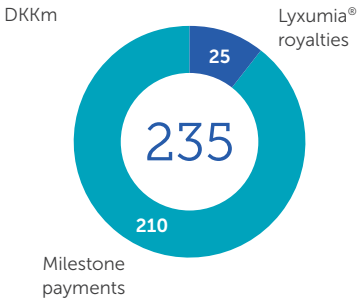
2016 year-end cash position



2012-2016 revenue



2016 revenue



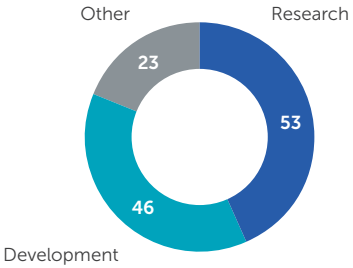
Employees are one of our biggest assets

We aspire

to attract, develop and retain the best people and to be a company where employees thrive, regardless of their background.

122 employees

More than 80% of our employees work in R&D, and 36 of our employees hold a PhD.



How we work

We have strengthened our organization with competencies enabling us to advance our product candidates through to registration and we will continue to expand our organization with relevant skills to fulfill our ambition, while maintaining our agility and leanness.

Zealand Pharma A/S

Based in Denmark

– home to a world-leading healthcare industry.

– and the country with the largest commercial drug development pipeline in Europe, according to investindk.com.

Founded in 1998

to design and develop peptide-based medicines.

Listed

on Nasdaq Copenhagen: ZEAL

Zealand enters a new era.

Dear Zealand stakeholders,
2016 was an outstanding year for Zealand Pharma. We took major steps toward significant value creation and evolved Zealand into a more sustainable biotech company.

Two products based on Zealand's invention lixisenatide were approved in the U.S. and made available to patients with type 2 diabetes by Sanofi. These important milestones will reward Zealand with a steadily growing revenue stream in the form of milestone payments and royalties.

Within the scope of our new strategy of bringing selected medicines all the way to market ourselves, we successfully progressed the development of our clinical programs: glepaglutide for patients with short bowel syndrome (SBS) and dasiglucagon for insulin shock and in combination with insulin for use in a dual-chamber pump.

Two products approved and launched in the U.S.

Zealand entered into a partnership with Sanofi more than a decade ago. 2016 was a determining year for our partnership, with both Adlyxin® and Soliqua™ 100/33 being approved in the U.S. We are reassured by the strong commitment of our partner Sanofi, which is responsible for development and commercialization, in making Soliqua™ 100/33 a success in the U.S.

Soliqua™ 100/33 was made available in U.S. pharmacies in the first week of 2017. The U.S. healthcare market was in the spotlight in 2016 due to the focus on price pressure, particularly in the insulin market. We are pleased by Sanofi's pragmatic approach to ensuring that Soliqua™ 100/33 is accessible to a large number of patients. Diabetes is, unfortunately, a growing disease with a continued need for better treatment. In fact, 50% of people with diabetes do not achieve their target blood sugar levels.

Finally, we are excited about the EU approval of Suliqua™ in early 2017, with launches expected from Q2 2017 by Sanofi.

Solid progress on our Phase 2 gastrointestinal and metabolic programs

In 2015, we launched a strategy based on the ambition to become a fully integrated biotechnology company. In 2016, we continued to strengthen the organization to successfully develop and make new and better medicines available to patients in the years to come. We build on our strong R&D platform, taking greater ownership of product candidates through late-stage clinical development and registration, and play an active part in bringing products to market. This will give us increased control and enable us to retain and significantly increase the future value for patients, Zealand and our shareholders.

Glepaglutide, a GLP-2 analogue, targets patients with short bowel syndrome (SBS). This is a severe disease affecting more than 40,000 patients globally. In 2016, we initiated a Phase 2 trial, working with one of the leading specialists in this field, and we expect the results in mid-2017. We are committed to helping patients suffering from SBS and are working with patients, physicians and payers to understand how to best address their needs. In addition to this program, our R&D organization is working on other projects to improve the lives of patients suffering from gastrointestinal diseases.

In the field of diabetes, we reported positive Phase 2 results with dasiglucagon, which is a user-friendly treatment solution for insulin shock, an underappreciated life-threatening condition and one of the greatest fears of insulin-dependent patients and their relatives. In 2016, Zealand entered into a collaboration with Beta Bionics, a Boston-based company, whereby dasiglucagon will be delivered in combination with insulin in a pump, thereby mimicking a healthy pancreas as this pump releases both

insulin and glucagon for optimal blood sugar control. We believe that this dual-hormone artificial pancreas has the potential to transform the treatment of diabetes and are dedicated to advancing dasiglucagon, since we believe it is the best glucagon for this application.

In 2016, we had to discontinue a clinical project program. Danegaptide, a gap junction modifier to address reperfusion injuries in connection with heart attacks, unfortunately did not show the intended effect in a 600-patient Phase 2 trial. Based on this result, we decided to discontinue the program.

Building success through partnerships and maturing the organization

We build for success by maintaining a lean and agile organization and by establishing partnerships with the best in their fields, leading to greater efficiency and better results. We have a history of successful outlicensing partnerships and will continue to rely on external partnerships across all stages of the business. In 2016, we partnered with high-quality device and drug manufacturers and leading centers and hospitals to run our clinical development.

Our partnership with Boehringer Ingelheim (BI) achieved significant project milestones in 2016, and the two programs currently in development are scheduled to enter Phase 1 in 2017.

Elsiglutide, run by our partner Helsinn, failed to meet the primary endpoint in reducing chemotherapy-induced diarrhea, but Helsinn will continue the development of this treatment to hopefully find a way to help the many patients who suffer from diarrhea after chemotherapy.

Strong financial outlook and the beginning of a new era

2015 saw us embark on a diligent growth strategy. 2016 showed that we are evolving into a sustainable biotech company that can deliver. In 2017, we aim to create more value through increased revenues from marketed products, moving our own medicines toward Phase 3 development and expanding our portfolio of new medicines addressing specialty gastrointestinal and metabolic diseases with significant unmet needs.

We are well positioned financially, with a solid cash base. This means that we can pursue increased investment in our own pipeline programs over the next few years to advance products that will benefit patients.

Our employees are fundamental to our success, and we continue to be able to attract and retain people with vast experience and talent. We have a unique culture, characterized by excellent teamwork and strong engagement across the organization. I am therefore confident that we will successfully take the transformational step to the next level and deliver on our ambitions.

I would like to thank all our shareholders for their support and confidence in us. We ended 2016 in excellent shape, both financially and operationally. In 2017, we will move into a new era. Together with my colleagues, I look forward to making a difference to patients' lives and creating value for all stakeholders.

Britt Meelby Jensen
President and
Chief Executive Officer

We intend to be a world leader in medicines focusing on specialty gastrointestinal and metabolic diseases. We will further exploit our peptide platform to deliver innovation and life-changing impact for people suffering from these diseases.

Financial highlights.

Financial highlights of 2016

Revenue

Zealand's revenue in 2016 amounted to DKK 234.8 million (2015: DKK 187.7 million), which was an increase of 25% on 2015.

The main revenue component consisted of milestone payments of DKK 210.4 million (2015: DKK 159.1 million) from Sanofi in connection with the U.S. approvals of lixisenatide as Adlyxin® amounting to DKK 33.5 million, and Soliqua™ 100/33 amounting to DKK 169.9 million.

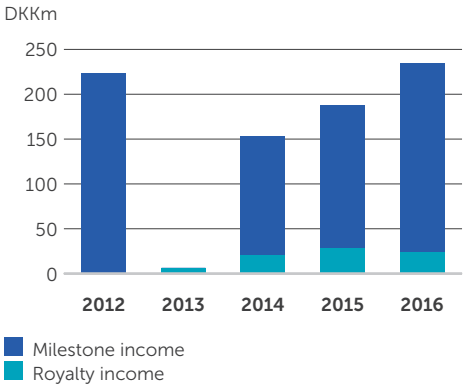
Royalty revenue to Zealand from Sanofi's sales of Lyxumia® amounted to DKK 24.3 million (2015: DKK 28.6 million), corresponding to a 15% decrease on the previous year.

Research, development and administrative expenses

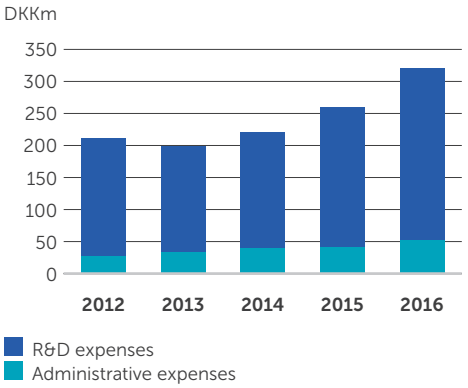
Total research, development and administrative expenses amounted to DKK 320.7 million (2015: DKK 259.5 million), up 24% on 2015.

The increase is due to higher research and development expenses as a result of accelerated development activities. These included the costs of the dasiglucagon Phase 2 trial conducted in Germany and toxicology studies for glepaglutide. In addition, costs were impacted by an increase in the number of employees in our clinical development organization.

Revenue



R&D and administrative expenses



Financial guidance for 2017

For 2017, Zealand expects a continued increase in royalty payments from Sanofi. No specific guidance on the level of royalties can be provided, as Sanofi has not given any guidance on expected 2017 sales.

Additional revenue of up to DKK 100 million is expected from event-driven partner-related milestones. DKK 70 million of this was received in January 2017.

Net operating expenses in 2017 are expected to be within the range DKK 390-410 million. The increase compared with 2016 is explained by higher levels of clinical development costs associated with the advancements of glepaglutide and dasiglucagon.

The operating loss before royalty income/expenses is therefore expected to be within the range DKK 290-310 million, excluding royalty revenue.

DKKm	2017 guidance	2016 realized
Milestone revenue	100	210
Net operating expenses[1]	390-410	319
Operating loss before royalty income/expenses	290-310	109

[1] Net operating expenses consist of research, development and administrative expenses less operating income.

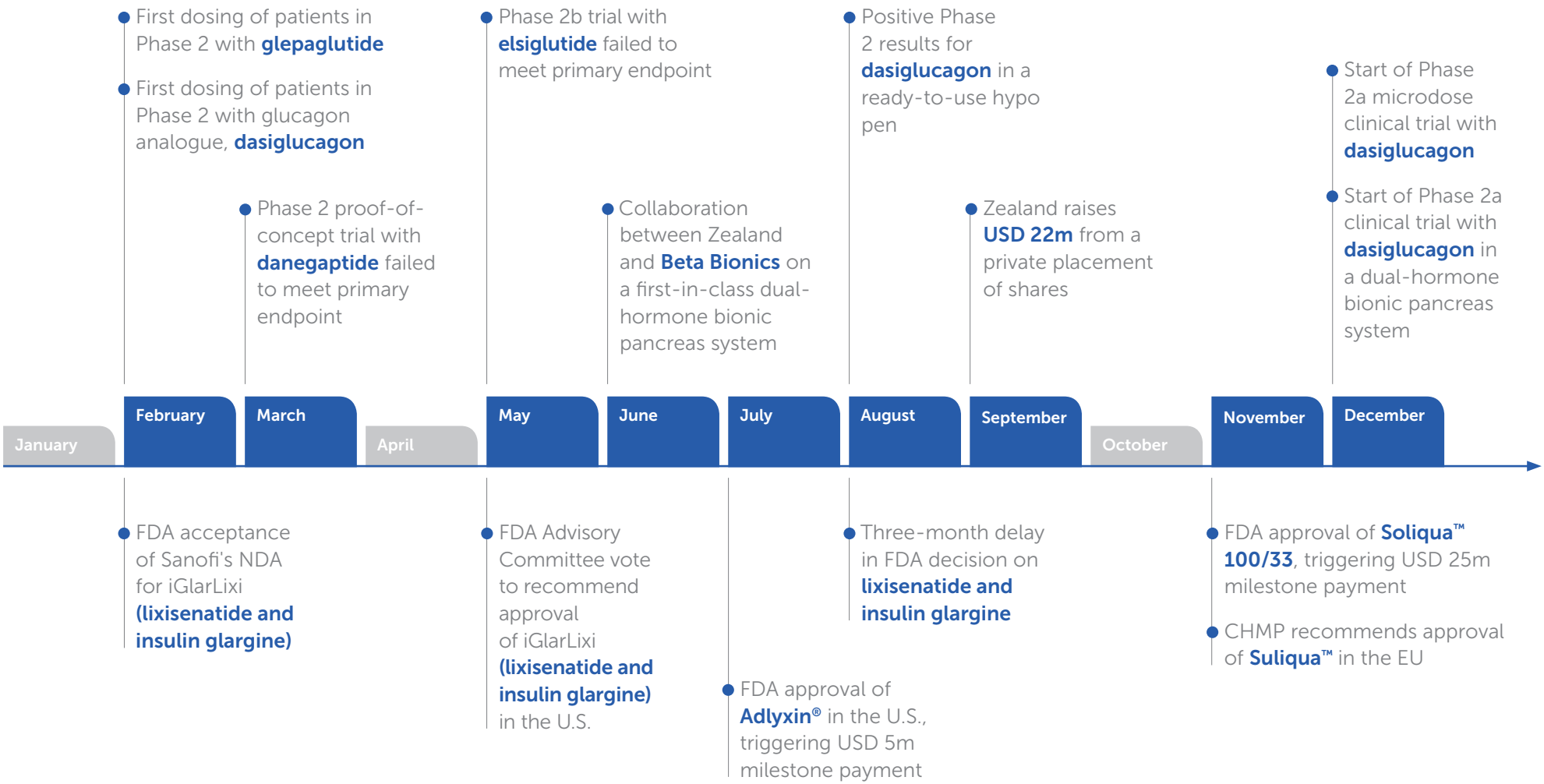
Consolidated key figures.

DKK '000	2016	Restated[1] 2015	2014	2013	2012
Income statement and comprehensive income					
Revenue	234,778	187,677	153,773	6,574	223,565
Royalty expenses	-31,459	-22,267	-13,776	-872	-15,933
Research and development expenses	-268,159	-217,741	-180,036	-164,467	-182,759
Administrative expenses	-52,503	-41,824	-39,826	-34,155	-27,611
Other operating income	1,697	12,828	6,328	7,302	35,135
Operating result	**-115,646**	**-81,327**	**-73,537**	**-185,618**	**32,397**
Net financial items	-43,764	-38,505	1,047	1,942	3,975
Result before tax	**-159,410**	**-119,832**	**-72,490**	**-183,676**	**36,372**
Income tax benefit[2]	5,500	5,875	7,500	0	0
Net result for the year	**-153,910**	**-113,957**	**-64,990**	**-183,676**	**36,372**
Comprehensive income/loss	**-153,910**	**-113,957**	**-64,990**	**-183,676**	**36,372**
Earnings/loss per share – basic (DKK)	-6.33	-4.94	-2.87	-8.10	1.61
Earnings/loss per share – diluted (DKK)	-6.33	-4.94	-2.87	-8.10	1.60
Statement of financial position					
Cash and cash equivalents	323,330	418,796	538,273	286,178	358,922
Restricted cash[3]	318,737	21,403	0	0	0
Securities	0	0	0	24,383	126,940
Total assets	694,626	636,208	596,756	346,913	520,983
Share capital ('000 shares)	26,142	24,353	23,193	23,193	23,193
Equity	278,194	252,231	252,828	316,141	491,015
Equity ratio[4]	0.40	0.40	0.42	0.91	0.94
Royalty bond	332,243	312,951	272,170	0	0

DKK '000	2016	Restated[1] 2015	2014	2013	2012
Cash flow					
Cash outflow/inflow from operating activities	40,904	-224,767	-42,183	-169,618	68,537
Cash outflow/inflow from investing activities	-299,958	-1,594	19,763	96,808	13,448
Cash inflow from financing activities	157,146	96,413	272,170	0	0
Purchase of property, plant and equipment	-2,600	-4,040	-4,497	-4,569	-8,849
Free cash flow[5]	38,304	-228,807	-46,680	-174,187	59,688
Other					
Share price (DKK)	106.50	151.50	83.00	59.00	84.00
Market capitalization[6] (DKKm)	2,784	3,689	1,925	1,368	1,948
Equity per share[7] (DKK)	11.69	10.60	11.17	13.97	21.70
Average number of employees	124	110	103	107	104
Products in clinical development (year-end)[8]	6	6	5	6	7
Products in registration phase (year-end)[9]	1	2	0	0	0
Medicines on the market[10]	1	1	1	1	0

[1] Figures for the year ended December 31, 2015 have been restated due to certain misstatements. See Note 1 to the financial statements.
[2] According to Danish tax legislation, Zealand is eligible to receive DKK 5.5 million in cash relating to the tax loss in 2016.
[3] Restricted cash serves as collateral for the royalty bond issued in 2014.
[4] Equity ratio is calculated as equity at the balance sheet date divided by total assets at the balance sheet date.
[5] Free cash flow is calculated as cash flow from operating activities less purchase of property, plant and equipment.
[6] Market capitalization is calculated as outstanding shares at the balance sheet date times the share price at the balance sheet date.
[7] Equity per share is calculated as shareholders' equity divided by total number of shares less treasury shares.
[8] Please refer to our pipeline on page 19.
[9] On January 17, 2017, Suliqua™ was approved in the EU by the European Commission, and the launch is expected in Q2 2017.
[10] In November 2016, the FDA approved Soliqua™ 100/33, and the product was launched in January 2017.

2016 key events.



Strategy and partnerships.

Ditte from Pharmacology, working in one of Zealand's laboratories.

Contents

Strategy and roadmap.

The U.S. launch of Soliqua™ 100/33 confirms growing revenues for many years to come – an important precondition of our strategy.

We aim to realize the value of some of our own product candidates ourselves, to retain full control and increase profitability. To successfully advance products through clinical development and registration, we have significantly strengthened our competencies.

Successful implementation of our strategy will propel Zealand forward to being a fully integrated biotechnology company, building on our strong R&D platform while expanding relationships with our customers. Our pipeline will focus on addressing the needs of patients suffering from specialty gastrointestinal and metabolic diseases, at the same time as incorporating opportunities in other specialty diseases that match our competencies and ambitions.

Building the future pipeline

Zealand has a successful history of discovering and optimizing peptide therapeutics as novel drugs. We will continue to grow our pipeline through internal research, but also through inlicensing and/or acquisitions.

We have built a strong organization and secured solid partnership agreements for clinical trial execution and manufacturing in order to advance our Phase 2 product candidates: the GLP-2 analogue glepaglutide, targeting short bowel syndrome, and the two glucagon analogue programs with dasiglucagon. All three programs are progressing at full speed.

We will engage in commercialization for selected product candidates, for example glepaglutide, and we will therefore gradually expand our commercial capabilities and establish a local presence in relevant markets, while relying on partnerships in other markets.

2016
Entering a new era

Advance and expand the pipeline
- Two U.S. product approvals
- Three Phase 2 product candidates

Enhance our peptide competencies
- Engagement in new research partnerships
- Continued investments in innovation

Enter partnerships to support the pipeline
- Partnerships with Beta Bionics and device partners
- Working with leading CMOs and CROs

Solid financial position
- Strengthened cash position
- Milestone payments and royalties

2017-2019
Accelerating value creation

Confirming the value of the product portfolio
- Growing revenues from marketed products
- Milestone payments
- Own late-stage development and registration

Engage in synergistic partnerships
- Inlicensing to expand portfolio
- Commercial partnerships

Building stakeholder relations
- Dialogue with patients, key opinion leaders and payers intensified

2020+
Integrated biotech company

Commercialization of own products in the U.S. and Europe

Continued solid revenues from partnered products

Portfolio from internal innovation, partnering and acquisitions

"2016 was a year of significant achievements for Zealand, with solid progress on the execution of the strategy that was defined in 2015. Two U.S. approvals of products licensed to Sanofi will ensure increasing revenues so that we can bring product candidates in our pipeline all the way through registration and, ultimately, make them available to patients. Zealand's ambition to play an active part in commercialization represents a major transformation of the company. It requires new competencies, and I am pleased to report that organizational developments are on track to realize the full value of this ambition."

Martin Nicklasson
Chairman
Zealand Pharma A/S

Value creation.

Pipeline projects: full control and value retained by Zealand

Glepaglutide*

- **Target indication** Short bowel syndrome (SBS)
- **Phase 2** recruitment completed
- **USD > 0.5bn market potential** assuming current treatment paradigm

- **20,000-40,000 SBS patients** in the U.S. and the EU
- **2016 sales of GLP-2 SBS** treatment, teduglutide, of USD 219.4m[1] (55% growth) – treating less than 1,000 patients

Dasiglucagon*

- **Target indication** Severe hypoglycemia
- **Phase 2** results available
- **USD > 0.5bn market potential** assuming market expansion due to improved offering

- **1.25m type 1 diabetes patients** in the U.S. have the highest risk of severe hypoglycemia
- **2016 sales in the U.S.** of USD 314m[2]. Market currently under-penetrated (less than 25% of at-risk patients)

Dasiglucagon*

- **Target indication** Dual-hormone artificial pancreas
- **Phase 2a** ongoing
- **USD > 3bn market potential** assuming 30% of U.S. type 1 diabetes patients use glucagon in a pump

- **1.25m type 1 diabetes patients** in the U.S., of which 35%[3] on insulin pumps (growing)
- **Dual-hormone artificial pancreas** with glucagon, with the potential to offer better blood glucose control

* Glepaglutide and dasiglucagon are proposed International Nonproprietary Names (pINN).
1 Shire 2016 full-year report and Zealand estimate.
2 IMS Health data and Zealand estimate.
3 Consultation response MT 11 ToR – Juvenile Diabetes Research Foundation PDF and Zealand estimate.

Partnered products and projects: revenue model

Partner/product	Milestone payments		Royalties
	Received	Outstanding	% of global sales
SANOFI			
Adlyxin®/Lyxumia® **Soliqua™ 100/33/ Suliqua™**	USD 135m	100m	Low double-digit
HELSINN			
Elsiglutide	EUR 16m	124m	High single- to low double-digit
Boehringer Ingelheim			
Glucagon/ GLP	EUR 21m	365m	High single- to low double-digit
Undisclosed target	EUR 8m	287m	High single- to low double-digit
Total outstanding milestones	DKK 6.5bn		

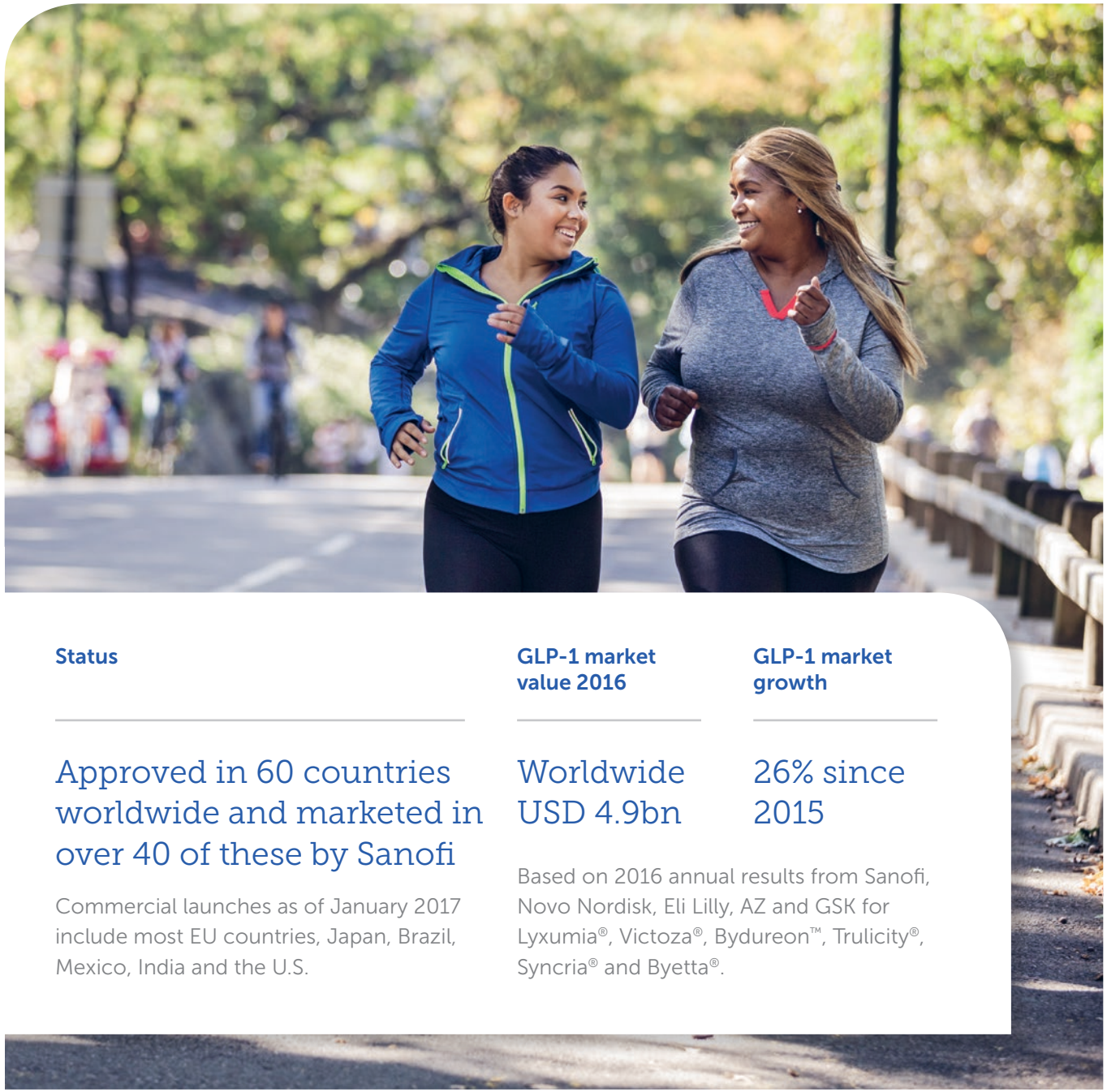
Adlyxin®/Lyxumia® – a GLP-1 receptor agonist for type 2 diabetes.

Zealand's first invented medicine, lixisenatide, a once-daily prandial GLP-1 receptor agonist for the treatment of type 2 diabetes, is licensed to Sanofi. Lixisenatide is available as Adlyxin® in the U.S. and is approved as Lyxumia® in more than 60 countries worldwide and marketed in over 40 of these by Sanofi.

Adlyxin®/Lyxumia® is a glucagon-like peptide-1 (GLP-1) receptor agonist indicated as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes.

SANOFI

- The contract with Sanofi includes the GLP-1 receptor agonist lixisenatide and any combination product
- Zealand pays 13.5% of its revenue from all lixisenatide products to third parties
- The patent expires on different dates in different countries, but in most cases it is in 2025. The common number for all the patents in the Lixi patent family is the international publication no. WO 01/04156. The U.S. no. is US RE45,313 and the EU no. is EP 1196444



Status

Approved in 60 countries worldwide and marketed in over 40 of these by Sanofi

Commercial launches as of January 2017 include most EU countries, Japan, Brazil, Mexico, India and the U.S.

GLP-1 market value 2016

Worldwide USD 4.9bn

GLP-1 market growth

26% since 2015

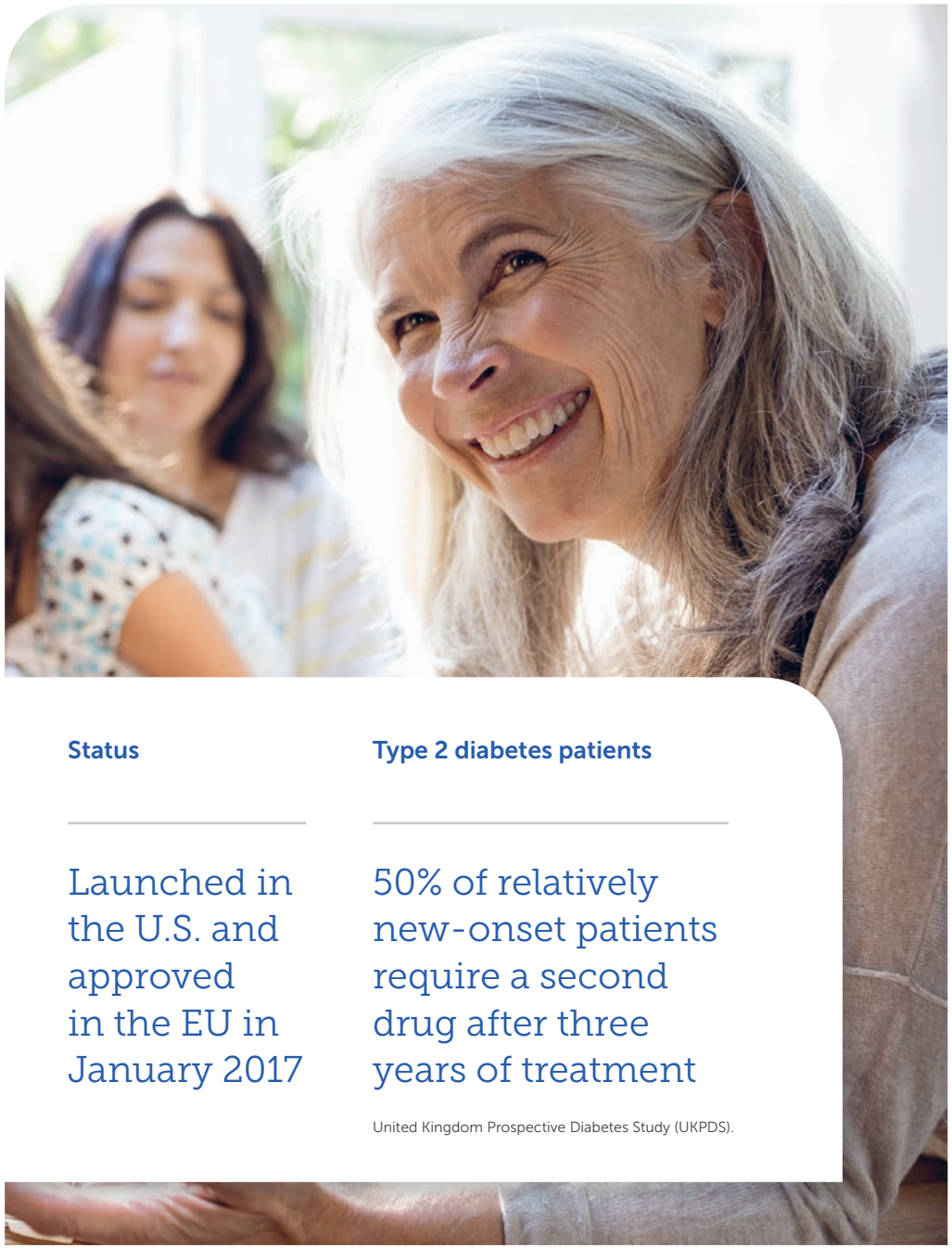
Based on 2016 annual results from Sanofi, Novo Nordisk, Eli Lilly, AZ and GSK for Lyxumia®, Victoza®, Bydureon™, Trulicity®, Syncria® and Byetta®.

Soliqua™ 100/33/Suliqua™ – a combination of GLP-1 and insulin.

Soliqua™ 100/33 is a combination of lixisenatide, a GLP-1 receptor agonist, and insulin glargine (Lantus®) in a once-daily injection marketed in the U.S. by Sanofi. The product has been approved in the EU under the brand name Suliqua™ for type 2 diabetes patients.

- Soliqua™ 100/33 has been approved in the U.S. as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes inadequately controlled on basal insulin (with a daily dose range from 15 to 60 units) or lixisenatide. Soliqua™ 100/33 is marketed in the U.S. by Sanofi.
- Soliqua™ 100/33 is delivered in the U.S. in a single pre-filled pen for once-daily dosing using SoloSTAR® technology, the most frequently used disposable insulin injection pen in the world.

- Suliqua™ has been approved in the EU for type 2 diabetes patients for use in combination with metformin to improve glycemic control when this has not been provided by metformin alone or metformin combined with another oral glucose-lowering medicinal product or with basal insulin. Suliqua™ will be marketed in the EU by Sanofi.
- Suliqua™ will be delivered in two pre-filled SoloSTAR® pens, providing different dosing options that may address individual market and patient insulin needs.



Status

Launched in the U.S. and approved in the EU in January 2017

Type 2 diabetes patients

50% of relatively new-onset patients require a second drug after three years of treatment

United Kingdom Prospective Diabetes Study (UKPDS).

Collaborations with Boehringer Ingelheim and Helsinn.

Our collaboration with Boehringer Ingelheim

Zealand has a long-term and productive partnership with Boehringer Ingelheim developing two molecules targeting type 2 diabetes and/or obesity.

The first collaboration began in 2011, and in 2014 a second partnership agreement was signed for a different target. During our collaboration, we have invested time and effort in the discovery and development of clinical lead candidates.

The 2011 collaboration covered dual-acting GLP-1/glucagon molecules and included a once-daily clinical lead molecule, ZP2929. At the same time as taking this molecule into the clinic, significant preclinical work was put into the development of candidates.

In 2016, Boehringer Ingelheim selected a new clinical lead and announced that it planned to initiate a Phase 1 trial with this molecule in 2017. All rights to ZP2929 were returned to Zealand.

The 2014 collaboration covered a novel biological target, and in 2016 Boehringer Ingelheim selected a clinical lead with potential for diabetes and/or obesity, which it also planned to take into Phase 1 clinical testing in 2017.

Our collaboration with Helsinn

Zealand has a partnership with Helsinn relating to elsiglutide, a potential first-ever treatment for the prevention of chemotherapy-induced diarrhea (CID).

The partnership relating to elsiglutide, a novel GLP-2 analogue invented by Zealand, began in 2008. Global development and commercial rights in the field of cancer-supportive care are licensed to Helsinn, which is developing elsiglutide as a potential first-ever treatment to help prevent chemotherapy-induced diarrhea in cancer patients.

Chemotherapy-induced diarrhea is a severe and potentially life-threatening condition affecting cancer patients undergoing chemotherapy, primarily with regimens containing 5-fluorouracil (5-FU). 5-FU-based chemotherapy regimens result in up to 50-80% of cancer patients developing CID[1]. Currently, no effective treatments are available for these patients.

The condition is often associated with dehydration, hospitalization, reduced quality of life and suboptimal cancer treatment.

[1] Stein, Voigt and Jordan, *Ther. Adv. Med. Oncol.* 2010.

Building the future pipeline.

Zealand has a successful history of developing peptide-based therapeutics and is accelerating pipeline growth through internal research and inlicensing opportunities.

We are continuing to build on our 18-year track record to accelerate the growth of our pipeline through internal research as well as external partnerships, inlicensing and/or acquisitions that bring additional value to our clinical development portfolio.

We have an established and experienced clinical development organization that has successfully advanced promising product candidates through Phase 2 development, and we have secured the necessary competencies and infrastructure to pursue late-stage clinical development and product registration.

Our research team holds significant expertise in applying our peptide platform to core specialty disease areas to bring forward novel therapies for the treatment of specialty gastrointestinal and metabolic diseases.

Our peptide platform and technology

The strength of our peptide platform lies in our deep understanding of the role of peptides in normal physiology and disease. This enables us to select and modify native peptides using our expertise in peptide chemistry and computational drug design to identify potential novel therapeutics. It is underpinned by our extensive knowledge of peptide formulation, half-life extension technologies and strong intellectual property platform bringing together excellence in research, formulation and drug discovery.

Aside from diabetes, there are hundreds of metabolic diseases, many of which are very rare and have no treatment. We are focused on those where peptides represent an attractive therapeutic option.

In addition, building on our success with glepaglutide, we are researching novel therapies addressing patient needs in rare gastrointestinal diseases.

Inlicensing and partnership focus

Our Business Development team has been strengthened in alignment with our increased focus on the acquisition of pipeline assets. We are progressing multiple internal preclinical programs alongside seeking inlicensing opportunities in specialty gastrointestinal and metabolic disease areas that will complement and expand our existing research and development pipeline.

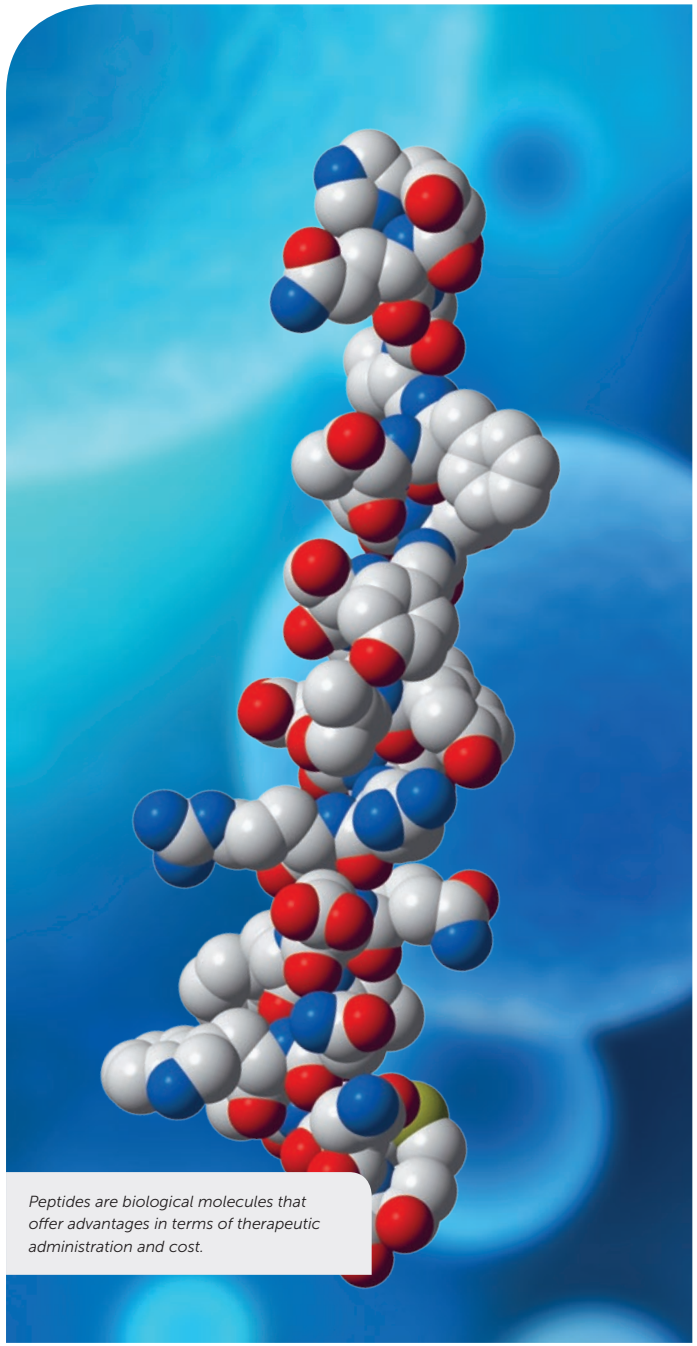
5,000
peptides synthesized

10
projects advanced to clinical development

400
patents

20%
is the regulatory approval rate for peptides[1]

[1] The emergence of peptides in the pharmaceutical business: From exploration to exploitation – http://www.elsevier.com/locate/euprot.



Peptides are biological molecules that offer advantages in terms of therapeutic administration and cost.

Own clinical pipeline.

Kennet from Molecular Pharmacology, working in one of Zealand's laboratories.

Contents

Product pipeline.

Clinical pipeline and preclinical partnered programs

Compound	Indication	Development stage	2017 milestone	Intended product	Unmet needs
		Preclinical Phase 1 Phase 2 Phase 3 Registration			
Glepaglutide*,[1]	Short bowel syndrome	Phase 2	Phase 2 results	Repeat-use injection pen	• Reduce parenteral support • Reduce diarrhea/stoma output • Improve quality of life
Dasiglucagon*,[1]	Acute, severe hypoglycemia (insulin shock)	Phase 2	Phase 3 initiation	Ready-to-use hypo pen	• Easy-to-use rescue treatment • Faster recovery • Less fear of insulin treatment
	Pump-based diabetes management	Phase 2a	Phase 2a results	Component of a dual-hormone artificial pancreas	• Achieve glycemic target with lower risk of hypoglycemia • Easier diabetes care
Elsiglutide[2]	Chemotherapy-induced diarrhea	Phase 2	New Phase 2 trials	Injection	• No effective treatment available • Prevent chemotherapy-induced diarrhea
GLP1-GLU[3]	Obesity/type 2 diabetes	Preclinical	Phase 1 initiation	Once-weekly injection pen	• Metabolic control
Undisclosed[3]	Obesity/type 2 diabetes	Preclinical	Phase 1 initiation	Undisclosed	• Metabolic control

* Glepaglutide and dasiglucagon are proposed International Nonproprietary Names (pINN).
1 Fully owned by Zealand.
2 Global development and commercial rights are owned by Helsinn.
3 Global development and commercial rights are owned by Boehringer Ingelheim.

Disease focus.

Zealand discovers and develops novel peptide-based medicines focusing on specialty gastrointestinal and metabolic diseases.

Specialty medicines

We use our internal research capabilities to discover peptide-based specialty medicines focusing on specialty gastrointestinal and metabolic diseases. We believe we have the capabilities and expertise to progress new drugs through development to registration ourselves, to retain control and realize significant value.

There are over 1,000 rare diseases and disorders affecting more than 300 million people. Many of these diseases are life-threatening, with no available therapy to help these patient groups.

Peptides have proven to be effective drugs in a number of different diseases, with significant untapped potential across many therapy areas.

We are committed to delivering innovation and life-changing impact for people suffering from some of these specialty and rare diseases.

Gastrointestinal (GI) diseases

Zealand is building on its experience with glepaglutide to further exploit its peptide platform and develop additional therapies addressing patient needs in GI diseases.

Diseases of the digestive system affect multiple organs, including the esophagus, stomach, small and large intestines as well as the liver, gallbladder and pancreas.

More than 180 GI diseases affect many millions of people. Some of these diseases have a high prevalence, such as ulcerative colitis, Crohn's disease and irritable bowel syndrome (IBS), but the majority of GI diseases affect smaller patient populations. There remains a significant need for innovation, as most GI diseases are not served well by current therapies.

We have a solid and advancing understanding of the molecular and cellular mechanisms dysregulated in GI diseases. Multiple regulatory peptides and secretory factors are produced by the gastrointestinal tract, and these represent high-potential novel therapeutic targets.

60 million
people in the U.S. suffer from GI diseases[1]

Metabolic diseases

Zealand has already had considerable success in developing novel treatments for metabolic diseases, with two products on the market with our partner Sanofi providing benefit to diabetes patients. Our pipeline includes dasiglucagon, which completed a successful Phase 2 study in 2016, as well as two programs with Boehringer Ingelheim.

The world is facing a major obesity problem, increasing the prevalence of metabolic diseases, including diabetes. These diseases are associated with deleterious changes in the body's ability to transform the food we eat into the fuel required to keep us alive. There is a complex interplay between the digestive system, liver, pancreas, endocrine system, body fat and muscles which, if altered, can result in the body having too much or too little of an essential element.

Aside from diabetes, there are hundreds of metabolic diseases, many of which are very rare and have no therapy available.

36.5%
of U.S. adults are obese[2]

1 National Institutes of Health, U.S. Department of Health and Human Services. Opportunities and Challenges in Digestive Diseases Research: Recommendations of the National Commission on Digestive Diseases. Bethesda, MD: National Institutes of Health; 2009. NIH Publication 08–6514.
2 https://www.cdc.gov/nchs/data/databriefs/db219.pdf

Glepaglutide* for short bowel syndrome.

Short bowel syndrome (SBS) is a life-threatening and complex chronic disease associated with reduced or complete loss of intestinal function.[1]

The main underlying causes of SBS are major intestinal surgery following Crohn's disease, ischemia, radiation damage and surgery in adults. In pediatrics, congenital intestinal atresia, necrotizing enteric colitis and intestinal volvulus are the most common causes. In older children and adolescents, SBS is mainly due to volvulus or trauma.

Current treatment options are insufficient

The most severely affected people are dependent on parenteral support for up to 16 hours every day. This requires them to be connected to infusion lines and pumps, posing significant restrictions on daily activities.[2]

Glepaglutide for treatment of SBS

Zealand is developing glepaglutide, a novel GLP-2 analogue with a half-life in humans of 14-17 hours. In preclinical studies, significant effects on small and large intestinal function have been demonstrated, and glepaglutide was concluded to be safe and well tolerated in Phase 1 clinical trials. The molecule has been designed to be stable in liquid formulations for easy and convenient daily dosing in an injection pen.

Ready for Phase 3 in 2017

In 2016, Zealand initiated a Phase 2 clinical trial. The trial is a randomized, double-blind, dose-finding trial with cross-over design testing the clinical efficacy and safety of three doses of glepaglutide in 18 patients with SBS. Pending the outcome of this Phase 2 clinical trial, a dialogue with the FDA and the EMA regarding a Phase 3 trial will be initiated later in 2017.

Existing treatment

Most patients are on parenteral nutrition, and our goal is to reduce or eliminate their dependence on this.[2]

Market potential

USD > 0.5bn market assuming the current treatment paradigm for GLP-2 treatments. Market expansion to be fueled by broader applications.[3]

Our aspiration

Glepaglutide, GLP-2 analogue, proven efficacy in a liquid formulation in a broader patient population than current treatment option.

* Glepaglutide is a proposed International Nonproprietary Name (pINN).

1 http://www.ccfa.org/assets/short-bowel-syndrome-and.pdf

2 Carlsson E BB, Nordgreen S. Living with an ostomy and short bowel syndrome: practical aspects and impact on daily life. *J Wound Ostomy Continence Nurs* 2001;28(2):96-105.

3 Zealand estimate.

"Short bowel syndrome is a complex disease where we need better medicines to manage care for patients. A significant focus of my work is to improve intestinal absorption in patients."

Palle Jeppesen
Principal Investigator
Professor MD
Department of Gastroenterology
Copenhagen University Hospital, Denmark

Short bowel syndrome (SBS)

People with SBS cannot absorb sufficient water, vitamins, minerals, protein, fat, calories and other nutrients from food, and the most severely affected patients are dependent on parenteral support (intravenous infusion of fluids, minerals, vitamins and other nutrients). Most people with SBS also suffer from significant diarrhea due to malabsorption and excessive loss of fluids into the gastrointestinal tract.

Glepaglutide in an injection pen – for illustration purposes only.

Every day is a struggle to live a "normal" life

Andrew Jablonski was born with short bowel syndrome in 1986 and is the Founder and Executive Director of the Short Bowel Syndrome Foundation.

"When I was born with short bowel syndrome in 1986, and growing up, there was no known support for me or my family.

Malnourishment plays a big role in cognition and personality development – why we act the way we do. Many patients have trouble with cognition, memory, focus, school, work, defiant behavior and anger/irritability, both in childhood and as adults.

I saw a need to create more support and education for the short bowel syndrome population and, in 2010, started my mission to provide services to patients and providers in this disease area.

Living with short bowel syndrome is a constant daily struggle of trying to manage your condition while trying to live a 'normal' life.

My hope for the future is that we can improve quality of life for people living with this rare disease and provide more patient-to-patient support."

Andrew Jablonski
Founder and Executive Director of
the Short Bowel Syndrome Foundation
shortbowelfoundation.org

Many patients have trouble with cognition, memory, focus, school and work.

Dasiglucagon* for acute, severe hypoglycemia.

Severe hypoglycemia is an acute, life-threatening condition resulting from a critical drop in blood sugar levels associated primarily with insulin therapy.

Severe hypoglycemia is most frequently seen in people with type 1 diabetes, since they inject themselves with insulin multiple times a day. Severe hypoglycemic events occur when blood sugar levels get critically low and are still the biggest concern for insulin-dependent patients. It is a condition characterized by confusion, seizures and often loss of consciousness which, if left untreated, can result in death.

Glucagon treatment underutilized due to complexity[1]

The American Diabetes Association (ADA) recommends in their guidelines from 2017 that glucagon should be prescribed for all individuals at increased risk of clinically significant hypoglycemia. Caregivers, school personnel and family members should know where it is and when and how to administer it. The effects of glucagon are the opposite of insulin – it helps to increase blood sugar levels when a person's blood sugar decreases.

Treatment of severe hypoglycemia requires assistance from others. Today, there are glucagon kits available in the form of lyophilized powder which needs to be dissolved in water before injecting. This requirement can be complex and challenging, especially in a stressful situation, and may lead to errors and delays in injecting glucagon.

Positive top-line results from Phase 2 trial

In 2016, Zealand reported positive top-line results from a Phase 2 clinical trial with dasiglucagon in people with type 1 diabetes. Following injection, dasiglucagon induced a clinically relevant blood glucose increase as fast as a marketed glucagon product, and the product was observed to be safe and well tolerated.

Existing treatment

Current glucagon kits contain powder that needs to be dissolved in water before injecting. This can be complex in a stressful situation and may lead to errors and delays in treatment.

U.S. market 2016

Events per patient range from 115 to 320 per 100 patient-years for patients with type 1 diabetes and from 35 to 70 per 100 patient-years in patients with type 2 diabetes.[2]

Our aspiration

A ready-to-use dasiglucagon hypo-pen to allow patients an efficacious, reliable and intuitive treatment for severe hypoglycemia.

* Dasiglucagon is a proposed International Nonproprietary Name (pINN).

1 Kedia N. Treatment of severe diabetic hypoglycemia with glucagon: an underutilized therapeutic approach. *Diabetes, Metabolic Syndrome and Obesity: Targets and Therapy.* 2011;4:337-346.

2 Seaquist ER 2013: p3A.

"Diabetes patients and their families unfortunately learn quickly that hypoglycemia is physically aversive, potentially dangerous and a source of possible social embarrassment."

Finn Kristensen
Director and Founder of JDRF Denmark
Finn's son has type 1 diabetes

Ready-to-use dasiglucagon hypo pen

Zealand is developing a ready-to-use dasiglucagon hypo pen to offer people with diabetes and their families a fast treatment solution for severe hypoglycemia. Dasiglucagon is an analogue of human glucagon designed to be stable in liquid formulations but otherwise have the same biological effects.

Dasiglucagon in a ready-to-use hypo pen – for illustration purposes only.

Understanding the impact of severe hypoglycemia

T1D Exchange, a U.S.-based nonprofit organization, was founded on the belief that people with type 1 diabetes need better solutions faster, and focuses on research that can positively impact the lives of people with type 1 diabetes.

"T1D Exchange is committed to understanding the impact of severe hypoglycemia in the community of people living with type 1 diabetes. In our study of 7,012 participants aged 26-93 with type 1 diabetes for at least two years, higher frequencies of severe hypoglycemia were associated with lower socioeconomic status.

Severe hypoglycemia was strongly associated with diabetes duration, with 18.6% of those with diabetes for 40 years or more having had an event in the past 12 months.

A key conclusion from this analysis is that severe hypoglycemia in adults who have had diabetes for more than 40 years cannot be eliminated, given the limitation of current therapies."

Henry Anhalt
Doctor of Osteopathic Medicine,
Chief Medical Officer
T1D Exchange

In 2011, according to the Centers for Disease Control and Prevention, hypoglycemia was the first-listed diagnosis in 300,000 emergency room visits for adults aged 18 years and over.

Dasiglucagon* for type 1 diabetes care.

People with type 1 diabetes suffer from insulin deficiency and inappropriate glucagon secretion. Both hormones are essential to ensure stable and healthy blood glucose levels.

Consequently, patients must monitor and adjust their blood sugar levels to remain in proper glycemic control, as both hyperglycemia (high blood glucose) and hypoglycemia (low blood glucose) may affect their health, both in the short and long term.

Despite advances in both technology and medication, type 1 diabetes remains a disease with increased mortality and severe complications. In the U.S., approximately 35%[1] of people with type 1 diabetes use an insulin pump, often accompanied by continuous glucose monitoring that guides the insulin infusion. However, as glucagon is not yet available in liquid formulation, pumps that mimic a healthy pancreas are not commercially available today.

Working with Beta Bionics

Zealand is working with partners on a next-generation artificial pancreas device. These devices contain both insulin and glucagon (dasiglucagon) and can therefore both decrease and increase blood sugar levels, guided by an algorithm developed to maintain and control blood glucose levels without the intervention of the patient. In June 2016, Zealand initiated a collaboration with Beta Bionics, which is developing a dual-hormone artificial (bionic) pancreas system based on advanced technology conceived and refined at Boston University.

Dasiglucagon in Phase 2

Dasiglucagon is a Zealand-invented glucagon analogue with a unique stability profile in liquid formulation. Two Phase 2a trials were initiated in 2016 to assess the efficacy, safety and tolerability of microdoses of dasiglucagon, one of them in collaboration with Beta Bionics, using its technology platform.

Existing treatment

In the U.S., 35% of people with type 1 diabetes use an insulin pump, often accompanied by continuous glucose monitoring. However, no pump that fully mimics a healthy pancreas is commercially available today.

U.S. market 2016

Approximately 1.25m Americans have type 1 diabetes according to the American Diabetes Association.

Our aspiration

An artificial pancreas device that automates insulin and glucagon infusion for better diabetes management.

* Dasiglucagon is a proposed International Nonproprietary Name (pINN).
1 Consultation response MT 11 ToR – Juvenile Diabetes Research Foundation PDF.
2 *The Lancet*, 2016.

"Our previous studies have shown that a dual-hormone bionic pancreas can provide very effective management of glycemia in people with type 1 diabetes[2]. Demonstrating the effectiveness of a stable glucagon analogue such as dasiglucagon is an essential step toward making a dual-hormone bionic pancreas available to patients."

Steven J. Russell
Principal Investigator, MD
Massachusetts General Hospital
Diabetes Center, Boston, U.S.

Artificial pancreas device

An artificial pancreas in the form of a dual-hormone pump has the potential to significantly improve glucose control in diabetes.

The iLET™ from Beta Bionics.

A joint commitment to a paradigm shift in diabetes care

Edward Damiano, Professor of Biomedical Engineering at Boston University, U.S., and President and CEO of Beta Bionics, has been dedicated to automating the treatment of type 1 diabetes ever since his infant son was diagnosed with the condition 17 years ago.

"After my son was diagnosed with type 1 diabetes, I began to dedicate more and more of my lab's resources toward the problem of building a bionic pancreas, which would provide fully autonomous glycemic control in diabetes. Beginning with mathematical modeling, followed by animal studies, and then inpatient and outpatient clinical trials in adults and children with type 1 diabetes, we worked for almost 15 years on the system in an academic setting – testing and optimizing the algorithm and design elements needed for making the system as user-friendly as possible.

We have long awaited and eagerly anticipated the development of a stable glucagon analogue suitable for chronic use in our dual-hormone bionic pancreas. This has proven to be a challenging task. We are therefore very pleased that Beta Bionics now has access to Zealand's novel investigational glucagon analogue, and that Zealand can leverage our bionic pancreas platform to administer it.

Our collaboration is fueled by a common commitment to a paradigm shift in diabetes management, and to fulfill the promise and potential that our partnership holds for the health and well-being of people with type 1 diabetes and their families."

Edward Damiano
President and CEO
Beta Bionics

The FDA has established a multidisciplinary group of scientists and clinicians, in partnership with the National Institutes of Health, to address the clinical, scientific and regulatory challenges related to artificial pancreas device development.

Corporate matters.

Charlotte from Pharmacology and Nina from Medicinal Chemistry, working together in Zealand's laboratories.

Contents

Corporate governance.

Zealand's approach to corporate governance is founded on ethics and integrity, and forms the basis of our efforts to ensure strong confidence from our shareholders, partners, employees and other stakeholders.

Open and transparent communication is the best way to maintain the confidence of our shareholders, and we achieve this through company announcements, investor meetings, company presentations, our company website and social media.

As a company listed on Nasdaq Copenhagen, Zealand follows Danish securities law and is guided by the Corporate Governance Recommendations issued by Nasdaq Copenhagen A/S. We are committed to providing reliable and transparent information about our business, development programs and scientific results in a clear and timely manner.

At Zealand, we regularly review our rules, policies and practices within Risk Management and internal control with the purpose of improving guidelines and policies for corporate governance, so that we meet our obligations to shareholders, employees, regulatory authorities and other stakeholders while maximizing long-term value.

Nomination Committee

The Nomination Committee acts within the corporate governance area of Zealand Pharma. The current Nomination Committee consists of three members; the General Meeting elects up to two members from among the members of the Company's Board of Directors as well as up to three shareholder representatives.

The Nomination Committee specifies the qualifications required and evaluates the skills, knowledge and experience of the individual members of the Board of Directors and the CEO of the Company. It also considers proposals submitted by relevant persons, including shareholders, for Board and CEO positions, and identifies and recommends candidates for the Board of Directors.

The rules of procedure for the Nomination Committee are available at:
www.zealandpharma.com/nomination-committee/

Board of Directors

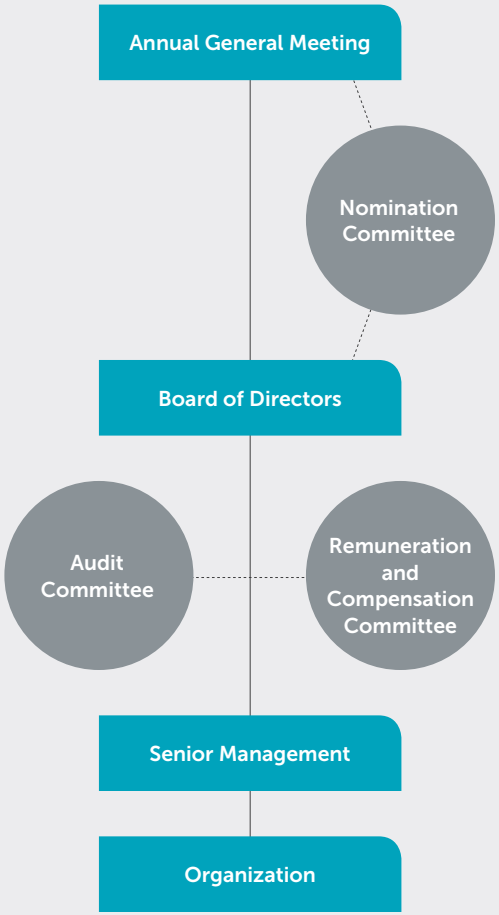
The Board of Directors plays an active role in setting the Company's strategies and goals and in monitoring its operations and results. The Board of Directors functions according to its rules of procedure. Board duties include establishing Zealand's strategy, policies and activities to achieve the Company's objectives in accordance with its Articles of Association. These also define the responsibilities of the Board of Directors, for example ensuring that Zealand's bookkeeping, accounting, asset management, information technology systems, budgeting and internal control are properly organized.

The Board of Directors meets at least six times a year and whenever the chairman decides that it is necessary.

Audit Committee

The Audit Committee assists the Board of Directors with oversight of financial reporting, internal control and risk management systems, and external auditing of the annual report and control of the auditor's independence, including

Corporate governance structure



oversight of nonaudit services and other activities delegated by the Board of Directors.

Specific topics discussed in 2016 included auditor's reports, accounting policies, internal controls and risk management, finance policy, insurance policy, year-end issues and external financing.

The charter of the Audit Committee is available at: www.zealandpharma.com/audit-committee/

Remuneration and Compensation Committee

The Remuneration and Compensation Committee proposes the remuneration policy and general guidelines for incentive remuneration for the Board of Directors and the CEO of the Company, as well as targets for company-operated performance-related incentive programs. These policies and guidelines set out the various components of the remuneration, including fixed and variable remuneration such as pension schemes, benefits, retention bonuses, severance and incentive schemes, as well as the related bonus and evaluation criteria.

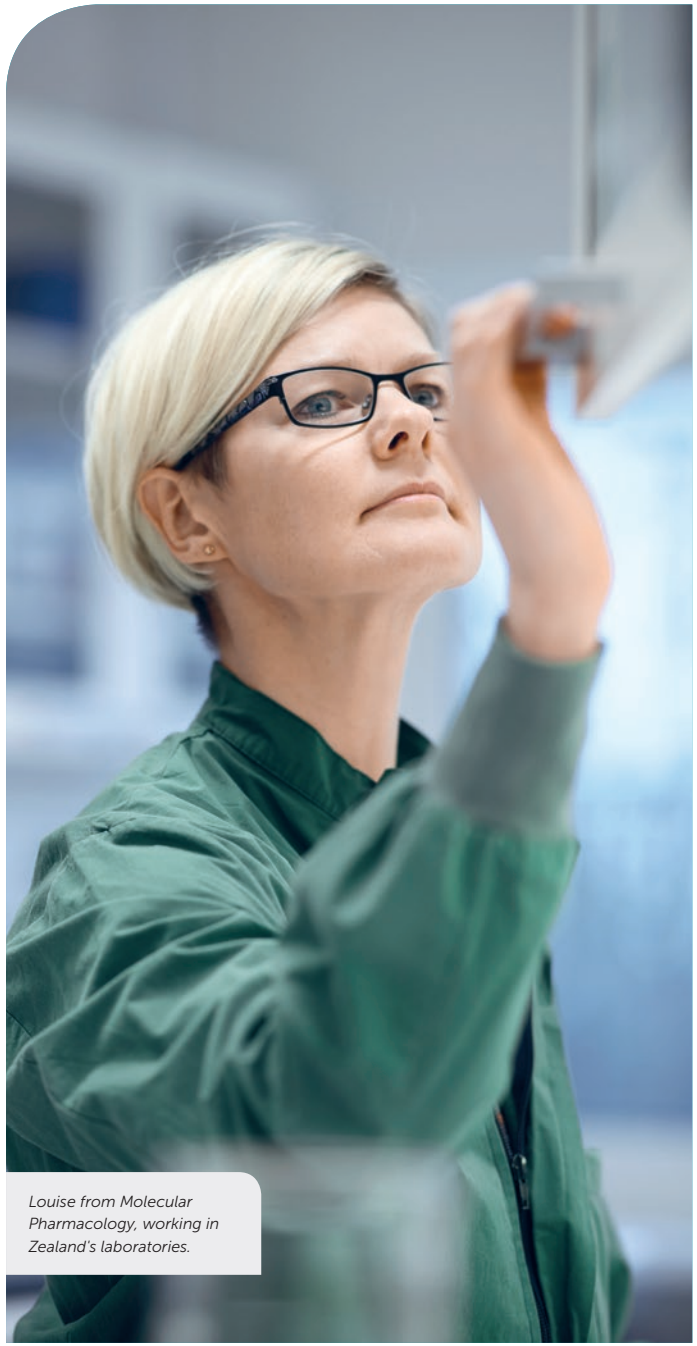
Specific topics discussed in 2016 included warrant programs, company goals, employee salary levels, employee pensions, and CEO and Board compensation.

The charter of the Remuneration and Compensation Committee, the Remuneration Policy and the Guidelines for Incentive Pay are available at: www.zealandpharma.com/remuneration-and-compensation-committee/

Zealand's Statutory report on Corporate Governance, which has been prepared in accordance with the Danish Financial Statements Act, section 107b, is available in full at: www.zealandpharma.com/corporate-governance/

Overview of meetings in 2016

	Board of Directors	Nomination Committee	Audit Committee	Remuneration and Compensation Committee
Physical meetings	6	1	3	3
Telephone meetings	7	0	2	0



Louise from Molecular Pharmacology, working in Zealand's laboratories.

Risk management and internal control.

We constantly monitor and assess both the overall risk of doing business in the pharmaceutical/biotech industry and the particular risks associated with our current activities and corporate profile.

This section contains a summary of Zealand's key risk areas and how we attempt to address and mitigate such risks. Environmental and ethical risks are covered in our corporate social responsibility reporting.

Doing business in the pharmaceutical/biotech industry involves major financial risks. The development period for novel medicines lasts several years; costs are high, and the probability of reaching the market is relatively low due to developmental and regulatory hurdles.

Zealand's Management is responsible for implementing adequate systems and policies in relation to risk management and internal control, and for assessing the overall and specific risks associated with Zealand's business and operations. Furthermore, Zealand's Management seeks to ensure that such risks are managed optimally and in a responsible and efficient manner.

Risks of particular importance to Zealand are scientific and development risks, commercial risks, intellectual property risks, partner interest risks, financial risks and risks relating to financial reporting. Risk and mitigation plans are monitored by Management, and the continuous risk assessment is an integral part of the quarterly reporting to the Board of Directors.

Risk related to:	Risk description	Risk mitigation
Commercial activities – launched products	Risks relating to market size, competition, pricing and reimbursement.	The commercial success of the products licensed to Sanofi (Soliqua™ 100/33/Suliqua™ and Adlyxin®/Lyxumia®) is important to Zealand. Zealand closely monitors the commercial uptake of these products in order to align its operations based on expected future revenue. Zealand's partner Sanofi is responsible for managing these commercial risks. However, Zealand maintains close contact with Sanofi in order to assess these risks and their impact on Zealand.
Commercial activities – products in research and development	Risks relating to market size, competition, development time and costs, partner interest and pricing of products in development.	From early in the research phase and throughout development, commercial potential and risks are assessed to ensure that final products have the potential to be commercially viable. Any major changes in the commercial potential of a drug candidate can lead to reduced value prospects and, ultimately, discontinued development.
Research and development	Research and development of new pharmaceutical medicines is inherently a high-risk activity. The probability of discovering and developing an efficient and safe new medicine with strong IP protection is very low.	Throughout the research and development process, Zealand regularly assesses these risks by means of a quarterly risk assessment of all the Company's research and development projects, conducted by Management together with the department heads and project managers. This assessment, which is presented to the Board of Directors, describes each project and measures its progress based on milestones. It analyzes the individual risks of each project and prioritizes the project portfolio.
Intellectual property	If Zealand or its partners were to face infringement claims or challenges by third parties, an adverse outcome could subject Zealand or its partners to significant liabilities to such third parties. This could lead Zealand or its partners to curtail or cease the development of some or all of their candidate drugs, or cause Zealand's partners to seek legal or contractual remedies against Zealand, potentially involving a reduction in the royalties due to Zealand.	Zealand's patent department works closely with external patent counsels and partners' patent counsels to minimize the risk of patent infringement claims as well as to prepare any patent defense should this be necessary. Zealand's employees receive training and updates on policies regarding the correct and lawful management of external intellectual property.
Future partnerships	Entering into collaborations with partners can bring significant benefits as well as involving risks. In addition, full control of the products is often given to the partner.	Zealand has taken a decision to increase its focus on proprietary programs in order to decrease its dependency on partners in the development process and capture more of the value of its projects. However, partnerships may still be relevant in the future and, in order to maximize the value of such partnerships, Zealand strives to foster a close and open dialogue with its partners, thereby building strong partnerships that work effectively.
Financial	Financial risks relate to cash and treasury management, liquidity forecasts and financing opportunities.	Financial risks are managed in accordance with the Finance Policy, regularly assessed by the Company's Management and reported to the Audit Committee and the Board of Directors. See also p. 75, Note 22 – Financial and operational risks.

Risk management and internal control related to financial reporting

Zealand has a number of internal control and risk management systems in place to ensure that its financial statements provide a true and fair view and comply with the International Financial Reporting Standards (IFRS) adopted by the EU and additional requirements under the Danish Financial Statements Act. An annual evaluation – with particular emphasis on risk management and internal control related to financial reporting – is carried out to ensure that risks are managed in a responsible and efficient manner.

Zealand has several policies and procedures in key areas of financial reporting. The internal control and risk management systems are designed to mitigate, detect and correct material misstatements rather than eliminate the risks identified in the financial reporting process.

A review and prioritization of material accounting items is also performed. Items in the financial statements that are based on estimates or that are generated through complex processes carry a relatively higher risk of error. Zealand performs continual risk assessments to identify such items and assess their scope and related risks.

The Board of Directors approves the policies and procedures, and Senior Management is responsible for implementing them on a day-to-day basis. The Board of Directors has established an Audit Committee to advise the Board of Directors. The Board of Directors has concluded that it is not necessary to establish an internal audit function at Zealand in view of the Company's legal structure and size and the fact that operations are carried out at a single site.

Description of management reporting systems and internal control systems

Zealand has management reporting and internal control systems in place that enable it to monitor performance, strategy, operations, business environment, organization, procedures, funding, risk and internal control. The Company believes that the reporting and internal controls are adequate to avoid misstatements in the financial reporting.

A description of the risk management and internal control system relating to financial reporting is included in the Statutory report on Corporate Governance, cf. section 107b of the Danish Financial Statements Act, which can be found at: www.zealandpharma.com/corporate-governance/

Maria from Bioanalysis and Pharmacokinetics at Zealand.

Corporate social responsibility (CSR).

Acting as a responsible part of society is a cornerstone of the way we conduct business. Our behavior should benefit the patients we strive to help, our employees, shareholders and the wider community.

At Zealand, we are passionate about improving care for patients and are committed to delivering value for our shareholders. In our operations, we are socially and environmentally responsible and comply with relevant laws, standards and guidelines. At the same time, we focus on the well-being of our employees, as they are the foundation of our success.

Our CSR efforts are based on the most common elements of some of the most widely implemented CSR initiatives in the world, notably the Global Reporting Initiative (GRI) and the United Nations Global Compact. Within these two systems, Zealand has found complementary frameworks for both guiding and reporting its CSR activities, along with several principles in the areas of labor, the environment, human rights and anticorruption. In addition to these, we have added a provisional category for animal rights, given the unique requirements of our industry.

Emphasis on selected areas

At Zealand, our particular emphasis in terms of our CSR work is on the areas that are most relevant to our business and operations:

- Employee well-being, including health, safety and labor practices
- Diversity across all levels of the organization
- Ethics and quality in all research and development activities
- Animal welfare
- Environmental sustainability

Our corporate social responsibility agenda is an area of continued focus, with new initiatives being added as our business develops.

Engaging with our community – locally and nationally

We play an active role in the local community. We have established a collaboration with local job centers to offer "on-the-job training" opportunities at Zealand for refugees in order to strengthen their integration into Danish society.

To benefit our employees and the environment, we are part of a coalition with other companies, governmental institutions and municipalities to ensure better access to public transportation.

At national level, we work closely with academic institutions, in various ways, to improve job opportunities for graduates, for example by offering short-term assignments, internships and mentoring of master's and PhD students.

We work to create a better life for patients and are proud to be working with the following patient organizations within our disease focus areas:

- Short Bowel Syndrome Foundation, U.S.
- Association for Crohn's and Colitis, Denmark
- Association for Users of Home Parenteral Nutrition, Denmark
- Juvenile Diabetes Research Foundation, Denmark
- DiaTribe, U.S.
- T1D Exchange, U.S.

Read more

Zealand's Statutory report on Corporate Social Responsibility, which has been prepared in accordance with the Danish Financial Statements Act, sections 99a and 99b, is available in full on the Company's website: www.zealandpharma.com/csr/

Human resources.

Zealand employs 122 full-time employees and is focused on maintaining a lean and agile organization with an efficient and engaging way of working.

Over the last few years, we have expanded our clinical development organization and optimized alignment across R&D. We have strengthened business development and we have started to build a competent commercialization team with, for example, market access and product supply knowledge. We continue to engage with high-quality partners in areas such as manufacturing and clinical trial execution.

Our employees are one of our biggest assets

Zealand's employees are one of its most important assets, and we aspire to attract, develop and retain the best people and to be a company where employees thrive, regardless of their background or nationality. Key to our success are the competencies and innovative drive of our employees, coupled with an organizational culture and structure that supports open and dynamic interactions across functions.

A diverse workforce is also good for business; it enhances innovation, increases our ability to work cross-culturally and gives us a better understanding of the communities in which we operate so that we can create value for our stakeholders. We have an even distribution of female and male employees at all levels of the organization. 18% of our employees are non-Danish. Approximately 80% of our employees work in R&D, and 36 of our employees hold a PhD.

We work to ensure our employees' well-being and have a number of policies in place to ensure the physical and psychological health and well-being of all employees as well as the safety of Zealand's working environment.

Betina from Molecular Pharmacology and Henrik from Medical Chemistry in discussion at Zealand.

Key employee ratios

	2016 Male	2016 Female	2015 Male	2015 Female
Zealand total	44%	56%	48%	52%
Senior Management	75%	25%	60%	40%
Department heads	48%	52%	59%	41%
Other employees	42%	58%	46%	54%

Other employee figures

	2016	2015
Employees in R&D	100	91
Employees in administration	22	21
Average age of workforce	45.9	46,1
Non-Danish employees (%)	18%	19%
Employees holding a PhD	36	37
PhD students	3	3
Other trainees	3	3
Average numbers of employees	124	110

Financial review.

Financial review for the period January 1 – December 31, 2016.

Since there is no significant difference in the development of the Group and the parent company, except for the royalty bond, the financial review is based on the Group's consolidated financial information for the year ended December 31, 2016, with comparative figures for 2015 in brackets.

Income statement

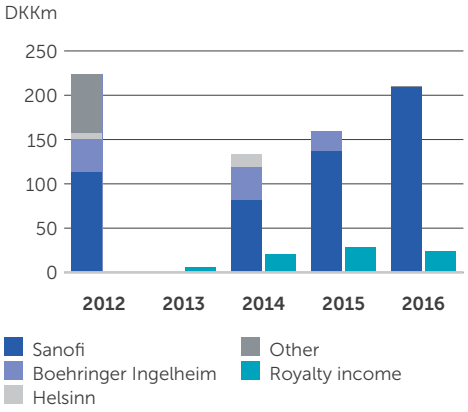
The net result for the financial year 2016 was a loss of DKK 153.9 million (loss of 114.0). The decrease in net result is mainly a consequence of increased research and development expenses and administrative expenses, partly offset by increased revenue.

Revenue

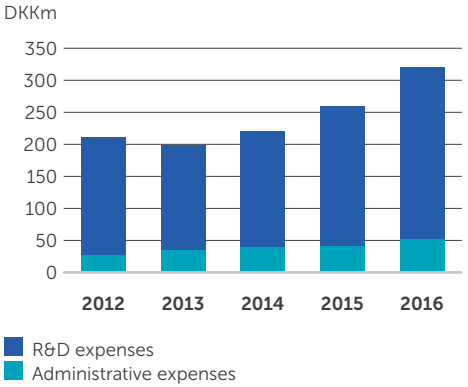
Revenue in 2016 amounted to DKK 234.8 million (187.7).

Revenue from milestone payments amounted to DKK 210.4 million (159.1), corresponding to a 32% increase versus the previous year. The milestone payments comprised payments from Sanofi in connection with the U.S. approvals of lixisenatide as Adlyxin® amounting to DKK 33.5 million, and Soliqua™ 100/33 amounting to DKK 169.9 million. There was also a milestone payment of DKK 1.6 million received from the license agreement with Protagonist.

Revenue



R&D and administrative expenses



Royalty revenue from sales of Lyxumia® amounted to DKK 24.3 million (28.6), corresponding to a 15% decrease versus the previous year.

Royalty expenses

Royalty expenses for the year amounted to DKK 31.5 million (22.3) and relate to royalties paid to third parties on milestone payments received and royalty income relating to the license agreement with Sanofi.

Research and development expenses

Research and development expenses amounted to DKK 268.2 million (217.7). The increase in research and development expenses for the year ended December 31, 2016 was primarily related to external costs of DKK 26.7 million from accelerated development activities, mainly development costs for the dasiglucagon Phase 2 trial conducted in Germany and toxicology studies for glepaglutide, as well as increased personnel expenses of DKK 15.1 million. The R&D share of the personnel expenses for the year ended December 31, 2016 was DKK 109.5 million (94.4). The increase is mainly related to an increase in the number of employees in the clinical development organization.

Administrative expenses

Administrative expenses amounted to DKK 52.5 million (41.8). The increase is mainly due to an increase in the number of employees as well as external consulting costs.

Other operating income

Other operating income amounted to DKK 1.7 million (12.8) and mainly consists of government grants. In 2015 and the first quarter of 2016, it also included funding from Boehringer Ingelheim covering the development costs for a research collaboration that has now ended.

Operating loss

The operating loss for the year was DKK 115.6 million (loss of 81.3).

Net financial items

Net financial items amounted to DKK -43.8 million (-38.5) and consist of interest income and expenses, amortized costs relating to the royalty bond financing, banking fees and exchange rate adjustments. Of the net financial items, DKK 32.2 million (32.4) relates to interest on the royalty bond, and DKK 8.4 million (9.7) relates to amortized costs of the royalty bond financing.

Loss before tax

Loss before tax was DKK 159.4 million (loss of 119.8).

Income tax benefit

With a negative result, no tax has been recorded for the period. However, according to Danish tax legislation, Zealand is eligible to receive DKK 5.5 million (5.9) in cash relating to the tax loss for 2016.

No deferred tax asset has been recognized in the statement of financial position due to uncertainty as to when and whether tax losses can be utilized.

Net loss and comprehensive loss

The net loss and comprehensive loss both amounted to DKK 153.9 million (loss of 114.0), in both cases due to the factors described above.

Allocation of result

No dividend has been proposed, and the year's net loss of DKK 153.9 million (loss of 114.0) has been transferred to retained losses.

Statement of financial position

Cash and cash equivalents

As of December 31, 2016, cash and cash equivalents amounted to DKK 323.3 million (418.8). In addition, DKK 318.7 million (21.4) was held as restricted cash as collateral for the royalty bond.

Equity

Equity amounted to DKK 278.2 million (252.2) at December 31, 2016, corresponding to an equity ratio of 40% (40%). The increase in equity is a result of the net loss for the year of DKK 153.9 million (loss of 114.0), offset by:

- New equity of DKK 135.2 million (0.0) from a private placement of new shares with biotech specialist investors and other institutional investors in the U.S. and Europe
- Equity of DKK 21.9 million (96.4) relating to the exercise of warrants by employees during the year
- Warrant compensation expenses of DKK 22.7 million (16.9)

Royalty bond

On December 12, 2014, Zealand raised USD 50.0 million, or DKK 298.7 million, in a non-dilutive and non-recourse bond financing arrangement, backed by 86.5% of the future annual royalties and other payments to which the Company is entitled on Lyxumia® and Adlyxin® under its license agreement with Sanofi. Repayment of the bond is based solely on this royalty revenue with no recourse to future royalty revenue on Soliqua™ 100/33 or Suliqua™. As part of the financing arrangement, regulatory milestone payments to which Zealand has been entitled on Adlyxin®, Soliqua™ 100/33 and Suliqua™ have been placed in a collateral reserve account, not exceeding the remaining loan principal, which will be released to Zealand upon full repayment of the bond. The outstanding loan principal at December 31, 2016 was DKK 352.6 million (341.5), of which DKK 20.4 million (28.5) has been offset as transaction costs. The loan amount has been recorded as a long-term liability of DKK 328.9 million and a short-term liability of DKK 3.4 million. The increase is a result of the strengthening of the U.S. dollar versus the Danish krone.

The bond carries an annual interest rate of 9.375% and, upon full repayment, all further revenue from Lyxumia® and Adlyxin® will be retained in full by Zealand.

The royalty bond has been renegotiated and partly redeemed as of March 15, 2017, see Note 26 to the financial statements.

Cash flow

Cash flow from operating activities

Cash flow from operating activities amounted to DKK 40.9 million (-224.8), mainly as a result of a change in working capital of DKK 153.5 million (-140.8), partly offset by a negative result for the year adjusted for non-cash items. The positive effect from the change in working capital is explained by a milestone payment of DKK 136.6 million that was recognized as a trade receivable at December 31, 2015 and where the cash was received in January 2016.

Cash flow from investing activities

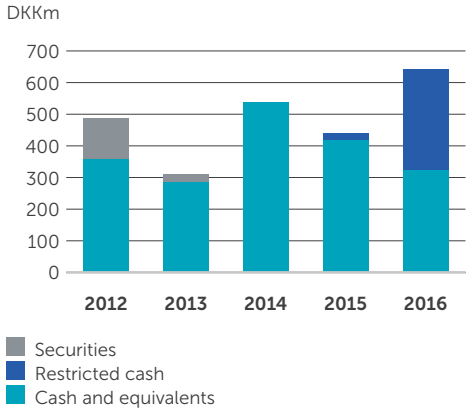
Cash flow from investing activities amounted to DKK -300.0 million (-1.6), as milestone revenues received from Sanofi during the year have been transferred to restricted cash.

Investments in plant and equipment for the period amounted to DKK 2.6 million (4.0), mainly related to new laboratory equipment.

Cash flow from financing activities

Cash flow from financing activities amounted to DKK 157.1 million (96.4) and relates to net proceeds of DKK 135.2 million (0.0) from the private placement of shares and a capital increase of DKK 21.9 million (96.4) due to exercise of warrants. The total cash flow for the full-year 2016 amounted to DKK -101.9 million (-129.9).

Cash, cash equivalents, restricted cash and securities



Shareholder information.

Zealand is listed on Nasdaq Copenhagen under the ticker symbol ZEAL. On December 31, 2016, the nominal value of Zealand's share capital was DKK 26,142,365, divided into 26,142,365 shares with a nominal value of DKK 1 each. The share capital has remained unchanged in 2017 (at March 15, 2017).

In September 2016, the share capital was increased by a nominal value of DKK 1,475,221 as a result of a private placement with specialist biotech investors and other institutional investors in the U.S. and Europe. Approximately two-thirds of the offering was subscribed by U.S. investors and the rest by European investors.

In addition, the share capital increased by a nominal value of DKK 314,375 in 2016 as a result of the exercise of employee warrants.

All Zealand shares are ordinary shares and belong to one class. Each share listed by name in Zealand's shareholder register represents one vote at the annual general meeting and other shareholders' meetings.

Increased number of shareholders since the start of 2016

The number of registered Zealand shareholders increased during 2016. From 9,689 registered shareholders at December 31, 2015, the number grew to 15,425 at December 31, 2016.

At March 14, 2017, Zealand had 15,623 registered shareholders, representing a total of 26,142,365 shares.

Ownership

The following shareholders are registered in Zealand's register of shareholders as being the owners of a minimum of 5% of the voting rights or a minimum of 5% of the share capital (one share equals one vote):

Sunstone LSV Management A/S
Copenhagen, Denmark

LD Pension (Lønmodtagernes Dyrtidsfond)
Copenhagen, Denmark

Legg Mason (Royce) Inc.
Maryland, U.S.

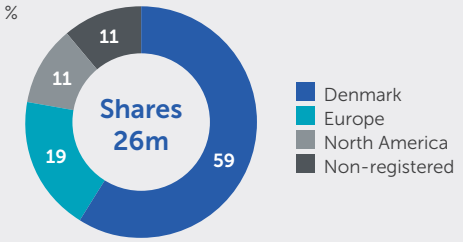
Share price performance

The price of Zealand's shares decreased by 30% during the year, which was below relevant indexes. The share price at year-end 2016 was DKK 106.50, compared with DKK 151.50 at year-end 2015. The decrease in the share price was despite reaching several major milestones during the year, with the approval of Soliqua™ 100/33 in the U.S. being the most significant. The decrease in the share price was partly caused by a general downturn in biotech shares during the

Core share data

Number of shares, end of 2016	26,142,365
Listing	Nasdaq Copenhagen
Ticker symbol	ZEAL
Index membership	OMX Copenhagen Midcap

Geographical distribution and ownership



Financial calendar 2017

Date	Event
April 5	Annual General Meeting
May 17	Interim report for Q1 2017
Aug. 24	Interim report for H1 2017
Nov. 8	Interim report for Q3 2017

year, but also by sales pressure due to the third-quarter liquidation of several of the funds managed by Sunstone LSV Management A/S, corresponding to 13% of Zealand's total share capital.

Positive development in share liquidity

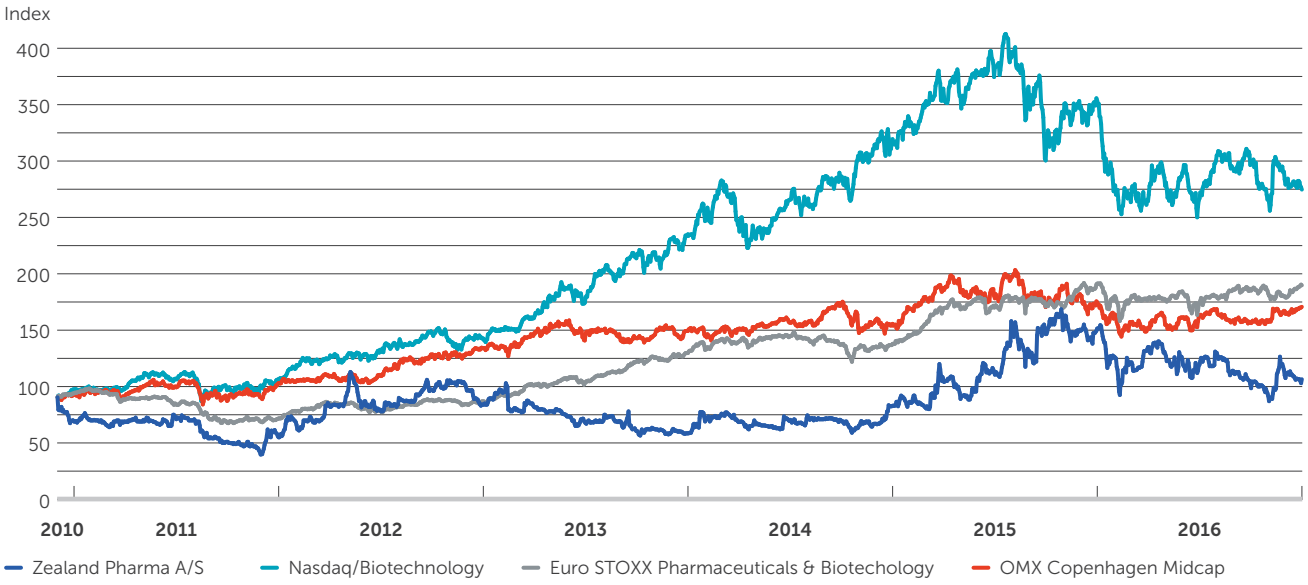
Zealand's share liquidity remained strong in 2016, with an average daily turnover on Nasdaq Copenhagen of 121,919 shares, or DKK 14.3 million. In the first months of 2017 liquidity has continued to increase to a daily turnover of approximately DKK 16.8 million.

Analyst coverage

Zealand is followed by the financial institutions and analysts listed below:

Institution	Analyst's name
Bryan, Garnier & Co	Eric le Berrigaud
Danske Bank	Thomas Bowers
Handelsbanken	Peter Sehested
Jefferies	Peter Welford
Nordea	Michael Novod
Oddo Securities – Oddo & Cie	Sébastien Malafosse

Share price



Zealand product candidate.

Board of Directors.

Martin Nicklasson

Chairman of the Board

Chairman of the Remuneration and Compensation Committee
Chairman of the Nomination Committee
Elected to the Board in 2015 and regarded as an independent board member.

Qualifications

Certified pharmacist.
PhD in Pharmaceutical Technology from the University of Uppsala, where he is an Associate Professor in the Department of Pharmaceutics.

Competencies

Martin Nicklasson has held various executive vice president positions at AstraZeneca PLC and has served as President and CEO of Biovitrum AB and Swedish Orphan Biovitrum AB. Prior to this, he held a number of leadership positions at AB Astra and Kabi Pharmacia AB. Martin Nicklasson is chairman of the boards of Orexo AB and Farma Investment A/S. He serves as a board member of Basilea Pharmaceutica Ltd., BioInvent International AB and Biocrine AB.

Rosemary Crane

Vice Chairman of the Board

Elected to the Board in 2015 and regarded as an independent board member.

Qualifications

BA in Communication from the State University of New York and MBA from Kent State University.

Competencies

Rosemary Crane has been CEO of Mela Sciences and Epocrates and has held a number of leading positions at Johnson & Johnson and BMS. She has a background in marketing and a knowledge base in diabetes and cardiovascular disease, among others. Rosemary Crane is a member of the boards of Teva Pharmaceutical Industries Ltd. and Unilife (a medical technology company).

Catherine Moukheibir

Board member

Chairman of the Audit Committee
Elected to the Board in 2015 and regarded as an independent board member.

Qualifications

MBA from Yale University.

Competencies

After a career in strategy consulting and investment banking in Boston and London, Catherine Moukheibir has held senior management positions at several European biotech companies. Her particular experience is in aligning corporate and financial strategy at various stages of a biotech's development.

Catherine Moukheibir is chairman of the board of MedDay Pharmaceuticals S.A. and a board member of Ablynx NV and Cerenis Therapeutics Holding SA. She is also a member of the advisory board of Imperial College Business School, UK.

Alain Munoz

Board member

Elected to the Board in 2005 (resigned in 2006 and was re-elected in 2007) and regarded as an independent board member.

Qualifications

MD in Cardiology and Anesthesiology, head of the clinical department of cardiology at the University Hospital of Montpellier. He has numerous publications to his name and has been a member of the scientific committee of the French Drug Agency (ANSM).

Competencies

Alain Munoz is CEO and founder of Amistad Pharma S.A.S. and Science, Business and Management SARL (France), and has more than 20 years' experience in the pharmaceutical industry at senior management level. He served as SVP for international development within the Sanofi Group and as SVP for the pharmaceutical division of Fournier Laboratories.

Alain Munoz is chairman of the board of Hybrigenics, a board member of Valneva SE and adviser to Kurma Biofund.

Michael J. Owen

Board member

Elected to the Board in 2012 and regarded as an independent board member.

Qualifications

PhD in Biochemistry from Cambridge University and BA in Biochemistry from Oxford University.

Competencies

Michael J. Owen is co-founder and former CSO of Kymab Ltd. Before joining Kymab, he held several leading positions at GlaxoSmithKline (GSK), latterly as SVP and head of biopharmaceuticals research. Prior to joining GSK in 2001, he headed the Lymphocyte Molecular Biology group at the Imperial Cancer Research Fund. He has more than 20 years' research experience with a focus on the immune system. He has more than 150 publications to his name, and is a member of the European Molecular Biology Organization and a Fellow of the Academy of Medical Sciences.

Michael J. Owen is a board member of Blink Biomedical SAS, Ossianix Inc, Avacta Group plc, ReNeuron Group plc and GammaDelta Therapeutics. He is also adviser to Kymab Ltd and CRT Pioneer Fund LP.

Jens Peter Stenvang

Employee-elected board member

Elected to the Board in 2014.

Qualifications

Laboratory Technician (Biology). Jens Peter Stenvang is a senior application specialist and has worked on cancer and diabetes research at leading universities, including UC Berkeley, California. Before joining Zealand in October 2010, he worked for Dako and Beckman Coulter in global flow cytometry support.

Hanne Heidenheim Bak

Employee-elected board member

Elected to the Board in 2012-2014 and re-elected in 2016.

Qualifications

M.Sc. (Pharm) from the Danish University of Pharmaceutical Sciences. Hanne H. Bak is Senior Project Director and R&D Operations Manager and previously worked as project leader of late-phase development programs at H. Lundbeck A/S, followed by a position as Executive Director at the Lundbeck Institute.

Rasmus Just

Employee-elected board member

Elected to the Board in 2016.

Qualifications

PhD in Molecular Pharmacology from the University of Copenhagen and Executive MBA from AVT Business School in Copenhagen. Rasmus Just is Director of Business Development and Innovation Sourcing and has previously held positions as Principal Scientist, Head of Cardiometabolic Innovation and been responsible for the collaboration with Boehringer Ingelheim GmbH.

Zealand's Board of Directors

Name	Position	Year of birth	Nationality	First elected	Committee	Zealand shares at December 31, 2016	Zealand warrants at December 31, 2016	Movement in ownership in 2016
Martin Nicklasson	Chairman	1955	Swedish	2015	●●●	1,000	0	+1,000
Rosemary Crane	Vice Chairman	1960	American	2015	●	0	0	0
Catherine Moukheibir	Chairman of Audit Committee	1959	British	2015	●	0	0	0
Alain Munoz	Board member	1949	French	2005*		5,250	0	0
Michael J. Owen	Board member	1951	British	2012	●	0	0	0
Jens Peter Stenvang	Employee-elected**	1954	Danish	2014		3,500	4,750	+2,500
Hanne Heidenheim Bak	Employee-elected**	1953	Danish	2012***		21,221	22,500	+6,500
Rasmus Just	Employee-elected**	1976	Danish	2016		4,500	9,000	+1,233

* Resigned in 2006 and re-elected in 2007.
** Employee-elected board members are elected for a period of four years.
*** Elected term ended in 2014; re-elected in 2016.

● Audit Committee
● Remuneration and Compensation Committee
● Nomination Committee

Senior Management.

From left to right:
Mats Blom,
Britt Meelby Jensen,
Adam Steensberg and
Andrew Parker

Britt Meelby Jensen

President and Chief Executive Officer (CEO)

Education
Britt has an M.Sc. from Copenhagen Business School, Denmark, and an MBA from Solvay Business School in Brussels, Belgium.

Experience
Britt joined Zealand as President and CEO in January 2015. Prior to joining Zealand, she headed the Agilent-owned Danish diagnostics company Dako as the company's CEO.

Britt has extensive experience from a range of managerial positions within the life science industry, including 11 years' international experience with Novo Nordisk. At Novo Nordisk, she held various global leadership positions, including prelaunch commercial project lead, Diabetes Marketing Nordic, Global Diabetes Lifecycle Management, prelaunch commercial projects and, more recently, Corporate Vice President for Global Marketing, Market Access and Commercial Excellence.

Previously, Britt worked for McKinsey & Company and within the EU institutions in Brussels.

Mats Blom

Senior Vice President and Chief Financial Officer (CFO)

Education

Mats holds a BA in Business Administration and Economics from the University of Lund, Sweden, and an MBA from IESE University of Navarra, Barcelona, Spain.

Experience

Prior to joining Zealand, Mats served as CFO of Swedish Orphan International, a leading European orphan drug company. Mats has extensive managerial experience and has held CFO positions at Active Biotech and Anoto, both publicly listed on Nasdaq Stockholm. Previously, Mats worked for several years as a management consultant at Gemini Consulting and for Ernst & Young's transaction services division.

Mats is chairman of the board of Medical Need AB.

Adam Steensberg

Senior Vice President and Chief Medical and Development Officer (CMDO)

Education

Adam is a certified medical doctor and holds a Doctor of Medical Sciences degree (D.M.Sc./dr.med.) from the University of Copenhagen, Denmark, and an MBA from IMD, Switzerland. Adam has published more than 45 peer-reviewed scientific papers in renowned international journals.

Experience

Prior to joining Zealand, Adam led clinical research teams as Medical Director at Novo Nordisk and worked as a clinician at the University Hospital of Copenhagen, Denmark. Adam has served as a medical and scientific adviser within endocrinology, cardiology, gastroenterology and rheumatology.

Adam has significant experience of leading regulatory strategies and has been instrumental in implementing a patient-centric discovery and development process at Zealand.

Andrew Parker

Senior Vice President and Chief Scientific Officer (CSO)

Education

Andrew holds a PhD from the National Institute for Medical Research in Mill Hill, London, UK. He conducted postdoctoral research at Johns Hopkins School of Medicine, Baltimore, U.S., and also has an MBA from the University of Warwick Business School, UK. Andrew has published more than 25 peer-reviewed scientific papers in renowned international journals.

Experience

Prior to joining Zealand, Andrew was General Partner and Scientific Director for the life science investment fund Eclosion2 & Cie SCPC in Switzerland. At the same time, he was CEO of Arisgen SA, an Eclosion2 portfolio company developing an oral peptide drug delivery technology.

Andrew has more than 20 years' experience from senior leadership and managerial positions in international pharmaceutical, biotech and start-up companies, including several years at Shire Pharmaceuticals, Opsona Therapeutics and AstraZeneca.

Name	Position	Year of birth	Nationality	Joined Zealand	Zealand shares at December 31, 2016	Zealand warrants at December 31, 2016	Movement in ownership in 2016
Britt Meelby Jensen	President and CEO	1973	Danish	2015	15,000	200,000	+15,000
Mats Blom	SVP, CFO	1965	Swedish	2010	113,000	131,019	+3,000
Adam Steensberg	SVP, CMDO	1974	Danish	2010	25,000	118,500	+13,500
Andrew Parker	SVP, CSO	1965	British	2016	0	40,000	0

Financial statements.

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Financial statements.

Income statement

DKK thousand	Note	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Revenue	2	234,778	187,677	1,748	22,491
Royalty expenses	3	-31,459	-22,267	0	0
Research and development expenses	4, 5, 6	-268,159	-217,741	-266,614	-216,947
Administrative expenses	4, 5, 6	-52,503	-41,824	-51,988	-41,158
Other operating income	7	1,697	12,828	1,697	12,828
Operating loss		**-115,646**	**-81,327**	**-315,157**	**-222,786**
Income from subsidiaries	13	0	0	180,000	0
Financial income	8	592	3,889	6,730	1,444
Financial expenses	9	-44,356	-42,394	-347	-306
Loss before tax		**-159,410**	**-119,832**	**-128,774**	**-221,648**
Income tax benefit	10	5,500	5,875	5,500	5,875
Net loss for the year		**-153,910**	**-113,957**	**-123,274**	**-215,773**
Loss per share – DKK					
Basic loss per share	11	-6.33	-4.94	-5.07	-9.36
Diluted loss per share	11	-6.33	-4.94	-5.07	-9.36

Statement of comprehensive income

DKK thousand	Note	Group 2016	Group 2015	Parent 2016	Parent 2015
Net loss for the year		**-153,910**	**-113,957**	**-123,274**	**-215,773**
Other comprehensive income (loss)		0	0	0	0
Comprehensive loss for the year		**-153,910**	**-113,957**	**-123,274**	**-215,773**

Financial statements.

Statement of financial position at December 31

DKK thousand	Note	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Assets					
Non-current assets					
Plant and machinery	12	12,081	14,672	12,081	14,672
Other fixtures and fittings, tools and equipment	12	1,154	1,153	1,154	1,153
Leasehold improvements	12	408	628	408	628
Investment in subsidiaries	13	0	0	380	380
Deposits		2,690	2,666	2,690	2,666
Restricted cash	17	305,120	0	0	0
Total non-current assets		**321,453**	**19,119**	**16,713**	**19,499**
Current assets					
Trade receivables	14	11,510	158,158	27	313
Receivables from subsidiaries		0	0	76	3,521
Prepaid expenses	15	13,837	2,430	13,837	2,430
Income tax receivable	10	5,500	5,875	5,500	5,875
Other receivables	16	5,379	10,427	5,017	10,314
Restricted cash	17	13,617	21,403	0	0
Cash and cash equivalents	17	323,330	418,796	206,398	140,783
Total current assets		**373,173**	**617,089**	**230,855**	**163,236**
Total assets		**694,626**	**636,208**	**247,568**	**182,735**

Statement of financial position at December 31

DKK thousand	Note	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Equity and liabilities					
Share capital	18	26,142	24,353	26,142	24,353
Share premium		1,441,263	1,263,179	1,438,578	1,260,494
Retained losses		-1,189,211	-1,035,301	-1,266,297	-1,143,023
Equity		**278,194**	**252,231**	**198,423**	**141,824**
Royalty bond	19	328,878	312,951	0	0
Non-current liabilities		**328,878**	**312,951**	**0**	**0**
Trade payables		19,739	21,676	19,739	21,580
Royalty bond	19	3,365	0	0	0
Other liabilities	20	64,450	49,350	29,406	19,331
Current liabilities		**87,554**	**71,026**	**49,145**	**40,911**
Total liabilities		**416,432**	**383,977**	**49,145**	**40,911**
Total equity and liabilities		**694,626**	**636,208**	**247,568**	**182,735**

Financial statements.

Statement of cash flows

DKK thousand	Note	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Net loss for the year		-153,910	-113,957	-123,274	-215,773
Adjustments for non-cash items	24	57,685	47,474	20,142	14,158
Change in working capital	25	153,452	-140,834	5,855	-14,715
Financial income received		592	1,269	344	132
Financial expenses paid		-22,790	-24,969	-784	-308
Income tax receipt	10	5,875	6,250	5,875	6,250
Cash outflow/inflow from operating activities		**40,904**	**-224,767**	**-91,842**	**-210,256**
Transfer to restricted cash related to the royalty bond		-305,120	0	0	0
Transfer from restricted cash for royalty bond interest payments		7,786	2,419	0	0
Change in deposit		-24	27	-24	27
Purchase of property, plant and equipment		-2,600	-4,040	-2,600	-4,040
Cash outflow from investing activities		**-299,958**	**-1,594**	**-2,624**	**-4,013**
Proceeds from issue of shares related to exercise of warrants		21,935	96,413	21,935	96,413
Proceeds from private placement of new shares, net		135,211	0	135,211	0
Cash inflow from financing activities		**157,146**	**96,413**	**157,146**	**96,413**
Decrease/increase in cash and cash equivalents		**-101,908**	**-129,948**	**62,680**	**-117,856**
Cash and cash equivalents at January 1		418,796	516,849	140,783	255,335
Exchange rate adjustments		6,442	31,895	2,936	3,304
Cash and cash equivalents at December 31		**323,330**	**418,796**	**206,399**	**140,783**

Financial statements.

Statement of changes in equity

Group

DKK thousand	Share capital	Share premium	Retained losses	Total
Equity at January 1, 2015	**23,193**	**1,150,979**	**-921,344**	**252,828**
Comprehensive loss for the year				
Net loss for the year	0	0	-113,957	-113,957
Warrant compensation expenses	0	16,947	0	16,947
Capital increases	1,160	95,253	0	96,413
Equity at December 31, 2015	**24,353**	**1,263,179**	**-1,035,301**	**252,231**
Equity at January 1, 2016	**24,353**	**1,263,179**	**-1,035,301**	**252,231**
Comprehensive loss for the year				
Net loss for the year	0	0	-153,910	-153,910
Warrant compensation expenses	0	22,727	0	22,727
Capital increases	1,789	155,357	0	157,146
Equity at December 31, 2016	**26,142**	**1,441,263**	**-1,189,211**	**278,194**

Statement of changes in equity

Parent company

DKK thousand	Share capital	Share premium	Retained losses	Total
Equity at January 1, 2015	**23,193**	**1,148,294**	**-927,250**	**244,237**
Comprehensive loss for the year				
Net loss for the year	0	0	-215,773	-215,773
Warrant compensation expenses	0	16,947	0	16,947
Capital increases	1,160	95,253	0	96,413
Equity at December 31, 2015	**24,353**	**1,260,494**	**-1,143,023**	**141,824**
Equity at January 1, 2016	**24,353**	**1,260,494**	**-1,143,023**	**141,824**
Comprehensive loss for the year				
Net loss for the year	0	0	-123,274	-123,274
Warrant compensation expenses	0	22,727	0	22,727
Capital increases	1,789	155,357	0	157,146
Equity at December 31, 2016	**26,142**	**1,438,578**	**-1,266,297**	**198,423**

Notes.

Note 1 – Significant accounting policies and significant accounting estimates and assessments

Significant accounting policies

Basis of preparation
The consolidated and parent financial statements of Zealand have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements under the Danish Financial Statements Act.

The Board of Directors considered and approved the 2016 Annual Report of Zealand on March 15, 2017. The Annual Report will be submitted to the shareholders of Zealand for approval at the Annual General Meeting on April 5, 2017.

The consolidated and parent financial statements are presented on a historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and on the significance of the inputs to the fair value measurement in its entirety. The inputs are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability

The consolidated and parent financial statements are presented in Danish kroner (DKK), which is the functional currency of the Company.

In the narrative sections of the financial statements, comparative figures for 2015 are shown in brackets.

Implementation of new and revised standards and interpretations
The IASB has issued new standards and revisions to existing standards and new interpretations that are mandatory for accounting periods commencing on or after January 1, 2016. The implementation of these new or revised standards and interpretations has not resulted in any significant impact on the net loss for the year or the financial position.

Standards and interpretations not yet in effect
At the date of the approval of the annual report, the following new and revised standards and interpretations have been issued but are not yet effective. Therefore, they have not been adopted in these financial statements:

IFRS 9 "Financial Instruments," effective for annual periods beginning on or after January 1, 2018. IFRS 9 Financial Instruments is part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement, and the new standard will change the classification, presentation and measurement of financial instruments and hedging requirements. Zealand has assessed the impact of the standard, and no material impact on the financial statements is expected.

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses," effective for annual periods beginning on or after January 1, 2017. Zealand has assessed the impact of the standard and it is not expected to have any material impact on the financial statements, as the Company does not currently or in the near future expect to recognize deferred tax assets for unrealized losses.

IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), effective for annual periods beginning on or after January 1, 2018. Under the new standard, entities will apply a five-step model to determine when, how and at what amount revenue is to be recognized, depending on whether certain criteria are met. Zealand has assessed the impact of the standard and it is not expected to have any material impact on current revenue from contracts with customers, but will be considered with regard to the impact of any contracts signed in the future on the financial statements.

IFRS 16 "Leases" ("IFRS 16"), effective for annual periods beginning on or after January 1, 2019. In the consolidated financial statements of the lessees, IFRS 16 requires all leases (except for short-term leases and leases of low-value assets) to be recognized as a right-of-use

Notes.

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

asset and lease liability, measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated in a similar way to other depreciable assets over the lease term and interest calculated on the lease liability in a similar way to on finance leases under IAS 17. Consequently, the change will also impact the presentation in the income statement and the statement of cash flows. Zealand has assessed the impact of the standard, and it is not expected to have any material impact on the financial statements.

Accounting policies
The accounting policies for specific line items and transactions are included in the respective notes to the financial statements with the exception of basis of consolidation, foreign currency translation and the cash flow statement, which are included below.

Recognition and measurement
Income is recognized in the income statement when generated. Assets and liabilities are recognized in the balance sheet when it is probable that any future economic benefit will flow to or from Zealand and the value can be reliably measured. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described in the description of the accounting policies in the respective notes to the financial statements.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Principles of consolidation
The consolidated financial statements are prepared on the basis of the financial statements of the parent company and the individual subsidiaries, which are based on uniform accounting policies and accounting periods in all Group entities. Consolidation of Group entities is performed after elimination of all intra-Group transactions, balances, income and expenses.

Foreign currency translation
Transactions denominated in foreign currencies are translated at the exchange rates on the transaction dates.

Exchange differences arising between the rate on the transaction date and the rate on the payment day are recognized in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated by applying the exchange rates at the balance sheet date. Differences arising between the rate at the balance sheet date and the rate at the date on which the receivable or payable arose are recognized in the income statement as financial income and financial expenses.

Non-monetary assets purchased in foreign currencies are measured at the rate on the transaction date.

Consolidated financial statements
Income statement
The income statement is classified by function.

Segment reporting
The Group is managed by a senior management team reporting to the Chief Executive Officer. The senior management team, including the Chief Executive Officer, represents the chief operating decision maker (CODM). No separate business areas or separate business units have been identified in connection with product candidates or geographical markets. Consequently, there is no segment reporting concerning business areas or geographical areas.

Statement of financial position
Financial assets
Financial assets include receivables and cash. Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through the income statement, available-for-sale financial assets and held-to maturity investments. Financial assets are assigned to the different categories by Management on initial recognition, depending on the purpose for which the assets were acquired. All financial assets are recognized on their settlement date. All financial assets other than those classified

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

at fair value through the income statement are initially recognized at fair value, plus transaction costs.

Statement of cash flows
The cash flow statement is prepared in accordance with the indirect method on the basis of the net loss for the year. The statement shows the cash flows broken down into operating, investing and financing activities, cash and cash equivalents at year-end, and the impact of the calculated cash flows on the cash and cash equivalents.

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date. In the cash flows from operating activities, net loss is adjusted for non-cash operating items and changes in working capital.

Cash flow from operating activities
Cash flow from operating activities is presented indirectly and is calculated as the net loss adjusted for non-cash operating items, changes in net working capital, financial items paid and income tax benefits received.

Cash flow from investing activities
Cash flow from investing activities includes cash flows from the purchase and sale of property, plant and equipment, investments and deposits, as well as transfers to and from restricted cash related to the royalty bond.

Cash flow from financing activities
Cash flow from financing activities includes new equity, loan financing and funds from private placements.

Cash and cash equivalents
Cash and cash equivalents comprise cash and bank balances.

Significant accounting estimates and assessments
In preparing the financial statements, Management makes a number of accounting estimates that form the basis for the presentation, recognition and measurement of our assets and liabilities.

In applying our accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates used are based on assumptions assessed to be reasonable by Management. However, estimates are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may occur. Furthermore, we are subject to risks and uncertainties that may result in deviations in actual results compared with estimates.

No significant changes have been made in accounting estimates and assessments in 2016.

The following are the most significant accounting estimates and assessments applied by Management in these financial statements:

Revenue recognition
Revenue comprises the fair value of the consideration received and income derived from development services. Revenue is measured net of value added tax, duties, etc. collected on behalf of a third party and discounts. The revenue is recognized when it is probable that future economic benefits will flow to Zealand and these benefits can be measured reliably.

Agreements with commercial partners generally include non-refundable upfront license and collaboration fees, milestone payments – the receipt of which is dependent on the achievement of certain clinical, regulatory or commercial milestones – as well as royalties on product sales of licensed products, if and when such product sales occur. For agreements that include multiple elements, total contract consideration is attributed to separately identifiable components on a reliable basis that reasonably reflects the selling prices that might be expected to be achieved in standalone transactions, provided that each component has value to the partner on a standalone basis. The allocated consideration is recognized as revenue in accordance with the principles described above.

Employee incentive programs
In accordance with IFRS 2 "Share-based Payment," the fair value of the warrants classified as equity settled is measured at grant date and is recognized as an expense in the income statement when the final right to the

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

warrant is obtained. Warrants are considered vested at grant date, and the fair value is not remeasured subsequently. The fair value of each warrant granted during the year is calculated using the Black–Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- The expected stock price volatility, which is based upon the historical volatility of Zealand's share price
- The risk-free interest rate, which is determined as the interest rate on Danish government bonds with a maturity of five years
- The duration of the warrants, which is assumed to be until the end of the last exercise period

The total costs of the warrants are recognized in the income statement at the grant date, adjusted for an expected attrition rate. The attrition rate is re-estimated at year-end based on the historical attrition rate. Warrant programs that terminate are adjusted based on the actual attrition rate at year-end.

Restatements

The consolidated and parent financial statements as of and for the year ended December 31, 2015 included restatements with respect to classification of certain items within the income statements, statement of financial position and statement of cash flow.

The restatements had no impact on the Net loss for the year or Loss per share for the year ended December 31, 2015. The nature and impact of each restatement is described below, including tickmarks linking the descriptions to the restated statements of cash flow and statements of financial position:

Statement of cash flow

A) Restricted cash

The Company has restricted cash relating to the royalty bond issue agreement. This amount was previously presented within the consolidated statement of cash flow as a component of cash, restricted cash and cash equivalents. The amount has been reclassified from this balance, and the activity in the restricted cash balance has been presented within Cash inflow from investing activities, specifically the line items "Transfer to restricted cash related to the royalty bond" and "Transfer from restricted cash for royalty bond payments." The line item reconciled from the beginning of the period to the end of period has been renamed "Cash and cash equivalents" to reflect the revised components it contains. The adjustment resulted in a decrease in Cash and cash equivalents within the consolidated statement of cash flow as of December 31, 2015 of DKK 21,403 thousand.

In 2015, the Company used part of the restricted cash for royalty bond interest payments. The adjustment resulted in cash of DKK 2,419 thousand being reclassified from restricted cash.

B) Change in working capital

The Company had previously not adjusted for all changes in working capital. The adjustment resulted in an increase of DKK 75,492 thousand in "Increase in receivables" and a decrease of DKK 77,455 thousand in "Increase in payables" as of December 31, 2015; see Note 25. The net impact was an increase in the negative balance of Change in working capital of DKK 1,963 thousand (decrease in the negative balance of DKK 6,112 in the parent company), as stated in the tables below.

Statement of financial position

C) Royalty receivable

The Company has a receivable related to royalty income. As of December 31, 2015, the receivable was presented within the consolidated statement of financial position under the line Other receivables and has now been reclassified to Trade receivables. The adjustment resulted in a decrease in Other receivables of DKK 15,365 thousand and a corresponding increase in Trade receivables as of December 31, 2015.

D) VAT receivable

The Company has a receivable related to VAT that the Company will receive from the Danish tax authorities. The receivable was previously presented in the line Prepaid expenses within the consolidated and parent statement of financial position and has now been reclassified to Other receivables. The adjustment resulted in a decrease in Prepaid expenses of DKK 2,262 thousand (DKK 2,242 in the parent company) and a corresponding increase in Other receivables as of December 31, 2015.

E) Sanofi withholding tax receivable

The Company has a withholding tax receivable relating to the Sanofi royalty agreement. This withholding tax receivable was previously treated as receivables from subsidiaries and was eliminated in the consolidation against Other liabilities. However, as the receivable is from Sanofi, a third party, this elimination has been reversed. The adjustment resulted in an increase in Trade receivables and Other liabilities of DKK 1,673 thousand as of December 31, 2015 in the consolidated statement of financial position.

Notes.

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

F) Prepaid expenses
The Company has prepayments related to some of the Company's vendors. Such prepayments were previously presented within the consolidated and parent statements of financial position under the line Other receivables and have now been reclassified to Prepaid expenses. The adjustment resulted in a decrease in Other receivables of DKK 2,430 thousand (DKK 7,021 thousand in the parent company) and a corresponding increase in Prepaid expenses in the consolidated and parent statements of financial position as of December 31, 2015. The Company has also recognized certain expenses related to clinical studies that have been refunded by the Helmsley Charitable Trust. Such expenses were previously presented within the parent company under the line Prepaid expenses and have been reclassified to Other receivables. The adjustment resulted in a decrease in Prepaid expenses of DKK 4,591 thousand and a corresponding increase in Other receivables in the consolidated and parent statements of financial position as of December 31, 2015.

G) Deferred income
The Company has certain prepayments from customers within Deferred income that have been paid by external contract research organizations (CROs) and will not flow to the income statement, as the Company will not be performing the related research and development, but will be sending the funds to external CROs. Thus, the amount of such items has been reclassified within the consolidated and parent statements of financial position under the line Other liabilities. The adjustment has resulted in a decrease in Deferred income of DKK 2,091 thousand (DKK 2,063 thousand in the parent company), a decrease in Other receivables of DKK 153 thousand (DKK 153 thousand in the parent company) and an increase in Other liabilities of DKK 1,938 thousand (DKK 1,910 thousand in the parent company) as of December 31, 2015.

H) Miscellaneous
Certain individually immaterial adjustments have been made to the consolidated and parent statements of cash flow and statements of financial position as of December 31, 2015.

Income statement
I) Allocation of overhead costs between Administrative expenses and Research and development expenses
As of December 31 2016, Zealand corrected the allocation of overhead costs to be based on the number of employees in the different areas such as Research, Development and Administration. Previously, the allocation was based on total salary in the respective areas. This has resulted in DKK 2,781 thousand being transferred from "Administrative expenses" to "Research and development expenses" in the consolidated and parent income statement for the year ended December 31, 2015. The restatement has no impact on the operating loss or net loss for the year.

Notes.

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

Total impact

The table below reflects the individual lines in the statements that are impacted by the restatements:

Consolidated statement of cash flow for the year ended December 31, 2015

Group DKK thousand	As originally reported, 2015	Re-statement	Tickmark	Amount as adjusted, 2015
Net loss for the year	-113,957			-113,957
Adjustments for non-cash items	43,553	3,921	H	47,474
Change in working capital	-138,871	-1,963	B	-140,834
Financial income received	1,269			1,269
Financial expenses paid	-23,657	-1,312	H	-24,969
Income tax receipt	6,250			6,250
Cash outflow from operating activities	**-225,413**	**646**		**-224,767**
Transfer from restricted cash related to the royalty bond interest payments	0	2,419	A	2,419
Change in deposit	27			27
Purchase of property, plant and equipment	-4,040			-4,040
Cash outflow from investing activities	**-4,013**	**2,419**		**-1,594**
Proceeds from issue of shares related to exercise of warrants	96,413			96,413
Cash inflow from financing activities	**96,413**			**96,413**
Decrease/increase in cash and cash equivalents	**-133,013**	**3,065**		**-129,948**
Cash and cash equivalents at January 1	538,273	-21,424	A	516,849
Exchange rate adjustments	34,939	-3,044	A	31,895
Cash and cash equivalents at December 31	**440,199**	**-21,403**	**A**	**418,796**

Statement of cash flow for the year ended December 31, 2015

Parent DKK thousand	As originally reported, 2015	Re-statement	Tickmark	Amount as adjusted, 2015
Net loss for the year	-215,773			-215,773
Adjustments for non-cash items	20,714	-6,556	H	14,158
Change in working capital	-20,827	6,112	B	-14,715
Financial income received	340	-208	H	132
Financial expenses paid	1,004	-1,312	H	-308
Income tax receipt	6,250			6,250
Cash outflow from operating activities	**-208,292**	**-1,964**		**-210,256**
Net financing of subsidiaries	28	-28	H	0
Change in deposit	27			27
Purchase of property, plant and equipment	-4,040			-4,040
Cash outflow from investing activities	**-3,985**	**-28**		**-4,013**
Proceeds from issue of shares related to exercise of warrants	96,413			96,413
Cash inflow from financing activities	**96,413**			**96,413**
Decrease/increase in cash and cash equivalents	**-115,864**	**-1,992**		**-117,856**
Cash and cash equivalents at January 1	255,335			255,335
Exchange rate adjustments	1,312	1,992	H	3,304
Cash and cash equivalents at December 31	**140,783**	**0**		**140,783**

Notes.

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

Consolidated statement of financial position as of December 31, 2015

Group DKK thousand	As originally reported, 2015	Re-statement	Tickmark	Amount as adjusted, 2015
Assets				
Plant and machinery	14,672			14,672
Other fixtures and fittings, tools and equipment	1,153			1,153
Leasehold improvements	628			628
Deposits	2,666			2,666
Total non-current assets	**19,119**	**0**		**19,119**
Trade receivables	141,120	17,038	C,E	158,158
Prepaid expenses	2,262	168	D,F	2,430
Income tax receivable	5,875			5,875
Other receivables	26,113	-15,686	C,D,F,G	10,427
Restricted cash	21,403			21,403
Cash and cash equivalents	418,796			418,796
Total current assets	**615,569**	**1,520**		**617,089**
Total assets	**634,688**	**1,520**		**636,208**

Statement of financial position as of December 31, 2015

Parent DKK thousand	As originally reported, 2015	Re-statement	Tickmark	Amount as adjusted, 2015
Assets				
Plant and machinery	14,672			14,672
Other fixtures and fittings, tools and equipment	1,153			1,153
Leasehold improvements	628			628
Investment in subsidiaries	380			380
Deposits	2,666			2,666
Total non-current assets	**19,499**	**0**		**19,499**
Trade receivables	313			313
Receivables from subsidiaries	3,549	-28	H	3,521
Prepaid expenses	2,242	188	D,F	2,430
Income tax receivable	5,875			5,875
Other receivables	10,627	-313	D,F,G	10,314
Cash and cash equivalents	140,783			140,783
Total current assets	**163,389**	**-153**		**163,236**
Total assets	**182,888**	**-153**		**182,735**

Notes.

Note 1 – Significant accounting policies and significant accounting estimates and assessments (continued)

Consolidated statement of financial position as of December 31, 2015

Group DKK thousand	As originally reported, 2015	Re-statement	Tickmark	Amount as adjusted, 2015
Equity and liabilities				
Share capital	24,353			24,353
Share premium	1,263,179			1,263,179
Retained losses	-1,035,301			-1,035,301
Equity	**252,231**	**0**		**252,231**
Royalty bond	312,951			312,951
Non-current liabilities	**312,951**	**0**		**312,951**
Trade payables	21,676			21,676
Deferred income	2,091	-2,091	G	0
Other liabilities	45,739	3,611	E,G	49,350
Current liabilities	**69,506**	**1,520**		**71,026**
Total liabilities	**382,457**	**1,520**		**383,977**
Total equity and liabilities	**634,688**	**1,520**		**636,208**

Statement of financial position as of December 31, 2015

Parent DKK thousand	As originally reported, 2015	Re-statement	Tickmark	Amount as adjusted, 2015
Equity and liabilities				
Share capital	24,353			24,353
Share premium	1,260,494			1,260,494
Retained losses	-1,143,023			-1,143,023
Equity	**141,824**	**0**		**141,824**
Royalty bond	0			0
Non-current liabilities	**0**	**0**		**0**
Trade payables	21,580			21,580
Deferred income	2,063	-2,063	G	0
Other liabilities	17,421	1,910	G	19,331
Current liabilities	**41,064**	**-153**		**40,911**
Total liabilities	**41,064**	**-153**		**40,911**
Total equity and liabilities	**182,888**	**-153**		**182,735**

Notes.

Note 2 – Revenue

ACCOUNTING POLICIES

Revenue comprises license payments, milestone payments and royalty income. License payments are recognized upon transfer of the associated licensing rights at the point at which risks and rewards have been transferred. Milestone payments are related to the collaborative research agreements with commercial partners and are recognized in accordance with the agreements. Royalty income from licenses is based on third-party sales of licensed products and is recognized in accordance with contract terms in the period that the sales occur.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized with reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity
- The stage of completion of the transaction at the end of the reporting period can be measured reliably
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Payments are recognized in accordance with the collaborative research agreements.

The income from agreements with multiple components where the individual components cannot be separated is recognized over the period of the agreement. In addition, recognition requires all material risks and benefits related to the use of our intellectual property included in the collaboration to be transferred to the collaboration partner.

If all risks and benefits have not been transferred, the transaction is recognized as deferred income until all components of the transaction have been completed.

Accounting for the Sanofi License Agreement

In June 2003, Zealand entered into a license agreement with Sanofi (the Sanofi License Agreement), pursuant to which Zealand granted Sanofi exclusive rights to our patents, know-how and other intellectual property relating to lixisenatide, for all fields. Pursuant to the Sanofi License Agreement, which has been amended over the years, Sanofi assumed responsibility for the further development, manufacturing and marketing of lixisenatide, and we cannot research or develop lixisenatide while the Sanofi License Agreement remains in effect.

Under the Sanofi License Agreement, we are eligible to receive remaining milestone payments relating to commercialized products of up to USD 100 million, contingent on the achievement of certain sales levels, as well as royalties on global sales of such products. Royalties correspond to tiered, low double-digit percentages of Sanofi's global net sales of lixisenatide (branded as Adlyxin® in the U.S. and as Lyxumia® in the EU and other countries) plus a 10% royalty on global net sales of a combination of lixisenatide and insulin glargine 100 units/ml (Lantus®) marketed under the brand name Soliqua™ 100/33 in the U.S. and as Suliqua™ in the EU. In 2016, Sanofi challenged the validity of certain patents owned by a competitor, AstraZeneca (and its affiliates), in both administrative and court proceedings in the U.S. and in certain other countries, and AstraZeneca brought counterclaims in the U.S. proceedings asserting that products containing lixisenatide infringe its patents. Sanofi and AstraZeneca subsequently agreed to settle all claims and counterclaims between them in various proceedings relating to lixisenatide. Our financial obligations related to this now-resolved intellectual property dispute could have the effect of reducing our net revenue from commercial milestone payments from Sanofi relating to Soliqua™ 100/33/Suliqua™. The amount and timing of any such reductions are not currently known, but they will not exceed USD 15 million in total.

We pay Alkermes plc 13% of all payments received on lixisenatide while lixisenatide is subject to a commercialization agreement, for example the Sanofi License Agreement. We also pay one of the inventors of the Structure Induced Probe (SIP) technology employed in lixisensatide a 0.5% royalty on amounts received in connection with drug candidates that, like lixisenatide, are produced using our SIP technology.

Milestone payments are recognized as revenue when the relevant milestones are achieved.

Notes.

Note 2 – Revenue

Accounting for the Boehringer Ingelheim License Agreements

In June 2011, Zealand entered into a license, research and development collaboration agreement with Boehringer Ingelheim International GmbH (BI) to advance novel glucagon/GLP-1 dual-acting peptide receptor agonists (GGDAs) for the treatment of patients with type 2 diabetes and obesity. Under the terms of the 2011 BI License Agreement, BI pays a fixed amount per full-time employee and other costs related to all research, development and commercialization in respect of the compounds covered by the agreement.

We are eligible to receive license and milestone payments of up to EUR 386 million. of which EUR 365 million was outstanding as of December 31, 2016, related to the achievement of pre-specified development, regulatory and commercial milestones for the lead product. We are also eligible to receive tiered royalties ranging from high single-digit to low double-digit percentages on BI's sales of all products stemming from this collaboration. In addition, we retain copromotion rights in Scandinavia.

In 2014, Zealand entered into a second global license, research and development collaboration agreement with BI (the 2014 BI License Agreement). This agreement pertains to collaboration on a specific therapeutic peptide project from our portfolio of pre-clinical programs for a period of up to four and a half years, with the aim of developing novel drugs to improve the treatment of patients with cardio-metabolic diseases. In 2015, BI selected a novel peptide therapeutic to be advanced into preclinical development under this agreement.

Pursuant to this agreement, we have worked with BI to advance the therapeutic peptides stemming from this research collaboration into preclinical development. BI is responsible for conducting preclinical and clinical development, as well as for the commercialization of products stemming from the agreement and funding all activities under the agreement. We are eligible to receive license and milestone payments for the first compound to be developed and marketed under the collaboration of up to EUR 295 million, of which EUR 287 million was outstanding as of December 31, 2016. We are also eligible to receive tiered royalties ranging from low single-digit to low double-digit percentages on global sales of products arising from this collaboration. We retain copromotion rights in Scandinavia and are not eligible for royalty payments in those countries if we exercise such rights.

No product candidates outlicensed to BI are currently marketed, and accordingly we have not received any royalty payments to date under our licensing agreements with BI.

Recognized revenue can be specified as follows:

DKK thousand	Group 2016	Group 2015	Parent 2016	Parent 2015
Sanofi-Aventis Deutschland GmbH	208,692	136,600	0	0
Boehringer Ingelheim International GmbH	0	22,379	0	22,379
Helsinn Healthcare S.A.	112	112	112	112
Protagonist Therapeutics, Inc.	1,636	0	1,636	0
Total license and milestone revenue	**210,440**	**159,091**	**1,748**	**22,491**
Sanofi-Aventis Deutschland GmbH	24,338	28,586	0	0
Total royalty income	**24,338**	**28,586**	**0**	**0**
Total revenue	**234,778**	**187,677**	**1,748**	**22,491**

All Zealand revenue can be attributed to other countries than Denmark.

Milestone payments are recognized as revenue when the relevant milestones are achieved.

Accounting for the Licensing Agreement with Helsinn

In 2008, we entered into a license agreement with Helsinn (the Helsinn License Agreement). Pursuant to the Helsinn License Agreement, we granted a worldwide, exclusive license to elsiglutide (referred to by us internally as ZP1846) to Helsinn, which assumed responsibility for all further development, regulatory approvals, manufacturing, marketing and sales of elsiglutide, either on its own or through its sublicensees. We cannot undertake any investigation, development or commercialization, directly and/or through any third parties, of elsiglutide or of any other GLP-2 analogue compounds in the field of cancer supportive care and support licensed to Helsinn, unless undertaken on behalf of Helsinn as contract research.

The Helsinn License Agreement entitles us to mid to high single-digit percentage non-refundable royalty payments in respect of net sales and milestone payments, upon the achievement of specified development and regulatory milestone events and sales levels reached (of which EUR 124 million is currently outstanding). We also have an option to obtain marketing and sales rights in the Nordic

Notes.

Note 2 – Revenue (continued)

countries if and when Helsinn obtains marketing approval in these.

No product candidates outlicensed to Helsinn are currently marketed. Accordingly, we have not recognized any royalty payments to date under the Helsinn License Agreement.

Milestone payments are recognized as revenue when the relevant milestones are achieved.

Accounting for other license agreements
In 2012, Zealand entered into an agreement with Protagonist Therapeutics, Inc., but this earlier research collaboration was terminated in 2014. In line with the terms of the terminated agreement, Zealand is entitled to receive up to USD 15 million if certain milestone events occur.

Milestone payments are recognized as revenue when the relevant milestones are achieved.

Revenue from Sanofi
In 2016, we recognized DKK 208.7 million in revenue from milestone payments from Sanofi under the Sanofi License Agreement in connection with the approval of lixisenatide as Adlyxin® in July 2016 amounting to DKK 33.5 million, and in connection with the approval of Soliqua™ in November 2016 amounting to DKK 175.2 million, both in the U.S. Further, in 2016 we recognized DKK 24.3 million as royalty income, reflecting sales of Lyxumia® of EUR 32.7 million.

In 2015, we recognized DKK 136.6 million in revenue from milestone payments from Sanofi under the Sanofi License Agreement in connection with the submission of a New Drug Application (NDA) for iGlarLixi to the FDA. The milestone payment less withholding taxes in Germany was received in January 2016, and the withholding taxes were received from the German tax authorities in April 2016. Further, in 2015 we recognized DKK 28.6 million as royalty income, reflecting sales of Lyxumia® of EUR 38.3 million.

Revenue from Boehringer Ingelheim
No revenue was recognized from BI in 2016, as no milestone event was reached.

In 2015, we recognized DKK 22.4 million in revenue from a milestone payment from BI in connection with the selection of a first preclinical product candidate under the 2014 BI License Agreement.

Revenue from Helsinn
In 2016 and 2015, we recognized DKK 0.1 million in payments from Helsinn, representing other contractual payments rather than milestone payments.

Revenue from other agreements
In 2016, we recognized DKK 1.6 million in revenue from a milestone payment from the Protagonist Therapeutics agreement in connection with its selection of a development candidate.

Note 3 – Royalty expenses

§ **ACCOUNTING POLICIES**

Royalty expenses comprise contractual amounts due to third parties that are derived from the milestone payments and royalty income earned from the corresponding collaboration agreements.

We have agreed to pay some of our revenue in deferred payments or royalties to third parties. At the time of the dissolution of a former joint venture with Elan Corporation, plc (Elan) and certain of its subsidiaries that were party to the joint venture agreement with us, we agreed to pay royalties to Elan – now Alkermes plc, as successor in interest to a termination agreement between us and the Elan entities – including 13% of future payments we receive in respect of lixisenatide under the Sanofi License Agreement.

In addition, we have agreed to pay a royalty of 0.5% of the total amounts we receive in connection with our SIP-modified peptides, including lixisenatide, to one of the inventors of our SIP technology, who is one of our employees. The royalty to be paid to this inventor is calculated on the basis of all the amounts we receive, including license payments, milestone payments and sales.

In 2016 and 2015, the royalty expenses related to royalties from sales of Lyxumia® and milestone payments received from Sanofi.

Notes.

Note 4 – Research, development and administrative expenses

ACCOUNTING POLICIES

Research and development expenses
Research expenses comprise salaries, contributions to pension schemes and other expenses, including patent expenses, as well as depreciation and amortization directly attributable to the Group's research activities. Research expenses are recognized in the income statement as incurred.

Development expenses comprise salaries, contributions to pension schemes and other expenses, including depreciation and amortization, directly attributable to the Group's development activities. Development expenses are recognized in the income statement as incurred.

No indirect costs that are not directly attributable to research and development activities are included in the disclosure of research and development expenses recognized in the income statement. Overhead expenses have been allocated to research and development or administrative expenses based on the number of employees in each department, determined according to the respective employees' associated undertakings.

Administrative expenses
Administrative expenses include expenses for administrative personnel, expenses related to company premises, operating leases, investor relations, etc. Overhead expenses have been allocated to research and development or administrative expenses according to the number of employees in each department, determined based on the respective employees' associated undertakings.

ACCOUNTING ESTIMATES AND ASSESSMENTS RELATED TO RESEARCH AND DEVELOPMENT EXPENSES

A development project involves a single product candidate undergoing a large number of tests to demonstrate its safety profile and the effect on human beings, prior to obtaining the necessary final approval for the product from the appropriate authorities. The future economic benefits associated with the individual development projects are dependent on obtaining such approval. Considering the significant risk and duration of the development period for biological products, Management has concluded that whether the intangible asset will generate probable future economic benefits cannot be estimated with sufficient certainty until the project has been finalized and the necessary final regulatory approval of the product has been obtained. Accordingly, Zealand has not recognized such assets at this time, and all research and development costs are therefore recognized in the income statement when incurred.

Capitalization of development costs assumes that, in the Group's opinion, the development of the technology or the product has been completed, all necessary public registrations and marketing approvals have been received, and expenses can be reliably measured. Furthermore, it must be established that the technology or the product can be commercialized and that the future income from the product can cover not only the production, selling and administrative expenses but also development expenses. As of December 31, 2016 and 2015, Zealand has not capitalized any development expenses.

Notes.

Note 5 – Fees to auditors appointed at the Annual General Meeting

DKK thousand	2016	2015
Audit	1,937	315
Audit-related services and other assurance engagements	4,107	30
Tax advice	43	104
Other	232	29
Total fees	**6,319**	**478**

Note 6 – Information on staff and remuneration

DKK thousand	2016	2015 restated
Total staff salaries can be specified as follows:		
Salaries	104,614	89,508
Pension schemes (defined contribution plans)	8,239	7,243
Other payroll and staff-related costs	32,838	26,580
Total	**145,691**	**123,331**
The amount is charged as:		
Research and development expenses	109,509	94,390
Administrative expenses	36,182	28,941
Total	**145,691**	**123,331**
Average number of employees	124	110

Notes.

Note 6 – Information on staff and remuneration (continued)

Remuneration DKK thousand	Base board fee 2016	Base board fee 2015
Remuneration to the:		
Board of Directors		
Martin Nicklasson [1]	750	450
Rosemary Crane	400	200
Catherine Moukheibir	400	250
Peter Benson [2]	104	150
Alain Munoz	250	150
Michael Owen	250	150
Jens Peter Stenvang [3]	250	150
Hanne Heidenheim Bak [3]	167	0
Rasmus Just [3]	167	0
Christian Thorkildsen [2] [3]	83	150
Helle Størum [2] [3]	83	150
Daniel Ellens [4]	0	150
Jørgen Lindegaard [4]	0	150
Florian Reinaud [4]	0	13
Total	**2,904**	**2,113**

[1] In addition to the base board fee, Martin Nicklasson received an observation fee for his period as Observer to the Board before being appointed at the Annual General Meeting in 2015. This fee amounted to DKK 150,000.
[2] These board members resigned from the Board in 2016.
[3] For the employee-elected board members, the table only includes remuneration for board work.
[4] These board members resigned from the Board in 2015.

2016 DKK thousand	Base salary	Bonus	Pension contri-bution	Other benefits	Severance payment	Warrant compen-sation expenses	Total
Remuneration to the:							
Executive Management							
Britt Meelby Jensen	3,795	683	380	231	0	4,442	9,531
Mats Blom	2,448	526	245	268	0	1,111	4,598
Total	**6,243**	**1,209**	**625**	**499**	**0**	**5,553**	**14,129**
Other senior management [1]	6,422	833	642	1,324	1,782	7,322	18,325
Total	**6,422**	**833**	**642**	**1,324**	**1,782**	**7,322**	**18,325**
Total	**12,665**	**2,042**	**1,267**	**1,823**	**1,782**	**12,875**	**32,454**

2015 DKK thousand	Base salary	Bonus restated	Pension contri-bution	Other benefits	Severance payment	Warrant compen-sation expenses	Total
Remuneration to the:							
Executive Management							
Britt Meelby Jensen	3,353	751	335	190	0	3,163	7,792
Mats Blom	2,400	343	240	260	0	2,372	5,615
Total	**5,753**	**1,094**	**575**	**450**	**0**	**5,535**	**13,407**
Other senior management [1]	8,776	520	877	1,101	353	3,321	14,948
Total	**8,776**	**520**	**877**	**1,101**	**353**	**3,321**	**14,948**
Total	**14,529**	**1,614**	**1,452**	**1,551**	**353**	**8,856**	**28,355**

[1] Other senior management in 2016 comprised four members, including two members who resigned during the year. Other senior management in 2015 comprised six members, including three members who resigned during the year.

Note 6 – Information on staff and remuneration (continued)

Employee incentive programs

ACCOUNTING POLICIES

The value of services received as consideration for granted warrants is measured at the fair value of the warrant. The fair value is determined at the grant date and is recognized in the income statement as staff costs over the period in which the final right to the warrant is obtained. Warrants are considered vested at grant date. The offsetting entry to this is recognized under equity. In respect of recognition of the warrants, an estimate is made of the number of warrants that the employees are expected to obtain rights to. Subsequently, an adjustment is made for changes in the estimate of the number of shares that the employees have obtained rights to so the total recognition is based on the actual number of shares that the employees have obtained rights to. The fair value of the granted warrants is estimated using the Black–Scholes pricing model.

2010 employee incentive program	02/Nov/10	10/Feb/11	17/Nov/11	10/Feb/12	19/Nov/12	08/Feb/13	01/Apr/14	25/Mar/15	05/May/15	Total
Number of warrants										
Outstanding at January 1, 2015	595,406	403,000	227,085	220,250	214,883	343,512	100,000	0	0	2,104,136
Granted during the year	0	0	0	0	0	0	0	100,000	46,359	146,359
Forfeited during the year	0	-7,500	0	-3,750	0	-17,500	0	0	0	-28,750
Exercised during the year	-589,237	-383,900	-121,826	-64,759	0	0	0	0	0	-1,159,722
Expired during the year	-6,169	0	0	0	0	0	0	0	0	-6,169
Outstanding at December 31, 2015	**0**	**11,600**	**105,259**	**151,741**	**214,883**	**326,012**	**100,000**	**100,000**	**46,359**	**1,055,854**
Specified as follows:										
Executive Management	0	0	31,019	0	31,019	0	0	0	0	62,038
Other employees	0	11,600	74,240	151,741	183,864	326,012	100,000	100,000	46,359	993,816
Total	**0**	**11,600**	**105,259**	**151,741**	**214,883**	**326,012**	**100,000**	**100,000**	**46,359**	**1,055,854**

Note 6 – Information on staff and remuneration (continued)

2010 employee incentive program	02/Nov/10	10/Feb/11	17/Nov/11	10/Feb/12	19/Nov/12	08/Feb/13	01/Apr/14	25/Mar/15	05/May/15	Total
Number of warrants										
Outstanding at January 1, 2016	0	11,600	105,259	151,741	214,883	326,012	100,000	100,000	46,359	1,055,854
Granted during the year	0	0	0	0	0	0	0	0	0	0
Forfeited during the year	0	0	0	0	0	-1,250	0	0	0	-1,250
Exercised during the year	0	0	-105,259	-145,491	0	-63,625	0	0	0	-314,375
Expired during the year	0	-11,600	0	0	0	0	0	0	0	-11,600
Outstanding at December 31, 2016	**0**	**0**	**0**	**6,250**	**214,883**	**261,137**	**100,000**	**100,000**	**46,359**	**728,629**
Specified as follows:										
Executive Management	0	0	0	0	31,019	0	0	0	0	31,019
Other employees	0	0	0	6,250	183,864	261,137	100,000	100,000	46,359	697,610
Total	**0**	**0**	**0**	**6,250**	**214,883**	**261,137**	**100,000**	**100,000**	**46,359**	**728,629**
Exercise period										
From	03/Nov/13	10/Feb/14	17/Nov/14	10/Feb/15	19/Nov/15	10/Feb/16	01/Apr/17	25/Mar/18	05/May/18	
until	03/Nov/15	10/Feb/16	17/Nov/16	10/Feb/17	19/Nov/17	10/Feb/18	01/Apr/19	25/Mar/20	05/May/20	
Black–Scholes parameters										
Term (months)	60	60	60	60	60	60	60	60	60	
Volatility*	56%	33%	34%	44%	56%	39.3%	37.5%	41.9%	43.7%	
Share price (DKK)	86.0	70.0	45.70	70.0	86,0	79.50	69.0	115.50	92.0	
Exercise price (DKK)	94.6	77.0	50.27	77.0	113.3	87.45	75.9	127.05	101.2	
Dividend	not expected	not expected	not expected	not expected	not expected	not expected	not expected	not expected	not expected	
Risk-free interest rate	2.64%	3.09%	1.02%	0.37%	0.86%	0.66%	0.71%	-0.21%	-0.10%	

* The volatility rate used is based on the actual volatility of the Zealand share price.

Note 6 – Information on staff and remuneration (continued)

2015 employee incentive program	05/May/15	05/May/15	05/Apr/16	05/Apr/16	15/Jul/16	Total
Number of warrants						
Outstanding at January 1, 2015	0	0	0	0	0	0
Granted during the year	100,000	366,250	0	0	0	466,250
Forfeited during the year	0	-3,000	0	0	0	-3,000
Exercised during the year	0	0	0	0	0	0
Expired during the year	0	0	0	0	0	0
Outstanding at December 31, 2015	**100,000**	**363,250**	**0**	**0**	**0**	**463,250**
Specified as follows:						
Executive Management	100,000	75,000	0	0	0	175,000
Other employees	0	288,250	0	0	0	288,250
Total	**100,000**	**363,250**	**0**	**0**	**0**	**463,250**

Number of warrants						
Outstanding at January 1, 2016	100,000	363,250	0	0	0	463,250
Granted during the year	0	0	347,250	100,000	40,000	487,250
Forfeited during the year	0	-6,000	-2,250	0	0	-8,250
Exercised during the year	0	0	0	0	0	0
Expired during the year	0	0	0	0	0	0
Outstanding at December 31, 2016	**100,000**	**357,250**	**345,000**	**100,000**	**40,000**	**942,250**
Specified as follows:						
Executive Management	100,000	75,000	25,000	100,000	0	300,000
Other employees	0	282,250	320,000	0	40,000	642,250
Total	**100,000**	**357,250**	**345,000**	**100,000**	**40,000**	**942,250**

Note 6 – Information on staff and remuneration (continued)

Exercise period					
From	05/May/16	05/May/18	05/Apr/19	05/Apr/17	15/Jul/19
until	05/May/20	05/May/20	05/Apr/21	05/Apr/21	15/Jul/21
Black–Scholes parameters					
Term (months)	60	60	60	60	60
Volatility*	43.7%	43.7%	43.5%	43.5%	45.0%
Share price (DKK)	92.0	92.0	129.5	129.5	126
Exercise price (DKK)	101.2	101.2	142.45	142.45	138.6
Dividend	not expected	not expected	not expected	not expected	not expected
Risk-free interest rate	-0.10%	-0.10%	-0.04%	-0.04%	-0.33%

* For warrants granted in 2015 and earlier, the volatility rate is based on the actual volatility of the Zealand share price. For warrants granted after January 1, 2016, the volatility rate is based on the five-year historical volatility of the Zealand share price.

Employee warrant programs

In order to motivate and retain key employees and encourage the achievement of common goals for employees, Management and shareholders, the Company has established an incentive plan based on warrant programs. Incentive programs were offered in 2005, 2007 and in the period 2009-2016.

The warrants are granted in accordance with the authorizations given to the Board of Directors by the shareholders. The Board of Directors has fixed the terms of and size of the grants, taking into account authorizations from the shareholders, the Group's guidelines for incentive pay, an assessment of expectations of the recipient's work efforts and contribution to the Group's growth, as well as the need to motivate and retain the recipient. Grant takes place on the date of establishment of the program. Exercise of warrants is by default subject to continuing employment with the Group. The warrants granted are subject to the provisions of the Danish Public Companies Act regarding termination of employees prior to their exercise of warrants in the case of recipients covered by the act.

The exercise price is determined by the closing price of Zealand's shares on Nasdaq Copenhagen on the day prior to the grant date plus 10%.

Warrants expire automatically after five years. Warrants are considered vested at grant date and may be exercised after three years, except warrants granted to the Chief Executive Officer, which may be exercised after one year.

Warrants may be exercised four times a year during a four-week period starting from the date of the publication of Zealand's Annual Report or interim reports.

2010 employee incentive program

This program was established in 2010 for Zealand's Board of Directors, Executive Management, employees and consultants.

The Board of Directors was authorized to issue up to 2,750,000 warrants until November 2, 2015. The program has expired and a total of 2,355,495 warrants have been granted. As of December 31, 2016, 1,474,097 warrants have been exercised, and the total proceeds amount to DKK 116.3 million (2015: DKK 19.9 million). As of December 31, 2016, 482,270 warrants can still be exercised.

2015 employee incentive program

This program was established in 2015 for Zealand's Executive Management and employees.

The Board of Directors was authorized to issue up to 2,750,000 warrants until April 20, 2020, of which 1,796,500 have not yet been granted. As of December 31, 2016, 953,500 warrants have been granted, of which 100,000 warrants can be exercised.

Effect on income statement

In 2016, the fair value of warrants recognized in the income statement amounted in total to DKK 22.7 million (2015: DKK 16.9 million), of which DKK 5.6 million (2015: DKK 5.5 million) related to Executive Management. Further, costs for the warrant programs have been adjusted at the end of the year by DKK 2.4 million (2015: DKK 0.2 million) due to the actual attrition rate and an adjustment to the warrant programs granted in 2015 to reflect the estimated attrition rate split between senior management and employees.

DKK thousand	2016	2015
The amount is charged as:		
Research and development expenses	14,290	9,504
Administrative expenses	8,437	7,443
Total	**22,727**	**16,947**

Notes.

Note 7 – Other operating income

ACCOUNTING POLICIES

Other operating income comprises research funding from business partners and government grants. Research funding is recognized in the period when the research activities have been performed, and government grants are recognized periodically when the work supported by the grant has been reported.

Government grants are recognized when a final and firm right to the grant has been obtained. Government grants are included in Other operating income, as the grants are considered to be cost refunds.

DKK thousand	Group 2016	Group 2015	Parent 2016	Parent 2015
Research funding	920	11,576	920	11,576
Government grants	777	1,252	777	1,252
Total other operating income	**1,697**	**12,828**	**1,697**	**12,828**

As part of the license agreements with Boehringer Ingelheim International GmbH (BI), BI is responsible for conducting preclinical and clinical development, as well as for commercializing products stemming from the agreement and funding all activities under the agreement. In the first quarter of 2016, and the full year 2015, Zealand was entitled to research funding from BI amounting to DKK 0.9 million (2015: DKK 11.6 million). This funding related to the 2014 BI License Agreement, and ended in March 2016.

In addition, Zealand received government grants in both 2016 and 2015.

Note 8 – Financial income

ACCOUNTING POLICIES

Financial income is recognized in the income statement in the period in which it is earned.

Financial income includes interest from trade receivables, as well as realized and unrealized exchange rate adjustments.

DKK thousand	Group 2016	Group 2015	Parent 2016	Parent 2015
Interest income	592	139	121	132
Exchange rate adjustments	0	3,750	6,609	1,312
Total financial income	**592**	**3,889**	**6,730**	**1,444**

Note 9 – Financial expenses

ACCOUNTING POLICIES

Financial expenses are recognized in the income statement in the period in which they are incurred. Financial expenses include interest expenses, as well as realized and unrealized exchange rate adjustments. Further, expenses related to the royalty bond are amortized over the expected duration of the bond and recognized as financial expenses. The royalty bond is described further in Note 19.

DKK thousand	Group 2016	Group 2015	Parent 2016	Parent 2015
Interest expenses, royalty bond	32,157	32,372	0	0
Amortization of financing costs	8,369	9,689	0	0
Other financial expenses	255	333	347	306
Exchange rate adjustments	3,575	0	0	0
Total financial expenses	**44,356**	**42,394**	**347**	**306**

Notes.

Note 10 – Income tax benefit

ACCOUNTING POLICIES

Income tax on results for the year, which comprises current tax and changes in deferred tax, is recognized in the income statement, whereas the portion attributable to entries in equity is recognized directly in equity.

Current tax liabilities and current tax receivables are recognized in the statement of financial position as tax calculated on the taxable income for the year adjusted for tax on previous years' taxable income and taxes paid on account/ prepaid.

Deferred tax is measured according to the statement of financial position liability method in respect of temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

This judgment is made on an ongoing basis and is based on recent historical losses carrying more weight than factors such as budgets and business plans for the coming years, including planned commercial initiatives. The creation and development of therapeutic products within the biotechnology and pharmaceutical industry is subject to considerable risks and uncertainties. Zealand has so far reported significant losses and, consequently, has unused tax losses. Management has concluded that deferred tax assets should not be recognized at December 31, 2016 and 2015. The tax assets are currently not deemed to meet the criteria for recognition, as Management determined that it was not probable that future taxable profit would be available against which the deferred tax assets could be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Income tax receivables are recognized in accordance with the Danish tax credit scheme (Skattekreditordningen). Companies covered by the tax credit scheme may obtain payment of the tax base of losses originating from research and development costs of up to DKK 25 million.

Notes.

Note 10 – Income tax benefit (continued)

DKK thousand	Group 2016	Group 2015	Parent 2016	Parent 2015
Net loss for the year before tax	-159,410	-119,832	-128,774	-221,648
Tax rate	22.0%	23.5%	22.0%	23.5%
Expected tax expenses/(benefit)	-35,070	-28,161	-28,330	-52,087
Adjustment for nondeductible expenses	100	54	33	54
Adjustment for exercised warrants	-2,828	-8,357	-2,828	-8,357
Tax effect from subsidiaries	0	0	-6,666	23,621
Reduction of corporate tax rate from 23.5% to 22%	0	1,558	0	1,558
Tax effect on exercise of warrants	0	-318	0	0
Tax effect on expired warrants	0	6,500	0	6,500
Change in tax assets (not recognized)	32,298	22,849	32,292	22,836
Total income tax benefit	**-5,500**	**-5,875**	**-5,500**	**-5,875**
Breakdown of unrecognized deferred tax assets				
Tax losses carried forward (available indefinitely)	722,186	742,771	722,101	742,716
Research and development expenses	145,822	31,054	145,822	31,054
Rights	43,019	43,019	43,019	43,019
Non-current assets	62,953	57,543	62,953	57,543
Other	102,074	58,890	102,074	58,890
Total temporary differences	**1,076,054**	**933,277**	**1,075,969**	**933,222**
Tax rate	22%	22%	22%	22%
Calculated potential deferred tax asset at local tax rate	236,732	205,321	236,713	205,309
Write-down of deferred tax asset	-236,732	-205,321	-236,713	-205,309
Recognized deferred tax asset	**0**	**0**	**0**	**0**

As a consequence of tax losses from previous years, no deferred net tax assets have been recognized. Deferred tax reductions (tax assets) have not been recognized in the consolidated statement of financial position due to uncertainty as to when and whether they can be utilized.

The deferred tax for the parent company includes the tax positions of ZP Holding SPV K/S and ZP SPV 1 K/S, as these entities are transparent from a tax point of view. Hence, the activity of these entities is subject to taxation in the parent company.

Under Danish tax legislation, Zealand is eligible to receive DKK 5.5 million (2015: DKK 5.9 million) in cash relating to the surrendered tax loss for 2016 of DKK 81.5 million (2015: DKK 151.4 million) originating from qualifying research and development expenditures. These tax receipts comprise the entire current tax benefit in 2016 and 2015 respectively.

Notes.

Note 11 – Basic and diluted loss per share

ACCOUNTING POLICIES

Basic loss per share
Basic loss per share is calculated as the net result for the period that is allocated to the parent company's ordinary shares, divided by the weighted average number of ordinary shares outstanding.

Diluted loss per share
Diluted loss per share is calculated as the net result for the period that is allocated to the parent company's ordinary shares, divided by the weighted average number of ordinary shares outstanding, adjusted by the dilutive effect of potential ordinary shares.

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

DKK thousand	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Net loss for the year	-153,910	-113,957	-123,274	-215,773
Net loss used in the calculation of basic and diluted loss per share	-153,910	-113,957	-123,274	-215,773
Weighted average number of ordinary shares	24,873,940	23,618,752	24,873,940	23,618,752
Weighted average number of treasury shares	-564,223	-564,223	-564,223	-564,223
Weighted average number of outstanding ordinary shares used in the calculation of basic and diluted loss per share	24,309,717	23,054,529	24,309,717	23,054,529
Basic loss per share (DKK)	**-6.33**	**-4.94**	**-5.07**	**-9.36**
Diluted loss per share (DKK)	**-6.33**	**-4.94**	**-5.07**	**-9.36**

The following potential ordinary shares are antidilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted loss per share:

	Group 2016	Group 2015
Potential ordinary shares excluded due to antidilutive effect related to:		
Outstanding warrants under the 2010 employee incentive program	728,629	1,055,854
Outstanding warrants under the 2015 employee incentive program	942,250	463,250
Total outstanding warrants, which are antidilutive	**1,670,879**	**1,519,104**

Notes.

Note 12 – Property, plant and equipment

ACCOUNTING POLICIES

Plant and machinery, other fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation.

Cost comprises acquisition price and costs directly related to acquisition until the time when the Group starts using the asset.

The basis for depreciation is cost less estimated residual value at the end of the useful life. Assets are depreciated under the straight-line method over the expected useful lives of the assets. The depreciation periods are as follows:

- Leasehold improvements 5 years
- Plant and machinery 5 years
- Other fixtures and fittings, tools and equipment 3-5 years

Profits and losses arising from disposal of plant and equipment are stated as the difference between the selling price less the selling costs and the carrying amount of the asset at the time of the disposal. Profits and losses are recognized in the income statement under Research and development expenses and Administrative expenses.

At the end of each reporting period, the Company reviews the carrying amount of property, plant and equipment as well as non-current asset investments to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. If a reasonable and consistent basis of allocation can be identified, assets are also allocated to cash-generating units, or allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs of disposal and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognized in the income statement as a separate line item. No impairments have been recognized for 2015 or 2016.

DKK thousand	Plant and machinery	Other fixtures and fittings	Leasehold improve-ments
Cost at January 1, 2015	62,771	8,663	10,598
Additions	3,735	131	174
Cost at December 31, 2015	**66,506**	**8,794**	**10,772**
Depreciation at January 1, 2015	46,777	7,090	9,537
Depreciation for the year	5,057	551	607
Depreciation at December 31, 2015	**51,834**	**7,641**	**10,144**
Carrying amount at December 31, 2015	**14,672**	**1,153**	**628**
Depreciation for the financial year has been charged as:			
Research and development expenses*	5,057	436	480
Administrative expenses*	0	115	127
Total	**5,057**	**551**	**607**
Cost at January 1, 2016	66,506	8,794	10,772
Additions	1,965	515	120
Retirements	-21,301	-5,697	-177
Cost at December 31, 2016	**47,170**	**3,612**	**10,715**
Depreciation at January 1, 2016	51,834	7,641	10,144
Depreciation for the year	4,556	534	320
Retirements	-21,301	-5,697	-177
Transfer	0	-20	20
Depreciation at December 31, 2016	**35,089**	**2,458**	**10,307**
Carrying amount at December 31, 2016	**12,081**	**1,154**	**408**
Depreciation for the financial year has been charged as:			
Research and development expenses	4,556	438	262
Administrative expenses	0	96	58
Total	**4,556**	**534**	**320**

* Due to change in allocation, the figures for depreciation allocated to other fixtures and leasehold improvements have changed.

Notes.

Note 13 – Investments in subsidiaries

ACCOUNTING POLICIES

Investments in subsidiaries are measured at cost in the parent company's financial statements. Where the recoverable amount of the investment is lower than cost, the investments are written down to this lower value.

DKK thousand	Parent company
Cost at January 1, 2015	380
Additions	0
Transfers	0
Cost at December 31, 2015	**380**
Revaluation at January 1, 2015	0
Depreciation for the year	0
Write-off	0
Revaluation at December 31, 2015	**0**
Carrying amount at December 31, 2015	**380**
Cost at January 1, 2016	380
Additions	0
Transfers	0
Cost at December 31, 2016	**380**
Revaluation at January 1, 2016	0
Depreciation for the year	0
Write-off	0
Revaluation at December 31, 2016	**0**
Carrying amount at December 31, 2016	**380**

Company summary	Domicile	Ownership	Voting rights
Zealand Pharma A/S subsidiaries:			
ZP Holding SPV K/S	Denmark	100%	100%
ZP General Partner 1 ApS	Denmark	100%	100%
ZP Holding SPV K/S subsidiaries:			
ZP SPV 1 K/S	Denmark	100%	100%
ZP General Partner 2 ApS	Denmark	100%	100%

Pursuant to section 146(1) of the Danish Financial Statements Act, Management has chosen to submit an exemption declaration ("Undtagelseserklæring") and has not issued annual reports for ZP SPV 1 K/S and ZP Holding SPV K/S.

The financial statements of the two companies are fully consolidated in the consolidated financial statements of Zealand Pharma A/S.

Income from subsidiaries relates to dividends from subsidiaries received during the year.

Note 14 – Trade receivables

ACCOUNTING POLICIES

Trade receivables are recognized and derecognized on a settlement date basis. An allowance is recognized for trade receivables when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows.

Trade receivables are mainly related to milestone and royalty payments from our collaboration agreements, and are due in 30-60 days.

There are no overdue receivables and there is no provision for bad debts, as no losses are expected on trade receivables.

As of December 31, 2016, trade receivables related to accrued royalty income on sales of Lyxumia®.

As of December 31, 2015, most of the trade receivables related to a DKK 136.6 million milestone payment from Sanofi under the Sanofi License Agreement in connection with the submission of a New Drug Application (NDA) for iGlarLixi to the FDA.

Notes.

Note 15 – Prepaid expenses

ACCOUNTING POLICIES

Prepaid expenses comprise amounts paid in respect of goods or services to be received in subsequent financial periods. Prepayments are measured at cost and are tested for impairment as of the balance sheet date.

Note 16 – Other receivables

ACCOUNTING POLICIES

Receivables are measured at initial recognition at fair value and subsequently at amortized cost, usually equal to the nominal value.

DKK thousand	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
VAT	4,464	3,667	4,127	3,594
Other	915	6,760	890	6,720
Total other receivables	**5,379**	**10,427**	**5,017**	**10,314**

As of December 31, 2016, most other receivables related to VAT.

As of December 31, 2015, Zealand had expenses of DKK 4.6 million to be refunded related to clinical studies under the grant from the Helmsley Charitable Trust. This made up the majority of the balance in "Other."

Note 17 – Cash and cash equivalents

ACCOUNTING POLICIES

Cash is measured at initial recognition at fair value and subsequently at amortized cost, usually equal to the nominal value.

DKK thousand	Group 2016	Group 2015	Parent 2016	Parent 2015
DKK	16,609	66,239	14,861	64,900
USD	214,915	306,296	103,490	30,744
EUR	91,806	46,261	88,047	45,139
Total cash and cash equivalents	**323,330**	**418,796**	**206,398**	**140,783**

In addition, as of December 31, 2016, restricted cash amounted to DKK 318.7 million (2015: DKK 21.4 million).

As of December 31, 2016, this balance comprised cash held in the Milestone Payments Reserve Account amounting to DKK 305.1 million and cash held in the Interest Reserve Account amounting to DKK 13.6 million, both relating to the USD 50 million senior secured notes (or the royalty bond; see also Note 19. As of December 31, 2015, restricted cash was held only in the Interest Reserve Account. According to the terms of the royalty bond indenture, funds in the Interest Reserve Account and Milestone Payments Reserve Account may only be used to fund the payment of interest in excess of the available amount generated from royalties received by ZP SPV 1 K/S pursuant to its 86.5% income under the License Agreement; see also Note 19.

Notes.

Note 18 – Share capital

ACCOUNTING POLICIES

Costs and selling prices of treasury shares and dividends are recognized directly in equity within retained earnings. Capital reductions through cancellation of treasury shares reduce the share capital by an amount equal to the cost price of the shares.

At December 31, 2016, the total number of authorized oridinary shares was 27,813,244 (2015: 25,871,873).

The share capital at December 31, 2016 consisted of 26,142,365 (2015: 24,352,769) ordinary shares issued of DKK 1 each. The parent company has only one class of shares, and all shares rank equally. The shares are negotiable instruments with no restrictions on their transferability.

All shares have been fully paid. On September 29, 2016, Zealand issued 1,475,221 shares in a private placements. The net proceeds amounted to DKK 135.2 million. Other capital increases in 2016 and 2015 related to exercise of warrant programs.

Expenses directly related to capital increases are deducted from equity. Expenses related to the private placement on September 29, 2016 amounted to DKK 7.7 million, and DKK 0.1 million is related to the exercise of warrant programs.

At December 31, 2016, there were 564,223 treasury shares (2015: 564,223), equivalent to 2.2% (2015: 2.3%) of the share capital and corresponding to a market value of DKK 60.1 million (2015: DKK 85.5 million).

The treasury shares were purchased for DKK 1.3 million in 1999-2001 and DKK 0.4 million in 2011, giving a total cost of purchase of DKK 1.7 million.

Rules on changing Articles of Association
All resolutions put to the vote of shareholders at general meetings are subject to adoption by a simple majority of votes, unless the DCA (Selskabsloven) or our articles of association prescribes other requirements.

Changes in share capital

Share capital at December 31, 2010	**22,870,523**
Capital increase on December 12, 2011	322,524
Share capital at December 31, 2014	**23,193,047**
Share capital at January 1, 2015	**23,193,047**
Capital increase on March 21, 2015	120,833
Capital increase on April 11, 2015	106,220
Capital increase on June 2, 2015	51,487
Capital increase on June 20, 2015	46,521
Capital increase on September 8, 2015	383,190
Capital increase on September 26, 2015	150,702
Capital increase on November 4, 2015	60,843
Capital increase on November 13, 2015	176,456
Capital increase on December 4, 2015	63,470
Share capital at December 31, 2015	**24,352,769**
Share capital at January 1, 2016	**24,352,769**
Capital increase on March 30, 2016	46,613
Capital increase on April 14, 2016	50,453
Capital increase on May 26, 2016	43,071
Capital increase on June 16, 2016	41,269
Capital increase on September 6, 2016	7,400
Capital increase on September 23, 2016	45,457
Capital increase on September 29, 2016	1,475,221
Capital increase on November 17, 2016	8,200
Capital increase on November 25, 2016	57,913
Capital increase on December 8, 2016	13,999
Share capital at December 31, 2016	**26,142,365**

Notes.

Note 19 – Royalty bond

ACCOUNTING POLICIES

The royalty bond was initially measured at the time of borrowing at fair value less any transaction costs. In subsequent periods, the royalty bond has been measured at amortized cost corresponding to the capitalized value using the effective interest method. Consequently, the difference between the proceeds of the loan and the amount to be repaid is recognized as a financial expense in the income statement over the term of the loan.

In December 2014, Zealand established four 100%-owned subsidiaries: ZP Holding SPV K/S, ZP General Partner 1 ApS, ZP SPV 1 K/S, and ZP General Partner 2 ApS. The purpose of this structure was to make the royalty bond non recourse for Zealand and at the same time protect the bond investors from a parent company bankruptcy. On December 11, 2014, ZP SPV 1 K/S issued the royalty bond, which represents senior secured notes issued at par with a USD-denominated principal amount of USD 50 million (DKK 299.3 million at issue) and a stated fixed interest rate of 9.375% per annum. The royalty bond falls due on March 15, 2026.

Concurrent with the issue of the royalty bond, Zealand contributed the Sanofi License Agreement to ZP Holding SPV K/S, among other things. See Note 2 Revenue, Accounting for the Sanofi License Agreement.

Among the rights arising under the License Agreement are the rights to receive patent royalties, including relating to Adlyxin®/Lyxumia®, a single remaining milestone payment relating to Adlyxin®/Lyxumia® and three regulatory event milestone payments in 2016 and January 2017 relating to certain other products containing lixisenatide combined with one or more other active pharmaceutical ingredients ("Group 2 Products"). ZP Holding SPV K/S sold and transferred to ZP SPV 1 K/S an interest in such royalties and milestone payments equal to 86.5% of the amount of such royalties payable from and after December 11, 2014, and 86.5% of such milestone payments.

Under the License Agreement, royalties are payable by Sanofi in EUR and at a varying percentage of annual net sales as defined in the License Agreement. Further, as of December 11, 2014, the aggregate remaining regulatory milestone payments (86.5% of which were transferred to ZP SPV 1 K/S) amounted to USD 60 million, plus value added taxes, payable subject to various terms and conditions of the License Agreement. The milestone payments serve as collateral for the royalty bond. Cash received for the milestone payments is held in a specific account (the "Milestone Payments Reserve Account") and is restricted as to use. Specifically, cash held in the Milestone Payments Reserve Account may only be used in connection with the exercise of remedies in the event of default on the royalty bond, or for funding an optional redemption subject to the terms of the royalty bond indenture. As of December 31, 2016, Zealand has received DKK 305.1 million, equivalent to USD 43.3 million, as restricted cash held in the Milestone Payments Reserve Account. Further, as of December 31, 2016 and 2015, restricted cash held by the Company is also related to the Interest Reserve Account, established upon issue of the royalty bond.

The source of payment of the principal of and interest on the royalty bond is ZP SPV 1 K/S' interest in Adlyxin®/Lyxumia® royalties. Interest on the senior secured notes is payable semi-annually on March 15 and September 15 every year.

The principal of the royalty bond was to be paid from available cash in ZP SPV 1 K/S commencing on the third payment date (March 15, 2016). Beginning with the third payment date, the royalty bond indenture states that available royalty revenue in ZP SPV 1 K/S in excess of interest payments is to be used for principal repayments of the royalty bond at each payment date. Upon full repayment of the royalty bond, the bondholders have no rights to future royalty payments. It is possible for ZP SPV 1 K/S to make voluntary repayments from March 2016, subject to various provisions and at various redemption premiums established in the royalty bond indenture.

The total outstanding amount as of December 31, 2016 was DKK 352.6 million (2015: DKK 341.5 million), of which DKK 20.4 million (2015: DKK 28.5 million) has been offset as transaction costs.

The change in the balance of the royalty bond from December 31, 2015 to December 31, 2016 is attributable to movements in the USD/DKK exchange rate.

The royalty bond has been renegotiated and partly redeemed as of March 15, 2017, see Note 26.

See Note 22 for further discussion of the risks associated with the royalty bond.

Notes.

Note 20 – Other liabilities

ACCOUNTING POLICIES

Financial liabilities are recognized initially at fair value less transaction costs. In subsequent periods, financial liabilities are measured at amortized cost corresponding to the capitalized value using the effective interest method. Consequently, the difference between the proceeds and the nominal value is recognized in the income statement over the maturity period of the loan. Provisions are measured as the best estimate of the costs needed at the balance sheet date to settle obligations. Provisions also include contingent payments at the conclusion of agreements, contracts, etc.

DKK thousand	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Severance payments	3,854	613	3,854	613
Employee benefits	20,431	15,085	20,431	15,085
Royalty payable to third party	25,222	18,713	0	0
Interest payable on royalty bond	9,753	9,516	0	0
Other payables	5,190	5,423	5,122	3,633
Total other liabilities	**64,450**	**49,350**	**29,406**	**19,331**

Note 21 – Contingent liabilities and other contractual obligations

Contingent liabilities and other contractual obligations include contractual obligations related to agreements with contract research organizations and lease commitments.

ACCOUNTING POLICIES

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

At December 31, 2016, total contractual obligations related to agreements with CROs amounted to DKK 39,849 thousand (DKK 37,335 thousand for 2017 and DKK 2,514 thousand for 2018 and 2019).

At December 31, 2015, total contractual obligations related to agreements with CROs amounted to DKK 40,246 thousand (DKK 31,576 thousand for 2016 and DKK 8,670 thousand for 2017-2019 inclusive).

ACCOUNTING POLICIES

Lease agreements are classified as either finance or operating leases based on the criteria in IAS 17 Leases. Lease payments under operating leases and other rental agreements are recognized in the income statement over the term of the agreements. The Company has not entered into any finance leases.

DKK thousand	2016	2015
Total future minimum lease payments related to operating lease agreements:		
Within 1 year	4,005	3,940
2 to 5 years	776	1,241
After 5 years	0	0
Total	**4,780**	**5,181**

Operating lease agreements include rental agreements for buildings, company cars and office equipment. Based on Management's analysis according to the accounting policy, all leases have been determined to be operating lease commitments.

The leases are no-cancelable for terms of between 6 and 60 months.

In 2016, DKK 7.4 million (2015: DKK 7.6 million) was recognized as an expense in the income statement, with DKK 6.1 million (2015: DKK 6.0 million) allocated to Research and development expenses and DKK 1.3 million (2015: DKK 1.6 million) to Administrative expenses.

Note 22 – Financial and operational risks

The objective of Zealand's financial management policy is to reduce the Group's sensitivity to fluctuations in exchange rates, interest rates, credit rating and liquidity. Zealand's financial management policy has been endorsed by Zealand's Audit Committee and ultimately approved by Zealand's Board of Directors.

Zealand receives milestone payments from its current partners in USD and EUR and royalty payments in EUR.

Zealand is mainly exposed to research and development expenditures. In addition, Zealand has a USD loan as well as a significant USD cash position. As such, Zealand is exposed to various financial risks, including foreign exchange rate risk, interest rate risk, credit risk and liquidity risk.

Capital structure

It is Zealand's aim to have an adequate capital structure in relation to the underlying operating results and research and development projects, so that it is always possible to provide sufficient capital to support operations and its long-term growth targets.

The Board of Directors finds that the current capital and share structure is appropriate to the shareholders and to the Group.

Exchange rate risk

Most of Zealand's financial transactions are in DKK, USD and EUR.

Due to Denmark's long-standing fixed exchange rate policy vis-à-vis the EUR, Zealand has evaluated that there is no transaction exposure or exchange rate risk regarding transactions in EUR.

Zealand's milestone payments have been agreed in foreign currencies, namely USD and EUR. However, as milestone payments are unpredictable in terms of timing, the payments are not included in the basic exchange risk evaluation.

As Zealand from time to time conducts clinical trials and toxicology studies in the U.S., Zealand will be exposed to the exchange rate fluctuation and risks associated with transactions in USD. Until now, Zealand's policy has been to manage the transaction and translation risk associated with the USD passively, placing the revenue received from milestone payments in USD in a USD account for future payment of Zealand's expenses denominated in USD, covering payments for the next 12-24 months and thus matching Zealand's assets with its liabilities.

In December 2014, Zealand issued a royalty bond of USD 50 million, creating a large exposure against the USD. In order to hedge this, Zealand holds the same portion of its cash position in USD.

At December 31, 2016, Zealand held USD 75.7 million (2015: USD 48.0 million) in cash, while the value of the royalty bond was USD 50.0 million.

Interest rate risk

Zealand has a policy of avoiding any financial instrument that exposes the Group to any unwanted financial risk. Zealand is not exposed to interest rate risk because the Company borrows funds at fixed interest rates.

The royalty bond has a fixed interest rate of 9.375%.

During 2016, all cash has been held in current bank accounts in USD, EUR and DKK. Interest rates on bank deposits in DKK and EUR have been negative for most of 2016, while USD accounts have generated a low level of positive interest.

Credit risks

Zealand is exposed to credit risks in respect of receivables and bank balances. The maximum credit risk corresponds to the carrying amount. Management believes that credit risk is limited, as counterparties to the accounts receivable are large global pharmaceutical companies.

Cash is not deemed to be subject to any credit risks, as the counterparties are banks with investment-grade ratings (i.e. BBB- or higher from Standard & Poor's).

Liquidity risk

The purpose of Zealand's cash management is to ensure that the Group has sufficient and flexible financial resources at its disposal at all times.

Zealand's short-term liquidity is managed and monitored through the Company's quarterly budget revisions to balance the demand for liquidity and maximize the Company's interest income by matching its free cash in fixed-rate, fixed-term bank deposits with its expected future cash burn.

Sensitivity analysis

The table shows the effect on the profit/loss and equity of reasonably likely changes in the financial variables on the statement of financial position.

	2016 Fluctuation	2016 Effect	2015 Fluctuation	2015 Effect
USD	+/- 10 %	9,531	+/- 10 %	6,574
Interest rate	+/- 100 basis point	4,728	+/- 100 basis point	4,735

Note 22 – Financial and operational risks (continued)

Contractual maturity (liquidity risk)

A breakdown of the Company's aggregate liquidity risk on financial assets and liabilities is given below:

The following tables detail the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been prepared using the undiscounted cash flows for financial liabilities, based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that the specific timing of interest or principal flows is dependent on future events, the table has been prepared based on Management's best estimate of such timing at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

Group

DKK thousand	< 6 months	6-12 months	1-5 years	Total*
Restated				
Trade payables	21,676	0	0	21,676
Royalty bond repayments	0	0	341,486	341,486
Interest payments on royalty bond	16,000	16,000	76,000	108,000
Other	22,226	0	0	22,226
Total financial liabilities at December 31, 2015	**59,902**	**16,000**	**417,486**	**493,388**
Trade payables	19,739	0	0	19,739
Royalty bond repayments	0	3,365	349,275	352,640
Interest payments on royalty bond	16,550	16,550	121,800	154,900
Other	29,636	0	0	29,636
Total financial liabilities at December 31, 2016	**65,925**	**19,915**	**471,075**	**556,915**

Parent company

DKK thousand	< 6 months	6-12 months	1-5 years	Total*
Restated				
Trade payables	21,580	0	0	21,580
Royalty bond repayments	0	0	0	0
Interest payments on royalty bond	0	0	0	0
Other	19,331	0	0	19,331
Total financial liabilities at December 31, 2015	**40,911**	**0**	**0**	**40,911**
Trade payables	19,739	0	0	19,739
Royalty bond repayments	0	0	0	0
Interest payments on royalty bond	0	0	0	0
Other	29,406	0	0	29,406
Total financial liabilities at December 31, 2016	**49,145**	**0**	**0**	**49,145**

All cash flows are non-discounted and include all liabilities under contracts.

Interest payments on the royalty bond is calculated using the fixed interest rate (9.375%) and the expected payback time.

We expect interest payments on the royalty bond (interest rate 9.375%) of DKK 33.1 million in 2017 (2016: DKK 32 million).

Notes.

Note 22 – Financial and operational risks (continued)

Fair value measurement of financial instruments

As of December 31, 2016 and 2015, there were no financial instruments carried at fair value.

DKK thousand	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Categories of financial instruments				
Trade receivables	11,510	158,158	27	313
Receivable from subsidiaries	0	0	76	3,521
Income tax receivable	5,500	5,875	5,500	5,875
Other receivables	5,379	10,427	5,017	10,314
Prepaid expenses	13,837	2,430	13,837	2,430
Restricted cash	318,737	21,403	0	0
Cash and cash equivalents	323,330	418,796	206,398	140,783
Financial assets measured at amortized cost	**678,293**	**617,089**	**230,855**	**163,236**
Royalty bond	332,243	312,951	0	0
Trade payables	19,739	21,676	19,739	21,580
Other liabilities	64,450	49,350	29,406	19,331
Financial liabilites measured at amortized cost	**416,432**	**383,977**	**49,145**	**40,911**

Except as detailed in the following table with respect to the royalty bond, as of December 31, 2016 and 2015, the carrying amount of financial assets and financial liabilities approximated the fair value.

DKK thousand	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Royalty bond	332,243	356,626	312,951	386,912

The fair value of financial liabilities is determined as the discounted cash flows based on the market rates and credit conditions at the balance sheet date. The carrying amount of the royalty bond is based on amortized cost. The fair value of the royalty bond disclosed in the note is based on Level 3 in the fair value hierarchy.

Note 23 – Related parties

Zealand has no related parties with controlling interest.

Zealand's other related parties comprise the Company's Board of Directors and senior management.

Transactions with related parties

Remuneration of the Board of Directors and senior management is described in Note 6.

The parent company has receivables from group subsidiaries of DKK 76 thousand at December 31, 2016 (December 31, 2015: DKK 3.521 thousand). In 2016, interests paid from the parent company to subsidiaries amounted to DKK 151 thousand (2015: DKK 0).

No further transactions with related parties were conducted during the year.

Ownership

The following shareholders are registered in Zealand's register of shareholders as owning minimum 5% of the voting rights or minimum 5% of the share capital (1 share equals 1 vote) as of December 31, 2016:

Sunstone LSV Management A/S, Copenhagen, Denmark

LD Pension (Lønmodtagernes Dyrtidsfond), Copenhagen, Denmark

Legg Mason (Royce) Inc., Maryland, US

Note 24 – Adjustments for non-cash items

DKK thousand	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015 Restated
Depreciation	5,410	6,215	5,410	6,215
Warrant compensation expenses	22,727	16,947	22,727	16,947
Income tax receipt	-5,500	-5,875	-5,500	-5,875
Financial income	-592	-139	-121	-132
Financial expenses	40,781	42,394	347	306
Exchange rate adjustments	-5,141	-12,068	-2,721	-3,303
Total adjustments	**57,685**	**47,474**	**20,142**	**14,158**

Notes.

Note 25 – Change in working capital

DKK thousand	Group 2016	Group 2015 Restated	Parent 2016	Parent 2015
Increase/decrease in receivables	140,289	-140,102	-2,379	12,895
Increase/decrease in payables	13,163	-732	8,234	-27,610
Change in working capital	**153,442**	**-140,834**	**5,855**	**-14,715**

Note 26 – Significant events after the balance sheet date

On January 17, 2017, Zealand announced that Suliqua™ had been approved by the European Commission for marketing in Europe, which triggered a milestone payment of USD 10.0 million from Sanofi under the Sanofi License Agreement.

As of March 15, 2017 Zealand has used restricted cash of USD 25 million (DKK 175 million) to repay half of the outstanding royalty bond. In addition, additional restricted cash of USD 25 million (DKK 175 million) held as collateral for the royalty bond has been released in exchange for a parent company guarantee.

Following the transactions described above the outstanding royalty bond amounts to USD 25 million (DKK 175 million) and cash and cash equivalents has increased by USD 25 million (DKK 175 million).

Except as noted above, there have been no significant events between December 31, 2016 and the date of approval of these financial statements that would require a change to or additional disclosure in the consolidated or parent financial statements.

Note 27 – Approval of the annual report

The annual report is approved by the Board of Directors and Executive Management and authorized for issue on March 15, 2017.

Statement of the Board of Directors and Executive Management.

The Board of Directors and Executive Management have today discussed and approved the Annual Report of Zealand Pharma A/S for the financial year January 1 – December 31, 2016.

The consolidated financial statements and parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

We consider the accounting policies used to be appropriate. In our opinion, the financial statements give a true and fair view of the Group's and the parent company's financial position as of December 31, 2016, and of the results of the Group's and the parent company's operations and cash flows for the financial year January 1 – December 31, 2016.

In our opinion, the Management's review includes a fair review of the development of the Group's and the parent company's operations and economic conditions, the results for the year, and the Group's and the parent company's financial position, as well as a review of the more significant risks and uncertainty the Group and parent company face, in accordance with the additional requirements under the Danish Financial Statements Act.

We recommend that the Annual Report be approved at the Annual General Meeting.

Glostrup, March 15, 2017

Executive Management

Britt Meelby Jensen
President and
Chief Executive Officer

Mats Peter Blom
Senior Vice President and
Chief Financial Officer

Board of Directors

Alf Gunnar Martin Nicklasson
Chairman

Rosemary Crane
Vice Chairman

Catherine Moukheibir
Board member

Alain Munoz
Board member

Michael John Owen
Board member

Jens Peter Stenvang
Board member
Employee elected

Hanne Heidenheim Bak
Board member
Employee elected

Rasmus Just
Board member
Employee elected

Independent auditor's report.

To the shareholders of Zealand Pharma A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Zealand Pharma A/S for the financial year January 1 – December 31, 2016, which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes, including the summary of significant accounting policies. The consolidated financial statements and the parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and Parent's financial position at December 31, 2016 and of their financial performance and cash flows for the financial year January 1 – December 31, 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements* section of this auditor's report. We are independent of the Group in accordance with the IESBA Code of Ethics for Professional Accountants and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year January 1 – December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Milestone revenue from Sanofi

(See Notes 1 and 2 in the consolidated financial statements.)

License and milestone revenue recognized amounted to DKK 210 million in 2016. Milestone revenue primarily related to the Sanofi License Agreements, and the FDA regulatory U.S. approvals of Adlyxin® and Soliqua™.

The Sanofi License Agreements include multiple elements, and recognition of revenue is complex and significant, and requires subjective evaluations. Management therefore exercises judgment in determining whether the Group has fulfilled all of its performance obligations.

As the recognition event for the milestone revenue related to the Sanofi License Agreements recognized in 2016 was the FDA regulatory approvals, there were limited elements of judgment in determining the appropriateness of recognition of milestone revenue in 2016.

However, due to the financial significance to the Group of milestone revenue from Sanofi, we have identified this as a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment procedures focused on the Group's business process and internal controls for milestone revenue, we tested the appropriateness of the Group's revenue recognition.

We read the Sanofi License Agreements, discussed them with Management and evaluated the related accounting treatment. During the audit, using third-party sources, we tested whether the performance obligations for revenue recognized under the Sanofi License Agreements were met in 2016.

We also evaluated the disclosures in the financial statements related to revenue.

Statement on the Management's review
Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements and the parent company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the consolidated financial statements and the parent company financial statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Management is also responsible for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the parent company's ability to continue as a going concern; for disclosing, as applicable, matters related to going concern; and for using the going concern basis of accounting in the preparation of the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the parent company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements
Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company financial statements.

As part of an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain 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 ef-fectiveness of the Group's and the parent company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in the preparation of the consolidated financial statements and the parent company financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent 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 consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the parent company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent company financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated to 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 to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and that 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, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, March 15, 2017

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Statsautoriseret Revisionspartnerselskab
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Martin Norin Faarborg
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Public Accountant

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