

Financial statements.

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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

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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

DKK thousand	Share capital	Share premium	Retained losses	Total
Group				
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

DKK thousand	Share capital	Share premium	Retained losses	Total
Parent company				
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

Notes.

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

Notes

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 lixisenatide 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	Base board fee 2016	Base board fee 2015
DKK thousand		
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	Base salary	Bonus	Pension contribution	Other benefits	Severance payment	Warrant compensation expenses	Total
DKK thousand							
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	Base salary	Bonus restated	Pension contribution	Other benefits	Severance payment	Warrant compensation expenses	Total
DKK thousand							
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.

Notes.

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

Notes.

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.

Notes.

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

Notes.

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 improvements
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 ordinary 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 placement. 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.

Notes.

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

Notes.

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 liabilities 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 Dyrtdidsfond), 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

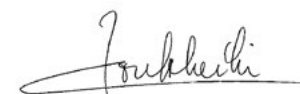
Board of Directors



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 effectiveness 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

Deloitte

Statsautoriseret Revisionspartnerselskab
Company Reg. No. 33 96 35 56


Martin Norin Faarborg
State Authorized
Public Accountant


Sumit Sudan
State Authorized
Public Accountant

Company information.

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CVR no.: 33 96 35 56

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