

Zealand interim report for the first nine months of 2016 (unaudited)

Full year revenue guidance remains unchanged and expected lower net operating expenses

Copenhagen, 9 November 2016 – Zealand Pharma A/S (“Zealand”) (CVR no. 20 04 50 78) today reported financial results for the period, 1 January - 30 September 2016. The financial guidance on revenue for 2016 remains unchanged while the guidance on net operating expenses has been reduced.

Financial results for the first nine months of 2016

- Revenue of DKK 54.3 million (164% increase vs. 2015)
- Net operating expenses of DKK 220.9 million (25% increase vs. 2015)
- Net loss of DKK 206.7 million (13% increase vs. 2015)
- The cash position amounted to DKK 381.9 million at 30 September 2016 (30 September 2015: DKK 453.9 million). This excludes DKK 135.5 million in net proceeds raised in new share capital paid on 4 October 2016

Business highlights for Q3 2016:

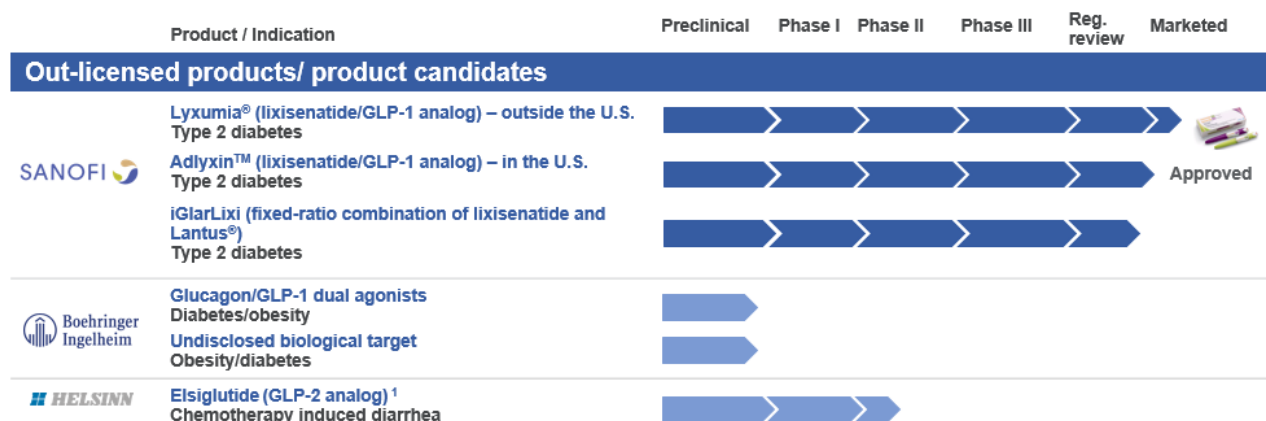
- Lixisenatide approved by the FDA as Adlyxin™ triggering a \$5 million milestone
- FDA regulatory decision on iGlarLixi in the U.S. extended to November 2016
- Positive Phase II results for dasiglucagon for treatment of acute, severe hypoglycemia
- Gross proceeds of DKK 143 million / \$22 million were raised after a successful private placement of new shares to fund continued development of glepaglutide and dasiglucagon

Britt Meelby Jensen, President and CEO of Zealand, commented on the report:

“During the third quarter, we continued to advance our own clinical programs, with solid progress in patient recruitment for the glepaglutide Phase II trial and notably dasiglucagon with positive Phase II results for rescue treatment of acute severe hypoglycemia. In terms of our partnered programs, we are excited to have the first ever Zealand invented product approved in the U.S, the GLP-1 receptor agonist lixisenatide under the brand name Adlyxin™. The FDA decision on iGlarLixi, the fixed-dose combination product with basal insulin, was extended by three months, from August to November, so we are close to reach this important milestone.”



Out-licensed portfolio highlights



¹ Helsinn is considering next possible development step after a Phase IIb trial failed to meet the primary endpoint.

Adlyxin™/Lyxumia® (lixisenatide, GLP-1 receptor agonist)

Royalty revenue on Sanofi's sales of Lyxumia® amounted to DKK 19.0 million / €2.6 million in the first nine months of 2016. Lyxumia® is approved in more than 60 countries and has been launched by Sanofi in 45 of these.

In July 2016, lixisenatide was approved by FDA under the brand name Adlyxin™ which triggered a DKK 33.5 million / \$5 million milestone payment from Sanofi.

iGlarLixi (fixed-ratio combination of lixisenatide and Lantus®)

On 19 August 2016, the U.S. FDA extended the PDUFA goal date for Sanofi's New Drug Application (NDA) for iGlarLixi by three months. A U.S. regulatory decision on iGlarLixi is now expected before the end of November 2016. iGlarLixi is also undergoing review by the European Medicines Agency (EMA) with a regulatory decision for Europe expected in Q1 2017.

Glucagon/GLP-1 dual agonist and undisclosed biological drug candidate for diabetes and/or obesity

Zealand has two preclinical peptide programs under license collaborations with Boehringer Ingelheim. One covers glucagon/GLP-1 dual agonists for the treatment of diabetes and/or obesity, and the other covers novel compounds against an undisclosed biological target for the treatment of obesity and/or diabetes.

Under both collaborations a lead candidate is being progressed towards start of clinical Phase I development in 2017.

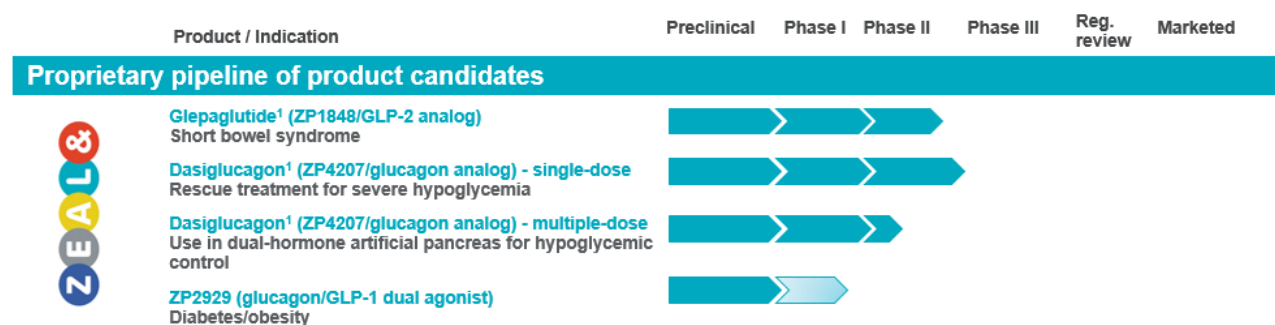
Elsiglutide (GLP-2 analog for Chemotherapy induced diarrhea)

Results reported from a Phase IIb trial in May 2016 showed that elsiglutide reduced chemotherapy-induced diarrhea (CID) in colorectal cancer patients, however not sufficiently to meet the primary efficacy endpoint for the trial.



After evaluating the Phase IIb results, Helsinn has informed Zealand that in 2017 they will initiate one or more exploratory clinical trials in alternative patient settings with a higher incidence of CID, which, if successful, could lead to further development of elsiglutide.

Proprietary pipeline highlights



¹ Glepaglutide and dasiglucagon are proposed International Non-proprietary Names (pINN)

Glepaglutide¹ (GLP-2 analog for short bowel syndrome)

The ongoing Phase II Proof-of-Concept trial continues to progress according to plan, with results expected mid-2017.

Dasiglucagon² (single dose for acute, severe hypoglycemia)

In August 2016, Zealand announced positive results from a clinical Phase II trial with dasiglucagon, supporting its potential as a ready-to-use rescue pen to treat acute, severe hypoglycemia (“insulin shock”) associated with insulin therapy in diabetes.

Zealand is in preparation for submission of the data to FDA with the aim of entering the next development steps in 2017.

Dasiglucagon² (multiple dose use in a dual hormone artificial pancreas system)

In June 2016, a non-exclusive collaboration was announced with U.S. based Beta Bionics. The objective is to advance the development of a first-in-class dual-hormone artificial pancreas system to offer diabetes patients on insulin therapy, an easier and better way to control and manage their disease.

Later in 2016, Zealand plans to initiate a clinical trial with Beta Bionics and is also planning a PK/PD trial for multiple dose dasiglucagon.

ZP2929 (glucagon/GLP-1 dual agonist)

Zealand has decided to pause development activities on ZP2929 and does not plan to continue development of this product candidate without a partner. This decision will enable Zealand’s development organisation to fully focus on the three mid-to-late phase development programs, glepaglutide and the two dasiglucagon programs, in line with Zealand’s strategy.

¹ Glepaglutide is a proposed International Non-proprietary Name (pINN).

² Dasiglucagon is a proposed International Non-proprietary Name (pINN).



Revised financial guidance for 2016

Zealand maintains its revenue guidance for the full-year of revenues of up to DKK 200 million in the form of milestone payments from partners and a growing royalty revenue from Sanofi's sales assuming a launch of Adlyxin™ in the U.S. late 2016.

Net operating expenses in 2016 are expected at a range of DKK 320-330 million, 6-8% lower than previously forecasted, and operating loss before royalty income/expenses is therefore expected at a range of DKK 120-130 million. The decrease in expected net operating expenses relates to clinical studies as well as a tight cost control.

Conference call on Wednesday, 9 November 2016 at 2 pm CET / 8 am EDT

On the day of release, Zealand's senior management will host a conference call at 2 pm CET to present the interim report for the first nine months of 2016. Participating in the call will be Britt Meelby Jensen, President and Chief Executive Officer, Mats Blom, SVP and Chief Financial Officer and Adam Steensberg, SVP and Chief Medical and Development Officer. The presentation will be followed by a Q&A session.

The conference call will be conducted in English and the dial-in numbers are:

DK standard access	+45 38 32 28 69
UK and international	+44 (0) 20 3427 1906
U.S. (free dial-in)	+1 646 254 3362

Kindly inform the operator of the following passcode: "Zealand Pharma" or 9968202.

A live audio webcast of the call including an accompanying slide presentation will be available via the following link, <http://edge.media-server.com/m/p/spwqjphn> accessible also from the company's website (www.zealandpharma.com). Participants are advised to register for the webcast approximately 10 minutes before the start.

A replay of the event will be made available from the Investor section of Zealand's website following the call.

For further information, please contact:

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About Zealand Pharma A/S

Zealand Pharma A/S (Nasdaq Copenhagen: ZEAL) ("Zealand") is a biotechnology company focused on the discovery, design and development of innovative peptide-based medicines. Zealand has a portfolio of medicines and product candidates under license collaborations with Sanofi, Boehringer Ingelheim and Helsinn and a pipeline of proprietary product candidates, which primarily target specialty diseases with significant unmet needs.

The company's first invented medicine, lixisenatide, a once-daily prandial GLP-1 analog for the treatment of type 2 diabetes, is licensed to Sanofi. Lixisenatide is marketed as Lyxumia® outside the United States and approved as Adlyxin™ in the United States. Lixisenatide has been developed in a fixed-ratio combination with Lantus® (insulin glargine) which product is under regulatory review in the United States and in Europe.

Zealand's proprietary pipeline includes: *Dasiglucagon** (ZP4207) as *single-dose rescue treatment* for acute, severe hypoglycemia (Phase II); *Glepaglutide** (ZP1848) for treatment of short bowel syndrome (Phase II); *Dasiglucagon** (ZP4207) *multiple-dose version* intended for use in a dual-hormone artificial pancreas system for better hypoglycemia control and diabetes management (in preparation for Phase II); and other earlier stage clinical and preclinical peptide therapeutics.

Zealand is based in Copenhagen (Glostrup), Denmark. For further information about the company's business and activities, please visit www.zealandpharma.com or follow Zealand on Twitter @ZealandPharma.

* Dasiglucagon and glepaglutide are proposed International Nonproprietary Names (pINN)



Key figures for the Group

DKK thousand	1.7 - 30.9.16	1.7 - 30.9.15 Restated ⁵⁾	1.1 - 30.9.16	1.1 - 30.9.15 Restated ⁵⁾	1.1-31.12.15
Revenue	39,586	7,229	54,272	20,570	187,677
Royalty expenses	-5,327	-927	-7,091	-2,726	-22,267
Research and development expenses	-53,572	-44,690	-191,255	-158,967	-214,959
Administrative expenses	-2,059	-8,984	-30,864	-28,307	-44,606
Other operating income	186	3,130	1,251	10,787	12,828
Operating loss	-21,186	-44,242	-173,687	-158,643	-81,327
Net financial items	-10,681	-8,095	-36,164	-27,657	-38,505
Loss before tax	-31,867	-52,337	-209,851	-186,300	-119,832
Income tax benefit	964	1,360	3,199	3,555	5,875
Net loss for the period	-30,903	-50,977	-206,652	-182,745	-113,957
Comprehensive loss for the period	-30,903	-50,977	-206,652	-182,745	-113,957
Loss per share – DKK					
Basic loss per share	-1.29	-2.21	-8.65	-7.99	-4.94
Diluted loss per share	-1.29	-2.21	-8.65	-7.99	-4.94

STATEMENT OF FINANCIAL POSITION	30 Sep 2016	31 Dec 2015 Restated ⁵⁾
Cash and cash equivalents	224,636	418,796
Restricted cash ¹⁾	157,306	21,403
Total assets	569,706	636,208
Share capital ('000 shares) ²⁾	26,062	24,353
Shareholder's equity	217,630	252,231
Equity/assets ratio	0.38	0.40
Royalty bond	312,145	312,951

CASH FLOW	1.1 - 30.9.16	1.1 - 30.9.15 Restated ⁵⁾
Depreciation	4,148	4,614
Change in working capital	-27,928	-16,660
Investments in fixed assets	-1,871	-3,303
Free cash flow ³⁾	-65,833	-175,549

OTHER	30 Sep 2016	30 Sep 2015	31 Dec 2015
Share price (DKK)	98.5	146.5	151.5
Market capitalization (DKKm)	2,567	3,524	3,689
Equity per share (DKK) ⁴⁾	8.54	6.79	10.60
Average number of employees	125	112	110
Products in clinical development (end period)	5	7	6
Products under regulatory review (end period)	1	1	2
Medicines on the market	1	1	1

1) Restricted cash: DKK 157.3 million (DKK 21.4 million) is restricted based on the royalty bond issuance agreement until the royalty bond has been fully repaid.

2) The share capital was increased by 1,475,221 new shares on 29 September 2016 as a result of a private placement offering. The proceeds from the offering was received on 4 October 2016. Net proceeds amounted to DKK 135.5 million.

3) Free cash flow is calculated as cash flow from operating activities less purchase of property, plant and equipment.

4) Equity per share is calculated as shareholders equity divided by total number of shares less treasury shares.

5) Refer to Note 1 of the condensed consolidated interim financial statements for information in respect of the restatements.



Financial review

(Comparative figures for the same period 2015 are shown in brackets except for the financial position which expresses the comparative figures as of 31 December 2015)

In preparing the financial statements for the first half year of 2016 and the first nine months of 2016, a number of restatements relating to previous periods were identified, see note 1 of the condensed consolidated interim financial statements and the interim report for the first half year of 2016.

Income statement

The net result for the first nine months of 2016 was a loss of DKK 206.7 million compared to a loss of DKK 182.7 million for the same period of 2015. The increased loss is a consequence of an increase in net operating expenses versus the same period 2015 mainly due to an increased level of development activities.

Revenues

Revenues for the first nine months of 2016 amounted to DKK 54.3 million (DKK 20.6 million) of which DKK 19.0 million (DKK 20.5 million) related to royalty revenue on Sanofi's sales of Lyxumia[®] (lixisenatide), representing a decrease of 7% versus the same period last year.

Milestone revenue amounted to DKK 33.5 million and relates mainly to a \$5 million milestone at the approval of Adlyxin[™] in the US in July 2016.

Royalty expenses

Royalty expenses for the first nine months of 2016 were DKK 7.1 million (DKK 2.7 million). Royalty expenses are payments by Zealand to third parties on the basis of license payments received for Lyxumia[®] (lixisenatide).

Research and development expenses

Research and development expenses for the first nine months of 2016 amounted to DKK 191.3 million (DKK 159.0 million) which was slightly lower than expectations. The increase of DKK 32.3 million compared to 2015 is mainly due to increased development costs mainly related to the clinical development of dasiglucagon³ (ZP4207) (both single and multiple dose formulations) and of glepaglutide⁴ (ZP1848) for short bowel syndrome.

Administrative expenses

Administrative expenses for the first nine months of 2016 amounted to DKK 30.9 million (DKK 28.3 million).

Other operating income

Other operating income for the first nine months of 2016 amounted to DKK 1.3 million (DKK 10.8 million). Other operating income for the first nine months of 2016 and 2015 consisted of funding of research costs under the previous research collaboration with Boehringer Ingelheim that expired during H1 2016.

Operating loss

The operating result for the first nine months of 2016 was a loss of DKK -173.7 million (DKK -158.6 million).

³ Dasiglucagon is a proposed International Non-proprietary Name (pINN).

⁴ Glepaglutide is a proposed International Non-proprietary Name (pINN).



Net financial items

Net financial items consist of interest expenses on the royalty bond, amortization of costs relating to the royalty bond, interest income, banking fees and adjustments based on changes in exchange rates. Net financial items for the first nine months of 2016 amounted to DKK -36.2 million (DKK -27.7 million).

Loss before tax

Loss before tax for the first nine months of 2016 came to DKK -209.9 million (DKK -186.3 million).

Income tax benefit

With a negative result in the first nine months of 2016 and financial guidance pointing towards a negative result also for the full year, Zealand expects to be eligible to receive up to DKK 5.5 million in corporate income for 2016 of which DKK 3.2 million (DKK 3.6 million) has been recognized for the period.

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

Net loss and comprehensive loss

Net loss and comprehensive loss for the first nine months of 2016 amounted to DKK -206.7 million (DKK -182.7 million).

Equity

Equity stood at DKK 217.6 million (DKK 252.2 million) at the end of the period, corresponding to an equity ratio of 38% (40%). On 29 September 2016, a total of 1,475,221 new shares were subscribed in a successful private placement raising gross proceeds of DKK 143 million / \$22.0 million and net proceeds of DKK 135.5 million / \$20.3 million. The new shares were subscribed by biotech specialist investors and other institutional investors in the U.S. and Europe. Approximately 2/3 of the Offering was subscribed by U.S. investors and the rest by European investors. The subscription price of the new shares was determined at DKK 96.90 in an accelerated book building process.

Capital expenditure

Investments in new laboratory equipment for the period amounted to DKK 1.9 million (DKK 3.3 million).

Cash and cash equivalents

As of 30 September 2016, Zealand had cash and cash equivalents of DKK 224.6 million (DKK 418.8 million). In addition, DKK 157.3 million (DKK 21.4 million) was held as collateral for the royalty bond. The total cash position as of 30 September 2016 was DKK 381.9 million (DKK 440.2 million). The cash position does not include the net proceeds of DKK 135.5 million from the private placement. The payment for the private placement was received on 4 October 2016.

Cash flow

Cash flow from operating activities amounted to DKK -67.7 million (DKK -178.9 million). Cash flow from investing activities amounted to DKK -137.8 million (DKK -2.7 million) as a consequence of transferring DKK 144.4 million to restricted cash as collateral for the royalty bond. Cash flow from financing activities amounted to DKK 16.2 million (DKK 72.6 million) relating to proceeds from issuance of shares related to exercise of warrants. The total cash flow for the first nine months of 2016 amounted to DKK -189.3 million (DKK -109.0 million).

Key financial developments in Q3 2016

Revenue in the third quarter amounted to DKK 39.6 million (DKK 7.2 million) of which DKK 33.5 million



is related to the \$5 million milestone at the approval of Adlyxin™ in the U.S. in July 2016 and DKK 6.1 million is related to royalty on Lyxumia® sales in the quarter.

Net operating expenses amounted to DKK 55.4 million (DKK 50.5 million). The increase is explained by increased development costs.

Net result for the third quarter amounted to DKK -30.9 million (DKK -51.0 million).

Events after the end of the reporting period

On 4 October 2016, Zealand received the net proceeds of DKK 135.5 million / \$20.3 million from the private placement.

Risk factors

This interim report contains forward-looking statements, including forecasts of future expenses as well as expected business related events. Such statements are subject to risks and uncertainties as various factors, some of which are beyond the control of Zealand, may cause actual results and performance to differ materially from the forecasts made in this interim report. Without being exhaustive, such factors include e.g. general economic and business conditions, including legal issues, scientific and clinical results, fluctuations in currencies etc. A more extensive description of risk factors can be found in the 2015 Annual Report under the section Risk management and internal control.



Management's statement on the interim report

The Board of Directors and the Executive Management have today considered and adopted the interim report of Zealand Pharma A/S for the period 1 January – 30 September 2016. The interim report has not been audited or reviewed by the company's auditor.

The report is prepared in accordance with IAS 34 as endorsed by the EU and the additional Danish disclosure requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the Group's assets, equity and liabilities and financial position at 30 September 2016 as well as of the results of the Group's operations and cash flow for the period 1 January – 30 September 2016.

Moreover, in our opinion, the Management's Review gives a true and fair view of the development in the company's operations and financial conditions, of the net result for the period and the financial position while also describing the most significant risks and uncertainty factors that may affect the Group.

Copenhagen, 9 November 2016

Executive Management

Britt Meelby Jensen President and CEO	Mats Blom Senior Vice President and CFO
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Board of Directors

Martin Nicklasson Chairman	Rosemary Crane Vice Chairman	Catherine Moukheibir
Alain Munoz	Michael Owen	Hanne Heidenheim Bak
Rasmus Just	Jens Peter Stenvang	



Condensed consolidated interim financial statements

Consolidated income statements for the three and the nine month periods ended 30 September 2016 and 2015 and the twelve month period ended 31 December 2015

DKK thousand	Note	1.7-30.9.16	1.7-30.9.15 Restated	1.1-30.9.16	1.1-30.9.15 Restated	1.1-31.12.15
Revenue		39,586	7,229	54,272	20,570	187,677
Royalty expenses		-5,327	-927	-7,091	-2,726	-22,267
Research and development expenses	6	-53,572	-44,690	-191,255	-158,967	-214,959
Administrative expenses	6	-2,059	-8,984	-30,864	-28,307	-44,606
Other operating income		186	3,130	1,251	10,787	12,828
Operating loss		-21,186	-44,242	-173,687	-158,643	-81,327
Financial income		10,140	-1,286	13,622	2,275	3,889
Financial expenses		-20,821	-6,809	-49,786	-29,932	-42,394
Loss before tax		-31,867	-52,337	-209,851	-186,300	-119,832
Income tax benefit		964	1,360	3,199	3,555	5,875
Net loss for the period		-30,903	-50,977	-206,652	-182,745	-113,957
Earnings (loss) per share (EPS) – DKK						
Basic earnings (loss) per share	3	-1.29	-2.21	-8.65	-7.99	-4.94
Diluted earnings (loss) per share	3	-1.29	-2.21	-8.65	-7.99	-4.94

Consolidated statements of comprehensive income (loss) for the three and nine month periods ended 30 September 2016 and 2015 and the twelve month period ended 31 December 2015

DKK thousand	Note	1.7-30.9.16	1.7-30.9.15 Restated	1.1-30.9.16	1.1-30.9.15 Restated	1.1-31.12.15
Net loss for the period		-30,903	-50,977	-206,652	-182,745	-113,957
Other comprehensive income (loss)		0	0	0	0	0
Comprehensive loss for the period		-30,903	-50,977	-206,652	-182,745	-113,957



**Consolidated statements of cash flow for the nine month periods ended 30
September 2016 and 2015**

DKK thousand	Note	1.1-30.9.16	1.1-30.9.15
			Restated
Net loss for the period		-206,652	-182,745
Adjustments for non-cash items		195,842	22,857
Change in working capital		-27,928	-16,660
Financial income received		5,727	885
Financial expenses paid		-31,494	366
Income tax benefit		-3,199	-3,555
Cash outflow from operating activities		-67,704	-178,852
Transfer to restricted cash related to the royalty bond		-144,420	0
Transfer from restricted cash for royalty bond payments		8,517	559
Change in deposit		-18	45
Purchase of property, plant and equipment		-1,871	-3,303
Cash outflow from investing activities		-137,792	-2,699
Proceeds from issuance of shares related to exercise of warrants		16,214	72,594
Cash inflow from financing activities		16,214	72,594
Decrease / increase in cash and cash equivalents		-189,282	-108,957
Cash and cash equivalents at 1 January		418,796	516,849
Exchange rate adjustments		-4,878	25,132
Cash and cash equivalents end of period		224,636	433,024



Consolidated statements of financial position as of 30 September 2016 and 31 December 2015

DKK thousand	Note	30 Sep 2016	31 Dec 15
Assets			Restated
Non-current assets			
Plant and machinery		12,513	14,672
Other fixtures and fittings, tools and equipment		1,084	1,153
Leasehold improvements		355	628
Fixed assets under construction		224	0
Restricted cash		144,420	0
Deposits		2,684	2,666
Total non-current assets		161,280	19,119
Current assets			
Trade receivables		6,192	158,158
Prepaid expenses		16,607	2,430
Income tax receivable		9,074	5,875
Other receivables		3,518	10,427
Non-paid capital related to private placement	2	135,513	0
Restricted cash		12,886	21,403
Cash and cash equivalents	4	224,636	418,796
Total current assets		408,426	617,089
Total assets		569,706	636,208
Liabilities and equity			
Share capital	2	26,062	24,353
Retained earnings		191,568	227,878
Equity		217,630	252,231
Royalty bond		300,145	312,951
Non-current liabilities		300,145	312,951
Trade payables		14,437	21,676
Royalty bond		12,000	0
Deferred income		0	0
Other liabilities		25,494	49,350
Current liabilities		51,931	71,026
Total liabilities		352,076	383,977
Total equity and liabilities		569,706	636,208



Consolidated statements of changes in equity at 30 September 2016 and 2015

DKK thousand	Share capital	Share premium	Retained earnings/losses	Total
Equity at 1 January 2015	23,193	1,150,979	Restated -921,344	Restated 252,828
<i>Comprehensive loss for the period</i>				
Net loss for the period	0	0	-182,745	-182,745
<i>Transactions with owners</i>				
Warrants compensation expenses	0	16,748	0	16,748
Capital increases	859	71,735	0	72,594
Equity at 30 September 2015	24,052	1,239,462	-1,104,089	159,425

DKK thousand	Share capital	Share Premium	Retained earnings/losses	Total
Equity at 1 January 2016	24,353	1,263,179	-1,035,301	252,231
<i>Comprehensive loss for the period</i>				
Net loss for the period	0	0	-206,652	-206,652
<i>Transactions with owners</i>				
Warrants compensation expenses	0	20,323	0	20,323
Capital increases	1,709	150,019	0	151,728
Equity at 30 September 2016	26,062	1,433,521	-1,241,953	217,630



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

The condensed consolidated interim financial statements of Zealand have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by EU and the additional Danish requirements for submission of interim reports for companies listed on Nasdaq Copenhagen.

The condensed consolidated interim financial statements are presented in Danish kroner (DKK) which is the functional currency of the parent company.

The interim report has not been audited or reviewed by the company's auditor.

Accounting policies

The accounting policies used in the condensed consolidated interim financial statements are consistent with those used in the consolidated financial statements for 2015 and in accordance with International Financial Reporting Standards (IFRS) as adopted by EU.

Significant accounting estimates and assessments

In the preparation of the condensed consolidated interim financial statements, management makes a number of accounting estimates, which form the basis for the presentation, recognition and measurement of the Company's assets and liabilities.

In the application of the Company's accounting policies, the Management of the Company is required to make judgements, 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 used estimates are based on assumptions assessed reasonable by management, however, estimates are inherently uncertain and unpredictable. The assumptions can be incomplete or inaccurate and unexpected events or circumstances might occur. Furthermore, the Company is subject to risks and uncertainties that might result in deviations in actual results compared to estimates.

No significant changes have been made in accounting estimates and assessments in the period 1 January – 30 September 2016.

Restatement

In connection with the preparation of the interim report for the first half of 2016, Zealand reviewed its accounting policy related to functional currency, income tax benefit and its royalty bond, along with reviewing a number of other items including the presentation of certain items within the statement of financial position. This review led to a number of restatements affecting the prior period income statements, statements of comprehensive loss, statement of cash flow, statement of financial position and statement of changes in equity.

In connection with the preparation of the interim report for the first nine month of 2016, we have changed the company currency of our subsidiaries from USD to DKK effective from 1 January 2016.



The condensed consolidated financial statements for the three and nine month periods ended 30 September 2015 include a number of restatements due to the review of our accounting policies in the preparation of the latest interim report and due to the fact that the company currency of our subsidiaries has been changed. The nature and impact of these statements are described below.

The restatements have had no impact on net loss or total comprehensive loss for the year ended 31 December 2015.

Consolidated statements of comprehensive income (loss) for the three and nine month periods ended 30 September 2015

DKK thousand	As originally reported, Q3 2015	Restatement	Amount as adjusted, Q3 2015	As originally reported, Jan - Sep 2015	Restatement	Amount as adjusted, Jan - Sep 2015
Revenue	7,170	59	7,229	20,570		20,570
Royalty expenses	-952	25	-927	-2,726		-2,726
Research and development expenses	-44,690		-44,690	-158,967		-158,967
Administrative expenses	-8,913	-71	-8,984	-28,000	-307	-28,307
Other operating income	3,130		3,130	10,787		10,787
Operating loss	-44,255	13	-44,242	-158,336	-307	-158,643
Financial income	655	-1,941	-1,286	1,036	1,239	2,275
Financial expenses	-9,082	2,273	-6,809	-29,932		-29,932
Loss before tax	-52,682	345	-52,337	-187,232	932	-186,300
Income tax benefit	1,360		1,360	3,555		3,555
Net loss for the period	-51,322	345	-50,977	-183,677	932	-182,745
Loss per share (EPS) – DKK						
Basic loss per share	-2.23	0.02	-2.21	-7.99		-8.04
Diluted loss per share	-2.23	0.02	-2.21	-7.99		-8.04
Statement of comprehensive loss						
DKK thousand						
Net result for the period	-51,322	345	-50,977	-183,677	932	-182,745
Other comprehensive income (loss)	0	0	0	0	0	0
Comprehensive loss for the year	-51,322	345	-50,977	-183,677	932	-182,745

Intercompany related items

Costs related to intercompany transactions amounting to DKK 307 thousand have been eliminated in the income statement by an error and is now restated. The amount is part of the restated exchange rate adjustment in the cash flow.

Exchange rate adjustments

The restatement for the three months ended 30 September 2015 is due to the change in company currency as part of the preparation for the interim report for the first nine month of 2016. The restatement for the nine months ended 30 September 2015 effected the equity statement by DKK 932 thousand, which



has been recognized as part of the exchange rate adjustment in the income statement for the period together with the restated amount related to intercompany transactions.

Reclassification adjustments

In addition to above, some items have been reclassified within financial income and expenses in the nine months period ended September 2015.

Consolidated statements of cash flow for the nine months ended 30 September 2015

DKK thousand	As originally reported, 30 Sep 2015	Restatement	Amount as adjusted, 30 Sep 2015
Net loss for the year	-183,677	932	-182,745
Adjustments for non-cash items	19,302	3,555	22,857
Change in working capital	-16,660		-16,660
Financial income received	885		885
Financial expenses paid	366		366
Income tax benefit	0	-3,555	-3,555
Cash flow from operating activities	-179,784	932	-178,852
Transfer from restricted cash for royalty bond payments	0	559	559
Change in deposit	45		45
Purchase of property, plant and equipment	-3,303		-3,303
Cash flow from investing activities	-3,258	559	-2,699
Proceeds from issuance of shares	72,594		72,594
Cash flow from financing activities	72,594	0	72,594
Decrease / increase in cash and cash equivalents	-110,448	1,491	-108,957
Cash and cash equivalents at 1 January	538,273	-21,424	516,849
Exchange rate adjustments	26,064	-932	25,132
Cash and cash equivalents at 30 September	453,889	-20,865	433,024

Besides the restatements in the Income statement the following restatements have been made to the consolidated statements of cash flow for the nine months period ended 30 September 2015:

Reclassification adjustments

Income tax benefit has been reclassified.

Restricted cash

Zealand has restricted cash relating to the royalty bond issuance agreement. DKK 21,424 thousand was previously presented within the consolidated statement of cash flow as a component of cash, restricted cash and cash equivalents. The amount as well as a portion of interests payment related to the royalty bond have been reclassified out of this balance.



Consolidated statement of financial position as of 31 December 2015

DKK thousand	As originally reported, 31 December 2015	Restatement	Amount as adjusted, 31 December 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		19,119
Trade receivables	141,120	17,038	158,158
Prepaid expenses	2,262	168	2,430
Tax receivable	5,875		5,875
Other receivables	26,113	-15,686	10,427
Cash restricted	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
Liabilities and equity			
Share capital	24,353		24,353
Retained earnings	227,878		227,878
Total equity	252,231		252,231
Royalty bond	312,951		312,951
Non-current liabilities	312,951		312,951
Trade payables	21,676		21,676
Deferred income	2,091	-2,091	0
Other liabilities	45,739	3,611	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

Reclassification adjustments

A number of items have been reclassified within trade receivables, prepaid expenses, other receivables, deferred income and other liabilities in the statements of financial position.



Note 2 – Changes in share capital

The following changes have occurred in the share capital during the respective interim periods:

	No. of shares
Share capital at 1 January 2015	23,193,047
Capital increase at 21 March 2015	120,833
Capital increase at 11 April 2015	106,220
Capital increase at 2 June 2015	51,487
Capital increase at 20 June 2015	46,521
Capital increase at 8 September 2015	383,190
Capital increase at 26 September 2015	150,702
Share capital at 30 September 2015	24,052,000
Share capital at 1 January 2016	24,352,769
Capital increase at 30 March 2016	46,613
Capital increase at 14 April 2016	50,453
Capital increase at 26 May 2016	43,071
Capital increase at 16 June 2016	41,269
Capital increase at 6 September 2016	7,400
Capital increase at 23 September 2016	45,457
Capital increase at 29 September 2016 ¹⁾	1,475,221
Share capital at 30 September 2016	26,062,253

¹⁾ The payment for the 1,475,221 new shares was received on 4 October 2016.

Note 3 – Loss per share

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	1.7-30.9.16	1.7-30.9.15 Restated	1.1-30.9.16	1.1-30.9.15 Restated	1.1-31.12.15
Net loss for the period	-30,903	-50,977	-206,652	-182,745	-113,957
Net loss used in the calculation of basic and diluted loss per share	-30,903	-50,977	-206,652	-182,745	-113,957
Weighted average number of ordinary share	24,572,209	23,622,096	24,464,551	23,421,641	23,618,752
Weighted average number of treasury shares	-564,223	-564,223	-564,223	-564,223	-564,223
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	24,007,986	23,057,873	23,900,328	22,857,418	23,054,529
Basic loss per share (DKK)	-1.29	-2.21	-8.65	-7.99	-4.94
Diluted loss per share (DKK)	-1.29	-2.21	-8.65	-7.99	-4.94

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



Potential ordinary shares excluded due to anti-dilutive effect related to:

	30 Sep 2016	30 Sep 2015	31 Dec 2015
Outstanding warrants under the 2010 Employee incentive program	808,741	1,362,792	1,055,854
Outstanding warrants under the 2015 Employee incentive program	943,750	466,250	463,250
Total outstanding warrants, which are anti-dilutive	1,752,491	1,829,042	1,519,104

Note 4 - Cash and cash equivalents

DKK thousand	30 Sep 2016	31 Dec 2015
DKK	16,490	66,239
USD	189,548	306,296
EURO	18,598	46,261
Total cash and cash equivalents	224,636	418,796

As of 30 September 2016, Zealand had cash and cash equivalents of DKK 224.6 million (31 December 2015: DKK 418.8 million). In addition DKK 157.3 million (31 December 2015: DKK 21.4 million) are held as collateral for the royalty bond. The total cash position as of 30 September 2016 is DKK 381.9 million (31 December 2015: DKK 440.2 million).

Note 5 - Financial instruments

As of 30 September 2016 and 31 December 2015 there were no financial instruments carried at fair value.

Except as detailed in the following table with respect to the royalty bond, as of 30 September 2016 and 31 December 2015, the carrying amount of financial assets and financial liabilities approximates the fair value.

DKK thousand	30 September 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Royalty bond	312,145	354,433	312,951	386,912

Note 6 – Warrant programs

On 5 April 2016, Zealand granted 447,250 new warrants to executive management, other members of senior management and employees. The warrants give the holders the right to subscribe to 447,250 new Zealand shares with a nominal value of DKK 1 each and corresponding to 1.8% of the company's total outstanding share capital. The exercise price is fixed at DKK 142.45 reflecting the closing price of Zealand's shares on Nasdaq Copenhagen on 4 April 2016 plus 10%.



The total number of new warrants granted has a combined market value of DKK 19.9 million calculated on the basis of the Black-Scholes model including a 5-year historic volatility of 43.5%, a 5-year historic risk free interest rate of -0.04% and a share price of DKK 129.50.

On 15 July 2016, Zealand granted 40,000 new warrants to a member of senior management. The warrants give the holder the right to subscribe to 40,000 new Zealand shares with a nominal value of DKK 1 each and corresponding to 0.2% of the company's total outstanding share capital. The exercise price is fixed at DKK 138.60, reflecting the closing price of Zealand's shares on Nasdaq Copenhagen on 14 July 2016 plus 10%.

The total number of new warrants granted has a combined market value of DKK 1.8 million calculated on the basis of the Black-Scholes model including a 5-year historic volatility of 45.0%, a 5-year historic risk free interest rate of -0.33% and a share price of DKK 126.00.

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 who are subject to the act.

Warrants expire automatically after 5 years. Warrants are considered vested at grant date, and may be exercised after three years. The exercise of the warrants may take place four times a year during a 4-week period starting from the time of the publication of Zealand's Annual Report or quarterly or semi-annual reports.

Effect on income statement

For the nine month periods ended 30 September 2016 and 2015, the fair value of warrants recognized in the income statement amounts to DKK 20.3 million (2015: DKK 16.7 million) of which DKK 5.6 million (2015: DKK 4.9 million) relates to the Executive Management.

DKK thousand	30 Sep 2016	30 Sep 2015
Research and development expenses	12,170	13,765
Administrative expenses	8,153	2,983
Total	20,323	16,748

Note 7 – Significant events after the end of the reporting period

On 4 October 2016, Zealand received the net proceeds of DKK 135.5 million / \$20.3 million for 1,475,221 new shares from a private placement that was concluded on 29 September 2016.