

Statutory report on

Corporate Social Responsibility (CSR) 2016

Statutory report on Corporate Social Responsibility for the financial year 2016 cf. Section 99a and 99b of the Danish Financial Statements Act¹. This report is a supplement to the Management's review in the Annual Report 2016 covering the period January 1 – December 31, 2016.

¹In Danish 'Lovpligtig redegørelse for samfundsansvar, jf. årsregnskabsloven §99a og 99b'



Corporate Social Responsibility (CSR) Report for 2016

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

Zealand and CSR

Our Corporate Social Responsibility (CSR) work is an integrated part of Zealand's business, and the efforts in this area are based on our core values. We believe that Zealand has an obligation to be socially responsible in order to benefit not only our main stakeholders, mainly shareholders, patients and employees, but also society. A key focus for us across our business is to have open, engaging and respectful communication with all our stakeholders.

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

Zealand is a Danish biotech company discovering and developing novel peptide-based medicines. We are passionate about improving patients' lives and committed to delivering value for all our stakeholders. We intend to be a world leader in specialty medicines, focusing on metabolic and gastrointestinal diseases.

Zealand has a successful history of discovering and optimizing peptide therapeutics as novel drugs. Our pipeline will focus on addressing the needs of patients suffering from gastrointestinal and metabolic diseases, at the same time as incorporating opportunities in other specialty diseases that match our competencies and ambitions. We will continue to grow our pipeline through internal research as well as in licensing and acquisitions.

We intend to realize the value of our drug product candidates ourselves and have significantly strengthened our competencies to ensure that we can successfully advance products along the clinical development and registration path. We have built a strong internal setup and secured solid partnership agreements for clinical trial execution and manufacturing in order to advance our Phase 2 product candidates: the GLP-2 analogue glepaglutide, targeting short bowel syndrome, and the two glucagon analogue programs with dasiglucagon. We will engage in commercialization for selected product candidates, for example glepaglutide. We also intend to gradually expand our commercial capabilities and establish a local presence in relevant markets.

Successful implementation of our strategy will propel Zealand forward to becoming a fully integrated biotechnology company, building on our strong R&D platform while expanding relationships with our customers.



2016	2017-2019	2020+
Entering a new era	Accelerating value creation	Integrated biotech company
Advance and expand the pipeline <ul style="list-style-type: none">• Two U.S. product approvals• Three Phase 2 product candidates	Confirming the value of the product portfolio <ul style="list-style-type: none">• Growing revenues from marketed products• Milestone payments• Own late-stage development and registration	Commercialization of own products in the U.S. and Europe
Enhance our peptide competencies <ul style="list-style-type: none">• Engagement in new research partnerships• Continued investments in innovation	Engage in synergistic partnerships <ul style="list-style-type: none">• Inlicensing to expand portfolio• Commercial partnerships	Continued solid revenues from partnered products
Enter partnerships to support the pipeline <ul style="list-style-type: none">• Partnerships with Beta Bionics and device partners• Working with leading CMOs and CROs	Building stakeholder relations <ul style="list-style-type: none">• Dialogue with patients, key opinion leaders and payers intensified	Portfolio from internal innovation, partnering and acquisitions
Solid financial position <ul style="list-style-type: none">• Strengthened cash position• Milestone payments and royalties		

Our CSR focus

We see our corporate social responsibility as an ongoing process that adapts to new ideas and activities to keep us up to date with developments in this area.

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

Given that Zealand does not currently market or commercialize medicines itself, many issues specific to the pharmaceutical industry do not fall within the scope of Zealand's CSR initiatives. As a small company with only 122 employees, we need to allocate our resources carefully, so adopting a policy on human rights is not a priority. However, we are aware of and respect the UN Guiding Principles on Business and Human Rights.

To improve the transparency of our social responsibility, Zealand has elevated CSR matters to senior management. We see our corporate social responsibility as an ongoing process that adapts to new ideas and activities to keep us up to date with developments in this area.

Engaging with our community – locally and nationally

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

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

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



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

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

Emphasis on most relevant areas

At Zealand, our particular emphasis is on the areas that are most relevant to our business and operations:

- Employee well-being, including health, safety and labor practices
- Diversity across all levels of the organization
- Ethics and quality in relation to research and development activities
- Animal welfare
- Environmental sustainability and climate
- Business ethics
- Anticorruption and compliance
- Insider trading
- Intellectual property

Employee well-being, including health, safety and labor practices

Policy and guidelines

At Zealand, employees are our most important resource, and we believe that an engaged, skilled and motivated workforce results in better-quality work. We work on developing our employees' competencies, as knowledge and experience are key to our success as a biotech company. We believe that having an experienced management team and a talented pool of employees with extensive experience in the pharmaceutical and biotech industry and diverse backgrounds is the best way to drive performance and innovative thinking. We have invested in the development of employee competencies, and we regularly invest in leader training to enhance employee engagement.

Key to our success are the competencies and innovative drive of our employees, along with an organizational culture and structure that supports open and dynamic interactions across functions.

We work actively to ensure the well-being of our employees. We have numerous policies in place to ensure the physical and mental health and safety of all employees and of Zealand's working environment.

We have set up a number of committees, including a Works Council and an Occupational Health and Safety Committee (OHAS Committee) on which both management and employees are represented and regularly discuss matters related to our work environment.

Zealand has numerous written procedures in place to support its work environment. When it comes to its policies, Zealand has taken Danish Labor Law as its starting point and, in some cases, has gone above



and beyond what is required of public companies in order to be more considerate of and responsive to the needs of its workforce. These policies are described in an Employee Handbook which, among other things, details the different forms of leave available and the rules on health and alcohol consumption. Our policies on occupational health and safety (OHAS) are described in a separate manual which emphasizes the high priority that Zealand gives to the work environment.

General health and well-being at Zealand are also taken seriously, and the Company makes it easier for its employees to stay healthy by providing gym and exercise facilities as well as healthy food options. Health insurance is offered to all employees.

Zealand works systematically to maintain a safe and healthy work environment and to develop employees' understanding of their own safety and that of their colleagues.

All Zealand employees are trained in the standard safety protocol, whereby they are given the tools to manage their own occupational safety. Workplace audits (*Arbejdspladsvurderinger*, APV) are conducted regularly.

A near accident reporting initiative to build on Zealand's strong safety track record and safeguard against potential future accidents is maintained.

All employees at Zealand have a job description and a CV, and these are reviewed on an annual basis. Zealand is committed to developing its employees and providing continuous training. It therefore allocates a fixed annual amount for every employee for training and development purposes. This policy has proven to have synergistic benefits for both the Company and its employees. Zealand takes its employee development interviews (EDI) very seriously, including clear goal and bonus goal setting, competency development and performance evaluation on an annual basis.

Labor unions currently representing our employees include HK it, medie & Industri Hovedstaden. Zealand negotiates a collective agreement in good faith every three years. The next negotiation is due in early 2017.

In addition, Zealand actively promotes an open, inclusive environment for its employees and has adopted English as its primary language to accommodate its international employees. Zealand is also open-minded and forward thinking in its employment development programs for Ph.D. candidates and trainees.

We have implemented various indicators to measure employee satisfaction. An annual employee satisfaction survey is performed and measures the results of initiatives from the previous year as well as identifying areas for improvement going forward.

Risk assessments are reviewed quarterly, and Zealand's OHAS Committee conducts surveys on a regular basis.



Achievements in 2016

Employee well-being

- In the employee satisfaction survey, the percentage of employees who agreed that Zealand is a good place to work was 96% (2015: 97%), a decrease of 1%.
- 82% of Zealand's workforce described the physical work environment at Zealand as good/often good (2015: 87%), and 90% of the workforce described the psychological work environment as good/often good (2015: 88%).
- The absence rate was 2.1% (2015: 1.8%).
- Zealand offered a health check to all employees in 2016.
- Employee turnover was 5% (2015: 6%).
- Zealand regularly invests in leader training, and individual project manager training took place in 2016.

Safety

- Four near accidents were reported under our near accident reporting initiative (2015: 2).
- No "obligated to notify" accidents were reported (2015: 2).
- Zealand had no significant injuries in 2016 (2015: 0), as measured by days off due to work-related injury.

Focus areas in 2017

- We will continue our activities to implement our ambitious 2020+ strategy.
- Leadership training has been planned for both project managers and heads of department.
- Actions to prevent stress among employees is a focus area for the entire organization. Stress is measured in our annual employee survey. The goal for 2017 is for less than 20% of employees to select "often not true" or "untrue" in response to the comment "I do not feel stressed" in the annual employee survey.
- The target range for the comment "Zealand is a good place to work" in the annual employee survey is 92-97%.
- Zealand cares about the well-being of its employees and will again be offering a health check to all employees in 2017.
- We aim for an appropriate level of employee turnover and an absence rate at the same level as in previous years.
- We aim for an appropriate level of near accidents.
- Zealand will continue to focus on employee well-being, health and safety.
- We will continue to engage in our community.

Diversity across all levels of the organization

Zealand's culture and policies are rooted in respect for diversity and, as such, are fully compliant with Danish regulations on equal opportunity employment.

A diverse workforce is also good for business: It enhances innovation, increases our ability to work cross-culturally and gives us a better understanding of the communities in which we operate, so that we can create value for our stakeholders.



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

Zealand aims to achieve equal representation of both genders at all management levels – from the Board of Directors to the heads of department. We want to encourage female candidates to take on managerial tasks.

The table below shows that Zealand has an even distribution of female and male employees with a minor predominance of women.

The senior management team was made up of 25% female at the end of 2016 (2015: 40%), and department heads were made up of 52% female at the end of 2016 (2015: 41%). The overall management level is made up of 48% females (2015: 41%) and is regarded to be an even gender distribution.

	2016		2015	
	Male	Female	Male	Female
Zealand Pharma A/S	44%	56%	48%	52%
Senior management	75%	25%	60%	40%
Heads of department	48%	52%	59%	41%
Other employees	42%	58%	46%	54%

The average age of Zealand employees was 45.9 at the end of 2016 (2015: 46.1).

At the end of 2016, 18% of our employees had another nationality than Danish (2015: 19%) and in senior management the number was 50% (2015: 40%).

Approximately 80% of our employees work in R&D, and 36 of our employees hold a Ph.D. (2015: 37).

Other employees figures	2016	2015
Average age of workforce	45.9	46.1
% of non-Danish employees	18%	19%
Employees holding a Ph.D.	36	37
Ph.D. students	3	3
Other students	3	3

Diversity in the Board of Directors

In 2013, the Board of Directors set a target to have a minimum of 25% AGM-elected female board members within the next three years. The target was met in 2015.



As of 31 December 2016, the Board of Directors consisted of three women and six men, of whom two women and four men were elected at the Annual General Meeting in 2016, giving a female representation of 33% (2015: 33%). Zealand finds the current level satisfactory.

Achievements in 2016

- Zealand remains committed to providing equal opportunities for women and men at all management levels.

Focus areas in 2017

- Zealand will continue to focus on the gender diversity of employees at all levels of the Company and to provide equal opportunities for women and men at all management levels.
- We will continue to encourage female candidates to take on managerial tasks.

Ethics and quality in relation to research and development activities

Policy and guidelines

Zealand's quality policy describes compliance with internationally recognized standards and guidelines at all stages of research and development to ensure that we do not place patients or animals at risk due to inadequate safety, quality or efficacy. Research applies Good Research Practice. Development outsources GxP activities to qualified and approved vendors, but Zealand retains the sponsor responsibilities. Oversight of the activities is carried out to ensure compliance with the requirements of, for example, Good Laboratory Practice (GLP), Good Manufacturing Practice (GMP), Good Clinical Practice (GCP) and Good Pharmacovigilance Practice (GVP).

Zealand's Quality Management System (QMS) for research and development activities is described in our Quality Manual. Our QMS is intended to be simple, agile and effective – based on a solid training system. Learning from experience, we correct and make improvements to our processes and systems in order to evolve our product Life Cycle Management (LCM) as we enter later development stages.

Achievements in 2016

- The Quality Manual was updated to reflect Zealand Pharma's revised strategy to perform late-stage development of its own proprietary peptides.
- Quality Management Review has been performed in all areas and quality goals have been defined.
- 18 new collaboration partners/vendors were assessed and approved.
- 11 audits were conducted (2015: 13).

Focus areas in 2017

- Building and continuously improving the Quality System required for late-stage development.
- Continuing and intensifying oversight of outsourced activities based on quality risk management principles.

We will also engage in commercialization of selected product candidates, for example glepaglutide.



Animal welfare

To allow for the discovery of new therapies and to ensure the efficacy and safety of new pharmaceuticals, it is necessary to conduct *in vivo* experiments using laboratory animal species. Zealand's policy on animal ethics and welfare is to use animal studies only where no available and acceptable *in vitro* alternative exists. All laboratory animals used under our responsibility must be treated humanely and with respect, and only purpose-bred animals are used. Zealand adheres to the principles of the 3Rs (reduce, refine, replace) and works to integrate these principles in all studies carried out, wherever possible.

All in-house animal studies are carried out in accordance with specific licenses issued by the Ministry of Environment and Food of Denmark and international guidelines, as appropriate. Danish law stipulates regular inspections of the animal facilities as well as comprehensive reporting protocols overseeing experiments conducted during the year, processed through The Animal Experiments Inspectorate. The upward flow of information and reporting, from lab technician to academic to head of department, ultimately ensures the centralization of all the Company's pharmacology and toxicology data, which are duly recorded, organized and sent to the regulatory authorities.

All employees working with laboratory animals have appropriate and documented education and training. Veterinary spot checks of our animal facilities are performed regularly.

In addition, Zealand's internal ethical committee scrutinizes all proposed in-house *in vivo* pharmacology, toxicology and PK experiments for compliance with regulatory and ethical permissions.

The necessity of animal experiments to Zealand's research and development activities cannot be overstated, and thus the Company constantly strives for the greatest vigilance and care in its treatment of animals.

Achievements in 2016

- In 2016, as in 2015, there were no reported incidents of negligence.

Focus areas in 2017

- Zealand will continue to focus on animal welfare and comply with the principles of the 3Rs.

Environmental sustainability and climate

Policy and guidelines

Zealand's environmental policy outlines our commitment to protect the environment. By conducting business in a safe and environmentally friendly manner, we aim to reduce the impact on the environment and climate as far as possible, taking into account our size and the type of company we are. However, as we do not have any manufacturing, we consider our impact on the environment and climate as very limited.

Zealand complies with laws and regulations relevant to our business.

We are mindful about the environment and climate and we encourage employees to act in an environmentally friendly way, to produce as little waste as possible. We have implemented double-sided,



black and white printing as our office standard and we include a “please consider the environment before printing” message in our standard e-mail signature.

We have procedures for recycling paper and cardboard as well as for the use of electricity and heating.

Zealand contributes to energy saving by selecting energy-efficient office and laboratory equipment wherever possible.

Our travel guidelines limit unnecessary air travel by employees and encourage the use of our videoconference facilities and teleconferencing as alternatives to business travel.

Achievements in 2016

- Our efforts in 2016 has resulted in further strengthening the focus on environmentally and climate friendly behavior at Zealand.

Focus areas in 2017

- We are mindful about the environment and will continue to minimize our environmental impact and encourage employees to continue with environmental and climate initiatives.

Business ethics

Policy and guidelines

Zealand's quality and reputation as a business and scientific collaborator are of the utmost importance to its strategic future. It is therefore in the best interests of the Company and of its stakeholders that Zealand employees are trained and kept up to date with policies on corruption and compliance, insider trading and appropriate and legal management of external intellectual property.

Zealand strives to operate according to the highest ethical standards and safeguards its business against corruption and noncompliance where its employees are most at risk.

Zealand will proactively engage in a positive dialogue with all regulatory and advisory authorities and with stakeholders from relevant industries in order to be inspired to make further improvements.

Zealand has an established whistleblower program, which is approved by the Danish Data Protection Agency.

Anticorruption and compliance

Zealand actively promotes and maintains a policy of transparency and honesty with its employees. Zealand's Employee Handbook stipulates a set of policies, which specify the Company's standards regarding its employees' general and legal conduct.

Insider trading

Zealand has taken every precaution to keep all its employees, board members and certain stakeholders up to date and compliant with the Company's internal rules. The Company distinguishes carefully



between those who are listed on its permanent insiders' list and those who are exposed to what is deemed insider information. In the latter case, Zealand takes every precaution to keep an up-to-date list of employees' knowledge of insider information. All new employees are introduced to our internal rules and have to sign a document stipulating that they have read and understood these rules.

Intellectual property

The Company has strict policies regarding the proper use and transfer of intellectual property. Since it was founded, Zealand has refined its confidentiality and material transfer agreements to reflect critical changes in the industry, building on the extensive industry experience of many of its senior members.

Achievements in 2016

- No issues were reported in 2016 under our whistleblower program (2015: 0).
- Zealand has no knowledge of any violations of the above categories (2015: 0).

Focus areas in 2017

- Zealand will continue to operate according to the highest ethical standards.