Company announcement – No. 28 / 2018

Zealand Pharma – Interim report for the first nine months of 2018

Copenhagen, November 15, 2018 – Zealand Pharma A/S ("Zealand") (Nasdaq: ZEAL) (Company reg. No. 20 04 50 78), a Copenhagen-based biotechnology company focused on the discovery and development of innovative peptide-based medicines, today announced its financial results for the first nine months of 2018.

"The third quarter was transformative for Zealand. With the sale of future royalties and milestones, we became a financially stronger company with the funding and focus to bring our fully owned late-stage candidates to market," said **Britt Meelby Jensen, the Company's President and Chief Executive Officer**. "We gained even more confidence in dasiglucagon as a potential best-in-class rescue treatment for severe hypoglycemia after receiving the strong results from the pivotal Phase 3 trial. In addition, three Phase 3 trials were initiated, including the pivotal trial for glepaglutide as treatment for short bowel syndrome. Our focus is now to ensure that the clinical trials are progressing with high speed and quality and on entering into selected partnerships in line with our strategy."

Financial results for the first nine months of 2018

- **Revenue of DKK 24.9 million / USD 3.9 million[1]** (DKK 125.8 million / USD 20.0 million[2] in the first nine months of 2017).
    - There was no milestone revenue in first nine months of 2018 as compared to DKK 101.0 million / USD 16.0 million[2] in first nine months of 2017.
- **Net operating expenses[3] of DKK 330.6 million / USD 51.3 million[1]** (DKK 252.2 million / USD 40.0 million[2] in the first nine months of 2017).
- **Other operating income of DKK 1,099.2 million / USD 170.6 million[1]** (DKK 0.5 million / USD 0.1 million[2] in the first nine months of 2017)
    - In September, Zealand entered into an agreement to sell future royalties and USD 85 million of potential commercial milestones for Soliqua® 100/33/ Suliqua® and Lyxumia®/Adlyxin®. Zealand received DKK 1,310.2 million / USD 205.0 million upon closing of the transaction. The net gain from the transaction amounted to DKK 1,098.9 million / USD 170.6 million.
- **Net result of DKK 704.3 million / USD 109.4 million[1]** (DKK -164.6 million / USD -26.1 million[2] in the first nine months of 2017).
- **Cash and cash equivalents, restricted cash and securities amounted to DKK 1,478.6 million / USD 229.6 million[1] as of September 30, 2018** (December 31, 2017: DKK 669.7 million / USD 107.9 million[4]).

Business highlights from the third quarter of 2018 and the period thereafter

- **Dasiglucagon for severe hypoglycemia achieved all primary and key secondary endpoints in the pivotal Phase 3 trial:**
    - 99% of patients on dasiglucagon recovered from low blood glucose within 15 minutes.
    - Median time to plasma glucose recovery of 10 minutes with dasiglucagon.
- **Phase 3 trial initiated with dasiglucagon for treatment of severe hypoglycemia in children**
- **First patients enrolled in pivotal Phase 3 trial with Glepaglutide, a long-acting GLP-2 analog for treatment of short bowel syndrome (SBS)**

- **GLP-1/Glucagon dual agonist for once-weekly treatment of obesity/Type 2 diabetes successfully completed Phase 1a trial and was advanced into Phase 1b by Boehringer Ingelheim**
- **Once-weekly amylin analog lead molecule for treatment of obesity/Type 2 diabetes has been replaced by a stronger back-up candidate, anticipated to enter Phase 1 in H1 2019 by Boehringer Ingelheim**
- **GLP-1/GLP-2 dual agonist selected to advance into Phase 1 development in 2019, with potential in SBS and other gastrointestinal diseases**
- **Expansion of rare disease pre-clinical pipeline, with potent and selective inhibitors of Complement C3 for the treatment of complement mediated diseases**
- **Appointment of Marino Garcia as Senior Vice President of Corporate and Business Development**

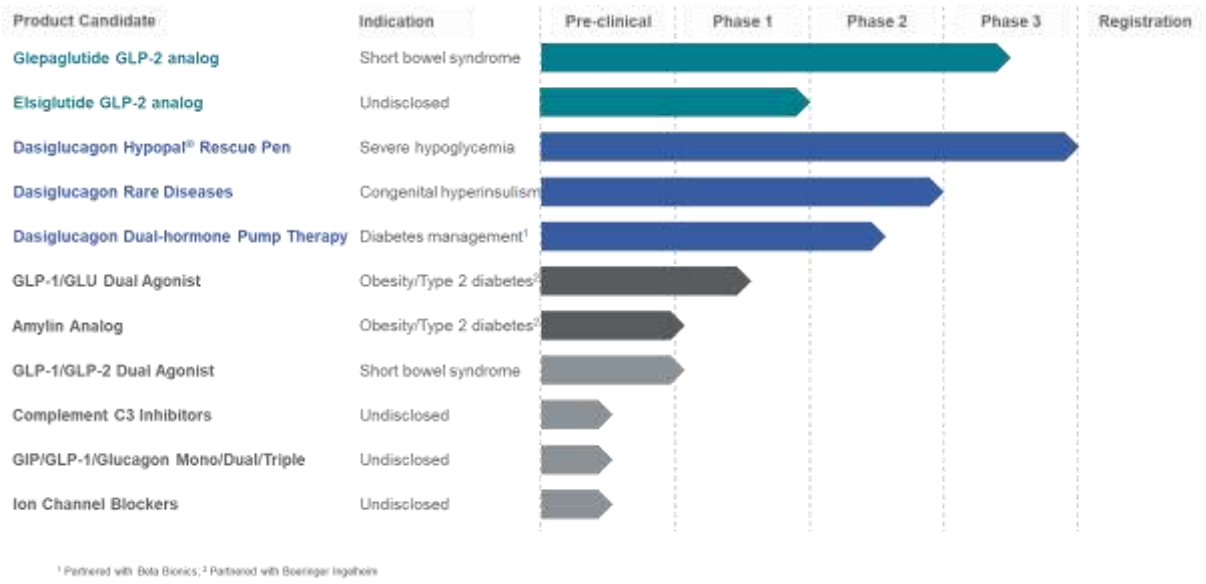
Full-year guidance for 2018

Zealand maintains its financial guidance for full-year 2018 as announced in the Company's 2017 Annual Report.

Net operating expenses[3] in 2018 are still expected to be within the range of DKK 475-495 million (USD 73-77 million[1]). Most of the spend is related to the increased clinical development costs associated with Phase 3 trials of the Company's glepaglutide and dasiglucagon programs.

As the Company has sold future royalties and milestones from Sanofi for sales of Soliqua® 100/33/ Suliqua® and Lyxumia®/Adlyxin® no further royalties or milestones are expected in 2018.

Clinical pipeline



[1] Partnered with Beta Bionics; [2] Partnered with Boehringer Ingelheim

Glepaglutide (GLP-2 analog for short bowel syndrome)

Glepaglutide is a long-acting GLP-2 analog with an effective half-life of approximately 50 hours. The pivotal Phase 3 trial was initiated in early October 2018. The trial is a randomized, double-blind and placebo-controlled study, with both once- and twice-weekly dosing regimens. The trial is expected to enroll 129 patients at multiple sites across the United States, Europe and Canada.

The U.S. FDA has granted orphan drug designation for glepaglutide for the treatment of SBS. The preceding glepaglutide Phase 2 trial in patients with SBS demonstrated increases in intestinal absorption following only 3 weeks of treatment.

Dasiglucagon (glucagon analog stable in liquid formulation)

Dasiglucagon is a potential first-in-class glucagon analog with a unique stability profile in liquid formulation. Zealand is pursuing several indications where a stable profile would provide new treatment options:

- **Dasiglucagon HypoPal® rescue pen for severe hypoglycemia**

  The ready-to-use dasiglucagon rescue pen, the HypoPal®, is designed to offer people with diabetes a fast treatment solution for severe hypoglycemia. In the pivotal Phase 3 efficacy trial, all primary and key secondary endpoints were successfully achieved. 99% of patients on dasiglucagon recovered from low blood glucose within 15 minutes, and the median time to plasma glucose recovery was 10 minutes with dasiglucagon.

  A pediatric trial was initiated in September 2018 with readout in H1 2019 and we anticipate a New Drug Application (NDA) filing Q4 2019.

- **Dasiglucagon for congenital hyperinsulism (CHI)**

  We are developing dasiglucagon as a potential treatment option for CHI, a rare disease, which affects mainly newborns and toddlers with devastating consequences including brain damage and which often requires surgical intervention, pancreatectomy, to manage the condition. Initiation of the first Phase 3 trial is expected in Q4 2018. This is slightly later than earlier communicated due to additional comments from FDA, which Zealand believes will simplify and improve the program.

- **Dasiglucagon dual-hormone pump therapy for diabetes**

  A next-generation artificial pancreas pump system, the iLet™ containing both insulin and glucagon (dasiglucagon) is in development by our partner Beta Bionics. The addition of dasiglucagon to the pump system provides the means to elevate blood sugar levels with potential to control these more accurately than with insulin alone.

  In May 2018, Beta Bionics received an Investigational Device Exemption (IDE) approval from FDA, allowing them to use the iLet™ pump in clinical trials. In June, Zealand and Beta Bionics met with the FDA to discuss Phase 2b and the path towards Phase 3 initiation. As a consequence, the planned Phase 2b trial has been reduced in scope to provide bridging data in the iLet™ pump before potential Phase 3 initiation. The Phase 2b trial is expected to complete in H1 2019.

Long-acting GLP1-GLU dual agonist for obesity and/or diabetes (with Boehringer Ingelheim)

The glucagon/GLP-1 dual agonist activates two key gut hormone receptors simultaneously and may offer better blood sugar and weight-loss control than current single-hormone receptor agonist treatments. Based on encouraging Phase 1a clinical trial results, a Phase 1b trial with the once-weekly GLP1/Glu dual agonist for treatment of diabetes/obesity was initiated by Boehringer Ingelheim in August. Results from that trial are expected in H1 2019.

Boehringer Ingelheim is funding all research, development and commercialization activities related to the treatment. Zealand is eligible to receive up to EUR 386 million in milestone payments (of which EUR 365 million is outstanding) and royalties on global sales.

Long-acting amylin analog for obesity and/or diabetes (with Boehringer Ingelheim)

The current once-weekly amylin analog lead molecule for treatment of diabetes/obesity has been replaced by a stronger back-up candidate with improved pharmaceutical properties. This new lead is anticipated to enter Phase 1 clinical testing in H1 2019. In pre-clinical studies, Zealand and Boehringer Ingelheim observed that the novel, long-acting amylin analog may prevent the development of obesity in pre-clinical models, suggesting its potential use in treating obesity and obesity-related comorbidities.

Boehringer Ingelheim is funding all research, development and commercialization activities related to the treatment. Zealand is eligible to receive up to EUR 295 million in milestone payments (of which EUR 283 million is outstanding) and royalties on global sales.

Pre-clinical Candidates

GLP-1/GLP-2 dual agonist (ZP7570)

ZP7570 is a potential first-in-class dual agonist peptide therapeutic to treat patients with short bowel syndrome and/or other metabolic and gastrointestinal diseases. Rationale for the dual agonist builds upon clinical evidence indicating that combining the GLP-1 and GLP-2 mechanisms provides an improved outcome in some SBS patients over GLP-2 alone. The GLP-1 activity will impact gastric emptying and hyperglycemic events and could also improve the metabolism of the parenteral nutrition. Preclinical development has been completed and the candidate is ready to move into Phase 1 in 2019.

Complement C3 inhibitors

Altered activation of the complement cascade is implicated in many immune mediated diseases and in particular rare diseases such as paroxysmal nocturnal hemoglobinuria, cold agglutinin disease, myasthenia gravis and C3 glomerulopathy. We have identified novel peptides that are potent, selective, long-acting inhibitors of the complement cascade acting at factor C3. A clinical candidate is expected to be selected in 2019.

Conference call today at 4 pm CET / 10 am ET

Zealand's management will be hosting a conference call today at 4:00 p.m. CET / 10:00 a.m. ET to present the results for the first nine months of 2018. The call will be led by President and Chief Executive Officer Britt Meelby Jensen, and Executive Vice President and Chief Financial Officer Mats Blom, with the rest of management attending. The presentation will be followed by a Q&A session.

The conference call will be conducted in English, and the dial-in numbers are:
Denmark: ..... +45 35 15 80 49
United Kingdom: ..... +44 (0)330 336 9127
United States: ..... +1 929-477-0448
Passcode 5000889

A live audio webcast of the call, including an accompanying slide presentation, will be available via the following link, https://edge.media-server.com/m6/p/wit9aekv, and also will be accessible on the Investor section of Zealand's website (www.zealandpharma.com). Participants are advised to register for the webcast approximately 10 minutes before the scheduled start.

A recording of the event and a transcript will be available on the Investor section of Zealand's website after the call.

For further information, please contact:

Britt Meelby Jensen, President and Chief Executive Officer
Tel.: +45 51 67 61 28, e-mail: bmj@zealandpharma.com

Mats Blom, Executive Vice President, Chief Financial Officer
Tel.: +45 31 53 79 73, e-mail: mabl@zealandpharma.com

About Zealand Pharma A/S
Zealand Pharma A/S (Nasdaq Copenhagen and New York: ZEAL) ("Zealand") is a biotechnology company focused on the discovery and development of innovative peptide-based medicines. More than 10 drug candidates invented by Zealand have advanced into clinical development, of which two have reached the market. Zealand's current pipeline of internal product candidates focus on specialty gastrointestinal and metabolic diseases. Zealand's portfolio also includes two clinical license collaborations with Boehringer Ingelheim.

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 LinkedIn or Twitter @ZealandPharma.

Safe Harbor/Forward-Looking Statements
The above information contains forward-looking statements that provide our expectations or forecasts of future events such as new product introductions, clinical development activities and anticipated results, product approvals and financial performance. Such forward-looking statements are subject to risks, uncertainties and inaccurate assumptions. This may cause actual results to differ materially from expectations and it may cause any or all of our forward-looking statements here or in other publications to be wrong. Factors that may affect future results include interest rate and currency exchange rate fluctuations, delay or failure of clinical trials and other development activities, production problems, unexpected contract breaches or terminations, government-mandated or market-driven price decreases for Zealand's products, introduction of competing products, Zealand's ability to successfully market both new and existing products, exposure to product liability and other lawsuits, changes in reimbursement rules and governmental laws and related interpretation thereof, and unexpected growth in costs and expenses.

Certain assumptions made by Zealand are required by Danish Securities Law for full disclosure of material corporate information. Some assumptions, including assumptions relating to sales associated with a product that is prescribed for unapproved uses, are made taking into account past performances of other similar drugs for similar disease states or past performance of the same drug in other regions where the product is currently marketed. It is important to note that although physicians may, as part of their freedom to practice medicine in the United States, prescribe approved drugs for any use they deem appropriate, including unapproved uses, at Zealand, promotion of unapproved uses is strictly prohibited.

[1] Translated solely for convenience into U.S. dollars at an assumed exchange rate of DKK 6.44 per USD 1.00, which was the rounded official exchange rate of such currencies at September 30, 2018.
[2] Translated solely for convenience into U.S. dollars at an assumed exchange rate of DKK 6.30 per USD 1.00, which was the rounded official exchange rate of such currencies at September 30, 2017.
[3] Net operating expenses consist of research, development and administrative expenses.
[4] Translated solely for convenience into U.S. dollars at an assumed exchange rate of DKK 6.21 per USD 1.00, which was the rounded official exchange rate of such currencies at December 31, 2017.

Key figures for the Group

DKK thousand INCOME STATEMENT AND COMPREHENSIVE INCOME	Note	1.7-30.9.18	1.7-30.9.17 Restated (7)	1.1-30.9.18	1.1-30.9.17 Restated (7)	1.1-31.12.17 Restated (7)
Revenue		0	39,089	24,858	125,799	136,322
Royalty expenses		0	-1,261	-3,356	-12,742	-14,163
Research and development expenses		-84,296	-69,059	-300,468	-221,204	-324,667
Administrative expenses		-9,171	-7,936	-30,153	-30,991	-47,470
Other operating income		1,098,952	96	1,099,201	493	607
Operating result		**1,005,485**	**-39,071**	**790,082**	**-138,645**	**-249,371**
Net financial items		-25,161	-5,424	-32,034	-30,082	-31,387
Result before tax		**980,324**	**-44,495**	**758,048**	**-168,727**	**-280,758**
Income tax	(1)	-56,543	1,375	-53,793	4,125	5,500
Net result for the period		**923,781**	**-43,120**	**704,255**	**-164,602**	**-275,258**
Comprehensive income/loss for the period		**923,781**	**-43,120**	**704,255**	**-164,602**	**-275,258**
Earnings per share - basic (DKK)		30.10	-1.51	22.95	-6.22	-9.88
Earnings per share - diluted (DKK)		30.03	-1.51	22.90	-6.22	-9.88
STATEMENT OF FINANCIAL POSITION						
Cash and cash equivalents				1,478,612	774,654	588,718
Restricted cash	(2)			0	5,980	5,892
Securities				0	0	75,111
Total assets				1,523,070	818,260	721,285
Share capital ('000 shares)				30,759	30,749	30,751
Equity				1,240,766	625,828	514,669
Equity ratio	(3)			0.81	0.76	0.71
Royalty bond				0	141,897	135,734
CASH FLOW						
Cash flow from operating activities				-311,465	-172,792	-278,746
Cash flow from investing activities				1,354,185	308,905	221,351
Cash flow from financing activities				-157,563	326,396	337,930
Purchase of property, plant and equipment				-2,657	-3,933	-7,226
Free cash flow	(4)			-314,122	-176,725	-285,972
OTHER						
Share price (DKK)				105.20	121.50	85.00
Market capitalization (MDKK)	(5)			3,236	3,736	2,614
Equity per share (DKK)	(6)			40.43	20.40	16.77
Average number of employees				144	128	128

(1) According to Danish tax legislation, Zealand is eligible to receive DKK 5.5 million in cash relating to the tax loss in 2017. As a consequence of the sale of future royalties and milestones in Q3 2018, Zealand is no longer eligible to receive up to DKK 5.5 million in income tax benefit for 2018. See Note 4 to the condensed consolidated interim financial statements.
(2) Restricted cash serves as collateral for the royalty bond issued in 2014. Zealand has redeemed the outstanding royalty bond in Q3 2018 and therefore Zealand no longer has restricted cash.
(3) Equity ratio is calculated as equity at the balance sheet date divided by total assets at the balance sheet date.
(4) Free cash flow is calculated as cash flow from operating activities less purchase of property, plant and equipment.
(5) Market capitalization is calculated as outstanding shares at the balance sheet date times the share price at the balance sheet date.
(6) Equity per share is calculated as shareholders' equity divided by total number of shares less treasury shares.
(7) Figures for the three and nine month periods ended September 30, 2017 and the years ended December 31, 2017, 2016 and 2015 have been restated due to certain misstatements. See Note 1 to the condensed consolidated interim financial statements.

Financial review

(Comparative figures for the corresponding period in 2017 are shown in brackets except for the financial position which expresses the comparative figures as of December 31, 2017)

Income statement
The net result for the first nine months of 2018 was a profit of DKK 704.3 million compared to a loss of DKK 164.6 million for the same period of 2017. The profit for the period is a consequence of the sale of future royalties and milestones in September 2018.

Revenue
Revenue for the first nine months of 2018 amounted to DKK 24.9 million (125.8) of which DKK 17.8 million (12.0) related to royalty revenue on Sanofi's sales of Soliqua® 100/33 and DKK 7.1 million (12.8) related to royalty revenue on Sanofi's sales of Lyxumia® **/** Adlyxin® (lixisenatide). Zealand has recognized royalty revenue through June 30, 2018. All due and future royalties from July 1, 2018 have been sold to Royalty Pharma Investments ICAV.

Zealand received royalty revenue of 10% on Sanofi's net sales of Lyxumia® / Adlyxin® (lixisenatide) in countries with a valid IP protection for Zealand. During Q2 2018 it was determined that royalty revenue recognized from 2013 until Q1 2018 included DKK 17.1 million of royalty revenue on net sales in countries with no valid IP protection for Zealand. Such misstatement has been corrected in the first half of 2018 with retrospective impact and as such comparable periods as of and for the three and nine month periods ended September 30, 2017 and the years ended December 31, 2017, 2016 and 2015 have been restated, as presented in note 1 to the condensed consolidated interim financial statements. The restatement also includes correction of a misstatement related to royalty expenses as discussed below under "Royalty expenses".

Milestone revenue amounted to DKK 0.0 million (101.0). The milestone in the first nine months of 2017 primarily related to a USD 10 million milestone for the approval of Suliqua® in the EU and a EUR 4 million milestone from Boehringer Ingelheim related to initiation of Phase 1 with the long-acting amylin analog.

Royalty expenses
Royalty expenses for the first nine months of 2018 were DKK 3.4 million (12.7). Royalty expenses are payments by Zealand to third parties based on license payments received from Lyxumia® / Adlyxin® (lixisenatide) and Soliqua® 100/33 / Suliqua®. As a consequence of the restatement mentioned above royalty expenses from 2013 until Q1 2018 were misstated by DKK 2.3 million. Such misstatement has been corrected in the first half of 2018 with retrospective impact and as such comparable periods as of and for the three and nine month periods ended September 30, 2017 and the years ended December 31, 2017, 2016 and 2015 have been restated, as presented in note 1 to the condensed consolidated interim financial statements.

Research and development expenses
Research and development expenses for the first nine months of 2018 amounted to DKK 300.5 million (221.2), an increase of 36% versus the same period 2017. The costs mainly relates to the clinical development of the three dasiglucagon programs and of glepaglutide for short bowel syndrome, as well as pre-clinical research activities.

Administrative expenses
Administrative expenses for the first nine months of 2018 amounted to DKK 30.2 million (31.0) and consisted of expenses for administrative personnel, company premises, operating leases, investor relations, etc. The decrease is due to a change in the number and classification of employees working in R&D and Administration in comparison to the previous year.

Other operating income
Other operating income for the first nine months of 2018 amounted to DKK 1,099.2 million (0.5). Zealand has on September 6, 2018 sold future royalties and USD 85 million of potential commercial

milestones for Soliqua® 100/33/ Suliqua® and Lyxumia®/Adlyxin® to Royalty Pharma. Zealand received USD 205 million (DKK 1,310.2 million) upon closing of the transaction on September 17, 2018. Costs directly related to the transaction amounted to DKK 211.3 million and have been deducted from the proceeds from the sale. The costs mainly relates to royalty expenses to third parties of DKK 176.9 million and fees to advisors of DKK 34.5 million.

Operating result
The operating result for the first nine months of 2018 was DKK 790.1 million (-138.7).

Net financial items
Net financial items consists 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 2018 amounted to DKK -32.0 million (-30.1). The increased costs in the first nine months of 2018 as compared to the same period of 2017 is a result of the repayment of the outstanding royalty bond in Q3 2018 as the remaining capitalized financing costs has been expensed.

Result before tax
Result before tax for the first nine months of 2018 came to DKK 758.0 million (-168.8).

Income tax
As a consequence of the sale of future royalties and milestones in Q3 2018, Zealand is no longer eligible to receive up to DKK 5.5 million in income tax benefit for 2018. The tax cost regognized in the income statement for the first nine months of 2018 is calculated on the basis of the accounting profit before tax and an estimated effective tax rate for the Group as a whole for 2018. We expect an effective tax rate of about 7.1% for 2018.

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

Net result and comprehensive result
Net result and comprehensive result for the first nine months of 2018 amounted to DKK 704.3 million (-164.6).

Equity
Equity stood at DKK 1,240.8 million (514.7) at the end of the period, corresponding to an equity ratio of 81% (71%). The increase in equity is mainly due to the net profit for the period.

Capital expenditure
Capital expenditure for the period amounted to DKK 2.7 million (3.9).

Royalty bond

Zealand have since December 2014 had a royalty bond financing arrangement, based on part of the royalties from lixisenatide as a stand-alone product. The bond has carried an interest rate of 9.375%.

On September 6, 2018 Zealand entered into an agreement to sell future royalties and USD 85 million of potential commercial milestones for Soliqua® 100/33/ Suliqua® and Lyxumia®/Adlyxin® to Royalty Pharma. As part of the transaction Zealand has redeemed the outstanding royalty bond of USD 24.7 million (DKK 157.6 million), after which Zealand is debt free.

Securities, cash and cash equivalents
As of September 30, 2018, securities, cash and cash equivalents amounted to DKK 1,478.6 million (663.8). In addition, DKK 0.0 million (5.9) was held as collateral for the royalty bond. Securities of DKK 74.2 million were sold in September and transferred to cash. The increase in cash and cash equivalents is a consequence of the net profit for the period.

Cash flow
Cash flow from operating activities amounted to DKK -311.5 million (-172.8) mainly driven by lower milestone revenue and higher research and development costs.

Cash flow from investing activities amounted to DKK 1,354.2 million (308.9) primarily related to the sale of future royalties and milestones.

Cash flow from financing activities amounted to DKK -157.6 million (-326.4) primarly relating to the repayment of the outstanding royalty bond.

The total cash flow for the first nine months of 2018 amounted to DKK 885.2 million (462.5).

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 2017 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 January 1 – September 30, 2018.

The report has been 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 September 30, 2018 as well as of the results of the Group's operations and cash flow for the period January 1 – September 30, 2018.

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, November 15, 2018

Executive Management

Britt Meelby Jensen
President and CEO

Mats Peter Blom
Executive Vice President and CFO

Board of Directors

Alf Gunnar Martin Nicklasson
Chairman

Rosemary Crane
Board member

Catherine Moukheibir
Board member

Alain Munoz
Board member

Michael John Owen
Board member

Kirsten Aarup Drejer
Board member

Hanne Heidenheim Bak
Board member
Employee elected

Jens Peter Stenvang
Board member
Employee elected

Independent auditor's review report on the condensed consolidated interim financial statements

To the shareholders of Zealand Pharma A/S

We have reviewed the condensed consolidated interim financial statements of Zealand Pharma A/S for the period January 1 – September 30, 2018, pages 13-32, which comprise the income statement, statement of comprehensive income (loss), statement of cash flows, statement of financial position and statement of changes in equity as well as notes.

Management's responsibility for the condensed consolidated interim financial statements

Management is responsible for the preparation of the condensed consolidated interim financial statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and additional Danish requirements for listed companies. It is also responsible for such internal control as management determines is necessary to enable the preparation of the condensed consolidated interim financial statements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements. We conducted our review in accordance with the International Standard on Review of Interim Financial Information Performed by the Independent Auditor of the Group and additional requirements under Danish audit regulation. This requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, has not been prepared, in all material respects, in accordance with the applicable financial reporting framework. This also requires us to comply with ethical requirements.

A review of the condensed consolidated interim financial statements in accordance with the International Standard on Review of Interim Financial Information Performed by the Independent Auditor of the Group is a limited assurance engagement. The auditor performs procedures, primarily consisting of making inquiries of management and others within the Group, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and additional Danish requirements for listed companies.

Emphasis of matter

We draw attention to note 1 of the condensed consolidated interim financial statements, which describes the effects of the restatement of prior period figures related to royalty revenue and royalty expense. Our report is not modified in respect of this matter.

Copenhagen, November 15, 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Martin Norin Faarborg
State-Authorized Public Accountant
MNE no mne29395

Sumit Sudan
State-Authorized Public Accountant
MNE no mne33716

Condensed consolidated interim financial statements

Condensed consolidated income statements for the three and nine month periods ended September 30, 2018 and 2017 and the twelve month period ended December 31, 2017

DKK thousand	Note	1.7-30.9.18	Restated 1.7- 30.9.17	1.1-30.9.18	Restated 1.1-30.9.17	Restated 1.1-31.12.17
Revenue	2	0	39,089	24,858	125,799	136,322
Royatly expenses		0	-1,261	-3,356	-12,742	-14,163
Research and development expenses		-84,296	-69,059	-300,468	-221,204	-324,667
Administrative expenses		-9,171	-7,936	-30,153	-30,991	-47,470
Other operating income	3	1,098,952	96	1,099,201	493	607
Operating result		**1,005,485**	**-39,071**	**790,082**	**-138,645**	**-249,371**
Financial income		1,196	1,016	10,132	2,252	2,122
Financial expenses	8	-26,357	-6,440	-42,166	-32,334	-33,509
Result before tax		**980,324**	**-44,495**	**758,048**	**-168,727**	**-280,758**
Income tax	4	-56,543	1,375	-53,793	4,125	5,500
Net result for the period		**923,781**	**-43,120**	**704,255**	**-164,602**	**-275,258**
Basic earnings per share	6	30.10	-1.51	22.95	-6.22	-9.88
Diluted earnings per share	6	30.03	-1.51	22.90	-6.22	-9.88

Condensed consolidated statements of comprehensive income (loss) for the three and nine month periods ended September 30, 2018 and 2017 and the twelve month period ended December 31, 2017

DKK thousand	Note	1.7-30.9.18	Restated 1.7- 30.9.17	1.1-30.9.18	Restated 1.1-30.9.17	Restated 1.1-31.12.17
Net result for the period		**923,781**	**-43,120**	**704,255**	**-164,602**	**-275,258**
Other comprehensive income		0	0	0	0	0
Comprehensive result for the period		**923,781**	**-43,120**	**704,255**	**-164,602**	**-275,258**

Condensed consolidated statements of cash flow for the nine month periods ended September 30, 2018 and 2017

DKK thousand		1.1-30.9.18	Restated 1.1-30.9.17
Net result for the period		704,255	-164,602
Adjustments for non-cash items		54,376	35,855
Change in working capital		218,192	-24,926
Financial income received		4,080	1,262
Financial expenses paid		-15,847	-20,381
Sale of future royalties and milestones	3	-1,276,521	0
Cash flow from operating activities		**-311,465**	**-172,792**
Transfer to restricted cash related to the royalty bond	8	0	-60,675
Transfer from restricted cash related to the royalty bond	8	6,124	365,795
Transfer from restricted cash for royalty bond interest payments		0	7,637
Sale of future royalties and milestones	3	1,276,521	0
Change in deposit		-33	-39
Sale of securities		74,230	0
Purchase of property, plant and equipment		-2,657	-3,933
Sale of fixed assets		0	120
Cash flow from investing activities		**1,354,185**	**308,905**
Proceeds from issue of shares related to exercise of warrants		748	6,572
Proceeds from initial public offering		0	567,076
Costs related to initial public offering		0	-70,892
Repayment of royalty bond	8	-158,311	-176,360
Cash flow from financing activities		**-157,563**	**326,396**
Decrease/increase in cash and cash equivalents		**885,157**	**462,509**
Cash and cash equivalents at beginning of period		588,718	323,330
Exchange rate adjustments		4,737	-11,185
Cash and cash equivalents at end of period		**1,478,612**	**774,654**

Condensed consolidated statements of financial position as of September 30, 2018 and December 31, 2017

DKK thousand	Note	September 30, 2018	Restated December 31, 2017
ASSETS			
Non-current assets			
Plant and machinery		13,266	14,855
Other fixtures and fittings, tools and equipment		1,910	953
Leasehold improvements		217	304
Deposits		2,762	2,729
Restricted cash		0	5,892
Other investments	10	9,662	9,312
Total non-current assets		**27,817**	**34,045**
Current assets			
Trade receivables		13	5,679
Prepaid expenses		8,779	7,253
Income tax receivable		5,500	5,500
Other receivables		2,349	4,979
Securities	10	0	75,111
Cash and cash equivalents	7	1,478,612	588,718
Total current assets		**1,495,253**	**687,240**
Total assets		**1,523,070**	**721,285**
EQUITY AND LIABILITIES			
Share capital	5	30,759	30,751
Share premium	11	1,981,033	1,959,199
Retained loss		-771,026	-1,475,281
Equity		**1,240,766**	**514,669**
Royalty bond	8	0	132,986
Non-current liabilities		**0**	**132,986**
Trade payables		24,511	29,428
Tax payables		53,793	0
Royalty bond	8	0	2,748
Other liabilities	9	204,000	41,454
Current liabilities		**282,304**	**73,630**
Total liabilities		**282,304**	**206,616**
Total equity and liabilities		**1,523,070**	**721,285**

Condensed consolidated statements of changes in equity at September 30, 2018 and 2017

DKK thousand	Share capital	Share premium	Retained loss (restated)	Total
Equity at January 1, 2017	**26,142**	**1,441,263**	**-1,189,211**	**278,194**
Restatement	0	0	-10,813	-10,813
Comprehensive loss for the period				
Net loss for the period	0	0	-164,602	-164,602
Warrants compensation expenses	0	20,293	0	20,293
Capital increase	4,607	569,041	0	573,648
Costs related to capital increase	0	-70,892	0	-70,892
Equity at September 30, 2017	**30,749**	**1,959,705**	**-1,364,626**	**625,828**
Equity at January 1, 2018	**30,751**	**1,959,199**	**-1,461,482**	**528,468**
Restatement	0	0	-13,799	-13,799
Comprehensive loss for the period				
Net profit for the period	0	0	704,255	704,255
Warrant compensation expenses	0	21,094	0	21,094
Capital increase	8	740	0	748
Equity at September 30, 2018	**30,759**	**1,981,033**	**-771,026**	**1,240,766**

Equity at January 1, 2017 and 2018 have been restated due to certain misstatements. See Note 1 to the condensed consolidated interim financial statements.

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

The condensed consolidated interim financial statements of Zealand Pharma A/S ("the Company") 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.

Accounting policies

The accounting policies used in the condensed consolidated interim financial statements are consistent with those used in the Company's Annual report for the year ended December 31, 2017, except for clarification to the accounting policy on 'Other operating income', included below, and all new, amended or revised accounting standards and interpretations endorsed by the EU effective for the accounting period beginning on January 1, 2018, being IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers'.

Other operating income comprises the sale of future royalties and milestones, net of directly related costs to the sale, research funding from business partners and government grants. The sale of future royalties and milestones is recognized in accordance with contract terms and on the date which the sale occured. 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.

The Group's implementation of IFRS 9 'Financial Instruments', that replaces IAS 39 'Financial Instruments: Recognition and Measurement', has lead to the implementation of a new impairment model that requires the recognition of impairment provisions based on the "expected credit loss model" rather than the "incurred-loss model." The majority of Zealand's receivables are receivables from sales with its strategic partners, Boehringer Ingelheim and Sanofi, and due to the low credit risk in the Group, the new rules have not had a significant impact on the valuation of trade receivables. In the annual report for 2017, Management indicated an expected increase of DKK 5 million to financial liabilities. Based on further analyses, Management has concluded that the current accounting treatment is in line with IFRS 9 'Financial Instruments', hence no impact is recognized as the cost of the amendment to the royalty bond from March 2017 is considered transaction costs, which are deducted in financial liabilities.

The Group has implemented IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective approach. IFRS 15 replaces the current standards on revenue (IAS 11 'Construction Contracts' and IAS 18 'Revenue'). There is no significant effect on the interim financial statements related to the implementation of IFRS 15 'Revenue from Contracts with Customers'. Extended disclosures will be provided in the 2018 Annual report.

Significant accounting estimates and assessments

In the preparation of the condensed consolidated interim financial statements, Management makes several accounting estimates that 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 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 as 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 with estimates.

For further information regarding significant accounting estimates and assessments related to revenue recognition and employee incentive programs, please see Note 1 in the Annual Report 2017.

No significant changes have been made in accounting estimates and assessments in the period January 1 – September 30, 2018.

Restatement
The Company has been eligible to receive royalty revenue of 10% on Sanofi's net sales of Lyxumia® / Adlyxin® (lixisenatide) in countries with a valid IP protection for Zealand and potentially up to USD 100 million in commercial milestones.

During Q2 2018 it was determined that royalty revenue from Sanofi recognized from 2013 until Q1 2018 included DKK 17.1 million of royalty revenue on net sales in countries with no valid IP protection for Zealand and therefore revenue has been overstated in this period. As a consequence of this, royalty expenses from 2013 until Q1 2018 were misstated by DKK 2.3 million and therefore royalty expense has been overstated in this same period. Such misstatements have been corrected with retrospective impact and thus comparable periods as of and for the three and nine month periods ended September 30, 2017 and the years ended December 31, 2017, 2016 and, 2015 have been restated to reflect this impact.

The nature and impact of each restatement is described below, including tickmarks linking the descriptions to the restated condensed consolidated income statements and condensed consolidated statement of financial position for Zealand.

Income statement:
A) Revenue
Royalty revenue has been restated as Zealand has previously recognized royalty revenue on net sales in countries with no valid IP protection.

B) Royalty expenses
Royalty expenses comprise contractual amounts due to third parties that are derived from royalty revenue earned from the corresponding collaboration agreements. The restatement on royalty revenue therefore leads to a corresponding restatement of royalty expenses.

Statement of financial position:
C) Trade receivables and other liabilities
The restatement related to trade receivables and other liabilities corresponds to the restatement on royalty revenue and royalty expenses, as discussed in tickmark A and B.

D) Retained loss
The restatement related to net loss for the period amounts to the combined impact of the restatements on royalty revenue and royalty expenses from 2013 through December 2017.

Statement of cash flow:
The impact of the restatement on the statement of cash flow is solely a reclassification between "Net loss for the period" and "Change in working capital". The restatement related to net loss for the period amounts to the net impact of the restatements for the respective years on royalty revenue and royalty expenses while the restatement related to working capital for the period amounts to the net impact of the misstatements in trade receivables and other liabilities in the statement of financial position. Hence, there is no impact on the cash flow from operating activities. Based on the above outlined factors, the

Company deemed irrelevant to present restated statements of cash flow for the three and nine month periods ended September 30, 2017 and the years ended December 31, 2017, 2016 and 2015.

Condensed consolidated income statement for the three month period ended September 30, 2017

DKK thousand	As originally reported, September 30, 2017	Restate-ment	Tickmark	Amount as adjusted, September 30, 2017
Revenue	40,079	-990	A	39,089
Royalty expenses	-1,395	134	B	-1,261
Research and development expenses	-69,059	0		-69,059
Administrative expenses	-7,936	0		-7,936
Other operating income	96	0		96
Operating loss	**-38,215**	**-856**		**-39,071**
Financial income	1,016	0		1,016
Financial expenses	-6,440	0		-6,440
Loss before tax	**-43,639**	**-856**		**-44,495**
Income tax benefit	1,375	0		1,375
Net loss for the period	**-42,264**	**-856**		**-43,120**
Loss per share - basic (DKK)	-1.48	-0.03		-1.51
Loss per share - diluted (DKK)	-1.48	-0.03		-1.51

Condensed consolidated statements of comprehensive income for the three month period ended September 30, 2017

DKK thousand			
Net loss for the period	-42,264	-856	-43,120
Other comprehensive income (loss)	0	0	0
Net loss for the period	**-42,264**	**-856**	**-43,120**

Condensed consolidated income statement for the nine month period ended September 30, 2017

DKK thousand	As originally reported, September 30, 2017	Restate-ment	Tickmark	Amount as adjusted, September 30, 2017
Revenue	128,500	-2,701	A	125,799
Royalty expenses	-13,107	365	B	-12,742
Research and development expenses	-221,204	0		-221,204
Administrative expenses	-30,991	0		-30,991
Other operating income	493	0		493
Operating loss	**-136,309**	**-2,336**		**-138,645**
Financial income	2,252	0		2,252
Financial expenses	-32,334	0		-32,334
Loss before tax	**-166,391**	**-2,336**		**-168,727**
Income tax benefit	4,125	0		4,125
Net loss for the period	**-162,266**	**-2,336**		**-164,602**
Loss per share - basic (DKK)	-6.13	-0.09		-6.22
Loss per share - diluted (DKK)	-6.13	-0.09		-6.22

Condensed consolidated statements of comprehensive income for the nine month period ended September 30, 2017

DKK thousand			
Net loss for the period	-162,266	-2,336	-164,602
Other comprehensive income (loss)	0	0	0
Net loss for the period	**-162,266**	**-2,336**	**-164,602**

Condensed consolidated income statement for the twelve month period ended December 31, 2017

DKK thousand	As originally reported, December 31, 2017	Restate-ment	Tickmark	Amount as adjusted, December 31, 2017
Revenue	139,775	-3,453	A	136,322
Royalty expenses	-14,629	466	B	-14,163
Research and development expenses	-324,667	0		-324,667
Administrative expenses	-47,470	0		-47,470
Other operating income	607	0		607
Operating loss	**-246,384**	**-2,987**		**-249,371**
Financial income	2,122	0		2,122
Financial expenses	-33,509	0		-33,509
Loss before tax	**-277,771**	**-2,987**		**-280,758**
Income tax benefit	5,500	0		5,500
Net loss for the period	**-272,271**	**-2,987**		**-275,258**
Loss per share - basic (DKK)	-9.77	-0.11		-9.88
Loss per share - diluted (DKK)	-9.77	-0.11		-9.88

Condensed consolidated statements of comprehensive income for the twelve month period ended December 31, 2017

DKK thousand			
Net loss for the period	-272,271	-2,987	-275,258
Other comprehensive income (loss)	0	0	0
Net loss for the period	**-272,271**	**-2,987**	**-275,258**

Condensed consolidated income statement for the twelve month period ended December 31, 2016

DKK thousand	As originally reported, December 31, 2016	Restate-ment	Tickmark	Amount as adjusted, December 31, 2016
Revenue	234,778	-3,914	A	230,864
Royalty expenses	-31,459	528	B	-30,931
Research and development expenses	-268,159	0		-268,159
Administrative expenses	-52,503	0		-52,503
Other operating income	1,697	0		1,697
Operating loss	**-115,646**	**-3,386**		**-119,032**
Financial income	592	0		592
Financial expenses	-44,356	0		-44,356
Loss before tax	**-159,410**	**-3,386**		**-162,796**
Income tax benefit	5,500	0		5,500
Net loss for the period	**-153,910**	**-3,386**		**-157,296**
Loss per share - basic (DKK)	-6.33	-0.14		-6.47
Loss per share - diluted (DKK)	-6.33	-0.14		-6.47

Condensed consolidated statements of comprehensive income for the twelve month period ended December 31, 2016

DKK thousand			
Net loss for the period	-153,910	-3,386	-157,296
Other comprehensive income (loss)	0	0	0
Net loss for the period	**-153,910**	**-3,386**	**-157,296**

Condensed consolidated income statement for the twelve month period ended December 31, 2015

DKK thousand	As originally reported, December 31, 2015	Restate-ment	Tickmark	Amount as adjusted, December 31, 2015
Revenue	187,677	-5,104	A	182,573
Royalty expenses	-22,267	689	B	-21,578
Research and development expenses	-217,741	0		-217,741
Administrative expenses	-41,824	0		-41,824
Other operating income	12,828	0		12,828
Operating loss	**-81,327**	**-4,415**		**-85,742**
Financial income	3,889	0		3,889
Financial expenses	-42,394	0		-42,394
Loss before tax	**-119,832**	**-4,415**		**-124,247**
Income tax benefit	5,875	0		5,875
Net loss for the period	**-113,957**	**-4,415**		**-118,372**
Loss per share - basic (DKK)	-4.94	-0.19		-5.13
Loss per share - diluted (DKK)	-4.94	-0.19		-5.13

Condensed consolidated statements of comprehensive income for the twelve month period ended December 31, 2015

DKK thousand			
Net loss for the period	-113,957	-4,415	-118,372
Other comprehensive income (loss)	0	0	0
Net loss for the period	**-113,957**	**-4,415**	**-118,372**

Condensed consolidated statement of financial position as of December 31, 2017

DKK thousand	As originally reported, December 31, 2017	Restate-ment	Tickmark	Amount as adjusted, December 31, 2017
ASSETS				
Non-current assets				
Plant and machinery	14,855			14,855
Other fixtures and fittings, tools and equipment	953			953
Leasehold improvements	304			304
Deposits	2,729			2,729
Restricted cash	5,892			5,892
Other investments	9,312			9,312
Total non-current assets	**34,045**	**0**		**34,045**
Current assets				
Trade receivables	21,632	-15,953	C	5,679
Prepaid expenses	7,253			7,253
Income tax receivable	5,500			5,500
Other receivables	4,979			4,979
Securities	75,111			75,111
Cash and cash equivalents	588,718			588,718
Total current assets	**703,193**	**-15,953**		**687,240**
Total assets	**737,238**	**-15,953**		**721,285**
EQUITY AND LIABILITIES				
Share capital	30,751			30,751
Share premium	1,959,199			1,959,199
Retained loss	-1,461,482	-13,799	D	-1,475,281
Equity	**528,468**	**-13,799**		**514,669**
Royalty bond	132,986			132,986
Non-current liabilities	**132,986**	**0**		**132,986**
Trade payables	29,428			29,428
Royalty bond	2,748			2,748
Other liabilities	43,608	-2,154	C	41,454
Current liabilities	**75,784**	**-2,154**		**73,630**
Total liabilities	**208,770**	**-2,154**		**206,616**
Total equity and liabilities	**737,238**	**-15,953**		**721,285**

Condensed consolidated statement of financial position as of December 31, 2016

DKK thousand	As originally reported, December 31, 2016	Restate-ment	Tickmark	Amount as adjusted, December 31, 2016
ASSETS				
Non-current assets				
Plant and machinery	12,081			12,081
Other fixtures and fittings, tools and equipment	1,154			1,154
Leasehold improvements	408			408
Deposits	2,690			2,690
Restricted cash	305,120			305,120
Total non-current assets	**321,453**	**0**		**321,453**
Current assets				
Trade receivables	11,510	-11,510	C	0
Prepaid expenses	13,837			13,837
Income tax receivable	5,500			5,500
Other receivables	5,379			5,379
Restricted cash	13,617			13,617
Cash and cash equivalents	323,330			323,330
Total current assets	**373,173**	**-11,510**		**361,663**
Total assets	**694,626**	**-11,510**		**683,116**
EQUITY AND LIABILITIES				
Share capital	26,142			26,142
Share premium	1,441,263			1,441,263
Retained loss	-1,189,211	-10,813	D	-1,200,024
Equity	**278,194**	**-10,813**		**267,381**
Royalty bond	328,878			328,878
Non-current liabilities	**328,878**	**0**		**328,878**
Trade payables	19,739			19,739
Royalty bond	3,365			3,365
Other liabilities	64,450	-697	C	63,753
Current liabilities	**87,554**	**-697**		**86,857**
Total liabilities	**416,432**	**-697**		**415,735**
Total equity and liabilities	**694,626**	**-11,510**		**683,116**

Condensed consolidated statement of financial position as of December 31, 2015

DKK thousand	As originally reported, December 31, 2015	Restate-ment	Tickmark	Amount as adjusted, December 31, 2015
ASSETS				
Non-current 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**
Current assets				
Trade receivables	158,158	-8,587	C	149,571
Prepaid expenses	2,430			2,430
Income tax receivable	5,875			5,875
Other receivables	10,427			10,427
Restricted cash	21,403			21,403
Cash and cash equivalents	418,796			418,796
Total current assets	**617,089**	**-8,587**		**608,502**
Total assets	**636,208**	**-8,587**		**627,621**
EQUITY AND LIABILITIES				
Share capital	24,353			24,353
Share premium	1,263,179			1,263,179
Retained loss	-1,035,301	-7,428	D	-1,042,729
Equity	**252,231**	**-7,428**		**244,803**
Royalty bond	312,951			312,951
Non-current liabilities	**312,951**	**0**		**312,951**
Trade payables	21,676			21,676
Other liabilities	49,350	-1,159	C	48,191
Current liabilities	**71,026**	**-1,159**		**69,867**
Total liabilities	**383,977**	**-1,159**		**382,818**
Total equity and liabilities	**636,208**	**-8,587**		**627,621**

Note 2 – Revenue

DKK thousand	1.7-30.9.18	Restated 1.7-30.9.17	1.1-30.9.18	Restated 1.1-30.9.17	Restated 1.1-31.12.17
Sanofi-Aventis Deutschland GmbH	0	0	0	69,603	69,603
Boehringer Ingelheim International GmbH	0	29,750	0	29,750	29,750
Protagonist Therapeutics, Inc.	0	0	0	1,662	1,662
Total license and milestone revenue	**0**	**29,750**	**0**	**101,015**	**101,015**
Sanofi-Aventis Deutschland GmbH	0	9,339	24,858	24,784	35,307
Total royalty income	**0**	**9,339**	**24,858**	**24,784**	**35,307**
Total revenue	**0**	**39,089**	**24,858**	**125,799**	**136,322**

Milestone revenue amounted to DKK 0.0 million (101.0) in the first nine months of 2018. The milestone revenue in the first nine months of 2017 primarily related to a USD 10 million milestone for the approval of Suliqua® in the EU in January 2017 and a EUR 4 million milestone from Boehringer Ingelheim related to initiation of Phase 1 with the long-acting amylin analog.

DKK 17.8 million (12.0) related to royalty revenue on Sanofi's sales of Soliqua® 100/33 and DKK 7.1 million (12.8) related to royalty revenue on Sanofi's sales of Lyxumia® **/** Adlyxin™ (lixisenatide).

Note 3 – Other operating income

DKK thousand	1.7-30.9.18	1.7-30.9.17	1.1-30.9.18	1.1-30.9.17	1.1-31.12.17
Sale of future royalties and milestones	1,310,237	0	1,310,237	0	0
Royalty expenses regarding sale of future royalties and milestones	-176,882	0	-176,882	0	0
Fee, advisors regarding sale of future royalties and milestones	-34,453	0	-34,453	0	0
Research funding	0	27	0	40	40
Governments grants	50	69	299	453	567
Total other operating income	**1,098,952**	**96**	**1,099,201**	**493**	**607**

Zealand has on September 6, 2018 entered into an agreement to sell future royalties and USD 85.0 million of potential commercial milestones for Soliqua® 100/33/ Suliqua® and Lyxumia®/Adlyxin® to Royalty Pharma. Zealand has received USD 205.0 million (DKK 1,310.2 million) upon closing of the transaction on September 17, 2018. Royalty expenses to third parties amounts to 13.5% or DKK 176.9 million and fees to advisors amounts to DKK 34.5 million. Zealand has also redeemed the outstanding royalty bond of USD 24.7 million (DKK 157.6 million), after which Zealand is debt free. Zealand will remain eligible for a payment from Sanofi of up to USD 15.0 million, expected in 2020 (see note 12).

Note 4 – Tax

As a consequence of the sale of future royalties and milestones in Q3 2018, Zealand is no longer eligible to receive up to DKK 5.5 million in income tax benefit for 2018. The tax cost recognized in the income statement for the first nine months of 2018 is calculated on the basis of the accounting profit before tax and an estimated effective tax rate for the Group as a whole for 2018. We expect an effective tax rate of about 7.1% for 2018.

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 statement of financial position due to uncertainty as to when and whether they can be utilized.

	September 30, 2018	December 31, 2017
Breakdown of unrecognized deferred tax assets:		
Tax losses carried forward (available indefinitely)	457,463	873,515
Research and development expenses	155,103	210,148
Rights	37,642	43,019
Non-current assets	51,699	67,590
Other	101,462	104,377
Total temporary differences	**803,369**	**1,298,649**
Tax rate	22%	22%
Calculated potential deferred tax asset at local tax rate	176,741	285,703
Write-down of deferred tax asset	-176,741	-285,703
Recognized deferred tax asset	**0**	**0**

Note 5 – Changes in share capital

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

	No. of shares
Share capital at January 1, 2017	26,142,365
Capital increase on March 23, 2017	9,500
Capital increase on April 13, 2017	22,000
Capital increase on May 30, 2017	5,000
Capital increase on June 15, 2017	8,537
Capital increase on August 14, 2017	4,375,000
Capital increase on August 18, 2017	156,250
Capital increase on September 1, 2017	1,500
Capital increase on September 22, 2017	28,675
Share capital at September 30, 2017	**30,748,827**
Share capital at January 1, 2018	30,751,327
Capital increase on September 14, 2018	7,500
Share capital at September 30, 2018	**30,758,827**

Note 6 – Earnings per share

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

DKK thousand	1.7-30.9.18	Restated 1.7-30.9.17	1.1-30.9.18	Restated 1.1-30.9.17	Restated 1.1-31.12.17
Net result for the period	923,781	-43,120	704,255	-164,602	-275,258
Net result used in the calculation of basic and diluted earnings per share	923,781	-43,120	704,255	-164,602	-275,258
Weighted average number of ordinary shares	30,752,713	28,811,622	30,751,794	26,947,290	27,918,271
Weighted average number of treasury shares	-64,223	-334,160	-64,223	-485,468	-64,223
Weighted average number of ordinary shares used in the calculation of basic earnings per share	30,688,490	28,477,462	30,687,571	26,461,822	27,854,048
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	30,760,559	28,477,462	30,759,640	26,461,822	27,854,048
Basic earnings per share (DKK)	**30.10**	**-1.51**	**22.95**	**-6.22**	**-9.88**
Diluted earnings per share (DKK)	**30.03**	**-1.51**	**22.90**	**-6.22**	**-9.88**

The following potential ordinary shares are dilutive at September 30, 2018 (anti-dilutive at September 30, 2017 and December 31, 2017) and are therefore included in the weighted average number of ordinary shares for the purpose of diluted earnings per share:

Potential ordinary shares are included at September 30, 2018 due to dilutive effect (excluded at September 30, 2017 and December 31, 2017) related to:

	September 30, 2018	September 30, 2017	December 31, 2017
Outstanding warrants under the 2010 Employee incentive program	246,359	647,167	429,784
Outstanding warrants under the 2015 Employee incentive program	2,005,000	1,442,000	1,424,000
Total outstanding warrants	**2,251,359**	**2,089,167**	**1,853,784**
- out of which these warrants are dilutive	1,201,609	0	0
- out of which these warrants are anti-dilutive	1,049,750	2,089,167	1,853,784

Note 7 - Cash and cash equivalents

DKK thousand	September 30, 2018	December 31, 2017
DKK	1,184,754	12,824
USD	260,447	252,884
EUR	33,411	323,010
Total cash and cash equivalents	**1,478,612**	**588,718**

As of September 30, 2018, Zealand had cash and cash equivalents of DKK 1,478.6 million (December 31, 2017: DKK 588.7 million). In addition, DKK 0.0 million (December 31, 2017: DKK 5.9 million) are held as collateral for the royalty bond. The total cash position, including restricted cash, as of September 30, 2018 is DKK 1,478.6 million (December 31, 2017: DKK 594.6 million).

Note 8 – Royalty bond

In December 2014, Zealand entered into a USD 50 million royalty bond financing arrangement, based on part of the royalties from lixisenatide as a stand-alone product. The bond carried an interest rate of 9.375%. As security for the royalty bond, certain milestone payments relating to lixisenatide was held as collateral in the form of restricted cash. On March 15, 2017, Zealand used restricted cash of USD 25 million (DKK 175 million) to repay half of the outstanding bond. Furthermore, additional restricted cash of USD 25 million (DKK 175 million) held as collateral for the bond was released to Zealand in exchange for a parent company guarantee.

On September 6, 2018 Zealand entered into an agreement to sell future royalties and USD 85 million of potential commercial milestones for Soliqua® 100/33/ Suliqua® and Lyxumia®/Adlyxin® to Royalty Pharma. Zealand has received USD 205.0 million (DKK 1,310.2 million) upon closing of the transaction on September 17, 2018. Zealand has also redeemed the outstanding royalty bond of USD 24.7 million (DKK 157.6 million), after which Zealand is debt free. Zealand will remain eligible for a payment from Sanofi up to USD 15.0 million, expected in 2020 (see note 12).

For further information regarding the royalty bond please see note 20 in the Annual Report for 2017.

Note 9 – Other liabilities

	September 30, 2018	Restated December 31, 2017
Severance payment	1,417	896
Employee benefits	17,440	28,165
Royalty payable to third party	179,466	763
Interest payable on royalty bond	0	4,295
Other payables	5,677	7,335
Total other liabilities	**204,000**	**41,454**

Note 10 - Financial instruments

As of September 30, 2018 and December 31, 2017, the following financial instruments are carried at fair value:

	September 30, 2018	December 31, 2017
Securities	0	75,111
Other investments	9,662	9,312
Financial assets measured at fair value	**9,662**	**84,423**

The fair value of securities is based on Level 1 in the fair value hierarchy.

The fair value of other investments is based on level 3 in the fair value hierarchy.

Below shows the fair value hierarchy for financial instruments measured at fair value in the balance sheet. The financial instruments in question are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include input for the asset or liability that are not based on observable market data (unobservable input)

The carrying amount of financial assets and financial liabilities approximates the fair value.

Note 11 – Warrant programs

On May 22, 2018, Zealand granted 615,500 new warrants to the Company’s Executive Management, Corporate Management and employees. The warrants give the holders the right to subscribe for 615,500 new Zealand shares with a nominal value of DKK 1 each, corresponding to 2.0% of the Company's total outstanding share capital. The exercise price is fixed at DKK 100.80, reflecting the closing price of Zealand's shares on Nasdaq Copenhagen on May 18, 2018.

The total number of new warrants granted has a combined market value of DKK 21.1 million calculated on the basis of the Black–Scholes model, including a five-year historic volatility of 42.6%, a five-year historic risk-free interest rate of 0.05% and a share price of DKK 100.80.

The 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 five 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 four-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 September 30, 2018 and 2017, the fair value of warrants recognized in the income statement amounted to DKK 21.1 million (20.3), of which DKK 5.9 million (6.5) related to the Executive Management.

DKK thousand	1.1-30.9.18	1.1-30.9.17
Research and development expenses	13,761	12,261
Administrative expenses	7,334	8,036
Total	**21,094**	**20,297**

Note 12 – Contingent assets
Zealand is eligible for a payment from Sanofi of up to USD 15.0 million, expected in 2020. However, it is Management's opinion that the amount of any payment cannot be determined on a sufficiently reliable basis, and therefore not recognized an asset in the financial position of the Group.

Note 13 – Significant events after the end of the reporting period
On October 15, 2018, Zealand granted 40,000 new warrants to the Company's Senior Vice President of Corporate and Business Development, Marino Garcia.

The warrants give the holder the rights to subscribe for up to 40,000 new Zealand shares with a nominal value of DKK 1 each, corresponding to 0.13% of the Company's total outstanding share capital. The exercise price is DKK 90.00, calculated as the closing price of Zealand's shares on Nasdaq Copenhagen on Friday October 12, 2018.

The warrants will vest monthly over a three year period, and the exercise of the warrants may take place, in whole or in part, in defined time windows from October 15, 2021 up to and including October 15, 2023. Zealand may under the contract decide to offer settlement of these 40,000 warrants in cash.

The total new warrants granted have a combined market value of DKK 1,313,395.86 calculated on the basis of the Black-Scholes model, including a five-year historic volatility of 42.5%, a five-year risk-free interest rate of -0.03% and a share price of DKK 90.00.

Except as noted above, no other significant events have occurred after the end of the reporting period.