**Company announcement – No. 33 / 2016**

# Interim report for the first half of 2016 (unaudited)

# – Financial results as expected and in July, the first Zealand invented product was approved in the U.S.

- **Revenue of DKK 14.7 million / €2.0 million**
- **Net loss of DKK 175.7 million / €23.6 million**
- **Cash position of DKK 423.2 million / €56.9 million as of end June 2016**
- **iGlarLixi received a positive 12-2 vote by an FDA Advisory Committee recommending its approval to treat type 2 diabetes**
- **Agreement with Beta Bionics on clinical development of dasiglucagon[1] (ZP4207) for use in a dual-hormone artificial pancreas system**

## Events after the reporting period:

- **Lixisenatide approved by the FDA as Adlyxin™ to treat type 2 diabetes**
- **Positive Phase II results with single-dose dasiglucagon (ZP4207) support its potential as a ready-to-use rescue pen to treat severe hypoglycemia**
- **FDA extended the review time of iGlarLixi by three months. Regulatory decision expected in November 2016**

*Copenhagen, 25 August 2016* – Zealand Pharma A/S ("Zealand") (CVR no. 20 04 50 78) today reported financial results for the half-year period 1 January - 30 June 2016. Results were as expected and the financial guidance for 2016 remains unchanged.

**Britt Meelby Jensen, President and CEO of Zealand, commented on the report:**
*"This has been an exciting period for Zealand. We report financial results as expected, we confirm our full-year guidance, and we have had important advancements in our product portfolio. Lixisenatide, with the U.S. brand name Adlyxin™, received FDA approval to treat adults with type 2 diabetes. Despite the recently announced three months' extension to the FDA review time for iGlarLixi, I expect 2016 to become the most successful year for Zealand, with an anticipated approval of this product in the U.S. as well. I am pleased with the continuously strong momentum in the development of our own product candidates. We have had positive Phase II results with our single-dose dasiglucagon, or ZP4207, for acute, severe hypoglycemia and we are in preparations to start the next clinical trial of multiple-dose dasiglucagon in a dual-hormone artificial pancreas system. Finally, our Phase II trial with glepaglutide[2], or ZP1848, for short bowel syndrome is progressing well."*

[1] Dasiglucagon is a proposed International Non-proprietary Name (pINN).
[2] Glepaglutide is a proposed International Non-proprietary Name (pINN).

## Financial highlights for H1 2016

- Revenue of DKK 14.7million / €2.0 million (H1 2015: DKK 13.3 million / €1.8 million).
- Net operating expenses of DKK 165.4 million / €22.2 million (H1 2015: DKK 125.9 million / €16.9 million).
- Net loss of DKK 175.7 million / €23.6 million (H1 2015: DKK 131.8 million / €17.7 million).
- The cash position amounted to DKK 423.2 million / €56.8 million at 30 June 2016 (30 June 2015: DKK 468.6 million / €62.8 million).

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

The restatements have had a total impact on net loss and total comprehensive loss for the three and six months ended 30 June 2015 of respectively DKK -1.7 million and DKK 0.8 million. The restatements have had no impact on net loss or total comprehensive loss for the year ended 31 December 2015.

The nature and impact of the restatements are described in further details in Note 1 of the condensed consolidated interim financial statements.

## Portfolio of out-licensed products – First product approved in the U.S.

### Adlyxin™/Lyxumia® (lixisenatide) for type 2 diabetes (license collaboration with Sanofi)

- Royalty revenue to Zealand on Sanofi's sales of Lyxumia® amounted to DKK 13.1 million / € 1.7 million in H1 2016, a decrease of 3% compared to the same period of 2015. Sanofi reported flat sales of Lyxumia® for the period measured at constant exchange rates. Lyxumia® is approved in more than 60 countries and has been launched by Sanofi in 42 of these. The biggest markets for Lyxumia® are the UK, Spain, Italy and Japan. Additional launches are planned for 2016-2018.
- Late July, lixisenatide was approved by the U.S. FDA under the brand name Adlyxin™ for the treatment of adults with type 2 diabetes. This triggered a $5 million milestone payment from Sanofi.

### iGlarLixi (fixed-ratio combination of lixisenatide and Lantus®) for type 2 diabetes (license collaboration with Sanofi)

- On 19 August 2016, the U.S. FDA decided to extend the regulatory review time for Sanofi's New Drug Application (NDA) for iGlarLixi by three months. The decision followed the submission by Sanofi of additional information, requested by the FDA, on the pen device for delivery of iGlarLixi as part of the NDA. A U.S. regulatory decision on iGlarLixi is now expected before the end of November 2016.

- In May 2016, the Endocrinologic and Metabolic Drugs Advisory Committee (EMDAC) of the FDA recommended, by a vote of 12 to 2, the approval of the NDA for iGlarLixi.
- iGlarLixi is also undergoing review by the European Medicines Agency (EMA) with a regulatory decision for Europe expected in Q1 2017.

**Elsiglutide (GLP-2 analog) for chemotherapy-induced diarrhea (license collaboration with Helsinn)**

- In May 2016, a Phase IIb trial of elsiglutide for the treatment of chemotherapy induced diarrhea failed to meet its primary endpoint.
- Helsinn is evaluating the full Phase II data set as well as results from a large, observational study of chemotherapy-induced diarrhea in consideration of next possible steps in the development of elsiglutide. A decision is expected later in H2 2016.

**Boehringer Ingelheim license agreements – Novel treatments for diabetes and obesity**

- Zealand has two therapeutic peptide projects under license collaborations with Boehringer Ingelheim. One covers glucagon/GLP-1 dual agonists for the treatment of diabetes and/or obesity, and the other covers novel compounds against an undisclosed biological target for the treatment of obesity and/or diabetes.
- Under both collaborations a lead candidate is being progressed towards start of clinical Phase I development in 2017.

## Progress in the pipeline of proprietary drug candidates

**Glepaglutide[3] (ZP1848, long-acting GLP-2 analog) for short bowel syndrome**

- In June 2016, glepaglutide was proposed as an International Non-proprietary Name for Zealand's proprietary GLP-2 analog, previously known as ZP1848.
- The ongoing Phase II Proof-of-Concept trial is progressing according to plan, with results expected mid-2017.

**Dasiglucagon[4] (ZP4207, glucagon analog) for single-dose rescue treatment of severe hypoglycemia in diabetes**

- In August 2016, Zealand announced results from a clinical Phase II trial with dasiglucagon, supporting its potential as a ready-to-use rescue pen to treat acute, severe hypoglycemia ("insulin shock") associated with insulin therapy in diabetes.
- Zealand initiated the trial in February 2016 and completed the enrolment of 58 patients with type 1 diabetes in June 2016.
- The full results from the Phase II trial are planned for discussion with the FDA later in 2016 to define the next development steps for dasiglucagon as a rescue treatment.

[3] Glepaglutide is a proposed International Non-proprietary Name (pINN).

[4] Dasiglucagon is a proposed International Non-proprietary Name (pINN).

**Dasiglucagon[5] (ZP4207, glucagon analog) for multiple-dose use in dual-hormone artificial pancreas for better diabetes management**

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

**Other business**

- As of 1 July 2016, Zealand's senior management team has been expanded and strengthened with the arrival of Andrew Parker as the company's new Chief Science Officer.

## Financial guidance for 2016 unchanged

Zealand maintains its revenue guidance for the full-year. This includes expectations of growing royalty revenue from Sanofi's sales of lixisenatide; as Lyxumia® outside the U.S. and potentially as Adlyxin™ in the U.S. pending launch in 2016.

Expectations of revenue of up to DKK 200 million / €27 million in the form of milestone payments from partners are also unchanged.

Net operating expenses in 2016 are expected at a range of DKK 340-360 million / €45-48 million, and operating loss before royalty income/expenses is therefore expected at a range of DKK 140-160 million / €19-21 million.

## Conference call with senior management today at 2:00 pm CET / 8:00 am EDT

Zealand's senior management will host a conference call today at 2:00 pm CET/ 8:00 am EDT to present the interim report for H1 2016. Participating in the call will be Britt Meelby Jensen, Chief Executive Officer, Mats Blom, Chief Financial Officer, Adam Steensberg, Chief Medical and Development Officer and Hanne Leth Hillman, SVP and Head of IR and Communications. The presentation will be followed by a Q&A session.

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

| | |
|---|---|
| DK standard access | +45 32 71 16 60 |
| UK and international | +44 (0) 207 136 6283 |
| US (free dial-in from NYC) | +1 646 254 3388 |
| Passcode for access | 79 59 175 |

A live audio webcast of the call including an accompanying slide presentation will be available via the following link, http://edge.media-server.com/m/p/m4rcono7, accessible also from Zealand's website (www.zealandpharma.com). Participants are advised to register for the webcast approximately 10 minutes before the start.

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

[5] Dasiglucagon is a proposed International Non-proprietary Name (pINN).

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## For further information, please contact:

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Hanne Leth Hillman, Senior Vice President, Investor Relations and Communications
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### About Zealand Pharma A/S

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

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

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

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

* Dasiglucagon is a proposed International Nonproprietary Name (pINN)

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

## Key figures for the Group

| INCOME STATEMENT (DKK thousand) | 1.4 - 30.6.16 | 1.4 - 30.6.15 Restated [4] | 1.1 - 30.6.16 | 1.1 - 30.6.15 Restated [4] | 1.1-31.12.15 |
|---|---|---|---|---|---|
| Revenue | 7,946 | 7,299 | 14,686 | 13,341 | 187,677 |
| Royalty expenses | -856 | -985 | -1,764 | -1,799 | -22,267 |
| Research and development expenses | -74,514 | -62,487 | -137,683 | -114,279 | -214,959 |
| Administrative expenses | -20,800 | -11,831 | -28,805 | -19,321 | -44,606 |
| Other operating income | 212 | 3,369 | 1,065 | 7,657 | 12,828 |
| **Operating loss** | **-88,012** | **-64,635** | **-152,501** | **-114,401** | **-81,327** |
| Net financial items | -11,040 | -15,020 | -25,483 | -19,562 | -38,505 |
| **Loss before tax** | **-99,052** | **-79,655** | **-177,984** | **-133,963** | **-119,832** |
| Income tax benefit | 1,114 | 1,121 | 2,235 | 2,195 | 5,875 |
| **Net loss for the year** | **-97,938** | **-78,534** | **-175,749** | **-131,768** | **-113,957** |
| **Comprehensive loss for the year** | **-97,938** | **-78,534** | **-175,749** | **-131,768** | **-113,957** |
| | | | | | |
| **Loss per share – DKK** | | | | | |
| Basic loss per share | -4.10 | -3.40 | -7.37 | -5.79 | -4.94 |
| Diluted loss per share | -4.10 | -3.40 | -7.37 | -5.79 | -4.94 |

| STATEMENT OF FINANCIAL POSITION | 30.6.16 | 31.12.15 Restated [4] |
|---|---|---|
| Cash and cash equivalents | 289,363 | 418,796 |
| Restricted cash [1] | 133,804 | 21,403 |
| Total assets | 477,455 | 636,208 |
| Share capital ('000 shares) | 24,534 | 24,353 |
| Shareholder's equity | 107,520 | 252,231 |
| Equity/assets ratio | 0.23 | 0.40 |
| Royalty bond | 311,217 | 312,951 |

| CASH FLOW | 1.1 - 30.6.16 | 1.1 - 30.6.15 Restated [4] |
|---|---|---|
| Depreciation | 2,826 | 3,075 |
| Change in working capital | 118,810 | -9,136 |
| Investments in fixed assets | -1,566 | -1,815 |
| Free cash flow [2] | -20,040 | -116,272 |

| OTHER | 30.6.16 | 30.6.15 | 31.12.15 |
|---|---|---|---|
| Share price (DKK) | 119.5 | 110.5 | 151.5 |
| Market capitalization (DKKm) | 2,932 | 2,599 | 3,689 |
| Equity per share (DKK) [3] | 4.49 | 7.09 | 10.60 |
| Average number of employees | 123 | 109 | 110 |
| Products in clinical development (end period) | 5 | 6 | 6 |
| Products under regulatory review (end period) | 2 | 0 | 2 |
| Medicines on the market | 1 | 1 | 1 |

1) Restricted cash: DKK 133.8 million (21.4) is restricted based on the royalty bond issuance agreement until the royalty bond has been fully repaid

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

3) Equity per share is calculated as shareholder's equity divided by total number of shares less treasury shares

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

## Financial review

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

In preparing the financial statements for the first half year of ("H1") 2016 a number of restatements relating to previous periods were identified, see note 1 of the condensed consolidated interim financial statements.

### Income statement

The net result for the first six months of 2016 was a loss of DKK 175.7 million compared to a loss of DKK 131.8 million for the same period of 2015. The lower net result is a consequence of an increase in net operating expenses versus the same period 2015 mainly due to an increased level of development activities.

### Revenue

Revenue amounted to DKK 14.7 million (13.3) of which DKK 13.1 million (13.3) related to royalty revenue on Sanofi's sales of Lyxumia® (lixisenatide) in H1 2016, representing a decrease of 3% versus the same period last year.

### Royalty expenses

Royalty expenses for H1 2016 were DKK 1.8 million (1.8). Royalty expenses are payments by Zealand to third parties on the basis of license payments received for Lyxumia® (lixisenatide).

### Research and development expenses

Research and development expenses for H1 2016 amounted to DKK 137.7 million (114.3) which was in line with expectations. The increase of DKK 23.4 million compared to 2015 is due to increased development costs of DKK 22.4 million mainly related to the clinical development of dasiglucagon[6] (ZP4207) (both single and multiple dose formulations) and of glepaglutide[7] (ZP1848) for short bowel syndrome.

### Administrative expenses

Administrative expenses for H1 2016 amounted to DKK 28.8 million (19.3). The increase compared to 2015 is mainly explained by increased costs for warrant programs of DKK 5.2 million and for external consultants of DKK 3.3 million.

### Other operating income

Other operating income for H1 2016 amounted to DKK 1.1 million (7.7). Other operating income for both H1 2016 and 2015 consisted of funding of research costs under the previous research collaboration with Boehringer Ingelheim that expired during H1 2016.

### Operating loss

The operating result for H1 2016 was a loss of DKK -152.5 million (-114.4).

### Net financial items

Net financial items consist of interest expenses on the royalty bond, amortization of costs relating to the royalty bond, interest income, banking fees and adjustments based on changes in exchange rates. Net financial items for H1 2016 amounted to DKK -25.5 million (-19.6).

[6] Dasiglucagon is a proposed International Non-proprietary Name (pINN).

[7] Glepaglutide is a proposed International Non-proprietary Name (pINN).

### Loss before tax
Loss before tax for H1 2016 came to DKK -178.0 million (-134.0).

### Income tax benefit
With a negative result in H1 2016 and financial guidance pointing towards a negative result also for the full year, Zealand expects to be eligible to receive up to DKK 5.5 million in corporate income for 2016 of which DKK 2.2 million (2.2) has been recognized for the period.

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

### Net loss and comprehensive loss
Net loss and comprehensive loss for H1 2016 amounted to DKK -175.8 million (-131.8).

### Equity
Equity stood at DKK 107.5 million (252.2) at the end of the period, corresponding to an equity ratio of 23% (40).

### Capital expenditure
Investments in new laboratory equipment for the period amounted to DKK 1.6 million (1.8).

### Cash flow
Cash flow from operating activities amounted to DKK -21.6 million (-118.1). Cash flow from investing activities to DKK -114.4 million (-1.8) as a consequence of transferring DKK 116.0 million to restricted cash as collateral for the royalty bond. Cash flow from financing activities amounted to DKK 12.5 million (25.0) relating to proceeds from issuance of shares related to exercise of warrants. The total cash flow for H1 2016 amounted to DKK -123.5 million (-94.9).

### Cash and cash equivalents
As of 30 June 2016, Zealand had cash and cash equivalents of DKK 289.4 million (418.8). In addition, DKK 133.8 million (21.4) is held as collateral for the royalty bond. The total cash position as of June 30, 2016 is DKK 423.2 million (440.2).

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

## Management's statement on the interim report

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

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

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

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

*Copenhagen, 25 August 2016*

### Executive Management

| | |
|---|---|
| Britt Meelby Jensen | Mats Blom |
| President and CEO | Senior Vice President and CFO |

### Board of Directors

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

## Condensed consolidated interim financial statements

### Consolidated income statements for the six month periods ended 30 June 2016 and 2015 and the twelve month period ended 31 December 2015

| DKK thousand | Note | 1.4-30.6.16 | 1.4-30.6.15 | 1.1-30.6.16 | 1.1-30.6.15 | 1.1-31.12.15 |
|---|---|---|---|---|---|---|
| | | | Restated | | Restated | |
| Revenue | | 7,946 | 7,299 | 14,686 | 13,341 | 187,677 |
| Royalty expenses | | -856 | -985 | -1,764 | -1,799 | -22,267 |
| Research and development expenses | 6 | -74,514 | -62,487 | -137,683 | -114,279 | -214,959 |
| Administrative expenses | 6 | -20,800 | -11,831 | -28,805 | -19,321 | -44,606 |
| Other operating income | | 212 | 3,369 | 1,065 | 7,657 | 12,828 |
| **Operating loss** | | **-88,012** | **-64,635** | **-152,501** | **-114,401** | **-81,327** |
| Financial income | | 2,685 | 4 | 284 | 3,561 | 3,889 |
| Financial expenses | | -13,725 | -15,024 | -25,767 | -23,123 | -42,394 |
| **Loss before tax** | | **-99,052** | **-79,655** | **-177,984** | **-133,963** | **-119,832** |
| Income tax benefit | | 1,114 | 1,121 | 2,235 | 2,195 | 5,875 |
| **Net loss for the period** | | **-97,938** | **-78,534** | **-175,749** | **-131,768** | **-113,957** |
| **Loss per share (EPS) - DKK** | | | | | | |
| Basic loss per share | 3 | -4.10 | -3.40 | -7.37 | -5.79 | -4.94 |
| Diluted loss per share | 3 | -4.10 | -3.40 | -7.37 | -5.79 | -4.94 |

### Consolidated statements of comprehensive income (loss) for the six month periods ended 30 June 2016 and 2015 and the twelve month period ended 31 December 2015

| DKK thousand | Note | 1.4-30.6.16 | 1.4-30.6.15 | 1.1-30.6.16 | 1.1-30.6.15 | 1.1-31.12.15 |
|---|---|---|---|---|---|---|
| | | | Restated | | Restated | |
| **Net loss for the period** | | **-97,938** | **-78,534** | **-175,749** | **-131,768** | **-113,957** |
| Other comprehensive income (loss) | | 0 | 0 | 0 | 0 | 0 |
| **Comprehensive loss for the period** | | **-97,938** | **-78,534** | **-175,749** | **-131,768** | **-113,957** |

## Consolidated statements of cash flow for the six month periods ended 30 June 2016 and 2015

| DKK thousand | Note | 1.1-30.6.16 | 1.1-30.6.15 |
|---|---|---|---|
| | | | Restated |
| Net loss for the period | | -175,749 | -131,768 |
| Adjustments for non-cash items | | 44,032 | 32,462 |
| Change in working capital | | 118,810 | -9,136 |
| Financial income received | | 272 | 905 |
| Financial expenses paid | | -6,736 | -8,355 |
| Income tax benefit | | -2,235 | -2,195 |
| **Cash outflow from operating activities** | | **-21,606** | **-118,087** |
| Transfer to restricted cash related to the royalty bond | | -115,945 | 0 |
| Transfer from restricted cash for royalty bond payments | | 3,134 | 0 |
| Change in deposit | | 0 | 60 |
| Purchase of property, plant and equipment | | -1,566 | -1,815 |
| **Cash (outflow)/inflow from investing activities** | | **-114,377** | **-1,755** |
| Proceeds from issuance of shares related to exercise of warrants | | 12,483 | 24,961 |
| **Cash inflow from financing activities** | | **12,483** | **24,961** |
| **Decrease / increase in cash and cash equivalents** | | **-123,500** | **-94,881** |
| Cash and cash equivalents at 1 January | | 418,796 | 516,849 |
| Exchange rate adjustments | | -5,933 | 23,301 |
| **Cash and cash equivalents at 30 June** | | **289,363** | **445,269** |

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

| DKK thousand | Note | 1.1-30.6.16 | 1.1-31.12.15 |
|---|---|---|---|
| | | | Restated |
| **Assets** | | | |
| **Non-current assets** | | | |
| Plant and machinery | | 13,641 | 14,672 |
| Other fixtures and fittings, tools and equipment | | 1,125 | 1,153 |
| Leasehold improvements | | 427 | 628 |
| Restricted cash | | 115,945 | 0 |
| Deposits | | 2,666 | 2,666 |
| **Total non-current assets** | | **133,804** | **19,119** |
| | | | |
| **Current assets** | | | |
| Trade receivables | | 13,892 | 158,158 |
| Prepaid expenses | | 2,252 | 2,430 |
| Income tax receivable | | 8,110 | 5,875 |
| Other receivables | | 12,175 | 10,427 |
| Restricted cash | | 17,859 | 21,403 |
| Cash and cash equivalents | 4 | 289,363 | 418,796 |
| **Total current assets** | | **343,651** | **617,089** |
| | | | |
| **Total assets** | | **477,455** | **636,208** |
| | | | |
| **Liabilities and equity** | | | |
| Share capital | 2 | 24,534 | 24,353 |
| Retained earnings | | 82,986 | 227,878 |
| **Equity** | | **107,520** | **252,231** |
| | | | |
| Royalty bond | | 297,117 | 312,951 |
| **Non-current liabilities** | | **297,117** | **312,951** |
| | | | |
| Trade payables | | 18,682 | 21,676 |
| Royalty bond | | 14,100 | 0 |
| Other liabilities | | 40,036 | 49,350 |
| **Current liabilities** | | **72,818** | **71,026** |
| | | | |
| **Total liabilities** | | **369,935** | **383,977** |
| | | | |
| **Total equity and liabilities** | | **477,455** | **636,208** |

## Consolidated statements of changes in equity at 30 June 2016 and 2015

| DKK thousand | Share capital | Share premium | Retained earnings/losses | Total |
|---|---|---|---|---|
| | | | Restated | Restated |
| **Equity at 1 January 2015** | **23,193** | **1,150,979** | **-921,344** | **252,828** |
| *Comprehensive loss for the period* | | | | |
| Net loss for the period | 0 | 0 | -131,768 | -131,768 |
| *Transactions with owners* | | | | |
| Warrants compensation expenses | 0 | 16,748 | 0 | 16,748 |
| Capital increases | 325 | 24,636 | 0 | 24,961 |
| **Equity at 30 June 2015** | **23,518** | **1,192,363** | **-1,053,112** | **162,769** |

| DKK thousand | Share capital | Share premium | Retained earnings/losses | Total |
|---|---|---|---|---|
| **Equity at 1 January 2016** | **24,353** | **1,263,179** | **-1,035,301** | **252,231** |
| *Comprehensive loss for the period* | | | | |
| Net loss for the period | 0 | 0 | -175,749 | -175,749 |
| *Transactions with owners* | | | | |
| Warrants compensation expenses | 0 | 18,554 | 0 | 18,554 |
| Capital increases | 181 | 12,303 | 0 | 12,484 |
| **Equity at 30 June 2016** | **24,534** | **1,294,036** | **-1,211,050** | **107,520** |

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

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

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

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

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

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

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

The used estimates are based on assumptions assessed reasonable by management, however, estimates are inherently uncertain and unpredictable. The assumptions can be incomplete or inaccurate and unexpected events or circumstances might occur. Furthermore, the Company is subject to risks and uncertainties that might result in deviations in actual results compared to estimates.

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

**Restatement**
The condensed consolidated financial statements for the three and six months ended 30 June, 2015 include a number of restatements with respect to effects of currency adjustments and income tax benefits, which has resulted in a change in the net loss, comprehensive loss for the period, loss per share and statement of changes in equity. Certain items with respect to classification within the condensed consolidated statement of cash flow have also been restated.

In addition, the consolidated financial statements for the year ended 31 December 2015 include a number of restatements with respect to classification of certain items within the consolidated statements of financial position. The restatements have had no impact on the income statement, comprehensive income and statement of changes in equity for the year ended 31 December 2015

The nature and impact of these restatements are described below.

**Consolidated statements of comprehensive income (loss) for the three and six months ended 30 June 2015**

| DKK thousand | As originally reported, Q2 2015 | Restatement | Amount as adjusted, Q2 2015 | As originally reported, H1 2015 | Restatement | Amount as adjusted, H1 2015 |
|---|---|---|---|---|---|---|
| Revenue | 7,061 | 238 | 7,299 | 13,400 | -59 | 13,341 |
| Royalty expenses | -920 | -65 | -985 | -1,774 | -25 | -1,799 |
| Research and development expenses | -62,481 | -6 | -62,487 | -114,277 | -2 | -114,279 |
| Administrative expenses | -11,597 | -234 | -11,831 | -19,087 | -234 | -19,321 |
| Other operating income | 3,369 | | 3,369 | 7,657 | | 7,657 |
| **Operating loss** | **-64,568** | **-67** | **-64,635** | **-114,081** | **-320** | **-114,401** |
| Financial income | -2,079 | 2,083 | 4 | 381 | 3,180 | 5,137 |
| Financial expenses | -12,355 | -2,669 | -15,024 | -20,850 | -2,273 | -24,699 |
| **Loss before tax** | **-79,002** | **-653** | **-79,655** | **-134,550** | **587** | **-133,963** |
| Income tax benefit | 2,195 | -1,074 | 1,121 | 2,195 | | 2,195 |
| **Net loss for the period** | **-76,807** | **-1,727** | **-78,534** | **-132,355** | **587** | **-131,768** |
| | | | | | | |
| **Loss per share (EPS) - DKK** | | | | | | |
| Basic loss per share | -3.39 | -0.01 | -3.40 | -5.79 | 0.00 | -5.79 |
| Diluted loss per share | -3.39 | -0.01 | -3.40 | -5.79 | 0.00 | -5.79 |
| | | | | | | |
| **Statement of comprehensive loss** | | | | | | |
| **DKK thousand** | | | | | | |
| Net result for the period | **-76,807** | **-1,727** | **-78,534** | **-132,355** | **587** | **-131,768** |
| Other comprehensive income (loss) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Comprehensive loss for the year** | **-76,807** | **-1,727** | **-78,534** | **-132,355** | **587** | **-131,768** |

**Exchange rate adjustments**

In preparing the condensed consolidated interim financial statements for the three and six months ended 30 June 2015, exchange rate adjustments related to certain of the consolidated subsidiaries were based on end of the period exchange rates. This has been restated using average exchange rates. The restatement also effected the equity statement by DKK 860 thousand, which has been recognized as part of the exchange rate adjustment in the income statement for the period.

**Income tax benefit**

Income tax benefit had not been accrued, which we had the right to in relation to the three month period ended 31 March 2015. The total accrual for the six month period of 2015 was recognized in full in June 2015. A restatement has been done to allocate the accrual between the two quarters of 2015. This cause the deviation in the period 1 April 2015 to 30 June 2015.

**Reclassification adjustments**

In addition to above, some items have been reclassified within financial income and expenses.

## Consolidated statement of cash flow for the six months ended 30 June 2015

| DKK thousand | As originally reported, H1 2015 | Restatement | Amount as adjusted, H1 2015 |
|---|---|---|---|
| Net loss for the year | -132,355 | 587 | -131,768 |
| Adjustments for non-cash items | 18,621 | 13,841 | 32,462 |
| Change in working capital | -5,779 | -3,537 | -9,136 |
| Financial income received | 270 | 635 | 905 |
| Financial expenses paid | 417 | -8,772 | -8,355 |
| Income tax benefit | - | -2,195 | -2,195 |
| **Cash flow from operating activities** | **-118,826** | **739** | **-118,087** |
| Change in deposit | 60 | | 60 |
| Purchase of property, plant and equipment | -1,815 | | -1,815 |
| **Cash flow from investing activities** | **-1,755** | **-** | **-1,755** |
| Proceeds from issuance of shares | 24,961 | | 24,961 |
| **Cash flow from financing activities** | **24,961** | | **24,961** |
| **Decrease / increase in cash and cash equivalents** | **-95,620** | **739** | **-94,881** |
| Cash and cash equivalents at 1 January | 538,273 | -21,424 | 516,849 |
| Exchange rate adjustments | 25,954 | -2,653 | 23,301 |
| **Cash and cash equivalents at 30 June** | **468,607** | **-23,338** | **445,269** |

**Adjustments for non-cash items**

We had previously not adjusted for unrealized financial income and expenses, including unrealized exchange gain and losses, within the condensed consolidated statements of cash flow in relation to the six month period ended 30 June 2015. The adjustment resulted in an increase in adjustments for non-cash items of DKK 13,841 thousand as of 30 June 2015.

**Change in working capital**

Previously, not all changes in working capital had been adjusted for. The adjustment resulted in a decrease of DKK 3,357 thousand for the six months ended 30 June 2015 within the condensed consolidated statement of cash flow.

**Reclassification adjustments**

A number of items have been reclassified with respect to financial income received, financial expenses paid and income tax benefit.

**Restricted cash**

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

## Consolidated statement of financial position as of 31 December 2015

| DKK thousand | As originally reported, 31 December 2015 | Restatement | Amount as adjusted, 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Plant and machinery | 14,672 | | 14,672 |
| Other fixtures and fittings, tools and equipment | 1,153 | | 1,153 |
| Leasehold improvements | 628 | | 628 |
| Deposits | 2,666 | | 2,666 |
| **Total non-current assets** | **19,119** | | **19,119** |
| Trade receivables | 141,120 | 17,038 | 158,158 |
| Prepaid expenses | 2,262 | 168 | 2,430 |
| Tax receivable | 5,875 | | 5,875 |
| Other receivables | 26,113 | -15,686 | 10,427 |
| Cash restricted | 21,403 | | 21,403 |
| Cash and cash equivalents | 418,796 | | 418,796 |
| **Total current assets** | **615,569** | **1,520** | **617,089** |
| **Total assets** | **634,688** | **1,520** | **636,208** |
| **Liabilities and equity** | | | |
| Share capital | 24,353 | | 24,353 |
| Retained earnings | 227,878 | | 227,878 |
| **Total equity** | **252,231** | | **252,231** |
| Royalty bond | 312,951 | | 312,951 |
| **Non-current liabilities** | **312,951** | | **312,951** |
| Trade payables | 21,676 | | 21,676 |
| Deferred income | 2,091 | -2,091 | 0 |
| Other liabilities | 45,739 | 3,611 | 49,350 |
| **Current liabilities** | **69,506** | **1,520** | **71,026** |
| **Total liabilities** | **382,457** | **1,520** | **383,977** |
| **Total equity and liabilities** | **634,688** | **1,520** | **636,208** |

**Reclassification adjustments**

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

## Note 2 – Changes in share capital

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

| | No. of shares |
|---|---|
| **Share capital at 1 January 2015** | **23,193,047** |
| Capital increase at 21 March 2015 | 120,833 |
| Capital increase at 11 April 2015 | 106,220 |
| Capital increase at 2 June 2015 | 51,487 |
| Capital increase at 20 June 2015 | 46,521 |
| **Share capital at 30 June 2015** | **23,518,108** |
| | |
| **Share capital at 1 January 2016** | **24,352,769** |
| Capital increase at 30 March 2016 | 46,613 |
| Capital increase at 14 April 2016 | 50,453 |
| Capital increase at 26 May 2016 | 43,071 |
| Capital increase at 16 June 2016 | 41,269 |
| **Share capital at 30 June 2016** | **24,534,175** |

## Note 3 – Loss per share

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

| DKK thousand | 1.4-30.6.16 | 1.4-30.6.15 | 1.1-30.6.16 | 1.1-30.6.15 | 1.1-31.12.15 |
|---|---|---|---|---|---|
| | | Restated | | Restated | |
| Net loss for the period | -97,938 | -78,534 | -175,749 | -131,768 | -113,957 |
| Net loss used in the calculation of basic and diluted loss per share | -97,938 | -78,534 | -175,749 | -131,768 | -113,957 |
| | | | | | |
| Weighted average number of ordinary share | 24,466,469 | 23,690,797 | 24,410,131 | 23,319,752 | 23,618,752 |
| Weighted average number of treasury shares | -564,223 | -564,223 | -564,223 | -564,223 | -564,223 |
| Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share | 23,902,246 | 23,126,574 | 23,845,908 | 22,755,529 | 23,054,529 |
| | | | | | |
| **Basic loss per share (DKK)** | **-4.10** | **-3.40** | **-7.37** | **-5.79** | **-4.94** |
| **Diluted loss per share (DKK)** | **-4.10** | **-3.40** | **-7.37** | **-5.79** | **-4.94** |

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

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

| | 30 June 2016 | 30 June 2015 | 31 Dec 2015 |
|---|---|---|---|
| Outstanding warrants under the 2010 Employee incentive program | 861,598 | 1,896,684 | 1,055,854 |
| Outstanding warrants under the 2015 Employee incentive program | 905,250 | 466,250 | 463,250 |
| **Total outstanding warrants, which are anti-dilutive** | **1,766,848** | **2,362,934** | **1,519,104** |

## Note 4 - Cash and cash equivalents

| DKK thousand | 30 June 2016 | 31 Dec 2015 |
|---|---|---|
| DKK | 17,744 | 66,239 |
| USD | 189,057 | 306,296 |
| EURO | 82,562 | 46,261 |
| **Total cash and cash equivalents** | **289,363** | **418,796** |

As of 30 June 2016, Zealand had cash and cash equivalents of DKK 289.4 million (418.8). In addition DKK 133.8 million (21.4) are held as collateral for the royalty bond. The total cash position as of 30 June 2016 is DKK 423.2 million (440.2).

## Note 5 - Financial instruments

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

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

| | 30 June 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| DKK thousand | Carrying amount | Fair value | Carrying amount | Fair value |
| Royalty bond | 311,217 | 359,789 | 312,951 | 386,912 |

## Note 6 – Warrant programs

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

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

Exercise of warrants is by default subject to continuing employment with the Group. The warrants granted are subject to the provisions of the Danish Public Companies Act regarding termination of employees prior to their exercise of warrants in the case of recipients who are subject to the act.

Warrants expire automatically after 5 years. Warrants are considered vested at grant date, and may be exercised after three years (except warrants granted to the Chief Executive Officer that may be exercised after one year). Warrants may be exercised four times a year during a 4-week period starting from the time of the publication of Zealand's Annual Report or quarterly or semi-annual reports.

**Effect on income statement**

For the six months periods ended 30 June 2016 and 2015, the fair value of warrants recognized in the income statement amounts to DKK 18.6 million (2015: DKK 16.7 million) of which DKK 5.6 million (2015: DKK 4.9 million) relates to the Executive Management.

| DKK thousand | H1, 2016 | H1, 2015 |
|---|---|---|
| Research and development expenses | 10,401 | 13,765 |
| Administrative expenses | 8,153 | 2,983 |
| **Total** | **18,554** | **16,748** |

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

Late July 2016, lixisenatide was approved by the U.S. FDA under the brand name Adlyxin™ as a new treatment for patients with type 2 diabetes. This triggered a milestone payment of DKK 33.4 million (USD 5 million) which has been recorded in July 2016. Except for this no significant events have occurred after the balance sheet date which would require a change to or additional disclosure in the interim financial statements.