Company announcement – No. 15 / 2017

Zealand reports results for the first three months of 2017 (unaudited)

Copenhagen, May 17, 2017 – Zealand Pharma A/S ("Zealand") (Company reg. No. 20 04 50 78) announces financial results in line with guidance and continued positive progress for its product portfolio and business for the three-month period from January 1 to March 31, 2017.

Financial results for the first three months of 2017

- Revenue of DKK 77.6 million (6.7 million in Q1 2016), including milestone revenue of DKK 69.6 million.
- Net operating expenses[1] of DKK 70.4 million (unchanged vs. Q1 2016).
- Net result of DKK -26.3 million (-77.8 million in Q1 2016).
- The cash position amounted to DKK 417.0 million at March 31, 2017 (December 31, 2016: 642.1 million). This includes restricted cash of DKK 6.7 million (December 31, 2016: 318.7 million) held as collateral for the royalty bond.

Business highlights for the first three months of 2017

- Adlyxin® (lixisenatide) and Soliqua®100/33 (insulin glargine 100 units/ml and lixisenatide 33 mcg/ml injection) were launched by Sanofi in the U.S. in January, 2017.
- Suliqua® was approved in the EU by the European Commission in January, 2017, triggering a USD 10 million milestone payment to Zealand from Sanofi.
- Terms of the USD 50 million royalty bond renegotiated in 2017: 50% or DKK 175 million (USD 25 million) was repaid and restricted cash of DKK 175 million released as cash and cash equivalents.

Business highlights for the period thereafter

- Phase 2 trial investigating glepaglutide for the treatment of short bowel syndrome completed. Results are expected by end June 2017.
- A positive opinion on orphan medicinal product designation, issued by The Committee of Orphan Medicinal Products (COMP) for treatment of congenital hyperinsulinism (CHI) in the EU was obtained for dasiglucagon.
- Zealand and Boehringer Ingelheim GmbH disclosed amylin as the biological target in one of their joint programs, with potential to treat obesity. Start of clinical testing is expected in 2017.
- Suliqua® launch in the Netherlands occurred in May 2017.

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

"*The first quarter of 2017 saw a good start to an important year for Zealand, with financial results as expected. A major milestone was the U.S. launch of Soliqua®100/33 by Sanofi, followed this month by the first launch in the EU. Sanofi has already secured coverage for 34% of commercially insured patients. With* Soliqua® 100/33 *as the first marketed GLP-1/insulin combination in the U.S., Sanofi continues to educate physicians and expand insurance coverage".*

"In addition, we report strong progress on our clinical programs. We look forward to Phase 2 results for glepaglutide, our long-acting GLP-2 analogue for short bowel syndrome, by the end of June, and we plan to report dasiglucagon Phase 2a results this quarter, supporting its potential use in a dual-chamber pump. We are excited to expand our dasiglucagon franchise to include orphan indications, following a positive opinion in the EU for dasiglucagon for the treatment of congenital hyperinsulinism".

[1] Net operating expenses consist of research, development and administrative expenses less operating income.

"Finally, I would like to highlight the announcement of amylin as the biological target in one of our partnership programs with Boehringer Ingelheim addressing obesity, and we look forward to the advancement into clinical testing later in 2017."

Financial guidance for 2017 unchanged

Zealand is maintaining its financial guidance for 2017 as announced in the financial release for the full year 2016 (issued on March 15 this year).

For 2017, Zealand expects a continued increase in royalty payments from Sanofi. No specific guidance on the level of royalties expected to be received can be provided, as Sanofi has not provided any guidance on expected 2017 sales.

Additional revenue of DKK 100 million is expected from event-driven partner-related milestones of which DKK 70 million has already been received in January 2017.

Net operating expenses in 2017 are expected to be within the DKK 390-410 million range. The increase compared with 2016 is explained primarily by higher clinical development costs associated with the advancement of glepaglutide and dasiglucagon.

The operating loss before royalty income/expenses is expected to be within the range DKK 290-310 million.

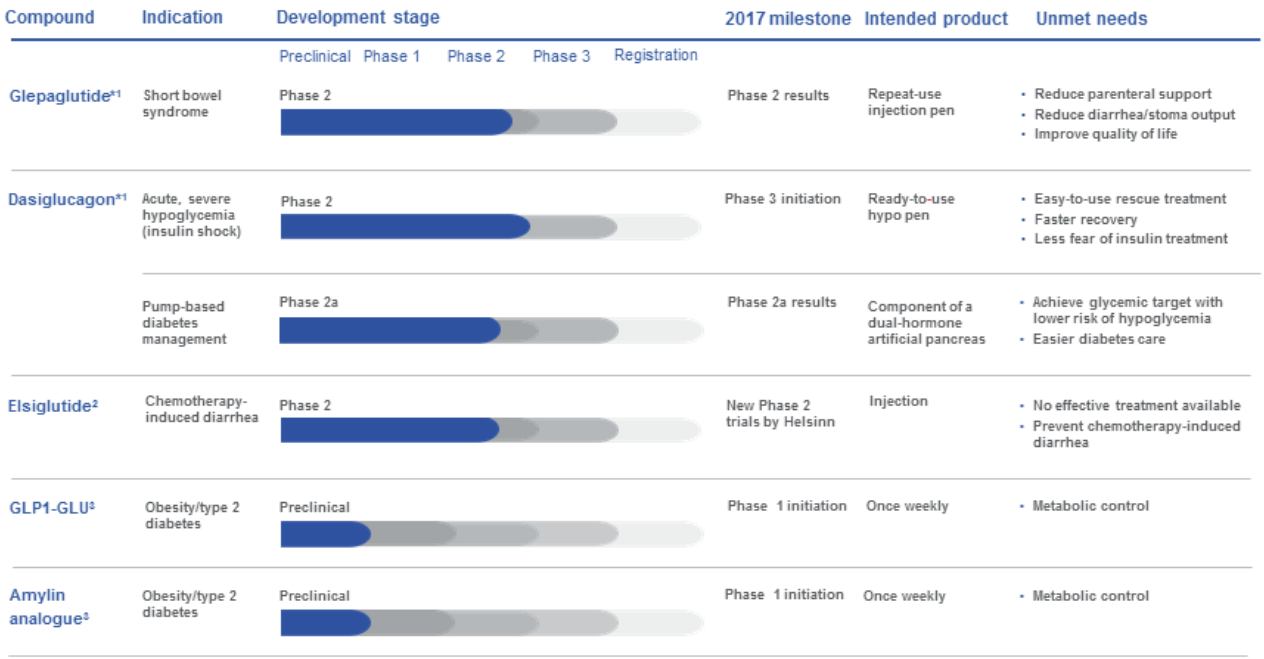
Marketed products

Soliqua® 100/33 and Suliqua® (combination of lixisenatide and Lantus®)
Soliqua® 100/33 was launched in the U.S. by Sanofi on January 4, 2017. Sanofi has communicated steady progress with the rollout, and has secured additional health plan coverage in the US in the first quarter. In their Q1 2017 conference call Sanofi reported 34% commercial access and 31% Medicare access already signed, but not all has yet come into effect. Sanofi had earlier disclosed that Soliqua® 100/33 would be covered by United Health, from July 1, 2017.

Suliqua® was approved in January in the EU by the European Commission, triggering a USD 10 million milestone payment to Zealand. The first EU launch occurred in May 2017.

Adlyxin®/Lyxumia® (lixisenatide, GLP-1 receptor agonist)
Sanofi in the U.S. launched Adlyxin® (lixisenatide) on January 4, 2017.

Clinical pipeline and pre-clinical partnered programs



Glepaglutide* (GLP-2 analogue for short bowel syndrome)
Patient recruitment for the Phase 2 Proof-of-Concept trial was completed during the first quarter and results are expected by the end of Q2 2017.

Dasiglucagon* (glucagon analogue stable in liquid formulation)
Dasiglucagon is a Zealand-invented glucagon analogue with a unique stability profile in liquid formulation. Based on this Zealand is pursuing several indications where a stable profile would provide new treatment options:

1. A ready-to-use dasiglucagon hypo pen to offer people with diabetes and their families a fast treatment solution for severe hypoglycemia. Zealand reported positive Phase 2 data in 2016 and will present the full results at the American Diabetes Association (ADA) conference in June 2017. The next development steps are planned to be initiated later this year.
2. A next-generation artificial pancreas device containing both insulin and glucagon (dasiglucagon) that could control blood sugar levels, guided by an algorithm developed to maintain and control blood glucose levels without the need for patient intervention. Currently two Phase 2a studies are ongoing with results expected in Q2 2017.
3. A treatment option for orphan diseases, such as congenital hyperinsulinemia (CHI) covering several congenital disorders caused by gene mutations or neonatal stress during late pregnancy/birth. On May 10, 2017, The Committee of Orphan Medicinal Products issued a positive opinion on an orphan medicinal product designation for Zealand's glucagon.

Long-acting amylin analogue (diabetes/obesity)
Zealand has two collaborations with Boehringer Ingelheim GmbH and has in May 2017 disclosed amylin as the biological target in one of our joint programs, with potential to treat obesity.

In preclinical studies, Zealand and Boehringer Ingelheim observed that the novel long-acting amylin analogue, ZP4982, prevents the development of obesity in preclinical models, suggesting its potential use in treating obesity and obesity-related comorbidities. Boehringer Ingelheim plans to advance a lead molecule into clinical testing in 2017.

Under the terms of the agreement, Boehringer Ingelheim is funding all research, development and commercialization activities. Zealand is eligible to receive license and milestone payments covered by the amylin agreement from 2014:

- Up to EUR 295 million in milestone payments, of which EUR 287 million is outstanding, and high single-digit to low double-digit royalties on global sales.

Conference call today at 4 p.m. CET

Zealand's management will be hosting a conference call today at 4 p.m. CET to present the Q1 results. Participating in the call will be President and Chief Executive Officer Britt Meelby Jensen, Executive Vice President and Chief Financial Officer Mats Blom and Executive Vice President and Chief Medical and Development Officer Adam Steensberg. 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 38322869
U.K. and international	+44 (0) 20 3427 1901
U.S. (free dial-in)	+1 212 444 0896
Passcode	7623825

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/iuasout3, also 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 start.

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

For further information, please contact:

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

Zealand's first invented medicine, lixisenatide, a once-daily prandial GLP-1 receptor agonist for the treatment of type 2 diabetes, is licensed to Sanofi. Lixisenatide is marketed as Adlyxin® in the U.S. and as Lyxumia® in the rest of the world. Lixisenatide has been developed in a combination with basal insulin glargine (Lantus®) and is marketed as Soliqua®100/33 in the U.S. and has been approved as Suliqua® in Europe and launched in the Netherlands.

Zealand's clinical pipeline includes: dasiglucagon* (ZP4207, single-dose rescue treatment) for acute, severe hypoglycemia (Phase 2); glepaglutide* (ZP1848) for short bowel syndrome (Phase 2); dasiglucagon* (ZP4207, multiple-dose version) intended for use in a dual-hormone artificial pancreas system for improved hypoglycemia control and diabetes management (Phase 2) and other earlier-stage clinical and preclinical peptide therapeutics.

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

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

Key figures for the Group

DKK thousand			Restated (1)	
Income statement and comprehensive income	**Note**	**1.1 - 31.3.17**	**1.1 - 31.3.16**	**1.1 - 31.12.16**
Revenue		77,619	6,740	234,778
Royalty expenses		-10,479	-908	-31,459
Research and development expenses		-60,696	-63,651	-268,159
Administrative expenses		-9,886	-7,523	-52,503
Other operating income		120	853	1,697
Operating result		**-3,322**	**-64,489**	**-115,646**
Net financial items		-24,380	-14,443	-43,764
Result before tax		**-27,702**	**-78,932**	**-159,410**
Income tax benefit	2	1,375	1,121	5,500
Net result for the period		**-26,327**	**-77,811**	**-153,910**
Comprehensive income/loss for the period		**-26,327**	**-77,811**	**-153,910**
Earnings/loss per share - basic (DKK)		-1.03	-3.27	-6.33
Earnings/loss per share - diluted (DKK)		-1.03	-3.27	-6.33
STATEMENT OF FINANCIAL POSITION				
Cash and cash equivalents		410,267	360,800	323,330
Restricted cash	3	6,721	110,742	318,737
Total assets		474,204	534,638	694,626
Share capital ('000 shares)		26,152	24,399	26,142
Equity		252,686	178,322	278,194
Equity ratio	4	0.53	0.33	0.40
Royalty bond		161,488	301,931	332,243
CASH FLOW				
Cash outflow/inflow from operating activities		-51,864	41,282	40,904
Cash flow from investing activities		310,314	-90,315	-299,958
Cash flow from financing activities		-174,146	3,902	157,146
Purchase of property, plant and equipment		-1,807	-80	-2,600
Free cash flow	5	-53,671	41,202	38,304
OTHER				
Share price (DKK)		112.50	135.00	106.5
Market capitalization (MDKK)	6	2,942	3,294	2,784
Equity per share (DKK)	7	9.88	7.49	11.69
Average number of employees		132	122	124
Products in clinical development (end period)	8	6	5	6
Products in registration phase (end period)		0	2	1
Medicines on the market		2	1	1

[1] Figures for the period ended March 31, 2016 have been restated due to certain misstatements. See Note 1 to the financial statements.
[2] According to Danish tax legislation, Zealand is eligible to receive DKK 5.5 million in cash relating to the tax loss in 2016. Zealand expects to be eligible to receive up to DKK 5.5 million in income tax benefit for 2017 of which DKK 1.4 million has been recognized for the period.
[3] Restricted cash serves as collateral for the royalty bond issued in 2014.
[4] Equity ratio is calculated as equity at the balance sheet date divided by total assets at the balance sheet date.
[5] Free cash flow is calculated as cash flow from operating activities less purchase of property, plant and equipment.
[6] Market capitalization is calculated as outstanding shares at the balance sheet date times the share price at the balance sheet date.
[7] Equity per share is calculated as shareholders' equity divided by total number of shares less treasury shares.
[8] Please refer to our pipeline on page 3.

Financial review

(Comparative figures for the corresponding period in 2016 are shown in brackets except for the financial position which expresses the comparative figures as of December 31, 2016)

In preparing the financial statements for the first three months of 2016, some 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 three months of 2017 was a loss of DKK 26.3 million compared to a loss of DKK 77.8 million for the same period of 2016. The improved result is primarily a consequence of an increase in revenue as compared to the same period in 2016, which was partially offset by increased financial expenses.

Revenue
Revenue for the first three months of 2017 amounted to DKK 77.6 million (6.7) of which DKK 5.1 million (6.7) related to royalty revenue on Sanofi's sales of Lyxumia® / Adlyxin® (lixisenatide) and DKK 2.9 million (0.0) to royalty revenue on Sanofi's first sales of Soliqua® 100/33.

Milestone revenue amounted to DKK 69.6 million (0.0) and relates to a USD 10 million milestone related to the approval of Suliqua® in the EU in January 2017.

Royalty expenses
Royalty expenses for the first three months of 2017 were DKK 10.5 million (0.9). Royalty expenses are payments by Zealand to third parties based on license payments received from Lyxumia® / Adlyxin® (lixisenatide) and Soliqua® 100/33 / Suliqua®.

Research and development expenses
Research and development expenses for the first three months of 2017 amounted to DKK 60.7 million (63.7) basically unchanged from the same period 2016, and consists mainly of costs related to the clinical development of dasiglucagon[2] (ZP4207) (both single and multiple dose formulations) and of glepaglutide[3] (ZP1848) for short bowel syndrome, as well as pre-clinical research activities.

Administrative expenses
Administrative expenses for the first three months of 2017 amounted to DKK 9.9 million (7.5) and consisted of expenses for administrative personnel, company premises, operating leases, investor relations etc.

Other operating income
Other operating income for the first three months of 2017 amounted to DKK 0.1 million (0.9).

Operating loss
The operating result for the first three months of 2017 was a loss of DKK -3.3 million (-64.5).

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 three months of 2017 amounted to DKK -24.4 million (-14.4). The increase in the first three months of 2017 as compared to the same period of 2016 is a result of the repayment of half of the outstanding royalty bond of USD 50 million, as described below. In conjunction

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

with the repayment of half of the outstanding royalty bond, DKK 11.2 million of capitalized financing costs, incurred when issuing the original royalty bond, were expensed.

Loss before tax
Loss before tax for the first three months of 2017 came to DKK -27.7 million (-78.9).

Income tax benefit
With a negative result in the first three months of 2017 and financial guidance also pointing towards a negative result also for the full year, Zealand expects to be eligible to receive up to DKK 5.5 million in income tax benefit for 2017 of which DKK 1.4 million (1.1) has been recognized for the period.

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 loss and comprehensive loss
Net loss and comprehensive loss for the first three months of 2017 amounted to DKK -26.3 million (-77.8).

Equity
Equity stood at DKK 252.7 million (278.2) at the end of the period, corresponding to an equity ratio of 53% (40%).

Capital expenditure
Investments in new laboratory equipment for the period amounted to DKK 1.8 million (0.1).

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 carries an interest rate of 9.375%. As security for the royalty bond, certain milestone payments relating to lixisenatide have been 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.

Following these transactions, the outstanding royalty bond amounts to USD 25 million (DKK 175 million). In the consolidated statements of financial position this is reported net of capitalized financing costs.

Cash and cash equivalents
As of March 31, 2017, Zealand had cash and cash equivalents of DKK 410.3 million (323.3). In addition, DKK 6.7 million (318.7) was held as collateral for the royalty bond. The total cash position as of March 31, 2017 was DKK 417.0 million (642.1).

Cash flow
Cash flow from operating activities amounted to DKK -51.9 million (DKK 41.3 million). Cash flow from investing activities amounted to DKK 310.3 million (DKK -90.3 million) as a consequence of transferring DKK 305.1 million from restricted cash as collateral for the royalty bond. Cash flow from financing activities amounted to DKK -174.1 million (DKK 3.9 million) relating to repayment of half of the outstanding royalty bond. The total cash flow for the first three months of 2017 amounted to DKK 84.3 million (DKK -45.1 million).

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 2016 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 – March 31, 2017. 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 March 31, 2017 as well as of the results of the Group's operations and cash flow for the period January 1 – March 31, 2017.

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, May 17, 2017

Executive Management

Britt Meelby Jensen	Mats Peter Blom
President and CEO	Executive Vice President and CFO

Board of Directors

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

Condensed consolidated interim financial statements

Condensed consolidated income statements for the three-month periods ended March 31, 2017 and 2016 and the twelve month period ended December 31, 2016

DKK thousand	Note	1.1 - 31.3.17	1.1 - 31.3.16 Restated	1.1 - 31.12.16
Revenue	2	77,619	6,740	234,778
Royalty expenses		-10,479	-908	-31,459
Research and development expenses		-60,696	-63,651	-268,159
Administrative expenses		-9,886	-7,523	-52,503
Other operating income		120	853	1,697
Operating loss		**-3,322**	**-64,489**	**-115,646**
Financial income		780	797	592
Financial expenses	6	-25,160	-15,240	-44,356
Loss before tax		**-27,702**	**-78,932**	**-159,410**
Income tax benefit		1,375	1,121	5,500
Net loss for the period		**-26,327**	**-77,811**	**-153,910**
Basic loss per share	4	-1.03	-3.27	-6.33
Diluted loss per share	4	-1.03	-3.27	-6.33

Condensed consolidated statements of comprehensive income (loss) for the three-month periods ended March 31, 2017 and 2016 and the twelve month period ended December 31, 2016

DKK thousand	Note	1.1 - 31.3.17	1.1 - 31.3.16 Restated	1.1 - 31.12.16
Net loss for the period		**-26,327**	**-77,811**	**-153,910**
Other comprehensive income		0	0	0
Comprehensive loss for the period		**-26,327**	**-77,811**	**-153,910**

Condensed consolidated statements of cash flow for the three-month periods ended March 31, 2017 and 2016

DKK thousand		1.1 - 31.3.17	Restated 1.1 - 31.3.16
Net loss for the period		-26,327	-77,811
Adjustments for non-cash items		14,036	9,856
Change in working capital		-26,831	116,001
Financial income received		349	27
Financial expenses paid		-13,091	-6,791
Cash outflow/inflow from operating activities		**-51,864**	**41,282**
Transfer from / (to) restricted cash related to the royalty bond	6	305,120	-93,307
Transfer from restricted cash for royalty bond interest payments		6,896	3,072
Change in deposit		-15	0
Purchase of property, plant and equipment		-1,807	-80
Sale of fixed assets		120	0
Cash flow from investing activities		**310,314**	**-90,315**
Proceeds from issue of shares related to exercise of warrants		819	3,902
Repayment of royalty bond	6	-174,965	0
Cash flow from financing activities		**-174,146**	**3,902**
Decrease/increase in cash and cash equivalents		**84,304**	**-45,131**
Cash and cash equivalents at beginning of period		323,330	418,796
Exchange rate adjustments		2,633	-12,865
Cash and cash equivalents at end of period		**410,267**	**360,800**

Condensed consolidated statements of financial position as of March 31, 2017 and December 31, 2016

DKK thousand	Note	31.3.17	31.12.16
ASSETS			
Non-current assets			
Plant and machinery		11,097	12,081
Other fixtures and fittings, tools and equipment		2,743	1,154
Leasehold improvements		398	408
Restricted cash		0	305,120
Deposits		2,705	2,690
Total non-current assets		**16,943**	**321,453**
Current assets			
Trade receivables		8,027	11,510
Prepaid expenses		19,909	13,837
Income tax receivable		6,875	5,500
Other receivables		5,462	5,379
Restricted cash		6,721	13,617
Cash and cash equivalents	5	410,267	323,330
Total current assets		**457,261**	**373,173**
Total assets		**474,204**	**694,626**
EQUITY AND LIABILITIES			
Share capital	3	26,152	26,142
Share premium		1,442,072	1,441,263
Retained losses		-1,215,538	-1,189,211
Equity		**252,686**	**278,194**
Royalty bond	6	126,529	328,878
Non-current liabilities		**126,529**	**328,878**
Trade payables		22,211	19,739
Royalty bond	6	34,959	3,365
Other liabilities		37,819	64,450
Current liabilities		**94,989**	**87,554**
Total liabilities		**221,518**	**416,432**
Total equity and liabilities		**474,204**	**694,626**

Condensed consolidated statements of changes in equity at March 31, 2017 and 2016

DKK thousand	Share capital	Share premium	Retained earnings	Total
Equity at January 1, 2016	**24,353**	**1,263,179**	**-1,035,301**	**252,231**
Comprehensive loss for the period				
Net loss for the period			-77,811	-77,811
Capital increase	46	3,856		3,902
Equity at March 31, 2016	**24,399**	**1,267,035**	**-1,113,112**	**178,322**
Equity at January 1, 2017	**26,142**	**1,441,263**	**-1,189,211**	**278,194**
Comprehensive loss for the period				
Net loss for the period			-26,327	-26,327
Capital increase	10	809	0	819
Equity at March 31, 2017	**26,152**	**1,442,072**	**-1,215,538**	**252,686**

Share premium and retained earnings have been restated at March 31, 2016. In the interim report for the first quarter of 2016 share premium was included in retained earnings.

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.

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

Accounting policies

The condensed consolidated interim financial statements should be read in conjunction with the Company’s Annual report for the year ended December 31, 2016, which was prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU. 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, 2016. There are no new IFRS or IFRS Interpretation Committee ('IFRIC') interpretations that are effective for this financial year that have had a material impact on the Company’s financial statements.

Significant accounting estimates and assessments

In the preparation of the condensed consolidated interim financial statements, management makes several 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 January 1 – March 31, 2017.

Restatement

The condensed consolidated financial statements for the three months ended March 31, 2016 include a number of restatements with respect to classification of certain items within the condensed consolidated statements of financial position and condensed consolidated statements of cash flow. In addition, for the period ended March 31, 2016, a restatement with respect to effects of currency adjustments has resulted in a change in the Net loss, Comprehensive loss for the period, Loss per share and Statement of changes in equity. The nature and impact of each restatement is described below, including

descriptions to the restated condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of cash flow and condensed consolidated statements of financial position:

Statements of cash flow

Restricted cash
The Company has restricted cash relating to the royalty bond issuance agreement. This amount was previously presented within the consolidated statements of cash flow as a component of cash, restricted cash and cash equivalents. The amount has been reclassified out of this balance, and the activity in the restricted cash balance has been presented within Cash inflow from investing activities, specifically, the line items "Transfer to restricted cash related to the royalty bond" and "Transfer from restricted cash for royalty bond payments". The line item reconciled from beginning of period to end of period has been renamed to Cash and cash equivalents to reflect the revised components thereof. The adjustment resulted in decreases in Cash and cash equivalents of DKK 21,403 thousand as of January 1. Further, the adjustment resulted in decreases in Cash and cash equivalents of DKK 110,742 thousand as of March 31, 2016.

As of March 31, 2016, there was a portion of restricted cash which relates to the Milestone Payments Reserve Account, established as restricted pursuant to the royalty bond indenture. The funds within the Milestone Payments Reserve Account are not expected to become unrestricted within the next 12 months and, as such, have been reclassified as a non-current asset. Within the condensed statement of financial position, DKK 93,307 thousand has been reclassified from restricted cash current to restricted cash non-current as of March 31, 2016.

As of March 31, 2016, there was a portion of cash which relates to a bank account with US Bank, classified as restricted cash. The funds are unrestricted, and within the financial position, DKK 2,037 thousand has been reclassified from restricted cash to cash and cash equivalents.

In 2016, the Company used part of the restricted cash for royalty bond interest payments. The adjustment resulted in cash of DKK 3,072 thousand reclassified from restricted cash.

Adjustments for non-cash items
The Company previously had 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 three month period ended March 31. The adjustment resulted in an increase in Adjustments for non-cash items of DKK 5,983 thousand as of March 31, 2016.

Change in working capital
The Company previously had not adjusted for all changes in working capital. The adjustment resulted in an increase of DKK 3,012 thousand for the three months ended March 31, 2016 within the condensed consolidated statements of cash flow.

Statements of financial position

Exchange rate adjustments
In preparing the condensed consolidated interim financial statements for the three months ended March 31, 2016, the Company inappropriately processed exchange rate adjustments related to certain of its consolidated subsidiaries on the basis that the functional currency of such subsidiaries was the US dollar (USD) instead of the Danish Krone (DKK). As a result, DKK (4,705) thousand was inappropriately presented on the line ‘‘Exchange rate adjustments’’ as part of Other Comprehensive Loss within the condensed consolidated statement of changes in equity. For the three-month period ended March 31,

2016, the restatement has resulted in a total increase to the net loss for the period of DKK 5,019 thousand impacting several financial statement line items within the condensed consolidated statements of comprehensive income (loss) and a decrease to the ‘‘Exchange rate adjustments’’ line of DKK 4,705 thousand within the condensed consolidated statement of changes in equity. Both loss per share (basic) and loss per share (diluted) have decreased -0.22 from -3.05 to -3.27 as a result of the restatement.

Miscellaneous
A few other adjustments have been made to the condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of cash flow and condensed consolidated statements of financial position.

Total Impact
The below table reflects the individual financial statement lines impacted by the restatements:

Condensed consolidated statements of comprehensive income (loss) for the three month period ended March 31, 2016

DKK thousand	As originally reported, Mar 31, 2016	Restate-ment	Amount as adjusted, Mar 31, 2016
Revenue	6,512	228	6,740
Royalty expenses	-877	-31	-908
Research and development expenses	-63,162	-489	-63,651
Administrative expenses	-8,001	478	-7,523
Other operating income	853		853
Operating loss	**-64,675**	**186**	**-64,489**
Financial income	722	75	797
Financial expenses	-9,960	-5,280	-15,240
Loss before tax	**-73,913**	**-5,019**	**-78,932**
Income tax benefit	1,121		1,121
Net loss for the period	**-72,792**	**-5,019**	**-77,811**
Loss per share - basic (DKK)	-3.05	-0.22	-3.27
Loss per share - diluted (DKK)	-3.05	-0.22	-3.27

Condensed consolidated statements of cash flow for the three months ended March 31, 2016

STATEMENT OF CASH FLOWS (DKK '000)	As originally reported, Mar 31, 2016	Restate-ment	Amount as adjusted, Mar 31, 2016
Net loss for the period	-72,792	-5,019	-77,811
Adjustments for non-cash items	4,994	4,862	9,856
Change in working capital	112,989	3,012	116,001
Financial income received	1,041	-1,014	27
Financial expenses paid	-6,791		-6,791
Cash outflow/inflow from operating activities	**39,441**	**1,841**	**41,282**
Transfer to restricted cash related to the royalty bond	0	-93,307	-93,307
Transfer from restricted cash for royalty bond interest payments	0	3,072	3,072
Change in deposit	0		0
Purchase of property, plant and equipment	-80		-80
Cash flow from investing activities	**-80**	**-90,235**	**-90,315**
Proceeds from issue of shares related to exercise of warrants	3,902		3,902
Cash flow from financing activities	**3,902**	**0**	**3,902**
Decrease/increase in cash and cash equivalents	**43,263**	-88,394	**-45,131**
Cash and cash equivalents at beginning of period	440,199	-21,403	418,796
Exchange rate adjustments	-11,920	-945	-12,865
Cash and cash equivalents at end of period	**471,542**	**-110,742**	**360,800**

Note 2 – Revenue

DKK thousand	1.1-31.3.17	1.1-31.3.16 Restated	1.1-31.12.16
Sanofi-Aventis Deutschland GmbH	69,603	0	208,692
Helsinn Healthcare S.A.	0	0	112
Protagonist Therapeutics, Inc.	0	0	1,636
Total license and milestone revenue	**69,603**	**0**	**210,440**
Sanofi-Aventis Deutschland GmbH	8,016	6,740	24,338
Total royalty income	**8,016**	**6,740**	**24,338**
Total revenue	**77,619**	**6,740**	**234,778**

Milestone revenue amounted to DKK 69.6 million (0.0) and relates to a USD 10 million milestone from Sanofi related to the approval of Suliqua® in the EU in January 2017.

DKK 5.1 million (6.7) related to royalty revenue on Sanofi's sales of Lyxumia® / Adlyxin™ (lixisenatide) and DKK 2.9 million (0.0) to royalty revenue on Sanofi's first sales of Soliqua® 100/33.

Note 3 – 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, 2016	**24,352,769**
Capital increase on March 30, 2016	46,613
Share capital at March 31, 2016	**24,399,382**
Share capital at January 1, 2017	**26,142,365**
Capital increase on March 23, 2017	9,500
Share capital at March 31, 2017	**26,151,865**

Note 4 – 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	1.1-31.3.17	1.1-31.3.16 Restated	1.1-31.12.16
Net loss for the period	-26,327	-77,811	-153,910
Net loss used in the calculation of basic and diluted loss per share	-26,327	-77,811	-153,910
Weighted average number of ordinary shares	26,143,315	24,353,793	24,873,940
Weighted average number of treasury shares	-564,223	-564,223	-564,223
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	25,579,092	23,789,570	24,309,717
Basic loss per share (DKK)	**-1.03**	**-3.27**	**-6.33**
Diluted loss per share (DKK)	**-1.03**	**-3.27**	**-6.33**

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:

	31 Mar 2017	31 Mar 2016	31 Dec 2016
Outstanding warrants under the 2010 Employee incentive program	710,379	997,241	728,629
Outstanding warrants under the 2015 Employee incentive program	940,000	463,250	942,250
Total outstanding warrants, which are anti-dilutive	**1,650,379**	**1,460,491**	**1,670,879**

Note 5 - Cash and cash equivalents

DKK thousand	31 Mar 2017	31 Dec 2016
DKK	17,906	16,609
USD	198,232	214,915
EUR	194,129	91,806
Total cash and cash equivalents	**410,267**	**323,330**

As of March 31, 2017, Zealand had cash and cash equivalents of DKK 410.3 million (December 31, 2016: DKK 323.3 million). In addition, DKK 6.7 million (December 31, 2016: DKK 318.8 million) are held as collateral for the royalty bond. The total cash position as of March 31, 2017 is DKK 417.0 million (December 31, 2016: DKK 642.1 million).

Note 6 – 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 carries an interest rate of 9.375%. As security for the royalty bond, certain milestone payments relating to lixisenatide have been 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.

Following these transactions, the outstanding royalty bond amounts to USD 25 million (DKK 175 million). In the consolidated statements of financial position this is reported net of capitalized financing costs. As a consequence of the repayment DKK 11.2 million of the original capitalized financing costs was taken to the condensed consolidated income statement in Q1, 2017 in the line “Financial expenses”. Furthermore, a fee of DKK 5.2 million was paid due to the repayment, DKK 3.5 million of such fees has been capitalized and DKK 1.7 million was taken to the condensed consolidated income statement in Q1, 2017 in the line “Financial expenses”.

For further information regarding the royalty bond please view note 19 in the Annual Report for 2016.

Note 7 - Financial instruments

As of March 31, 2017 and December 31, 2016 there were no financial instruments carried at fair value.

Except as detailed in the following table with respect to the royalty bond, as of March 31, 2017 and December 31, 2016, the carrying amount of financial assets and financial liabilities approximates the fair value.

	31 March 2017		31 December 2016	
DKK thousand	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Royalty bond	161,488	193,325	332,243	356,626

Note 8 – Significant events after the end of the reporting period

On April 6, 2017, Zealand granted 517,392 new warrants to Executive Management, other members of senior management and employees. The warrants give the holders the right to subscribe to 517,392 new Zealand shares with a nominal value of DKK 1 each and corresponding to 2.0% of the company´s total outstanding share capital. The exercise price is fixed at DKK 135.30 reflecting the closing price of Zealand´s shares on Nasdaq Copenhagen on April 5, 2017 plus 10%.

The total number of new warrants granted has a combined market value of DKK 21.7 million calculated on the basis of the Black-Scholes model including a 5-year historic volatility of 43.6%, a 5-year historic risk free interest rate of -0.24% and a share price of DKK 123.00.

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

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

The Board of Directors has become aware that 14,566 warrants issued to the Chief Executive Officer of the Company on April 5, 2016 is an invalid issuance of warrants contrary to the Company's guidelines regarding incentive pay. As a result, the Board of Directors will ensure that these warrants are cancelled. The effect of the cancellation will be included in the forthcoming interim report. The effect on the Company's financials is not material. The Company will issue an announcement upon the cancellation and the resulting changes to the Articles of Association.

A positive opinion on orphan medicinal product designation, issued by The Committee of Orphan Medicinal Products (COMP) for treatment of congenital hyperinsulinism (CHI) in EU was achieved for dasiglucagon.

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