Veloxis Pharmaceuticals A/S

ANNUAL REPORT
2013

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The Annual Report was presented and approved at the Annual General Meeting on /

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Chairman of the meeting

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To our shareholder

Dear Shareholder,

Veloxis Pharmaceuticals A/S had an exceptionally exciting and productive year in 2013. Looking back at the major events of the year, the Company continued to execute well against its corporate strategy of single focus on Envarsus®, for prevention of transplant rejection. At mid-year, the Company reported the results from its large, pivotal Phase III study in 543 patients who had just received kidney transplants prior to initiation of study drug therapy. The study was a rigorous, double-blind, multi-national one-year study with an ongoing one-year study extension. The study protocol had received a Special Protocol Agreement with the U.S. FDA, helping to ensure that the design was sufficient to support registration in the U.S. The results from the study indicated that once-daily Envarsus® provided protection against transplant rejection matching the standard-of-care, twice-daily Prograf® (from Astellas). These results were achieved using a lower dose of Envarsus® reflecting the enhanced absorption of the drug via the Company's MeltDose technology.

The Company reported strongly positive results from the STRATO Phase IIIb/IV study. Patients with troubling tremors (a common side effect of Prograf® therapy) were asked to switch to Envarsus®. Following conversion to Envarsus®, the patient data showed a significant reduction in the magnitude of tremor, significantly less functional interference from tremor, and significantly improved quality of life. All patients enrolled in the study asked to continue into the one-year open-label extension to continue Envarsus® therapy.

In 2013, the Company filed registration packages with both the European regulatory agency (EMA), and the US regulatory agency (FDA). These packages were successfully submitted and are expected to receive regulatory action in the second half of 2014. The Company also applied for, and was awarded, Orphan drug designation in the US on the basis of a plausible hypothesis of superiority relative to currently available tacrolimus products.

The Company enjoys a successful collaboration with Chiesi Farmaceutici SpA and Chiesi intends to launch the product in EU following approval. Chiesis has a well-established specialty pharmaceutical sales and marketing infrastructure throughout Europe and is demonstrating strong results with the specialty therapeutic product, Curosurf®. Chiesi is expected to be a very capable sales and marketing partner for Envarsus® in Europe. Envarsus® will compete in EU against twice-daily Prograf®, once-daily Advagraf® (both from Astellas) as well as generic and cyclosporine based treatment regimens. In the US, Veloxis continues its plan to build the small commercial infrastructure required to market successfully this specialty therapeutic product. Veloxis expects to build a sales force of approximately 20 field-base sales representatives to cover the major transplant centers throughout the US. This structure is anticipated to generate efficient sales and maximize return to shareholders. In addition Veloxis will further explore opportunities to partner Envarsus® in other geographies beyond EU and US.

The year 2013 has seen the timely achievement of the major anticipated events for Envarsus® and for Veloxis with several achievements beyond expectation, notably Orphan drug designation in the U.S. The Company enjoys a solid cash position with sufficient financial resources to achieve timely regulatory review and approval, and to fund initial launch and commercialization activities. The Company board, management and employees thank you for your support through a very successful 2013 and we look forward to another exciting year in 2014.

Yours sincerely,

Kim Bjørnstrup	William J. Polvino
Chairman	President & CEO

Highlights 2013

NDA Submission for Envarsus®

30 December, Veloxis announced that the company has submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) seeking approval for the marketing and sale of Envarsus® for the prevention of organ rejection in kidney transplant recipients.

Envarsus® granted Orphan Drug Status by FDA

24 December, Veloxis announced that Envarsus® was granted Orphan Drug status by the U.S. Food and Drug Administration (FDA) for prophylaxis of organ rejection in patients receiving allogenic kidney transplants. The designation is to encourage the development of drugs that may provide significant benefit to patients suffering from rare diseases.

ASERTAA Study of Envarsus®

11 December, Veloxis announced dosing of the first patient in ASERTAA (A Study of Extended Release Tacrolimus in African-Americans) Phase IIIb study of Envarsus® in kidney transplant recipients. The ASERTAA study is designed to compare the pharmacokinetics (PK) of Envarsus®, a once-daily tacrolimus tablet, to generic twice daily tacrolimus capsules in stable African-American renal transplant patients.

Envarsus®

4 September, Veloxis announced that the trade name for LCP-Tacro™ is Envarsus®.

Positive results of 3002 Study

27 June, Veloxis announced that Envarsus® successfully demonstrated non-inferiority compared to tacrolimus (Prograf®; Astellas Pharma) in its Phase III clinical trial, Study 3002. The Phase III randomized, double-blind and double-dummy study in 543 *de novo* kidney transplant recipients, with Prograf® as the comparator, met its primary efficacy and primary safety endpoints.

European Medicines Agency (EMA) accepts Veloxis' Marketing Authorization Application (MAA)

21 May, Veloxis announced that the European Medicines Agency (EMA) accepted for review the company's Marketing Authorization Application (MAA) to market Envarsus® for the prevention of organ rejection in kidney transplant patients in the European Union. Veloxis expects the decision from the European Union in 2014.

Final STRATO clinical study data

20 May, Veloxis announced that data from the STRATO study demonstrates the potential for Envarsus® to improve tacrolimus-induced tremors in stable kidney transplant patients.

Submission of Marketing Authorization Application (MAA) to European Medicines Agency (EMA)

29 April, Veloxis announced that it has submitted a Marketing Authorization Application (MAA) to the European Medicines Agency (EMA) seeking approval to market Envarsus® for the prevention of organ rejection in kidney transplant patients in the European Union.

Outlook 2014

Outlook

Veloxis is expecting an operating loss of DKK 60 - 90 million compared to the realized operating loss of DKK 136 million in 2013. Net loss is expected to be in the range of DKK 55 - 85 million compared to the net loss of DKK 139 million in 2013. As of 31 December 2013, the Company's cash position equaled DKK 329 million and the Company's 31 December 2014 cash position is expected to be in the range of DKK 230 - 270 million.

The above estimates are subject to possible changes primarily due to the timing of regulatory approvals and associated milestone payments along with variation of clinical activities and fluctuating exchange rates.

Important events following the balance sheet date

Notice of Allowance from U.S. Patent Office

8 January, Veloxis announced that United States Patent and Trademark Office had issued a Notice of Allowance for U.S. Application Serial Number 13/167,420, a patent which covers the diurnal-independent administration of Envarsus®.

Veloxis business strategy

The primary goal of Veloxis is to obtain regulatory approval in the US and the EU for its late stage development candidate Envarsus® (formerly LCP- Tacro™), and then commercialize the product. The key elements of Veloxis' business strategy are as follows:

- **Obtain regulatory approval for Envarsus® within the organ transplantation area.**

  Envarsus® (once-daily dosage) has received positive Phase II and Phase III clinical data in kidney transplant patients when compared head-to-head with Prograf® (twice-daily dosage). In addition, the Company has received positive Phase II data for Envarsus® in liver transplant patients when compared head-to-head with Prograf®. The Company has elected to focus its development efforts on pursuing Envarsus® for treatment of kidney transplant patients, given the larger potential patient population and demand and has filed regulatory submissions with health authorities in the US and EU for approval of Envarsus® for use as a prophylaxis in prevention of rejection for kidney allograft transplants.

- **Maximise the full value of the Envarsus® programme by funding in-house through the completion of NDA/MAA submission and commercial launch.**

  The Company initiated Phase III clinical studies for Envarsus® in stable kidney transplant patients in the second half of 2008 and in *de novo* kidney transplant patients in the fourth quarter of 2010. The *de novo* transplant study protocol received a Special Protocol Assessment ("SPA") from the FDA, and completed enrolment of 543 patients in March 2012 and results of this study were announced in June 2013.

  The Company submitted an MAA to the EMA in April 2013 and an NDA to the FDA in December 2013. Regulatory actions on these applications are anticipated to take place in or around the second half of 2014.

- **Commercialize Envarsus® in the US and partner outside of the US.**

  The Company plans to commercialize Envarsus® in the US itself and through partnering arrangements in the rest of the world. The Company has concluded a partnership agreement with Chiesi in respect of the commercialization of Envarsus® in certain countries, including Europe, Turkey and CIS Countries.

Envarsus® for transplantation

Envarsus® is being developed as a once-daily dosage tablet version of tacrolimus for the treatment of kidney transplant patients. Compared with Astellas Pharma Inc.'s Prograf®, a twice-daily dosage capsule version of tacrolimus, Veloxis believes that Envarsus® has the following potential benefits:

- once-daily dosing;
- improved systemic absorption;
- improved bioavailability and thus a lower dose of tacrolimus; and
- limited variability in the concentration of tacrolimus in the blood ("peak-to-trough" fluctuation).

Envarsus® development status and milestones

Disease indications	Clinical studies	Status
Organ transplant–Kidney	Phase III - *De novo* kidney transplant patients	Ongoing ,One Year Results announced June 2013
	Phase III - Stable kidney transplant patients	Completed 2Q 2011
	Phase II - *De novo* kidney transplant patients	Completed 3Q 2010
	Phase II - Stable kidney transplant patients	Completed 1Q 2008
	Other studies - Phase IIIb/IV (STRATO)	Completed 2Q 2013
Organ transplant–Liver (Not in active development)	Phase II - *De novo* liver transplant patients	Completed 4Q 2010
	Phase II - Stable liver transplant patients	Completed 3Q 2009

Transplant patients need to maintain a minimum level of tacrolimus in the blood in order to prevent organ rejection. On the other hand, if too much tacrolimus is administered, there is an increased risk of serious side effects such as kidney damage. Since tacrolimus is a "narrow therapeutic index" drug, its concentration and dosing must be carefully managed, typically requiring transplant patients to visit the hospital for monitoring and dose adjustments after receiving a new organ. In Phase I, II and III clinical studies, Envarsus® has demonstrated higher bioavailability when compared with Prograf®. Envarsus® is formulated using Veloxis' MeltDose technology, and through this technology Veloxis has aimed to optimize the delivery kinetics of Envarsus® to provide "flat" pharmacokinetics, reducing the peak concentrations associated with standard tacrolimus formulations.

Development status

Kidney – Phase III clinical studies

A Phase III programme in kidney transplant patients was initiated in the second half of 2008. The programme consisted of one successfully completed conversion (switch) study in stable kidney transplant patients with Prograf® as the comparator, as well as one ongoing *de novo* kidney transplant study versus Prograf®. In addition, the Company has conducted its Phase IIIb/IV STRATO study.

Envarsus® in kidney transplant patients (stable patients, Study 3001)

This study was completed and preliminary data was released in June 2011. Data from this study was presented at the European Society for Organ Transplantation in September 2011 in Glasgow and at the American Society of Nephrology Renal Week in November 2011 in Philadelphia.

This Phase III study successfully demonstrated non-inferiority in predefined endpoints compared to Prograf®. The Phase III open-label conversion (switch) study in 326 stable kidney transplant patients, with Prograf® as the comparator, met all its primary efficacy and safety endpoints.

Envarsus® in kidney transplant patients (*de novo* patients, Study 3002)

This clinical Phase III study in *de novo* kidney transplant patients was initiated in October 2010. Patient enrolment was completed in the first quarter of 2012, with 543 patients enrolled. One year data from this study was presented at the European Society for Organ Transplantation congress held in Vienna in September 2013.

Study 3002 is a randomized, double-blind, multicentre study that compares once-daily Envarsus® with twice-daily Prograf® in *de novo* adult kidney transplant patients. The primary endpoint of the study, a composite endpoint (BPAR, graft failure, loss to follow-up or death), was evaluated after a 12-month treatment period and demonstrated the non-inferiority of Envarsus® compared to Prograf®. Secondary endpoints which include safety, tolerability and renal function assessments were comparable between Envarsus® and Prograf®. The study is being conducted at approximately 90 transplant centres, primarily in the US and Europe. Patients participate in a 12-month extension period on treatment for follow-up safety assessments. This study is being conducted under an SPA, such that the FDA has assessed the protocol for the study and has agreed that it will not later alter its perspective on the issues of the agreed design, execution, or analyses proposed in the protocol(s) unless public health concerns unrecognized at the time of protocol assessment under this process are evident.

Additional studies in order to identify potential additional characteristics of Envarsus® compared to Prograf®

Veloxis has completed one Phase IIIb/IV study (STRATO – Study 3003, described below) and plans to initiate several additional Phase IIIb/IV studies to further examine the potential clinical differences Envarsus® and existing therapies including most notably Prograf®.

STRATO (Switching kidney TRAnsplant patients with Tremor to LCP-tacrO – Study 3003)

This was an open-label study of Envarsus® in kidney transplant patients experiencing tremors on standard tacrolimus formulations. It was designed to explore whether converting patients who have symptomatic tremor from treatment with standard twice-daily tacrolimus capsules (such as Prograf®) to sustained release once-daily Envarsus® tablets, leads to a measurable improvement in tremor. This study was initiated in December 2011 and results were presented at the European Society for Organ Transplantation congress held in Vienna in September 2013. The STRATO Study demonstrated that Envarsus® may reduce a troubling side effect of tacrolimus, tremor, and improve the quality of life of kidney transplant recipients.

Commercial strategy

The transplant marketplace in the US is ideally suited for a small and well-focused selling effort and the clinical practice of transplant medicine leads to a unique commercialization opportunity. Transplants are generally performed at a small number of highly specialized centres, of which there are approximately 250 in the entire US. Patients waiting for a transplant will often travel considerable distances for transplant at one of these few centres. As such, a limited number of sales representatives can cover the majority of the centres.

Upon receipt of regulatory approval, Veloxis plans to launch and commercialize Envarsus® in the US through its own dedicated sales representatives and to commercialize the product in the rest of the world via partnering arrangements. The required infrastructure build for the US is underway and will be completed as the Company nears projected launch. It is anticipated that a field sales force of approximately 20 representatives will be hired to call on the key transplant centres in the US.

Regulatory action from the FDA in response to the NDA filing in the US is anticipated to take place approximately one year after the submission date of December 2013, based on historic precedent.

In relation to other jurisdictions, the Company has recently concluded a partnership agreement with Chiesi in respect of the commercialization of Envarsus® in certain countries, including Europe, Turkey and CIS Countries. Regulatory action from the EMA on the EU MAA is anticipated for second half of 2014. Chiesi has a strong history of selling specialty products in the EU market and an extensive sales and distribution network.

Market size

In 2012, more than 50,000 organ transplants were conducted in the US, Japan, the United Kingdom, France, Germany, Italy and Spain.

The immunosuppression market comprises several different classes of compounds. The main class of immunosuppressants is the calcineurin inhibitors (CNIs), which includes tacrolimus (Prograf® and Advagraf® / Astagraf XL (Astellas Pharma Inc.) and generics of Prograf®) and cyclosporine (Neoral® and Sandimmune® (Novartis AG) and generics). The worldwide sales of non-generic Prograf® and Advagraf® were reported by Astellas Pharma Inc. to be JPY 161.8 billion (approximately USD 1.95 billion) for 2012 (Astellas Pharma Inc. Annual Report FY 2012). Sales of non-generic cyclosporine (Neoral and Sandimmune), for which generic versions have been available since 2000, were reported to be USD 750 million for 2013 (Novartis AG Annual Report FY 2013). The CNIs are the principle class of agents that will compete with Envarsus® for sales, together with Nulojix® (belatacept), which was launched by Bristol-Myers Squibb Company (“BMS”) in 2011 and achieved sales of USD 8 million in 2013 (BMS Annual Report 2013).

Cardiovascular

As Veloxis is focusing its efforts and resources on the development, regulatory approval and commercialization of Envarsus®, the Company is discontinuing future efforts to identify partners for its existing pipeline cardiovascular assets. Within the cardiovascular area, one product, Fenoglide, developed using Veloxis' proprietary MeltDose technology has received approval from the FDA for commercial sale in the US for the treatment of dyslipidemia (which includes hypertriglyceridemia, mixed dyslipidemia and hypercholesterolemia).

Fenoglide

In August 2007, the FDA approved Fenoglide for the treatment of dyslipidemia in the US. Veloxis has out-licensed the commercial rights of Fenoglide for the US, Canada and Mexico.

The commercial rights are held by Santarus Inc.

MeltDose technology

The Company's proprietary MeltDose technology enables the formulation and drug delivery attributes of the Envarsus® product candidate. MeltDose enhances the bioavailability of compounds with low water solubility, supporting the creation of improved versions of marketed drugs. MeltDose has been validated in clinical studies and received regulatory acceptance through the FDA approval of Fenoglide for sale in the US.

Veloxis believes that the MeltDose technology, which forms the basis of the Envarsus® product candidate, may offer several meaningful clinical benefits, including, but not limited to:

- **Decreased intra-individual variability**: Veloxis believes that by enhancing bioavailability, variability can be reduced leading to improved efficacy/side effect profiles of compounds with a narrow therapeutic index.
- **Reduction in peak-to-trough ratio**: Drugs often exhibit high peak (Cmax) and low trough (Cmin) plasma levels that may severely affect the clinical profile of the drug. This is particularly problematic since severe side effects may be induced at high Cmax values, and lack of clinical effect may occur at low trough levels. A solution to this pharmacokinetic profile problem may be the development of a sustained release formulation such as the Company's MeltDose technology, allowing a beneficial combination of an increase in bioavailability and a controlled or modified release plasma profile.

Reduction of administration frequency: In order to improve compliance, it may be beneficial to reduce daily dosing frequency, for example from two times a day to once daily. This may be achieved by a sustained release formulation and, as described above, Veloxis believes that the Company's proprietary MeltDose technology may solve this problem as it combines an increase in bioavailability with a sustained- or modified-release profile.

Financial Review

Revenue
During 2013, Veloxis recognized deferred revenue of DKK 38.2 million as revenue compared to DKK 6.9 million in 2012. Deferred revenue consist of up-front and milestone payments under Veloxis' distribution agreement with Chiesi Farmaceutici S.p.A. and is recognized in the income statement based on planned development periods.

Research & development cost
Research and development costs decreased by DKK 64.2 million, or by 30.5%, from DKK 210.7 million in 2012 to DKK 146.5 million in 2013. Research and development costs are mainly attributable to the phase III trial in Envarsus® (*de novo* patients, Study 3002). The reduction in cost between the two periods is mainly related to effect from the executed restructuring and discontinuation of other pipeline activities in May 2012.

On an overall basis, research and development costs account for 84.1% of total cost of operations. The comparable figure for 2012 was 85.1%.

Administrative expenses
Administrative expenses decreased by DKK 9.1 million or by 24.7%, from DKK 36.9 million in 2012 to DKK 27.8 million in 2013. The reduction in cost is attributable to the continued focus of reducing overall cost, combined with the effect from the executed restructuring in May 2012.

Share-based compensation cost
During 2013, a total of DKK 8.6 million was recognized as share-based compensation. The comparable number for 2012 was DKK 7.2 million.

Operating loss
During 2013, Veloxis recognized DKK 136.1 million in operating loss compared to DKK 262.2 million in 2012.

Financial items
Net financial items decreased by DKK 3.6 million, from an expense of DKK 0.9 million in 2012 to an expense of DKK 4.4 million in 2013. The loss in 2013 is mainly attributable to fluctuations in the USD/DKK exchange rate.

Net loss
During 2013, Veloxis recognized DKK 139.3 million in net loss compared to DKK 262.7 million in 2012.

The net loss is better than management's expectations for 2013 as reported on 13 November 2013 in connection with the third quarter interim report, which projected a net loss of DKK 160 - 190 million. The positive deviation is mainly driven by the granted orphan drug status which has reduced regulatory costs.

Cash Flow
As per 31 December 2013, the balance sheet reflects cash and cash equivalents of DKK 328.7 million compared to DKK 496.8 million as per 31 December 2012. The decrease in cash position reflects the changes in operating activities in 2013.

The cash position is in line with management's expectations for 2013, which projected a cash position at the end of 2013 of DKK 310 - 340 million.

Balance sheet

As per 31 December 2013, total assets were DKK 348.9 million compared to DKK 509.3 million at the end of 2012.

Shareholders' equity equaled DKK 279.0 million as of 31 December 2013, compared to DKK 409.7 million at the end of 2012.

Financial highlights

Financial Highlights

DKK'000	2013	2012	2011	2010	2009
Income Statement					
Revenue	38,148	6,868	-	1,496	2,476
Research and development costs	(146,512)	(210,739)	(222,053)	(210,426)	(210,140)
Administrative expenses	(27,771)	(36,889)	(47,814)	(52,198)	(62,381)
Operating loss before restructuring cost	(136,135)	(240,760)	(269,867)	(261,128)	(270,045)
Restructuring cost	-	(21,462)	-	(10,894)	(9,489)
Operating loss	(136,135)	(262,222)	(269,867)	(272,022)	(279,534)
Net financial income / (expenses)	(4,426)	(850)	16,048	(759)	8,540
Loss before tax	(140,561)	(263,072)	(253,819)	(272,781)	(270,994)
Tax for the period	1,250	363	1,193	(1,425)	-
Net loss for the period	(139,311)	(262,709)	(252,626)	(274,206)	(270,994)
Balance Sheet					
Cash and cash equivalents	328,652	496,834	297,727	531,519	333,429
Total assets	348,863	509,271	320,927	562,906	379,269
Share capital	166,057	165,932	452,543	452,543	56,568
Total equity	279,042	409,737	255,900	498,238	317,281
Investment in property, plant and equipment	1,055	260	2,981	2,583	11,043
Cash Flow Statement					
Cash flow from operating activities	(157,747)	(205,870)	(234,637)	(238,148)	(251,158)
Cash flow from investing activities	(1,055)	169,712	(169,778)	(2,658)	(11,011)
Cash flow from financing activities	(3,227)	404,304	(5,948)	440,014	729
Cash and cash equivalents at period end	328,652	496,834	297,727	531,519	333,429
Financial Ratios					
Basic and diluted EPS (DKK)	(0.08)	(0.43)	(0.56)	(2.84)	(4.80)
Weighted average number of shares	1,660,353,248	607,511,489	452,542,480	96,707,708	56,443,701
Average number of employees (FTEs)	26	48	52	59	93
Assets/equity	1.25	1.24	1.25	1.13	1.20

People

At year end 2013 Veloxis employed 24 persons in our two locations in Hørsholm, Denmark and New Jersey, USA. The organization is built to support our strategy and we will continue to strengthen the organization with focus on the commercialization of Envarsus® in the US.

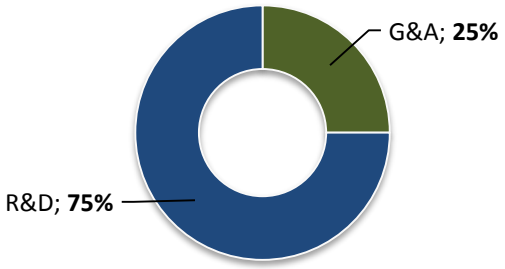
Attracting and retaining the best talent is crucial to our success and continues to be a company-wide focus.

As of 31 December 2013, 75% of the employees were in research and development (R&D) and 25% were in general and administration (G&A).

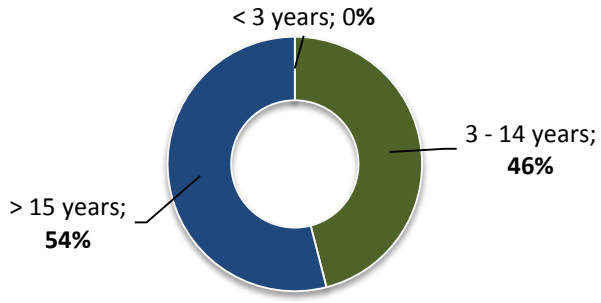
Educational background

It is a prerequisite for Veloxis' activities that our employees are both highly motivated and well educated. 63% of Veloxis' employees have a university degree at a master's level or above. Our team is also highly experienced in that 54% of our employees have been employed in the biotech or pharmaceutical industry for more than 15 years.

Employees in R&D and G&A



Employees' experience in biotech or pharma



Corporate governance & risk management

As a company listed on NASDAQ OMX Copenhagen, Veloxis must be in compliance with Danish securities law and it is Veloxis' intent to be guided by the Corporate Governance Recommendations designated by NASDAQ OMX Copenhagen. NASDAQ OMX Copenhagen has on a comply or explain basis designated the Danish Recommendations on Corporate Governance (revised May 2013) prepared by the Danish Committee on Corporate Governance. Veloxis' position and our compliance with these recommendations are summarized below and the full reporting of Veloxis' governance practice in accordance with the Danish Financial Statements Act, section 107b can be found on our webpage http://www.veloxis.com/governance.cfm.

Practices of the Board of Directors

The Articles of Association stipulate that the Board of Directors is elected by the Company's shareholders at the annual general meeting and members are elected for one-year terms. Members may stand for re-election for successive terms. The Board of Directors shall consist of not less than three and no more than nine members elected by the Company's shareholders at the general meeting. The Board of Directors has established a Remuneration Committee and an Audit Committee.

In 2013, the Board met physically five times. Four meetings were attended by all board members; one of the members had to be excused from attending a meeting during the year. In addition the Board had three meetings held as conference calls; all meetings were attended by all board members. Further the Audit Committee met physically four times during the year, and the Remuneration Committee had two meetings held as conference calls during the year.

Board composition

In order to secure the right competencies and promote diversity, the following targets have been set for the composition of the Board of Directors:

- At least half of the board members shall be independent in accordance with the Danish Code on Corporate Governance
- At least half of the shareholder-elected board members shall have substantial pharmaceutical experience
- One-third or more of the board members shall be female, and one-third or more of the board members shall be male

Bullet one and two were met in 2013.
Regarding bullet three on gender composition the Board of Directors has increased its ambition and set out new targets to be reached within a four-year period, to allow for continuity of the board. This fulfills the requirements of section 99b of the Danish Financial Statements Acts.

Danish recommendations on corporate governance

1. Communication and interaction by the company with its investors and other stakeholders
   Veloxis complies with these recommendations.

2. Tasks and responsibilities of the board of directors
   Veloxis complies with these recommendations, with the following exceptions:

2.1 Overall tasks and responsibilities

Veloxis support equal opportunities for both sexes and annually discuss the company's activities to ensure diversity. Veloxis is a small company and do not intend to formalize objectives for the time being.

3. Composition and organization of the board of directors

Veloxis complies with these recommendations, with the following exceptions:

3.4 Board committees

The chairmanship performs the tasks of a nomination committee.

4. Remuneration of management

Veloxis complies with these recommendations, with the following exceptions:

4.1 Form and content of the remuneration policy

Veloxis believes that the ability to offer warrants as well as other forms of shares as incentive compensation is necessary to attract key people from within the industry (whether as board members, managers or employees).

4.2 Disclosure of remuneration policy

The total remuneration to each member of the board and the executive management is not disclosed in the annual report. The total remuneration to the entire board and the entire executive management, respectively, is disclosed together with an explanation of the components. It is the company's judgment that disclosure of the remuneration paid to each individual member of the Executive Management will not add additional value for shareholders and other stakeholders.

5. Financial reporting, risk management and audits

Veloxis complies with these recommendations.

Guidelines for incentive pay

Board members

Members of the Board of Directors receive a fixed annual fee. The Chairman of the Board of Directors and the Chairman of the Audit Committee and Chairman of the Remuneration Committee receive a supplement to the fixed annual fee.

In addition to the fixed annual fee, the members of the Board of Directors are annually granted a fixed number of warrants. The estimated present value of warrants granted in a given financial year may be up to 100% of the fixed annual fee to the individual member of the Board of Directors. The estimated present value is calculated in accordance with the International Financial Reporting Standards (IFRS). The general terms and conditions applying to the grant, vesting, exercise, etc. of the warrants must be within the general terms and conditions applying if warrants are to be granted to members of the Executive Management, cf. below, and which also apply to other employees in the Company which has been granted warrants.

Upon election, each member of the Board of Directors may decide to exchange the fixed number of warrants for an additional annual fee.

Executives

The Remuneration Committee performs an annual review of the remuneration package paid to members of the Executive Management.

The remuneration paid to members of the Executive Management consists of a fixed and a variable part. The fixed pay consists of cash salary, pension contribution and other benefits.

As an element of the variable pay, members of the Executive Management may receive an annual bonus, subject to achievement of certain benchmarks. The bonus proportion varies among the members of the Executive Management, but cannot exceed 100% of the fixed annual cash salary. The actual bonus paid to the Executive Management is disclosed in the Annual Report at an aggregated level. At the date of adoption of these guidelines, the bonus benchmarks comprise primarily of the progress in the Company's development of its product candidates, but they may be changed by the Board of Directors. The remuneration paid to members of the Executive Management is disclosed on page 43.

Another element of the variable pay is made up of new warrants and is intended to ensure that the Executive Management's incentive correlates with creation of shareholder value. The estimated aggregated present value of new warrants granted in a given financial year to the members of the Executive Management may be up to 100% of the aggregated fixed annual cash salary to the member of the Executive Management. The estimated present value is calculated in accordance with the International Financial Reporting Standards (IFRS). The grant of new warrants may or may not be subject to achievement of defined benchmarks. The exercise price of the new warrants cannot be less than the market price of the Company's stock at the date of grant. The new warrants may have a maximum term of up to 7 years and the exercise of the new warrants may be subject to a vesting period of up to 4 years. New warrants may be granted on such terms that the gain is taxed as share income while the costs of the grant are not tax deductible for the Company. The number of new warrants granted to members of the Executive Management is disclosed on page 44.

Change of control

Employment agreements with Executive Management

Members of Executive Management are entitled to receive a severance payment corresponding to twenty-four months' salary following termination of their employment, if the employment terminates in connection with a change of control of the company occurs (transfer of more than 50% of the company's shares/votes).

Collaboration and license agreements

Veloxis has not entered into any significant collaboration and license agreements with external parties, which are subject to renegotiation in case of a change of control event in Veloxis.

Statutory report on corporate social responsibility

Veloxis' policies regarding corporate social responsibility comprise partly our working environment and partly business partners and suppliers. We do not expect to make material capital investments as a result of the planned initiatives within corporate social responsibility. Moreover, we do not expect that the activities will require significantly increased administrative resources compared with previously.

Environment

Veloxis is an emerging speciality pharmaceutical company without either laboratories or production facilities and hence the Group's consumption of energy and other natural resources and its discharges of substances into the air and water are limited.

Working environment

The objective of our working environment activities is to create continuous improvements in relation to the safety, health and workplace satisfaction of our employees. In order to ensure that Veloxis remains a safe workplace, we continuously monitor our performance:

- Assessment of absent due to the working environment.
- Assessment of incidents and nearby incidents related to working environment.
- Established a WESO (Work Environment Safety Organization) group which meet three times a year.

Throughout the year only a few minor incidents have occurred and have been handled by the WESO organization as part of their work and oversight.

Further the company has a whistleblower system that all employees can use anonymously to contact the audit committee if they experience non-compliance with Veloxis' policies and procedures. No incidents have been reported during the year.

Business partners and suppliers

Veloxis' policy for business partners and suppliers is to work to promote good business conduct and reasonable environmental and social standards with those with whom we do business.

Our policy for business partners and suppliers is incorporated into our quality assurance system. When entering into agreements with external business partners and suppliers we ensure that we have a right to make control visits to our external business partners and suppliers to ensure that our requirements are met.

During the year we have performed 11 visits and audits (12 in 2012) at our most important partners and suppliers in the US, Europe, Taiwan and India, to ensure that all of our quality requirements were adhered to. The visits did not result in any material remarks.

This information forms the statutory report on corporate social responsibility according to the Danish Financial Statements Act, Section 99a.

Risk management

Veloxis is exposed to certain risks. Some of these may significantly affect our ability to execute our strategy. We categorize these as critical risks – and we have a program in place to ensure that we proactively identify, manage and mitigate them.

Contrary to the majority of biotechnology and pharma companies, Veloxis is less susceptible to development risks. Veloxis is currently working solely with drug substances already approved and being marketed by originator companies. This substantially decreases typical development risks such as lack of efficacy or unacceptable toxicological findings that normally account for more than 90% of the attrition rates in the pharmaceutical industry.

Veloxis is exposed to critical risks within such areas as research and development, commercialization, financial management, currency exposure, legal affairs and in relation to the financial reporting process. As required under the Danish Financial Statements Act, Section 107b, we have on our webpage http://www.veloxis.com/governance.cfm. included Veloxis Pharmaceuticals' statutory report on Corporate Governance, which describes our risk management processes in greater details and how we manage these risks.

Shareholder Information

Veloxis strives to maintain an open and continuous dialogue with existing and potential shareholders, stakeholders and the general public. The Company aims for a high degree of openness and effective communication, respecting the principle of equal treatment of all market players. Veloxis will publish quarterly reports on the Company's development, including relevant financial information. In addition, Veloxis will publish details about the Company where such information is considered important to the pricing of its shares.

Veloxis has during 2013 had several meetings with existing and potential shareholders, which includes meetings in several places in Europe as well as on both the East and West Coast in the US.

About our shares

Veloxis' shares were admitted to trading and official listing on the NASDAQ OMX Copenhagen on 13 November 2006 after our IPO of 12.65 million new shares. The symbol is "VELO" and the securities identification code (ISIN) is DK0060048148. Veloxis is included in the SmallCap segment of the Danish companies on the NASDAQ OMX Copenhagen.

Share capital

As of 31 December 2013 Veloxis had a registered share capital of DKK 166,057,242 with a nominal value of DKK 0.1 per share. Please see note 10 on page 48 for a more detailed description. Veloxis has only one share class and all shares have equal voting rights.

The Board of Directors is in the period up until September 2017 authorized, at one or more times, to increase the Company's share capital with up to nominal DKK 8,515,619. Further, the Board of Directors is authorized, until the annual general meeting in 2014 to arrange for the Company to acquire its own shares up to a nominal value of 10% of the nominal share capital. The purchase price of such shares may not differ by more than 10% from the price quoted on the NASDAQ OMX Copenhagen at the time of purchase.

Ownership structure

As of 31 December 2013, a total of 4,536 of Veloxis' shareholders were registered in the shareholder register. An increase from 4,275 shareholders as per 31 December 2012. Veloxis invites all shareholders to register in the Company's shareholder register.

The following shareholders have reported ownership of 5% or more of the Company's shares:

- Lundbeckfond Invest A/S 42.7% (100% owned by the Lundbeck Foundation), Denmark, municipality of Gentofte
- Novo A/S 42.7% (100% owned by the Novo Nordisk Foundation), Denmark, municipality of Gentofte

Company announcements during 2013

During 2013 the company issued 26 company announcements. These can be found on Veloxis' website: http://www.veloxis.com/releases.cfm.

Financial calendar 2014

5 March, 2014	Annual report 2013
9 April, 2014 (1 PM)	Annual General Meeting
	Venue: Søhuset, Venlighedsvej 10, 2970 Hørsholm, Denmark
14 May, 2014	Interim report for the first three months of 2014
20 August, 2014	Interim report for the first six months of 2014
12 November, 2014	Interim report for the first nine months of 2014

IR contact

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Phone: +45 21 227 227
Email: jst@veloxis.com

John Weinberg
Executive Vice President & CCO
Phone: +1 732 321 3208
Email: jdw@veloxis.com

Board of Directors & Management

Board of Directors

Kim Bjørnstrup
Chairman
Chairman, Compensation Committee
Member, Audit Committee
Board member since 2011
Born 1958
Independent board member
Competences:
International Pharmaceutical experience
CEO, BPL Holdings Ltd

Thomas Dyrberg
Deputy Chairman
Member, Compensation Committee
Board member since 2003
Born 1954
Independent board member
Competences:
International Pharmaceutical experience
Senior Partner, Novo A/S
Directorships:
Ophthotech Corp
AlloCure Inc.
Delenex Therapeutics AG

Anders Götzsche
Chairman, Audit Committee
Board member since 2008
Born 1967
Independent board member
Competences:
Financial expert
EVP & CFO, H. Lundbeck A/S

Mette Kirstine Agger
Member, Compensation Committee
Board member since 2010
Born 1964
Independent board member
Competences:
International Pharmaceutical experience
Managing Partner, Lundbeckfond Ventures
Directorships:
Harboes Bryggeri A/S
AlloCure Inc.
PsiOxus Therapeutics Ltd
Klifo A/S
Cydan Development Inc.

Executive Management

William J. Polvino
President & CEO
Employed since 2009
Born 1960

Johnny Stilou
Executive Vice President & CFO
Employed since 2008
Born 1967

Senior Management

John D. Weinberg
Executive Vice President & CCO
Employed since 2010
Born 1967

Christina Sylvest
SVP, Global Clinical Development & Operations
Employed since 2008
Born 1966

Breian Knudsen
VP, Technical Operations
Employed since 2007
Born 1950

Executive Management's and Board of Directors' Statement on the annual report

The Executive Management and the Board of Directors have considered and adopted the Annual Report of Veloxis Pharmaceuticals A/S for the financial year 2013.

The Consolidated financial statements and Financial statements of the parent company are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and International Financial Reporting Standards as endorsed by the EU.

Further, the Consolidated financial statements, the Financial statements of the parent company and Management's Review are prepared in accordance with additional Danish disclosure requirements for listed companies.

In our opinion, the Consolidated financial statements and the Financial statements of the parent company give a true and fair view of the financial position at 31 December 2013, the results of the Group's and parent company's operations, and consolidated cash flows for the financial year 2013. Furthermore, in our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances, of the results for the year, and of the financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the parent company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hørsholm, 5 March, 2014

Executive Management

William J. Polvino
President & CEO

Johnny Stilou
Executive Vice President & CFO

Board of Directors

Kim Bjørnstrup
Chairman

Thomas Dyrberg
Deputy Chairman

Anders Götzsche

Mette Kirstine Agger

Independent auditor's report

To the Shareholders of Veloxis Pharmaceuticals A/S

Report on consolidated financial statements and parent company financial statements

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Veloxis Pharmaceuticals A/S for the financial year 1 January to 31 December 2013, which comprise income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes, including summary of significant accounting policies, for the Group as well as for the Parent Company. The Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Parent Company Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit has not resulted in any qualification.

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2013 and of the results of the Group's and the Parent

Company's operations and cash flows for the financial year 1 January to 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Statement on management's review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Consolidated Financial Statements and the Parent Company Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Consolidated Financial Statements and the Parent Company Financial Statements.

Copenhagen, 5 March, 2014
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Torben Jensen
State Authorised Public Accountant

Henrik Jensen
State Authorised Public Accountant

Financial statements

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Income statement

For the period 1 January – 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2013**	**2012**	**2013**	**2012**
Revenue		38,148	6,868	38,148	6,868
Research and development costs	3.4	(146,512)	(210,739)	(148,751)	(210,787)
Administrative expenses	3.4	(27,771)	(36,889)	(28,869)	(38,853)
Operating loss before restructuring cost		**(136,135)**	**(240,760)**	**(139,472)**	**(242,772)**
Restructuring cost	4	-	(21,462)	-	(19,269)
Operating loss		**(136,135)**	**(262,222)**	**(139,472)**	**(262,041)**
Financial income	5	1,243	1,481	1,243	1,478
Financial expenses	6	(5,669)	(2,331)	(5,977)	(2,401)
Loss before tax		**(140,561)**	**(263,072)**	**(144,206)**	**(262,964)**
Tax for the year	7	1,250	363	1,250	1,250
Net loss for the year		**(139,311)**	**(262,709)**	**(142,956)**	**(261,714)**
Basic and diluted EPS		(0.08)	(0.43)	(0.09)	(0.43)
Weighted average number of shares		1,660,353,248	607,511,489	1,660,353,248	607,511,489

The Board of Directors proposes the net loss for the year to be carried forward to next year

Statement of comprehensive income

For the period 1 January – 31 December

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Net loss for the period	**(139,311)**	**(262,709)**	**(142,956)**	**(261,714)**
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss:				
Currency translation differences, net of tax	(390)	427	-	-
Other comprehensive income for the period	(390)	427	-	-
Total comprehensive income for the period	**(139,701)**	**(262,282)**	**(142,956)**	**(261,714)**

Balance sheet

Assets at 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2013**	**2012**	**2013**	**2012**
Patent rights and software	8	494	2,225	494	2,225
Intangible assets		**494**	**2,225**	**494**	**2,225**
Property, plant and equipment	8	3,333	2,994	3,333	2,982
Leasehold improvements	8	-	115	-	-
Tangible fixed assets		**3,333**	**3,109**	**3,333**	**2,982**
Equity interest in subsidiary	9	-	-	2,592	2,592
Financial fixed assets		**-**	**-**	**2,592**	**2,592**
Non-current assets		**3,827**	**5,334**	**6,419**	**7,799**
Other receivables		15,170	5,181	15,162	4,834
Prepayments		1,214	1,922	1,204	1,875
Receivables		**16,384**	**7,103**	**16,366**	**6,709**
Cash		328,652	496,834	326,556	493,217
Cash and cash equivalents		**328,652**	**496,834**	**326,556**	**493,217**
Current assets		**345,036**	**503,937**	**342,922**	**499,926**
Assets		**348,863**	**509,271**	**349,341**	**507,725**

Balance sheet

Equity and liabilities at 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2013**	**2012**	**2013**	**2012**
Share capital	10	166,057	165,932	166,057	165,932
Special reserve		407,289	407,289	407,289	407,289
Translation reserves		1,968	2,358	-	-
Retained earnings/loss		(296,272)	(165,842)	(297,309)	(163,234)
Equity		**279,042**	**409,737**	**276,037**	**409,987**
Finance leases		-	3,665	-	3,665
Trade payables		13,026	18,590	13,026	18,510
Deferred revenue	13	36,617	48,076	36,617	48,076
Debt to subsidiary		-	-	8,788	5,527
Other payables		20,178	29,203	14,873	21,960
Current liabilities		**69,821**	**99,534**	**73,304**	**97,738**
Liabilities		**69,821**	**99,534**	**73,304**	**97,738**
Equity and liabilities		**348,863**	**509,271**	**349,341**	**507,725**

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Cash flow statement

For the period 1 January – 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2013**	**2012**	**2013**	**2012**
Operating loss		**(136,135)**	**(262,222)**	**(139,472)**	**(262,041)**
Share-based payment	4	8,568	7,154	8,568	7,154
Depreciation and amortization	3	1,315	3,391	1,192	3,221
Write-down	3	1,243	6,141	1,243	6,141
Net gain on sale of fixed assets	3	-	(2,375)	-	(2,375)
Changes in working capital	16	(35,294)	42,601	(33,263)	41,955
Cash flow from operating activities before		**(160,303)**	**(205,310)**	**(161,732)**	**(205,945)**
Interest received		1,243	1,481	935	1,409
Interest paid		(39)	(568)	(39)	(568)
Corporate tax received	7	1,352	-	1,250	-
Corporate tax paid	7	-	(1,473)	-	-
Cash flow from operating activities		**(157,747)**	**(205,870)**	**(159,586)**	**(205,104)**
Purchase of property, plant and equipment		(1,055)	(260)	(1,055)	(260)
Sale of property, plant and equipment		-	3,175	-	3,175
Investments in securities		-	(19,909)	-	(19,909)
Sale of securities		-	186,706	-	186,706
Payable to / receivable from subsidiary		-	-	3,261	(2,166)
Cash flow from investing activities		**(1,055)**	**169,712**	**2,206**	**167,546**
Installments on bank borrowings and finance lease		(3,665)	(4,662)	(3,665)	(4,662)
Proceeds from issuance of shares, net		438	408,966	438	408,966
Cash flow from financing activities		**(3,227)**	**404,304**	**(3,227)**	**404,304**
Increase/(decrease) in cash		**(162,029)**	**368,146**	**(160,607)**	**366,746**
Cash at beginning of period		496,834	130,930	493,217	128,658
Exchange gains/(losses) on cash		(6,153)	(2,242)	(6,054)	(2,187)
Cash at end of period		**328,652**	**496,834**	**326,556**	**493,217**

Statement of changes in equity

Consolidated

	Number of Shares	Share Capital DKK'000	Share Premium DKK'000	Special Reserves DKK'000	Translation Reserves DKK'000	Retained Earnings DKK'000	Total DKK'000
Equity as of 1 January 2012	**452,542,480**	**452,543**	**-**	**-**	**1,931**	**(198,574)**	**255,900**
Net loss for the year						(262,709)	(262,709)
Other comprehensive income for the year					427		427
Total comprehensive income					427	(262,709)	(262,282)
Reduction of share capital		(407,289)		407,289			-
Issuance of shares	1,206,779,946	120,678	301,695				422,373
Share-based payment						7,154	7,154
Costs related to capital increases			(13,408)				(13,408)
Transfer to retained earnings			(288,287)			288,287	-
Equity as of 31 December 2012	**1,659,322,426**	**165,932**	**-**	**407,289**	**2,358**	**(165,842)**	**409,737**
Net loss for the year						(139,311)	(139,311)
Other comprehensive income for the year					(390)		(390)
Total comprehensive income					(390)	(139,311)	(139,701)
Warrant exercises	1,250,000	125	313				438
Share-based payment						8,568	8,568
Transfer to retained earnings			(313)			313	-
Equity as of 31 December 2013	**1,660,572,426**	**166,057**	**-**	**407,289**	**1,968**	**(296,272)**	**279,042**

Special reserve can only be paid out with prior approval by the shareholders in accordance with the Danish Companies Act section 188 paragraph 1 (3).

Translation reserves may be subsequently reclassified to profit or loss.

Statement of changes in equity

Parent Company

	Number of Shares	Share Capital DKK'000	Share Premium DKK'000	Special Reserves DKK'000	Translation Reserves DKK'000	Retained Earnings DKK'000	Total DKK'000
Equity as of 1 January 2012	**452,542,480**	**452,543**	**-**	**-**	**-**	**(196,961)**	**255,582**
Net loss for the year						(261,714)	(261,714)
Other comprehensive income for the year							-
Total comprehensive income						(261,714)	(261,714)
Reduction of share capital		(407,289)		407,289			-
Issuance of shares	1,206,779,946	120,678	301,695				422,373
Share-based payment						7,154	7,154
Costs related to capital increases			(13,408)				(13,408)
Transfer to retained earnings			(288,287)			288,287	-
Equity as of 31 December 2012	**1,659,322,426**	**165,932**	**-**	**407,289**	**-**	**(163,234)**	**409,987**
Net loss for the year						(142,956)	(142,956)
Other comprehensive income for the year							-
Total comprehensive income						(142,956)	(142,956)
Warrant exercises	1,250,000	125	313				438
Share-based payment						8,568	8,568
Transfer to retained earnings			(313)			313	-
Equity as of 31 December 2013	**1,660,572,426**	**166,057**	**-**	**407,289**	**-**	**(297,309)**	**276,037**

Special reserve can only be paid out with prior approval by the shareholders in accordance with the Danish Companies Act section 188 paragraph 1 (3).

Notes

Note 1. Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and adopted by the EU, and additional Danish disclosure requirements for annual reports of listed companies. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements are presented in Danish Kroner (DKK), which is the functional and presentation currency of the Parent Company.

Change of accounting policies including presentation and implementation of new accounting standards and interpretations

The accounting policies applied by Veloxis including presentation are unchanged compared to last year.

Veloxis has adopted all new, amended standards, revised accounting standards and interpretations (IFRIC) as endorsed by the EU and which are effective for the financial year 1 January 2013 - 31 December 2013.

With effect from 1 January 2013, the following new and amended IFRSs and Interpretations with relevance for Veloxis were implemented:

- "Annual Improvements to IFRSs (2009-2011)", Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income", Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance", IFRS 13 "Fair Value Measurement", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", Amendments to IAS 27 "Separate Financial Statements" and Amendments to IAS 28 "Investments in Associates and Joint Ventures"

None of these have had a significant impact on the financial statements.

Most recently adopted accounting standards (IFRS) and interpretations (IFRIC)

The IASB has issued a number of new or amended standards and interpretations with effective date after 31 December 2013. None of these is expected to have a significant impact on the financial statements.

Veloxis expects to implement the new standards and interpretations when they become mandatory.

Consolidated financial statements

The consolidated financial statements include Veloxis Pharmaceuticals A/S (the Parent Company) and subsidiaries in which the Parent Company directly or indirectly exercises a controlling interest through shareholding or otherwise. Accordingly, the consolidated financial statements include Veloxis Pharmaceuticals A/S and Veloxis Pharmaceuticals, Inc. (collectively referred to as the group).

The group's consolidated financial statements have been prepared on the basis of the financial statements of the Parent Company and the subsidiary – prepared under the group's accounting policies – by combining similar accounting items on a line-

by-line basis. On consolidation, intercompany income and expenses, intercompany receivables and payables, and unrealized gains and losses on transactions between the consolidated companies are eliminated.

The recorded value of the equity interests in the consolidated subsidiary is eliminated with the proportionate share of the subsidiary's equity. The subsidiary is consolidated from the date when control is transferred to the group.

The income statement for the foreign subsidiary is translated into the group's reporting currency at the year's weighted average exchange rate and the balance sheet is translated at the exchange rate in effect at the balance sheet date. Exchange rate differences arising from the translation of the foreign subsidiary's shareholders' equity at the beginning of the year, and exchange rate differences arising as a result of the foreign subsidiary's income statement being translated at average exchange rates, are recorded in translation reserves in shareholders' equity.

Foreign currency

Transactions in foreign currencies are translated at the exchange rates in effect at the date of the transaction.

Exchange rate gains and losses arising between the transaction date and the settlement date are recognized in the income statement as financial items.

Unsettled monetary assets and liabilities in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Exchange rate gains and losses arising between the transaction date and the balance sheet date are recognized in the income statement as financial items.

Comprehensive income

Veloxis presents comprehensive income in two statements. An income statement and a statement of total comprehensive income which includes result for the year and income recognized in other comprehensive income. Other comprehensive income includes exchange gains/losses arising from translating the financial statements of a foreign operation.

Income statement

Revenues

Revenues comprise milestone payments, royalties and services rendered from research and development and commercialization agreements. Revenue is recognized when it is probable that future economic benefits will flow to the Company and these benefits can be measured reliably. Further, revenue recognition requires that all significant risks and rewards of ownership of the goods or services included in the transaction have been transferred to the buyer, and that Veloxis retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods or services sold.

Revenues are stated less of VAT, charges and discounts.

Research and development costs

Research and development costs comprise license costs, manufacturing costs, pre-clinical and clinical trial costs, salaries and other staff costs including pensions, and other costs including cost of premises, depreciation and amortization related to research and development activities.

Research costs are recognized in the income statement in the period to which they relate. Development costs are recognized in the income statement when incurred if the criteria for capitalization have not been met.

A development project involves a single product candidate undergoing a high number of tests to illustrate its safety profile and effect on human beings prior to obtaining the necessary approval from the appropriate authorities. Considering the general risk

related to the development of pharmaceutical products, management has concluded that the future economic benefits associated with the individual development projects cannot be estimated with sufficient certainty until the project has been finalized and the necessary market approval of the final product has been obtained. As a consequence all development costs are recognized in the income statement in the period to which they relate.

General and administrative expenses

General and administrative expenses comprise salaries and other staff costs including pensions, office supplies, cost of premises, and depreciation and amortization related to administrative activities.

General and administrative expenses are recognized in the income statement in the period to which they relate.

Restructuring cost

The line “restructuring cost” includes major restructuring costs, including salary to former employees; write down of laboratory equipment and laboratory improvements. The line is shown separately to facilitate the comparability of income statement and to provide a better picture of the operational result. Restructuring cost relates to activities approved by the Board of Directors.

Share-based payment

Veloxis has established equity-settled share-based payment plans (warrants). The employee services received in exchange for the grant of the warrants or shares are recognized as an expense and allocated over the vesting period. The amount is determined as the fair value of the equity instruments granted. The total amount recognized over the vesting period corresponds to the fair value of the warrants or shares that actually vest. The fair value is determined at the grant date and is not adjusted subsequently.

On each balance sheet date, Veloxis reassesses its estimates of the number of warrants expected to be exercised. Veloxis recognizes any impact of such reassessment of the original estimates in the income statement (catch up) with a corresponding adjustment in equity over the remaining vesting period. Prior-year adjustments are recognized in the income statement in the adjustment year.

Financial items

Financial income and expenses include interest, dividend, gains and losses related to securities and transactions denominated in foreign currencies and amortization of finance lease obligations.

Interest income and expenses are accrued with basis in the principal and the nominal interest rate.

Gain and losses on securities are measured based on sales price minus original cost price.

Dividend from equity interests in subsidiaries is recognized in the income statement of the Parent company in the financial income, when final right to the dividend has been acquired, it is the time to the approval at the general meeting.

Corporate tax

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the income for the year, and recognized directly in equity by the portion attributable to transactions recognized directly in equity. Current tax payable or receivable is recognized in the balance sheet as tax calculated on the taxable income for the year adjusted for prepaid tax.

Deferred tax is recognized and measured under the liability method on all temporary differences between the carrying amount and tax value of assets and liabilities. The tax value of the assets is calculated based on the planned use of each asset.

Deferred tax is calculated in accordance with the tax regulations and tax rates that are expected to be in effect, considering the laws in force at the balance sheet date, when the deferred tax is estimated to crystallize as current tax. Changes in deferred tax resulting from changed tax rates are recognized in the income statement.

Deferred tax assets, including the tax value of tax losses carried forward, are recognized in the balance sheet at their estimated realizable value, either as a set-off against deferred tax liabilities, if such set-off is permitted for tax purpose, or as net tax assets. Deferred tax assets which are not recognized in the balance sheet are disclosed in a note to the financial statements.

Balance sheet

Non-current assets

Intangible assets

Intangible assets comprise acquired patent rights and software.

Patent rights and software are measured at cost less accumulated amortization and impairment losses. The amortization period is determined based on the expected economic and technical useful life, and amortization is recognized on a straight-line basis over the expected useful life as follows:
Patent rights: 20 years
Software: 3-5 years

Tangible fixed assets

Tangible fixed assets comprise process plant and machinery, other fixtures and fittings, tools and equipment and leasehold improvements. Tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the assets will flow to the Company and the costs of the items can be measured reliably. All repair and maintenance costs are charged to the income statement during the financial periods in which they are incurred.

Depreciation of tangible fixed assets is calculated using the straight-line method to allocate the cost to the residual value of the assets over the expected useful life as follows:
Process plant and machinery: 7 years
Other fixtures and fittings, tools and equipment: 3-5 years
Leasehold improvements: 7-9 years

Depreciation, impairment losses and gains or losses on disposal of tangible fixed assets is recognized in the income statement as other (losses)/gains - net.

Impairment of long-lived assets

The carrying amount of long-lived assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are such indications, an impairment test is performed. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's net selling price and its value in use. Value in use is calculated as the net present value of future cash inflow generated from the asset. For the purposes of assessing impairment, assets are grouped at the lower levels for which there are separately identifiable cash flows (cash-generating units). For corporate assets the assessment is carried out at an entity level. Impairment losses are recognized in the income statement under the same line items as the related depreciation or amortization.

Current assets

Trade receivables

Trade receivables are measured in the balance sheet at the lower of amortized cost and net realizable value, which corresponds to the nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

Other receivables

Other receivables are measured at fair value on initial recognition and subsequently measured at amortized cost according to the effective interest method less provision for impairment. Impairment losses are based on an individual evaluation of each amount collectible.

Prepayments

Prepayments comprise incurred costs related to a future financial period. Prepayments are measured at nominal value.

Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with financial institutions. Cash and cash equivalents are measured at amortized cost.

Shareholders' equity

The share capital comprises the nominal amount of the Company's ordinary shares, each at a nominal value of DKK 0.1. All shares are fully paid.

Special reserve can only be paid out with prior approval by the shareholders in accordance with the Danish Companies Act section 188 paragraph 1 (3).

Translation reserves include exchange rate adjustments of equity investments in subsidiaries.

Non-current liabilities

Provisions

Provisions are recognized when the Company has an existing legal or constructive obligation as a result of events occurring prior to or on the balance sheet date, and it is probable that the utilization of economic resources will be required to settle the obligation. Provisions are measured at the amount expected to be paid.

Finance leases

Leases of property, plant and equipment where the Company substantially bears all the risks and rewards of ownership are classified as finance leases. Assets under finance leases are recognized in the balance sheet at the inception of the lease term at the lower of the fair value of the asset or the net present value of the future minimum lease payments. A liability equaling the asset is recognized in the balance sheet, allocated between non-current and current liabilities. Each lease payment is separated between an interest element, recognized as a financial expense, and a reduction of the lease liability.

Assets held under finance lease are depreciated over the shorter of the asset's useful life and the lease term.

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line

basis to the income statement as research and development costs or as general and administrative expenses, depending on the use of the asset.

The total commitment under operating leases is disclosed in the notes to the financial statements.

Current liabilities

Trade payables

Trade payables are measured at amortized cost, which is considered to be equal to the fair value due to the short-term nature of the liabilities.

Deferred revenue

Deferred revenue reflects the part of revenue which has not been recognized as income immediately on receipt of payment and which concerns agreements with multiple components which cannot be separated. Deferred revenue is measured at the amount received.

Other liabilities

Other liabilities are measured in the balance sheet at amortized cost, which is considered to be equal to the fair value due to the short-term nature of the liabilities.

Derivative financial instruments

Veloxis does not have derivative financial instruments.

Equity interests in subsidiaries

In the separate financial statements of the Parent Company, equity interests in subsidiaries are recognized and measured at cost. Equity interests in foreign currencies are translated to the reporting currency by use of historical exchange rates prevailing at the time of investment.

Cash flow statement

The cash flow statement is presented using the indirect method with basis in operating loss and shows cash flow from operating, investing and financing activities as well as the cash and cash equivalents at the beginning and end of each financial year.

Cash flows from operating activities are calculated as the operating profit/loss adjusted for non-cash operating items such as share-based payment, depreciation, amortization and impairment losses, working capital changes and financial income and expenses received or paid.

Cash flows from investing activities comprise cash flows from purchase and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise cash flows from issuance of shares net of costs, raising and repayment of non-current loans including installments on finance lease liabilities.

Cash and cash equivalents comprise cash at hand and deposits with financial institutions.

The cash flow statement cannot be derived solely from the financial statements.

Segment reporting

The group is managed and operated as one business unit. No separate business areas or separate business units have been identified in relation to product candidates or geographical markets. Accordingly, Veloxis' management has concluded that it is not relevant to disclose segment information on business segments or geographical markets.

Financial ratios

Financial ratios have been calculated in accordance with the recommendations of the Association of Danish Financial Analysts.

Basic EPS

Basic Earnings per share (EPS) is calculated as the net income/loss from continuing operations for the period divided by the weighted average number of ordinary shares outstanding.

Diluted EPS

Diluted earnings per share is calculated as the net income/ loss from continuing operations for the period divided by the weighted average number of ordinary shares outstanding adjusted for the dilutive effect of share equivalents.

As the income statement shows a net loss, no adjustment has been made for the dilutive effect.

$$\text{Assets/Equity} = \frac{\text{Total assets}}{\text{Equity}}$$

Note 2. Critical accounting estimates and judgments

In preparing financial statements under IFRS, certain provisions in the standards require management's judgments. Such judgments are considered important to understand the accounting policies and Veloxis' compliance with the standards. The following summarizes the areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

Revenue recognition

IAS 18, "Revenues" prescribes the criteria to be fulfilled for revenue being recognizable. Evaluating the criteria for revenue recognition with respect to Veloxis' research and development and commercialization agreements requires management's judgment to ensure that all criteria have been fulfilled prior to recognizing any amount of revenue. All the Company's revenue generating transactions are analyzed by management to ensure recognition in accordance with IFRS.

Revenue in 2013 amounted to DKK 38.2 million and deferred revenue as of 31 December 2013 amounted to DKK 36.6 million (refer to note 13).

Internally generated intangible assets

IAS 38, "Intangible Assets" prescribes that intangible assets arising from development projects must be recognized in the balance sheet if the criteria for capitalization are met. That means (1) that the development project is clearly defined and identifiable; (2) that technological feasibility, adequate resources to complete and a market for the product or an internal use of the project can be documented; and (3) that the Company's management has the intent to produce and market the product or use it internally.

Such an intangible asset shall be recognized if it can be documented that the future income from the development project will exceed the aggregate cost of development, production, sale and administration of the product.

Management believes that future income from the development projects cannot be determined with sufficient certainty until the development activities have been completed and the necessary approvals have been obtained. Accordingly, management has decided not to recognize such internally generated intangible assets at this time.

Internally generated intangible assets as of 31 December 2013 amounts to DKK 0.

Note 3. Depreciation and amortization

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Patent rights and software	488	393	488	393
Property, plant and equipment	716	1,821	704	1,805
Leasehold improvements	111	1,177	0	1,023
Write-down	1,243	6,141	1,243	6,141
Total	**2,558**	**9,532**	**2,435**	**9,362**
Allocated by function:				
Research and development costs	1,950	2,729	1,897	2,636
General and administrative expenses	608	662	538	585
Restructuring cost	0	6,141	0	6,141
Total	**2,558**	**9,532**	**2,435**	**9,362**

Note 4. Staff costs

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Wages and salaries	29,139	58,525	26,624	50,270
Pension contributions	1,693	3,451	1,509	3,083
Other social security costs	1,668	2,098	139	284
Share-based payment	8,547	7,154	2,703	3,837
Total	**41,047**	**71,228**	**30,975**	**57,474**
Allocated by function:				
Research and development costs	26,100	39,886	20,392	29,739
General and administrative expenses	14,947	16,021	10,583	14,608
Restructuring cost	0	15,321	0	13,127
Total	**41,047**	**71,228**	**30,975**	**57,474**
Average number of employees (FTEs)	26	48	19	38
Remuneration of board of directors, and executive management:				
Board of directors				
Cash remuneration	1,100	1,600	1,100	1,600
Share-based payment	39	53	39	53
	1,139	**1,653**	**1,139**	**1,653**
Executive management				
Gross salary	4,206	6,978	4,206	6,978
Bonus	1,929	2,697	1,929	2,697
Pension contributions	240	493	240	493
Share-based payment	4,905	2,337	4,905	2,337
	11,280	**12,505**	**11,280**	**12,505**

The current Executive Management consists of William J. Polvino and Johnny Stilou, who both have been with Veloxis throughout 2013.

Members of the Board of Directors receive a fixed annual fee of DKK 150,000. The Chairman of the Board of Directors receives a supplement of DKK 300,000 to the fixed fee and the Chairman of respectively the Audit Committee and the Compensation Committee receives a supplement of DKK 75,000 to the fixed annual fee.

Travel and accommodation expenses in connection with board meetings and expenses associated with any relevant training are paid on submission of receipts to members of the Board of Directors.

In addition to the fixed annual fee, the members of the Board of Directors are annually granted a fixed number of 50,000 warrants. The Chairman of the Board of Directors is granted additional 100,000 warrants.

Upon election, each member of the Board of Directors may decide to exchange the fixed number of warrants for an additional annual fee equivalent to DKK 1 per warrant. In 2013 warrants converted to cash amounted to DKK 50,000.

The severance/notice period for the Executive Management, varies from 6 to 12 months. Change of control clauses can add an additional 12 to 18 months of severance.

Veloxis' and the group's pension schemes are defined contribution schemes and Veloxis has no additional payment obligations.

Veloxis has implemented a company-wide (including management) remuneration policy with a bonus element including both a cash element and a warrant based element. Hence a certain percentage of each employee's remuneration is dependent on the employee and the company specified goals and objectives agreed upon at the beginning of each year. Further Veloxis has established a long term incentive plan for executive management and specific employees which include a stay-on bonus equivalent of up to 24 months' base salary.

Veloxis has implemented Incentive Guidelines, which has been adopted by the General Assembly and are in further detailed described on page 21 and on Veloxis´ homepage www.veloxis.com/investors.

Board of Directors and Executive Management's holdings of shares and warrants

	As per 31 December 2013		As per 31 December 2012	
	Shares	Warrants	Shares	Warrants
Board of directors				
Thomas Dyrberg	451,733	189,584	451,733	175,941
Anders Götzche	-	-	-	-
Mette Kirstine Agger	1,288	100,000	1,288	50,000
Kim Bjørnstrup	-	300,000	-	150,000
Executive management				
William J. Polvino	1,237,650	33,186,400	737,650	24,176,699
Johnny Stilou	250,000	12,444,900	-	13,027,662

Note 5. Financial income

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Financial income from securities and realised/ unrealised capital gains on securities measured at fair value through the income statement	-	1,318	-	1,318
Interest income	1,243	163	1,243	160
Total	**1,243**	**1,481**	**1,243**	**1,478**

Note 6. Financial expenses

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Financial expenses from securities	-	212	-	212
Interest expenses	2	10	2	10
Interest on finance leases	37	346	37	346
Interest expense from group companies	-	-	308	70
Exchange rate losses, net	5,630	1,763	5,630	1,763
Total	**5,669**	**2,331**	**5,977**	**2,401**

Note 7. Tax and deferred tax

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Tax for the year can be explained as follows:				
Income / (loss) for the year before tax	(140,561)	(263,072)	(144,206)	(262,964)
Computed tax on income / (loss) for the year	(34,641)	(65,687)	(36,051)	(65,741)
Change in tax losses carried forward not capitalized	34,641	65,687	36,051	65,741
Tax benefit	1,250	1,250	1,250	1,250
Tax on profit in subsidiary	-	(887)	-	-
Tax for the year	**1,250**	**363**	**1,250**	**1,250**
Calculated deferred tax asset	381,161	401,735	381,161	401,735
Write down to assessed value	(381,161)	(401,735)	(381,161)	(401,735)
Carrying amount	**0**	**0**	**0**	**0**

The deferred tax asset has been written down, as it is uncertain whether or not the tax asset will be realized in future earnings. The deferred tax asset can be carried forward without timing limitations.

Note 8. Intangible & tangible fixed assets

Consolidated	Patent rights & Software		Property, Plant & Equipment		Leasehold Improvements	
(DKK'000)	2013	2012	2013	2012	2013	2012
Cost at 1 January	3,192	3,137	38,224	51,872	425	13,878
Additions	-	55	1,055	121	-	84
Disposals	(1,912)	-	-	(13,776)	-	(13,550)
Exchange adjustment	-	-	(5)	7	(6)	13
Cost at 31 December	**1,280**	**3,192**	**39,274**	**38,224**	**419**	**425**
Amortization / Depreciation / Impairment loss at 1 January	(967)	(574)	(35,230)	(42,905)	(310)	(9,998)
Amortization / Depreciation	(488)	(393)	(716)	(1,821)	(111)	(1,177)
Amortization / Depreciation on disposals	1,912	-	-	12,976	-	13,550
Write-down	(1,243)	-	-	(3,472)	-	(2,669)
Exchange adjustment	-	-	5	(8)	2	(16)
Amortization / Depreciation / Impairment loss at 31 December	**(786)**	**(967)**	**(35,941)**	**(35,230)**	**(419)**	**(310)**
Net book value at 31 December	**494**	**2,225**	**3,333**	**2,994**	**-**	**115**

Parent	Patent rights & Software		Property, Plant & Equipment		Leasehold Improvements	
(DKK'000)	2013	2012	2013	2012	2013	2012
Cost at 1 January	3,192	3,137	37,899	51,554	-	13,466
Additions	-	55	1,055	121	-	84
Disposals	(1,912)	-	-	(13,776)	-	(13,550)
Cost at 31 December	**1,280**	**3,192**	**38,954**	**37,899**	**-**	**-**
Amortization / Depreciation / Impairment loss at 1 January	(967)	(574)	(34,917)	(42,616)	-	(9,858)
Amortization / Depreciation	(488)	(393)	(704)	(1,805)	-	(1,023)
Amortization / Depreciation on disposals	1,912	-	-	12,976	-	13,550
Write-down	(1,243)	-	-	(3,472)	-	(2,669)
Amortization / Depreciation / Impairment loss at 31 December	**(786)**	**(967)**	**(35,621)**	**(34,917)**	**-**	**-**
Net book value at 31 December	**494**	**2,225**	**3,333**	**2,982**	**-**	**-**

Write-down in 2013 relates to a quality assurance system which is no longer being used and for which there is no alternative use. Management has assessed that it is not possible to sell the system at any value. Write-down in 2012 relates to laboratory equipment and laboratory improvements due to the discontinuation of pipeline activities not related to Envarsus®.

Note 9. Investment in subsidiary

	Parent	
(DKK'000)	**2013**	**2012**
Cost at 1 January	2,592	2,592
Additions	-	-
Cost at 31 December	**2,592**	2,592

Veloxis Pharmaceuticals, Inc. was established as a wholly owned subsidiary as of 2 January 2007. This subsidiary is domiciled in New Jersey, USA and is primarily focused on clinical activities in the US and Canada on behalf of the Parent Company.

Note 10. Share capital

On 31 December 2013 the total number of outstanding shares was 1,660,572,426. Each share has a nominal value of DKK 0.1 and one vote.

Changes in share capital from 2008 to 2013

The table below sets forth the changes in our issued share capital since 2008:

Date	Transaction	Share Capital	Share classes after capital increase		Share price in DKK pre bonus shares	Share price in DKK post bonus shares
14 Marts 2008	Cash contribution	334,469 (1)	32,105,174	shares	-	6.76
17 April 2008	Cash contribution	23,987,771 (2)	56,092,945	shares	-	17.00
16 September 2008	Cash contribution	194,562 (3)	56,287,507	shares	-	9.40
26 March 2009	Cash contribution	150,813 (4)	56,438,320	shares	-	6.46
9 September 2009	Cash contribution	129,490 (5)	56,567,810	shares	-	6.48
25 November 2010	Cash contribution	395,974,670 (6)	452,542,480	shares	-	1.20
13 November 2012	Cash contribution	1,206,779,946 (7)	1,659,322,426	shares	-	0.35
6 March 2013	Cash contribution	1,250,000 (8)	1,660,572,426	shares	-	0.35

Notes:

(1) Issuance of 334,469 shares in connection with subscription through the exercise of employee warrants.
(2) Issuance of 23,987,771 shares in connection with rights issue on 17 April 2008.
(3) Issuance of 194,562 shares in connection with subscription through the exercise of employee warrants.
(4) Issuance of 150,813 shares in connection with subscription through the exercise of employee warrants.
(5) Issuance of 129,490 shares in connection with subscription through the exercise of employee warrants.
(6) Issuance of 395,974,670 shares in connection with rights issue on 29 October 2010.
(7) Issuance of 1,206,779,946 shares in connection with rights issue on 13 November 2012.
(8) Issuance of 1,250,000 shares in connection with subscription through the exercise of employee warrants.

Note 11. Financial risks

Interest rate risk

Veloxis has an investment policy with the purpose of preserving the Company's capital without significantly increasing the risks. Accordingly, the Company seeks to limit any risks related to the interest rate and the fair value of its investments. The Company is primarily exposed to interest rate risk ascribable to its cash position. All positions carry variable interest rates. Based on the cash position at the end of 2013, a 1% change in the interest rate will impact net financial income of approximately DKK 3 million.

Capital structure

During 2013, the Company's excess cash has been placed in short-term and long-term deposits with two major Danish banks, thereby reducing the fair value risk. The cash position at year end and the average interest rate is presented in the following table:

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Cash	328,652	496,834	326,556	493,217
Average variable interest rate	0.27%	0.59%	0.27%	0.60%

The outlook for 2014 expects an end year cash position in the range of DKK 230 - 270 million.

Credit risk

The credit terms on the Company's receivables are considered to be at market conditions, and the Company has not encountered any losses as a result of credit risk during the years presented. As regards cash deposits, the Company's bank has a credit rating of Baa1 according to Moody's. The credit risk ascribable to the Company's receivables is considered low as such receivables arise from collaboration agreements with large pharmaceutical companies.

Liquidity risk

The Company is exposed to liquidity risk arising from short-term payables.

Currency exposure

Veloxis is subject to currency risk, as the Company incurs income and expenses in a number of different currencies, mainly USD. Changes in exchange rates of such foreign currencies towards the Company's functional currency may affect the results and cash position.

Veloxis currently hedge USD exposure equal to twelve months of USD based operations by purchasing USD currency in advance.

The Company's net position (monetary items) in foreign currencies is stated below:

	Consolidated		Parent	
	2013	**2012**	**2013**	**2012**
USD'000	23,377	28,586	21,366	26,971
EUR'000	(284)	(6)	(284)	(6)
GBP'000	(69)	(450)	(69)	(450)
CAD'000	(6)	(75)	(6)	(75)

All net positions are current.

The carrying amount approximately equals the fair value. Changes in currencies may affect future income and expenses in such foreign currencies, and may have a significant impact on the Company's operating results and cash flows. The Company is primarily exposed to such risk from currency fluctuations between USD and DKK. Based on the USD position at the end of 2013, a 10% change in the USD / DKK rate will impact result with approximately DKK 12 million.

Note 12. Warrants

Veloxis has established warrant programs for board members, members of executive management, employees and advisors. All warrants have been issued by the Company's shareholders or by the board of directors pursuant to valid authorizations in Veloxis' articles of association.

Vesting conditions

Warrants issued since May 2008 vest in general at 1/36 per month from the date of grant, subject to the employees continued employment. However, some warrants are not subject to vesting conditions, but vest in full at the time of grant.

Warrants issued during the period 2007 to April 2008 generally vest at 1/48 per month from the date of grant, subject to the employees continued employment. However, some warrants are not subject to vesting conditions but vest in full at the time of grant.

Warrants granted from May 2008 to employees in affiliates cease to vest upon termination of the employment relationship regardless of the reason for such termination. Warrants granted before May 2008 to employees employed in the parent company cease to vest from the date of termination in the event that (i) a warrant holder resigns without this being due to the Company's breach of contract, or (ii) if Veloxis terminates the employment relationship where the employee has given the Company good reason to do so. The warrant holder will, however, be entitled to exercise vested warrants in the first coming exercise period after termination.

Exercise of warrants issued to board members, consultants and other advisors are conditional upon the warrant holder being connected to Veloxis on the date of exercise. However, if the warrant holder's position has been terminated without this being attributable to the warrant holder's actions or omissions, the warrant holder shall be entitled to exercise vested warrants in the pre-determined exercise periods.

Term of granted warrants

The maximum term for all granted warrants is 7 years.

Exercise periods

Vested warrants may generally be exercised during four three-week periods following publication of Veloxis' preliminary annual report and Veloxis' quarterly interim reports.

Warrant activity

The following table specifies the warrant activity during 2013:

	Employees	Executive management	Board of directors	Other external	Total	Weighted average exercise price DKK
Outstanding as of 1 January 2012	**20,277,360**	**9,112,445**	**474,735**	**21,154**	**29,885,694**	**3.03**
Granted in the year	31,512,200	27,535,000	-	-	59,047,200	0.35
Cancelled in the year	(4,486,238)	-	-	-	(4,486,238)	1.29
Expired in the year	(1,628,126)	-	-	(21,154)	(1,649,280)	8.30
Adjustments following dilution rules	2,261,610	754,895	84,276	-	3,100,781	-
Change between categories	197,979	(197,979)	-	-	-	-
Outstanding as of 31 December 2012	**48,134,785**	**37,204,361**	**559,011**	**0**	**85,898,157**	**1.00**
Granted in the year	1,833,700	18,846,300	250,000	-	20,930,000	0.36
Exercised in the year	(500,000)	(750,000)			(1,250,000)	0.35
Cancelled in the year	(12,891,460)	(9,669,361)	-	-	(22,560,821)	1.47
Expired in the year	(463,555)	-	(36,357)	-	(499,912)	15.32
Change between categories	183,070	-	(183,070)	-	-	-
Outstanding as of 31 December 2013	**36,296,540**	**45,631,300**	**589,584**	**0**	**82,517,424**	**0.64**
Weighted average exercise price DKK	**0.98**	**0.35**	**1.43**	**0.00**	**0.64**	

In total, as of 31 December 2013, a total of 82,517,424 warrants were outstanding with a weighted average exercise price of DKK 0.64. 36,188,152 of these warrants had vested and are exercisable as of 31 December 2013 with a weighted average exercise price of DKK 1.00. For comparison, as of 31 December 2012, a total of 85,898,157 warrants were outstanding with a weighted average exercise price of DKK 1.00.

Warrant compensation costs

Warrant compensation costs are calculated at the date of grant by use of the Black-Scholes valuation model with the following assumptions: (i) a volatility of 51%, determined as the average of the stock price volatility based on Veloxis' historical share prices since its Initial Public Offering in November 2006; (ii) no payment of dividends; (iii) a risk free interest rate equaling the interest rate on a 5-year government bond on the date of grant; and (iv) a life of the warrants determined as the average of the date of becoming exercisable and the date of expiry.

Warrant compensation costs are recognized in the income statement over the vesting period of the warrants granted.

During 2013, a total of DKK 8.6 million was recognized as share-based compensation compared to DKK 7.2 million in 2012.

The warrant compensation costs for 2013 were allocated to research and development costs at DKK 3.7 million and to general and administrative expenses at DKK 4.9 million.

Value of granted warrants

The fair value at the grant date has been calculated under the Black-Scholes option pricing model, adjusted for dilution of share capital, based on the following assumptions:

	Granted 23 January, 2013	Granted 21 August, 2013	Granted 13 November, 2013
Share price at grant (DKK)	0.36	0.58	0.63
Volatility (%)	53	52	52
Exercise price (DKK)	0.36	0.58	0.63
Risk-free interest rate for options (%)	0.28	0.75	0.44
Annual dividend per share (DKK)	-	-	-
Years to expiry	7	7	7
Exercise period	2020	2020	2020
Market value at grant (DKK'000)	3,029.4	60.5	13.0

The following table specifies the weighted average exercise price and the weighted average life of outstanding warrants:

Year of grant	Number of granted warrants	Number of outstanding warrants	Weighted average exercise price (DKK)	Weighted average contractual life (months)
2008	8,117,033	1,586,699	7.91	17.63
2009	4,948,753	1,290,751	3.56	27.73
2010	22,230,930	3,413,800	1.34	45.77
2011	4,665,291	778,975	1.15	53.11
2012	59,047,200	54,269,967	0.35	71.00
2013	20,930,000	20,930,000	0.36	73.11
31 December 2013	**119,939,207**	**82,270,192**	**0.64**	**68.43**

Note 13. Deferred revenue

Deferred revenue reflects up-front and milestone payments under Veloxis' distribution agreement with Chiesi Farmaceutici S.p.A. which will be recognized as revenues over the future years.

The deferred revenue is expected to be recognized in the income statement as outlined below.

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
To be recognized in the income statement:				
2013	-	27,472	-	27,472
2014	36,617	20,604	36,617	20,604
Total	**36,617**	**48,076**	**36,617**	**48,076**

Note 14. Other commitments

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Operating lease commitments regarding offices	922	872	464	414
Operating lease commitments regarding property, plant and equipment	352	339	352	339
Total operating lease commitments	**1,274**	**1,211**	**816**	**753**
Total operating lease payments fall due:				
Within 1 year	1,158	1,044	700	586
From 1 to 5 years	116	167	116	167
After 5 years	-	-	-	-
Total	**1,274**	**1,211**	**816**	**753**
Expensed operating lease payments	1,801	1,073	1,134	386

Note 15. Related parties

Shareholders with significant influence

- Lundbeckfond Invest A/S 42.7% (100% owned by the Lundbeck Foundation), Denmark, municipality of Gentofte
- Novo A/S 42.7% (100% owned by the Novo Nordisk Foundation), Denmark, municipality of Gentofte

There have been no transactions with the shareholders in either 2012 or 2013.

Members of the Executive Management and Board of Directors

The members of the Executive Management and Board of Directors are considered related parties following their positions in the Company.

The Executive Management and the Board of Directors have received remuneration from Veloxis, including warrants, as described in note 4 and note 12 to the financial statements.

Veloxis Pharmaceuticals, Inc.

In the separate financial statements of the Parent Company, Veloxis Pharmaceuticals, Inc. is considered a related party, as this company is a wholly owned subsidiary of Veloxis Pharmaceuticals A/S.

During 2013, the subsidiary has performed clinical and managerial activities on behalf of the Parent Company, which has been remunerated in accordance with the service agreements between the companies. Total services amount to DKK 27.5 million for the year 2013 (2012: DKK 33.1 million). Further, the Parent Company has paid interest expenses of DKK 308 thousand for the

period 1 January to 31 December 2013 due to internal transactions between the two companies (2012: expenses of DKK 70 thousand).

At 31 December 2013, the Parent Company had a net payable to Veloxis Pharmaceuticals, Inc. totaling DKK 8.8 million (2012: DKK 5.5 million).

Other related parties

Other related parties may exist as the members of Veloxis´ Board of Directors and Executive Management hold positions as Board members in other companies, and as the shareholders of Veloxis may also be shareholders of other companies. Except for the companies listed above, Veloxis has not identified any such parties as related parties and no transactions have been identified as related party transactions as we are not aware of such relationships.

Note 16. Changes in working capital

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
Other receivables	(9,989)	1,549	(10,328)	1,898
Prepayments	708	388	671	435
Trade payables	(5,564)	(9,673)	(5,484)	(9,753)
Deferred revenue	(11,459)	48,076	(11,459)	48,076
Other payables	(9,025)	1,352	(7,086)	877
Exchange gains/(losses)	35	909	423	422
Total	**(35,294)**	**42,601**	**(33,263)**	**41,955**

Note 17. Fees to auditors appointed by the annual general meeting

	Consolidated		Parent	
(DKK'000)	**2013**	**2012**	**2013**	**2012**
PricewaterhouseCoopers				
Audit	300	300	300	300
Tax Services	24	150	24	150
Other assurance engagements	34	1,936	34	1,936
Other services	124	198	124	198
Total	**482**	**2,584**	**482**	**2,584**

Parent company

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