ZEALAND PHARMA A/S
ANNUAL REPORT 2012

THE ZEALAND STORY

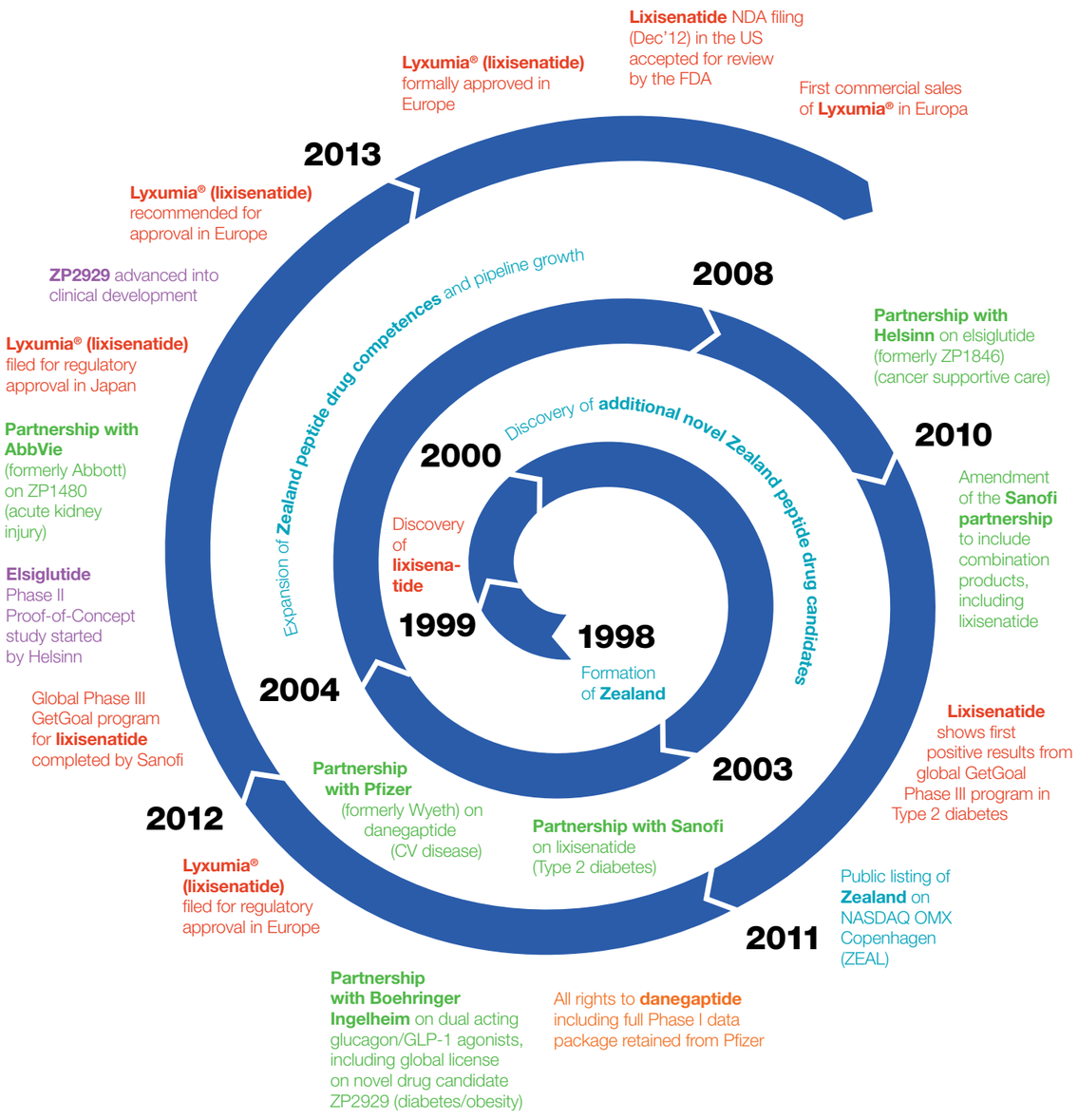
INNOVATION
PEPTIDES
PARTNERS
DIABETES
PATIENTS
GLOBAL HEALTH
SCIENTISTS
MEDICINES
SUCCESS

KEY FIGURES

DKK '000	Note	2012	2011	2010	2009	2008
Income statement and comprehensive income						
Revenue		223,565	142,284	87,357	25,319	56,262
Royalty expenses		-15,933	-112	-11,203	-74	-298
Gross profit		**207,632**	**142,172**	**76,154**	**25,245**	**55,964**
Research and development expenses		-182,759	-126,938	-140,075	-93,047	-87,621
Administrative expenses		-27,611	-34,905	-39,732	-16,735	-15,812
Initial public offering expenses		–	–	-5,820	–	–
Other operating income		35,135	28,435	777	3,971	120
Operating result		**32,397**	**8,764**	**-108,696**	**-80,566**	**-47,349**
Net financial items		3,975	4,613	4,062	4,215	10,957
Net result (after tax)		**36,372**	**13,377**	**-104,634**	**-76,351**	**-36,392**
Comprehensive income		**36,372**	**13,377**	**-104,634**	**-76,351**	**-36,392**
Earnings per share - basic (DKK)		1.61	0.60	-5.92	-4.45	2.12
Earnings per share - diluted (DKK)		1.60	0.60	-5.92	-4.45	2.12
Statement of financial position						
Cash and cash equivalents		358,922	278,342	383,305	144,617	209,681
Securities		126,940	149,358	49,673	0	0
Total assets		520,983	469,481	450,550	158,678	225,244
Share capital ('000 shares)		23,193	23,193	22,871	17,682	17,682
Shareholder's equity		491,015	441,397	407,108	132,924	208,634
Equity / assets ratio		0.94	0.94	0.90	0.84	0.93
Cash flow						
Depreciation		5,319	4,129	3,334	3,686	3,275
Change in working capital		13,782	-30,943	15,194	9,712	968
Investments in fixed assets		-8,849	-11,475	-4,236	-3,574	-3,372
Free cash flow	1	59,688	-12,637	-60,216	-65,028	-31,994
Other						
Share price DKK		84.00	57.00	70.00	n/a	n/a
Market capitalization MDKK		1,948,216	1,322,004	1,600,970	n/a	n/a
Equity per share DKK	2	21.70	19.51	18.24	7.76	12.18
Average number of employees (full-time equivalents)		104	91	72	69	68
Compounds in clinical development (year end)		7	6	6	6	4

[1] Free cash flow is calculated as cash flow from operating activities less purchase of property, plant and equipment
[2] Equity per share is calculated as shareholders equity divided by total number of shares less treasury shares

KEY BUSINESS EVENTS – HISTORIC AND IN 2012/2013



THIS IS A STORY ABOUT ZEALAND

… about innovation, peptide drugs, partners and patients.

Zealand is a biotechnology company with ambitions to lead in the innovation of revolutionary medicines which improve people's lives. Zealand has core competences in peptide drug discovery and development and its main expertise in diabetes, obesity and cardiovascular disorders.

The first drug discovery, Lyxumia® (lixisenatide) for Type 2 diabetes, licensed to Sanofi, is approved in Europe and under regulatory evaluation in many countries globally, incl. in the US and Japan.

Zealand has a broad clinical drug pipeline, a range of preclinial drug projects and a partner strategy for the development and commercialization of its products. Collaborations with Sanofi, Boehringer Ingelheim, Helsinn Healthcare and AbbVie.

Zealand is located in Copenhagen and listed on NASDAQ OMX Copenhagen (ZEAL.CO).

2012 revenues of DKK 224 (EUR 30) million, positive net results of DKK 36 (EUR 5) million and year end cash and securities of DKK 486 (EUR 65) million.

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DEAR SHAREHOLDERS,

2012 was a decisive year for Zealand, culminating in November with the positive CHMP recommendation for European approval of Lyxumia®, our first drug discovery partnered with Sanofi for the treatment of Type 2 diabetes. This was followed in February this year by the formal Marketing Authorization, granting approval for Lyxumia® in all 27 EU member countries, plus Norway, Iceland and Liechtenstein. Sales began in March, and this marks the beginning of commercial activities of the first Zealand-invented medicine to benefit patients. Reaching commercial status is a major achievement for any healthcare company and the event is a key success milestone for Zealand.

Lyxumia® has now been filed for registration in many countries globally, including the US in December 2012. Marketed by Sanofi, a global leader in diabetes care, the product has the prospects of affording adult Type 2 diabetes patients all over the world the benefit of better blood sugar control with additional beneficial effect on weight, helping to ease the burden of this chronic disease. In particular, Lyxumia® has a profile to make it the ideal partner to Lantus®, Sanofi's world-wide best selling basal insulin.

Zealand was profitable in 2011 and again in 2012 as a result of successfully meeting business and product development milestones. In the years to come, we expect to see sustainable revenues from the marketing of Lyxumia®.

> Zealand will continue to innovate. Our skilled scientists have significant expertise and are constantly exploring new ways to discover and advance novel peptide medicines to meet the demand for better disease treatment. As a leader in innovation, we do not rely on in-house capabilities alone but also with collaborations bring in the newest technologies to marry and leverage our deep 14 year peptide discovery and development experience in our continued efforts to invent next generation medicines.

Zealand has built a broad pipeline of clinical drug candidates, and in 2012 and into 2013 many of our earlier advances have begun to bear fruit. This includes ZP2929, a dual acting peptide agonist partnered with Boehringer Ingelheim of Germany, which began Phase I human studies to evaluate its possible role as a new treatment for diabetes and/or obesity. Obesity in the context of diabetes is one key aspect yet to be addressed in the treatment of this global pandemic disease. In 2012, under our partnership with Helsinn, a leading cancer supportive care company based in Switzerland, a Phase IIa study was initiated with elsiglutide, a Zealand-discovered peptide medicine in development for the prevention of chemotherapy-induced diarrhea, which is a significant burden for cancer patients. Top-line results from this study are expected later in the first half of 2013.

In 2012, we also established a new partnership with AbbVie (former Abbott) in the United States with a drug candidate for the prevention of acute kidney injury.

Earlier this year, we announced the decision to advance danegaptide, our novel, first-in-class small peptide, into a single site clinical efficacy study, to further profile this drug candidate as a new therapeutic approach for cardio protection. The study is planned to start in Q4 of 2013.

Zealand is an expert at discovering and developing innovative peptide medicines and has established a unique and leading position in the field. Still, we cannot do it alone. Partnerships are at the core of our success. Therefore, in advance of our products to patients, we will continue to join with the world's leading healthcare companies who have the resources to undertake large clinical studies involving thousands of patients and to market our medicines globally. In the near future, we intend to leverage Zealand's success in partnering and establish larger strategic alliances that allow us to share in the financial risks of developing medicines, while equally enjoying more of the reward. This will augment Zealand's skills, provide additional opportunities to accelerate growth in our pipeline and make our innovative treatments available to patients, thereby also rewarding our shareholders.

Peptide innovation, partnerships, success — these form the cornerstones of Zealand's development in 2012 and beyond. It is the significant work of our employees that make Zealand successful and we thank them for their care, hard work and innovative efforts as they join with us in fulfilling Zealand's mission to discover and develop peptide medicines that improve people's lives.

Thank you for your trust in us. We look forward to sharing further advances with you in 2013.

Sincerely,

David Horn Solomon
President and
Chief Executive Officer

Jørgen Lindegård
Chairman,
Board of Directors

CORPORATE MISSION AND VALUES

Mission

To discover and develop proprietary peptide medicines and accompanying solutions which improve people's lives. This is achieved through focused innovation and through collaboration with leading healthcare companies, academic institutions and biotechnology companies.

Values

Passionate:
We are dedicated and determined to excel in our goals.

Ambitious:
We challenge ourselves everyday.

Courageous:
We speak our minds and dare to challenge.

Curious:
We approach every new idea and opportunity in an open and receptive way.

Empathetic:
We care for our colleagues and the people we discover medicine for.

STRATEGIC OBJECTIVES

Develop high value peptide medicines that offer a substantial benefit to patients

Zealand implements a patient-centric approach to the development of new innovative peptide drugs, focusing on diabetes/metabolism with an opportunistic approach in other indications.

Generate maximal value and mitigate development risk through partnerships

Zealand intends to;

- take programs in therapeutic focus areas (diabetes/metabolic) to start of clinical development,
- take programs in smaller indications through to clinical proof of principle and
- take programs with minor development costs through to registration

unless attractive partnering opportunities arise earlier.

In future partnerships, the company aims to engage more in risk and cost sharing arrangements in order to retain commercial and strategic rights and bigger value upside for selected drug candidates.

Sustain an agile and flexible operating model

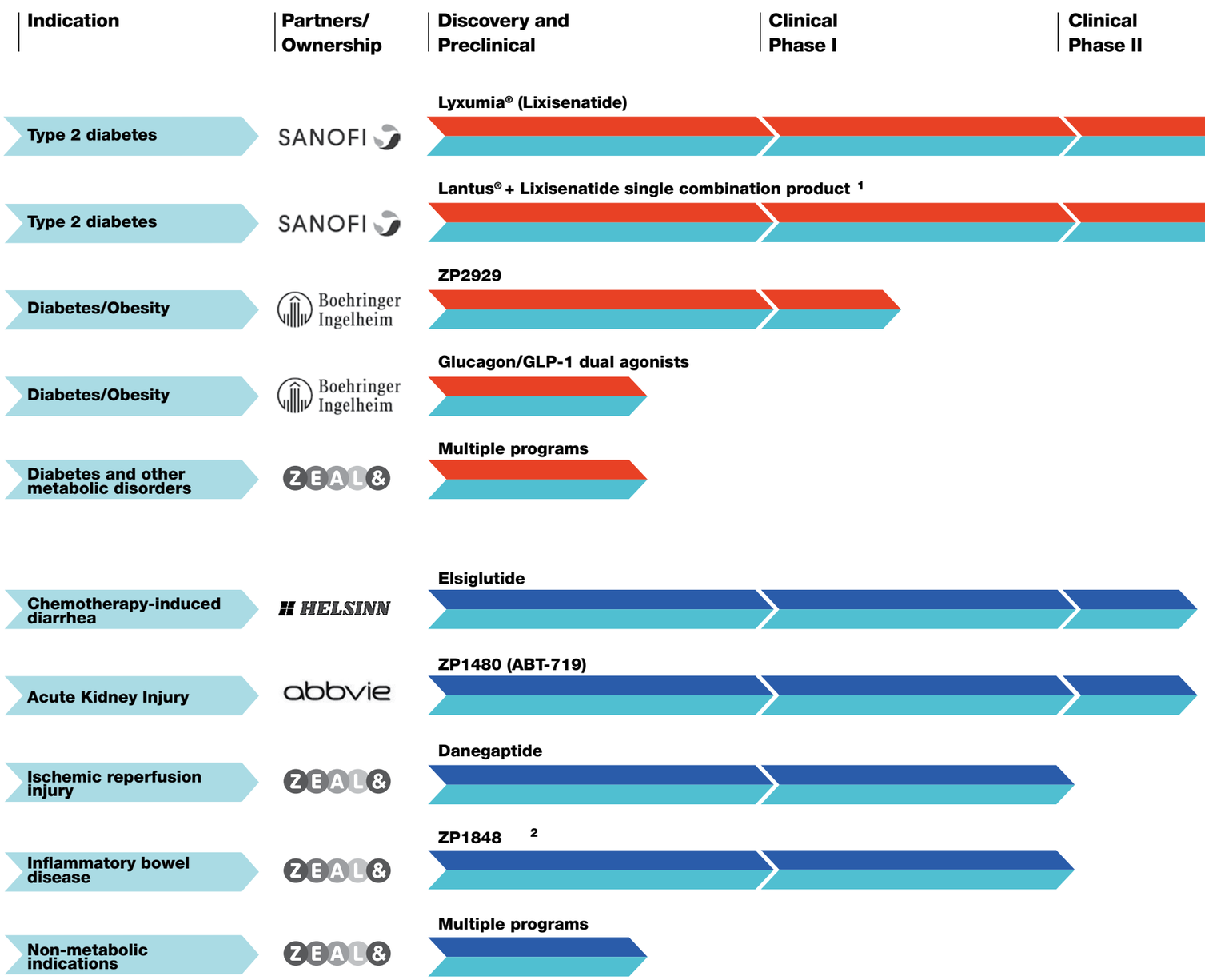
Zealand intends to stay disciplined, focused and small to retain operational flexibility and short decision making time, minimizing redundancy and ensuring seamless transitions from innovation to clinical development.

FINANCIAL OUTLOOK FOR 2013

In 2013, Zealand expects revenue from royalties on first sales of Lyxumia® (lixisenatide) and potential success based milestone payments from its collaboration partners. As Sanofi has given no guidance on the expected sales of Lyxumia® and as the timing of milestone based payments is largely outside Zealand's control, no revenue guidance is provided at this point in time.

Net operating expenses in 2013 are expected at a range of DKK 210-240 (EUR 28-32) million. This represents an expected increase of DKK 35-65 (EUR 5-9) million compared to 2012, which is mainly attributable to intensified clinical research activities.

ZEALAND'S PIPELINE



1 Positive results from three clinical studies (~1,250 patients) of lixisenatide and Lantus® given as a free combination (separate injections) presented as part of the global GetGoal Phase III program for lixisenatide.
Sanofi is preparing for additional Phase III studies of a lixisenatide/Lantus® single combination product. For the combination product, Sanofi is evaluating both a Fix-Flex device, which will allow for flexible Lantus® dosing combined with a fixed lixisenatide dose, and a Fixed-Ratio device for a premix formulation (in Phase IIb).

2 ZP1848 will be advanced into Phase II development only under a partnership.

EXPECTED PIPELINE EVENTS IN 2013

Lyxumia® (lixisenatide)

- European country by country launch (27 EU countries, Iceland, Norway & Liechtenstein)
- Regulatory decisions, including FDA response to the NDA in Q4
- Data presentation at medical conferences and journal publications

Lantus®/Lixisenatide combination product

- Decision by Sanofi on Phase III development, either in a Fix-Flex device (flexible Lantus dosing combined with a fixed dose of lixisenatide) or in a Fixed-Ratio device

ZP2929

- Advance the clinical development

Elsiglutide

- Results from Phase IIa study and decision on next steps in development

Danegaptide

- Start of Phase IIa study

Other expected pipeline events

- Start of second Phase IIb study with ZP1480
- Advance of new Zealand peptide drug candidates for addition to the pipeline

PIPELINE PROGRAM DESCRIPTIONS

All products in Zealand's pipeline are fully invented in-house (partially for ZP1480).

LIXISENATIDE

Product/disease indication

Lixisenatide (Lyxumia®)

Lixisenatide (European product name Lyxumia®), a once-daily prandial GLP-1 peptide receptor agonist invented by Zealand, for the treatment of adults with Type 2 diabetes, indicated for use in combination with basal insulin, including Lantus® (insulin glargine), the world's most prescribed basal insulin, and/or oral anti-diabetic medicines.

Lantus®/Lixisenatide single combination product

A single device combination of lixisenatide and Lantus®, for the treatment of adults with Type 2 diabetes.

Owner-/partnership

Global rights licensed to Sanofi SA *(www.sanofi.com)* under a partnership agreement with the following terms:

- Sanofi finances all development, manufacturing and marketing costs for lixisenatide and products including lixisenatide.
- Zealand is entitled to up to 275 million USD in milestone payments, of which 60 million USD have been received, and another 40 million USD relates to a depot formulation not currently in active development. The company is eligible also to tiered, low double digit royalties on global sales of lixisenatide (Lyxumia®) and fixed low double digit royalties on global net sales of combination products, including lixisenatide. Of all the income Zealand receives from lixisenatide, the company must pay 13 per cent to Alkermes (Elan) according to a previous collaboration agreement. [1]

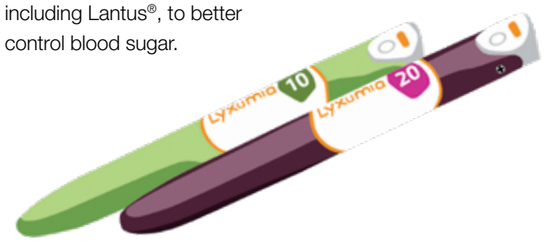
Status

Lixisenatide (Lyxumia®)

In February 2013, Lyxumia® was granted a Marketing Authorisation in Europe, approving the product in all 27 EU member countries as well as Norway, Iceland and Liechtenstein for the treatment of adults with Type 2 diabetes. Recently, this was followed by first sales of the product in the United Kingdom. Lyxumia® has received approval also in Mexico.

Also in February, the FDA accepted the New Drug Application filed by Sanofi in December 2012 for lixisenatide in the US and the product is now under regulatory review in a large number of countries globally.

The European approval and other regulatory filings on lixisenatide are based on results from an international Phase III program, GetGoal, including 11 clinical studies involving more than 5,000 patients with Type 2 diabetes. The results establish the product as the first once-daily prandial GLP-1 receptor agonist, characterized by a pronounced lowering effect on post-prandial glucose (PPG) contributing to HbA1c reduction, a beneficial effect on body weight, and a limited risk of hypoglycemia. The PPG-lowering effect of lixisenatide complements the predominantly fasting plasma glucose (FPG)-lowering effect of basal insulin, making Lyxumia® particularly relevant as an add-on therapy to basal insulins, including Lantus®, to better control blood sugar.



Lyxumia® will be marketed in a purple pen device for the indicated once-daily dosing of 20µg (microgram). The light green pen contains 14 doses of 10µg (microgram) to be used for the first two weeks upon initiation of treatment.

GetGoal results also showed that lixisenatide had a favourable safety and tolerability profile in most patients, with mild and transient nausea and vomiting, the most common adverse events observed in the GLP-1 receptor agonist class.

Lantus®/Lixisenatide combination product

To further advance the therapeutic rationale for lixisenatide in combination with Lantus®, Sanofi is evaluating a Fix-Flex single product to allow for full flexible dosing of Lantus® combined with a fixed dose of Lyxumia®, and in parallel evaluating a Fixed-Ratio combination product in a Phase IIb study.

Given a recent technical issue encountered during the last development steps of the Fix-Flex product, Sanofi is currently reassessing timelines for the start of Phase III studies of the Lantus®/lixisenatide single combination product and an update is expected in due course. The enrolment of up to 323 patients has been completed for the Phase IIb study evaluating the Fixed-Ratio combination product.

ZP2929

Product/disease indication

A once-daily dual acting glucagon/ GLP-1 peptide agonist for the treatment of diabetes and/or obesity.

Owner-/partnership

Global rights licensed to Boehringer Ingelheim *(www.boehringer-ingelheim.com)* as part of a global license and two-year research collaboration agreement on dual acting glucagon/GLP-1 agonists, signed in June 2011 with the following terms:

- Boehringer Ingelheim pays a total of 4 million EUR in research funding.
- Boehringer Ingelheim finances all development, including the first Phase I study of ZP2929 (conducted by Zealand), manufacturing and marketing of products under the agreement.
- Zealand may receive up to EUR 376 million in total projected milestone payments for ZP2929 and additional milestone payments, if other products are advanced through development. Zealand is also entitled to tiered royalties that range from high single to low double digits on global sales of products stemming from the collaboration.
- Zealand has an option to retain commercial rights in the Nordic countries.

Status

Zealand advanced ZP2929 into a Phase I clinical study in September 2012 in the United States under an Investigational New Drug (IND) Application with the FDA.

Preclinical results from studies in disease models of diabetes and obesity showed that ZP2929 significantly improved glucose control, i.e. reduced HbA1c, similarly to marketed GLP-1 drugs, and provided a significant and sustained weight loss.

ELSIGLUTIDE

Product/disease indication

A GLP-2 peptide agonist in development for the prevention of chemotherapy induced diarrhea.

Owner-/partnership

Global rights to elsiglutide in cancer supportive care licensed to Helsinn Healthcare *(www.helsinn.com)* under a partnership agreement with the following terms:

- Helsinn finances all development, manufacturing and marketing of elsiglutide.
- Zealand is eligible to up to 140 million EUR in milestone payments, of which 14 million EUR have been received, plus high single digit royalties on global sales of the product. [1]
- Zealand has retained commercial rights in the Nordic countries.

Status

In February 2012, Helsinn initiated a randomized, double-blind, placebo-controlled Phase IIa proof-of-concept study of elsiglutide to evaluate its efficacy in preventing diarrhea in patients with colorectal cancer receiving 5-FU based chemotherapy (FOLFOX4 or FOLFIRI regimen). This is a multi-centre study, conducted in the US under an IND with the FDA, and planned to include 138 patients. Enrolment has been completed and top-line study results are expected later in H1 2013.

Results from a Phase I study have shown good safety and tolerability of the drug in doses well above expected therapeutic levels.

[1] Of all the income Zealand receives from lixisenatide, elsiglutide, ZP1848 and ZP1480, 0.5 per cent is paid to the inventor of the SIP® technology

ZP1480 (ABT-719)

Product/disease indication
An MSH melanocortin peptide agonist in development for the prevention of acute kidney injury following major surgery.

Owner-/partnership
All rights with AbbVie (formerly Abbott), who is developing the compound under a license agreement with Zealand and with the following terms:

- AbbVie is solely responsible for and finances all development and commercialization of ZP1480 (ABT-719).
- Zealand is entitled to low single-digit royalties on potential global future sales of the product. [1]

Status
AbbVie is preparing to conduct a Phase IIb study in acute kidney injury associated with major cardiac surgery. The study is expected to start in 2013.

Results from a previous Phase IIb study show that ZP1480 (ABT-719) reduced kidney injury and improved long-term clinical endpoints in patients undergoing cardiac surgery.

DANEGAPTIDE

Product/disease indication
A dipeptide gap junction modifier with cardioprotective properties.

Owner-/partnership
- Zealand retains all rights.

Status
In preparation for a clinical efficacy study (Phase IIa) to profile and build evidence for the potential of the drug candidate as a novel approach in the prevention and treatment of ischemic reperfusion injury following a heart attack, an area of high unmet medical needs. The study is planned to be conducted at a single site with renowned experience in heart attack studies, and to include several hundred patients. Expected study start is in Q4 2013.

Results from an extensive Phase I safety data package, including three studies in 153 subjects, demonstrate that danegaptide is safe and well tolerated.

ZP1848

Product/disease indication
A GLP-2 peptide agonist for the treatment of Inflammatory Bowel Disease.

Owner-/partnership
- Zealand retains all rights. [1]

Status
Zealand has conducted Phase Ia and Ib studies showing that multiple doses of ZP1848 were safe and tolerable in patients with Crohn's disease and, using a surrogate biomarker, showed the possibility of efficacy. Several development and commercial options have been evaluated for the compound resulting in the decision to advance ZP1848 into clinical Phase II development only in collaboration with a partner.

PRECLINICAL PROGRAMS

Zealand has multiple peptide drug programs at different stages in research and pre-clinical development.

The majority of the company's preclinical activities lies in the field of diabetes/metabolic diseases, including the research collaboration with Boehringer Ingelheim on dual acting glucagon/GLP-1 agonists and the project on dual acting gastrin-GLP-1 peptide agonists.

From the latter, preclinical studies of ZP3022 in models of diabetes have demonstrated that treatment with this peptide leads to a significant increase in pancreatic beta-cell mass associated with a significant improvement in glycemic control.

FROM ENTREPRENEURSHIP TO SUCCESS the core of innovation

Based on an interview with
Anna Bønke Nielsen,
Laboratory Technician,
Medicinal Chemistry

As a start up business back in 1998, Zealand was situated in rented laboratory facilities, at the Agricultural University in Copenhagen. Here the drug candidate ZP10, now called lixisenatide, was invented in an act of serendipity – today an approved medicine planned for global launch by Zealand's partner Sanofi.

Zealand's story would not have been the same without the acceptance of and openness to unexpected opportunities. And back in 1999, it was a research serendipity that actually led to the discovery of ZP10.

In the late 1990s the development of pharmaceutical products based on peptides was completely new. And so was Zealand. At the beginning the company employed only 15 people compared to just over 100 employees today.

"Everything we did was influenced by a strong entrepreneurial spirit. Zealand was and is a pioneer, leading in the invention and development of peptide drugs," Anne Bønke Nielsen explains. She was one of only two laboratory technicians with the company at that time.

Speed was crucial, every task performed with a sense of urgency – the survival of the company dependent on it. All employees worked hard to make the start-up company a success – and still today, speed and urgency are some of the key driving forces in Zealand.

One of Anne's first tasks for the company was to make eight so-called syntheses, or different GLP-1 peptide molecules, each of which was formulated to have the believed best therapeutic potential to help patients with diabetes enjoy a higher quality of life.

The process behind each peptide synthesis involved the technicians compounding a long chain of amino acids in a specific, predefined sequence. Back then, it took more than a month for the laboratory technicians to create eight syntheses and produce sufficient amounts of a peptide drug substance to enable its use in the first tests, a process which today, with technology takes only 24 hours.

ZP10 - THE FIRST PRODUCT FROM ZEALAND

ZP10 was discovered in 1999. The following year a patent application was filed covering the compound which later was named lixisenatide. In 2003, Zealand signed a license agreement with Sanofi for the development and marketing of the drug.
In February 2013, lixisenatide was approved in Europe under the product name Lyxumia®, and in March Sanofi had the first commercial sales of the product. The drug is under regulatory review in many other countries globally, including in the US and Japan for the treatment of patients with Type 2 diabetes.

Everything we did was influenced by a strong entrepreneurial spirit. Zealand was and is a pioneer, leading in the invention and development of peptide drugs

"More than a months into the process we discovered that something was wrong. One of the eight substances did not have the expected molecular weight and it turned out that there was an error in one of the sequences. Instead of three of the same amino acids in a row, only two had been added. Thus, we had inadvertently produced a totally new substance, which on the outset was not quite as planned," explains Anne.

Losing a substantial part of more than a month's work was a major setback but with the entire company ready to move forward with testing there was no time to start over again and rebuild the peptide. So the researchers took a chance and tested the new compound.

Results from the first studies of the eight GLP-1 syntheses were surprising. It was the sample invented by co-incidence that was found to have the most favourable therapeutic characteristics. Thus, what was a serendipidy initially turned out to be a shortcut to producing an active compound which otherwise would have been discovered later on when the systematic testing of amino acid combinations had reached this specific peptide composition.

"These days it doesn't take two months to produce a new synthesis for testing. It is done by machines in only two weeks. This of course means that Zealand as a company can produce many more syntheses in less time, and that we can be both more systematic and take a broader approach in the discovery process. Back then - at the beginning - it was important to focus the assays on the most obvious combinations," Anne continues.

Anne is now partly retired but she still spends a few days a week at Zealand, where she and her many other experienced colleagues continue to work dedicatedly on new peptide drug projects to feed into Zealand's pipeline.

"Today Zealand is a larger company. Stronger and more sophisticated. But the creativity and enthusiasm, prerequisites for productive medical innovation, are fully intact. After all, we are all passionate about helping to find drugs that improve lives of patients and therefore it makes a difference whether or not we go to work," she says.

NOW A LARGER AND MORE FOCUSED COMPANY, BUT INNOVATION IS STILL IN FOCUS

As ZP10 became lixisenatide and then Lyxumia®, Zealand also grew into a different company. Bigger, more sophisticated, with more resources and a larger talent pool. Still, however with elements of the same pioneering spirit that prevailed at the beginning.
New technology, new equipment and more employees have increased the pace in the laboratories. But the innovative drive, the enthusiasm and the focused creativity Zealand was founded on, is still part of the company's spirit.

LYXUMIA®, THE FIRST ONCE-DAILY PRANDIAL GLP-1 AGONIST

Fasting plasma glucose (FPG) and post-prandial glucose (PPG) are two components of HbA1c, which is a key measure of blood glucose control.

Prandial GLP-1 agonists preferentially target PPG levels while non-prandial GLP-1 receptor agonists preferentially target FPG levels. Prandial GLP-1 agonists exhibit a long-lasting suppression, or delaying, of gastric emptying with an associated pronounced effect on PPG lowering[1,2].

For Lyxumia®, this is supported by a clinical study showing that treatment with this product after a standardized breakfast contributed significantly to slowing the rate of gastric emptying[3]. No such relationship was found for placebo.

Lyxumia®, as a prandial GLP-1 agonist, therefore has a greater effect on PPG reduction due to a strong impact on glucagon suppression, insulin secretion and delayed gastric emptying [3,4]. This helps lower HbA1c levels, particularly when used in combination with basal insulin[5,6].

References:
1. Buse et al. Lancet 2009; 374: 39–47. 2. Drucker et al. DURATION-1 Study Group. Lancet 2008; 372 (9645):1240–1250. 3. Nauck MA, Meier JJ, Nat Rev Endocrinol. 2011: 7(4):193-195. 4. Fineman MS et al. Diabetes Obes Metab. 2012; 14(8): 675–688. 5. Lorenz et al. Diabetes. 2012; 61(suppl 1): A280. 6. Buse et al. Ann Intern Med 2011; 154(2): 103–112.

GREAT POTENTIAL IN PEPTIDES

PEPTIDES AS MEDICINES

Peptides are made up of naturally occurring amino acids, of which there are 20. Like letters into words, amino acids can be combined as pearls on a string to form an immense variety of different molecules. In the human body, native peptides are found in every cell and tissue, where they perform a wide range of essential functions. Peptides possess important favorable therapeutic characteristics including high potency, high specificity and good safety profiles. Today, therapeutic peptides have become an important class of drugs, and there are in excess of 50 peptide-based medicines on the market, several of which have so-called block-buster status, meaning annual global sales in excess of 1 billion U.S. dollars. Zealand believes to have established a unique position in this growing field. The company was one of the first biotech companies to focus on peptide therapeutics, and is still one of only very few biotech companies with broad based and integrated peptide drug R&D competences.

Demand for peptide drugs is growing rapidly. The design and development of novel peptides is the key to keeping Zealand's pipeline stocked for many years into the future.

Based on an interview with Ditte Riber, Principal Scientist and Head of Peptide design, Medicinal Chemistry

Ditte Riber's job is akin to training animals. She works to make Zealand's peptides learn new tricks and get them to behave in new ways. The aim is two-fold; strengthening their therapeutic qualities while improving also their pharmaceutical properties so they become easier and cheaper to manufacture and store.

"At Zealand we improve nature's own peptides to make novel drug candidates. It is a scientific challenge that motivates me deeply", Ditte Riber says.

One of the innovative Zealand peptides that Ditte has been heavily involved in developing is ZP2929, a so-called dual-acting peptide drug compound that acts on both the glucagon and the GLP-1 receptors, an effect profile which gives ZP2929 the potential of offering improved treatment of Type 2 diabetes and/or obesity. Obesity in relation to diabetes constitutes one of today's key therapeutic challenges in the field of metabolic diseases.

This project has been challenging, because we wanted to combine the effect of two native metabolic peptides into one single novel molecule.

Where GLP-1 was known to help control blood glucose levels and to cause moderate weight loss, glucagon was primarily known to moderate or oppose the effect of GLP-1 on blood glucose. Glucagon was however, also known to increase fat-burn, which could be beneficial in terms of providing greater weight loss than GLP-1.

"When we studied the literature and looked at patents in the field, it was clear that the concept of dual acting GLP-1 and glucagon peptides was unconventional in the treatment of diabetes," Ditte says.

Our objective was to design a novel peptide drug which offers patients effective blood glucose control on a par with the effect of known GLP-1 drugs but combined with a substantially larger reduction in body weight. Ditte recalls the challenges involved in designing the peptides to exhibit both of these biological effects and at the same time have optimal pharmaceutical properties.

In preclinical studies the combination represented by ZP2929 has been found to both improve blood glucose control and give a significant and sustained weight loss.

"We were among the first to explore dual functioning peptides as a new therapeutic approach in this field and the willingness to challenge convention is one of the strong innovative forces in Zealand," Ditte says.

"It's probably one of Zealand's most valuable and remarkable characteristics. We dare to push established boundaries in our search for new and better ways to meet the therapeutic needs of tomorrow," she continues.

At Zealand we improve nature's own peptides to make novel drug candidates. It is a scientific challenge that motivates me deeply

The further development of ZP2929, which entered clinical studies in September 2012, is now covered by a collaboration agreement with Boehringer Ingelheim, signed in June 2011.

Zealand's partnership model is another of the company's notable strengths. Zealand's early focus on the development of peptide drugs has earned it recognition as a world leader in its field. At the same time, global demand for peptide based drugs is increasing due to their effectiveness combined with a typically mild side effect profile and good tolerability. Therefore, Zealand is experiencing a growing interest among potential partners which are typically global pharmaceutical companies, increasingly looking outside their own R&D departments for innovative new treatments.

The potential of peptides in the treatment of diabetes and other metabolic diseases is well known, however peptides also have significant relevance within other disease areas. Many native peptides are produced in the intestine and therefore they may be effective against gastrointestinal disorders. Ditte has spent much time in recent years also on GLP-2 peptide drug candidates for the treatment of various gastrointestinal disorders.

Zealand's work on GLP-2 may, as one possibility, be beneficial to cancer patients. One of the most common side effects of chemotherapy is damage to the intestinal system, leading to diarrhea, which can become so severe that the cancer treatment has to be scaled down. In these instances elsiglutide, a modified GLP-2 peptide invented in Zealand's laboratories, can help alleviate the negative effects of chemotherapy. The compound has been licensed to Helsinn Healthcare which in February 2012 started a Phase IIa proof-of-concept study to evaluate the efficacy of elsiglutide in preventing diarrhea in colorectal cancer patients. Enrolment of up to 138 patients has been completed and top-line study results are expected in H1 2013.

When Ditte was asked to identify what makes Zealand a success, she cited in particular the balance of controlling and focusing innovation without suppressing it: "One of my functions is to guide our new, young researchers. They have a Ph.D. when they arrive here and are filled with enthusiasm and great ideas which can help us in our search for new opportunities. We encourage them to pursue new ways and push established boundaries, but it is important also to make them understand that in the industry you cannot dig deep down into something just because it's scientifically exciting. Zealand is a business, and everything we work on must be of value to both patients, society and to our shareholders", she says.

The commercial focus has increased during the eight years Ditte has been with Zealand. But innovation is still the core of our business and is vital for the business model, transcending our external collaborations. Our partners must always be able to see that they can get something from Zealand that they cannot immediately find elsewhere or do themselves just as well.

ZEALAND AND GLP-1 BASED THERAPEUTICS

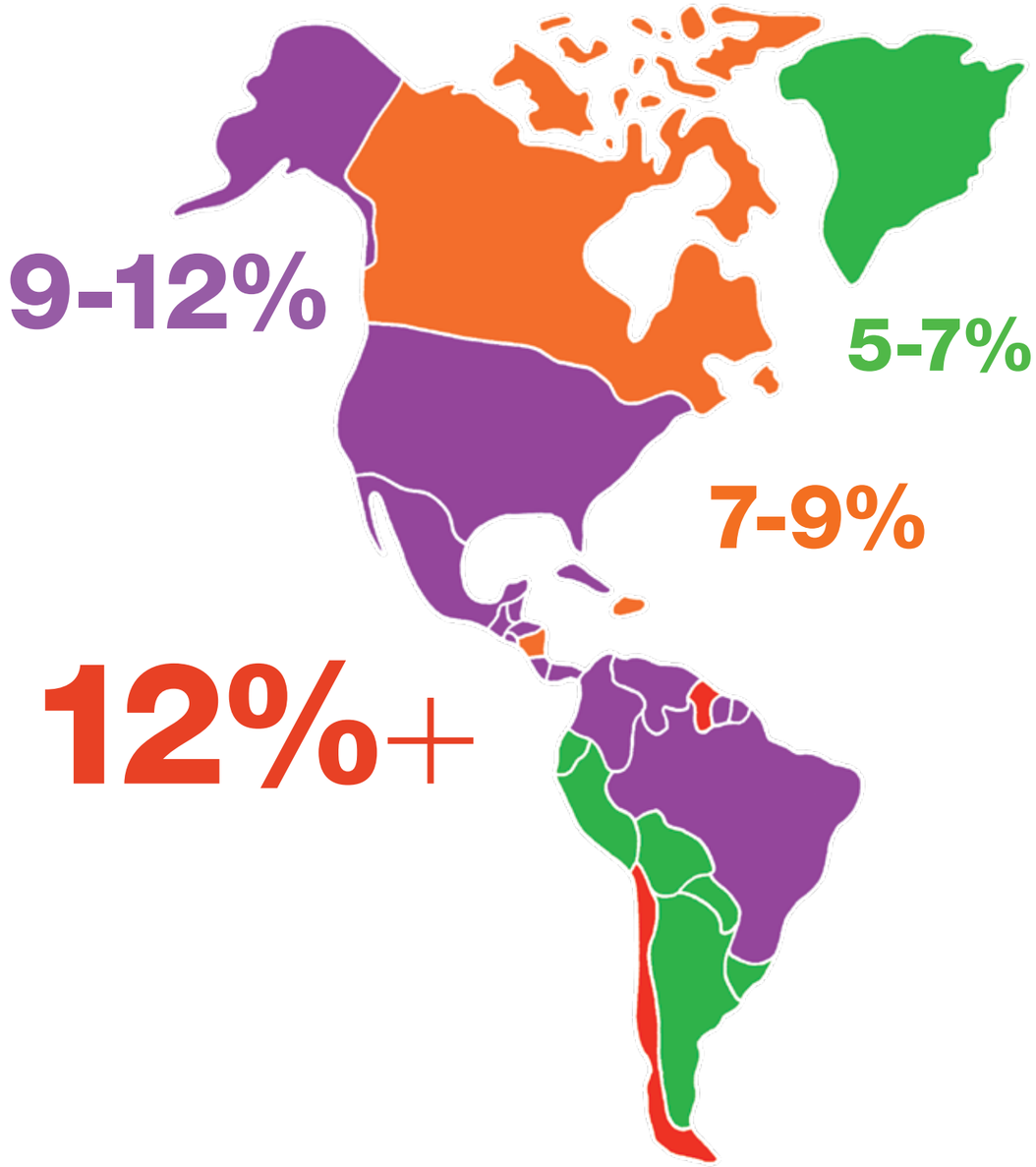
A number of Zealand's current products and pipeline drug candidates are based entirely or partly on GLP-1. Apart from lixisenatide (Lyxumia®), which has effect only on the GLP-1 receptor, the company is working on peptide drugs with dual effect, combining the effect of GLP-1 with the effect of other relevant metabolic peptide hormones for broader potential in the treatment of diabetes and other related disorders, including obesity.

NO SALES FORCE AT ZEALAND

Partnerships are essential to Zealand. No plans exist to build up a sales force. The Zealand business model is based on partnering with commercially savvy pharmaceutical companies for the marketing of Zealand discovered medicines.

In recent years, the division of expertise between biotech and pharmaceutical companies has become even more clear cut. Many of the big pharmaceutical companies have down-sized their in-house research organizations and are increasingly looking to the biotech sector for new ideas to fill their drug pipelines. This trend has also opened up for new collaborative structures. In this regard, Zealand believes to be in a good position based on its peptide drug discovery expertise and the development results, which the company has been showing since its inception 14 years ago.

GROWING GLOBAL DIABETES PANDEMIC



About Type 2 diabetes

Type 2 diabetes is a chronic metabolic disorder in which there are two main biological defects:

A deficient production of insulin in the pancreas and/or a reduced ability of the body to respond to the insulin being produced.

Insulin is a hormone produced by the pancreas that allows glucose from food to enter the body's cells where it is converted into energy needed by muscles and tissues to function.

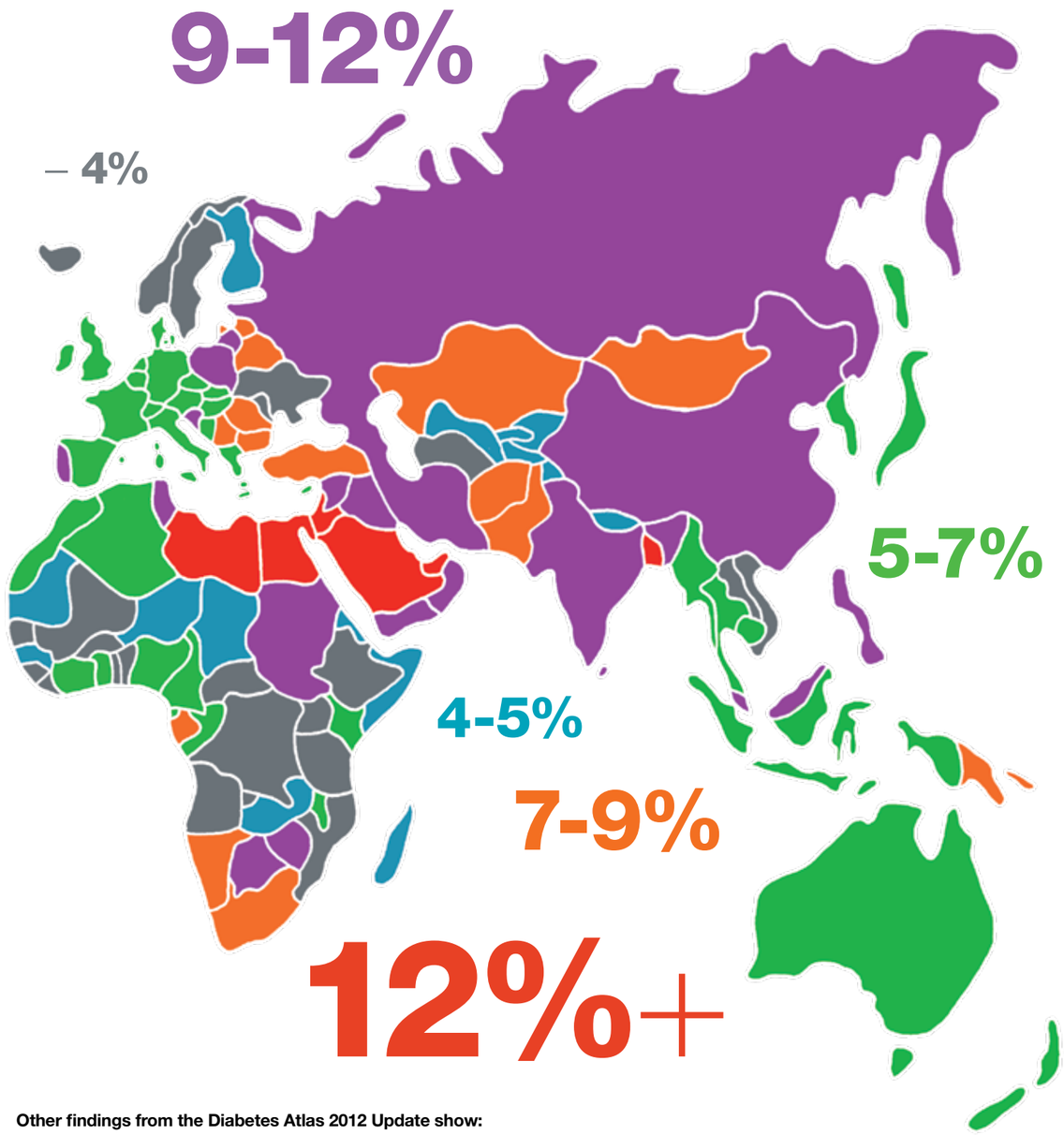
As a result, a person with Type 2 diabetes does not absorb glucose properly, and glucose stays circulating in the blood (hyperglycaemia).

Over time, uncontrolled hyperglycaemia leads to the macrovascular and microvascular complications of diabetes. Macrovascular complications, which affect the large blood vessels, include heart attack, stroke and peripheral vascular disease.

Microvascular complications affect the small blood vessels of the eyes (retinopathy), kidney (nephropathy) and nerves (neuropathy).

The incidence of Type 2 diabetes is growing at an alarming rate, and more than 370 million people worldwide are estimated to live with the condition today.

This map shows the percentage of the population (age 20-79) in each country predicted to have diabetes by 2030 [1]



Other findings from the Diabetes Atlas 2012 Update show:

- 471 billion USD were spent on diabetes in 2012, compared to 465 billion in 2011
- 4 out of 5 people with diabetes live in low- and middle-income countries
- 1 in 4 of all diabetes deaths occur in South-East Asia
- North America spends the most healthcare dollars on diabetes
- 81% of people with diabetes in Africa are undiagnosed

[1] IDF Diabetes Atlas, 5th Edition (November 2012 update)

DIABETES ONE OF THE WORLD'S GREATEST HEALTH CHALLENGES

Based on an interview with
Prof. Tina Vilsbøll, MD D.MSc,
Chief Consultant Endocrinologist and
Head of Diabetes Research Division,
Gentofte Hospital, University of Copenhagen

In the past, patients with diabetes became blind, got kidney diseases and were at risk of having their legs and feet amputated. Today, obesity and cardiovascular disease represent the most serious risks for patients. Among the newest hopes are peptide drugs based on GLP-1.

Diabetes researchers all over the world are working intensely to find the next big break-through in diabetes treatment research. They aim to invent diabetes drugs that can help to reduce obesity, a life threatening condition, which affects millions of diabetes patients worldwide, and the associated risk of dying from cardiovascular disease.

"Formerly, diabetes was called 'the sugar disease'. It should rather be called 'the fat disease'. Today, it is obesity and lifestyle diseases which cost the lives of diabetes patients", says Dr. Tina Vilsbøll, Prof. and Head of Diabetes Research at Gentofte Hospital in Copenhagen.

There has been good progress in the treatment of diabetes but it is still a very dangerous disease with higher mortality than certain types of cancer. Diabetes itself does not cause mortality, rather it is the complications related to diabetes that can prove fatal. Today, eight out of ten patients with Type 2 diabetes die of cardiovascular diseases.

Dr. Vilsbøll considers new drugs based on the peptide hormone GLP-1 to have the potential to deal with the complications of diabetes as well as combatting the disease itself. "My hope is that GLP-1 drugs will help to change the entire life story of a patient with diabetes. Too many patients become too sick and have weight problems, liver problems and heart conditions. GLP-1 is a treatment, not a cure, but I hope and believe that in time we will be able to control the complications just as effectively as we can control diabetes itself", she says.

It was in the 1990's that GLP-1 was first found to have a regulatory effect on the patients' blood glucose levels. Later studies have shown that GLP-1 also leads to weight loss and is able to lower cholesterol, blood pressure and liver count. More important is that GLP-1 is active only after meals, when carbohydrates lead to increased blood sugar levels. This means that the ultimate glucose control is achieved without increasing the risk of hypoglycemia, an acute condition of too low blood sugar which most patients with diabetes fear.

"We face a huge challenge in combatting diabetes. However, due to the close cooperation between the public health sector and private pharmaceutical industry, Denmark is one of the major centers for diabetes research. And I have high hopes for the combination treatments which are coming up," continues Dr Vilsbøll.

"In recent years both Europe and the US have introduced more aggressive guidelines for the treatment of diabetes. Previous recommendations were focused on diet modification and exercise whereas today, the standard is to start much earlier with medical treatment."

GLP-1 AGONISTS, AN ESTABLISHED DRUG CLASS

The GLP-1 agonist drug class is well-established in the treatment of diabetes and comprises other than Lyxumia® (lixisenatide) the following marketed products: Byetta (exanetide) for twice-daily dosing (Bristol-Myers Squib/ AstraZeneca (former Amylin)), Victoza (liraglutide) for once-daily dosing (Novo Nordisk) and Bydureon (exanetide XR) for once-weekly dosing (Bristol-Myers Squib/ AstraZeneca). Based on analyst estimates, the demand for GLP-1 agonists in the treatment of diabetes is expected to exceed USD 7 billion in 2017.

GLP-1 – AN IMPORTANT METABOLIC PEPTIDE HORMONE

GLP-1 is an acronym for "Glucagon-like peptide-1", a native metabolic peptide hormone that is produced in the intestine. The hormone was discovered in 1983 and Danish medical doctors are among the world's leading researchers in the field.

GLP-1 works by binding to receptors located on the surface of insulin producing cells in the pancreas (the beta cells). Upon binding, the beta cells secrete more insulin, which lowers blood sugar, and importantly as a main feature of GLP-1 only when blood sugar levels are increased GLP-1 plays an important role in the body's natural blood glucose control, but has effect also on gastric emptying and the cardiovascular system as well as on the appetite center in the brain.

Diabetes is a multi-facetted disease, and the poly-pharmaceutical properties of GLP-1 drugs are important. This means that not all GLP-1 drugs work in the exact same way, leaving the potential of patient differentiated treatment.

The increase in weight that often comes with diabetes is severely disabling for patients. Modifying diet and increasing exercise is the best initial cure for diabetes

EXECUTIVE MANAGEMENT

David Horn Solomon

President
and Chief Executive Officer

Born: 1960

Dr. David H. Solomon joined Zealand in September 2008 from a position as Chief Operating Officer of Vital Sensors.

From 2003 to 2006, Dr. Solomon led healthcare investing at Carrot Capital Healthcare Ventures.

He has served as a faculty member at Columbia University's College of Physicians and Surgeons in New York, NY and has had leadership positions at biotechnology, pharmaceutical and medical device companies, including Remedy Pharmaceuticals, Inc. and Critical Diagnostics Inc., both in New York.

Dr. Solomon received his doctorate at Cornell University Medical College and the Sloan-Kettering division of its Graduate School of Medical Sciences, in New York City.

Member of the board:
BioAlliance Pharma S.A.

Ownership:
387,150 warrants

Mats Blom

Senior Vice President
and Chief Financial Officer

Born: 1965

Mr. Blom joined Zealand in March 2010. Prior to joining Zealand Mr. Blom served as the CFO of Swedish Orphan International, a leading European orphan drug company, acquired by Biovitrum of Sweden in 2009. Mr. Blom has held CFO positions at Active Biotech and Anoto which are both publicly listed on Nasdaq OMX in Stockholm.

He has several years of experience as a management consultant at Gemini Consulting and at the Transaction Services division of Ernst&Young. Mr. Blom has a BA in Business Administration and Economics from the University of Lund followed by an MBA from I.E.S.E University of Navarra, Barcelona.

Chairman of the board:
Medical Need AB

Ownership:
129,050 warrants
90,246 shares

Arvind M. Hundal

Senior Vice President
and Chief Business Officer

Born: 1963

Dr. Hundal joined Zealand in 2009 and was appointed Chief Business Officer in September 2011.

Prior to joining Zealand, Dr. Hundal served as a member of the Strategic Planning Business Development organization at Astra Zeneca, and most recently as Business Development Director at 7TM Pharma A/S. Dr. Hundal has more than 15 years' experience in the life sciences sector, including ten years in business development positions.

She has worked on both in- and out-licensing across the industry from pre-seed to public organizations; including university technology developments, spinout biotechnology, and top tier pharmaceutical companies.

Dr. Hundal has a BS from King's College London, a PhD from the Institute of Genetics at Glasgow University, and subsequently completed a post-doctoral fellowship at the University of Texas Southwestern Medical Center, in Dallas.

Ownership:
129,050 warrants

Christian Grøndahl

Executive Vice President and Chief
Scientific Officer

Born: 1964

Dr. Grøndahl joined Zealand in April 2010. Prior to joining Zealand Dr. Grøndahl served as Corporate Vice President at Novo Nordisk A/S, where he built a novel unit within Corporate Development that managed innovation partnerships with biotech and pharma companies as well as universities.

He held several senior positions during his 14 years of experience with Novo Nordisk and was responsible for R&D within Human Infertility and Growth Disorders as well as establishing the early research portfolio within Cancer and Chronic inflammation and introducing eClinical globally. Dr.Grøndahl holds a Doctor of Veterinary medicine followed by a PhD and a Doctor of Medical Science from the University of Copenhagen followed by an MBA from IMD, University of Lausanne, Switzerland.

Member of the board:
Unisense FertiliTech A/S,
Kongeriget Danmarks
Hesteforsikring G/s

Vice Chairman of the board:
Marie Kruse, Private School and Gymnasium.

Ownership:
129,050 warrants
140,413 shares

Agneta Svedberg

Senior Vice President
and Chief Operating Officer

Born: 1963

Effective from 1 February 2013, Agneta Svedberg joined Zealand from Cantargia AB, a Swedish biotech company, where she has held a position as Chief Executive Officer.

She has more than 20 years of experience in drug development from different leadership functions in both biotech and big pharma companies, including more than ten years with Genmab A/S in Copenhagen, where she was Global Head of Clinical Development and held various senior management positions, the last year as Copenhagen site Manager with responsibility for 200 people.

Prior to this, Agneta Svedberg was Head of Clinical Development (Europe) at Oxigene Europe AB and also held managerial positions at Pharmacia & Upjohn AB in Sweden.

Agneta Svedberg holds a M.Sc. in Radiation Physics from Lund University and an Executive MBA from Lund University School of Economics and Management, Sweden.

Ownership:
67,012 warrants

BOARD OF DIRECTORS

Alain Munoz

MD Cardiology and Anaesthesiology

Born: 1949

Board member since 2005 (resigned 2006), re-elected 2007

Non-independent

Co-Chairman of Zealand's Clinical and Scientific Advisory Board

Advisor:
Kurma Biofund

Member of the board:
Vivalis SA
Auris medical AG
Medesis SA
Hybrigenics SA

Ownership:
7,000 shares

Christian Thorkildsen

Cand.pharm. PMP

Born: 1968

Board member since 2006

Employee elected

Project director

Ownership:
54,000 warrants
23,329 shares

Jutta af Rosenborg

State-Authorized Public Accountant, MSc Business Administration and Auditing

Born: 1958

Chairman of the Audit Committee

Board member since 2011

Independent

Member of the board:
Auriga Industries A/S, (Chairman of the Audit Committee)
Carnegie WorldWide Investment Fund
Det Danske Klasselotteri A/S
Aberdeen Asset Management Plc

Ownership:
None

Hanne Heidenheim Bak

MSc pharm.

Born: 1953

Board member since 2012

Employee elected

Project director

Ownership:
54,000 warrants
20,109 shares

Daniël Jan Ellens

PhD Molecular Biology M.B.A.

Born: 1948

Vice Chairman of the board since 2012

(Chairman 2007-2012 Board member since 2005)

Independent

Venture Partner:
Life Sciences Partners

President:
Elkerim GmbH

Chairman of the board:
Prosensa B.V.
Hybrigenics SA
Kreatech Holding B.V.

Ownership:
134,024 warrants
16,500 shares

Jørgen Lindegaard

MSc Engineering (Electronics)

Born: 1948

Chairman of the board since 2012

Chairman of the Remuneration Committee and the Nomination Committee

(Vice Chairman 2011-2012, Board member since 2011)

Independent

Chairman of the board:
AVT Business School A/S
Deducta A/S
Scania (DK)
Scania (NO)
JL Rungsted Holding
Trifina Holding ApS
K/S Vimmelskaftet 39-41
IT University of Copenhagen

Member of the board:
Efsen Engineering A/S

Ownership:
10,685 shares

Helle Størum

MSc Business Administration
Diploma in Basic Pharmaceutical Medicine

Born: 1967

Board member since 2008

Employee elected

Associate director, Business development

Ownership:
15,000 warrants
3,000 shares

Peter Benson

MA Economics

Born: 1955

Board member since 2007

Independent

Managing partner:
Sunstone Capital

Member of the board:
Virogates A/S.
Asante Solutios Inc.
Imix Holding AB
Alligator AB

Ownership:
None

Michael J. Owen

PhD Biochemestry

Born: 1951

Board member since 2012

Independent

Member of the board:
BLINK Therapeutics
Ossianix, Inc.

Advisor:
Kymab Ltd
Qure Invest SaRL
CRT Pioneer Fund LP

Ownership:
None

Florian Reinaud

MD Emergency Medicine and Internal Medicine

Born: 1973

Board member since 2010

Independent

Partner:
Innovation Capital

Member of the board:
FAB Pharma, SAS
Kuros Biosurgery AG
Orthopedic Synergy Inc.

Ownership:
None

SHAREHOLDER INFORMATION

Zealand is listed on the NASDAQ OMX Copenhagen stock exchange under the ticker symbol ZEAL.* The company's shares form part of the NASDAQ OMX Copenhagen Midcap index.

Share capital and ownership structure

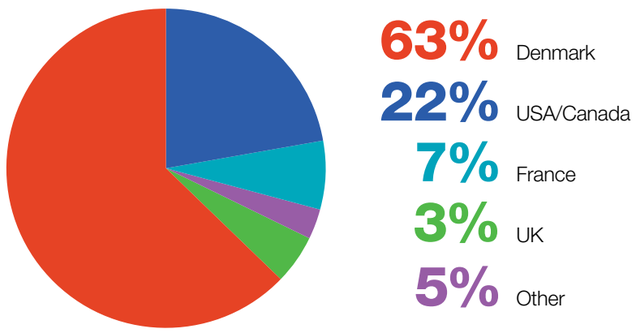
At the end of 2012, the nominal value of Zealand's share capital was DKK 23,193,047 divided into 23,193,047 shares with a nominal value of DKK 1 each. The share capital has remained unchanged in 2012.

On 31 December 2012, Zealand had 1.925 registered shareholders, who held a total of 21,271,526 shares, corresponding to 91.7 % of the total outstanding share capital. On 28 February 2013, the number of registered shareholders was 2.966.

Almost 40% of our shares are held by investors outside Denmark, with the United States, France, the Netherlands and the United Kingdom representing the largest non-Danish shareholdings.

Geographical distribution of Zealand share ownership

(based on registered shareholdings)



Major shareholdings

Sunstone BI Funds, *Copenhagen, Denmark*	16.7%
LD Pension (Lønmodtagernes Dyrtidsfond), *Copenhagen, Denmark*	11.6%
CDC Innovation, *Paris, France*	11.0%
Sunstone Life Science Ventures Fund, *Copenhagen, Denmark*	9.0%
Idinvest Partners Funds, *Paris, France*	6.1%
LSP, *Amsterdam, The Netherlands*	5.5%
A/S Dansk Erhvervsinvestering, *Copenhagen, Denmark*	5.2%

ANALYST COVERAGE

Our stock is covered by the following investment banks:

Bryan, Garnier & Co
Eric le Berrigaud
eleberrigaud@bryangarnier.com

Danske Bank
Thomas Bowers
THBO@danskebank.dk

Handelsbanken
Peter Sehested
pese10@handelsbanken.se

Jefferies
Peter Welford
pwelford@jefferies.com

Nordea
Michael Novod
michael.novod@nordea.com

Oddo Securities - Oddo & Cie
Sébastien Malafosse
smalafosse@oddo.fr

* ISIN code DK0060257814

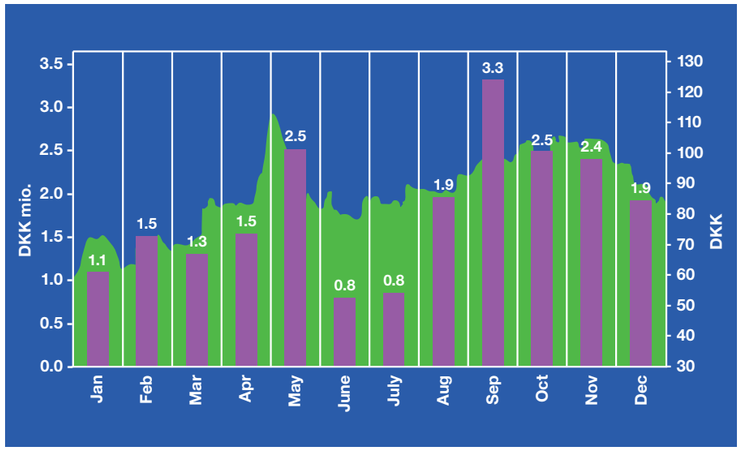
Share price performance and turnover in 2012

Zealand has met a number of important milestones in 2012 and the news flow has been positive and frequent. Helped also by a general improvement in investor sentiment, Zealand's shares in parallel with the biopharmaceutical sector in general have performed well.

End 2012, Zealand's share price was DKK 84 compared to DKK 57 on 30 December 2011. This corresponds to a total return on our shares of +47% (2011: -18.5%). This performance compares to +18.6% for the OMX Copenhagen Midcap index, +39% for the Danish biotech sector, +27,5% for Nasdaq US Biotech and 64.9% for the MSCI Europe Biotech Index which fell 20% during 2012.

The liquidity in the Zealand stock also improved significantly in 2012 and volume traded on NASDAQ OMX Copenhagen more than doubled (+118%) compared to 2011. The average daily traded number of shares in 2012 was 19,827 (2011: 9,100). The total annual turnover was up 221% to DKK ~443 million (2011: DKK ~138 million). Into 2013, liquidity has improved further, with an increase of 250% in the average daily number of shares traded to 69,646.

2012 Share performance and volume



Average daily traded value in Copenhagen (lhs)

Share price (rhs)

Zealand's market capitalization was DKK 1.9 billion (EUR 262 million) at the end of 2012 compared to DKK 1.3 billion (EUR 178 million) at the end of 2011. On 28 February 2013, the market capitalization was DKK 1,8 billion (EUR 185 million).

FINANCIAL AND IR EVENT CALENDAR 2013

23 April
Kempen & Co Life Science Conf., Amsterdam

30 April
Ann. General Meeting

15 May
Q1 2013 Interim report

29 – 31 May
Deutsche Bank Healthcare Conf., Boston, USA

3 – 6 June
Jefferies Global Healthcare Conf., New York, USA

11 – 13 June
GS Global Healthcare Conf., CA, USA

21 – 25 June
ADA 73th Ann.Scientific Sessions, Chicago

29 August
H1 2013 Interim report

October (TBC)
Capital Market Days, Cph, London, New York

11 – 13 September
BoAML Healthcare Conf., London

15 November
Q3 2013 Interim report

Apart from the above, Zealand has planned several road shows to meet investors in the major European capitals

Zealand has an open and proactive approach in its Investor Relations with the ambition of providing transparency into our business and our activities

Investor Relations in Zealand

Zealand has an open and proactive approach in Investor Relations with the ambition of providing transparency into our business and our activities. We strive to ensure the basis for a dynamic and open dialogue with investors, sell-side analysts as well as other external stakeholders.

In line with the disclosure requirements for companies listed on NASDAQ OMX Copenhagen, Zealand issues announcements to inform of relevant news relating the company and its business activities. Further, we issue investor news on a frequent basis and hold conference calls and webcasts in order to reach investors effectively. We also attend and present at investor conferences in both the US and Europe and travel to the main financial cities twice a year to meet with investors.

To receive news releases directly, please register by using the e-mail alert,that you will find under the Investor menu on our website.

We encourage investors, analysts and other external stakeholders to contact us with any questions or other enquiries relating to Zealand:

Hanne Leth Hillman
Vice President, Head of IR & Corporate Communications
Phone: +45 50 60 36 89
e-mail: hlh@zealandpharma.com

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Corporate governance

As a company listed on NASDAQ OMX Copenhagen, Zealand follows Danish securities law and it is Zealand's intent to be guided by the Corporate Governance Recommendations designated by NASDAQ OMX Copenhagen.

Zealand regularly reviews its rules, policies and practices with the purpose of ensuring that it meets its obligations to the shareholders, employees, regulatory authorities and other stakeholders, while serving to maximize long-term value.

NASDAQ OMX Copenhagen has incorporated the Recommendations by the Danish Committee of Corporate Governance, and Zealand intends to meet in all material respects these recommendations. This must be done applying the "comply or explain" principle. It is the view of management that Zealand comply with these recommendations with the exception of the three highlighted below.

Recommendations section 4.1.4
Zealand are committed to hiring and retaining the most qualified employees without regard to race, creed, gender or age but does not currently have specific targets in regards to diversity for its employees or managers.

Recommendations section 5.10.9
The remuneration committee will be using the same external advisors as the executive management. It is the board of directors' evaluation that the external advisors will provide professional and unbiased advice in both capacities as adviser to the executive management and to the remuneration committee.

Recommendations section 6.1.6
The remuneration of the vice chairman of the board of directors includes a share based incentive program (granted in 2010 in connection with the company's Initial Public Offering) with the possibility of exercise within three years of receipt.
This exemption in the remuneration of the board of directors is considered to be in line with the industry practice for innovative biopharmaceutical companies.
In 2012, the board decided in line with the recommendations that no board members should participate in future share based incentive programs.

Zealand has in accordance with the Danish Financial Statements Act, section 107b, prepared a Statutory Report on Corporate Governance, which is available in full at the company's website:
http://www.zealandpharma.com/investors/corporategovernance

Corporate social responsibility

Zealand's policies with regards to Corporate Social Responsibility ("CSR") cover many areas of our operations. In 2012 Zealand updated its statutory report on CSR, status report describing the status and activities within the following areas:

- Labour practices & decent work
- Occupational health & safety
- Animal rights
- Environmental sustainability
- Anti-corruption & pharmaceutical ethics

These focus areas are an amalgamation of existing Zealand values and policies together with the principles of the United Nations Global Compact where they apply to the scope of the company's business. The CSR report gives particular emphasis to those areas which are unique to Zealand's business as a biotechnology and research corporation with a diverse range of strategic partnerships. However, given that the company does not have marketed or commercialized drugs, there are many issues specific to the pharmaceutical industry that consequently do not fall within the scope of the company's CSR activities.

Zealand has in accordance with the Danish Financial Statements Act, section 99a, prepared a statutory report on CSR, which can be found on the company's website: **http://www.zealandpharma.com/investors/csr**

RISK MANAGEMENT AND INTERNAL CONTROL

Doing business in the biopharmaceutical industry involves major financial risk. The development period is typically many years; costs are high and the probability of reaching the market relatively low.

Management is responsible for implementing adequate systems and policies on risk management and internal control and to assess the overall risks and specific risks associated with Zealand's business and operations and seek to ensure that such risks are managed in a responsible and efficient manner.

Risk of specific/particular importance to Zealand is scientific and development risks, commercial risks, partner interest risks and financial risks. Risk and mitigation plans are monitored by management and this continuous risk assessment is an integral part of the quarterly reporting to the board of directors.

Scientific and development risks
During the course of the research and development process Zealand regularly assesses these risks through a quarterly risk assessment of all the company's research and development projects conducted by management in collaboration with the department heads and project managers and presented to the board of directors. Each project is described and progress is measured based on milestones. An individual risk analysis for each of the projects is conducted and a prioritizing of the project portfolio is performed.

The Clinical and Scientific Advisory Board regularly also provides input to the risks in Zealand's research and development portfolio as well as in individual projects.

Commercial risks
From early on in the research phase and all the way through development, risks related to patent protection, market size, competition, development time and costs and partner interest are assessed to make sure that final products are potentially commercially viable.

Partner interest risks
Zealand has ongoing discussions with potential industry partners in order to gauge and encourage interest in the research programs. The aim is to ensure that Zealand focuses on programs that are attractive to partners. Entering into collaborations with partners can bring significant benefits but also potentially involve risks. In addition, full control of the products is often given over to the collaborator. In order to mitigate these risks Zealand strives to foster a close and open dialogue with its partners thereby building strong partnerships that work effectively.

Financial risks
Financial risks such as cash and treasury management, liquidity forecasts and financing opportunities are managed in accordance with the Finance Policy and

regularly assessed by the company's management and reported to the audit committee and the board of directors.
(see p 61; Note 14 – Financial and operational risks)

Risk management and internal control related to financial reporting

Zealand has a number of internal control and risk management systems in place to ensure that its financial statements provide a true and fair view and is in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies. On a yearly basis, an evaluation – with special emphasis on risk management and internal control related to the financial reporting – is done to ensure that risks are managed in a responsible and efficient manner.

Zealand has several policies and procedures in key areas of financial reporting. The internal control and risk management systems are designed to mitigate, detect and correct material misstatements rather than eliminate the risks identified in the financial reporting process.

A review and prioritization of material accounting items is also performed. Items in the financial statements that are based on estimates or that are generated through complex processes carry a relatively higher risk for error. Zealand performs continual risk assessments to identify such items and to assess the scope and related risk.

The policies and procedures are approved by the board of directors and on a daily basis the responsibility is of the executive management. The board of directors has established an audit committee with an advisory role relative to the board of directors. The board of directors has concluded that it is not relevant to establish an internal audit function in a company of Zealand's size.

Description of management reporting systems and internal control systems

Zealand has management reporting and internal control systems in place that enables it to monitor performance, strategy, operations, business environment, organization, procedures, funding, risk and internal control. The company believes that the reporting and internal controls are adequate to avoid misstatements in the financial reporting.

A full description of the risk management and internal control system in relation to financial reporting is included in the Statutory Report on Corporate Governance, cf. section 107b of the Danish Financial Statements Act, which can be found on the company's website:
www.zealandpharma.com/investors/corporategovernance

Financial review for the period 1 January - 31 December 2012

(Comparative figures for the same period last year are shown in brackets)

Income statement
The net result for the year 2012 was a profit of DKK 36.4 million (13.4).
The increased result is a result of milestones payments received. The result was in line with the previous financial outlook of a net result in a range of DKK 30 - 40 million.

Revenue
Revenue increased to DKK 223.6 million (142.3), consisting of milestone payments under the license agreements with the company's partners Sanofi, Boehringer Ingelheim, Helsinn Healthcare and former partner Action Pharma. Revenue for the same period in 2011 relates to milestone payments from Boehringer Ingelheim and Helsinn Healthcare.

Royalty expenses
Royalty expenses for the year increased to DKK 15.9 million (0.1) and relates to royalty paid to third parties on received milestone payments.

Research and development expenses
Research and development expenses amounted to DKK 182.8 million (126.9). The increase is a result of an increase in personnel costs of DKK 10.6 million related to salaries and headcount and DKK 10.0 million related to incentive programs, and by an increase of DKK 35.3 million due to accelerated R&D activities. R&D expenses mainly related to ZP2929 and the collaboration agreement with Boehringer Ingelheim have been refunded with DKK 34.2 million (27.9) and recorded as other operating income, see below.

Administrative expenses
Administrative expenses amounted to DKK 27.6 million (34.9). The decrease is mainly a result of reduced legal costs.

Other operating income
Other operating income amounted to DKK 35.1 million (28.4) mainly associated with income under the license and collaboration agreement with Boehringer Ingelheim, relating to funding of incurred development costs of ZP2929 and costs related to the research collaboration.

Operating result
Operating result for the period was a profit of DKK 32.4 million (8.8).

Net financial items
Net financial items amounted to DKK 4.0 million (4.6). Net financial items consist of interest income, banking fees and changes in exchange rates.

Result from ordinary activities before tax
Result from ordinary activities before tax came to a profit of DKK 36.4 million (13.4).

Tax on ordinary activities
No tax on the result from ordinary activities has been recorded since Zealand offsets any tax through tax losses carry forward from previous years. No deferred tax asset has been recognized in the statement of financial position due to uncertainty as to whether tax losses can be utilized.

Net result and comprehensive income
Net result and comprehensive income both amounted to a profit of DKK 36.4 million (13.4).

Allocation of result
No dividend has been proposed and the year's net profit of DKK 36.4 million (13.4) has been transferred to retained earnings.

Equity
Equity amounts to DKK 491.0 million (441.4) at the end of the year, corresponding to an equity ratio of 94% (94). The increase in equity is a result of the net profit for the year.

Capital expenditure
Investments for the period amounted to DKK 8.8 million (11.5) mainly in new laboratory equipment.

Cash flow
Cash flow from operating activities amounted to DKK 68.5 million (-1.2), and cash flow from investing activities to DKK 13.4 million (-111.2). Cash flow from financing activities amounted to DKK 0.0 million (8.1). The total cash flow for the full year of 2012 amounted to DKK 82.0 million (-104.3).

The increase in cash flow from operating activities stems mainly from milestone payments received under the license agreements with Sanofi, Boehringer Ingelheim Helsinn Healthcare and former partner Action Pharma. The positive cash flow from investing activities is a result of divestments of securities exceding new investments in securities.

Cash and cash equivalents
As of 31 December 2012, cash and cash equivalents including securities in Zealand amounted to DKK 485.9 million (427.7).

Events after the end of the financial year
In January, Agneta Svedberg was appointed as new Senior Vice President and Chief Operating Officer replacing former Senior Vice President and Chief Operating Officer, John Hyttel, one of Zealand's founders, who retired after 14 years with the company.

In February, Zealand's partner Sanofi was granted a Marketing Authorization in Europe for Lyxumia® (lixisenatide) for the treatment of Type 2 diabetes and later the same month FDA accepted for review a New Drug Application (NDA) for lixisenatide in the US. Also in February, Sanofi in its 2012 Full Year earning report provided an update on the status of the Lyxumia® (lixisenatide) /Lantus® (insulin glargine) combination programs. Owing to a technical issue encountered during the development of the Fix-Flex combination device, Phase III development for the combination of Lantus®/Lyxumia® will not be initiated in 2013, as previously planned.

In March, Zealand announced the decision to advance danegaptide into a single-site clinical efficacy study with expected start in Q4 2013 to further profile this promising novel peptide drug as a novel therapeutic approach in cardio-protection, and only to advance ZP1848 for inflammatory bowel disease with a partner.

Financial outlook for 2013
In 2013, Zealand expects revenue from royalties on first sales of Lyxumia® (lixisenatide) and potential success based milestone payments from its collaboration partners. As Sanofi has given no guidance on the expected sales of Lyxumia® and as the timing of milestone based payments is largely outside Zealand's control, no revenue guidance is provided at this point in time.

Net operating expenses in 2013 are expected at a range of DKK 210-240 (EUR 28-32) million. This represents an expected increase of DKK 35-65 (EUR 5-9) million compared to 2012, which is mainly attributable to intensified clinical research activities. ◆

STATEMENT OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Today the Board of Directors and Executive Management have discussed and approved the Annual Report of Zealand Pharma A/S for the financial year 1 January – 31 December 2012.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

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 2012 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2012.

In our opinion the management's review includes a fair review about the development in the Parent Company's and the Group's operations and economical conditions, the results for the year and the Parent Company's financial position, and the position as a whole for the entities included in the consolidated financial statements, as well as a review of the more significant risks and uncertainty the Parent Company and the Group face, in accordance with Danish disclosure requirements for listed companies.

We recommend that the Annual Report be approved at the annual general meeting.

Glostrup, 14 March 2013

Executive management

David Horn Solomon
President and
Chief Executive Officer

Christian Grøndahl
Executive Vice President and
Chief Scientific Officer

Mats Blom
Senior Vice President and
Chief Financial Officer

Board of directors

Jørgen Lindegaard
Chairman

Daniël Jan Ellens
Vice Chairman

Peter Benson
Board Member

Jutta af Rosenborg
Board Member

Alain Munoz
Board Member

Florian Reinaud
Board Member

Michael J. Owen
Board Member

Helle Størum
Board Member
Employee elected

Christian Thorkildsen
Board Member
Employee elected

Hanne Heidenheim Bak
Board Member
Employee elected

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Zealand Pharma 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 Zealand Pharma A/S for the financial year 1 January to 31 December 2012, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement 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.

Board of Directors and Executive Management's Responsibility for the Consolidated Financial Statements and the Parent Company Financial Statements
Board of Directors and Executive 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 Board of Directors and Executive 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 Board of Directors and Executive 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 2012 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 2012 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, 14 March 2013

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Ole Fabricius
State Authorised Public Accountant

Henrik Ødegaard
State Authorised Public Accountant

FINANCIAL STATEMENTS

Income statement

DKK '000	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
Revenue	2	**223,565**	**142,284**	**223,565**	**142,284**
Royalty expenses	3	-15,933	-112	-15,933	-112
Gross profit		**207,632**	**142,172**	**207,632**	**142,172**
Research and development expenses		-182,759	-126,938	-182,759	-126,938
Administrative expenses		-27,611	-34,905	-27,611	-34,905
Other operating income	4	35,135	28,435	35,135	28,435
Operating result		**32,397**	**8,764**	**32,397**	**8,764**
Financial income	5	5,627	6,564	5,666	6,604
Financial expenses	6	-1,652	-1,951	-1,691	-1,991
Result from ordinary activities before tax		**36,372**	**13,377**	**36,372**	**13,377**
Tax on ordinary activities	7	0	0	0	0
Net result for the year		**36,372**	**13,377**	**36,372**	**13,377**
Earnings per share					
Basic	18	1.61	0.60	1.61	0.60
Diluted	18	1.60	0.60	1.60	0.60

Statement of comprehensive income

Net result for the year	**36,372**	**13,377**	**36,372**	**13,377**
Other comprehensive income	0	0	0	0
Comprehensive income for the year	**36,372**	**13,377**	**36,372**	**13,377**

Statement of financial position at December 31

DKK '000	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
Assets					
Plant and machinery	8	18,736	14,856	18,736	14,856
Other fixtures and fittings, tools and equipment	8	517	543	517	543
Leasehold improvements	8	2,151	1,968	2,151	1,968
Fixed assets under construction	8	0	507	0	507
Investments in subsidiaries	9	0	0	1,496	1,457
Deposits		2.554	2,493	2,554	2,493
Non current assets total		**23,958**	**20,367**	**25,454**	**21,824**
Trade receivables		0	14,894	0	14,894
Prepaid expenses		3,648	1,080	3,648	1,080
Other receivables		7,515	5,440	7,515	5,440
Securities		126,940	149,358	126,940	149,358
Cash and cash equivalents		358,922	278,342	358,847	278,265
Current assets total		**497,025**	**449,114**	**496,950**	**449,037**
Total assets		**520,983**	**469,481**	**522,404**	**470,861**
Liabilities and equity					
Share capital		23,193	23,193	23,193	23,193
Retained earnings		467,822	418,204	467,822	418,204
Equity total		**491,015**	**441,397**	**491,015**	**441,397**
Trade payables		9,831	8,592	9,831	8,592
Payables to subsidiary		0	0	1,421	1,380
Prepayments from customers		5,072	9,284	5,072	9,284
Other liabilities		15,065	10,208	15,065	10,208
Current liabilities		**29,968**	**28,084**	**31,389**	**29,464**
Total liabilities		**29,968**	**28,084**	**31,389**	**29,464**
Total equity and liabilities		**520,983**	**469,481**	**522,404**	**470,861**

Statement of changes in equity

DKK '000	Group Share capital	Group Retained earnings	Group Total	Parent Share capital	Parent Retained earnings	Parent Total
Equity at January 1, 2011	**22,871**	**384,237**	**407,108**	**22,871**	**384,237**	**407,108**
Warrants compensation expenses	0	12,856	12,856	0	12,856	12,856
Repurchase of own shares	0	-426	-426	0	-426	-426
Capital increase	322	8,160	8,482	322	8,160	8,482
Comprehensive income for the year	0	13,377	13,377	0	13,377	13,377
Equity at December 31, 2011	**23,193**	**418,204**	**441,397**	**23,193**	**418,204**	**441,397**
Equity at January 1, 2012	**23,193**	**418,204**	**441,397**	**23,193**	**418,204**	**441,397**
Warrants compensation expenses	0	13,246	13,246	0	13,246	**13,246**
Comprehensive income for the year	0	36,372	36,372	0	36,372	**36,372**
Equity at December 31, 2012	**23,193**	**467,822**	**491,015**	**23,193**	**467,822**	**491,015**

Changes in share capital ('000 shares)

Share capital at December 31, 2006	**17,682**
Capital increase at November 23, 2010	4,337
Capital increase at December 9, 2010	852
Capital increase at December 12, 2011	322
Share capital at December 31, 2011	**23,193**
Share capital at December 31, 2012	**23,193**

The share capital consists of 23,193,047 ordinary shares of DKK 1 each at December 31, 2012.
The share capital consists of 23,193,047 ordinary shares of DKK 1 each at December 31, 2011.
All shares have been fully paid.

Statement of cash flows

DKK '000	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
Net result for the year		36,372	13,377	36,372	13,377
Adjustments	16	14,590	12,372	14,590	12,372
Change in working capital	17	13,782	-30,943	13,782	-30,943
Cash flow from operating activities before financing items		**64,744**	**-5,194**	**64,744**	**-5,194**
Financial income received		3,979	5,339	3,979	5,339
Financial expenses paid		-186	-1,307	-184	-1,307
Cash flow from operating activities		**68,537**	**-1,162**	**68,539**	**-1,162**
Change in deposit		-60	-53	-60	-53
Purchase of property, plant and equipment		-8,849	-11,475	-8,849	-11,475
Purchase of securities		-97,480	-99,685	-97,480	-99,685
Disposal of securities		119,837	0	119,837	0
Cash flow from investing activities		**13,448**	**-111,213**	**13,448**	**-111,213**
Capital increase		0	8,482	0	8,482
Repurchase of own shares		0	-426	0	-426
Cash flow from financing activities		**0**	**8,056**	**0**	**8,056**
Decrease / increase in cash and cash equivalents		**81,985**	**-104,319**	**81,987**	**-104,319**
Cash and cash equivalents at January 1		278,342	383,305	278,265	383,228
Exchange rate adjustments		-1,405	-644	-1,405	-644
Cash and cash equivalents at December 31		**358,922**	**278,342**	**358,847**	**278,265**

NOTES

Note 1
Material accounting policies

The consolidated financial statements and parent company financial statements of Zealand Pharma A/S for 2012 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with additional Danish disclosure requirements for annual reports of listed companies.

The amounts in the annual report are denominated in Danish kroner (DKK '000).

The notes comprise both the parent company and the group unless specifically stated otherwise.

Changes to accounting policies, including presentation and implementation of accounting standards
The accounting policies applied by Zealand Pharma A/S including presentation, remain unchanged compared to the previous year.

Zealand Pharma A/S has implemented the accounting standards adopted by the IASB and the EU as well as related amendments and interpretations effective for the financial year 2012.

The implementation of standards, amendments and interpretations has not had any effect to Zealand Pharma A/S.

Most recently adopted accounting standards (IFRS) and interpretations (IFRIC)
At the end of January 2013, IASB published the following new accounting standards and interpretations which are assessed to be relevant to Zealand Pharma A/S.

- Amendment to IAS 1 – The amendment implies requirements of presentation of elements in other comprehensive income which will be recycled to the income statement separate from elements which are not.
- IAS 32/IFRS 7 – The amendment provides further guidance as regards offsetting and related disclosures.
- IFRS 9 – The number of classification criteria is reduced to two; amortised cost or fair value.
- IFRS 13 - General standard on fair value measurement.

The annual improvements comprise:
- IAS 1, clarification of comparable disclosures when presenting the statement of financial positions for three years
- IAS 16, spare parts and servicing equipment for land, buildings and equipment are to be classified as property, plant and equipment rather than inventory when they qualify as such.
- IAS 32, clarification of tax in the income statement and equity, respectively.
- IAS 34, segment disclosures in interim financial statements.

The standards and interpretations published by the IASB which are irrelevant to Zealand Pharma A/S comprise IFRS 1, IFRS 7, IFRS 10, IFRS 11, IFRS 12, IAS 12, amendments to IAS 27 and IAS 28 and IFRIC 20. The mentioned standards and interpretations have been adopted by the EU, except for IFRS 9 and the annual minor improvements to applicable IFRSs.

Zealand Pharma A/S expects to implement the new standards and interpretations when the application becomes mandatory.

The consolidated financial statements
The consolidated financial statements and the financial statements comprise the parent company Zealand Pharma A/S and the group enterprises, for which Zealand Pharma A/S is entitled to determine finance and operating policies and which normally applies on ownership interests of more than half of the voting rights.

Translation policies
Transactions denominated in foreign currencies are translated at the exchange rates at the dates of transaction.

Exchange differences arising between the rate on the date of transaction and the rate on the payment day are recognized in the income statement as financial income or financial expenses.

Where foreign exchange exposures are considered cash flow hedges, value adjustments are recognized directly in equity. Receivables, payables and other monetary items

denominated in foreign currencies that have not been settled at the statement of financial position date are translated by applying the exchange rates at the statement of financial position date. Differences arising between the rate at the statement of financial position date and the rate at the date of the arising of the receivable or payable are recognized in the income statement under financial income and expenses.

Fixed assets purchased in foreign currencies are measured at the rate of the date of transaction.

The income statement
The income statement is classified by function.

Revenue
Revenue comprises milestone payments and other income from collaboration agreements. Revenue is recognized when it is probable that future economic benefits will flow to the company and these economic benefits can be measured reliably.

The income from agreements with multiple components and where the individual components cannot be separated is recognized over the period of the agreement. In addition, recognition requires that all material risks and benefits related to the ownership of the goods and services included in the transaction are transferred to the purchaser.

If all risks and benefits have not been transferred, the revenue is recognized as deferred income until all components in the transaction have been completed.

Royalty expenses
Royalty expenses comprise royalty paid to third parties on certain milestone payments and royalty income from collaboration agreements.

Research and development expenses
Research expenses comprise salaries, contributions to pension schemes and other expenses, including patent expenses, as well as depreciation and amortization attributable to the company's research activities.
Research expenses are recognized in the income statement as incurred.

Development expenses comprise salaries, contributions to pension schemes and other expenses, including depreciation and amortization, attributable to the company's development activities.

Capitalization assumes that the development of the technology or the product in the group's opinion has been completed, that all necessary public registrations and marketing approvals have been received, and that expenses can be reliably measured. Furthermore, it has to be established that the technology or the product can be commercialized and that the future income from the product can cover, not only the production, selling and administrative expenses, but also development expenses.

Overhead expenses have been allocated to research and development based on the number of employees in research and development.

Administrative expenses
Administrative expenses include expenses for administrative personnel, expenses related to company premises, operating leases, investor relation, etc.

Overhead expenses have been allocated to administration based on the number of employees in administration.

Other operating income
Other operating income includes income of a secondary nature, including grants related to research and development projects. It also includes funding received from Boehringer Ingelheim International GmbH related to their research collaboration with Zealand Pharma A/S and also development expenses for ZP2929 that are funded by Boehringer Ingelheim International GmbH.

Public grants
Public grants are recognized when a final and firm right to the grant has been obtained. Public grants are included in other operating income as the grants are considered to be cost refunds. Grants related to investments are set off against the purchase price. Possible future conditional return obligations regarding the received grants will be disclosed in a note to the financial statements as a contingent liability.

Net financials
Financial income and financial expenses are recognized in the income statement with the amounts related to the financial year. Financial income and financial expenses include interest receivable and payable, adjustments to the fair value of subsidiaries, financial expenses related to exchange gains and losses on debt and transactions denominated in foreign currencies and repayment of loans and charges.

Tax on results for the year
Tax on results for the year which comprises current tax and changes in deferred tax is recognized in the income statement with the portion of taxes related to the taxable income for the year whereas the portion attributable to entries on equity is recognized directly in equity.

The parent and the Danish subsidiary are assessed jointly for tax purposes. The Danish corporation tax is allocated to the jointly taxed Danish companies relative to the companies' taxable income. The parent acts as administration company for the joint taxation companies so that the parent is responsible for the settlement of taxes etc. to the Danish tax authorities.

Segment reporting
The entire group is managed by a management team reporting to the chief executive officer. No separate business areas or separate business units have been identified in connection with product candidates or geographical markets. As a consequence of this, no segment reporting is made concerning business areas or geographical areas.

Statement of financial position

Property, plant and equipment
Plant and machinery, other fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation.
Cost comprises acquisition price and costs directly related to acquisition until the time when the company starts using the asset.

The basis for depreciation is cost less estimated residual value after the end of useful life. Assets are depreciated under the straight-line method over the expected useful lives of the assets. The depreciation periods are as follows:

- Leasehold improvements 5 years
- Plant and machinery 5 years
- Other fixtures and fittings, tools and equipment 3–5 years

Profits and losses arising from disposal of plant and equipment are stated as the difference between the selling price less the selling costs and the carrying amount of the asset at the time of the disposal. Profits and losses are recognized in the income statement under research and development expenses and administrative expenses.

Investments in subsidiaries
The parent company's shares in subsidiaries are measured at fair value.

Adjustments to the value of subsidiaries are recognized in the parent income statement under the item "Financial income".

Investments in subsidiaries are measured in the statement of financial position under the item "Investments in subsidiaries".

Impairment of non-current assets
The carrying amount of intangible assets, property, plant and equipment as well as non-current asset investments is reviewed for impairment when events or changed conditions indicate that the carrying amount may not be recoverable.
If there is such an indication, an impairment test is made.
An impairment loss is recognized in the amount with which the carrying amount exceeds the recoverable amount of the asset, which is the higher of the net present value and the net selling price. In order to assess the impairment, the assets are grouped on the least identifiable group of assets that generates cash flows (cash flow generating units).
Impairments are recognized in the income statement under the same items as the related depreciation and amortization.

Financial assets
Financial assets include receivables, securities and cash. Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available. All financial assets are recognized on their settlement date. All financial assets that are not classified as fair value through profit or loss are initially recognized at fair value, plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in profit or loss. On initial recognition, non-financial assets and liabilities are recognized at cost. Subsequently, assets and liabilities are measured as described below for each item. After initial recognition certain financial assets and liabilities are measured at amortized cost where a constant effective interest is recognized over the maturity.

Trade receivables are provided against when objective evidence is received that the company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows.

Leases
Lease agreements are classified as either financial or operating leases based on the criterias in IAS 17. Lease payments under operating leases and other rental agreements are recognized in the income statement over the term of the agreements. The company's total obligation related to operating leases and rental agreements is stated under contingent assets and liabilities etc.

Own shares
Purchase and sales prices as well as dividend from own shares are recognized directly under retained earnings under equity. Capital reductions by cancellation of own shares reduce the share capital by an amount equaling the nominal values of the shares.

Profit from sale of own shares, respectively issue of shares in connection with exercise of warrants is entered directly on equity.

Prepaid expenses
Prepaid expenses comprise incurred expenses related to the following financial year.

Tax payable and deferred tax
Current tax liabilities and current tax receivables are recognized in the statement of financial position as tax calculated on the taxable income for the year adjusted for tax on previous years' taxable income and taxes paid on account/prepaid. Deferred tax is measured according to the statement of financial position liability method in respect of temporary differences between the carrying amount and the tax base of assets and liabilities. In cases, e.g. in respect of shares in which the statement of the tax base can be made according to alternative taxation rules, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively. Deferred tax assets including the tax value of tax losses carry forward, are measured at the expected realizable value, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax is measured on the basis of the tax rules and tax rates in force at the statement of financial position date when the deferred tax is expected to crystallize as current tax. Any changes in deferred tax as a consequence of amendments to tax rates are recognized in the income statement. A tax rate of 25% has been applied.

Prepayments from customers
Prepayments from customers comprise not yet consumed prepayments relating to the research collaboration with Boehringer Ingelheim International GmbH.

Other liabilities
Financial liabilities are recognized initially at fair value. In subsequent periods, financial liabilities are measured at amortized cost corresponding to the capitalized value using the effective interest method; consequently the difference between the proceeds and the nominal value is recognized in the income statement over the maturity period of the loan.

Other payables are measured at amortized cost corresponding to nominal value.

Employee incentive programs (warrant programs)
Share based incentive programs have been established, which have to be settled in cash or in the enterprise's equity instruments, and are offered to a number of employees and the executive management. Incentive programs were offered in 2005, 2007, 2009, 2010, 2011 and 2012.

The value of services received as consideration for granted warrants is measured at the fair value of the warrant. The fair value is determined at the grant date and is recognized in the income statement as staff costs over the period in which the final right to the warrant is obtained. The contra entry to this is recognized under equity. In connection with the initial recognition of the warrants, an estimate is made of the number of warrants that the employees are expected to obtain rights to. Subsequently, an adjustment is made for changes in the estimate of the number of shares that the employees have obtained rights to so the total recognition is based on the actual number of shares that the employees have obtained rights to. The fair value of the granted options is estimated by application of the Black and Scholes pricing model.

Further, a cash settled program was established in 2009. The fair value of this program has been estimated at each statement of financial position date based on the expectations to a future exit event and the conditions in connection hereto. The program expired in 2011. Information about the employee incentive programs is included in note 13.

Statement of cash flows
The statement of cash flows shows the cash flow for the year together with the cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities
Cash flow from operating activities is presented indirectly and is calculated as the net profit adjusted for non-cash operating items, changes in the net working capital, financial and extraordinary items paid and income taxes paid.

Cash flow from investment activities
Cash flow from investment activities includes payments associated with the purchase and sale of fixed assets and investments.

Cash flow from financing activities
Cash flow from financing activities comprises new equity, loan financing and repayment of interest bearing debt.

Cash and cash equivalents
Cash and cash equivalents comprise cash and bank balances.

Accounting estimates and assessments
In the statement of the carrying amounts of certain assets and liabilities estimates are required on how future events will affect the carrying amounts of these assets and liabilities at the statement of financial position date. Estimates material for the financial reporting are among others made in the statement of depreciation/amortization, write-downs and contingent assets and liabilities.

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

As part of the accounting policies applied by the group and besides from estimates, management assesses situations which might influence amounts recognized in the financial statements materially.

Such assessments comprise among others determination of revenue recognition in connection with cooperative agreements with the company's commercialization partners as well as recognition of developments expenses and measurement of employee incentive programs.

Zealand Pharma A/S considers a variety of factors in determining the appropriate method of revenue recognition under these arrangements, such as the degree to which elements of the contract can be separated, their value to Zealand Pharma A/S, the earnings process associated with each element and the degree of further work required to be completed by Zealand Pharma A/S under the agreement. With agreements for which Zealand Pharma A/S is not involved in any further work, such as for the agreements with Sanofi S.A., Helsinn Healthcare S.A. and Action Pharma A/S (2012: DKK 186.3 million), the company recognizes payments as revenue when received. Milestone payments related to the Boehringer Ingelheim International GmbH (2012: DKK 37.3 million) agreement is recognized at the time of payment while research funding and funding of Zealand Pharma A/S's expenses related to ZP2929 (2012: DKK 34.1 million) is recognized during the period the research is performed and the expenses occur. Zealand Pharma A/S expenses research and development expenses as incurred.

Zealand Pharma A/S has established share based payment programs, which have to be settled in cash or in the enterprise's equity instruments. The employee services received in exchange for the grant of the warrants or shares is recognized as an expense and allocated over the vesting period. The amount is determined as the fair value of the equity instruments granted. The fair value of programs settled in equity instruments are determined at the grant date and is not adjusted subsequently. In the determination of the fair value at the grant date a volatility equaling the average volatility of comparable listed companies over the last year is used. The effect of the income statement in 2012 amounted to an expense of DKK 13.2 million.

The fair value of cash settled programs are estimated at each statement of financial position date based on the expectations to a future exit event and the conditions in connection hereto. There were no ongoing cash bonus programs in 2012.

Note 2
Revenue

	2012	2011
Export market	223,565	142,284
Domestic market	0	0
Total revenue	**223,565**	**142,284**

In 2012, revenue is related to milestones received from Sanofi S.A., Action Pharma A/S, Boehringer Ingelheim International GmbH and Helsinn Healthcare S.A.
In 2011, revenue is related to two major and two minor milestone from Helsinn Healthcare S.A., and two milestones from Boehringer Ingelheim International GmbH.

Note 3
Royalty expenses

In 2012, the royalty expenses are related to the milestone payments received from Sanofi S.A., Helsinn Healthcare S.A. and Action Pharma A/S.
In 2011, the royalty expenses are related to the milestone payments received from Helsinn Healthcare S.A.

Note 4
Other operating income

	Group 2012	**Group** 2011	**Parent** 2012	**Parent** 2011
Research funding	34,215	27,867	34,215	27,867
Government grants	920	568	920	568
Total other operating income	**35,135**	**28,435**	**35,135**	**28,435**

In 2012, Zealand Pharma A/S has, in addition to government grants, also received research funding from Boehringer Ingelheim International GmbH and Helsinn Healthcare S.A.
In 2011, Zealand Pharma A/S has, in addition to government grants, also received research funding from Boehringer Ingelheim International GmbH, Helsinn Healthcare S.A. and Sanofi S.A.

Note 5
Financial income

	Group 2012	**Group** 2011	**Parent** 2012	**Parent** 2011
Interest income	5,627	6,529	5,627	6,529
Fair value adjustment, investments in subsidiaries	0	0	39	40
Fair value securities	0	35	0	35
Total financial income	**5,627**	**6,564**	**5,666**	**6,604**

Note 6
Financial expenses

	Group 2012	Group 2011	Parent 2012	Parent 2011
Other interest expenses	186	1,307	225	1,347
Fair value securities	61	0	61	0
Exchange rate adjustments	1,405	644	1,405	644
Total financial expenses	**1,652**	**1,951**	**1,691**	**1,991**

Note 7
Tax expenses

	Group 2012	Group 2011	Parent 2012	Parent 2011
Net result for the year before tax	36,372	13,377	36,372	13,377
Tax rate	25%	25%	25%	25%
Expected tax expenses	9,093	3,344	9,093	3,344
Adjustment for non-deductible expenses	75	4,508	65	4,498
Change in tax assets (not recognized)	-9,168	-7,852	-9,158	-7,842
Total tax expenses	**0**	**0**	**0**	**0**
The statement below shows the year's movements in the potential tax asset:				
Tax on results for the year before tax	9,093	3,344	9,093	3,344
Share of net result of subsidiaries	0	0	-10	-10
Permanent deviations relating to share-based payment, etc.	0	4,247	0	4,247
Non-taxable income and other tax-deductible costs	75	261	75	261
Change in deferred tax asset	**-9,168**	**-7,852**	**-9,158**	**-7,842**
Breakdown of unrecognized deferred tax assets:				
Tax losses carried forward (available indefinitely)	279,911	415,001	243,627	378,678
Research and development expenses	202,964	123,108	202,964	123,108
Rights	43,019	43,019	43,019	43,019
Non-current assets	39,485	34,167	39,485	34,167
Other	38,428	25,183	38,428	25,183
Total temporary differences	**603,807**	**640,478**	**567,523**	**604,155**
Calculated potential deferred tax asset at local tax rate	150,952	160,120	141,881	151,039
Write-down of deferred tax asset	-150,952	-160,120	-141,881	-151,039
Recognized deferred tax asset	**0**	**0**	**0**	**0**

As a consequence of tax losses from previous years, there are no actual or deferred taxes in the parent or the group. Deferred tax reductions (tax assets) has not been recognized in the statement of financial position due to uncertainty as to whether this can be utilized.

Note 8
Property, plant and equipment

	Plant and machinery	Other fixtures and fittings	Leasehold improve-ments	Fixed assets under construction
Cost at January 1, 2011	37,751	6,783	7,944	802
Additions	9,706	507	413	849
Transfers	0	0	1,144	-1,144
Disposals	0	0	0	0
Cost at December 31, 2011	**47,457**	**7,290**	**9,501**	**507**
Depreciation at January 1, 2011	29,325	6,585	6,842	0
Depreciation for the year	3,276	162	691	0
Depreciation for the year on disposed assets	0	0	0	0
Depreciation at December 31, 2011	**32,601**	**6,747**	**7,533**	**0**
Carrying amount at December 31, 2011	**14,856**	**543**	**1,968**	**507**
Depreciation for the financial year has been charged as:				
Research and development expenses	3,276	123	525	0
Administrative expenses	0	39	166	0
Total	**3,276**	**162**	**691**	**0**
	47,457			
Cost at January 1, 2012	8,017	7,290	9,501	507
Additions	198	60	772	0
Transfers	0	236	73	-507
Disposals	**55,672**	0	0	0
Cost at December 31, 2012		**7,586**	**10,346**	**0**
	32,601			
Depreciation at January 1, 2012	4,335	6,747	7,533	0
Depreciation for the year	0	267	717	0
Transfers	**36,936**	56	-56	0
Depreciation at December 31, 2012		**7,070**	**8,194**	**0**
	18,736			
Carrying amount at December 31, 2012		**516**	**2,152**	**0**
Depreciation for the financial year has been charged as:	4,335			
Research and development expenses	0	224	602	0
Administrative expenses	**4,335**	43	115	0
Total		**267**	**717**	**0**

Note 9
Other non current assets

	Parent Investments in subsidiaries
Cost at January 1, 2011	116,080
Additions	0
Disposals	0
Cost at December 31, 2011	**116,080**
Revaluation at January 1, 2011	-114,663
Fair value adjustment	40
Revaluation at December 31, 2011	**-114,623**
Carrying amount at December 31, 2011	**1,457**
Cost at January 1, 2012	116,080
Additions	0
Disposals	0
Cost at December 31, 2012	**116,080**
Revaluation at January 1, 2012	-114,623
Fair value adjustment	39
Revaluation at December 31, 2012	**-114,584**
Carrying amount at December 31, 2012	**1,496**

Group enterprises
BetaCure Holding A/S, Glostup, Denmark. Ownership 100%.

Note 10
Treasury shares

At the end of 2012, treasury shares amounted to 564,223 (564,223), equivalent to 2.4% (2.4) of the share capital at December 31.
The number of treasury shares corresponds to a market value of DKK 47,394,732 (32,160,711) at December 31.
The full number of treasury shares have been purchased for DKK 1.7 million.

Note 11
Contingent assets

The group has an unrecognized deferred tax asset of DKK 151 million (160). See note 7.
The parent has an unrecognized deferred tax asset of DKK 142 million (151). See note 7.

Note 12
Lease commitments

	2012	
Operating lease agreements:		
Within 1 year	3,801	3,603
2 to 5 years	841	1,849
More than 5 years	0	0
Total	**4,642**	**5,452**

Operating lease agreements include rental agreement of building, company cars and office equipment.
In 2012 DKK 7.1 million (6.5) was recognized in the income statement.
The leases are subject to terms of interminability of between 6 and 60 months.

Note 13
Information on staff and remuneration

	2012	2011
The total staff salaries can be specified as follows:		
Salaries	83,821	62,767
Pension schemes	5,739	5,129
Other social security costs	7,279	7,146
Total	**96,839**	**75,042**
The amount is charged as:		
Research and development expenses	81,345	58,533
Administrative expenses	15,494	16,509
Total	**96,839**	**75,042**
Average number of employees	**104**	**91**

Remuneration included above to the:	2012 Board of directors	2012 Executive management Directors	2012 Executive management Other	2011 Board of directors	2011 Executive management Directors	2011 Executive management Other
Salaries, fees, etc.	2,000	10,950	1,642	1,330	9,860	654
Cash bonus*	0	0	0	-2,159	-8,092	0
Warrants	2,599	4,369	737	2,354	2,373	558
Total	**4,599**	**15,319**	**2,379**	**1,525**	**4,141**	**1,211**

* Cash bonus programs were established in 2009 and 2010 for the president and CEO, and the former chairman, of Zealand Pharma A/S, now vice chairman, and expired in 2011.

	Program of 2007	Program of 2010 02.Nov.10	Program of 2010 10.Feb.11	Program of 2010 17.Nov.11	Program of 2010 10.Feb.12	Program of 2010 19.Nov.12	Total
Outstanding warrants							
Number of warrants							
Outstanding as per January 1, 2011	360,998	595,406	0	0	0	0	**956,404**
Granted during the year	0	0	445,500	227,085	0	0	**672,585**
Forfeited during the year	0	0	-5,000	0	0	0	**-5,000**
Exercised during the year	-322,524	0	0	0	0	0	**-322,524**
Expired during the year	-38,474	0	0	0	0	0	**-38,474**
Outstanding as per December 31, 2011	**0**	**595,406**	**440,500**	**227,085**	**0**	**0**	**1,262,991**
Specified as follows:							
Board of directors	0	134,024	34,500	0	0	0	**168,524**
Executive management	0	406,582	0	183,864	0	0	**688,467**
Other employees	0	54,800	406,000	43,221	0	0	**406,000**
Total	**0**	**595,406**	**440,500**	**227,085**	**0**	**0**	**1,262,991**
Outstanding as per January 1, 2012	0	595,406	440,500	227,085	0	0	**1.262,991**
Granted during the year	0	0	0	0	240,250	214,883	**455,133**
Forfeited during the year	0	0	-2,500	0	0	0	**-2,500**
Exercised during the year	0	0	0	0	0	0	**0**
Expired during the year	0	0	0	0	0	0	**0**
Outstanding as per December 31, 2012	**0**	**595,406**	**438,000**	**227,085**	**240,250**	**214,883**	**1,715,624**
Specified as follows:							
Board of directors	0	134,024	61,500	0	30,750	0	**226,274**
Executive management	0	406,582	0	183,864	0	183,864	**774,310**
Other employees	0	54,800	376,500	43,221	209,500	31.019	**715,040**
Total	**0**	**595,406**	**438,000**	**227,085**	**240,250**	**214,883**	**1.715,624**

Exercise period						
From	31.Dec.08	3.Nov.13	10.Feb.14	17.Nov.14	10.Feb.15	19.Nov.15
until	31.Dec.11	3.Nov.15	10.Feb.16	17.Nov.16	10.Feb.17	19.Nov.17
Black & Scholes parameters						
Term (months)	6/18	60	60	60	60	60
Volatility*	40%	56%	33%	34%	44%	28.5%
Share price	26.72	86.0	70.0	45.70	70.0	103.0
Exercise price DKK	26.3	94.6	77.0	50.27	77.0	113.3
Dividend	not expected	not expected	not expected	not expected	not expected	not expected
Risk free interest rate	4.71%	2.64%	3.09%	1.02%	0.37%	0.86%

* The volatility rate used for the programs before 2010 is based on the average volatility in the Danish biotech sector. The volatility rate used for the subsequent programs is based on the actual volatility in the Zealand Pharma A/S share price.

Warrants
Warrants may be exercised in the periods mentioned above, four times a year during a 4-week period starting from the time of the publication of Zealand Pharma A/S's annual report or quarterly or semi-annual reports.

The 2010 Employee incentive program
The program was established in 2010 for the board of directors, executive management, employees and consultants of Zealand Pharma A/S.

The board of directors is authorized to issue up to 2,750,000 warrants.
By December 31, 2012 1,723,124 warrants have been granted.

Effect on income statement
In 2012 the fair value of warrants recognized in the income statement amounts to DKK 13.2 million (12.9) of which DKK 2.6 million (2.4) relates to the board of directors and DKK 4.4 million (2.4) relates to the executive management.

In 2011 the fair value of cash bonus programs recognized in the income statement had a positive effect and amounted to DKK -10.3 million of which DKK -2.2 million relates to the board of directors and DKK -8.1 million relates to the executive management.

	2012	2011
The amount is charged as:		
Research and development expenses	8,848	4,023
Administrative expenses	4,397	-1,417
Total	**13,245**	**2,606**

Note 14
Financial and operational risks

The goal of Zealand Pharma A/S's financial policy is to create a set of general guidelines for the financial risk management in order to reduce the company's sensitivity towards fluctuations in exchange rates, interest rates, credit rating and liquidity.

Zealand Pharma A/S's financial policy has been endorsed by Zealand's audit committee and ultimately approved by Zealand Pharma A/S's board of directors.

Zealand Pharma A/S is a biopharmaceutical company with limited revenues consisting of up-front payments and milestones received as part of Zealand Pharma A/S's partnering activities. Zealand Pharma A/S receives milestone payments from its current partners in USD and EUR.

Mainly exposed to research and development expenditures as well as a significant cash position, Zealand Pharma A/S is exposed to various financial risks, which among other relate to foreign exchange rate risk, interest risk, credit risk and liquidity risk.

Exchange rate risk
Zealand Pharma A/S does not engage in any exchange rate risk.
Most of Zealand Pharma A/S's financial transactions are made in DKK, USD and EUR.

The EUR/DKK exchange rate has politically been fixed within very narrow limits and Zealand Pharma A/S has evaluated that there are no transaction exposure or exchange rate risk regarding transactions in EUR.

Zealand Pharma A/S's milestone payments have been agreed in foreign currency, USD and EUR. However, as milestone payments are speculative the payments are not included in the basic exchange risk evaluation.

However, as Zealand Pharma A/S conduct toxicology studies and clinical trials in the US, Zealand Pharma A/S will be exposed to the exchange rate fluctuation and risks associated with transactions in USD. Zealand Pharma A/S's policy has up until now been to manage the transaction and translation risk associated with the USD passively, placing the revenues received from milestone payments in USD on an USD account for future payment of Zealand Pharma A/S's expenses denominated in USD, covering payments for the next 12 – 24 months, hereby matching Zealand Pharma A/S's assets with its liabilities.

Interest rate risk
Zealand Pharma A/S has the policy to avoid any financial instrument which exposes the company to any unwanted financial risk. Zealand Pharma A/S does not speculate in the underlying trends in the basic economy.

Zealand Pharma A/S invests its free cash in fixed rate, time defined bank deposits.

Credit risks
Zealand Pharma A/S is exposed to credit risks in respect of receivables and bank balances. The maximum credit risk corresponds to the carrying amount.

Zealand Pharma A/S invest in AA+ (Standard&Poors) rated RealKredit bonds with < 24 months maturity.

Cash is not deemed to be subject to any credit risks, as the counterparts are banks with investment grade ratings. (i.e. BBB÷ or higher by Standard&Poors).

Cash management
The purpose of Zealand Pharma A/S's cash management is to ensure that the company at all times has sufficient and flexible financial resources at its disposal.

Zealand Pharma A/S's short-term liquidity situation is matched with Zealand Pharma A/S's quarterly budget revisions to balance the demand for liquidity and maximize Zealand Pharma A/S's interest income by matching Zealand Pharma A/S's free cash in fixed rate, time defined bank deposits with Zealand Pharma A/S's expected future cash burn.

Capital structure
It is Zealand Pharma A/S's aim to have an adequate capital structure in relation to the underlying operating results and R&D projects, so that it is always possible to provide sufficient capital to support operations and its long term growth targets.

The board of directors finds that the current capital and share structure is appropriate to the shareholders and to the company.

The table shows the effect on the profit/loss and equity of probable changes in the financial variables on the statement of financial position.

	2012 Fluctuation	2012 Effect	2011 Fluctuation	2011 Effect
USD	+/- 10%	20,578	+/- 10%	1,291
Interest rate	+/- 1% basis point	4,917	+/- 1% basis point	2,980

Liquidity risk

A breakdown of the aggregate liquidity risk on financial assets and liabilities is given below:

	<6 months	6<12 months	1-5 years	> 5 years	Total*	Carrying amount / Fair value**
Group						
At amortized cost						
Trade and other creditors	8,592	0	0	0	8,592	8,592
Other liabilities	19,492	0	0	0	19,492	19,492
Total financial liabilities at December 31, 2011	**28,084**	**0**	**0**	**0**	**28,084**	**28,084**
At amortized cost						
Trade and other creditors	9,831	0	0	0	9,831	9,831
Other liabilities	19,271	0	866	0	20,137	20,137
Total financial liabilities at December 31, 2012	**29,102**	**0**	**866**	**0**	**29,968**	**29,968**
Parent						
At amortized cost						
Trade and other creditors	8,592	0	0	0	8,592	8,592
Other liabilities	20,872	0	0	0	20,872	20,872
Total financial liabilities at December 31, 2011	**29,464**	**0**	**0**	**0**	**29,464**	**29,464**
At amortized cost						
Trade and other creditors	9,831	0	0	0	9,831	9,831
Other liabilities	20,692	0	866	0	21,558	21,558
Total financial liabilities at December 31, 2012	**30,523**	**0**	**866**	**0**	**31,389**	**31,389**

* All cash flows are non-discounted and include all liabilities under contracts entered into, including, among other things, future interest payments on loans.

** The fair value of financial liabilities is determined as the discounted cash flows based on the market rates and credit conditions at the statement of financial position date.
See the cash flow statement for a specification of capital resources as of December 31, 2012 and 2011.

Fair value measurement of financial instruments

Financial instruments carried at fair value can be divided into three levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data.

	Carrying amount	Level 1	Level 2	Level 3
Group 2011				
Securities	149,358	149,358	0	0
Total financial assets	**149,358**	**149,358**	**0**	**0**
Group 2012				
Securities	126,940	126,940	0	0
Total financial assets	**126,940**	**126,940**	**0**	**0**
Parent 2011				
Investments in subsidiaries	1,457	0	0	1,457
Securities	149,358	149,358	0	0
Total financial assets	**150,815**	**149,358**	**0**	**1,457**
Parent 2012				
Investments in subsidiaries	1,496	0	0	1,496
Securities	126,940	126,940	0	0
Total financial assets	**128,436**	**126,940**	**0**	**1,496**

Movement during the year in level 3

	Parent 2012	Parent 2011
Non-listed shares		
Carrying amount at January 1	1,457	1,417
Gains/losses recognized in the income statement	39	40
Carrying amount at December 31	**1,496**	**1,457**

Investments in subsidiaries are measured at fair value. Since subsidiary assets and liabilities all are measured at fair value equity of the subsidiary is considered equal to fair value.

Note 15
Related parties

Zealand Pharma A/S has no related parties with controlling interest.
Zealand Pharma A/S's related parties with significant influence comprise group enterprises as well as the companies' board of directors and executive management.

Transactions with related parties

Compensation to the board of directors and executive management is described in note 13. Further, the following transactions with related parties were conducted during the year: Board of directors: Consultancy fee amounted to DKK 0.7 million; Employees: royalty payment to the SIP-inventor amounted to DKK 1.1 million.

Ownership

The following shareholders are registered in Zealand Pharma A/S's register of shareholders as being the owners of minimum 5% of the voting rights or minimum 5% of the share capital (1 share equals 1 vote):

Sunstone BI Funds, *Copenhagen, Denmark*	16.7%
LD Pension (Lønmodtagernes Dyrtidsfond), *Copenhagen, Denmark*	11.6%
CDC Innovation, *Paris, France*	11.0%
Sunstone Life Science Ventures Fund, *Copenhagen, Denmark*	9.0%
Idinvest Partners Funds, *Paris, France*	6.1%
LSP, *Amsterdam, The Netherlands*	5.5%
A/S Dansk Erhvervsinvestering, *Copenhagen, Denmark*	5.2%

Note 16
Adjustments

	Group 2012	Group 2011	Parent 2012	Parent 2011
Depreciation	5,319	4,129	5,319	4,129
Warrants compensation expenses	13,246	12,856	13,246	12,856
Financial income	-5,627	-6,564	-5,666	-6,604
Financial expenses	1,652	0	1,691	0
Total adjustments	**14,590**	**10,421**	**14,590**	**10,381**

Note 17
Change in working capital

	Group 2012	Group 2011	Parent 2012	Parent 2011
Change in receivables	11,899	-15,585	11,899	-15,585
Increase in payables	1,883	-15,358	1,883	-15,358
Change in working capital	**13,782**	**-30,943**	**13,782**	**-30,943**

Note 18
Basic and diluted earnings per share

	2012	2011
Net result for the year	36,372	13,377
Adjusted net profit/loss accruing to the company's ordinary shares	36,372	13,377
Average number of ordinary shares	23,193,047	22,887,312
Average number of treasury shares	-564,223	-558,480
Adjusted average number of ordinary shares outstanding	**22,628,824**	**22,328,832**
Basic earnings per share	**1.61**	**0.60**
Diluted earnings per share	**1.60**	**0.60**

Basic earnings per share
Basic earnings per share is calculated as the net result for the period that accrue to the company's ordinary shares divided by the weighted average number of ordinary shares outstanding.

Diluted earnings per share
Diluted earnings per share is calculated as the result for the period that accrue to the company's ordinary shares divided by the weighted average number of ordinary shares outstanding adjusted by the assumed dilutive effect of instruments in the form of convertible debt instruments and granted warrants outstanding that can be converted into ordinary shares.

Note 19
Fees to auditors appointed at the general meeting

	2012	2011
Audit	170	166
Other assurance engagements	66	66
Tax advice	64	61
Non-audit services	255	266
Total fees	**555**	**559**