Veloxis Pharmaceuticals A/S

ANNUAL REPORT
2014

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

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Chairman of the meeting

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To our shareholder

Dear Shareholder,

The year 2014 was a very eventful year for Veloxis. This past year saw the transition of Veloxis from a development company into a commercial stage Company. Our transplant drug product, Envarsus®, was launched in Europe with initial sales in Germany through our partner, Chiesi Farmaceutici SpA. (Chiesi) The product will continue to be rolled out across Europe throughout 2015. After a flawless preparation and filing for US marketing authorization the US Food and Drug Administration (FDA) informed that Envarsus® can be approved for sales and marketing in the US however only with effect as of July 2016. The position of the FDA has been contested by Veloxis at the court.

Our efforts on Envarsus® in the US included completion of the development program and related manufacturing requests from FDA which have now been addressed successfully. The clinical data package submitted in support of our US new drug application was robust and deemed a sufficient demonstration of safety and efficacy in kidney transplant patients. Our medical efforts have included ongoing studies to further differentiate Envarsus® from our competitors. We have generated successful results in demonstrating the possibility of Envarsus® to reduce troubling tremors in patients who develop tremors while on competitor products. We continue to expand on these early, promising findings with plans to evaluate the ability of Envarsus to reduce other troubling neurologic side effects transplant patients experience. In addition, our combined analyses of the study data yielded evidence of potential superiority in two important patient sub-groups: black patients and patients over the age of 65 years. These are two very important demographic groups. Black patients are disproportionately over-represented in the US transplant community, largely because of the excess prevalence of hypertension and diabetes resulting in kidney failure in this population. With the aging of the US and European populations, the signal of improved efficacy in the elderly is also becoming more important as a potential differentiating feature. We believe that these demonstrations of potentially important differences are all linked to our proprietary formulation technology, MeltDose®. Through the MeltDose® technology, Envarsus® is able to deliver more consistent levels of the active ingredient into the bloodstream than with any other tacrolimus product. This allows patients to be dosed once a day, and achieve blood levels that vary much less over the 24-hour interval. This ability to deliver more consistent blood levels may reduce the risk of toxicity (such as tremors) that result from high peaks; and may reduce the risk of transplant rejections from low dips in blood levels. We believe that the stable blood levels that are seen with Envarsus® once-daily therapy will prove to be an important differentiating feature for prescribing physicians and, most importantly, for the patients who have received an organ transplant.

The Year 2014 also saw a setback in the timing of our well prepared US launch related to the tentative approval received from the US FDA. The FDA has stated that the Envarsus® launch should be delayed until after the expiry of drug exclusivity for a competitor product, Astagraf XL, under a US regulation commonly termed “Hatch-Waxman Exclusivity”. The exclusivity for Astagraf XL is presently set to expire in July of 2016. Veloxis maintains that the FDA is mistaken in this interpretation of the law and has initiated a lawsuit against the FDA. We are pleased that the US courts have set a timely schedule in place that enables resolution by mid-2015. Although Veloxis can make no assurance either to the timing, or the outcome of this action, the Company remains optimistic that the situation will be successfully rectified.

We look forward to an exciting 2015 with expanding sales through Europe, as well as the potential to achieve US launch pending successful conclusion of our US legal activities. We thank you for your support of Veloxis and look forward to another successful year as we progress in our commercialization activities.

Yours sincerely,

Kim Bjørnstrup	William J. Polvino
Chairman	President & CEO

Highlights 2014

Action against the US Food and Drug Administration

16 December, Veloxis announced that it has filed an action against the FDA, seeking an order requiring FDA to grant final approval to Envarsus® XR.

Tentative approval of Envarsus® XR

31 October, Veloxis announced that the FDA had informed Veloxis of the tentative approval of Envarsus® XR. FDA stated that the final approval of Envarsus® XR will be delayed until expiration of the exclusivity period for Astellas' Astagraf XL®. Veloxis understands that this expiry is anticipated to occur July 19, 2016. FDA's approval notice stated that it is "subject to change on the basis of any new information that may come to FDA's attention."

European Marketing Authorization for Treatment of Both Kidney and Liver Transplant Patients

28 July, Veloxis and Chiesi announced that the European Commission (EC) has granted marketing authorization for Envarsus® for the prevention of organ rejection in adult kidney and liver transplant patients in the European Union (EU).

Envarsus® XR Demonstrates Lower Treatment Failure Rate in African-Americans Compared to Twice-Daily Tacrolimus (Prograf®)

30 June, Veloxis announced that once-daily Envarsus® XR (tacrolimus extended-release tablets), an investigational new drug under FDA review for the prevention of organ rejection in adult kidney transplant patients, demonstrated a lower treatment failure rate in African-Americans compared with twice-daily tacrolimus (Prograf®).

Positive Two-Year Results from Pivotal Phase 3 Study of Envarsus® XR in *de novo* Kidney Transplant Patients

23 June, Veloxis announced that two-year results of the pivotal Phase 3 clinical trial, Study 3002, of Envarsus® XR (tacrolimus extended-release tablets) in *de novo* kidney transplant patients continued to demonstrate non-inferiority compared to tacrolimus capsules (Prograf®; Astellas Pharma).

Positive Opinion from CHMP for Envarsus® for Treatment of Both Kidney and Liver Transplant Patients

22 May, Veloxis announced that the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) has adopted a positive opinion recommending the granting of a marketing authorization for Envarsus® for the prevention of organ rejection in adult transplant patients in the European Union (EU). The positive opinion is for both kidney and liver transplant recipients and includes both the *de novo* transplant and "switch" settings, as well as for treatment of rejection episodes resistant to treatment with other immunosuppressive products in adult patients.

U.S. FDA Accepts Veloxis' New Drug Application for Envarsus®

13 March, Veloxis announced that the FDA has accepted for standard review the company's New Drug Application (NDA) for Envarsus® for the prevention of organ rejection in adult kidney transplant patients.

Notice of Allowance from U.S. Patent Office

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

Outlook 2015

Outlook

Veloxis is expecting an operating loss of DKK 200 - 240 million compared to the realized operating loss of DKK 59 million in 2014. Net loss is expected to be in the range of DKK 195 - 235 million compared to the net loss of DKK 36 million in 2014. As of 31 December 2014, the Company's cash position equaled DKK 270 million and the Company's 31 December 2015 cash position is expected to be in the range of DKK 55 - 95 million.

The above estimates are assuming launch of Envarsus® XR in the US in the second half of 2015. The outlook is therefore subject to possible changes primarily related to the timing and outcome of the ongoing lawsuit regarding approval of Envarsus® XR.

Management is focused on securing additional funds beyond 2015 by either partner agreements, debt or equity, or a mix thereof.

Important events following the balance sheet date

Receipt of U.S. Food and Drug Administration Decision

13 January, Veloxis announced that it has received notice from the FDA stating that FDA continues to take the position that the exclusivity for Astagraf XL should require delay in the formal approval of Envarsus® XR.

Veloxis business strategy

The primary goal of Veloxis is to obtain regulatory approval and commercialize our late stage development candidate Envarsus® XR (tacrolimus extended-release tablets) (formerly LCP- Tacro™) in the US, to support commercial efforts of our partner to sell Envarsus® in the EU and to seek further registration and partnering efforts in other regions. The key elements of Veloxis' business strategy are as follows:

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

  Envarsus® (tacrolimus prolonged-release tablets) has received marketing authorization in the EU for prophylaxis of organ rejection in kidney and liver transplant recipients.

  In the US, Envarsus® XR (tacrolimus extended-release tablets), has received Tentative Approval as a once-daily tablet version of tacrolimus for prophylaxis of organ rejection in kidney transplant patients in combination with other immunosuppressants. FDA stated that the final approval of Envarsus® XR will be delayed until expiration of the exclusivity period for Astellas' Astagraf XL®. Veloxis understands that this expiry is anticipated to occur 19 July, 2016. Veloxis disagrees that exclusivity for Astagraf XL® should require delay in the full approval of Envarsus® XR and has filed a legal action against FDA, seeking an order requiring the FDA to grant immediate final approval to Envarsus® XR.

  Envarsus® XR has received orphan drug designation in the U.S.

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

  Veloxis plans to commercialize Envarsus® in the US our self and through partnering arrangements in the rest of the world.

  Veloxis has a partnership agreement with Chiesi in respect of the commercialization of Envarsus® in Europe, Turkey and CIS Countries. Chiesi has launched Envarsus® in several EU countries and will continue to roll out launches through 2015 and beyond.

Envarsus® for transplantation

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

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

Envarsus® development status and milestones

Disease indications	Clinical studies	Status
Organ transplant–Kidney	Phase III - *De novo* kidney transplant patients	Completed 3Q 2014
	Phase III - Stable kidney transplant patients	Completed 2Q 2011
	Phase II - *De novo* kidney transplant patients	Completed 3Q 2010
	Phase II - Stable kidney transplant patients	Completed 1Q 2008
	Phase IIIb/IV - STRATO	Completed 2Q 2013
	Phase IIIb/IV - ASERTAA	Ongoing
Organ transplant–Liver (Not in active development)	Phase II - *De novo* liver transplant patients	Completed 4Q 2010
	Phase II - Stable liver transplant patients	Completed 3Q 2009

Development status

Kidney – Phase III clinical studies

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

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

Study 3002 was a Phase III randomized, double-blind and double-dummy study in 543 *de novo* kidney transplant recipients, with Prograf® as the comparator, which met its primary efficacy and primary safety endpoints. This clinical Phase III study in *de novo*

kidney transplant patients was initiated in October 2010. Patient enrolment was completed in the first quarter of 2012, with 543 patients enrolled. One year data from this study was presented at the European Society for Organ Transplantation congress held in Vienna in September 2013.
The primary endpoint of the study was a composite endpoint of treatment failure (biopsy-proven acute rejection or BPAR, graft failure, loss to follow up or death) that was evaluated after a 12-month treatment period to demonstrate the non-inferiority of Envarsus® compared to Prograf®. The treatment failure rate for Envarsus® was 18.3% compared to 19.6% for Prograf®, well within the 10% pre-specified non-inferiority margin. The study had a one-year extension period which produced similar outcomes.

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

This study was completed and preliminary data was released in June 2011. Data from this study was presented at the European Society for Organ Transplantation in September 2011 in Glasgow and at the American Society of Nephrology Renal Week in November 2011 in Philadelphia.
This Phase III study successfully demonstrated non-inferiority in predefined endpoints compared to Prograf®. The Phase III open-label conversion (switch) study in 326 stable kidney transplant patients, with Prograf® as the comparator, met all its primary efficacy and safety endpoints.

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

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

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

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

ASERTAA (A Study of Extended Release Tacrolimus in African-Americans) Phase IIIb study of Envarsus®

The ASERTAA Phase IIIb study of Envarsus® (formerly LCP Tacro™) in kidney transplant recipients. The ASERTAA study is designed to compare the pharmacokinetics (PK) of Envarsus®, a once-daily tacrolimus tablet, to generic twice daily tacrolimus capsules in stable African-American renal transplant patients.

Commercial strategy

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

The transplant marketplace in the US is ideally suited for a small and well-focused selling effort and the clinical practice of transplant medicine leads to a unique commercialization opportunity. Transplants are generally performed at a small number of highly specialized centres, of which there are approximately 250 in the entire US. Patients waiting for a transplant will often

travel considerable distances for transplant at one of these few centres. As such, a limited number of sales representatives can cover the majority of the centres.

Veloxis has a partnership agreement with Chiesi in respect of the commercialization of Envarsus® in Europe, Turkey and CIS Countries. Chiesi has launched Envarsus® in several EU countries in 4Q 2014 and will continue to roll out launches through 2015 and beyond.

MeltDose technology

The Company's proprietary MeltDose technology enhances the bioavailability of compounds with low water solubility, supporting the creation of improved versions of marketed drugs.

Veloxis believes that the MeltDose technology may offer several meaningful benefits, including, but not limited to:

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

Financial Review

Revenue
During 2014, Veloxis recognized revenue from deferred upfront, milestone payments and commercial sales of DKK 123.4 million compared to DKK 38.2 million in 2013.

Sales & marketing cost
Sales and marketing costs amounted to DKK 41.3 million in 2014. This reflects the hiring and building of the marketing and sales infrastructure.

On an overall basis, sales and marketing costs account for 23.1% of total cost of operations.

Research & development cost
Research and development costs decreased by DKK 56.4 million, or by 38.5%, from DKK 146.5 million in 2013 to DKK 90.1 million in 2014. Research and development costs are mainly attributable to the phase III trial in Envarsus® (*de novo* patients, Study 3002). The reduction in cost is associated with the overall reduction in study activity as some studies have now been completed.

On an overall basis, research and development costs account for 50.4% of total cost of operations. The comparable figure for 2013 was 84.1%.

Administrative expenses
Administrative expenses increased from DKK 27.8 million in 2013 to DKK 47.4 million in 2014. The increase in cost is mainly attributable to legal fees in connection with legal actions against the FDA.

Share-based compensation cost
During 2014, a total of DKK 9.7 million was recognized as share-based compensation. The comparable number for 2013 was DKK 8.6 million.

Operating result
During 2014, Veloxis recognized DKK 58.6 million in operating loss compared to DKK 136.1 million in 2013.

Financial items
Net financial items increased by DKK 25.3 million, from an expense of DKK 4.4 million in 2013 to an income of DKK 20.9 million in 2014. The income in 2014 is mainly attributable to exchange rate gains due to the increase in the USD/DKK exchange rate.

Net result
During 2014, Veloxis recognized DKK 36.3 million in net loss compared to DKK 139.3 million in 2013.

The net loss is in line with management's expectations for 2014 as reported on 12 November 2014 in connection with the third quarter interim report, which projected a net loss of DKK 20 - 50 million.

Cash Flow

As per 31 December 2014, the balance sheet reflects cash and cash equivalents of DKK 270.4 million compared to DKK 328.7 million as per 31 December 2013. The decrease in cash position reflects the changes in operating activities in 2014.

The cash position is in line with management's expectations for 2014, which projected a cash position at the end of 2014 of DKK 255 - 285 million.

Balance sheet

As per 31 December 2014, total assets were DKK 293.7 million compared to DKK 348.9 million at the end of 2013.

Shareholders' equity equaled DKK 253.2 million as of 31 December 2014, compared to DKK 279.0 million at the end of 2013.

Financial highlights

Financial Highlights

DKK'000	2014	2013	2012	2011	2010
Income Statement					
Revenue	123,395	38,148	6,868	-	1,496
Production costs	(3,247)	-	-	-	-
Gross profit	120,148	38,148	6,868	-	1,496
Sales and marketing costs	(41,278)	-	-	-	-
Research and development costs	(90,111)	(146,512)	(210,739)	(222,053)	(210,426)
Administrative expenses	(47,363)	(27,771)	(36,889)	(47,814)	(52,198)
Operating result before restructuring cost	(58,604)	(136,135)	(240,760)	(269,867)	(261,128)
Restructuring cost	-	-	(21,462)	-	(10,894)
Operating result	(58,604)	(136,135)	(262,222)	(269,867)	(272,022)
Net financial income / (expenses)	20,903	(4,426)	(850)	16,048	(759)
Result before tax	(37,701)	(140,561)	(263,072)	(253,819)	(272,781)
Tax for the period	1,382	1,250	363	1,193	(1,425)
Net result for the period	(36,319)	(139,311)	(262,709)	(252,626)	(274,206)
Statement of Financial Position					
Cash and cash equivalents	270,434	328,652	496,834	297,727	531,519
Total assets	293,723	348,863	509,271	320,927	562,906
Share capital	166,300	166,057	165,932	452,543	452,543
Total equity	253,248	279,042	409,737	255,900	498,238
Investment in property, plant and equipment	1,805	1,055	260	2,981	2,583
Cash Flow Statement					
Cash flow from operating activities	(77,243)	(157,747)	(205,870)	(234,637)	(238,148)
Cash flow from investing activities	(2,547)	(1,055)	169,712	(169,778)	(2,658)
Cash flow from financing activities	989	(3,227)	404,304	(5,948)	440,014
Cash and cash equivalents at period end	270,434	328,652	496,834	297,727	531,519
Financial Ratios					
Basic and diluted EPS (DKK)	(0.02)	(0.08)	(0.43)	(0.56)	(2.84)
Weighted average number of shares	1,662,266,639	1,660,353,248	607,511,489	452,542,480	96,707,708
Average number of employees (FTEs)	26	26	48	52	59
Assets/equity	1.16	1.25	1.24	1.25	1.13
Share price	1.15	0.70	0.34	0.83	1.31

People

At year end 2014 Veloxis employed 31 persons in our two locations in Hørsholm, Denmark and New Jersey, USA. The organization is built to support our strategy and we will continue to strengthen the organization with focus on the commercialization of Envarsus® in the US.

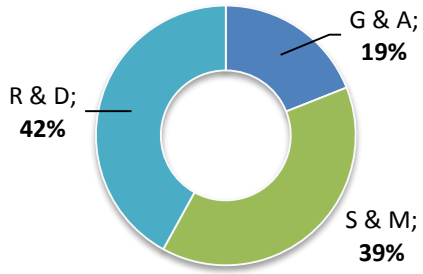
Attracting and retaining the best talent is crucial to our success and continues to be a company-wide focus.

As of 31 December 2014, 39% of the employees were in sales & marketing (S&M), 42% were in research and development (R&D) and 19% were in general and administration (G&A).

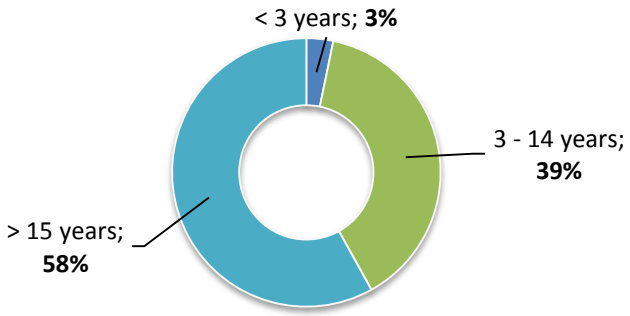
Educational background

It is a prerequisite for Veloxis' activities that our employees are both highly motivated and well educated. 68% of Veloxis' employees have a university degree at a master's level or above. Our team is also highly experienced in that 58% of our employees have been employed in the biotech or pharmaceutical industry for more than 15 years.

Employees in S&M, R&D and G&A



Employees' experience in biotech or pharma



Corporate governance & risk management

As a company listed on NASDAQ OMX Copenhagen, Veloxis must be in compliance with Danish securities law and it is Veloxis' intent to be guided by the Corporate Governance Recommendations designated by NASDAQ OMX Copenhagen. NASDAQ OMX Copenhagen has on a comply or explain basis designated the Danish Recommendations on Corporate Governance (May 2013 and updated November 2014) prepared by the Danish Committee on Corporate Governance. Veloxis' position and our compliance with these recommendations are summarized below and the full reporting of Veloxis' governance practice in accordance with the Danish Financial Statements Act, section 107b can be found on our webpage http://www.veloxis.com/governance.cfm.

Practices of the Board of Directors

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

In 2014, the Board met physically five times. All meetings were attended by all board members. In addition the Board had five meetings held as conference calls; all meetings were attended by all board members. Further the Audit Committee met physically four times during the year, and the Remuneration Committee had two meetings held as conference calls during the year.

Board composition

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

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

Bullet one and two were met in 2014.
Regarding bullet three on gender composition the Board of Directors has maintained its ambition and set out targets to be reached within a three-year period, to allow for continuity of the board. This fulfills the requirements of section 99b of the Danish Financial Statements Acts.

Danish recommendations on corporate governance

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

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

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

3. Composition and organization of the board of directors

Veloxis complies with these recommendations, with the following exceptions:

3.4 Board committees

The chairmanship performs the tasks of a nomination committee.

4. Remuneration of management

Veloxis complies with these recommendations, with the following exceptions:

4.1 Form and content of the remuneration policy

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

4.2 Disclosure of remuneration policy

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

5. Financial reporting, risk management and audits

Veloxis complies with these recommendations.

Guidelines for incentive pay

Board members

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

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

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

Executives

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

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

As an element of the variable pay, members of the Executive Management may receive an annual bonus, subject to achievement of certain benchmarks. The bonus proportion varies among the members of the Executive Management, but cannot exceed 100% of the fixed annual cash salary. The actual bonus paid to the Executive Management is disclosed in the Annual Report at an

aggregated level. At the date of adoption of these guidelines, the bonus benchmarks comprise primarily of the progress in the Company's development of its product candidates, but they may be changed by the Board of Directors. The remuneration paid to members of the Executive Management is disclosed on page 42.

In addition to the annual bonus (see above), the Board of Directors is authorised to offer the members of the Executive Management a bonus equal to 24 months' base salary in order to seek that the members of the Executive Management in question remain employed by the Company to ensure continuation of the Company operations.

Another element of the variable pay is made up of new warrants and is intended to ensure that the Executive Management's incentive correlates with creation of shareholder value. The estimated aggregated present value of new warrants granted in a given financial year to the members of the Executive Management may be up to 100% of the aggregated fixed annual cash salary to the member of the Executive Management. The estimated present value is calculated in accordance with the International Financial Reporting Standards (IFRS). The grant of new warrants may or may not be subject to achievement of defined benchmarks. The exercise price of the new warrants cannot be less than the market price of the Company's stock at the date of grant. The new warrants may have a maximum term of up to 7 years and the exercise of the new warrants may be subject to a vesting period of up to 4 years. The number of new warrants granted to members of the Executive Management is disclosed on page 43.

Change of control

Employment agreements with Executive Management

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

Collaboration and license agreements

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

Statutory report on corporate social responsibility

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

Environment

Veloxis is an emerging speciality pharmaceutical company without either laboratories or production facilities and hence the Group's consumption of energy and other natural resources and its discharges of substances into the air and water are limited, why no environmental policy exist.

Working environment

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

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

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

Business partners and suppliers

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

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

During the year we have performed 11 visits and audits (11 in 2013) at our important partners and suppliers in the US and Europe, to ensure that all of our quality requirements were adhered to. The visits did not result in any material remarks.

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

Risk management

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

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

Veloxis is exposed to critical risks within such areas as research and development, commercialization, financial management, currency exposure, legal affairs and in relation to the financial reporting process.

Currently the company is in a lawsuit in the federal district court for the District of Columbia against the Food and Drug Administration (FDA), seeking an order requiring FDA to grant final approval to Envarsus® XR.

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

As required under the Danish Financial Statements Act, Section 107b, we have on our webpage http://www.veloxis.com/governance.cfm. included Veloxis Pharmaceuticals' statutory report on Corporate Governance, which describes our risk management processes in greater details and how we manage these risks.

Shareholder Information

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

Veloxis has during 2014 had several meetings with existing and potential shareholders, which includes meetings in several places in Europe as well as on both the East and West Coast in the US.

About our shares

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

Share capital

As of 31 December 2014 Veloxis had a registered share capital of DKK 166,299,731 with a nominal value of DKK 0.1 per share. Please see note 12 on page 47 for a more detailed description. Veloxis has only one share class and all shares have equal voting rights.

The Board of Directors is authorized, until the annual general meeting in 2015 to arrange for the Company to acquire its own shares up to a nominal value of 10% of the nominal share capital. The purchase price of such shares may not differ by more than 10% from the price quoted on the NASDAQ OMX Copenhagen at the time of purchase.

Ownership structure

As of 31 December 2014, a total of 6,373 of Veloxis' shareholders were registered in the shareholder register. An increase from 4,536 shareholders as per 31 December 2013. Veloxis invites all shareholders to register in the Company's shareholder register.

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

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

Company announcements during 2014

During 2014 the company issued 29 company announcements. These can be found on Veloxis' website: http://www.veloxis.com/releases.cfm.

Financial calendar 2015

3 March, 2015	Annual report 2014
26 March, 2015 (1 PM)	Annual General Meeting
	Venue: Søhuset, Venlighedsvej 10, 2970 Hørsholm, Denmark
20 May, 2015	Interim report for the first three months of 2015
26 August, 2015	Interim report for the first six months of 2015
11 November, 2015	Interim report for the first nine months of 2015

IR contact

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Executive Vice President & CFO
Phone: +45 30 53 33 64
Email: jst@veloxis.com

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

Board of Directors & Management

Board of Directors

Kim Bjørnstrup
Chairman
Chairman, Compensation Committee
Member, Audit Committee
Board member since 2011
Born 1958
Independent board member
Competences:
International Pharmaceutical experience
Directorships:
Assistance Personale Service A/S
Hagemann Holding A/S
Renex A/S
Dustbusters AP

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

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

Mette Kirstine Agger
Member, Compensation Committee
Board member since 2010
Born 1964
Independent board member
Competences:
International Pharmaceutical experience
Managing Partner, Lundbeckfond Ventures
Directorships:
Klifo A/S
PsiOxis Therapeutics Ltd.
Cydan LLC.
scPharmaceuticals LLC
Thesan Pharmaceuticals Inc.
Vtesse Pharma

Executive Management

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

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

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

The Executive Management and the Board of Directors have considered and adopted the Annual Report of Veloxis Pharmaceuticals A/S for the financial year 2014.

The Consolidated Financial Statements and Financial statements of the parent company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

In our opinion, the Consolidated financial statements and the Financial statements of the parent company give a true and fair view of the financial position at 31 December 2014, the results of the Group's and parent company's operations, and cash flows for the financial year 2014. Furthermore, in our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances, of the results for the year, and of the financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the parent company.

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

Hørsholm, 3 March, 2015

Executive Management

William J. Polvino
President & CEO

Johnny Stilou
Executive Vice President & CFO

Board of Directors

Kim Bjørnstrup
Chairman

Thomas Dyrberg
Deputy Chairman

Anders Götzsche

Mette Kirstine Agger

Independent auditor's report

To the Shareholders of Veloxis Pharmaceuticals A/S

Report on consolidated financial statements and parent company financial statements

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Veloxis Pharmaceuticals A/S for the financial year 1 January to 31 December 2014, which comprise income statement, statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in equity and notes, including summary of significant accounting policies, for the Group as well as for the Parent Company. The Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

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

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

Auditor's responsibility

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

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

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

The audit has not resulted in any qualification.

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2014 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 2014 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, 3 March, 2015
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Torben Jensen
State Authorised Public Accountant

Henrik Ødegaard
State Authorised Public Accountant

Financial statements

Income statement

For the period 1 January – 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2014**	**2013**	**2014**	**2013**
Revenue	3	123,395	38,148	123,395	38,148
Production costs		(3,247)	-	(3,247)	-
Gross profit		**120,148**	**38,148**	**120,148**	**38,148**
Sales and marketing costs	4.5	(41,278)	-	(39,065)	-
Research and development costs	4.5	(90,111)	(146,512)	(90,741)	(148,751)
Administrative expenses	4.5	(47,363)	(27,771)	(46,987)	(28,869)
Operating result		**(58,604)**	**(136,135)**	**(56,645)**	**(139,472)**
Financial income	6	21,098	1,243	21,098	1,243
Financial expenses	7	(195)	(5,669)	(157)	(5,977)
Result before tax		**(37,701)**	**(140,561)**	**(35,704)**	**(144,206)**
Tax for the year	8	1,382	1,250	2,072	1,250
Net result for the year		**(36,319)**	**(139,311)**	**(33,632)**	**(142,956)**
Basic and diluted EPS		(0.02)	(0.08)	(0.02)	(0.09)
Weighted average number of shares		1,662,266,639	1,660,353,248	1,662,266,639	1,660,353,248

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

Statement of comprehensive income

For the period 1 January – 31 December

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Net result for the period	**(36,319)**	**(139,311)**	**(33,632)**	**(142,956)**
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss:				
Currency translation differences, net of tax	(208)	(390)	-	-
Other comprehensive income for the period	(208)	(390)	-	-
Total comprehensive income for the period	**(36,527)**	**(139,701)**	**(33,632)**	**(142,956)**

Statement of financial position

Assets at 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2014**	**2013**	**2014**	**2013**
Patent rights and software	9	1,134	494	392	494
Intangible assets		**1,134**	**494**	**392**	**494**
Property, plant and equipment	9	4,247	3,333	4,098	3,333
Tangible fixed assets		**4,247**	**3,333**	**4,098**	**3,333**
Equity interest in subsidiary	10	-	-	2,592	2,592
Financial fixed assets		**-**	**-**	**2,592**	**2,592**
Non-current assets		**5,381**	**3,827**	**7,082**	**6,419**
Inventories	11	**4,764**	**-**	**4,764**	**-**
Trade receivables		25	-	25	-
Tax receivables		6,250	1,250	6,250	1,250
Other receivables		2,678	14,066	2,318	13,912
Prepayments		4,192	1,214	3,543	1,204
Receivables		**13,145**	**16,530**	**12,136**	**16,366**
Cash		270,434	328,652	267,883	326,556
Cash and cash equivalents		**270,434**	**328,652**	**267,883**	**326,556**
Current assets		**288,343**	**345,182**	**284,783**	**342,922**
Assets		**293,723**	**349,009**	**291,865**	**349,341**

Statement of financial position

Equity and liabilities at 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2014**	**2013**	**2014**	**2013**
Share capital	12	166,300	166,057	166,300	166,057
Special reserve		407,289	407,289	407,289	407,289
Translation reserves		1,760	1,968	-	-
Retained earnings/loss		(322,101)	(296,272)	(320,451)	(297,309)
Equity		**253,248**	**279,042**	**253,138**	**276,037**
Trade payables		17,875	13,026	17,873	13,026
Tax payables		470	146	-	-
Deferred revenue		-	36,617	-	36,617
Debt to subsidiary		-	-	6,987	8,788
Other payables		22,131	20,178	13,867	14,873
Current liabilities		**40,476**	**69,967**	**38,727**	**73,304**
Liabilities		**40,476**	**69,967**	**38,727**	**73,304**
Equity and liabilities		**293,723**	**349,009**	**291,865**	**349,341**

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Cash flow statement

For the period 1 January – 31 December

		Consolidated		Parent	
(DKK'000)	**Note**	**2014**	**2013**	**2014**	**2013**
Operating result		**(58,604)**	**(136,135)**	**(56,645)**	**(139,472)**
Share-based payment	5	9,744	8,568	9,744	8,568
Depreciation and amortization	4	993	1,315	981	1,192
Write-down	4	-	1,243	-	1,243
Changes in working capital	17	(26,194)	(35,329)	(28,310)	(33,686)
Cash flow from operating activities before interest		**(74,061)**	**(160,338)**	**(74,230)**	**(162,155)**
Interest received		350	1,243	350	935
Interest paid		(195)	(39)	(157)	(39)
Corporate tax received		1,250	1,352	1,250	1,250
Corporate tax paid		(4,587)	-	(4,178)	-
Cash flow from operating activities		**(77,243)**	**(157,782)**	**(76,965)**	**(160,009)**
Purchase of property, plant and equipment		(2,547)	(1,055)	(1,644)	(1,055)
Payable to / receivable from subsidiary		-	-	(1,801)	3,261
Cash flow from investing activities		**(2,547)**	**(1,055)**	**(3,445)**	**2,206**
Installments on bank borrowings and finance lease		-	(3,665)	-	(3,665)
Proceeds from issuance of shares, net		989	438	989	438
Cash flow from financing activities		**989**	**(3,227)**	**989**	**(3,227)**
Increase/(decrease) in cash		**(78,801)**	**(162,064)**	**(79,421)**	**(161,030)**
Cash at beginning of period		328,652	496,834	326,556	493,217
Exchange gains/(losses) on cash		20,583	(6,118)	20,748	(5,631)
Cash at end of period		**270,434**	**328,652**	**267,883**	**326,556**

Statement of changes in equity

Consolidated

Consolidated	Number of Shares	Share Capital DKK'000	Special Reserves DKK'000	Translation Reserves DKK'000	Retained Earnings DKK'000	Total DKK'000
Equity as of 1 January 2013	**1,659,322,426**	**165,932**	**407,289**	**2,358**	**(165,842)**	**409,737**
Net result for the year					(139,311)	(139,311)
Other comprehensive income for the year				(390)		(390)
Total comprehensive income				(390)	(139,311)	(139,701)
Warrant exercises	1,250,000	125			313	438
Share-based payment					8,568	8,568
Equity as of 31 December 2013	**1,660,572,426**	**166,057**	**407,289**	**1,968**	**(296,272)**	**279,042**
Net result for the year					(36,319)	(36,319)
Other comprehensive income for the year				(208)		(208)
Total comprehensive income				(208)	(36,319)	(36,527)
Warrant exercises	2,424,888	243			746	989
Share-based payment					9,744	9,744
Equity as of 31 December 2014	**1,662,997,314**	**166,300**	**407,289**	**1,760**	**(322,101)**	**253,248**

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

Translation reserves may be subsequently reclassified to profit or loss.

Statement of changes in equity

Parent Company

Parent	Number of Shares	Share Capital DKK'000	Special Reserves DKK'000	Translation Reserves DKK'000	Retained Earnings DKK'000	Total DKK'000
Equity as of 1 January 2013	**1,659,322,426**	**165,932**	**407,289**	**-**	**(163,234)**	**409,987**
Net result for the year					(142,956)	(142,956)
Other comprehensive income for the year						-
Total comprehensive income					(142,956)	(142,956)
Warrant exercises	1,250,000	125			313	438
Share-based payment	0	-			8,568	8,568
Equity as of 31 December 2013	**1,660,572,426**	**166,057**	**407,289**	**-**	**(297,309)**	**276,037**
Net result for the year					(33,632)	(33,632)
Other comprehensive income for the year						-
Total comprehensive income					(33,632)	(33,632)
Warrant exercises	2,424,888	243			746	989
Share-based payment					9,744	9,744
Equity as of 31 December 2014	**1,662,997,314**	**166,300**	**407,289**	**-**	**(320,451)**	**253,138**

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

Notes

Note 1. Summary of significant accounting policies

Basis of presentation

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

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

Change of accounting policies including presentation and implementation of new or revised IFRS/IAS standards and interpretations

The accounting policies, except as described below, have been applied consistently during the financial year and for the comparative figures.

The Annual Report for 2014 is presented in conformity with new and revised IFRS/IAS standards and new IFRIC interpretations approved by the EU, which apply to financial years beginning on 1 January 2014 or later.

In addition, a number of new standards and interpretations have been implemented which do not have monetary effect on the Group's or Parent Company's result, assets and liabilities or equity.

New International Financial Reporting Standards (IFRS) and Interpretations (IFRIC)

In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers). The standard becomes effective from 1 January 2017 with earlier application permitted. Preliminary analysis of the impact of the standard on Veloxis' Consolidated Financial Statements indicates that the standard will not have significant impact on the revenue recognition.

In addition a number of other new standards and interpretations not applicable/mandatory for the preparation of the 2014 Annual Report have been published. Veloxis expects to implement the new applicable and approved, not yet effective reporting standards and interpretations, as they take effect.

None of the new and changed standards or interpretations are expected to have any significant monetary effect on the statements of the Veloxis Group's results, assets and liabilities or the equity.

Consolidated financial statements

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

The group’s consolidated financial statements have been prepared on the basis of the financial statements of the Parent Company and the subsidiary – prepared under the group’s accounting policies – by combining similar accounting items on a line-by-line basis. On consolidation, intercompany income and expenses, intercompany receivables and payables, and unrealized gains and losses on transactions between the consolidated companies are eliminated.

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

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

Foreign currency

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

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

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

Comprehensive income

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

Income statement

Revenues

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

Revenues are stated less of VAT, charges and discounts.

Production costs

Production costs comprise raw materials, trading goods and other costs incurred in order to obtain the net revenue for the year.

Sales and marketing costs

Research and development costs comprise advertising, promotions, seminars, salaries and other staff costs including pensions, and other costs including cost of premises, depreciation and amortization related to sales and marketing activities. Advertising costs are expensed as incurred.

Research and development costs

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

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

A development project involves a single product candidate undergoing a high number of tests to illustrate its safety profile and effect on human beings prior to obtaining the necessary approval from the appropriate authorities. Considering the general risk related to the development of pharmaceutical products, management has concluded that the future economic benefits associated with the individual development projects cannot be estimated with sufficient certainty until the project has been finalized and the necessary market approval of the final product has been obtained. As a consequence all development costs are recognized in the income statement in the period to which they relate.

General and administrative expenses

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

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

Restructuring cost

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

Share-based payment

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

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

Financial items

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

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

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

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

Corporate tax

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the income for the year, and recognized directly in equity by the portion attributable to transactions

recognized directly in equity. Current tax payable or receivable is recognized in the balance sheet as tax calculated on the taxable income for the year adjusted for prepaid tax.

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

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

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

Statement of financial position

Non-current assets

Intangible assets

Intangible assets comprise acquired patent rights and software.

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

Tangible fixed assets

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

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

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

Impairment of long-lived assets

The carrying amount of long-lived assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are such indications, an impairment test is performed. An impairment loss is

recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's net selling price and its value in use. Value in use is calculated as the net present value of future cash inflow generated from the asset. For the purposes of assessing impairment, assets are grouped at the lower levels for which there are separately identifiable cash flows (cash-generating units). For corporate assets the assessment is carried out at an entity level. Impairment losses are recognized in the income statement under the same line items as the related depreciation or amortization.

Current assets

Inventories

Inventories are valued at the lower of cost using FIFO and net realizable value.

Cost of goods for sale and raw materials comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The net realizable value of inventory is measured at the selling price less cost related to the execution of sales. Furthermore, net realizable value is determined with regard to marketability, obsolescence and development in expected selling price.

Inventories are regularly evaluated for obsolescence and excess quantities, taking into account factors as historical and anticipated futures sales compared to quantities on hand and the remaining shelf life of products.

Trade receivables

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

Other receivables

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

Prepayments

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

Cash and cash equivalents

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

Shareholders' equity

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

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

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

Non-current liabilities

Provisions

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

Finance leases

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

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

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line basis to the income statement as research and development costs or as general and administrative expenses, depending on the use of the asset.

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

Current liabilities

Trade payables

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

Deferred revenue

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

Other liabilities

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

Derivative financial instruments

Veloxis does not have derivative financial instruments.

Equity interests in subsidiaries

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

Cash flow statement

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

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

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

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

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

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

Segment reporting

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

Financial ratios

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

Basic EPS

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

Diluted EPS

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

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

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

Note 2. Critical accounting estimates and judgments

In preparing financial statements under IFRS, certain provisions in the standards require management's judgments. Such judgments are considered important to understand the accounting policies and Veloxis' compliance with the standards. The

following summarizes the areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

Revenue recognition

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

Revenue in 2014 amounted to DKK 123.4 million.

Internally generated intangible assets

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

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

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

Internally generated intangible assets as of 31 December 2014 amounts to DKK 0.

Note 3. Revenue

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Sale of goods	3,214	-	3,214	-
Milestone payments	120,181	38,148	120,181	38,148
Total	**123,395**	38,148	**123,395**	38,148

All revenue relates to one customer in the EU.

Note 4. Depreciation and amortization

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Patent rights and software	102	488	102	488
Property, plant and equipment	891	716	879	704
Leasehold improvements	0	111	0	0
Write-down	0	1,243	0	1,243
Total	**993**	**2,558**	**981**	**2,435**
Allocated by function:				
Sales and marketing costs	207	0	0	0
Research and development costs	561	1,950	716	1,897
General and administrative expenses	225	608	265	538
Total	**993**	**2,558**	**981**	**2,435**

Note 5. Staff costs

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Wages and salaries	38,570	29,139	26,314	26,624
Pension contributions	1,692	1,693	1,285	1,509
Other social security costs	1,843	1,668	107	139
Share-based payment	9,682	8,547	2,849	2,703
Total	**51,787**	**41,047**	**30,555**	**30,975**
Allocated by function:				
Sales and marketing costs	11,417	0	3,112	0
Research and development costs	20,116	26,100	13,901	20,392
General and administrative expenses	20,254	14,947	13,542	10,583
Total	**51,787**	**41,047**	**30,555**	**30,975**
Average number of employees (FTEs)	26	26	15	19
Remuneration of board of directors, and executive management:				
Board of directors				
Cash remuneration	1,100	1,100	1,100	1,100
Share-based payment	98	39	98	39
	1,198	**1,139**	**1,198**	**1,139**
Executive management				
Gross salary	4,349	4,206	4,349	4,206
Bonus	5,273	1,929	5,273	1,929
Pension contributions	246	240	246	240
Share-based payment	5,642	4,905	5,642	4,905
	15,510	**11,280**	**15,510**	**11,280**

The current Executive Management consists of William J. Polvino and Johnny Stilou, who both have been with Veloxis throughout 2014.

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

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

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

Upon election, each member of the Board of Directors may decide to exchange the fixed number of warrants for an additional annual fee equivalent to DKK 1 per warrant. In 2014 warrants converted to cash amounted to DKK 50,000.

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

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

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

Veloxis has implemented Incentive Guidelines, which has been adopted by the General Assembly and are in further detailed described on page 16 and on Veloxis´ homepage www.veloxis.com/investors.

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

	As per 31 December 2014		As per 31 December 2013	
	Shares	Warrants	Shares	Warrants
Board of directors				
Thomas Dyrberg	451,733	239,584	451,733	189,584
Anders Götzche	-	-	-	-
Mette Kirstine Agger	1,288	150,000	1,288	100,000
Kim Bjørnstrup	204,167	245,833	-	300,000
Executive management				
William J. Polvino	1,237,650	44,547,447	1,237,650	33,186,400
Johnny Stilou	250,000	16,731,634	250,000	12,444,900

Note 6. Financial income

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Interest income	350	1,243	350	1,243
Exchange rate gains	20,748	-	20,748	-
Total	**21,098**	**1,243**	**21,098**	**1,243**

Note 7. Financial expenses

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Interest expenses	195	2	-	2
Interest on finance leases	-	37	-	37
Interest expense from group companies	-	-	157	308
Exchange rate losses	-	5,630	-	5,630
Total	**195**	**5,669**	**157**	**5,977**

Note 8. Tax and deferred tax

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Tax for the year can be explained as follows:				
Income / (loss) for the year before tax	(37,701)	(140,561)	(35,704)	(144,206)
Tax rate	**24.5%**	**25.0%**	**24.5%**	**25.0%**
Computed tax on income / (loss) for the year	(9,703)	(34,641)	(8,747)	(36,051)
Change in tax losses carried forward not capitalized	9,703	34,641	8,747	36,051
Tax benefit	6,250	1,250	6,250	1,250
Witholding tax on milestone payment	(4,178)	-	(4,178)	-
Commercial rent tax	(409)	-	-	-
Tax on profit in subsidiary	(281)	-	-	-
Tax for the year	**1,382**	**1,250**	**2,072**	**1,250**
Tax rate	**22.0%**	**22.0%**	**22.0%**	**22.0%**
Calculated deferred tax asset	382,470	381,161	382,470	381,161
Write down to assessed value	(382,470)	(381,161)	(382,470)	(381,161)
Carrying amount	**0**	**0**	**0**	**0**

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

Note 9. Intangible & tangible fixed assets

Consolidated	Patent rights & Software		Property, Plant & Equipment		Leasehold Improvements	
(DKK'000)	2014	2013	2014	2013	2014	2013
Cost at 1 January	1,280	3,192	39,274	38,224	419	425
Additions	742	-	1,805	1,055	-	-
Disposals	-	(1,912)	-	-	-	-
Exchange adjustment	-	-	(14)	(5)	(19)	(6)
Cost at 31 December	**2,022**	**1,280**	**41,065**	**39,274**	**400**	**419**
Amortization / Depreciation / Impairment loss at 1 January	(786)	(967)	(35,941)	(35,230)	(419)	(310)
Amortization / Depreciation	(102)	(488)	(891)	(716)	-	(111)
Amortization / Depreciation on disposals	-	1,912	-	-	-	-
Write-down	-	(1,243)	-	-	-	-
Exchange adjustment	-	-	14	5	19	2
Amortization / Depreciation / Impairment loss at 31 December	**(888)**	**(786)**	**(36,818)**	**(35,941)**	**(400)**	**(419)**
Net book value at 31 December	**1,134**	**494**	**4,247**	**3,333**	**-**	**-**

Parent	Patent rights & Software		Property, Plant & Equipment		Leasehold Improvements	
(DKK'000)	2014	2013	2014	2013	2014	2013
Cost at 1 January	1,280	3,192	38,954	37,899	-	-
Additions	-	-	1,644	1,055	-	-
Disposals	-	(1,912)	-	-	-	-
Cost at 31 December	**1,280**	**1,280**	**40,598**	**38,954**	**-**	**-**
Amortization / Depreciation / Impairment loss at 1 January	(786)	(967)	(35,621)	(34,917)	-	-
Amortization / Depreciation	(102)	(488)	(879)	(704)	-	-
Amortization / Depreciation on disposals	-	1,912	-	-	-	-
Write-down	-	(1,243)	-	-	-	-
Amortization / Depreciation / Impairment loss at 31 December	**(888)**	**(786)**	**(36,500)**	**(35,621)**	**-**	**-**
Net book value at 31 December	**392**	**494**	**4,098**	**3,333**	**-**	**-**

Write-down in 2013 relates to a quality assurance system which is no longer being used and for which there is no alternative use. Management has assessed that it is not possible to sell the system at any value.

Note 10. Investment in subsidiary

	Parent	
(DKK'000)	**2014**	**2013**
Cost at 1 January	2,592	2,592
Additions	-	-
Cost at 31 December	**2,592**	2,592

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

Note 11. Inventories

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Raw materials	3,718	-	3,718	-
Finished goods	1,046	-	1,046	-
Total	**4,764**	-	**4,764**	-

Note 12. Share capital

On 31 December 2014 the total number of outstanding shares was 1,662,997,314. Each share has a nominal value of DKK 0.1 and one vote.

Changes in share capital from 2009 to 2014

The table below sets forth the changes in our issued share capital since 2009:

Date	Transaction	Share Capital	Share classes after capital increase		Share price in DKK pre bonus shares	Share price in DKK post bonus shares
26 March 2009	Cash contribution	150,813 [1]	56,438,320	shares	-	6.46
9 September 2009	Cash contribution	129,490 [2]	56,567,810	shares	-	6.48
25 November 2010	Cash contribution	395,974,670 [3]	452,542,480	shares	-	1.20
13 November 2012	Cash contribution	1,206,779,946 [4]	1,659,322,426	shares	-	0.35
6 March 2013	Cash contribution	1,250,000 [5]	1,660,572,426	shares	-	0.35
20 March 2014	Cash contribution	1,954,857 [6]	1,662,527,283	shares	-	0.35
1 September 2014	Cash contribution	256,639 [7]	1,662,783,922	shares	-	0.35
1 September 2014	Cash contribution	54,167 [7]	1,662,838,089	shares	-	0.58
1 September 2014	Cash contribution	9,225 [7]	1,662,847,314	shares	-	0.95
1 September 2014	Cash contribution	150,000 [7]	1,662,997,314	shares	-	1.16

Notes:
(1) Issuance of 150,813 shares in connection with subscription through the exercise of employee warrants.
(2) Issuance of 129,490 shares in connection with subscription through the exercise of employee warrants.
(3) Issuance of 395,974,670 shares in connection with rights issue on 29 October 2010.
(4) Issuance of 1,206,779,946 shares in connection with rights issue on 13 November 2012.
(5) Issuance of 1,250,000 shares in connection with subscription through the exercise of employee warrants.
(6) Issuance of 1,954,857 shares in connection with subscription through the exercise of employee warrants.
(7) Issuance of 470,031 shares in connection with subscription through the exercise of employee warrants.

Note 13. Financial risks

Interest rate risk

Veloxis has an investment policy with the purpose of preserving the Company's capital without significantly increasing the risks. Accordingly, the Company seeks to limit any risks related to the interest rate and the fair value of its investments. The Company is primarily exposed to interest rate risk ascribable to its cash position. All positions carry variable interest rates. Based on the cash position at the end of 2014, a 1% point change in the interest rate will impact net financial income of approximately DKK 3 million.

Capital structure

During 2014, the Company's excess cash has been placed in short-term and long-term deposits with two major Danish banks, thereby reducing the fair value risk. The cash position at year end and the average interest rate is presented in the following table:

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Cash	270,434	328,652	267,883	326,556
Average variable interest rate	0.12%	0.27%	0.12%	0.27%

The outlook for 2015 expects an end year cash position in the range of DKK 55 - 95 million.

Credit risk

The credit terms on the Company's receivables are considered to be at market conditions, and the Company has not encountered any losses as a result of credit risk during the years presented. As regards cash deposits, the Company's bank has a credit rating of A3 according to Moody's. The credit risk ascribable to the Company's receivables is considered low as such receivables arise from collaboration agreements with large pharmaceutical companies.

Liquidity risk

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

Currency exposure

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

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

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

	Consolidated		Parent	
	2014	2013	2014	2013
USD'000	25,206	23,377	23,648	21,366
EUR'000	741	(284)	741	(284)
GBP'000	(32)	(69)	(32)	(69)
CAD'000	(5)	(6)	(5)	(6)

All net positions are current.

The carrying amount approximately equals the fair value. Changes in currencies may affect future income and expenses in such foreign currencies, and may have a significant impact on the Company's operating results and cash flows. The Company is primarily exposed to such risk from currency fluctuations between USD and DKK. Based on the USD position at the end of 2014, a 10% change in the USD / DKK rate will impact result with approximately DKK 15 million.

Note 14. Warrants

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

Vesting conditions

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

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

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

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

Term of granted warrants

The maximum term for all granted warrants is 7 years.

Exercise periods

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

Warrant activity

The following table specifies the warrant activity during 2014:

	Employees	Executive management	Board of directors	Total	Weighted average exercise price DKK
Outstanding as of 1 January 2013	**48,134,785**	**37,204,361**	**559,011**	**85,898,157**	**1.00**
Granted in the year	1,833,700	18,846,300	250,000	20,930,000	0.36
Exercised in the year	(500,000)	(750,000)		(1,250,000)	0.35
Cancelled in the year	(12,891,460)	(9,669,361)	-	(22,560,821)	1.47
Expired in the year	(463,555)	-	(36,357)	(499,912)	15.32
Change between categories	183,070	-	(183,070)	-	-
Outstanding as of 31 December 2013	**36,296,540**	**45,631,300**	**589,584**	**82,517,424**	**0.64**
Granted in the year	9,874,975	15,647,781	250,000	25,772,756	1.03
Exercised in the year	(2,220,721)	-	(204,167)	(2,424,888)	0.41
Cancelled in the year	(4,752,501)	-	-	(4,752,501)	0.36
Expired in the year	(392,656)	-	-	(392,656)	11.99
Outstanding as of 31 December 2014	**38,805,637**	**61,279,081**	**635,417**	**100,720,135**	**0.71**
Weighted average exercise price DKK	**1.02**	**0.51**	**1.73**	**0.71**	

In total, as of 31 December 2014, a total of 100,720,135 warrants were outstanding with a weighted average exercise price of DKK 0.71. 61,603,840 of these warrants had vested and are exercisable as of 31 December 2014 with a weighted average exercise price of DKK 0.73. For comparison, as of 31 December 2013, a total of 82,517,424 warrants were outstanding with a weighted average exercise price of DKK 0.64.

Warrant compensation costs

Warrant compensation costs are calculated at the date of grant by use of the Black-Scholes valuation model with the following assumptions: (i) a volatility of 51% - 52%, determined as the average of the stock price volatility based on Veloxis' historical share prices since its Initial Public Offering in November 2006; (ii) no payment of dividends; (iii) a risk free interest rate equaling the interest rate on a 5-year government bond on the date of grant; and (iv) a life of the warrants determined as the average of the date of becoming exercisable and the date of expiry.

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

During 2014, a total of DKK 9.7 million was recognized as share-based compensation compared to DKK 8.6 million in 2013.

The warrant compensation costs for 2014 were allocated to sales and marketing costs at DKK 0.4 million, research and development costs at DKK 3.4 million and to general and administrative expenses at DKK 5.9 million.

Value of granted warrants

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

	Granted 14 March, 2014	Granted 14 May, 2014	Granted 20 August, 2014	Granted 12 November, 2014
Share price at grant (DKK)	0.95	1.14	1.86	1.19
Volatility (%)	51	51	51	52
Exercise price (DKK)	0.95	1.14	1.86	1.19
Risk-free interest rate for options (%)	0.76	0.70	0.37	0.16
Annual dividend per share (DKK)	-	-	-	-
Years to expiry	7	7	7	7
Exercise period	2021	2021	2021	2021
Market value at grant (DKK'000)	9,009.8	117.0	1,707.2	147.2

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

Year of grant	Number of granted warrants	Number of outstanding warrants	Weighted average exercise price (DKK)	Weighted average contractual life (months)
2008	8,117,033	1,441,275	7.80	6.00
2009	4,948,753	1,290,751	3.56	15.73
2010	22,230,930	3,413,800	1.34	33.77
2011	4,665,291	628,975	1.15	41.14
2012	59,047,200	47,390,383	0.35	59.00
2013	20,930,000	20,875,833	0.36	61.09
2014	25,772,756	25,679,118	1.03	75.55
31 December 2014	**145,711,963**	**100,720,135**	**0.71**	**61.37**

Note 15. Other commitments

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Operating lease commitments regarding offices	1,018	922	468	464
Operating lease commitments regarding property, plant and equipment	1,353	352	1,265	352
Total operating lease commitments	**2,371**	**1,274**	**1,733**	**816**
Total operating lease payments fall due:				
Within 1 year	1,589	1,158	1,001	700
From 1 to 5 years	782	116	732	116
After 5 years	-	-	-	-
Total	**2,371**	**1,274**	**1,733**	**816**
Expensed operating lease payments	2,116	1,801	1,298	1,134

Note 16. Related parties

Shareholders with significant influence

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

There have been no transactions with the shareholders in either 2013 or 2014.

Members of the Executive Management and Board of Directors

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

The Executive Management and the Board of Directors have received remuneration from Veloxis, including warrants, as described in note 5 and note 14 to the financial statements.

Veloxis Pharmaceuticals, Inc.

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

During 2014, the subsidiary has performed clinical, marketing and managerial activities on behalf of the Parent Company, which has been remunerated in accordance with the service agreements between the companies. Total services amount to DKK 35.8 million for the year 2014 (2013: DKK 27.5 million). Further, the Parent Company has paid interest expenses of DKK 157 thousand

for the period 1 January to 31 December 2014 due to internal transactions between the two companies (2013: expenses of DKK 308 thousand).

At 31 December 2014, the Parent Company had a net payable to Veloxis Pharmaceuticals, Inc. totaling DKK 7.0 million (2013: DKK 8.8 million).

Other related parties

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

Note 17. Changes in working capital

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
Trade receivables	(25)	-	(25)	-
Other receivables	11,388	(9,989)	11,594	(10,328)
Prepayments	(2,978)	708	(2,339)	671
Inventories	(4,764)	-	(4,764)	-
Trade payables	4,849	(5,564)	4,847	(5,484)
Deferred revenue	(36,617)	(11,459)	(36,617)	(11,459)
Other payables	1,953	(9,025)	(1,006)	(7,086)
Total	**(26,194)**	**(35,329)**	**(28,310)**	**(33,686)**

Note 18. Fees to auditors appointed by the annual general meeting

	Consolidated		Parent	
(DKK'000)	**2014**	**2013**	**2014**	**2013**
PricewaterhouseCoopers				
Audit	311	300	311	300
Tax Services	262	24	262	24
Other assurance engagements	35	34	35	34
Other services	199	124	199	124
Total	**807**	**482**	**807**	**482**

Parent company

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