Zealand Pharma ∞ Annual Report 2021 **46**



# Financial statements

 



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**financial statements**

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## Consolidated financial statements

**Consolidated income statement for the years ended December 31, 2021, 2020 and 2019**

**Consolidated statements of comprehensive income for the years ended December 31, 2021, 2020 and 2019**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DKK thousand** | **Note** | **2021** | **2020** | **2019** |  | **DKK thousand** | **Note** | **2021** | **2020** | **2019** |
| Revenue | 3 | 292,567 | 353,314 | 41,333 |  | Net result for the year |  | -1,018,149 | -846,729 | -571,541 |
| Cost of goods sold | 18 | -107,844 | -90,565 | 0 |  | Other comprehensive income |  |  |  |  |
| Royalty expenses | 4 | -10,970 | 0 | -415 |  | *Items that will be reclassified to income statement* |  |  |  |  |
| **Gross margin** |  | **173,753** | **262,749** | **40,918** |  | *when certain conditions are met:* |  |  |  |  |
|  |  |  |  |  |  | Exchange differences on translation of foreign operations |  | 5,178 | 8,977 | 0 |
| Research and development expenses | 5,7 | -588,453 | -604,081 | -561,423 |  | **Comprehensive result for the year** |  | **-1,012,972** | **-837,752** | **-571,541** |
| Sales and marketing expenses | 5,7,13 | -375,269 | -285,256 | 0 |  |  |  |  |  |  |
| Administrative expenses | 5,7 | -260,987 | -202,770 | -67,881 |  | **Total comprehensive income attributable to** |  |  |  |  |
| **Operating expenses** |  | **-1,224,709** | **-1,092,107** | **-629,304** |  | **shareholders of Zealand Pharma A/S** |  | **-1,012,972** | **-837,752** | **-571,541** |
| Other operating income | 8 | 759 | 36,997 | 444 |  | | | | | |
| Other operating expense | 8 | -2,173 | 0 | 0 |
| **Operating result** |  | **-1,052,370** | -**792,361** | -**587,942** |
| Financial income | 9 | 41,211 | 2,022 | 14,655 |
| Financial expenses | 10 | -15,781 | -49,314 | -3,390 |
| **Result before tax** |  | **-1,026,940** | **-839,653** | **-576,677** |
| Income tax (expense)/benefit | 11 | 8,791 | -7,076 | 5,136 |
| **Net result for the year** |  | **-1,018,149** | **-846,729** | **-571,541** |
| Earnings/(loss) per share – basic (DKK) | 12 | -23,75 | -22.07 | -16.91 |
| Earnings/(loss) per share - diluted (DKK) | 12 | -23,75 | -22.07 | -16.91 |
| **Net result attributable to shareholders of Zealand Pharma A/S** |  | **-1,018,149** | **-846,729** | **-571,541** |

## Consolidated financial statements

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Consolidated statements of financial position as of December 31, 2021 and 2020**  **DKK thousand** | **Note** | **2021** | **2020** |  | **DKK** **thousand** | **Note** | **2021** | **2020** |
| **Assets** |  |  |  |  | **Liabilities and equity** |  |  |  |
| **Non-current assets** |  |  |  |  | Share capital | 24 | 43,634 | 39,800 |
| Intangible assets | 13 | 53,790 | 57,485 |  | Treasury shares |  | -71,890 | -1,700 |
| Property, plant and equipment | 14 | 86,454 | 85,040 |  | Share premium |  | 4,250,306 | 3,472,487 |
| Right-of-use assets | 15 | 134,994 | 127,998 |  | Currency translation reserve |  | 14,155 | 8,977 |
| Other Investments | 16 | 26,907 | 32,333 |  | Retained losses |  | -3,308,402 | -2,290,253 |
| Deposits |  | 12,638 | 16,650 |  | **Shareholders' equity** |  | **927,803** | **1,229,311** |
| Corporate tax receivable | 11 | 1,268 | 1,268 |  |  |  |  |  |
| Deferred tax assets | 11 | 13,525 | 8,370 |  | Borrowings | 25 | 647,906 | 0 |
| Prepaid expenses | 20 | 16,457 | 13,117 |  | Deferred revenue | 26 | 14,551 | 44,587 |
| **Total non-current assets** |  | **346,033** | **342,261** |  | Other liabilities | 28 | 18,426 | 16,744 |
|  |  |  |  |  | Lease liabilities | 15 | 124,626 | 116,047 |
|  |  |  |  |  | **Non-current liabilities** |  | **805,509** | **177,378** |
| **Current assets** |  |  |  |  |  |  |  |  |
|  |  |  |  |  | Trade payables |  | 64,558 | 70,384 |
| Inventories | 18 | 118,436 | 65,040 |  | Corporate tax payables |  | 0 | 30,394 |
| Trade receivables | 19 | 73,025 | 46,484 |  | Lease liabilities | 15 | 14,897 | 14,072 |
| Prepaid expenses | 20 | 64,626 | 35,156 |  | Deferred revenue | 26 | 53,033 | 53,182 |
| Corporate tax receivable | 11 | 21,562 | 5,500 |  | Rebate and product return liabilities | 27 | 28,695 | 36,673 |
| Other receivables | 21 | 15,802 | 9,942 |  | Other liabilities | 28 | 173,134 | 150,555 |
| Marketable securities | 22 | 299,042 | 297,345 |  | **Current liabilities** |  | **334,317** | **355,260** |
| Cash and cash equivalents (incl cash subject to liquidity covernant) | 23 | 1,129,103 | 960,221 |  |  |  |  |  |
| **Total current assets** |  | **1,721,596** | **1,419,688** |  | **Total liabilities** |  | **1,139,826** | **532,638** |
|  |  |  |  |  |  |  |  |  |
| **Total assets** |  | **2,067,629** | **1,761,949** |  | **Total shareholders' equity and liabilities** |  | **2,067,629** | **1,761,949** |

**Consolidated financial** **statements**

#### Consolidated statements of cash flows for the years ended December 31, 2021, 2020 and 2019

**2021**

**Consolidated statements of changes** **in shareholders' equity at December 31, 2021, 2020 and 2019**

**Trans-**

**DKK thousand Note**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | |  |  | |
| Net result for the year | | -1,018,149 | -846,729 | -571,541 |
| Bargain purchase 31 | | 0 | -36,395 | 0 |
| Adjustments for other non-cash items 33 | | 47,615 | 143,138 | 9,207 |
| Change in working capital 34 | | -166,325 | 97,818 | 10,873 |
| Interest received | | 0 | 895 | 5,413 |
| Interest paid | | -3,296 | -4,562 | -3,390 |
| Deferred revenue 26 | | -30,185 | -42,881 | 139,890 |
| Income tax paid/received | | -41,631 | 0 | 93 |
| **Cash flow from operating activities** |  | **-1,211,971** | **-688,716** | **-409,455** |
| Acquisition of Valeritas business, net of cash acquired | 31 | 0 | -167,791 | 0 |
| Change in deposits |  | 4,012 | -3,972 | -6,250 |
| Purchase of other investments and marked securities | 16 | 0 | 0 | -22,803 |
| Purchase of property, plant and equipment | 14 | -22,133 | -25,044 | -21,036 |
| Purchase of intangible assets | 13 | 0 | 0 | -2,480 |
| Sale of property, plant and equipment |  | 0 | 0 | 25 |
| Dividends on securities |  | 0 | 0 | 878 |
| **Cash flow from investing activities** |  | **-18,121** | **-196,807** | **-51,666** |
| Proceeds from issuance of shares related to |  |  |  |  |
| exercise of share based compensation | 24 | 26,070 | 41,363 | 52,468 |
| Proceeds from issuance of shares | 24 | 748,975 | 791,503 | 645,145 |
| Purchase of treasury shares | 24 | -28,590 | 0 | 0 |
| Proceeds from borrowings | 35 | 647,906 | 0 | 0 |
| Costs related to issuance of shares | 24 | -46,895 | -42,706 | -14,444 |
| Lease installments | 15 | -14,715 | -29,219 | -8,689 |
| **Cash flow from financing activities** | | **1,332,751** | **760,941** | **674,480** |
| Decrease/increase in cash and cash equivalents |  | 102,659 | -124,582 | 213,359 |
| Cash and cash equivalents at beginning of period | 23 | 960,221 | 1,081,060 | 860,635 |
| Exchange rate adjustments |  | 66,223 | 3,743 | 7,066 |
| **Cash and cash equivalents at end of period** | 23 | **1,129,103** | **960,221** | **1,081,060** |

**2020 2019**

**Share Treasury Share lation Retained**

**DKK thousand capital shares premium reserve losses Total**

**Equity at January 1, 2021**

**39,800 -1,700 3,472,487 8,977 -2,290,253 1,229,311**

Other comprehensive income 0 0

Net result for the year 0 0

Treasury shares 0 -70,190

Share-based compensation 0 0

Capital increases 3,834 0

Cost related to capital increases 0 0

**Equity at December 31, 2021 43,634 -71,890**

0

0

0

53,504

771,211

-46,896

**4,250,306**

5,178

0

0

0

0

0

0

5,178

-1,018,149 -1,018,149

0

0

0

0

**14,155 -3,308,402**

-70,190

53,504

775,045

-46,896

**927,803**

**Equity at January 1, 2020 36,055 -1,700 2,651,842 0 -1,443,524 1,242,673**

Other comprehensive income 0 0 0 8,977 0 8,977

Net result for the year 0 0 0 0 -846,729 -846,729

Share-based compensation 0 0 30,485 0 0 30,485

Capital increases 3,745 0 832,866 0 0 836,611

Cost related to capital increases 0 0 -42,706 0 0 -42,706

##### Equity at December 31, 2020 39,800 -1,700 3,472,487 8,977 -2,290,253 1,229,311

**Equity at January 1, 2019 30,787 -1,700 1,959,177 0 -871,983 1,116,281**

Other comprehensive income 0 0 0 0 0 0

Net result for the year 0 0 0 0 -571,541 -571,541

Share-based compensation 0 0 14,764 0 0 14,764

Capital increases 5,268 0 692,345 0 0 697,613

Cost related to capital increases 0 -14,444 0 0 -14,444

**Equity at December 31, 2019 36,055 -1,700 2,651,842 0 -1,443,524 1,242,673**

## Consolidated financial statements

#### Business overview

Zealand Pharma A/S (Nasdaq: ZEAL) ("Zealand", the “Company”, the “Group”, “Zealand” and “we”) is a biotechnology company focused on the discovery, development, and commercialization of innovative peptide-based medicines. More than 10 drug candidates invented by Zealand have advanced into clinical development, of which two have reached the market and three candidates are in late-stage development. In addition, license collaborations with Boehringer Ingelheim and AstraZeneca create opportunities for more patients to potentially benefit from Zealand-invented peptide investigational agents currently in development. Zealand was founded in 1998 in Copenhagen, Denmark, and has presence throughout the

U.S. that includes key locations in Boston, and Marlborough (MA).

In April 2020, we acquired substantially all of the medical technology business from Valeritas Holdings, Inc. Refer to note 31.

|  |  |  |  |
| --- | --- | --- | --- |
| **Company summary** | **Domicile** | **Owner-**  **ship** | **Voting rights** |
| **Zealand Pharma A/S subsidiaries**  ZP Holding SPV K/S | Denmark | 100% | 100% |
| ZP General Partner 1 ApS | Denmark | 100% | 100% |
| Zealand Pharma US Inc. | United States | 100% | 100% |
| Encycle Therapeutics Inc. | Canada | 100% | 100% |
| ZP SPV 3 K/S | Denmark | 100% | 100% |
| ZP General Partner 3 ApS | Denmark | 100% | 100% |
| **ZP Holding SPV K/S subsidiaries**  ZP SPV 1 K/S | Denmark | 100% | 100% |
| ZP General Partner 2 ApS | Denmark | 100% | 100% |
| **Zealand Pharma US Inc. subsidiary**  Zealand Pharma California US, LLC. | United States | 100% | 100% |

## Notes

#### Note 1 – Significant accounting policies, and significant accounting estimates and assessments

##### Significant accounting policies

**Basis of preparation**

The consolidated financial statements of Zealand have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements under the Danish Financial Statements Act (class D).

The Board of Directors considered and approved the 2021 Annual Report of Zealand on March 10, 2022. The Annual Report will be submitted to the shareholders of Zealand for approval at the Annual General Meeting on April 6, 2022.

The consolidated financial statements are presented on a historical cost basis, except for certain financial assets and liabilities measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and on the significance of the inputs to the fair value measurement as a whole. The inputs are described as follows:

* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
* Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
* Level 3 inputs are fair value measures derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional cur- rency of the Parent Company.

In the narrative sections of the financial statements, comparative figures for 2020 and 2019 are shown in brackets if not indicated otherwise.

##### Implementation of new and revised standards and interpretations

Management has assessed the impact of new or amended and revised accounting standards and inter- pretations (IFRSs) issued by the IASB and IFRSs endorsed by the EU effective on or after 1 January 2021. It is assessed that application of amendments effective from 1 January 2021 has not had a material impact on the consolidated financial statements for 2021. Furthermore, Management does not anticipate any significant impact on future periods from the adoption of these amendments.

##### Standards and interpretations issued, but not yet applied

IASB has issued a number of new and amended standards which are not yet effective. None of these new standards or amendments are expected to impact the Group.

##### Accounting policies

The accounting policies are unchanged from last year. The accounting policies for specific line items and transactions are included in the respective notes to the financial statements except for basis and princi- ples of consolidation, foreign currency translation, classification of income statement, segment reporting, classification of financial assets and the cash flow statement, which are included below.

##### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

* has power over the investee;
* is exposed, or has rights, to variable returns from its involvement with the investee; and
* has the ability to use its power to affect its returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## Notes

#### Note 1 – Significant accounting policies, and significant accounting estimates and assessments (continued)

##### Principles of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the parent company and the individual subsidiaries, which are based on uniform accounting policies and account- ing periods in all Group entities. Consolidation of Group entities is performed after elimination of all intra Group transactions, balances, income and expenses.

##### Functional currency

A functional currency is determined for each Group entity. The functional currency is the currency used in the primary financial environment in which the individual Group entity operates.

##### Foreign currency translation

Transactions denominated in currencies other than the transacting entity's functional currency are trans- lated at the exchange rates on the transaction dates.

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

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the statement of financial position date are translated by applying the exchange rates at the statement of financial position date. Differences arising between the rate at the statement of financial position date and the rate at the date on which the receivable or payable arose are recognized in the income statement as financial income and financial expenses.

##### Recognition in the consolidated financial statements

On preparation of the consolidated financial statements, the income statements of entities with a func- tional currency different from DKK are translated at the average exchange rate for the period, and balance sheet items are translated at the exchange rate ruling at the reporting date.

Foreign exchange differences arising on translation of the equity of foreign entities and on translation of receivables considered part of net investment are recognized directly in other comprehensive income.

Foreign exchange differences arising on the translation of income statements from the average exchange rate for the period to the exchange rate ruling at the reporting date are also recognized in other compre- hensive income. Adjustments are presented under a separate translation reserve in equity.

##### Materiality in financial reporting

In preparing the Annual Report, Management seeks to improve the information value of the consolidated financial statements, the notes to the statements and other measures disclosed by presenting the infor- mation in a way that supports the understanding of the Group’s performance in the reporting period.

This objective is achieved by presenting fair transactional aggregation levels at line items and other financial information, emphasizing information that is considered of material importance to the user and making relevant rather than generic descriptions throughout the Annual Report.

All disclosures are made in compliance with the International Financial Reporting Standards, the Danish Financial Statements Act and other relevant regulations, ensuring a true and fair view throughout the Annual Report.

##### Consolidated financial statements

**Income statement**

The expenses recognized in the income statement is presented as an analysis using a classification based on their function.

##### Segment reporting

The Group is managed by a Corporate Management team reporting to the Chief Executive Officer. The Corporate Management team, including the Chief Executive Officer, represents the chief operating decision maker (CODM). No separate business areas or separate business units have been identified in connection with line of business, product candidates or geographical markets. Consequently, there is no segment reporting concerning business areas.

##### Statement of financial position

**Financial assets**

Financial assets include receivables, marketable securities and cash. Financial assets are divided into cate- gories of which the following are relevant for the Group:

1. Financial assets at amortized cost comprising of receivables with contractual cash flows solely comprising of payment of principal and interest and which are held for the purpose of collecting the contractual cash flow.

## Notes

#### Note 1 – Significant accounting policies, and significant accounting estimates and assessments (continued)

1. Financial assets at fair value through the income statement, which are marketable securities catego- rized as equity instruments are held for trading and classified at fair value through profit and loss.
2. Equity investments. These investments are measured at fair value through the profit and loss.

Financial assets are assigned to the different categories by Management on initial recognition, depending on the cash flow characteristics and purpose for which the assets were acquired. All financial assets are recognized on their settlement date. All financial assets other than those classified at fair value through the profit and loss are initially recognized at fair value, plus transaction costs.

##### Financial liabilities

Financial liabilities include borrowings, trade payables and certain other payables. Financial liabilities are divided into categories of which the following are relevant for the Group:

1. Financial liabilities at amortised cost.

*Borrowings:*

On initial recognition, borrowings are evaluated for the existence of non-closely related embedded de- rivatives, i.e. cash flows or potential cash flows whose economic characteristics and risks are not closely related to the economic characteristics and risks in the debt host contract. The cash flows attributable to such non-closely related embedded derivatives are separated and accounted for as derivative financial instruments.

On initial recognition borrowings are measured at fair value which is generally equal to the proceeds received. Fair value is allocated between the debt host contract and, if applicable, an embedded deriva- tive. Transaction costs attributable to the debt host contract are deducted from the initial fair value and amortised over the term of the loan as part of the effective interest rate on the loan. Transaction costs attributable to a non-closely related embedded derivatives are expensed on initial recognition.

Loan commitments are not accounted for. Lender fees and transaction costs attributable to uncondi- tional loan commitments are treated as prepaid transaction costs if the Group expect to draw down on the facility. If the Group has no specific plans for draw down on the loan commitment, the transaction costs are amortised over the commitment period.

If a loan commitment is subject to meeting certain conditions, it is considered an unconditional loan commitment if the Group considers it probable that the conditions will be met.

##### Statement of cash flows

The cash flow statement is prepared in accordance with the indirect method on the basis of the net result for the year. The statement shows the cash flows broken down into operating, investing and financing ac- tivities, cash and cash equivalents at the beginning and end of the year, and the impact of the calculated cash flows on cash and cash equivalents. The cash flow statement cannot be derived directly from the balance sheet and income statement.

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date.

##### Cash flow from operating activities

Cash flow from operating activities is presented indirectly and is calculated as the net operating result adjusted for depreciation and amortization, sale of royalties, non-cash operating items, changes in net working capital, financial items paid, bargain purchase gain, and income tax benefits received and paid.

##### Cash flow from investing activities

Cash flow from investing activities includes cash flows from the sale of future royalties and milestone relating to the Sanofi license, purchase and sale of property, plant and equipment, investments and de- posits, net cashflow from acquisition of Valeritas activities, as well as transfers to and from restricted cash related to the royalty bond.

##### Cash flow from financing activities

Cash flow from financing activities includes proceeds from issuance of new ordinary shares, proceeds from issuance of shares related to exercise of sharebased compensation. and related costs, finance lease installments, loan financing and purchase of treasury shares.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. Cash and cash equivalents are instruments with original maturities of 90 days or less. The Company does not have any cash equivalents for the years ended December 31, 2021, 2020 or 2019.

## Notes

#### Note 1 – Significant accounting policies, and significant accounting estimates and assessments (continued)

##### Information on COVID-19

Our business, operations and clinical studies were, of course, impacted by the effects of

COVID-19. Although our clinical studies continued without interruption during 2021, there were delays and increased total costs arising from the implications of COVID-19.

However, we have not recognized any write-offs, impairments of assets, or losses to onerous contracts due to COVID-19.

The COVID-19 pandemic is also having an effect on other aspects of our business, including: our third-party manufacturers, and other third parties; albeit with no material effect or impact. The COV-

ID-19 pandemic may, in the long-term, affect the productivity of our staff; our ability to attract, integrate, manage and retain qualified personnel or key employees; our global supply chains and relationships with vendors and other parties; significant disruption of global financial markets; and reduced ability to secure additional funding. We continuously monitor the COVID-19 pandemic and its potential impact on our business and financials.

##### Significant accounting estimates and judgements

The preparation of the consolidated financial statements requires Management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the accom- panying disclosures. In applying our accounting policies, Management is required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recog- nized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates used are based on assumptions assessed to be reasonable by Management. However, estimates are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may occur. Furthermore, we are subject to risks and uncertain- ties that may result in deviations in actual results compared with estimates.

Please refer to the table below to see in which note the accounting estimates and judgements are pre- sented.

##### Notes including management’s estimates and judgements

**Estimates Judgements**

1. - Going concern uncertainties X
2. – Revenue X X

7 – Employee incentive programs X

27 – Rebate and product return liabilities X X Additional description of Management's estimates and judgements made are described below and in note 2.

##### Revenue recognition (management estimate and judgement)

Revenue comprises license payments, upfront- and milestone payments, product revenue and royalty income. License payments which provide the buyer with the right to use the license as it exists at the date of transfer are recognized upon transfer of the associated licensing rights at the point at which the buyer obtains the right to use the license. Upon entering into agreements with multiple components, Management determines whether individual components are distinct, which is the case if the buyer can obtain benefits from the goods or service and the promise is distinct within the context of the contract. If no individual components are distinct, the contract is treated as a single performance obligation. When entering into licensing and development agreements, a critical judgment relates to whether the custom- er could continue development of the Intellectual Property (IP) to the stage promised by Zealand under the promise to provide R&D services. If this is not the case, the IP and the R&D services are considered a single performance obligation.

Milestone payments are related to the collaborative research agreements with commercial partners and are recognized when it is highly probable that Zealand Pharma will become entitled to the milestone which is generally when the milestone is achieved. Royalty income from licenses is based on third-party sales of licensed products and is recognized in accordance with contract terms in the period in which the sales occur.

## Notes

#### Note 1 – Significant accounting policies, and significant accounting estimates and assessments (continued)

Revenue from transactions involving the rendering of services which are consumed by the customer simultaneously with delivery is recognized along with delivery of the services.

##### Employee incentive programs (management estimates)

In accordance with IFRS 2, Share-based Payment, the fair value of the warrants classified as equity settled is measured at the grant date and recognized as an expense in the income statement over the vesting pe- riod. The fair value of each warrant granted during the year is estimated using the Black– Scholes option pricing model. This requires the input of subjective assumptions such as:

* The expected stock price volatility, which is based on the historical volatility of Zealand’s share price
* The selection of the risk-free interest rate, which is determined as the interest rate on Danish government bonds with a maturity equal to the expected term
* The duration of the warrants, which is assumed to be until the middle of the exercise period

The total fair value of the warrants is recognized in the income statement over the vesting period. An adjustment is made to reflect an expected attrition rate during the vesting period. The attrition rate is

re-estimated at year-end based on the historical attrition rate resulting in recognition of an expense equal to grant date fair value of the number of warrants which actually vest.

##### Rebate and product return liabilities (management estimate and judgement)

Liabilities regarding sales rebates and discounts granted to government agencies, wholesalers, retail phar- macies, managed care and other customers are recorded at the time the related revenues are recorded or when the incentives are offered.

For both managed care rebates and the Medicare part D rebates, the key assumptions relate to the rebate percentages by each pharmacy as determined in each pharmacy's contract with the Company and forecasted number of prescriptions that will be filled by each pharmacy (referred to as payor mix). For

co-pay card redemptions, the key assumptions relate to expected settlement rate for sales units remain- ing in the channel that have yet to be presented under co-pay terms. These assumptions are made based on historical actuals, which are used to estimate forecasted trends, including payor mix and settlement rates, which are used to estimate the expected settlement of managed care rebates and Medicare part

D rebates, and co-pay card redemption, and the specific terms in the individual agreements. Unsettled rebates are recognized as liabilities when the timing or amount is uncertain. Where absolute amounts are known, the rebates are recognized as accruals. Please refer to note 27 for further information on sales rebates and liabilities.

##### iXBRL reporting

Zealand Pharma is required to file its annual report in the European Single Electronic Format (‘ESEF’) and The Annual Report is therefore prepared in the XHTML format that can be displayed in a standard brows- er. The primary statements in the consolidated financial statements are tagged using inline eXtensible Business Reporting Language (iXBRL). The iXBRL tags comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation.

Where a financial statement line item is not defined in the ESEF taxonomy, an extension to the taxono- my has been created. Extensions are anchored to elements in the ESEF taxonomy, except for extensions which are subtotals. The Annual Report submitted to the Danish Financial Supervisory Authority consists of the XHTML document together with certain technical files, all included in a file named 549300ITB- B1ULBL4CZ12-2021-12-31-en.zip.

#### Note 2 – Going Concern uncertainties

The Company monitors its funding position on a monthly basis to ensure that it has access to sufficient li- quidity to meet its forecasted cash requirements. Analyses are run to reflect different scenarios including, but not limited to, cash runway, human capital resources and pipeline priorities in order to identify liquid- ity risk and enable Management and the Board of Directors to prepare for new financing transaction and/ or take relevant expense management activities to allow the Company to continue as a going concern.

As of the date of these financial statements the Company, with it's current strategic plans, anticipates that the current cash position and the cash requirements per the 2022 Annual Budget will provide a positive cash runway until April 2023 but will exceed the terms of liquidity covenant as part of the Oberland Note Purchase Agreement and hence, a working capital deficit in September 2022 without additional financing and/or cost reductions. While reviewing the Company’s strategic plans and priorities, Management and the Board of Directors are working on extending the cash runway by means of new additional funding for the Company, either through issuance of shares, issuance of debt instruments, establishment of royalty arrangements, divestments, expense management activities or a combination of such, and on this basis believes it is probable that sufficient resources will be obtained in due time prior to the end of September 2022 to enable the Company to continue its activities as planned well into 2023. On this basis Manage- ment has prepared the financial statements based on a going concern assumption.

Since such new source of funding is not obtained of the date of these financial statements, substantial doubt regarding going concern exist, and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

## Notes

#### Note 3 – Revenue

##### Accounting policies

*Revenue comprises milestone payments, license payments and sale of goods.*

|  |  |  |  |
| --- | --- | --- | --- |
| Boehringer Ingelheim International GmbH | 22,311 | 149,120 | 0 |
| Alexion Pharmaceuticals Inc. | 30,185 | 42,881 | 38,021 |
| Protagonist Therapeutics, Inc. | 25,381 | 0 | 0 |
| Sanofi-Aventis Deutschland GmbH | 30,669 | 0 | 0 |
| Undisclosed counterpart | 0 | 0 | 3,312 |
| **Total license and milestone revenue** | **108,546** | **192,001** | **41,333** |
| Gross product sales | 354,599 | 303,658 | 0 |
| Sales rebates | -157,016 | -133,924 | 0 |
| Returns and sales reductions | -13,562 | -8,421 | 0 |
| **Total net product sales** | **184,021** | **161,313** | **0** |
| **Total revenue** | **292,567** | **353,314** | **41,333** |
| Total revenue recognized over time | 30,185 | 42,881 | 38,021 |
| Total revenue recognized at a point in time | 262,382 | 310,433 | 3,312 |

Recognized revenue can be specified as follows for all agreements and product sales:

**2021**

##### Milestone and license payments

*Milestone payments related to the collaborative research agreements with commercial partners are recognized when it is highly probable that Zealand Pharma will become entitled to the milestone which is generally when the milestone is achieved. Royalty income from licenses is based on third-party sales of licensed products and is recognized in accordance with contract terms in the period in which the sales occur.*

*License payments which provide the buyer with the right to use the license as it exists at the date of trans- fer are recognized upon transfer of the associated licensing rights at the point at which the buyer obtains the right to use the license.*

*Upon entering into agreements with multiple components, Management determines whether individual components are distinct, which is the case if the buyer can obtain benefits from the goods or service and the promise is distinct within the context of the contract. If no individual components are distinct, the contract is treated as having a single performance obligation.*

##### Revenue from Alexion (license and collaboration agreement)

*Revenue is recognized based on the percentage of completion of the R&D services, which is estimated based on the expenses incurred during that period compared to planned service periods and budgetted costs. Zealand applies the output based method (budget cost) when determining the timing of satisfac- tion of performance obligations as the development services are performed by an indeterminate number of acts over the development timeline.*

##### Product sales

*Product sales represent net invoice value less estimated sales rebates and product returns, which are considered to be variable consideration and include significant estimates. Sales are recognised when the control of the goods has been transferred to a third party. This is usually when title passes to the*

*customer, either on shipment or on receipt of goods by the customer, depending on local trading terms. In markets where returns are significant, estimates of returns are accounted for at the point revenue is recognised. Revenue is not recognised in full until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.*

**DKK thousand**

**2020 2019**

## Notes

#### Note 3 – Revenue (continued)

##### Revenue from Boehringer Ingelheim (BI)

In 2021, we recognized DKK 22.3 million (2020: DKK 149.1 million) as income from milestone payments.

##### Revenue from Alexion

In 2021, we recognized DKK 30.2 million (2020: DKK 42.9 million and 2019: DKK 38.0 million) as income from the license, research and development agreement signed in March 2019 reflecting the progress on the lead project. Under the agreement DKK 67.6 million is accounted for as deferred revenue at Decem- ber 31, 2021.

In 2019, DKK 0.6 million of other revenue is recognized related to other projects with Alexion.

##### Revenue from Protagonist Therapeutics Inc.

In 2021, we recognized DKK 25.4 million as a milestone payment (2020 and 2019: DKK 0.0 million).

##### Revenue from other agreements

In 2021 and 2020, we recognized zero revenue from other agreements.

In 2019, we recognized DKK 3.3 million in revenue from a license option payment from an undisclosed counterpart relating to a Material Transfer Agreement.

##### Revenue from Sanofi

In 2021, we recognized DKK 30.7 million as a milestone payment. No revenue was recognized in 2020 or 2019.

##### Revenue from product sales

Revenue in 2021 of DKK 184.0 million from sale of goods comprise our current two products, V-Go and Zegalogue. In 2020, we recognized DKK 161.3 million as net sales from goods sold generated from our V-Go product. The rights to the V-Go product was acquired on April 2, 2020 as part of the business

combination described in note 31. Thus revenue from sale of the V-Go product recognized in 2020 solely relates to the period April 2 - December 31.

##### Information about Geographical Areas

Net revenue in Germany comprises DKK 53.0 million (2020: DKK 149.1 million) in milestone revenue and net revenue in United States comprise DKK 239.6 million (2020: DKK 204.2 million) including license revenues and sale of goods. No other country accounts for more than 10% of the net total sales. In 2021 we had 3 significant customers with revenue from sale of goods. Customer A, amounted to DKK 67.2 million (2020: DKK 60.6 million), Customer B amounted to DKK 52.8 million (2020: DKK 48.4 million) and Customer C DKK 45.0 million (2020: DKK 37.7 million).

Of the Company’s non-current assets, which comprise intangible assets, property, plant and equipment, right-of-use assets and prepayments, DKK 184.8 million is located in Denmark and DKK 106.9 million in United States.

## Notes

#### Note 3 – Revenue (continued)

##### Accounting treatment for the Alexion Pharmaceuticals, Inc. Agreement

In March 2019, Zealand entered into a license, research and development agreement with Alexion Phar- maceuticals, Inc. (Alexion) to develop novel therapies to treat complement mediated diseases. This agree- ment provided Zealand an immediate cash injection as well as further external validation of Zealand’s peptide platform.

The collaboration with Alexion is not limited to the project C3 but offers the potential to work on identi- fication of peptide inhibitors to up to three additional components of the complement cascade. Zealand will have responsibility for the C3 project and other targets up to IND and Alexion will then progress the peptides into clinical development.

Under the Alexion license, research and development agreement, Zealand has received an upfront

non-refundable payment of USD 25 million for the C3 program and a concurrent USD 15 million equity investment in Zealand at a premium to the market price. The agreement also provides the potential for development-related milestones of up to USD 115 million, as well as up to USD 495 million in sales-re- lated milestones and high single- to low double-digit royalty payments. The 3 additional programs will provide further non-refundable upfront payments (USD 15 million each), development and sales mile- stone and royalties.

The non-refundable up-front fee was allocated to the combined license, research and development ser- vices, and is being recognized as revenue along with provision of the research and development services under the lead program. Expenses to provide the services is being recognized when incurred. Further, the premium over the market share price on the Zealand shares subscribed by Alexion, DKK 12.7 million, is attributed to the Agreement as further consideration and consequently also recognized over the period over which the R&D services are provided. Alexion has paid USD 40 million, corresponding to DKK 262.9 million that as of December 31, 2019 has affected equity by DKK 85.6 million, deferred revenue by DKK

139.9 million, and revenue by DKK 37.4 million in 2019. Hence the cash flow from operating activities was DKK 177.3 million and the cash flow from financing activities was DKK 85.6 million.

In 2021 revenue of DKK 30.2 million (2020: DKK 42.9 million and 2019: DKK 38.0 million) was recognized.

Milestone payments, if any, will be recognized as revenue when the relevant milestones are achieved as they relate to performance obligations already satisfied at this stage. Royalty payments, if any, will be recognized along with the underlying sales.

##### Significant judgement applied (performance obligations and revenue recognition)

Determination of whether the license transferred and the research and development services constitute separate performance obligations, or form part a single performance obligation comprising a combined output has a significant impact on the accounting treatment. Zealand has applied significant judgment to determine whether the promised services are distinct and concluded that Alexion cannot benefit from the license alone. It is Zealand assessment that the R&D services under this agreement requires specif- ic Zealand know-how and expertise which cannot be easily identified or sourced externally. Therefore, Alexion would not in the absence of the contractual provisions have had the practical ability to engage a third-party R&D service provider to provide the agreed R&D services.

Judgments and estimates in respect of output is made when entering the agreement and is based on research and development budgets and plans. The planned service periods (output) and budget costs for the respective research and development projects are assessed on an ongoing basis. If the expected service period is changed significantly, this will require a reassessment.

All Zealand’s revenue-generating transactions have been subject to such evaluation by management. As the nature of the collaboration with Alexion may affect the accounting treatment of the agreement,

Zealand has considered whether the agreement takes the form of a collaborative partnership with Alexion

rather than a customer-vendor agreement. After consideration of all facts and circumstances, Zealand has assessed that the agreement takes the form of a customer-vendor relationship. Accordingly, the agreement is treated under the guidelines of IFRS 15 Revenue from Contracts with Customers.

As any additional programs are optional and paid for separately, they are not considered part of the initial agreement. It has been considered whether the options for additional components represent a material right and, thus, a separate performance obligation under the initial agreement to which a portion of the initial upfront payment should be allocated. Zealand has determined that the probability of exercising the option is low and in combination with the fact that the development is significantly less advanced than the lead target, we have determined that the options do not represent a material right.

##### Accounting treatment for revenue from product sales

Revenue from sale of goods is recognized at a point in time when control of the goods is transferred to the customer and recorded net of adjustments for managed care rebates, wholesale distributions fees, cash discounts, prompt pay discounts, and co-pay card redemptions, all of which are established at the time of sale.

## Notes

#### Note 3 – Revenue (continued)

In order to prepare the consolidated financial statements, the company is required to make estimates regarding the amounts earned or to be claimed on the related product sales, including the following:

* Managed care and Medicare rebates, which are based on the estimated end user pay or mix and related contractual rebates;
* Distribution fees, prompt pay discounts and other discounts, which are recorded based on specified payment terms, and which vary by customer and other incentive programs; and
* Co-pay card redemption charges which are based on the net transaction costs of prescriptions filled via a company-subsidized card program and other incentive programs.

Zealand believes rebates and co-pay card redemptions related to sales in the U.S. are complex in nature and establishing appropriate provisions requires assessment of multiple factors as well as significant judgement and estimation by management as not all conditions are known at the time of sale.

The Group has concluded that it is the principal in which revenue arrangements since it controls the goods before transferring them to the customer.

We record allowances for product returns as a reduction of revenue at the time product sales are record- ed. Several factors are considered in determining whether an allowance for product returns is required, including the customers’ return rights and our historical experience with returns and the amount of prod- uct sales in the distribution channel not consumed by patients and subject to return. Management replies on historical return rates to estimate returns. In the future, as any of these factors and/or the history of product returns change, adjustments to the allowance for product returns will be reflected.

##### Accounting for the Sanofi License Agreement

All future royalties and all but up to DKK 98.4 million (USD 15 million) of future milestone payments relat- ing to the Sanofi License Agreement were sold to Royalty Pharma in September 2018.

In 2021, Zealand Pharma received a milestone of DKK 30.7 million (USD 5.0 million. None in 2020 or 2019), and as of December 31, 2021, there is one milestone that remains outstanding for DKK 65.6 million (USD 10 million). Outstainding as of December 31, 2020 and 2019 were DKK 98.4 million (USD 15 million)

##### Accounting for the Boehringer Ingelheim License Agreements

In 2011, Zealand entered into a license, research and development collaboration agreement with Boehringer Ingelheim International GmbH (BI) to advance novel GLP-1/glucagon dualacting peptide receptor agonists (GGDAs) for the treatment of patients with type 2 diabetes and obesity. Under the terms of the 2011 BI License Agreement, BI paid a fixed amount per full-time employee and other costs related to all research, development and commercialization in respect of the compounds covered by the agree- ment.

Zealand is eligible to receive license and milestone payments of up to EUR 386 million, of which EUR 345 million was outstanding at December 31, 2021, related to the achievement of pre-specified development, regulatory and commercial milestones for the lead product. We are also eligible to receive tiered royalties ranging from high single-digit to low double-digit percentages on BI’s sales of all products stemming from this collaboration. In addition, we retain copromotion rights in Scandinavia.

In 2014, Zealand entered into a second global license, research and development collaboration agree- ment with BI (the 2014 BI License Agreement). This agreement pertained to a collaboration on a specific therapeutic peptide project from our portfolio of preclinical programs for a period of up to four and a half years, with the aim of developing novel drugs to improve the treatment of patients with cardiometabolic diseases. In 2015, BI selected a novel peptide therapeutic to be advanced into preclinical development under this agreement.

No product candidates out licensed to BI are currently marketed, and accordingly we have not received any royalty payments to date under our licensing agreements with BI.

Milestone payments are recognized as revenue when the relevant milestones are achieved.

## Notes

#### Note 4 – Royalty expenses

##### Accounting policies

*Royalty expenses comprise contractual amounts payable to third parties that are derived from milestone payments. Royalty expense is recognized in the income statement when the related payments and mile- stone events in the corresponding collaboration agreements materialize.*

We have agreed to pay some of our revenue in deferred payments or royalties to third parties. At the time of the dissolution of a former joint venture with Elan Corporation, plc (Elan) and certain of its subsidiaries that were party to the joint venture agreement with us, we agreed to pay royalties to Elan – now Alkermes plc, as successor in interest to a termination agreement between us and the Elan entities – including 13% of future payments we receive in respect of lixisenatide under the Sanofi License Agreement.

In addition, we have agreed to pay a royalty of 0.5% of the total amounts we receive in connection with our SIP-modified peptides, including lixisenatide, to one of the inventors of our SIP technology, who is one of our employees. The royalty to be paid to this inventor is calculated on the basis of all the amounts we receive, including license payments, milestone payments and sales. In 2021, 2020 and 2019, the royal- ty expenses relate to mentioned inventor.

#### Note 5 – Research, development, sales, marketing and administrative expenses

##### Accounting policies

*Research expenses comprise salaries, share-based compensation, contributions to pension schemes and other expenses, including patent expenses, as well as depreciation and amortization directly attributable to the Group’s research activities. Research expenses are recognized in the income statement as incurred.*

*Development expenses comprise salaries, share-based compensation, contributions to pension schemes and other expenses, including depreciation and amortization, directly attributable to the Group’s devel- opment activities. Development expenses are recognized in the income statement as incurred, except where the capitalization criteria are met.*

*No indirect costs that are not directly attributable to research and development activities are included in the disclosure of research and development expenses recognized in the income statement. Overhead expenses have been allocated to research and development or administrative expenses based on the number of employees in each department, determined according to the respective employees’ associat- ed undertakings.*

##### Research and development expenses

A development project involves a single product candidate undergoing a large number of tests to demonstrate its safety profile and its effect on human beings, prior to obtaining the necessary final approval for the product from the appropriate authorities. The future economic benefits associated with the individual development projects are dependent on obtaining such approval. Considering the signif- icant risk and duration of the development period for biological products, Management has concluded that whether the intangible asset will generate probable future economic benefits cannot be estimated with sufficient certainty until the project has been finalized and the necessary final regulatory approval of the product has been obtained. Accordingly, Zealand has not recognized such assets at this time, and all research and development expenses are therefore recognized in the income statement when incurred.

Capitalization of development costs assumes that, in the Group’s opinion, the development of the technology or the product has been completed, all necessary regulatory and public registrations and marketing approvals have been received, and expenses can be reliably measured. Furthermore, it must be established that the technology or the product can be commercialized and that the future income from the product can cover not only the production, selling and administrative expenses but also development expenses. Zealand has not capitalized any development expenses in 2021, 2020 or 2019.

## Notes

#### Note 5 – Research, development, sales, marketing and administrative expenses (continued)

**2021**

**DKK thousand**

**2020 2019**

**Administrative** **expenses**

Administrative expenses include expenses for administrative personnel, expenses related to compa- ny premises, depreciation on tangible assets and right-of-use assets, investor relations, etc. Overhead

expenses have been allocated to research and development or administrative expenses according to the number of employees in each department, based on the respective employees’ associated undertakings.

##### DKK thousand 2020 2019

**2021**

|  |  |  |
| --- | --- | --- |
| Staff costs, cf. note 7  Depreciation and impairment losses, property,  plant and equipment and right-of-use assets, cf. note 13-15  Other external research and development costs | -239,512  -20,636  -328,305 | -204,210 -178,089  -17,417 -4,422  -382,454 -378,912 |
| **Total research and development costs** | **-588,453** | **-604,081 -561,423** |

**Sale and Marketing expenses**

Sales and marketing expenses include expenses for sales personnel and expenses related to company premises in the US used for sales activities. Other significant expenses include product demonstration samples, trade show expenses, professional fees for our contracted customer support center and other consultants, insurance, facilities and information technology expenses. Overhead expenses have been allocated to sales and marketing expenses according to the number of employees in each department, based on the respective employees’ associated undertakings.

**2021**

|  |  |  |
| --- | --- | --- |
| Staff costs, cf. note 7  Depreciation and impairment losses, property,  plant and equipment and right-of-use assets, cf. note 13-15  Other external administrative costs | -127,630  -4,390  -128,967 | -78,639 -40,141  -5,042 0  -119,089 -27,740 |
| **Total Administrative expenses** | **-260,987** | **-202,770 -67,881** |

#### Note 6 – Fees to auditors appointed at the Annual General Meeting

**2021**

##### DKK thousand

|  |  |  |
| --- | --- | --- |
| Staff costs, cf. note 7  Depreciation and impairment losses, property,  plant and equipment and right-of-use assets, cf. note 13-15  Other external sale and marketing costs | -145,245  -92  -229,932 | -130,568 0  -640 0  -154,048 0 |
| **Total Sale and Marketing expenses** | **-375,269** | **-285,256 0** |

**2020 2019**

##### DKK thousand

##### 2020 2019

|  |  |  |
| --- | --- | --- |
| Audit  Audit-related services and other assurance engagements Other | 7,879  721  0 | 5,941 1,847  1,002 1,731  0 12 |
| **Total fees** | **8,600** | **6,943 3,590** |

The fee for audit-related services and other assurance engagements and other services provided to the Group by EY Godkendt Revisionspartnerselskab in 2021 and 2020 consisted of Audit of Annual Report, Audit of 20-F SEC filing, including SOX 404b attestation procedures, quarterly reviews, other auditor’s reports on various statements for public authorities, and other accounting advisory services. (Deloitte Statsautoriseret Revisionspartnerselskab in 2019).

## Notes

#### Note 7 – Information on staff and remuneration

##### Accounting policies

*The value of services received as consideration for granted warrants is measured at the fair value of the warrant. The fair value of equity settled share-based compensation is determined at the grant date and is recognized in the income statement as employee benefit expense over the period in which the warrants vest. The offsetting entry to this is recognized under equity. An estimate is made of the number of war- rants expected to vest. Subsequently, an adjustment is made for changes in the estimate of the number of warrants, which will vest, so the total expense is equal to fair value of the actual number of warrants which vest. The fair value of warrants granted is estimated using the Black–Scholes pricing model and Monte Carlo model in programs with value caps whereas the average share price prior to grant is used for RSU and PSUs.*

**DKK thousand 2020 2019**

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Total staff costs can be specified as follows: |  |  |  |
| Wages and salaries | 410,007 | 337,295 | 175,104 |
| Share-based compensation | 53,737 | 30,485 | 14,764 |
| Pension schemes (defined contribution plans) | 23,993 | 16,716 | 13,430 |
| Other payroll and staff-related costs | 54,541 | 37,241 | 14,932 |
| **Total staff costs** | **542,278** | **421,737** | **218,230** |
| The amount is charged as: |  |  |  |
| Research and development expenses | 239,512 | 204,210 | 178,089 |
| Sale and marketing expenses | 145,245 | 130,568 | 0 |
| Administrative expenses | 127,630 | 78,639 | 40,141 |
| Cost of goods sold | 20,954 | 3,713 | 0 |
| Inventory | 8,937 | 4,607 | 0 |
| **Total staff costs** | **542,278** | **421,737** | **218,230** |
| **Average number of employees** | **346** | **297** | **173** |

## Notes

#### Note 7 – Information on staff and remuneration (continued)

##### 2020 2019

**2021**

|  |  |  |
| --- | --- | --- |
| **DKK thousand** | **Base Committee Total**  **board fees fees fees** | **Base Committee Total Base Committee Total board fees fees fees board fees fees fees** |
| **Remuneration to the Board of Directors**  Martin Nicklasson Kirsten Drejer Alain Munoz Michael Owen  Bernadette Mary Connaughton Jeffrey Berkowitz  Leonard Kruimer Jens Peter Stenvang1  Gertrud Koefoed Rasmussen1,2 Frederik Barfoed Beck1  Iben Louise Gjelstrup¹ Hanne Heidenheim Bak² Rosemary Crane Catherine Moukheibir  Anneline Nansen3 | 999 208 1,207  446 208 653  308 415 723  308 415 723  308 346 653  308 346 653  308 553 861  308 0 308  67 0 67  308 0 308  308 0 308  0 0 0  0 0 0  0 0 0  33 0 33 | 750 100 850 750 100 850  500 0 500 467 0 467  400 50 450 400 50 450  400 50 450 400 50 450  400 33 433 267 0 267  400 50 450 267 33 300  400 150 550 267 100 367  400 0 400 400 0 400  267 0 267 0 0 0  267 0 267 0 0 0  267 0 267 0 0 0  133 0 133 400 0 400  0 0 0 133 17 150  0 0 0 133 50 183  0 0 0 0 0 0 |
| **Total** | **4,009 2,491 6,497** | **4,584 433 5,017 3,884 400 4,284** |

1 Employee-elected board members; the table only includes remuneration for board work.

2 Hanne Heidenheim Bak resigned from the board in 2020 and Gertrud Koefod Rasmussen resigned from the Board in 2021.

3 Anneline Nansen joined the Board in 2021.

The disclosed remuneration for board members excludes minor mandatory social security costs paid by the company. It also excludes reimbursed expenses incurred in connection with board meetings, such as travel and accommodation.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Notes** |  |  | | | | | |
| **Note 7 – Information on staff and remuneration** | **(continued)** |
|  |  |  | **Pension** | **Other short term** | **Share-based compensation** | **Severance** |  |
| **DKK thousand** | **Base salary** | **Bonus** | **contribution** | **benefits** | **expenses** | **payments** | **Total** |
| **2021** |  |  |  |  |  |  |  |
| **Remuneration to the Executive Management** |  |  |  |  |  |  |  |
| Emmanuel Dulac¹ | 5,099 | 3,059 | 1,020 | 243 | 12,182 | 0 | 21,603 |
| Adam Sinding Steensberg² | 3,056 | 1,193 | 611 | 286 | 4,829 | 0 | 9,975 |
| Matthew Donald Dallas³ | 2,878 | 1,182 | 37 | 48 | 4,086 | 0 | 8,232 |
| **Total** | **11,033** | **5,434** | **1,668** | **577** | **21,097** | **0** | **39,810** |
| **Total Other Corporate Management⁵** | **9,022** | **3,429** | **497** | **564** | **8,319** | **2,772** | **24,602** |
| **Total** | **20,055** | **8,863** | **2,165** | **1,141** | **29,416** | **2,772** | **64,412** |
| **2020** |  |  |  |  |  |  |  |
| **Remuneration to the Executive Management** |  |  |  |  |  |  |  |
| Emmanuel Dulac¹ | 4,950 | 3,267 | 990 | 699 | 2,534 | 0 | 12,440 |
| Adam Sinding Steensberg² | 2,967 | 1,266 | 593 | 282 | 2,281 | 0 | 7,389 |
| Matthew Donald Dallas³ | 2,721 | 1,191 | 36 | 15 | 1,707 | 0 | 5,670 |
| **Total** | **10,638** | **5,724** | **1,619** | **996** | **6,522** | **0** | **25,499** |
| **Total Other Corporate Management⁵** | **6,386** | **2,739** | **313** | **286** | **3,423** | **0** | **13,147** |
| **Total** | **17,024** | **8,463** | **1,932** | **1,282** | **9,945** | **0** | **38,646** |
| **2019** |  |  |  |  |  |  |  |
| **Remuneration to the Executive Management** |  |  |  |  |  |  |  |
| Emmanuel Dulac¹ | 3,100 | 9,072 | 620 | 855 | 832 | 0 | 14,479 |
| Adam Sinding Steensberg² | 2,807 | 1,032 | 505 | 269 | 2,304 | 0 | 6,917 |
| Matthew Donald Dallas³ | 588 | 534 | 0 | 5 | 82 | 0 | 1,209 |
| Britt Meelby Jensen⁴ | 1,745 | 419 | 175 | 60 | 0 | 0 | 2,399 |
| Mats Blom⁴ | 655 | 248 | 66 | 61 | 1,677 | 0 | 2,707 |
| **Total** | **8,895** | **11,305** | **1,366** | **1,250** | **4,895** | **0** | **27,711** |
| **Total other Corporate Management**⁵ | **6,559** | **2,580** | **389** | **46** | **1,972** | **0** | **11,546** |
| **Total** | **15,454** | **13,885** | **1,755** | **1,296** | **6,867** | **0** | **39,257** |

¹ Emmanuel Dulac was appointed as CEO at April 25, 2019.

² Former Interim CEO Adam Sinding Steensberg was appointed EVP,

R&D and CMO at April 25, 2019.

³ Matthew Donald Dallas was appointed CFO at October 10, 2019.

⁴ Former CEO Britt Meelby Jensen and former CFO Mats Blom resigned from Zealand at February 28, 2019 and March 28, 2019, respectively.

⁵ Other Corporate Management in 2021 comprised three members (2020: three and 2019: three.)

## Notes

#### Note 7 – Information on staff and remuneration (continued)

In order to motivate and retain key employees, management and board of directors and encourage the achievement of common goals for employees, management and shareholders, the Group has established this incentive plan based on RSUs, PSUs and warrants programs.

Movement table of PSU granted shares below:

##### No of PSUs

**2020 2019**

**Total share-based costs split on share-based type 2020 2019**

**2021**

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of shares** |  |  |  |
| At January 1 | 19,765 | 19,765 | 0 |
| Granted during the year | 282,852 | 0 | 22,915 |
| Vested during the year | 0 | 0 | 0 |
| Forfeited during the year | -30,856 | 0 | -3,150 |
| **At December 31** | **271,761** | **19,765** | **19,765** |

|  |  |  |  |
| --- | --- | --- | --- |
| PSUs | 14,765 | 900 | 500 |
| RSUs | 23,701 | 1,100 | 0 |
| Warrants | 15,271 | 28,485 | 14,264 |
| **Total** | **53,737** | **30,485** | **14,764** |

**Total share-based costs split on cost type**

##### 2020 2019

##### RSU programs

The number of restricted share units granted in the period April 29 to December 7, 2021, totals 507,461. The value is determined based on the Company's share price on Nasdaq Copenhagen A/S on the day of the grant.

The programs granted in 2021 are initially valued at DKK 92.2 million (2020: DKK 6.1 million). The RSU's vest linear or gradually over 3 years.

Movement table of RSU granted shares below:

##### No of RSUs 2020 2019

**2021**

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Cost of goods sold | 521 | 0 | 0 |
| Research and development expenses | 22,158 | 14,005 | 12,191 |
| Sale and Marketing expenses | 2,259 | 6,045 | 0 |
| Administrative expenses | 27,972 | 10,435 | 2,573 |
| Inventory | 827 | 0 | 0 |
| **Total** | **53,737** | **30,485** | **14,764** |

**PSU programs**

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of shares** |  |  |  |
| At January 1 | 27,466 | 0 | 0 |
| Granted during the year | 507,461 | 27,466 | 0 |
| Vested during the year | -163 | 0 | 0 |
| Forfeited during the year | -74,675 | 0 | 0 |
| **At December 31** | **460,089** | **27,466** | **0** |

The number of performance share units granted in 2021 are 282,852 of which 185,162 were granted on May 12 and 97,090 on May 27. The value is determined based on the Company's share price on Nasdaq Copenhagen A/S on the day of the grant.

The programs granted in 2021 are initially valued at DKK 51.7 million (2020: DKK 3.2 million). The PSU's vest linear or gradually over 3 years.

## Notes

#### Note 7 – Information on staff and remuneration (continued)

##### Employee warrant programs

Incentive programs have been offered in 2005, 2007 and in the 2009-2020 period. No new warrant pro- grams were issued in 2021.

**The employee incentive programs of The employee incentive programs of**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Warrant programs existing during the period** | **2020** | **2015** |  | **Warrant programs existing during the period** | **2020** | **2015** | **2010** |
| Maximum years of options granted | 10 years | 5 years |  | Maximum years of options granted | 10 years | 5 years | 5 years |
| Method of settlement | equity-settled | equity-settled |  | Method of settlement | equity-settled | equity-settled |  |
| **2021** |  |  |  | **2020** |  |  |  |
| Outstanding at the beginning of the period | 63,217 | 1,908,920 |  | Outstanding at the beginning of the period | 0 | 1,647,788 | 42,359 |
| Granted during the period | 0 | 0 |  | Granted during the period | 63,217 | 631,288 | 0 |
| Forfeited during the period | 0 | -214,348 |  | Forfeited during the period | 0 | -53,747 | 0 |
| Exercised during the period | 0 | -233,595 |  | Exercised during the period | 0 | -276,409 | -42,359 |
| Expired during the period | 0 | -47,000 |  | Expired during the period | 0 | -40,000 | 0 |
| **Outstanding at the end of the period** | **63,217** | **1,413,977** |  | **Outstanding at the end of the period** | **63,217** | **1,908,920** | **0** |
| Exercisable at the end of the period | 21,073 | 529,596 |  | Exercisable at the end of the period | 0 | 301,529 | 0 |
| *Warrants outstanding at the end of the period*  Range of exercise prices | 216.8 | 90-224.4 |  | *Warrants outstanding at the end of the period*  Range of exercise prices | 216.8 | 90.0-224.4 | 101.2-127.1 |
| Weighted-average remaining contractual life | 8.7 | 3.8 |  | Weighted-average remaining contractual life | 9.7 | 4.9 | 0 |
| Number held by Executive Management | 0 | 353,409 |  | Number held by Executive Management | 0 | 373,409 | 0 |
| The Board of directors have not been granted warrants. |  |  |  |  |  |  |  |

## Notes

#### Note 7 – Information on staff and remuneration (continued)

**2021**

##### Warrants exercised during the period

**2020**

The fair value of the warrants compensation granted in 2020 was determined using the Black-Scholes and Monte Carlo model using the following inputs as at day of grant and using average fair market value for RSUs and PSUs:

##### Grant year 2020 2020 2019 2019

**2021**

**2021**

|  |  |  |
| --- | --- | --- |
| Weighted-average share price at the date of exercise | 186.1 | 234.7 |
| Weighted-average exercise price for warrants expired during the period | 142.5 | 101.2 |
| Weighted-average exercise price for warrants forfeited during the period | 206.2 | 169.2 |
| Weighted-average exercise price for warrants outstanding at period end | 159.6 | 158.5 |

**Determination of fair value of the warrants granted during the period**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Type | PSUs | RSUs | RSUs | Warrants | PSU | Warrants |
| Term | 36 months | 36 months | 36 months | Up to 78 | 36 months | Up to 48 |
|  |  |  |  | months |  | months |
| Weighted average |  |  |  | 216.8 |  | 127.0 |
| share price (DKK) | - | - | - | to 224.4 | - | to 220.0 |
| Share price at | 185.9- | 131.2- | 216.8- | - | 138.6 | - |
| grant date (DKK) | 191.6 | 207.6 | 224.4 |  |  |  |
| Exercise price (DKK) | 0 | 0 | 0 | 224.1 | 0 | 127.0 |
|  |  |  |  |  |  | to 220.0 |
| Volatility (%) | N/A | N/A | N/A | 44.68 | N/A | 41.9 |
|  |  |  |  | to 46.45 |  | to 43.5 |
| Risk-free |  |  | N/A | -0.31 | N/A | -0.45 |
| interest rate (%) | N/A | N/A |  | to -0.41 |  | to -0.63 |
| Exercise period |  |  | N/A | Apr'21 | N/A | Jun'20 |
| to-from | N/A | N/A |  | to Apr'30 |  | to Dec'24 |
| No granted | 282,852 | 507,461 | 21,602 | 631,288 | 22,915 | 641,029 |
| Cost price (DKK) | 185.9- | 131.2- | 216.8 | 48.4 | 138.6 | 41.9 |
|  | 191.6 | 207.6 | to 224.4 | to 95.4 |  | to 69.5 |

The exercise price is determined by the closing price of Zealand’s shares on Nasdaq Copenhagen on the day prior to the grant date. For warrants granted before April 19, 2018, the exercise price was determined by the closing price of Zealand’s shares on Nasdaq Copenhagen on the day prior to the grant date plus 10%.

Warrants granted prior to April 15, 2020 expire automatically after five years. Warrants vest either after 3 years of service, with 1/36 each month from the grant date, or with 1/3 after one year, 1/3 after two years and 1/3 after three years. The service cost is recognized over the respective vesting periods. Warrants granted from April 15, 2020 and going forward expires automatically after 10 years.

Warrants may be exercised four times a year during a four-week period starting from the date of the pub- lication of Zealand’s Annual Report or interim reports. Dividend is not expected.

For warrants granted before January 1, 2019, the volatility rate used is based on the 5-year historical vola- tility of the Zealand share price. For warrants granted after January 1, 2019, the volatility rate used is based on a historical volatility of the Zealand share price calculated as the vesting period of 3 years plus 50% of the exercise period (2020: 7 years, 2019: 2 years).

## Notes

#### Note 8 – Other operating income and expenses

##### Accounting policies

*Other operating income and expenses comprises gains from sale of intangible assets, research funding from business partners and government grants and bargain purchase gain.*

*Research funding is recognized in the period when the research activities have been performed and gov- ernment grants are recognized periodically when the work supported by the grant has been reported.*

*Bargain purchase are recognized when the purchase price allocation is finalized.Government grants are recognized when a final and firm right to the grant has been obtained. Government grants are included in*

#### Note 9– Financial income

##### Accounting policies

*Financial income includes interest from trade receivables, as well as realized and unrealized exchange rate adjustments, fair value adjustments of other investments and marketable securities and dividends from marketable securities.*

*Interest income is recognized in the income statement in accordance with the effective interest rate method.*

**2021**

*Other operating income, as the grants are considered to be cost refunds.*

**DKK thousand**

**2020 2019**

**DKK thousand 2020 2019**

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Interest income from financial assets measured |  |  |  |
| at amortized costs | 44 | 895 | 5,413 |
| Fair value adjustments of marketable securities, cf. note 22 | 1,852 | 0 | 837 |
| Fair value adjustments of other investments, cf. note 16 | 0 | 936 | 2,009 |
| Exchange rate adjustments (primarily on USD deposits) | 39,315 | 0 | 5,518 |
| Dividend, marketable securities | 0 | 191 | 878 |
| **Total financial income** | **41,211** | **2,022** | **14,655** |

|  |  |  |  |
| --- | --- | --- | --- |
| Government grants | 759 | 602 | 444 |
| Gain from Bargain Purchase, cf. note 31 | 0 | 36,395 | 0 |
| **Total other operating income** | **759** | **36,997** | **444** |
| Loss on retirement of fixed assets | -2,173 | 0 | 0 |
| **Total other operating expenses** | **-2,173** | **0** | **0** |

Zealand Pharma received government grants in the periods 2021, 2020 and 2019.

A bargain purchase gain of DKK 36 million was recognized in 2020 as part of the acquistion explained in note 31.

 

## Notes

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#### Note 10 – Financial expenses

##### Accounting policies

*Financial expenses include interest expenses, as well as realized and unrealized exchange rate adjust- ments, interest on lease obligations and fair value adjustments of securities.*

*Interest expense is recognized in the income statement in accordance with the effective interest rate method.*

**DKK thousand 2020 2019**

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Interest expenses | -4,091 | -2,895 | -3,205 |
| Fair value adjustments of marketable securities, cf. note 22 | 0 | -2,103 | 0 |
| Fair value adjustments of other investments, cf. note 16 | -8,217 | 0 | 0 |
| Other financial expenses | -3,473 | -4,829 | -185 |
| Exchange rate adjustments (primarily on USD deposits) | 0 | -39,487 | 0 |
| **Total financial expenses** | **-15,781** | **-49,314** | **-3,390** |

## Notes

#### Note 11 – Income tax

##### Accounting policies

*Income tax on results for the year, which comprises current tax and changes in deferred tax, is recog- nized in the income statement, whereas the portion attributable to entries in equity is recognized directly in equity.*

*Current tax liabilities and current tax receivables are recognized in the statement of financial position as tax calculated on the taxable income for the year adjusted for tax on previous years’ taxable income and taxes paid on account/prepaid.*

*Deferred tax is measured according to the statement of financial position liability method in respect of temporary differences between the carrying amount and the tax base of assets and liabilities.*

*Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recog- nized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.*

*Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidi- aries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the ben- efits of the temporary differences and they are expected to be reversed in the foreseeable future.*

*The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.*

*This judgment is made* *on an ongoing basis and is based on recent historical losses carrying more weight than factors such as budgets and business plans for the coming years, including planned commercial initiatives. The creation and development of therapeutic products within the biotechnology and phar- maceutical industry is subject to considerable risks and uncertainties. Zealand Pharma Group has so far reported significant losses and, consequently, has unused tax losses.*

*Management has concluded that deferred tax assets should not be recognized at December 31, 2021 (none recognized in 2020 or 2019), except for the US entities, which are profitable and therefore recog- nize deferred tax on the balance sheet.*

*Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.*

*Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is set- tled or the asset is realized, based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax from business combinations is initially recognized at fair value.*

*Income tax receivables are recognized in accordance with the Danish tax credit scheme 'Skattekreditord- ningen'. Companies covered by the tax credit scheme may obtain payment of the tax base of losses origi- nating from research and development expenses of up to DKK 25 million (tax value of DKK 5.5 million).*

## Notes

#### Note 11 – Income tax (continued)

##### DKK thousand 2020 2019

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **DKK thousand** | **2021** | **2020** | **2019** |
| Net result for the year before tax | -1,026,940 | -839,653 | -576,677 |
| Corporate tax rate in Denmark | 22.0% | 22.0% | 22.0% |
| Expected tax benefit/(expenses) | -225,927 | 184,724 | 126,869 |
| Adjustment for foreign tax rates | 461 | -769 | 0 |
| Adjustment for non-deductible expenses | 888 | 1,927 | -947 |
| Adjustment for non-taxable income | 0 | -6,844 | 964 |
| Adjustment for warrants | 11,573 | 2,387 | 8,664 |
| Adjustment for R&D extra deduction | -14,379 | -8,811 | 1,676 |
| Adjustment to prior year | -12,602 | 931 | 0 |
| Change in tax assets (not recognized) | 231,196 | -180,621 | -132,090 |
| **Total income tax expense/benefit** | **-8,790** | **-7,076** | **5,136** |

The above specifications related to warrants have been gathered in one line in 2021 and therefore the comparative numbers have been adjusted accordingly.

|  |  |  |  |
| --- | --- | --- | --- |
| **Specification of deferred tax assets:** |  |  |  |
| Tax losses carried forward (available indefinitely) | 2,231,049 | 1,281,505 | 681,531 |
| Research and development expenses | 842,775 | 732,389 | 460,007 |
| Intangible assets | 51,154 | 40,373 | 35,849 |
| Non-current assets | 89,414 | 66,419 | 51,677 |
| Liabilities | 126,174 | 188,787 | 139,890 |
| Other | 55,075 | 58,483 | 70,306 |
| **Total temporary differences** | **3,395,641** | **2,365,956** | **1,439,260** |
| Calculated potential deferred tax asset at local tax rate | 749,198 | 514,239 | 316,637 |
| Deferred tax asset not expected to be utilized | -735,673 | -505,869 | -316,637 |
| **Recognized deferred tax asset** | **13,525** | **8,370** | **0** |

*Under Danish tax legislation, Zealand is eligible to receive DKK 5.5 million in 2021 (DKK 5.5 million in 2020 and 2019) in tax return based on qualifying research and development expenses.*

## Notes

#### Note 12 – Basic and diluted earnings per share

##### Accounting policies

**Basic result per share**

*Basic result per share is calculated as the net result for the period that is allocated to the parent compa- ny’s ordinary shares, divided by the weighted average number of ordinary shares outstanding deducted*

The following potential ordinary shares are anti-dilutive at December 31, 2021 (anti-dilutive at December 31, 2020 and dilutive December 31, 2019) and are therefore not included in the weighted average number of ordinary shares for the purpose of diluted earnings per share:

*the treasury shares held by the company*, cf. note 24.

##### Diluted result per share

*Diluted result per share is calculated as the net result for the period that is allocated to the parent com- pany’s ordinary shares, divided by the weighted average number of ordinary shares outstanding deducted the treasury shares, and adjusted by the dilutive effect of potential ordinary shares held by the company*, cf. note 24.

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

**DKK thousand**

**2020 2019**

**DKK thousand 2020 2019**

**2021**

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Outstanding warrants under the 2010 employee |  |  |  |
| incentive program | 0 | 0 | 42,359 |
| Outstanding warrants under the 2015 employee |  |  |  |
| incentive programs | 1,413,977 | 1,908,920 | 1,647,788 |
| Outstanding Restricted Share Units (RSUs) under |  |  |  |
| the LTIP programs | 460,089 | 27,466 | 0 |
| Outstanding Performance Share Units (PSUs) under |  |  |  |
| the LTIP program | 271,761 | 19,765 | 19,765 |
| Outstanding warrants under the 2020 employee |  |  |  |
| incentive program | 63,217 | 63,217 | 0 |
| **Total outstanding warrants** | **2,209,044** | **2,019,368** | **1,709,912** |
| - out of which these are dilutive | 0 | 0 | 0 |
| - out of which these are anti-dilutive | 2,209,044 | 2,019,368 | 1,709,912 |

|  |  |  |  |
| --- | --- | --- | --- |
| Net result for the year | -1,018,149 | -846,729 | -571,541 |
| Net result used in the calculation of basic and |  |  |  |
| diluted earnings/losses per share | -1,018,149 | -846,729 | -571,541 |
| Weighted average number of ordinary shares | 43,192,383 | 38,433,923 | 33,866,709 |
| Weighted average number of treasury shares | -322,988 | -64,223 | -64,223 |
| **Weighted average number of ordinary shares used in the calculation of basic earnings per share** | **42,869,395** | **38,369,700** | **33,802,486** |
| **Weighted average number of ordinary shares used in the calculation of diluted earnings per share** | **42,869,395** | **38,369,700** | **33,802,486** |
| **Basic earnings/loss per share (DKK)** | **-23,75** | **-22.07** | **-16.91** |
| **Diluted earnings/loss per share (DKK)** | **-23,75** | **-22.07** | **-16.91** |

## Notes

#### Note 13 – Intangible assets

##### Accounting policies

*Separately acquired licenses, rights and patents are initially measured at cost. Licenses, rights and patents acquired in connection with the purchase of a legal entity where substantially all of the fair value of the gross assets acquired is concentrated in a single asset are considered an asset acquisition and initially recognized at cost at the acquisition date. The cost accumulation model has been applied for accounting for contingent considerations, whereby all further consideration is added when incurred, to the cost of the asset initially recorded.*

*The acquired intangibles have a finite useful life and are subsequently carried at cost less accumulated amortizations using the straight-line method over the estimated useful life and impairment losses. The amortization periods are as follows:*

*License, rights and patents: Amortization period will be determined once these IP rights are available for use*

*Intellectual property: 10 years Physician relationship: 8 years*

*Amortizations will recognized in the income statement as Research & Development expenses when the intangibles are available for use based on the determined useful life. Useful lifetime is assessed continu- ously for all new acquired assets.*

*If circumstances or changes in Zealand's operations indicate that the carrying amount of the intangibles may not be recoverable, Management will review the intangibles for impairment. Refer to note 17.*

At December 31, 2021, licenses, rights and patents comprise a right that will be included in a future devel- opment project originating from the acquisition of Encycle Therapeutics in October 2019. The useful life will be determined when the intangible asset is in the location and condition necessary for it to be capa- ble of operating in the manner intended by management, which is when the amortizations will begin.

The right has been measured based on the overall cost of the transaction less the fair value of the cash balance and trade payables also acquired. The fair value of the contingent considerations related to En- cycle Therapeutics was assessed to be zero as per the acquisition date due to Zealand applying the cost accumulation model for accounting for contingent considerations, whereby all further consideration is added when incurred, to the cost of the asset initially recorded.

Physician relationships and IP rights acquired through business combinations are measured at fair value at the acquisition date and amortized on a systematic basis over their useful life 8 and 10 years respectively (unless the asset has an indefinite useful life, in which case it is not amortized).

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Notes** |  | | | | | | | |
| **Note 13 – Intangible assets (continued)** |
|  | **Licenses**  **rights** | **Intellectual** | **Physician** |  |  | **Licenses**  **rights** | **Intellectual** | **Physician** |
| **DKK thousand** | **and patents** | **property** | **relationship** |  | **DKK thousand** | **and patents** | **property** | **relationship** |
| Cost at January 1, 2021 | 2,530 | 13,692 | 60,576 |  | Cost at January 1, 2020 | 2,480 | 0 | 0 |
| Additions | 0 | 0 | 0 |  | Additions due to business combinations, cf. note 31 | 0 | 13,692 | 68,459 |
| Currency translation | 0 | 0 | 5,037 |  | Additions | 0 | 0 | 0 |
| **Cost at December 31, 2021** | **2,530** | **13,692** | **65,613** |  | Currency translations | 50 | 0 | -7,883 |
|  |  |  |  |  | **Cost at December 31, 2020** | **2,530** | **13,692** | **60,576** |
| Amortization and impairment at January 1, 2021 | 0 | 13,692 | 5,621 |  |  |  |  |  |
| Amortization for the year | 0 | 0 | 7,859 |  | Amortization and impairment at January 1, 2020 | 0 | 0 | 0 |
| Currency translation | 0 | 0 | 873 |  | Amortization for the year | 0 | 957 | 5,901 |
| **Amortization and impairment at December 31, 2021** | **0** | **13,692** | **14,353** |  | Impairment, cf. note 17 | 0 | 12,735 | 0 |
| **Carrying amount at December 31, 2021** | **2,530** | **0** | **51,260** |  | Currency translation | 0 | 0 | -280 |
|  |  |  |  |  | **Amortization and impairment at December 31, 2020** | **0** | **13,692** | **5,621** |
| *Amortization and impairment for the financial year* |  |  |  |  | **Carrying amount at December 31, 2020** | **2,530** | **0** | **54,955** |
| *has been charged as:* |  |  |  |  |  |  |  |  |
| Research and development expenses | 0 | 0 | 0 |  | *Amortization for the financial year has been charged as:* |  |  |  |
| Sale and marketing expenses | 0 | 0 | 7,859 |  | Sale and marketing expenses | 0 | 13,692 | 5,901 |
| Administrative expenses | 0 | 0 | 0 |  | **Total** | **0** | **13,692** | **5,901** |
| **Total** | **0** | **0** | **7,859** |  |  |  |  |  |
|  |  |  |  |  | Remaining amortization period | - | - | 7.25 years |
| Remaining amortization period | - | - | 6.25 years |  |  |  |  |  |

## Notes

#### Note 14 – Property, plant and equipment

##### Accounting policies

*Plant and machinery, other fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation.*

*Cost comprises acquisition price and costs directly related to acquisition until the time when the Group starts using the asset.*

*Tangible assets under construction are recorded as work in progress until construction has been com- pleted and use of asset commenced.*

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

*Buildings 5-13 years*

*Plant and machinery 5-10 years*

*Other fixtures and fittings, tools and equipment 3-5 years*

*Gains and losses arising from disposal of plant and equipment are stated as the difference between the selling price less the costs of disposal and the carrying amount of the asset at the time of the disposal. Gains and losses are recognized in the income statement under Research and development expenses, Sale and marketing expenses and Administrative expenses.*

*The fair value of pr**operty, plant and equipment is assessed equivalent to the carrying amounts.*

*At the end of each reporting period, the Group reviews the carrying amount of property, plant and equip- ment as well as non-current asset investments to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). If it is not possible to estimate the re- coverable amount of an individual asset, the Group estimates the recoverable amount of the cash-gener- ating unit to which the asset belongs. If a reasonable and consistent basis of allocation can be identified, assets are also allocated to cash-generating units, or allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.*

*The recoverable amount is the higher of fair value less costs of disposal and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.*

*No impairments to property. plant and equipment have been recognized for 2021, 2020 or 2019*

## Notes

**Note 14 – Property, plant and equipment (continued)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DKK thousand** | **Plant and machinery** | **Other fixtures and fittings** | **Building improvements** | **Assets under construction** |  | **DKK thousand** | **Plant and machinery** | **Other fixtures and fittings** | **Building improvements** | **Assets under construction** |
| Cost at January 1, 2021 | 85,898 | 15,279 | 34,104 | 3,023 |  | Cost at January 1, 2020 | 57,153 | 12,501 | 13,773 | 14,001 |
| Transfer | 949 | 664 | 0 | -1,613 |  | Transfer | 0 | 0 | 13,796 | -13,796 |
| Additions | 7,118 | 1,444 | 2,449 | 11,122 |  | Addition from |  |  |  |  |
| Retirements | -3,169 | -1,630 | -84 | -419 |  | business combinations | 33,875 | 2,572 | 1,707 | 2,984 |
| Currency translation | 1 | 78 | 131 | -1 |  | Additions | 8,479 | 1,566 | 14,889 | 109 |
| **Cost at December 31, 2021** | **90,797** | **15,835** | **36,600** | **12,112** |  | Retirements | -5,935 | -985 | -9,856 | 0 |
|  |  |  |  |  |  | Currency translation | -7,674 | -375 | -205 | -275 |
| Accumulated depreciation |  |  |  |  |  | **Cost at December 31, 2020** | **85,898** | **15,279** | **34,104** | **3,023** |
| at January 1, 2021 | 43,987 | 6,942 | 2,335 | 0 |  |  |  |  |  |  |
| Transfer | 0 | 0 | 0 | 0 |  | Accumulated depreciation |  |  |  |  |
| Depreciation for the year | 11,558 | 3,461 | 3,128 | 0 |  | at January 1, 2020 | 43,696 | 4,164 | 9,860 | 0 |
| Retirements | -1,330 | -1,203 | -73 | 0 |  | Transfer | 0 | 0 | 0 | 0 |
| Currency translation | 1 | 40 | 44 | 0 |  | Depreciation for the year | 4,974 | 2,301 | 2,301 | 0 |
| **Accumulated depreciation** |  |  |  |  |  | Retirements | -4,304 | -985 | -9,804 | 0 |
| **at December 31, 2021** | **54,216** | **9,240** | **5,434** | **0** |  | Currency translation | -379 | 1,462 | -22 | 0 |
| **Carrying amount**  **at December 31, 2021** | **36,581** | **6,595** | **31,166** | **12,112** |  | **Accumulated depreciation at December 31, 2020** | **43,987** | **6,942** | **2,335** | **0** |
| ***Depreciation for the*** |  |  |  |  |  | **Carrying amount**  **at December 31, 2020** | **41,911** | **8,337** | **31,769** | **3,023** |
| ***financial year has been charged as:*** |  |  |  |  |  | ***Depreciation for the*** |  |  |  |  |
| Cost of goods sold  Research and | -7,151 | -121 | 0 | 0 |  | ***financial year has been charged as:*** |  |  |  |  |
| development expenses | -3,621 | -2,568 | -2,715 | 0 |  | Research and |  |  |  |  |
| Sale and marketing expenses | 0 | -92 | 0 | 0 |  | development expenses | -4,128 | -1,378 | -1,910 | 0 |
| Administrative expenses | -786 | -680 | -413 | 0 |  | Sale and marketing expenses | -846 | -282 | -391 | 0 |
| **Total** | **-11,558** | **-3,461** | **-3,128** | **0** |  | Administrative expenses | 0 | -640 | 0 | 0 |
|  |  |  |  |  |  | **Total** | **-4,974** | **-2,301** | **-2,301** | **0** |

## Notes

#### Note 15 – Right-of-use assets and lease liabilities

##### Accounting policies

*Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components according to the specific pricing of the services in the agreements.*

*Lease terms are negotiated on an individual basis and contain a wide range of different terms and condi- tions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.*

*Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:*

* *fixed payments less any lease incentives receivable*
* *variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date*

*Lease payments to be made under reasonably certain extension options are also included in the meas- urement of the liability.*

*Short-term and low value leases are also recognized as right-of-use assets.*

*The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group’s incremental borrow- ing rate is used, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.*

*The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.*

*Lease payments are* *allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period to ensure a constant periodic rate of interest on the remaining balance of the liability for each period.*

*Right-of-use assets are measured at cost comprising the following:*

* *the amount of the initial measurement of lease liability*
* *any lease payments made at or before the commencement date less any lease incentives received*
* *any initial direct costs and restoration costs.*

*Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.*

## Notes

#### Note 15 – Right-of-use assets and lease liabilities (continued)

##### Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to right-of-use assets:

Set out below are the carrying amounts of lease liabilities and the movements during the period:

##### fixtures and

|  |  |  |
| --- | --- | --- |
| As at January 1 | 130,119 | 85,760 |
| Additions due to business combinations, cf. note 31 | 0 | 14,046 |
| Additions | 20,189 | 43,151 |
| Accretion of interest | 2,953 | 2,763 |
| Payments | -14,715 | -14,098 |
| Currency translation | 977 | -1,503 |
| **As at December 31** | **139,523** | **130,119** |
| Current | 14,897 | 14,072 |
| Non-current | 124,626 | 116,047 |
| *The following are the amounts recognized in income statement:* |  |  |
| Depreciation expense of right-of-use assets | -14,243 | -13,524 |
| Interest expense on lease liabilities | -2,953 | -2,763 |
| **Total amount recognized in profit and loss** | **-17,196** | **-16,287** |
| Cashflow | -14,715 | -14,098 |
| **Total cash outflow for leases** | **-14,715** | **-14,098** |
| *Depreciation for the financial year has been charged as:* |  |  |
| Research and development expenses | -11,732 | -10,001 |
| Sale and marketing expenses | 0 | 0 |
| Administrative expenses | -2,511 | -3,523 |
| **Total** | **-14,243** | **-13,524** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | **2021** | **2020** |
|  | **Office** | **Other** |  |  |
| **DKK thousand** | **Buildings** | **fittings** |  |  |
|  |  |  |  |  |
| As at January 1, 2021 | 126,821 | 1,177 |  |  |
| Additions | 18,677 | 1,512 |  |  |
| Depreciation expense | -13,177 | -1,066 |  |  |
| Currency translation | 1,050 | 0 |  |  |
| **As at December 31, 2021** | **133,371** | **1,623** |  |  |
|  |  |  |  |  |
| As at January 1, 2020 | 84,148 | 1,484 |  |  |
| Additions due to business combination, cf. note 31 | 14,299 | 0 |  |  |
| Additions | 42,725 | 581 |  |  |
| Retirements | -6,035 | -144 |  |  |
| Reversal of depreciations | 6,035 | 0 |  |  |
| Depreciation expense | -12,779 | -744 |  |  |
| Currency translation | -1,572 | 0 |  |  |
|  |  |  |  |  |
| **As at December 31, 2020** | **126,821** | **1,177** |  |  |
|  |  |  |  |  |
| *The Group leases office buildings, equipment and vehicles. The rental contract for the HQ office building* | | |  |  |
| *has been made for a minimum period of 13 years (terminable by the landlord after 15 years). Management*  *has assessed the lease period to be 13 years. The rental contract for the US office site has been made* | | |  |  |
| *for a minimum period of 16 years. Equipment and vehicles are leased over a period of 3-4 years with no* | | |  |  |
| *extension option.* | | |  |  |
|  | | |  |  |

*Variable lease payments are considered immaterial in 2021 and 2020.*

## Notes

#### Note 16 – Other investments

##### Accounting policies

*Other investments are measured on initial recognition at cost, and subsequently at fair value. Changes in fair value are recognized in the income statement under financial items.*

The Group’s other investments consist of an investment in Beta Bionics, Inc., the developer of iLet™, a fully integrated dual-hormone pump (bionic pancreas) for autonomous diabetes care. The investment in Beta Bionics, Inc. is measured at fair value through profit and loss. This investment represents 1.6% (2020:1.6%) ownership of Beta Bionics, Inc., and is measured at a fair value of DKK 26.9 million as of De- cember 31, 2021 (DKK 32.3 million as of December 31, 2020).

In determining fair value, Zealand considered the impact of any recent share capital issuances by Beta Bi- onics as an indicator of the fair value of the shares. In particular, Beta Bionics undertook a capital offering in June 2019 and subsequent infliction points was used as the basis for determining fair value. Measure- ment is considered a level 3 measurement.

The following have been recognized as financial items:

**2021**

#### Note 17 – Impairment

##### Accounting policies

*Assets with indefinite useful lives are annually tested for impairment and whenever there is an impairment indication, whereas assets with finite useful lifetime are assessed for impairment indicators at the end of each reporting period. If such impairment indicators exists, the recoverable amount, determined as the higher amount of the fair value of the asset adjusted for expected costs to sell and the value in use of the asset, is calculated. The value in use is calculated based on the estimated future cash flows, discounted by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.*

*If the recoverable amount of an asset or its cash-generating unit is lower than the carrying amount, an impairment charge is recognized in respect of the asset. The impairment loss is recognized in the income statement. In addition, for goodwill and other intangible assets with indefinite useful lives, impairment tests are performed at each balance sheet date, regardless of whether there are any indications of impair- ment. For acquisitions, the first impairment test is performed before the end of the year of acquisition.*

**Key assumptions in the impairment test**

**DKK thousand**

|  |  |  |
| --- | --- | --- |
| Other investments at January 1 Fair value adjustments Currency adjustments | 32,333  -8,217  2,791 | 35,557 32,582  69 2,193  -3,293 782 |
| **Other investments at December 31** | **26,907** | **32,333 35,557** |

**2020 2019**

The impairment assessment for 2020 identified a need for impairment on the V-Go related Intellectual property of DKK 12.7 million. The impairment loss was primarily related to Management’s decision to allo- cate resources to support future product launches while limiting the investment in the V-Go product.

Management has reassessed for 2021 whether indicators that the impairment loss recognized in 2020 may no longer exist or may have decreased. No such indicators were identified in 2021. Through the assessment of impairment indicators regarding the V-Go intellectual property, Management identified impairment indicators and an impairment test was performed by calculating recoverable amount of the V-Go intellectual property.

The recoverable amount was determined based on a value in use calculation using cash flow and projections for subsequent years up to and including 2030, equivalent to the expected useful life of the intangible asset. The expected future net cash flows are determined based on budgets and business plans approved by Management Board. From 2031 onwards, a perpetual cash flow decreasing by the terminal growth rate of -50% is used. The pre-tax discount rate applied to the cash flow projections was 13 %. The analysis showed a need of an impairment of DKK 12.7 million regarding the V-Go Intellectual property.

The amount is recognized as sales and marketing expenses in the income statement. Due to the full im- pairment of the V-Go related intellectual property in 2020, no additional sensitivity analysis is performed.

 

## Notes

**2021**

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#### Note 18 – Inventories

##### Accounting policies

*Raw materials, work in progress and finished goods are measured at the lower of cost and net realizable*

Write downs recognized on inventories were reflected in the cost of goods sold. They were comprised as follows:

*value. Cost is determined on a first in, first out basis and comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete the sale.*

*Inventory manufactured prior to regulatory approval (prelaunch inventory) is capitalized but immediately provided for, until there is a high probability of regulatory approval for the product. A write-down is made against inventory, and the cost is recognized in the income statement as research and development costs. Once there is a high probability of regulatory approval being obtained, the write-down is reversed, up to no more than the original cost.*

**DKK thousand**

**Cost of goods sold**

|  |  |  |
| --- | --- | --- |
| Accumulated write downs, January 1 | -6,948 | 0 |
| Addition from business combination, cf. note 31 | 0 | -11,294 |
| Write downs in the reporting period | -10,766 | 486 |
| Utilization of write downs | 12,641 | 3,860 |
| Reversal of write downs | 0 | 0 |
| Exchange differences | -119 | 0 |
| **Accumulated write downs, December 31** | **-5,192** | **-6,948** |

**2020**

*We review our inventory for excess or obsolescence and write down inventory that has no alterna- tive uses to its net realizable. Economic conditions, customer demand and changes in purchasing and distribution can affect the carrying value of inventory. As circumstances warrant, we record provisions for potentially obsolete or slow-moving inventory and lower of cost or net realizable value inventory adjustments. In some instances, these adjustments can have a material effect on the financial results of*

*an annual or interim period. In order to determine such adjustments, we evaluate the age, inventory turns, future sales forecasts and the estimated fair value of inventory.*

Cost of goods sold includes raw materials, labor costs, manufacturing overhead expenses and reserves for anticipated scrap and inventory obsolescence.

**DKK thousand 2020**

**2021**

|  |  |  |
| --- | --- | --- |
| Raw materials | 35,816 | 14,398 |
| Work in process | 29,588 | 13,723 |
| Finished goods | 53,032 | 36,919 |
| **Total** | **118,436** | **65,040** |
| Direct costs | 85,270 | 48,224 |
| Indirect production costs | 33,166 | 16,816 |

## Notes

#### Note 19 – Trade receivables Note 21 – Other receivables

##### Accounting policies

*On initial recognition, receivables are measured at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amor- tized cost.*

*Trade receivables are written down for expected credit losses. The Group applies the simplified approach in IFRS 9 to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables and contract assets. A write-down is recognized in sales and marketing expenses.*

There are no material overdue receivables and the write-down for expected credit losses is not material. At December 31, 2021 and 2020, Zealand had no trade receivables related to milestone payments.

##### Accounting policies

*Other receivables are measured on initial recognition at cost and subsequently at amortized cost.*

**DKK thousand**

**2021**

|  |  |  |
| --- | --- | --- |
| VAT  Other | 10,682  5,120 | 3,887  6,055 |
| **Total other receivables** | **15,802** | **9,942** |

#### Note 22 – Marketable securities

**2020**

#### Note 20 – Prepaid expenses

##### Accounting policies

*Prepaid expenses comprise amounts paid in respect of goods or services to be received in subsequent financial periods. Clinical trials, which are outsourced to Clinical Research Organizations (“CROs”), take several years to complete. As such, Management is required to make estimates based on the progress and costs incurred to-date for the ongoing trials. Judgements are made in determining the amount of costs to be expensed during the period, or recognized as prepayments or accruals on the statement of financial position.*

*Other receivables are measured at amortized cost less impairment. Prepayments include expenditures related to future financial periods and are measured at nominal value.*

##### Accounting policies

*The Group’s Marketable securities portfolio comprises an equity investment in a bond portfolio. The investment is categorized as equity instruments classified at fair value through profit or loss. Refer to note 30, Financial risks.*

A net fair value adjustment of DKK 1.9 million from marketable securities have been recognized in finan- cial income in 2021 (2020: DKK -2.1 million in financial expenses, and 2019: DKK 0.8 million in financial income).

The increase in Prepaid expenses of DKK 32.8 million from 2020 to 2021 is primarily related to higher insurance costs for coverage of Management and Board members and timing of invoices received from the Contract Research Organizations (CRO's).

## Notes

#### Note 23 – Cash and cash equivalents

##### Accounting policies

*Cash is measured on initial recognition at cost.*

**2021**

#### Note 24 – Share capital (continued)

the nominal share capital by nominally DKK 9,013,665 during the period until April 2, 2025. At December 31, 2021 nominally DKK 1,986,547 of the authorization remains.

##### DKK thousand

|  |  |  |
| --- | --- | --- |
| DKK | 11,336 | 286,222 |
| USD | 1,098,160 | 568,444 |
| EUR | 19,607 | 105,555 |
| **Total cash and cash equivalents** | **1,129,103** | **960,221** |

##### 2020

On February 1, 2021 a total of 3.600.841 new shares have been subscribed through a private and direct shares issue with a net proceeds of DKK 745.4 million. In the period 19 March, 2021 to 10 December, 2021, a total of 233.595 new shares have been issued due to exercise of warrant programs with a net proceeds of DKK 26.1 million. The expenses related to share issues amounts to DKK 46.9 million.

On June 22, 2020 a total of 2,684,461 new shares have been subscribed through a private and direct shares issue with a net proceeds pf DKK 655.0 million. On March 26, a total of 741,816 new shares have been subscribed through a private share issue to US based investors with a net proceeds of DKK 136.5

Cash includes proceeds from draw down on “Oberland”, USD 100 million. As discussed in note 25, the

loan is subject to a liquidity covenant under which the Group must hold at least USD 100 million until cer- tain conditions are met.

#### Note 24 – Share capital

##### Accounting policies

*Consideration paid for the acquisition of treasury shares transactions is recognized directly in equity with- in treasury shares reserve. Capital reductions through cancellation of treasury shares reduce the share capital by an amount equal to the original cost price of the shares. Dividend payments are recognized as a deduction of equity and a corresponding liability when declared.*

million. The cost of share issues amounts to DKK 42.7 million. Expenses directly related to capital increases are recognized in equity.

At December 31, 2021, there were 418,247 treasury shares (2020: 64,223), equivalent to 1.0% (2020: 0.2%) of the share capital and corresponding to a market value of DKK 60.7 million (2020: DKK 14.1 million). The treasury shares are allocated to performance shares units (PSUs) and restricted stock units (RSUs).

##### Rules on changing the Articles of Association

All resolutions put to the vote of shareholders at general meetings are subject to adoption by a simple majority of votes, unless the Danish Companies Act 'Selskabsloven' or our Articles of Association pre- scribe other requirements.

##### No, of shares (thousand) 2020

**2021**

|  |  |  |
| --- | --- | --- |
| January 1  Increase due to issue of new shares | 39,800  3,834 | 36,055  3,745 |
| **December 31** | **43,634** | **39,800** |

The share capital solely consists of one class of ordinary shares all issued of DKK 1 each and all shares rank equally. The shares are negotiable instruments with no restrictions on their transferability. All shares have been fully paid. At the annual general meeting on April 2, 2020 Zealand was authorized to increase

## Notes

#### Note 25 – Borrowings

##### Accounting policies

*For accounting policy we refer to note 1.*

On December 30, 2021, the Group entered into a loan agreement with Oberland. The agreement com-

##### Early repayment amount:

Before January 1, 2023: An amount equal to 120.0% of the principal amount of the Notes issued

prises of three tranches of which the first tranche of USD 100 million was drawn down on December 31, 2021. Tranche 2 can be drawn down subject to obtaining FDA marketing approval for Glepaglutid where- as tranche 3 can be draw down only upon Oberland’s explicit acceptance.

*Loan terms*

Loan amount, tranche 1: 100 MUSD

Loan amount, tranche 2: 50 MUSD to be drawn no later than December 31, 2023 Loan amount tranche 3: 50 MUSD to be drawn down no later than June 30, 2023 Maturity date: December 31, 2028

##### Repayment profile: Repayment at maturity:

Base Interest: Higher of 12 months US Libor and 3 months Libor / [leverage formula] with a floor of 0.25%

Credit spread: 6% p.a., fixed over the term of the contract

Revenue participation payments: Draw down on tranche 1: 2.67% of consolidated revenue, not

From January 1, 2023 until January 1,

2024:

From January 1, 2024 until January 1,

2026:

From January 1, 2026 until January 1,

2027:

From January 1, 2027 until December 31,

2028:

##### Liquidity covenant

An amount equal to 135.0% of the principal amount of the Notes issued

An amount equal to 150.0% of the principal amount of the Notes issued

An amount equal to the greater of 150.0% of the principal amount of the Notes issued and the amount (greater than zero) that would generate an internal rate of return to the Purchasers equal to 12.0% on the aggregate purchase price paid for the Notes

An amount equal to the greater of (i) 150.0% of the principal amount of the Notes issued and (ii) the amount (greater than zero) that would generate an internal rate of return to the Purchasers equal to 11.0% on the aggregate purchase price paid for the Notes

exceeding 75 MUSD and

Draw down on tranche 1 & 2: 4% of consolidated revenue, not exceeding 75 MUSD

Repayment amount at maturity: An amount resulting in an investor IRR of 9.75% p.a. including

interest payments and royalty payments

The loan is subject to certain covenants including a requirement to retain cash balances in the amount of at least USD 100 million (DKK 656 million) until trailing 6 months total net revenue excluding sales from

V-Go, Alexion Licensed Products and Sanofi Licensed Products exceeds USD 50 million.

After deduction of transaction costs, DKK 8.2 million, the carrying amount is DKK 647.9 million.

Lender option to require repayment of the debt:

Change of control event

Sale of certain assets – proceeds from sale to be used to repay the loan, however, no more than up to 75% of the out- standing amount

Zealand option to prepay the debt: Throughout the term of the loan

## Notes

#### Note 25 – Borrowings (continued)

##### Accounting Accessment

Due to the fact that the lenders are entitled to a fixed return of 9.75% p.a., the debt host contract is con- sidered to be a fixed rate loan with variable cash flows.

Management has assessed the contract for non closely related embedded derivatives and has concluded that the prepayment option is not closely related to the debt host contract due to the fact that the repay- ment amount could differ with more than an insignificant amount from the debts amortised cost.

The revenue based payments are not separated from the debt host contract and assessed separately due to the fact that they will mainly affect the timing of the cash flows and not the total IRR. They could to a limited extent impact the prepayment premium.

The interest rate clause comprises an element which could potentially result in leverage. The interest rate clauses are non-closely related and not separated as embedded derivatives due to the fact that they will mainly affect the timing of the cash flows and not the total IRR. Interest rate movements could to a limited extent impact the prepayment premium.

##### Fair value measurement

Due to the significant premium, the prepayment options will have value for Zealand only if Zealand’s credit quality increases significantly (refer to Note 2). The likelihood of instances which would entitle the lender to require repayment and which would have economic value to the lender is currently consid- ered very low. Based on the above, the fair value of the prepayment options on inception is considered insignificant.

Fair value is determined primarily based on unobservable data (level 3). The most significant input is:

1. Development in future credit rating
2. US Libor forward interest rates

As of the balance sheet date December 31, 2021, no reasonably possible alternative assumption regarding the development in these two inputs will lead to any significant fair value of the prepayment options. The credit spread in the loan corresponds to a rating of CCC. An increase of the Group’s credit quality to a rating between B and BB by the end of 2025 would establish an economic break-even point for exer- cise of the prepayment options. After 2025, the prepayment options would, in virtually all instances not become economically attractive to exercise. The assessment is based on the 31 December 2021 US Libor yield curve and observable credit spreads for traded debt instrument.

The Group has up until now not held complex financial instruments measured at fair value and has currently no processes for determining fair value of such instruments. Therefore, third party valuation specialists have been engaged to determine fair value of the prepayment option as of 31 December 2021.

Due to the fact that the loan agreement has been entered into in December 2021, fair value of the loan as of 31 December 2021 is considered to equal its nominal amount of USD 100 million equal to DKK 656 million. It is considered a level 2 measurement (recent transation).

##### Collateral provided

The Group has provided floating charge collateral with all assets which can be collaterised including shares in subsidiaries.

## Notes

#### Note 26 – Deferred revenue Note 27 – Rebate and product return liabilities

##### Accounting policies

*We refer to accounting policy description in Note 3 Revenue.*

The Group has recognized the following liabilities related to contracts with customers.

##### DKK thousand

**2021**

|  |  |  |
| --- | --- | --- |
| Deferred revenue at January 1 Customer payment received, cf. note 3. Revenue recognized during the year | 97,769  0  -30,185 | 139,890  0  -42,881 |
| **Total deferred revenue** | **67,584** | **97,769** |
| Non-current deferred revenue | 14,551 | 44,587 |
| Current deferred revenue | 53,033 | 53,182 |
| **Total deferred revenue** | **67,584** | **97,769** |

##### 2020

 **Accounting policies**

*Product sale rebate liabilities and product return liabilities are amounts payable or credited to a customer, usually based on the quantity or value of product sales to the customer for specific products in a certain period. Product sales rebates, which relate to product sales that occur over a period of time, are normally issued retrospectively. At the time product sales are invoiced, rebates and deductions that the Group ex- pects to pay, are estimated. These rebates typically arise from sales contracts with government agencies, wholesalers, retail pharmacies, Managed Care and other customers, which are recorded at the time the related revenues are recorded or when the incentives are offered, cf. note 3.*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Sale** | **Product** |  | |
| **rebate** | **return** | **2021** | **2020** |
| **DKK thousand** | **liabilities** | **liabilities** | **total** | **total** |

Deferred revenue occurred in connection with the agreement with Alexion Pharmaceuticals, Inc. as dis- closed in Note 3. An up-front payment of DKK 177.3 million was received of which DKK 30.2 million has been recognized during DKK 2021 (2020: DKK 42.9 million and 2019: DKK 37.4 million)

Management expects that approx. DKK 53 million of the up-front payment received will be recognized as revenue during 2022. The remaining payment is expected to be recognized during 2023 according to the progress of the development project.

Sale rebate liabilities are calculated based on historical experience and the specific terms in the individual agreements. Unsettled rebates are recognized as accruals when the timing or amount is uncertain. Where absolute amounts are known, the rebates are recognized as other liabilities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Beginning of the year | 36,434 | 239 | 36,673 | 0 |
| Addition due to acquisition, cf. note 31 | 0 | 0 | 0 | 6,969 |
| Additions for the year | 155,910 | 2,124 | 158,033 | 137,321 |
| Utilization during the period | -167,045 | -1,555 | -168,600 | -103,766 |
| Reversal of accruals from previous years | 0 | 0 | 0 | -1,184 |
| Currency translation adjustments | 2,544 | 45 | 2,589 | -2,668 |
| **End of the year** | **27,843** | **852** | **28,695** | **36,673** |

Please refer to note 1 and note 3 for further information on sale rebates related liabilities and manage- ments estimates and judgements.

Zealand Pharma issues credit notes for expired goods as a part of normal business. Where there is histor- ical experience or a reasonably accurate estimate of expected future returns can otherwise be made, an accrual for estimated product returns is recorded. The accrual is measured at gross sales value.

## Notes

#### Note 28 – Other liabilities

##### Accounting policies

*Financial liabilities are recognized initially at fair value less transaction costs. In subsequent periods, finan- cial liabilities are measured at amortized cost corresponding to the capitalized value using the effective interest method.*

**2021**

#### Note 29 – Contingent assets and liabilities, other contractual obligations and collateral provided

##### Accounting policies

*Contingent assets and liabilities are disclosed, unless the possibility of an inflow or outflow of resources embodying economic benefits is virtually certain.*

##### DKK thousand

|  |  |  |
| --- | --- | --- |
| Employee benefits | 84,800 | 101,028 |
| Royalty payable to third party | 5,860 | 5,732 |
| Development project costs | 18,736 | 28,267 |
| Other payables | 82,164 | 32,272 |
| **Total other liabilities** | **191,560** | **167,299** |
| Current | 173,134 | 150,555 |
| Non-current | 18,426 | 16,744 |

**2020**

Contingent assets include potential future milestone payments. Contingent liabilities and other contrac- tual obligations include contractual obligations related to agreements in development projects such as contract research organizations (CROs), milestone payments and lease commitments.

##### Contingent Assets

At December 31, 2021, Zealand is still eligible for a payment from Sanofi of up to USD 10.0 million, of which USD 10.0 million is expected in 2022. However, it is Management’s opinion that the amount of any payment cannot be determined on a sufficiently reliable basis, and therefore have not recognized an asset in the statement of financial position of the Group.

##### Contingent liabilities and Contractual obligations

At December 31, 2021, total contractual obligations related to agreements for development projects, including CROs, amounted to DKK 317.4 million (DKK 184.4 million for 2022 and DKK 133.0 million for the years 2023 up to and including 2025).

Zealand may be required to pay future development, regulatory and commercial milestones related to the acquisition of Encycle Therapeutics. Refer to note 13.

##### Collateral provided

The Group has provided floating charge collateral with all assets which can be collaterised including shares in subsidiaries.

## Notes

#### Note 30 – Financial risks

Zealand is exposed to various financial risks, including foreign exchange rate risk, interest rate risk, credit risk and liquidity risk.

The objective of Zealand’s financial management policy is to reduce the Group’s sensitivity to fluctuations in exchange rates, interest rates, credit rating and liquidity. Zealand’s financial management policy has been endorsed by Zealand’s Audit Committee and ultimately approved by Zealand’s Board of Directors.

##### Capital structure

Zealand aims to have an adequate capital structure in relation to the underlying operating results and research and development projects, so that it is always possible to provide sufficient capital to support operations and long-term growth targets. We refer to Note 2.

##### Exchange rate risk

Most of Zealand’s financial transactions are in DKK, USD and EUR.

Due to Denmark’s long-standing fixed exchange rate policy vis-à-vis the EUR, Zealand has evaluated that there is no material transaction exposure or exchange rate risk regarding transactions in EUR.

Zealand’s milestone payments have been agreed in foreign currencies, namely USD and EUR. However, as milestone payments are unpredictable in terms of timing, the payments are not included in the basic exchange rate risk evaluation.

Currency exposures regarding our US activities are managed by having revenue and expenses in the same currency.

As Zealand conducts clinical trials and toxicology studies around the world, Zealand will be exposed to exchange rate risks associated with the denominated currency, which is primarily USD based on volume and fluctuations against DKK. To date, Zealand’s policy has been to manage the transaction and transla- tion risk associated with the USD passively, placing the revenue received from milestone payments in USD in a USD account for future payment of Zealand’s expenses denominated in USD, covering payments for the next 12-24 months and thus matching Zealand’s assets with its liabilities.

As of December 31, 2021, Zealand holds DKK 862.9 million (2020: DKK 568.4 million) of its cash in USD. Additionally, Zealand has a financial debt of DKK 656.1 million denominated in USD.

##### Interest rate risk

Zealand has a policy of avoiding financial instruments that expose the Group to any unintended financial risks.

During 2021, all cash has been held in current bank accounts in USD, EUR and DKK. Interest rates on bank deposits in DKK and EUR have been negative since 2018, while USD accounts have generated a low level of interest income.

During 2021 and 2020, Zealand has invested in low-risk marketable securities. The Group’s marketable securities portfolio comprises bonds in Danish kroner. The average weighted duration of the bond portfo- lio on the statement of financial position date was 3 years in both years.

As of December 31, 2021, Zealand has borrowings amounting to DKK 656.1 million (2020: DKK 0 million) and Lease liabilities amounting to DKK 139.5 million (2020: DKK 130.1 million). As discussed in note 25 borrowings bears a fixed interest rate.

##### Credit risk

Zealand is exposed to credit risk in respect of receivables, bank balances and bonds. The maximum credit risk corresponds to the carrying amount. Management believes that credit risk is limited, as the counter- parties to the trade receivables are large global pharmaceutical companies and wholesalers.

Cash and bonds are not deemed to be subject to credit risk, as the counterparties are banks with invest- ment-grade ratings (i.e. BBB- or higher from Standard & Poor’s).

##### Liquidity risk

The purpose of Zealand’s cash management is to ensure that the Group has sufficient and flexible finan- cial resources at its disposal at all times. Refer to Note 2.

Zealand’s short-term liquidity is managed and monitored by means of the Company’s quarterly budget revisions to balance the demand for liquidity and maximize the Company’s interest income by matching its free cash in fixed-rate, fixed-term bank deposits and bonds with its expected future cash burn.

## Notes

#### Note 30 – Financial risks (continued)

##### Sensitivity analysis

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

With the exception of leasing and borrowings, there are no interest cash flows to be included in the table below for the existing financial liabilities as they are not interest-bearing financial liabilities.

##### < 12

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DKK thousand** | **2021**  **Fluctuation Effect** | **2020**  **Fluctuation** | **Effect** | **DKK thousand** | | **months** | **1-5 Years** | **> 5 Years** | **Total** |
|  |  |  |  | Borrowings | | 50,954 | 252,042 | 736,410 | 1,039,406 |
| USD | +/-10% 20,675 | +/-10% | 58,124 | Trade payables | | 64,558 | 0 | 0 | 64,558 |
|  |  |  |  | Leasing | | 14,608 | 62,558 | 75,415 | 152,581 |
|  |  |  |  | Other liabilities | | 173,134 | 0 | 18,426 | 191,560 |
| The decline in currency exposure is primarily related to reduced net cash balance from borrowings de-  nominated in USD. | | | | | **Total financial liabilities at December 31, 2021** | **303,254** | **314,600** | **830,251** | **1,448,105** |
|  | | | | | Trade payables | 71,442 | 0 | 0 | 71,442 |
| **Contractual maturity (liquidity risk)** | | | | | Leasing | 14,072 | 53,039 | 76,354 | 146,465 |
| A breakdown of the Group’s aggregate liquidity risk on financial assets and liabilities is given below. | | | | | Other liabilities | 150,555 | 16,744 | 0 | 167,299 |
|  | | | | | **Total financial liabilities at December 31, 2020** | **236,069** | **69,783** | **76,354** | **382,209** |
| The following table details the Group’s remaining contractual maturity for its financial liabilities with | | | | |  |  |  |  |  |

agreed repayment periods. The table has been prepared using the undiscounted cash flows for financial liabilities, based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that the specific timing of interest or principal flows is dependent on future events, the table has been prepared based on Management’s best estimate of such timing at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

All cash flows are non-discounted and include all liabilities under contracts but not contractual obliga- tions related to payments under agreements for development projects, including CROs, as disclosed in note 29, as their maturity dates are uncertain.

The expected future cash flows from borrowing repayments in USD are estimated based on USD Forward Libor rates as of 31 December 2021 and the Group’s revenue forecast and translated into DKK at the USD/ DKK forward rates applicable as of 31 December 2021.

## Notes

#### Note 30 – Financial risks (continued)

##### DKK thousand

**2021**

|  |  |  |
| --- | --- | --- |
| **Categories of financial instruments** |  |  |
| Deposits | 12,638 | 16,650 |
| Trade receivables | 73,025 | 46,484 |
| Other receivables | 15,802 | 9,942 |
| Cash and cash equivalents | 1,129,103 | 960,221 |
| **Financial assets at amortized costs** | **1,230,568** | **1,033,297** |
| Marketable securities | 299,042 | 297,345 |
| Other investments | 26,907 | 32,333 |
| **Financial assets measured at fair value through profit or loss** | **325,949** | **329,678** |
| Borrowings | 647,906 | 0 |
| Lease liabilities | 139,523 | 130,119 |
| Trade payables | 64,558 | 70,384 |
| Other liabilities | 191,560 | 167,299 |
| **Financial liabilities measured at amortized cost** | **1,043,547** | **367,802** |

The fair value of marketable securities is based on Level 1 in the fair value hierarchy.

The fair value of other investments is based on level 3 in the fair value hierarchy. Refer to note 16.

##### 2020

**Capital Management**

Zealand’s goal is to maintain a strong capital base to maintain investor, creditor and market confidence, and a continuous advancement of Zealand’s product pipeline and business in general. Zealand is primarily financed through capital increases, long-term borrowings and partnership collaboration income. The Group had, as of December 31, 2021, a cash position of DKK 1,129 million i.e. DKK 473 million in excess of the minimum cash position discussed below. As of 31 December 2020, the cash position was DKK 960.2 million. Refer to Note 2 Going concern uncertainties.

The cash position supports the advancement of our product pipeline and operations and the objective is to maintain a cash position which secures financing of development costs over the next 12 to 15 months, refer to Note 2. The adequacy of our available funds will depend on many factors, including progress

in our research and development programs, the magnitude of those programs, our commitments to existing and new clinical collaborators, our ability to establish commercial and licensing arrangements, our capital expenditures, market developments, and any future acquisitions. Accordingly, we may require additional funds and may attempt to raise additional funds through equity or debt financings, collabora- tive agreements with partners, or from other sources. To strengthen the cash position, the Group entered into a USD 100 million Loan agreement with Oberland in December 2021. Under the loan agreement, the Group has to maintain a cash position of at least USD 100 million (DKK 656 million) until trailing 6 months net sales excluding sales from V-Go, Alexion Licensed Products and Sanofi Licensed Products exceeds USD 50 million. Refer to note 25 for discussion of the terms of the loan.

The Board of Directors monitors the share and capital structure to ensure that Zealand’s capital resources support the strategic goals. There was no change in the group’s approach to capital management pro- cedures in 2021 besides the issuance of borrowings as described in Note 25. Neither Zealand Pharma A/S nor any of its subsidiaries are subject to externally imposed capital requirements other than the liquidity

There were no transfers between levels 1, 2 and 3 for recurring fair value measurement during the period ended December 31, 2021 or 2020.

The carrying amount of financial assets and financial liabilities approximated the fair value.

covenant related to the borrowing agreement.

## Notes

#### Note 31 – Business combinations

##### Accounting policy

Business combinations are accounted for using the acquisition method of accounting. At the date of the acquisition, the Company initially recognizes the fair value of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business.

The consideration transferred is measured at fair value at the date of acquisition and the excess of the consideration transferred over the fair value of net identifiable assets of the business acquired is recorded as goodwill. In circumstances where the consideration transferred is less than the fair value of net iden- tifiable assets of the business acquired, the difference is recognized directly in the consolidated income statement as a bargain purchase.

Where the settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value. Contingent consideration is classified either as equity or a financial

liability and is recognized at fair value on the acquisition date. Amounts classified as a financial liability are subsequently remeasured to fair value in accordance with IFRS 9 (Financial Instruments), with changes in fair value recognized in the consolidated statement of comprehensive loss as an administrative expense.

Business combinations require management making an assessment of the fair value of the net assets ac- quired as well as an assessment regarding whether control exists. Management judgement is particularly involved in the recognition and measurement of the following items at fair value:

* *intellectual property: this may include patents, licenses, trademarks and similar rights for currently mar- keted products, and also the rights and scientific knowledge associated with projects that are currently in research or development phases, and requires the projection of estimated future cash inflows and outflows and relevant risks, the terminal value of these assets, discount rates and weighted average costs of capital,*
* working capital items such as trade receivables, inventory (raw materials, work in process, parts and finished goods), prepaid expenses, trade payables, and fixed assets
* Guarantees, warranties, indemnities, rights, claims, counterclaims etc. set off against third parties relating to the acquired assets or assumed liabilities, including rights under vendors’ and manufacturers’ warranties, indemnities, guaranties and avoidance claims and causes of action under any applicable Law, employee liabilities and other contingencies

In all cases, management makes an assessment based on the underlying economic substance of the items concerned, and not only on the contractual terms, in order to fairly present these items. In making these assessments, management relies to a significant extent on the work of valuation experts. However, the assessments are highly subjective and sensitive to the assumptions used.

In accordance with IFRS 3, if a business combination indicates a bargain gain all applied assumptions will be reassessed by Management before recognition.

Directly attributable acquisition-related costs are expensed as incurred within the consolidated statement of comprehensive loss.

Customer relationships and IP rights acquired through business combinations are measured at fair value at the acquisition date and amortized on a systematic basis over their useful life 8 and 10 years respec- tively (unless the asset has an indefinite useful life, in which case it is not amortized).

##### Acquisition of medical technology business from Valeritas, Inc.

On April 2, 2020 (or “the acquisition date”) Zealand acquired substantially all of the medical technology business from Valeritas Holdings, Inc. (or “Valeritas”) pursuant to the terms of the stalking horse asset purchase agreement previously entered into with Valeritas and following approval by the U.S. Bankruptcy Court for the District of Delaware on March 20, 2020.

Valeritas was a U.S. based commercial-stage company whose activities comprised development, pro- duction and sale of wearable disposable insulin pumps and has therefore been acquired to accelerate Zealand’s plans for establishing U.S. operations to support the anticipated launch of the auto-injector and pre-filled syringe for severe hypoglycemia.

The acquisition comprises all medical technology business related tangible and intangible assets that pursuant to the Bankruptcy Code was transferred to Zealand free and clear of all claims, liabilities and en- cumbrances including the Valeritas workforce. Additionally, the acquisition includes most of the working capital assets and selected liabilities.

Under IFRS 3, Business Combinations, the acquisition has been accounted for as a business combination using the acquisition method. The consolidated financial statements include the results of Valeritas for the from the acquisition date.

## Notes

#### Note 31 – Business combinations (continued)

The consideration transferred was DKK 167.7 million (USD 24.5 million), and the fair values of the identifia- ble assets and liabilities of Valeritas as at the date of acquisition were:

##### DKK thousand Fair value recognized on acquisition

**Assets**

Physician Relationship 68,459

V-Go IP 13,692

Property, plant and equipment 41,138

Right-of-use assets 14,299

Inventories 55,796

Trade receivables 50,603

Other assets 10,132

Cash and cash equivalents 66

##### Liabilities

Deferred tax liability -11,880

Trade payables -4,050

Lease liabilities -14,046

Other liabilities -19,792

##### Total identifiable net assets at fair value 204,417

The fair value attributable to intangible assets (DKK 82.2 million as of the acquisition date) consists of the value arising from the existing Valeritas physician network and relationships, valued at DKK 68.5 million which is based on the estimated cost it would require to establish similar network and relationships, or

a so-called with/without valuation method, and intellectual property related to the V-Go technology, valued at DKK 13.7 million using an excess earnings model. (Subsequently impaired. Refer to note 17) The valuations are determined using cash flow projections from financial budget approved by Corporate Management covering a 10-year period. The discount rate applied to the cash flow projections is 13%. The growth rate used to extrapolate the cash flows of the unit beyond the 10-year period is -50% which reflects our estimate of the expected lifetime of the product of 10 years with a significant decrease in revenues afterwards.

The calculation of the fair value of intangible assets is most sensitive to the revenue and gross margin growths. Revenue and gross margin: Revenue and gross margin are based on historical trends. The reve- nue growth applied in the calculation is between 1-20% in the 10-year budget period with the first years having the highest revenue growth in percentage. Operating costs: Operating costs are based on histori- cal trends and industry knowledge. Operating costs over the 10-year budget period has been adjusted to incorporate the allocation related to shared efforts of future product launches.

Trade receivables have been measured at the contractual amount expected to be received which ap- proximates the fair value of DKK 50.6 million. The amounts have not been discounted, as maturity on receivables is generally very short and the discounted effect therefore immaterial.

The acquisition resulted in a bargain purchase gain of DKK 36.7 million which was recognized within other operating income in the consolidated income statement. The gain arose as the fair value of the

7

|  |  |  |
| --- | --- | --- |
| **Bargain purchase recognized** | **-36,692** | net assets acquired (DKK 204.4 million) exceeded the fair value of the purchase consideration (DKK 167.  million). The gain is primarily attributable to the Company purchasing the medical technology business |
| **Purchase consideration transferred** | **167,725** | of Valeritas out of bankruptcy. Valeritas encountered operational and financial difficulties in late 2019 |
| *Analysis of cash flows on acquisition:* |  | and filed for Bankruptcy in February 2020. Specifically, the fair value of the tangible and financial assets acquired (DKK 147.5 million), such as inventories, trade receivables, and property, plant and equipment, |

represents a significant component of the purchase price prior to consideration of the fair value of the identified intangible assets.

|  |  |
| --- | --- |
| Net cash acquired  (included in cash flows from investing activities) | 66 |
| Cash paid | -167,725 |
| **Net cash flow on acquisition** | **-167,659** |

## Notes

#### Note 31 – Business combinations (continued)

|  |  |  |  |
| --- | --- | --- | --- |
| **Note 33 – Adjustments for non-cash items**  **DKK thousand** | **2021** | **2020** | **2019** |
| Depreciation, amortization and impairment | 40,249 | 42,692 | 13,682 |
| Share-based compensation expenses | 53,504 | 30,485 | 14,763 |
| Income tax | -1,190 | 9,865 | -5,385 |
| Financial income | -1,896 | -1,127 | -9,306 |
| Financial expenses | 16,674 | 3,511 | 3,390 |
| Net loss on sale of fixed assets | 2,697 | 0 | 0 |
| Fair value adjustments | 6,520 | 0 | 0 |
| Exchange rate adjustments | -68,943 | 57,712 | -7,937 |
| **Total adjustments** | **47,615** | **143,138** | **9,207** |
| **Note 34 – Change in working capital**  **DKK thousand** | **2021** | **2020** | **2019** |

Acquisition-related costs of DKK 7.1 million have been expensed and are included in administrative expenses in profit or loss and are part of operating cash flows in the statement of cash flows have all been incurred

in the three months period ended March 31, 2020. Adjustments may be applied to the various net asset categories when full alignment to Zealand accounting policies is finalized. Consequently, adjustments may be applied for a period of up to twelve months from the acquisition date in accordance with IFRS 3.

The Valeritas business acquisition has contributed with net revenues of approximately DKK 161.3 million in net revenue and profit and loss of approximately DKK -278.8 million to the Group for the period ending December 31, 2020 since the acquisition on April 2, 2020.

If the acquisition had occurred on 1 January 2020, the consolidated pro forma revenue and operating result of Zealand Pharma Group for the period ended 31 December 2020 would have been approximately DKK 395.8 million and DKK -868.9 million, respectively.

#### Note 32 – Related parties

Zealand has no related parties with controlling interest.

|  |  |  |  |
| --- | --- | --- | --- |
| (Increase)/decrease in receivables | -64,494 | -7,716 | -21,059 |
| (Increase)/decrease in Inventory | -52,772 | -14,404 | 0 |
| Increase/(decrease) in payables and other liabilities | -49,059 | 119,938 | 17,061 |
| Adjustment for non-cash investing activities | 0 | 0 | -7,932 |
| Cash outflow for investment in Beta Bionics | 0 | 0 | 22,803 |
| **Change in working capital** | **-166,325** | **97,818** | **10,873** |

Zealand’s other related parties comprise the Company’s Board of Directors and Corporate Management. Remuneration to the Board of Directors and Corporate Management is disclosed in note 7.

No further transactions with related parties were conducted during the year.

##### Ownership

The following shareholders are registered in Zealand Pharma’s register of shareholders as owning mini- mum 5% of the voting rights or minimum 5% of the share capital (1 share equals 1 vote) at December 31, 2021:

* Van Herk Investments, Rotterdam, Netherlands
* Credit Suisse Bank, Zürich, Switzerland
* SMALLCAP World Fund, Los Angeles, USA (shares)
* The Capital Group Companies, Los Angeles, USA (votes)

## Notes

#### Note 35 – Reconciliation of borrowings

**DKK thousand 2020 2019**

**2021**

|  |  |  |
| --- | --- | --- |
| As at January 1 Additions Transaction costs | 0  -656,120  8,214 | 0 0  0 0  0 0 |
| **As at December 31** | **-647,906** | **0 0** |

#### Note 36 – Significant events after the balance sheet date

No significant events have occurred after the end of the reporting period.

#### Note 37 – Approval of the annual report

The Annual Report has been approved by the Board of Directors and Executive Management and author- ized for issue on March 10, 2022.

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## Financial statements of the parent company

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Income statement** |  |  |  |  | **Statement of comprehensive income** |  | | |
| **DKK thousand** | **Note** | **2021** | **2020** |  | **DKK thousand** | **Note** | **2021** | **2020** |
| Revenue | 2 | 255,776 | 337,808 |  | **Net result for the year** |  | **-1,004,603** | **-826,799** |
| Cost of goods sold | 13 | -121,240 | -85,878 |  | Other comprehensive income (loss) |  | 0 | 0 |
| Royalty expenses |  | -10,133 | 0 |  | **Comprehensive result for the year** |  | **-1,004,603** | **-826,799** |
| **Gross margin** |  | **124,403** | **251,930** |  | | | | |
| Research and development expenses | 3 | -585,458 | -604,081 |
| Sale and marketing expenses |  | -366,509 | -334,118 |
| Administrative expenses | 3 | -253,125 | -138,671 |
| **Operating expenses** |  | **-1,205,092** | **-1,076,870** |
| Other operating income | 6 | 759 | 36,996 |
| Other operating expense | 6 | -2,161 | 0 |
| **Operating result** |  | **-1,082,091** | **-787,944** |
| Income from subsidiaries | 11 | 36,745 | 0 |
| Financial income | 4 | 48,898 | 7,139 |
| Financial expenses | 5 | -15,080 | -51,537 |
| **Result before tax** |  | **-1,011,528** | **-832,342** |
| Income tax (expense)/benefit | 7 | 6,925 | 5,543 |
| **Net result for the year** |  | **-1,004,603** | **-826,799** |

**Financial statements of the parent company**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Statement of financial position at December 31** |  | | | | | | | |
| **DKK thousand** | **Note** | **2021** | **2020** |  | **DKK** **thousand** | **Note** | **2021** | **2020** |
| **Assets** |  |  |  |  | **Liabilities and equity** |  |  |  |
| **Non-current assets** |  |  |  |  | Share capital | 17 | 43,634 | 39,800 |
| Intangibles (Intellectual property) | 8 | 35,691 | 35,691 |  | Treasury shares |  | -71,890 | -1,700 |
| Property, plant and equipment | 9 | 80,075 | 82,377 |  | Share premium |  | 4,247,442 | 3,454,550 |
| Right of use assets | 10 | 107,781 | 118,002 |  | Retained loss |  | -3,320,164 | -2,315,561 |
| Investment in subsidiaries | 11 | 62,228 | 62,228 |  | **Shareholders' equity** |  | **899,022** | **1,177,089** |
| Other investments | 12 | 26,906 | 32,333 |  |  |  |  |  |
| Intercompany |  | 135,817 | 325,645 |  | Deferred revenue |  | 14,551 | 44,587 |
| Deposits |  | 8,920 | 8,920 |  | Other liabilities | 18 | 18,426 | 16,744 |
| Corporate tax receivable | 7 | 1,268 | 1,268 |  | Lease liabilities | 10 | 99,769 | 108,456 |
| Prepaid expenses | 14 | 16,456 | 13,117 |  | **Non-current liabilities** |  | **132,746** | **169,787** |
| **Total non-current assets** |  | **475,142** | **679,581** |  |  |  |  |  |
|  |  |  |  |  | Trade payables |  | 48,430 | 59,307 |
| **Current assets** |  |  |  |  | Payables to subsidiaries |  | 59,078 | 359,869 |
| Trade receivables |  | 13,546 | 0 |  | Lease liabilities | 10 | 11,686 | 11,392 |
| Inventory | 13 | 78,767 | 45,700 |  | Deferred revenue |  | 53,033 | 53,182 |
| Receivables from subsidiaries |  | 9,087 | 0 |  | Other liabilities | 18 | 115,315 | 93,983 |
| Prepaid expenses | 14 | 59,172 | 28,517 |  | **Current liabilities** |  | **287,542** | **577,733** |
| Corporate tax receivable |  | 5,500 | 5,500 |  |  |  |  |  |
| Other receivables | 15 | 1,865 | 7,195 |  | **Total liabilities** |  | **420,288** | **747,520** |
| Marketable securities |  | 299,042 | 297,345 |  | **Total shareholders' equity and liabilities** |  | **1,319,310** | **1,924,610** |
| Cash and cash equivalents | 16 | 377,189 | 860,772 |  |  |  |  |  |
| **Total current assets** |  | **844,168** | **1,245,029** |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Total assets** |  | **1,319,310** | **1,924,610** |  |  |  |  |  |

**Financial statements of the parent** **company**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Statement of cash flows**  **DKK thousand** | **Note** | **2021** | **2020** |  | **Statement of changes in equity**  **DKK thousand** | **Share capital** | **Treasury shares** | **Share premium** | **Retained**  **loss** | **Total** |
| Net result for the year |  | -1,004,603 | -826,799 |  | **Equity at January 1, 2021** | **39,800** | **-1,700** | **3,454,550** | **-2,315,561** | **1,177,089** |
| Adjustments for non-cash items | 22 | 127,223 | 54,758 |  |  |  |  |  |  |  |
| Change in working capital | 23 | -257,057 | 30,682 |  | *Comprehensive income for the year* |  |  |  |  |  |
| Financial income received |  | 0 | 897 |  | Net result for the year | 0 | 0 | 0 | -1,004,603 | -1,004,603 |
| Financial expenses paid |  | -3,296 | -4,562 |  | Treasury shares | 0 | -70,190 | 0 | 0 | -70,190 |
| Deferred revenue |  | -30,185 | -42,881 |  | Share-based compensation | 0 | 0 | 68,577 | 0 | 68,577 |
| Income tax receipt |  | 5,500 | 0 |  | Capital increases | 3,834 | 0 | 771,211 | 0 | 775,045 |
| **Cash inflow/outflow from operating activities** |  | **-1,162,418** | **-787,905** |  | Costs related to capital increases | 0 | 0 | -46,896 | 0 | -46,896 |
|  |  |  |  |  | **Equity at December 31, 2021** | **43,634** | **-71,890** | **4,247,442** | **-3,320,164** | **899,022** |
| Change in deposit |  | 0 | 48 |  |  |  |  |  |  |  |
| Investment in subsidiaries | 11 | 0 | -59,627 |  | **Equity at January 1, 2020** | **36,055** | **-1,700** | **2,648,117** | **-1,488,762** | **1,193,710** |
| Purchase of intangible assets |  | 0 | -41,167 |  |  |  |  |  |  |  |
| Purchase of property, plant and equipment |  | -16,903 | -51,846 |  | *Comprehensive income for the year* |  |  |  |  |  |
| **Cash outflow from investing activities** |  | **-16,903** | **-152,592** |  | Net result for the year | 0 | 0 | 0 | -826,799 | -826,799 |
| Proceeds from issuance of shares related to exercise of warrants |  | 26,070 | 38,832 |  | Share-based compensation | 0 | 0 | 16,273 | 0 | 16,273 |
| Proceeds from issuance of shares |  | 748,975 | 794,929 |  | Capital increases | 3,745 | 0 | 832,866 | 0 | 836,611 |
| Costs related to issuance of shares |  | -46,894 | -42,706 |  | Costs related to capital increases | 0 | 0 | -42,706 | 0 | -42,706 |
| Purchase of treasury shares |  | -28,590 | 0 |  | **Equity at December 31, 2020** | **39,800** | **-1,700** | **3,454,550** | **-2,315,561** | **1,177,089** |
| Leasing installments |  | -12,260 | -12,449 |  |  |  |  |  |  |  |
| **Cash inflow from financing activities** |  | **687,301** | **778,606** |  |  |  |  |  |  |  |
| **Decrease/increase in cash and cash equivalents** |  | **-492,020** | **-161,891** |  |  |  |  |  |  |  |
| Cash and cash equivalents at January 1 |  | 860,772 | 1,019,811 |  |  |  |  |  |  |  |
| Exchange rate adjustments |  | 8,437 | 2,852 |  |  |  |  |  |  |  |
| **Cash and cash equivalents at December 31** |  | **377,189** | **860,772** |  |  |  |  |  |  |  |

**Notes**

#### Note 1 – Significant accounting policies, and significant accounting estimates and assessments

##### Significant accounting policies

**Basis of preparation**

The separate financial statement of the parent company have been prepared in accordance with Interna- tional Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements under the Danish Financial Statements Act (Class D).

The accounting policies for the financial statements of the parent company are unchanged from the pre- vious financial year. A number of new or amended standards became applicable for the current reporting period. The parent company did not change its accounting policies as a result of the adoption of these standards. The accounting policies are the same as for the consolidated financial statements with the supplementary accounting policies for the parent described below. For a description of the accounting policies of the group, please refer to the consolidated financial statements.

Note disclosures have only been included in the Parent Financial Statement where amounts differ from the Consolidation financial statement.

In the narrative sections of the financial statements, comparative figures for 2020 are shown in brackets.

##### Supplementary accounting policies for the Parent Company

**Revenue from research and development services rendered to ZP SPV 3 K/S**

Revenue from research and development services are performed and satisfied over time given that ZP SPV 3 K/S simultaneously receives and consumes the benefits provided by Zealand Pharma A/S.

##### Other operating income

Non-cash contributions to subsidiaries are measured at fair value. Any gain is recognized as other operat- ing income provided the increase does not result in an impairment of the investment.

##### Investments in subsidiaries

Please refer to note 11 Investments in subsidiaries.

#### Note 2 – Revenue

Please refer to note 3 in the consolidated financial statements for accounting policies for the revenue streams.

|  |  |  |
| --- | --- | --- |
| Recognized revenue can be specified as follows for all agreements: |  | |
| **DKK thousand** | **2021** | **2020** |
| Boehringer Ingelheim International GmbH | 22,311 | 149,120 |
| Alexion Pharmaceuticals Inc. | 30,185 | 42,881 |
| Protagonist Therapeutics Inc. | 25,380 | 0 |
| ZP SPV 3 K/S | 9,187 | 7,410 |
| **Total license and milestone revenue** | **87,063** | **199,411** |
| Intercompany sales | 168,713 | 138,397 |
| **Total revenue from product sales** | **168,713** | **138,397** |
| **Total revenue** | **255,776** | **337,808** |
| **Total revenue recognized over time** | **30,185** | **42,881** |
| **Total revenue recognized at a point in time** | **225,591** | **294,927** |

Please refer to note 3 in the consolidated financial statements for additional information regarding revenue.

|  |  |  |
| --- | --- | --- |
| **Notes** |  | |
| **Note 3 – Information on staff and remuneration** |
| **DKK thousand** | **2021** | **2020** |
| Total staff salaries can be specified as follows: Wages and salaries | 217,995 | 200,732 |
| Share based payment costs | 39,890 | 16,273 |
| Pension schemes (defined contribution plans) | 18,700 | 14,605 |
| Other payroll and staff-related costs | 132 | 9,615 |
| **Total** | **276,717** | **241,225** |
| The amount is charged as:  Research and development expenses | 209,549 | 204,210 |
| Administrative expenses | 63,881 | 37,015 |
| Inventory | 3,287 | 0 |
| **Total** | **276,717** | **241,225** |
| **Average number of employees** | **219** | **195** |

For remuneration to the Board of Directors please refer to note 7 in the consolidated financial statements and for additional information regarding staff costs.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Notes** |  | | | | | |
| **Note 3 – Information on staff and remuneration (continued)** |  |  |  |  |  |  |
|  |  |  | **Pension** | **Other short term** | **Warrant compensation** |  |
| **DKK thousand** | **Base salary** | **Bonus** | **contribution** | **benefits** | **expenses** | **Total** |
| **2021** |  |  |  |  |  |  |
| **Remuneration to the Executive Management** |  |  |  |  |  |  |
| Emmanuel Dulac | 5,099 | 3,059 | 1,020 | 243 | 12,182 | 21,603 |
| Adam Sinding Steensberg | 3,056 | 1,193 | 611 | 286 | 4,829 | 9,975 |
| Matthew Donald Dallas1 | 449 | 184 | 0 | 38 | 0 | 672 |
| **Total** | **8,604** | **4,436** | **1,631** | **567** | **17,011** | **32,250** |
|  |  |  |  |  |  |  |
| **Total Other Corporate Management2** | **3,873** | **1,469** | **387** | **186** | **4,791** | **10,705** |
| **Total** | **12,477** | **5,905** | **2,018** | **753** | **21,802** | **42,955** |
| **2020** |  |  |  |  |  |  |
| **Remuneration to the Executive Management** |  |  |  |  |  |  |
| Emmanuel Dulac | 4,950 | 3,267 | 990 | 699 | 2,534 | 12,440 |
| Adam Sinding Steensberg | 2,967 | 1,266 | 593 | 282 | 2,281 | 7,389 |
| Matthew Donald Dallas1 | 408 | 192 | 0 | 2 | 0 | 602 |
| **Total** | **8,325** | **4,725** | **1,583** | **983** | **4,815** | **20,431** |
|  |  |  |  |  |  |  |
| **Total Other Corporate Management2** | **2,604** | **1,135** | **260** | **51** | **1,544** | **5,594** |
| **Total** | **10,929** | **5,860** | **1,843** | **1,034** | **6,359** | **26,025** |
| 1 Matthew Dallas has tax obligations in Denmark, so a part of his salary is paid out in Denmark. |  |  |  |  |  |  |
| 2 Other Corporate Management in 2021 comprised two members (2020: One). |  |  |  |  |  |  |

## Notes

#### Note 3 – Information on staff and remuneration (continued)

##### The employee incentive programs of

**Warrant programs existing during the period 2020 2015**

Maximum term of options granted 10 years 10 years

Method of settlement equity- equity-

##### The employee incentive programs of

**Warrant programs existing during the period 2020 2015 2010**

Maximum term of options granted 10 years 10 years 5 years Method of settlement equity-settled equity-settled

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | settled | settled |  | **2020** |  | | |
| **2021** |  |  |  | Outstanding at the beginning of the period | 0 | 1,647,788 | 42,359 |
| Outstanding at the beginning of the period | 63,217 | 1,908,920 |  | Granted during the period | 63,217 | 631,288 | 0 |
| Granted during the period | 0 | 0 |  | Forfeited during the period | 0 | -53,747 | 0 |
| Forfeited during the period | 0 | -214,348 |  | Exercised during the period | 0 | -276,409 | -42,359 |
| Exercised during the period | 0 | -233,595 |  | Expired during the period | 0 | -40,000 | 0 |
| Expired during the period | 0 | -47,000 |  | **Outstanding at the end of the period; and** | **63,217** | **1,908,920** | **0** |
| **Outstanding at the end of the period; and** | **63,217** | **1,413,977** |  | Exercisable at the end of the period | 0 | 301,529 | 0 |
| Exercisable at the end of the period | 21,073 | 529,596 |  | *Warrants outstanding at the end of the period* |  |  |  |
| *Warrants outstanding at the end of the period* |  |  |  | Range of exercise prices | 216.8 | 90.0-224.4 | 101.2-127.1 |
| Range of exercise prices | 216.8 | 90-224.4 |  |  |  |  |  |
| Weighted-average remaining contractual life | 8.7 | 3.8 |  | Weighted-average remaining contractual life | 9.7 | 4.9 | 0 |
| Number held by Executive Management | 0 | 353,409 |  | Number held by Executive Management | 0 | 373,409 | 0 |
|  |  |  |  | **Warrants exercised during the period** |  | **2021** | **2020** |

|  |  |  |
| --- | --- | --- |
| Weighted-average share price at the date of exercise | 186.1 | 234.7 |
| Weighted-average exercise price for warrants expired during the period | 142.5 | 101.2 |
| Weighted-average exercise price for warrants forfeited during the period | 206.2 | 169.2 |
| Weighted-average exercise price for warrants outstanding at period end | 159.6 | 158.5 |

#### Note 3 – Information on staff and remuneration (continued) Note 4 – Financial income

**2021**

**2021**

##### Expense arising from share-based payment transactions

|  |  |  |
| --- | --- | --- |
| Interest income from financial assets measured at amortized costs | 44 | 897 |
| Interest income | 6,744 | 5,306 |
| Fair value adjustments of marketable securities | 1,852 | 0 |
| Fair value adjustments of other investments | 0 | 936 |
| Dividend, marketable securities | 0 | 0 |
| Exchange rate adjustments | 40,258 | 0 |
| **Total financial income** | **48,898** | **7,139** |

**2020**

**DKK thousand**

**2020**

|  |  |  |
| --- | --- | --- |
| Research and development expenses Sale and marketing expenses Administrative expenses | 20,981  0  18,580 | 14,254  0  2,513 |
| **Total** | **39,561** | **16,767** |

Effect of fair value of PSUs recognized in the income statement is DKK 11.2 million (2020: DKK 0.8 million). Effect of fair value of RSUs recognized in the income statement is DKK 14.1 million (2020: DKK 0.6 million).

##### Long-term incentive programs (LTIP) for Corporate Management and employees

Please refer to note 9 in the consolidated financial statements for additional information regarding financial income.

#### Note 5 – Financial expenses

**2021**

##### No of PSUs 2020

|  |  |  |
| --- | --- | --- |
| **Number of units** |  |  |
| At January 1 | 16,703 | 16,703 |
| Granted during the year | 185,762 | 0 |
| Vested during the year | 0 | 0 |
| Forfeited during the year | 0 | 0 |
| **At December 31** | **202,465** | **16,703** |

**No of RSUs**

|  |  |  |
| --- | --- | --- |
| **Number of units** |  |  |
| At January 1 | 13,665 | 0 |
| Granted during the year | 258,883 | 13,665 |
| Vested during the year | -163 | 0 |
| Forfeited during the year | -17,318 | 0 |
| **At December 31** | **255,067** | **13,665** |

##### 2020

**DKK thousand**

**2021**

**2020**

Other financial expenses

Fair value adjustments of Marketable securities Fair value adjustments of other investments Interest expenses

Exchange rate adjustments

**Total financial expenses**

-3,224

0

-8,217

-3,639

0

**-15,080**

-4,931

-2,103

0

-2,391

-42,112

**-51,537**

Please refer to note 10 in the consolidated financial statements for additional information regarding financial expenses.

**2021**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Notes**  **Note 6 - Other operating income and expenses** |  |  |  | **Note** **7 – Income tax (continued)** |  | |
| **DKK thousand** | **2021** | **2020** |  | **DKK thousand** | **2021** | **2020** |
| Government grants | 759 | 645 |  | **Tax on equity** |  |  |
| Contributed IP rights to Zealand Pharma SPV 3 K/S | 0 | 35,496 |  | Warrants - shareprice development | 5,588 | 2,325 |
| Other | 0 | 855 |  | Change in tax assets (not recognized) | -5,588 | -2,325 |
| **Total other operating income** | **759** | **36,996** |  | **Total income tax expense (income)** | **0** | **0** |
| Other | -2,161 | 0 |  |  |  |  |

Please refer to note 8 in the consolidated financial statements for additional information regarding other operating income and expenses

**2021**

**Total other operating expenses**

**-2,161**

**0**

**DKK thousand**

**2020**

#### Note 7 – Income tax

##### DKK thousand

##### 2020

**2021**

|  |  |  |
| --- | --- | --- |
| **Specification of unrecognized deferred tax assets:** |  |  |
| Tax losses carried forward (available indefinitely) | 2,231,010 | 1,269,107 |
| Research and development expenses | 842,775 | 732,389 |
| Licenses, rights and patents | 41,512 | 36,260 |
| Non-current assets | 88,676 | 66,179 |
| Liabilities | 73,444 | 131,147 |
| Other | 30,822 | 51,413 |
| **Total temporary differences** | **3,308,239** | **2,286,495** |

Please refer to note 11 in the consolidated financial statements for additional information regarding income tax.

|  |  |  |
| --- | --- | --- |
| Net result for the year before tax | -1,011,529 | -832,342 |
| Corporate tax rate in Denmark | 22.0% | 22.0% |
| Expected tax benefit/(expenses) | -222,536 | -183,115 |
| Adjustment for non-deductible expenses | 5,469 | 1,873 |
| Adjustment for non-taxable income | -8,084 | -7,181 |
| Adjustment for warrants | 6,501 | -72 |
| Adjustment for R&D extra deduction | -14,379 | -8,811 |
| Adjustment to prior years | -5,143 | 313 |
| Change in tax assets (not recognized) | 231,247 | 191,450 |
| **Total income tax expense/benefit** | **-6,925** | **-5,543** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Note 8 – Intangible assets**  **DKK thousand** | **Licenses,**  **rights and patents** |  | **DKK thousand** | **Licenses,**  **rights and patents** |
| Cost at January 1, 2021 | 41,167 |  | Cost at January 1, 2020 | 0 |
| Additions | 0 |  | Additions | 41,167 |
| Retirements | 0 |  | **Cost at December 31, 2020** | **41,167** |
| **Cost at December 31, 2021** | **41,167** |  |  |  |
|  |  |  | Depreciation at January 1, 2020 | 0 |
| Depreciations and impairment at January 1, 2021 | 5,476 |  | Depreciation for the year | 411 |
| Depreciation for the year | 0 |  | Impairment | 5,065 |
| Impairment | 0 |  | **Depreciation and impairment at December 31, 2020** | **5,476** |
| **Depreciation and impairment at December 31, 2021** | **5,476** |  | **Carrying amount at December 31, 2020** | **35,691** |
| **Carrying amount at December 31, 2021** | **35,691** |  |  |  |
|  |  |  | *Depreciation and impairment for the financial year has been charged as:* |  |
| *Depreciation and impairment for the financial year has been charged as:* |  |  | Research and development expenses | 411 |
| Research and development expenses | 0 |  | Sale and marketing expenses | 5,065 |
| Sale and marketing expenses | 0 |  | **Total** | **5,476** |
| Administrative expenses | 0 |  |  |  |
| **Total** | **0** |  |  |  |

## Notes

#### Note 9 – Property, plant and equipment

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DKK thousand** | **Plant and machinery** | **Other fixtures and fittings** | **Building improvements** | **Assets under construction** |  | **DKK thousand** | **Plant and machinery** | **Other fixtures and fittings** | **Building improvements** | **Assets under construction** |
| Cost at January 1, 2021 | 85,877 | 12,706 | 32,448 | 3,022 |  | Cost at January 1, 2020 | 57,153 | 12,501 | 13,773 | 14,001 |
| Transfer | 949 | 204 | 0 | -1,153 |  | Transfer | 0 | 0 | 13,796 | -13,796 |
| Additions | 7,118 | 1,444 | 2,449 | 5,893 |  | Additions | 33,103 | 1,190 | 14,735 | 2,817 |
| Retirements | -3,166 | -5 | 0 | -419 |  | Retirements | -4,379 | -985 | -9,856 | 0 |
| **Cost at December 31, 2021** | **90,778** | **14,349** | **34,897** | **7,343** |  | **Cost at December 31, 2020** | **85,877** | **12,706** | **32,448** | **3,022** |
| Accumulated depreciation at January 1, 2021 | 43,977 | 5,711 | 1,988 | 0 |  | Accumulated depreciation at January 1, 2020 | 43,696 | 4,164 | 9,860 | 0 |
| Depreciation for the year | 11,551 | 2,681 | 2,715 | 0 |  | Depreciation for the year | 4,585 | 2,533 | 1,933 | 0 |
| Retirements | -1,327 | -4 | 0 | 0 |  | Retirements | -4,304 | -986 | -9,805 | 0 |
| **Accumulated depreciation at December 31, 2021** | **54,201** | **8,388** | **4,703** | **0** |  | **Accumulated depreciation at December 31, 2020** | **43,977** | **5,711** | **1,988** | **0** |
| **Carrying amount**  **at December 31, 2021** | **36,577** | **5,961** | **30,194** | **7,343** |  | **Carrying amount**  **at December 31, 2020** | **41,900** | **6,995** | **30,460** | **3,022** |
| ***Depreciation for the financial year has been charged as:*** |  |  |  |  |  | ***Depreciation for the financial year has been charged as:*** |  |  |  |  |
| Cost of goods sold  Research and | 7,143 | 117 | 0 | 0 |  | Research and development expenses | 4,000 | 2,133 | 1,634 | 0 |
| development expenses | 3,621 | 2,564 | 2,716 | 0 |  | Sale and marketing expenses | 0 | 0 | 0 | 0 |
| Administrative expenses | 786 | 0 | 0 | 0 |  | Administrative expenses | 585 | 400 | 299 | 0 |
| **Total** | **11,550** | **2,681** | **2,716** | **0** |  | **Total** | **4,585** | **2,533** | **1,933** | **0** |

Please refer to note 14 in the consolidated financial statements for additional information regarding property, plant and equipment.

## Notes

#### Note 10 – Right-of-use assets and lease liabilities

##### Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to lease assets:

|  |  |  |
| --- | --- | --- |
| **DKK thousand** | **Buildings** | **Other fixtures and**  **fittings** |
| As at January 1, 2021 | 116,824 | 1,178 |
| Additions | 0 | 1,511 |
| Retirements | 0 | 0 |
| Reversal of depreciations | 0 | 0 |
| Depreciation expense | -10,666 | -1,066 |
| **As at December 31, 2021** | **106,158** | **1,623** |
| As at January 1, 2020 | 84,148 | 1,484 |
| Additions | 43,698 | 581 |
| Retirements | -6,036 | -143 |
| Reversal of depreciations | 6,036 | 0 |
| Depreciation expense | -11,022 | -744 |
| **As at December 31, 2020** | **116,824** | **1,178** |

|  |  |  |
| --- | --- | --- |
| Set out below are the carrying amounts of lease liabilities and the movements  during the period. |  | |
|  | **2021** | **2020** |
| As at January 1 | 119,848 | 85,760 |
| Additions | 1,418 | 44,209 |
| Accretion of interest | 2,449 | 2,386 |
| Payments | -12,260 | -12,507 |
| **As at December 31** | **111,454** | **119,848** |
| *Current* | *11,686* | *11,392* |
| *Non-current* | *99,769* | *108,456* |
| *The following are the amounts recognized in profit and loss:* |  |  |
| Depreciation expense of right-of-use assets | -11,732 | -11,766 |
| Interest expense on lease liabilities | 2,449 | 2,391 |
| **Total amount recognized in profit and loss** | **-9,283** | **-9,375** |
| Cashflow | -12,260 | -12,507 |
| **Total cash outflow for leases** | **-12,260** | **-12,507** |

Please refer to note 15 in the consolidated financial statements for additional information regarding right- of-use assets and lease liabilities.

## Notes

#### Note 11 – Investments in subsidiaries

##### Accounting policies

|  |  |  |
| --- | --- | --- |
| **Company summary** | **Voting**  **Domicile Ownership** | **rights** |
| **Zealand Pharma A/S subsidiaries:**  ZP Holding SPV K/S | Denmark 100% | 100% |
| ZP General Partner 1 ApS | Denmark 100% | 100% |
| Zealand Pharma US, Inc. | United States 100% | 100% |
| Encycle Therapeutics, Inc. | Canada 100% | 100% |
| ZP SPV 3 K/S | Denmark 100% | 100% |
| ZP General Partner 3 ApS | Denmark 100% | 100% |
| **ZP Holding SPV K/S subsidiaries:**  ZP SPV 1 K/S | Denmark 100% | 100% |
| ZP General Partner 2 ApS | Denmark 100% | 100% |
| **Zealand Pharma US Inc. subsidiary**  Zealand Pharma California US, LLC. | United States 100% | 100% |

*Investments in subsidiaries are measured at cost in the parent company’s financial statements. Where the recoverable amount of the investment is lower than cost, the investments are written down to this lower value.*

##### DKK thousand 2020

**2021**

|  |  |  |
| --- | --- | --- |
| Cost at January 1 | 62,228 | 2,601 |
| Additions | 0 | 59,627 |
| **Cost at December 31** | **62,228** | **62,228** |
| Value adjustments at January 1 | 0 | 0 |
| Value adjustments for the year | 0 | 0 |
| **Value adjustments at December 31** | **0** | **0** |
| **Carrying amount at December 31** | **62,228** | **62,228** |

ZP Holding SPV K/S has in 2021 distributed dividend of DKK 36.7 million to Zealand Pharma A/S. No divi- dend has been distributed from subsidiaries during 2020.

#### Note 12 – Other investments

Please refer to note 16 in the consolidated financial statements.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Notes** |  | | | | | |
| **Note 13 – Inventories** |  |  |  | **Note 15 –** **Other receivables** |  |  |
| Inventories were comprised as follows: |  |  |  | **DKK thousand** | **2021** | **2020** |
| **DKK thousand** | **2021** | **2020** |  | VAT | 420 | 3,887 |
|  |  |  |  | Other | 1,445 | 3,308 |
| Raw materials | 35,816 | 14,398 |  | **Total other receivables** | **1,865** | **7,195** |
| Work in process | 29,498 | 13,665 |  |  |  |  |
| Finished goods | 13,453 | 17,637 | Please refer to note 21 in the consolidated financial statements for additional information regarding other | | | |
| **Total** | **78,767** | **45,700** | receivables. | | | |
| Direct costs | 59,128 | 35,653 |  | | | |
| Indirect production costs | 19,639 | 10,047 | **Note 16 – Cash and cash equivalents** | | | |
| Write downs recognized on inventories were reflected in the cost of goods sold. They were comprised as **DKK thousand 2021 2020**  follows: | | | | | | |

##### DKK thousand 2020

**2021**

|  |  |  |
| --- | --- | --- |
| DKK | 9,056 | 253,262 |
| USD | 354,951 | 521,977 |
| EUR | 13,182 | 85,533 |
| **Total cash and cash equivalents** | **377,189** | **860,772** |

|  |  |  |
| --- | --- | --- |
| Accumulated write downs, January 1 | -6,425 | 0 |
| Additions | 0 | -5,707 |
| Write downs in the reporting period | -8,089 | -718 |
| Utilization of write downs | 11,702 | 0 |
| Reversal of write downs | 0 | 0 |
| **Accumulated write downs, December 31** | **-2,812** | **-6,425** |

Please refer to note 18 in the consolidated financial statements for additional information regarding inventory.

#### Note 14 – Prepaid expenses

The increase in Prepaid expenses of DKK 34.0 million from 2020 to 2021 is primarily related to higher insurance costs for coverage of Management and Board members and timing of invoices received from the Contract Research Organizations (CRO's).

Please refer to note 23 in the consolidated financial statements for additional information regarding cash and cash equivalents.

## Notes

#### Note 17 – Share capital

Please refer to note 24 to the consolidated financial statements.

#### Note 18 – Other liabilities

|  |  |  |
| --- | --- | --- |
| **DKK thousand** | **2021** | **2020** |
| Employee benefits | 59,506 | 67,173 |

**Note 20** **– Financial risks**

For Capital structure, Exchange rate risk, Credit risk and Liquidity risk we refer to note 30 in the consoli- dated financial statements.

##### Exchange rate risk

As of December 31, 2021, Zealand Pharma A/S holds DKK 355.0 million (2020: DKK 522.0 million) of its cash in USD.

##### Interest rate risk

As of December 31, 2021, Zealand Pharma A/S has lease liabilities amounting to DKK 111.5 million (2020:

|  |  |  |  |
| --- | --- | --- | --- |
| Development project costs  Other payables | 18,736  55,499 | 28,266  15,287 | DKK 119.8 million). |
| **Total other liabilities** | **133,741** | **110,727** | **Contractual maturity (liquidity risk)** |
|  |  |  | A breakdown of the Company’s aggregate liquidity risk on financial assets and liabilities is given below. |
| Current: | 115,315 | 93,983 |  |
| Non-current | 18,426 | 16,744 | The following table details the Company’s remaining contractual maturity for its financial liabilities with  agreed repayment periods. The table has been prepared using the undiscounted cash flows for financial |

Please refer to note 28 in the consolidated financial statements for additional information regarding other liabilities.

#### Note 19 – Contingent assets, liabilities and other contractual obligations

Zealand Pharma A/S is part of a Danish joint taxation. Consequently, referring to the Danish Corporation Tax Act regulations, Zealand Pharma A/S is liable for any income taxes, etc. for the jointly taxed compa- nies and Zealand Pharma A/S is likewise liable for any obligations to withhold tax at source on interest, royalties and returns for the jointly taxed companies.

Please refer to note 29 in the consolidated financial statements for information on contractual obliga- tions.

liabilities, based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that the specific timing of interest or principal flows is dependent on future events, the table has been prepared based on Management’s best estimate of such timing at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

With the exception of leasing, there are no interest cash-flows to be included in the table below for the existing financial liabilities as they are not interest-bearing financial liabilities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Notes** |  | | | |
| **Note 20 – Financial risks (continued)** |
| **DKK thousand** | **< 12**  **months** | **1-5 Years** | **>5 years** | **Total** |
| Trade payables | 48,430 | 0 | 0 | 48,430 |
| Payables to subsidiaries | 59,078 | 0 | 0 | 59,078 |
| Leasing | 11,772 | 44,946 | 67,547 | 124,265 |
| Other liabilities | 115,315 | 0 | 18,426 | 133,741 |
| **Total financial liabilities** |  |  |  |  |
| **at December 31, 2021** | **234,595** | **44,946** | **85,973** | **365,514** |
| Trade payables | 59,307 | 0 | 0 | 59,307 |
| Leasing | 11,392 | 43,949 | 78,648 | 133,989 |
| Other liabilities | 92,983 | 0 | 0 | 92,983 |
| **Total financial liabilities** |  |  |  |  |
| **at December 31, 2020** | **163,682** | **43,949** | **78,648** | **286,279** |

All cash flows are undiscounted and include all liabilities under contracts.

The fair value of marketable securities is based on Level 1 in the fair value hierarchy. The fair value of other investments is based on level 3 in the fair value hierarchy.

|  |  |  |
| --- | --- | --- |
| **DKK thousand** | **2021** | **2020** |
| **Categories of financial instruments** |  |  |
| Deposits | 8,920 | 8,920 |
| Trade receivables | 13,546 | 0 |
| Receivables from subsidiaries | 144,904 | 325,645 |
| Other receivables | 1,865 | 7,195 |
| Cash and cash equivalents | 377,189 | 860,772 |
| **Financial assets measured at amortized cost** | **546,424** | **1,502,532** |
| Marketable securities | 299,042 | 297,345 |
| Other investments | 26,906 | 32,333 |
| **Financial assets measured at fair value through profit or loss** | **325,948** | **329,678** |
| Trade payables | 48,430 | 59,307 |
| Payables to subsidiaries | 59,078 | 8,562 |
| Lease liabilities | 111,455 | 119,848 |
| Other liabilities | 133,741 | 109,292 |
| **Financial liabilities measured at amortized cost** | **352,704** | **297,009** |

At December 31, 2021 and 2020, the carrying amount of other financial assets and financial liabilities approximated the fair value.

## Notes

#### Note 21 – Transactions with related parties

‘Zealand Pharma A/S' related parties are the board of directors, executive management, and close mem- bers of the family of these persons. Refer to note 7 in the consolidated financial statements for remunera- tion of Board of Directors. Refer to note 3 in these parent company financial statements for remuneration of the executive management team.

|  |  |  |
| --- | --- | --- |
| The parent company had the following transactions with subsidiaries: |  | |
| **DKK thousands** | **2021** | **2020** |
| Revenue | 168,713 | 138,396 |

|  |  |  |
| --- | --- | --- |
| **Note 23** **– Change in working capital** |  | |
| **DKK thousand** | **2021** | **2020** |
| Increase/decrease in receivables | -184,413 | -9,666 |
| Increase/decrease in inventory | -33,067 | -45,700 |
| Increase/decrease in payables | -10,876 | 39,720 |
| Increase/decrease in other liabilities | -28,701 | 46,328 |
| **Change in working capital** | **-257,057** | **30,682** |
| **Note 24 – Allocation of result** |  |  |

The Board of Directors proposes that the parent company’s 2021 net result of DKK -1,004.6 million (2020: DKK -826.8 million) be carried forward to next year by transfer to retained loss.

|  |  |  |
| --- | --- | --- |
| Other income | 9,186 | 35,500 |
| Research and development expenses | 54,055 | 0 |
| Sale and marketing expenses | 365,851 | 327,829 |
| Admin Expenses | 92,149 | 0 |
| Receivables | 144,904 | 325,645 |
| Payables | 59,078 | 359,869 |
| **Note 22 – Adjustments for non-cash items** |  |  |
| **DKK thousand** | **2021** | **2020** |
| Depreciation | 28,678 | 26,293 |
| Warrant compensation expenses | 68,577 | 16,273 |
| Income tax receipt | 1,426 | 0 |
| Financial income | -8,596 | 0 |
| Financial expenses | 17,436 | 5,327 |
| Net loss on sale of fixed assets | 2,258 | 0 |
| Fair value adjustments | -2,007 | 0 |
| Exchange rate adjustments | 19,451 | 9,623 |
| **Total adjustments** | **127,223** | **57,516** |

#### Note 25 – Significant events after the balance sheet date

Please refer to note 36 in the consolidated financial statements.

#### Note 26 – Approval of the annual report

Please refer to note 37 in the consolidated financial statements.

## Alternative performance measures for the Group (non-audited)

##### Free cash flow

Free cash flow is calculated as the sum of cash flows from operating activities less purchase of property, plant and equipment. A positive free cash flow shows that the Group is able to finance its activities and that external financing or capital raises is thus not necessary for the Group’s operating activities. There- fore, Executive Management believes that this non-IFRS liquidity measure provides useful information to investors in addition to the most directly comparable IFRS financial measure “Net cash flow from operat- ing activities.” The table below shows a reconciliation of free cash flow for 2021, 2020 and 2019:

|  |  |  |  |
| --- | --- | --- | --- |
| **DKK thousand** | **2021** | **2020** | **2019** |
| Cash (outflow)/inflow from operating activities | -1,211,971 | -688,716 | -409,455 |
| Less purchase of property, plant and equipment | -22,133 | -25,044 | -21,036 |
| **Free cash flow** | **-1,234,104** | **-713,760** | **-430,491** |

The Board of Directors and Executive Management have today discussed and approved the Annual Report of Zealand Pharma A/S for the financial year January 1 – December 31, 2021.

The consolidated financial statements and parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

We consider the accounting policies used to be appropriate. In our opin- ion, the financial statements give a true and fair view of the Group’s and the parent company’s financial position as of December 31, 2021, and of the results of the Group’s and the parent company’s operations and cash flows for the financial year January 1 – December 31, 2021.

##### Executive Management

In our opinion, the Management’s review includes a fair review of the development of the Group’s and the parent company’s operations and economic conditions, the results for the year, and the Group’s and the parent company’s financial position, as well as a review of the principal risks and uncertainties to which the Group and the parent company are exposed.

In our opinion, the Annual Report of Zealand Pharma A/S for the fi- nancial year January 1 - December 31, 2021 identified as 549300ITB- B1ULBL4CZ12-2021-12-31-en.zip has in all material respects been prepared in compliance with the ESEF Regulation.

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

Søborg, March 10, 2022

##### Emmanuel Dulac

President and

Chief Executive Officer

**Matthew Douglas Dallas** Senior Vice President and Chief Financial Officer

**Adam Sinding Steensberg** Executive Vice President, Research & Development, and Chief Medical Officer

##### Board of Directors



**Statement of the Board of Directors and Executive Management**

**Alf Gunnar Martin Nicklasson**

Chairman

##### Bernadette Connaughton

Board member

##### Michael John Owen

Board member

##### Kirsten Aarup Drejer

Vice Chairman

##### Leonard Kruimer

Board member

**Iben Louise Gjelstrup** Board member Employee elected

##### Jeffrey Berkowitz

Board member

##### Alain Munoz

Board member

**Jens Peter Stenvang** Board member Employee elected

**Frederik Barfoed Beck** Board member Employee elected

**Anneline Nansen** Board member Employee elected

**To the shareholders of Zealand Pharma A/S**



**Independent auditor’s report**

**Report on the audit of the Consolidated Financial Statements and Parent Company Financial Statements**

**Opinion**

We have audited the consolidated financial statements and the parent company financial statements of Zealand Pharma A/S for the financial year January 1 – December 31, 2021, which comprise income statement, statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in equity and

notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Stand- ards as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at December 31, 2021 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year January 1 – December 31, 2021 in accordance with International Financial Reporting Standards as issued by the International Accounting Stand- ards Board (IASB) and as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidat- ed financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Inter- national Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical respon- sibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

### Material uncertainty related to going concern

The financial statements have been prepared assuming that the Company will continue as a going concern. As dis-

cussed in Note 2 to the financial statements, the Company, with its current strategic plans, has identified a working capital deficit by September 2022 and substantial doubt exists about the Company’s ability to continue as a going concern. Management's evaluation of the events and con- ditions and management’s plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. We have not modified our opinion in respect of this matter.

Appointment of auditor

We were initially appointed as auditor of Zealand Pharma A/S on April 2, 2020 for the financial year 2020. We have been reappointed by resolution of the general meeting on April 15, 2021 for the financial year 2021.

### Key audit matters

A key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements for the financial year 2021. The matter was addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on the matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matter below. Accordingly, our audit included the design

and performance of procedures to respond to our assess- ment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the financial statements.

### Accounting for rebates and discounts related to the Company’s sales in the United States

As disclosed in Note 3 to the consolidated financial state- ments, revenue from products sold by the Company in the United States (U.S.) is impacted by estimates related to managed care rebates, medicare part D rebates, and co- pay card redemption.

The estimates for managed care rebates, medicare part D rebates, and co-pay card redemption and related liabilities are recognised as a reduction to gross product sales in the period in which the underlying sales are recognised. As of December 31, 2021, the liabilities for sales discounts and rebates amounts to DKK 27.8 million, as disclosed in Note 27 in the consolidated financial statements.

Auditing managed care rebates and medicare part D re- bates, and co-pay card redemptions and related liabilities is complex due to the judgmental nature of management’s estimates, which involves multiple assumptions, as not all conditions are known at the time of sale. For both man- aged care rebates and the medicare part D rebates, the key assumptions relate to the rebate percentages by each pharmacy as determined in each pharmacy's contract with

the Company and forecasted number of prescriptions that will be filled by each pharmacy (referred to as payor mix). For co-pay card redemptions, the key assumptions relate to expected settlement rates for sales units remaining in the channel that have yet to be presented under co-pay terms. These assumptions are made based on historical actuals, which are used to estimate forecasted trends, including payor mix and settlement rates, which are used to estimate the expected settlement of managed care rebates and medicare part D rebates, and co-pay card redemption, and the specific terms in the individual agreements.

### How our audit addressed the key audit matter

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's process to develop the estimates around managed care rebates, medicare part D rebates, and co-

pay card redemption. For example, we tested controls over management’s review of key assumptions, including payor mix for managed care rebates and medicare part D rebates, and settlement rates for sales units remaining in channel for co-pay card redemptions.

Our procedures included, among others, checking cler- ical accuracy of management’s calculation of liabilities for managed care rebates, medicare part D rebates, and co-pay card redemptions. We assessed the assumptions applied by management, and compared them to appli- cable commercial policies, historical experience, and the

terms in the rebate agreements with the pharmacy benefit managers and agreements with co-pay program partners.

We further examined subsequent settlement obligations to assess completeness and accuracy of the recorded liabil- ities. We performed an independent assessment on the key assumptions of the liabilities as of December 31, 2021, including the payor mix and expected settlement rates by

developing our own point estimates through the use of his- torical trends to predict current year liabilities and compar- ing these to the actual liabilities recognised. In addition, we have assessed the adequacy of the Company’s disclosures on rebates and discounts related to the matter described above.

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the finan- cial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Man- agement's review.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of consol- idated 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 additional requirements of the Danish Financial Statements Act and for such internal control as Manage- ment determines is necessary to enable the preparation of financial statements that are free from material misstate- ment, whether due to fraud or error.

In preparing the financial statements, Management is re- sponsible for assessing the Group's and the Parent Com- pany's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Den- mark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial state- ments.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepti- cism throughout the audit. We also:

* Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or er- ror, design and perform audit procedures responsive to

those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk

of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are ap- propriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
* Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to con- tinue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the fi- nancial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
* Evaluate the overall presentation, structure and contents of the financial statements, including the note disclo- sures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
* Obtain sufficient appropriate audit evidence regard- ing the financial information of the entities or business activities within the Group to express an opinion on the

consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we iden- tify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to commu- nicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial

statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would

reasonably be expected to outweigh the public interest benefits of such communication.

### Report on compliance with the ESEF Regulation

As part of our audit of the financial statements of Zealand Pharma A/S we performed procedures to express an opin- ion on whether the annual report for the financial year Jan- uary 1 – December 31, 2021 with the file name 549300ITB- B1ULBL4CZ12-2021-12-31-en.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electron- ic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

* The preparing of the annual report in XHTML format;
* The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the an- choring thereof to elements in the taxonomy, for finan- cial information required to be tagged using judgement where necessary;
* Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human readable format; and
* For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor’s judgement, including the assessment of the risks of material depar-

tures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

* Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report for the financial year Jan- uary 1 – December 31, 2021 with the file name 549300ITB- B1ULBL4CZ12-2021-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, March 10, 2022

EY Godkendt Revisionspartnerselskab

Christian Schwenn Johansen Rasmus Bloch Jespersen

* Testing whether the annual report is prepared in XHTML format;

State Authorised Public Accountant

State Authorised Public Accountant

* Obtaining an understanding of the company’s iXBRL tagging process and of internal control over the tagging process;
* Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
* Evaluating the appropriateness of the company’s use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
* Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and

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# Other information

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**Sources Company**

**information**

##### 2021 Achievements

¹ (Partnered with Alexion (AstraZeneca))

##### Peptide platform

¹ (This includes Lixisenatide licensed to Sanofi and sold under the mark Lyxumia® in the EU and Adlyxin® in the US as well as Dasiglucagon)

² Kumanyika S et al., N Engl J Med (2020) 383:2197-2200

##### Zealand Pharma Pipeline

¹ Licensed to Boehringer Ingelheim.

² Licensed to AstraZeneca.

##### Severe Hypoglycemia in diabetes/Zegalouge

¹ International Hypoglycemia Study Group. Glucose concentrations of less than 3.0 mmol/L (54 mg/dL) should be reported in clinical trials: a joint position statement of the American Diabetes Association and the European Association for the Study of Diabetes. Published in both Diabetes Care 2017 Jan; 40(1): 155-157 and Diabetologia 2017;6-:3-6.

² Siyed Y. Dasiglucagon in severe hypoglycemia: a profile of its use. Drugs & Therapy Per- spectives 2022. https://doi.org/10.1007/s40267-022-00894-x

³ Zegalogue (dasiglucagon). Prescribing information. Zealand Pharma A/S; April 2021

##### CHI

¹ Congenital Hyperinsulinism International. Available at: [http://congenitalhi.org](http://congenitalhi.org/)

² De Leon et al. Nat Clin Pract Endocrinol Metab 2007;3:57-68

³ Yorifuji et al. Pediatrics International 2014;56:467

⁴ Eljamel et al. Orphanet Journal of Rare Diseases 2018;13:123

##### Type 1 diabetes

¹ Hypoglycemia in the Diabetes Control and Complications Trial. The Diabetes Control and Complications Trial Research Group. Diabetes. 1997;46:271-286;

² Abraham et al. Pediatr Diabetes. 2018;19(Suppl. 27):178-192;

³ International Hypoglycaemia Study Group; Diabetes Care. 2015;38:1583-1591;

⁴ Edridge et al. PloS ONE. 2015:10:e0126427.

⁵ Chronic usage of other 2nd generation products is likely hindered by DMSO additive and inhalation format, respectively

##### Obesity / Type 2 diabetes

¹ Kumanyika S et al., N Engl J Med (2020) 383:2197-2200

##### Short Bowel Syndrome (SBS)

¹ Jeppesen P. Expert Opinion on Orphan Drugs (2013) 1(7):515-525

##### Corporate Matters

¹ The Nomination Committee is a sub-set of the board.

² Formalized of April 2021.

³ Resigned from company and as employee elected board member in September 2021

⁴ Joined the board as of Gertrud Koefoed Rasmussen’s resignation in September 2021

##### Board of Directors and Corporate Management

¹ Resigned in 2006 and re-elected in 2007.

² Employee-elected board members are elected for a period of four years.

##### Zealand Pharma A/S

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##### Established

1998

##### Registered office

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##### Auditors

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