



NattoPharma[®]

Interim report – 3rd Quarter 2009

Highlights

- **Share issue.** A share issue of NOK 10 million was carried out October 13th 2009, of which NOK 5 million was guaranteed. Approval was given in an extraordinary general meeting November 5th 2009.
- **Sales development:** Increased revenue during 3 first quarters of 2009, sales reaching NOK 18.6 million compared to NOK 15.5 million during same period 2008. Significantly increased interest shown in the market as a result of the regulatory approvals in Europe and positive R&D results. The company has created a solid foundation for negotiation agreements with global and regional operators. These agreements will represent a basis for a significant increase in future sales.
- **Development of the food market:** In February, NattoPharma signed a strategic co-operation agreement with Danisco regarding exclusive global sales rights for the food market. Danisco has as planned launched MenaQ7 in September, and will intensify its sales and marketing activities of MenaQ7. The cooperation between the companies is very good and there are reasons to believe that one will find MenaQ7 as an additive in several types of food in the years to come. However, the Company does not expect to see a significant sales volume in this segment before 2011.
- **Organisational development:** During this quarter, the Company has made major changes in the organisation, by hiring Morten Sundstø as CEO, Dr. Leon Schurgers as new VP R&D and Dr. Elke Theuwissen as Regulatory and QA Manager.
- **Cost-cuts:** It is the aim of the Company to achieve a positive result as soon as possible. The extensive cost-cuts have shown results in the 3rd quarter, but full effect of the cuts will first be shown as from the 1st quarter 2010.

Regulatory issues

The final text of the so-called "Novel Food Decision" of 22 April for vitamin K2/menaquinone from *Bacillus subtilis natto*, NattoPharma's MenaQ7 product, is now published. This decision is specific to NattoPharma's product, and gives NattoPharma the permission to sell MenaQ7 in the EU. It is also a recognition which is required to get permission to enrich traditional foods and foods for particular nutritional uses.

The work with approvals in other non-EU countries like Switzerland, Russia and Australia is progressing as planned.

In the United States, the work continues in order to achieve a "no comment letter".

Health claims in the EU for NattoPharma's vitamin K2

The new marketing regulation in the EU represents challenges for manufacturers both for nutritional and health claims.

NattoPharma is however mainly concerned with the health claims as the nutritional claims mostly concerns complex foods that contain a number of compounds that must be declared. As MenaQ7 contains a limited number of compounds, and due to our technical documentation, NattoPharma does not need to prioritize the nutritional (energy intake, fat intake, etc. from the ingredient) declaration.

Health claims are of major importance for NattoPharma in order for the customers to market MenaQ7 with the necessary credibility. In September 2009 EFSA's "Panel on Dietetic Products, Nutrition and Allergies" (NDA) published the conclusion of their Article 13.1 evaluation which says that there is a cause and effect relationship between dietary intake of vitamin K, including vitamin K2 based on NattoPharma's application, and maintenance of normal bone. The result of this conclusion is important for NattoPharma's sales and marketing strategy as the customers adding MenaQ7 to its products now can label the products according to this legal and approved statement.

NattoPharma is now working actively with the application of Article 13.5 health claim submissions (health claims for healthy adults based on new science) for both bone and cardiovascular health. NattoPharma is also considering a strategy for Article 14.0 health claim (health claims for prevention of disease and claims for children).

R&D

During the last quarter, a one-year interim analysis will be completed due to the raised demands from EFSA. Furthermore, the report of a major human study in which the effect of three different product types of MenaQ7 has been compared is now in its final stage. The results of

this study were expected in the 3rd quarter, but are now due for completion in the 4th quarter. In addition, an animal trial to study MenaQ7's ability to modulate arterial calcification will be finalized during this last quarter of 2009.

Marketing and Business development

The Company achieved a positive sales development in the 3rd quarter with a turnover of MNOK 6.7, which accounts for approx. 20% increase relative to the same period in 2008. Sales in 3rd quarter distributed with approx. 60% in the U.S. and approx. 40% in Europe and rest of the world.

Our biggest U.S. customer, who normally accounts for a large proportion of our turnover, has ordered significantly less than expected so far this year. However, simultaneously there are an increasing number of other key customers that increases in volume and contributes to the positive growth. As mentioned in the previous quarterly report NattoPharma focuses increasingly on the major players. The regulatory approval in Europe is an important sign of quality that makes MenaQ7 much more attractive for the larger companies. The process to get approved health claims is still ongoing. However, NattoPharma has from the EU this autumn received an approval that the association between vitamin K2 and bone health can be used in marketing. This is very important and is very positive for the further introduction in Europe. That the clinical effects of vitamin K2 is becoming better documented through studies funded by NattoPharma especially, but also other research centers, is also an important force for positive sales development.

Danisco, which in the first quarter signed an exclusive licensing agreement with NattoPharma for the segment "fortified food", has in 3Q carried out, in cooperation with NattoPharma, an introduction and training of more than 100 people in Danisco's sales organization. This was the starting point for the sales process to potential customers in the EU in many different food segments. The feedback from the sales organization is very good and their motivation is high to start the work. There is a close and good cooperation between Danisco and NattoPharma, which is important for future success. Significant revenue is expected from Danisco in the years to come.

In the U.S., there is no regulation for any company within food supplement and competition is therefore increasing. NattoPharma has ambitious plans to continue to increase the U.S. market for MenaQ7 significantly. As of 4th quarter, the company will no longer work solely through the distributor, but also have their own resources, which will focus on securing agreements with major players in the various sales channels. We expect to see positive results from this investment in 2010.

Financial information

The share capital as per September 30th 2009 amounts to NOK 2,244,526.80, following a share capital issue of 2,000,044 shares through a private placement. The share

issue was resolved in an extraordinary general meeting May 20th 2009. The subscription price per share was NOK 3.5. The capital increase amounts to NOK 7,000,154 gross before deduction of share issue costs and guarantee costs. Net capital increase amounted to NOK 6,289,990.18 including share premium.

In addition, a share issue through a private placement was carried out October 13th 2009, where 3,184,235 new shares were subscribed at a price per share of NOK 3.14. In total, the capital increase amount to NOK 9,998,497 before deduction of share issue costs. This represents a share capital increase of NOK 318,423.5, to NOK 2,562,950.30. The share issue was approved in an extraordinary general meeting November 5th 2009.

As per 3rd quarter 2009, the Company can show revenue of NOK 18.6 million. Operating costs totals NOK 31.2 million, of which cost of goods equal NOK 10.4 million, salary costs amounts to NOK 5.2 million, R&D NOK 7.2 million, marketing NOK 0.4 million, depreciation NOK 0.7 million and other operating costs amounts to NOK 7.3 million, which gives a negative operating result equal to NOK 12.6 million. Financial costs amounts to NOK 2.7 million. It is recognised deferred tax asset of NOK 1.6 million, which provides a pre-tax income that is negative with NOK 13.6 million. Cost-cuts is carried out where the objective is to reach a breakeven level through a revenue equal to NOK 10 million/quarter.

Gross margin for the period was 43.9 %, which is an improvement compared to the previous quarter. The company envisions that a normal gross margin will be in the range of 40 - 45 % until the large volume contracts emerge, when a slightly lower margin is expected.

The Company refinanced its bond loan of net NOK 15.5 million which was due July 9th 2009. The bond loan, issued through Norsk Tillitsmann ASA was refinanced by the issue of new bond loan amounting to NOK 17 million, with a duration of two years, free of instalments and with a nominal interest rate equal to 10.4 % per annum. It is issued new warrants, which give the bondholders right to subscribe up to 3,777,778 shares each with a nominal value of NOK 0.10 at a subscription price equal to NOK 4.50 per share. In the balance sheet, a split has been made between the bond loan and the subscription rights between debt and equity in accordance with the IFRS accounting standard, showing an equity part of NOK 6 million which results in a deferred tax advantage of NOK 1.6 million, which is recognized in the profit and loss statement.

Corresponding figures as per 3rd quarter 2008 shows a revenue of NOK 15.1 million. Following deduction of operating costs of NOK 29.4 million, financial costs of NOK 1.6 million, a negative result before tax of NOK 11.4 million is presented for the period. Gross margin for the period was equal to 60.3 %.

The Company's cash flow from operations was negative with NOK 15.8 million as per 3rd quarter 2009 compared to NOK 17 million negative as per 3rd quarter 2008.

For the 3rd quarter 2009 isolated, a revenue of NOK 6.7 million is shown. After deduction of operating costs of NOK 8.4 million and net financial costs of NOK 1.1 million, the period shows a negative result equal to NOK 2.8 million. Correspondingly, the 3rd quarter 2008 shows a revenue of NOK 5.7 million, which after deduction for operating costs of NOK 8.7 million, financial costs of NOK 0.2 million and a positive tax cost equal to NOK 0.9 million, negative result for the period is shown equal to NOK 2.4 million.

Purchase of technology and patent rights from external suppliers is the foundation for capitalization of intangible assets in accordance with IFRS. A patent purchased in December 2006, approved by the EU in spring 2007, technology and IPR finally delivered by 3rd quarter and report completed in December 2007 is the basis for capitalization. All other studies are to be regarded as research or search for new applications for the product, and will be expensed. Based on this intangible value being a significant part of the continued economic development for the company, it is depreciated over a period of 5 years starting January 1st 2008.

The Company's balance sheet shows a negative equity of NOK 8.8 million as per September 30th 2009.

Cash and cash equivalents as per September 30th 2009 amounts to NOK 1.8 million of which NOK 0.8 million are restricted funds. As per September 30th 2009 the company had approximately 440 shareholders. The Company's total debt and liabilities amounts to NOK 8.9 million.

Outlook

The Company's management is focusing on business development parallel to cutting costs in order to achieve a cost-effective operation as soon as possible, which is expected to be the basis for a positive result in 2010.

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Income statement by nature of expense as per September 30th 2009

NattoPharma Group						
<i>(Numbers in NOK 1 000)</i>	Notes	07.01- 09.30.09	01.01- 09.30.09	07.01- 09.30.08	01.01- 09.30.08	01.01- 12.31.08
Revenue						
Revenue	4	6 687	18 527	5 617	15 052	18 935
Other income		-	61	43	43	51
Total revenue		6 687	18 588	5 660	15 095	18 986
Operating expenses						
Raw material and consumables used		(3 353)	(10 431)	(2 008)	(5 998)	(8 302)
Employee benefits expense		(1 739)	(5 167)	(2 186)	(7 855)	(11 263)
Depreciation and amortisation expense		(238)	(714)	(271)	(985)	(1 130)
Other operating expense		(3 084)	(14 862)	(4 238)	(14 521)	(20 898)
Total operating expense		(8 414)	(31 174)	(8 703)	(29 359)	(41 593)
Operating profit/loss		(1 727)	(12 586)	(3 043)	(14 264)	(22 607)
Financial income and expense						
Finance income		7	51	196	687	860
Other finance income		95	388	376	500	755
Interest expense		(1 024)	(2 492)	(707)	(2 096)	(2 804)
Other interest expense		(180)	(656)	(108)	(677)	(836)
Net finance		(1 102)	(2 709)	(243)	(1 586)	(2 025)
Loss before income tax		(2 829)	(15 295)	(3 286)	(15 850)	(24 632)
Income tax expense	2	1 648	1 648	886	4 403	(3 906)
Net profit/(loss)		(1 181)	(13 647)	(2 400)	(11 447)	(28 538)
Result and diluted result per share assigned to the company's shareholders:						
Result and diluted result per share		(0,05)	(0,63)	(0,12)	(0,57)	(1,41)

TOTAL RESULT					
<i>(Numbers in NOK 1 000)</i>	NattoPharma Group				
	07.04- 09.30.09	07.01- 09.30.09	07.04- 09.30.08	07.01- 09.30.08	01.01- 12.31.08
Result for the period	(1 181)	(13 647)	(2 400)	(11 447)	(28 538)
Other income and expenses recorded against equity	-	-	-	-	-
Total result for the period	(1 181)	(13 647)	(2 400)	(11 447)	(28 538)
Result and diluted result assigned to the company's shareholders:	(1 181)	(13 647)	(2 400)	(11 447)	(28 538)

Balance Sheet

Assets

NattoPharma Group			
<i>(Numbers in NOK 1 000)</i>	Notes	9.30.2009	12.31.2008
Non current assets			
Intangible assets			
Other intangible assets		3 320	3 920
Total intangible assets		3 320	3 920
Tangible assets			
Equipment		188	286
Total tangible assets		188	286
Total non current assets		3 508	4 206
Current assets			
Warehouse	6	613	86
Accounts receivables		870	899
Prepaid costs		336	28
Other receivables		527	286
Cash and cash equivalents		1 817	10 272
Total current assets		4 163	11 571
Total assets		7 671	15 777

Equity and liabilities

NattoPharma Group			
<i>(Numbers in NOK 1 000)</i>	Notes	9.30.2009	12.31.2008
Equity			
Owners equity			
Share Capital		2 245	2 045
Share premium reserve		36 967	30 932
Other paid in equity		5 747	1 496
Total owners equity		44 959	34 473
Earned equity			
Accumulated loss		(53 733)	(40 086)
Total Equity		(8 774)	(5 613)
Long term debt			
Long term debt		11 200	
TOTAL LONG TERM DEBT		11 200	-
Liabilities			
Bond loan		-	14 802
Accounts payable		2 411	1 032
Public duties payable		289	1 278
Other current liabilities		2 545	4 278
Total liabilities		5 245	21 390
Total debt		16 445	21 390
Total equity and liabilities		7 671	15 777

Cash Flow Statement

<i>(Numbers in NOK 1 000)</i>	1.1-9.30.09	1.1-9.30.08	1.1-12.31.08
Cash flow from operating activities			
Loss before income tax	(15 295)	(15 850)	(24 632)
Depreciation	714	985	1 130
Amortisation of interest	1 247	1 177	1 177
Loss on repurchase of bonds	-	328	328
Share compensation expense	15	49	66
<i>Changes in assets and liabilities:</i>			
Trade receivables	29	708	1 100
Prepaid expenses	(308)	2 467	2 814
Trade payables	1 379	(2 941)	(2 648)
Other receivables and payables	(3 544)	581	3 651
Net cash flow from operating activities	(15 763)	(12 496)	(17 014)
Cash flow from investment activities			
Payment from sale of subsidiary	55	-	-
Purchase inventory and equipment	(16)	(32)	(56)
Net cash flow from investment activities	39	(32)	(56)
Cash flow from financial activities			
Issuance of share capital	6 235	13 262	13 262
Payment from issuance of bonds	16 535	-	-
Repurchase of obligations	(15 500)	(3 106)	(3 106)
Net cash flow from financial activities	7 270	10 156	10 156
Net change in cash and cash equivalents	(8 454)	(2 372)	(6 914)
Cash and cash equivalents 1.1.09	10 272	17 186	17 186
Cash and cash equivalents 3.31.09	1 818	14 814	10 272
Paid interest	1 612	1 462	1 775

Changes in Equity

<i>(Numbers in NOK 1 000)</i>	Share capital	Share premium	Paid in - not registered equity	Other paid in equity	Accumulated deficit	Total equity
Equity 1.1.2008	1 878	16 661	1 175	1 430	(11 548)	9 596
Result for the period					(11 446)	(11 446)
Registry of paid in equity	30	1 145	(1 175)	-	-	-
Share issue	137	16 278	-	-	-	16 415
Transaction cost	-	(2 269)	-	-	-	(2 269)
Share based remuneration	-	-	-	49	-	49
Equity 9.30.08	2 045	31 815	-	1 479	(22 994)	12 345
Equity 1.1.09	2 045	30 932	-	1 496	(40 086)	(5 613)
Result for the period					(13 647)	(13 647)
Share issue	200	6 800				7 000
Transaction costs		(765)				(765)
Subscription rights / warrants				4 237		4 237
Share based remuneration				14		14
Equity 9.30.09	2 245	36 967	-	5 747	(53 733)	(8 774)

Notes to consolidated accounts as per September 30th 2009

1. Accounting principals

Interim reports are prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". The report does not contain all information necessary to a full annual report, and must be read in conjunction with the consolidated financial statements for the Group NattoPharma ASA for the fiscal year up to and including 31. December 2008. The interim report was approved by the company's board on November 12th 2009.

2. Deferred tax

A deferred tax asset accumulated throughout the year 2008 equaled MNOK 9 as per September 30th 2008. The amount was finally written down in the 4th quarter 2008. The company has continued to employ in 2009 the same principle which was followed by 4th quarter 2008 accounts. By the issuance of a new bond loan, a deferred tax advantage occurred amounting to NOK 1.6 million, where the contra entry is recorded directly against the equity. To offset the deferred tax obligation, a non-balance sheet deferred tax asset of equivalent amount was recorded, which has resulted in a revenue in the income statement in the third quarter 2009 accounts.

3. Shareholder information

List of the 20 major shareholders as per September 30th 2009

Shareholder list 20 major NattoPharma ASA	30.09.2009	
	No. Of shares	Owner- ship
1 Svenska Handelsbanken Stockholm	2 485 500	11,07 %
2 B Mcallen SL	2 287 268	10,19 %
3 Anacott Steel AS	2 264 700	10,09 %
4 Sellæg, Bjørn Arne Fr.	1 986 700	8,85 %
5 Bohan & Co AS	1 612 700	7,18 %
6 Macama Invest AS	955 533	4,26 %
7 Nordea Bank Denmark	642 666	2,86 %
8 Gjersvik, Karsten	562 000	2,50 %
9 Universal Exports AS	470 000	2,09 %
10 Sellæg Aase	416 600	1,86 %
11 Pictet & Cie Banquiers, Sveits	400 000	1,78 %
12 MP Pensjon	380 000	1,69 %
13 Haadem Invest AS	366 800	1,63 %
14 Easy2Connect AS	340 000	1,51 %
15 Hurricane Invest AS	314 000	1,40 %
16 Sobona AS	250 000	1,11 %
17 Orion Securities ASA meglerkto	214 286	0,95 %
18 LKG Holding AS	200 000	0,89 %
19 Natland Invest AS	190 000	0,85 %
20 Herax Holding AS	150 000	0,67 %
Other shareholders	5 956 515	26,55 %
Sum 20 major shareholders	22 445 268	100,00 %

4. Segment reporting

Geographic distribution of sales figures

(Numbers in NOK 1 000)

	NattoPharma Group	
	1.1- 9.30.2009	1.1- 9.30.2008
USA	10 375	8 026
Europe	7 314	6 030
Other areas	899	1 038
Total	18 588	15 094

5. Reversal of excess provision for costs as per June 30th 2009

A reversal of excess provision for costs as per June 30th 2009 is carried out corresponding to NOK 1.8 million. The provision for costs was related to the R&D program with VitaK, the University of Maastricht, the Netherlands, which after accrual of costs for the 3rd quarter results in a negative cost for the period (income) equal to NOK 0.53 million.

6. Purchase obligations 2009 – Sumitomo Corp.

In accordance with an agreement with Sumitomo Corp. NattoPharma was obligated to purchase a minimum volume for 2008. This was not achieved, and as a compensation for this, the parties have entered into an agreement for the additional purchase of vitamin K2 for delivery in 2009. The commitment aggregates to NOK 2,743,524.38 based on an exchange rate YEN/NOK 7.7589 as per December 31st 2008. The goods will be delivered to a warehouse in Sweden, for resale.

7. Closely related parties

<u>Company</u>	<u>Closely related party</u>	<u>Transaction amount</u>
1. Anacott Steel ASA	Mr. Morten Sundstø	NOK 828 239
2. Kvale & Co. AS	Mr. Christian Stang Våland	NOK 233 149
3. Sobona AS	Mr. Ola Røthe	NOK 135.000

A consultant agreement between NattoPharma ASA and Anacott Steel AS (shareholder in the company) dated March 1st 2009 regarding the hiring of Mr. Morten Sundstø as IR manager and advisor in connection with strategic company and funding issues, is renewed with effect as per June 1st 2009, with a 3 months mutual termination clause. As per August 18th 2009, a new agreement has been signed were Mr. Morten Sundstø has been appointed CEO, with a 2 months mutual termination clause.

Legal advice and consultancy has been acquired from the law firm Kvale & Co. Mr. Christian Stang Våland is a partner in Kvale & Co, board member of NattoPharma ASA and shareholder in the Company.

Sobona AS has invoiced the Company for services rendered amounting to NOK 135.000 exclusive of vat. Sobona AS is a shareholder in NattoPharma AS and is controlled / owned by Mr. Ola Røthe, who is the chairman of the board of directors of NattoPharma ASA.

8. Events after the balance sheet date.

It is carried out a share issue through a private placement towards a number of investors which resulted in a capital increase equal to NOK 9,998,498 by the issuance of 3,184,235 new shares each with a face value of NOK 0.10. The subscription price was NOK 3.14 per share. The share issue was adopted at an extraordinary general meeting November 5th 2009.