



# NattoPharma<sup>®</sup>

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Interim report – 2<sup>nd</sup> Quarter 2010

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# Highlights

➤ **”All time high” revenue in 2<sup>nd</sup> quarter 2010**

The company is very pleased to report revenue of NOK 10.2 million for the 2<sup>nd</sup> quarter 2010, which represents a growth equal to 164 % compared to the 2<sup>nd</sup> quarter 2009 sales. The revenue for the 1<sup>st</sup> half year 2010 totalled NOK 17.4 million, which is equal to a growth of 46 % compared to the 1<sup>st</sup> half of 2009.

➤ **Extensive studies documents the negative cardiovascular effects of Calcium**

British Medical Journal published August 3rd a comprehensive study of calcium, which indicates that the risk of heart attack increases by up to 30% when taking calcium on a daily basis, even in small quantities. Amongst researchers in the field, it is generally agreed that calcium must be taken with vitamin D3 and vitamin K2 in order to get the positive effects on bone structure as well as avoid unwanted calcium deposits in blood vessels. The publication of this study has already generated a very positive effect in the market for MenaQ7®.

➤ **Vitamin K2 proven to have a preventive effect on a variety of cancer types**

Recently, a very important study was published that shows that vitamin K2 intake is correlated with cancer occurrence and mortality. The study is based on follow-up of approx. 24 000 participants over a period of 10 years. With increasing intake of vitamin K2, it turns out that especially the long chain menaquinones as MK7 (the active component of MenaQ7®) has an effect and can demonstrate a reduction in cancer occurrence and mortality. Widespread cancer occurrences such as lung cancer and prostate cancer had a risk reduction for these types of cancer by 65% and 50%

➤ **Indicative bid of NattoPharma**

On July 14<sup>th</sup>, the Board of Directors informed the market that the result of the acquisition process so far, was an indicative bid from an industrial player of NOK 2.86 per share. The Board believes, however, that this price does not reflect the potential value of the company. The Board has not yet completed this process, but have also started other strategic processes. This has been intensified, and the company is pursuing other solutions that both involve the sale of non-strategic assets and rights, and the acquisition of another business, and companies that are in line with its strategy.

## **New source of MenaQ7®**

In the 2<sup>nd</sup> quarter of 2010, NattoPharma has changed supplier of vitamin K2 to Gnosis S.p.a. NattoPharma will sell and market the Gnosis' natural vitamin K2 product under NattoPharma's brand MenaQ7® both in the global food market and in the animal feed market as well as in the dietary supplements market. In the dietary supplements market, NattoPharma has exclusive rights in Europe, while for the rest of the world there will be collaboration between the companies. The agreement came into force in 2<sup>nd</sup> quarter. Product information (product specifications, safety data, detailed product and process information and analysis certificates) have been prepared for the new source. Vitamin K2 from Gnosis meets NattoPharma's demands for quality at all levels.

## **EU health claims**

The EFSA panel concluded in 2009 that the evidence presented to establish a cause and effect relationship between intake of vitamin K2 and normal heart and blood vessel function is inadequate. However, for data that EFSA consider as inadequate, the applicant will be given the opportunity to introduce new / additional data (i.e., data that is not in the original submission and which may have become available in the last 2 - 3 years, i.e. during the consolidation of the list and EFSA's review).

The new application with new data is to be sent to Member States which again will put this forward to the Commission which in turn promotes the application to EFSA. During the 1st quarter of 2010, NattoPharma has developed a strategy for the new application with data that support the cause and effect relationship between intake of vitamin K2 and cardiovascular health. The company is still awaiting the go-ahead signal from EFSA to send in a renewed application.

Work on the submission of Article 13.5 health claims (health claims for healthy adults based on new science) for both bone and cardiovascular health, and Article 14.0 health claims (health claims for prevention of disease and health claims for children) are progressing as expected. It is strategically important for NattoPharma to succeed with this process, as it will provide protection over 5 years for MenaQ7®.

## **Research and development**

During the 1st quarter of 2010 preparations was made for the two-year measurements of the MK-7 clinical trial with 240 osteoporotic women. The actual measurement of the bone (DXA scan) and cardiovascular (ultrasound echography, pulse and wave speed) health will be performed in the course of 2nd and 3rd quarter of 2010. The final measurements of the completed study will be conducted in the 3rd quarter of 2011. During the 1st quarter, two new clinical studies were prepared, a bioequivalence and a biocomparison study. Both studies are very important to document the effects of MenaQ7® and its effects in the body, and will be crucial in relation

to the approval of protective 13.5 market claims from EFSA. The first study is expected to be completed in 4th quarter of 2010, while the other 1st quarter of 2011. Filings of 13.5 claims based on the studies are expected to be made at the end of the 2nd quarter of 2011, whereupon the expected turnaround of the EFSA is 6 months.

The first clinical study in patients treated with MenaQ7® was reported in the scientific literature 1st quarter of 2010. The study was conducted by the Rikshospitalet University Hospital in Oslo, sponsored by NattoPharma, and showed that MenaQ7® delayed bone loss in transplant patients. It is a well known problem that patients often develop severe osteoporosis because of the medical treatment upon completion of organ transplantation. NattoPharma will now seek further documenting the health effects of MenaQ7® in both bone health and cardiovascular health.

Recently, a very important study was published that shows that vitamin K2 intake is correlated with cancer occurrence and mortality. The study is based on follow-up of approx. 24 000 participants over a period of 10 years. With increasing intake of MenaQ7®, it turns out that especially the long chain menaquinones as MK7 (the active component of MenaQ7®) has an effect and can demonstrate a reduction in cancer occurrence and mortality. Widespread cancer occurrence such as lung cancer and prostate cancer had a risk reduction for these types of cancer by 65% and 50%.

## **All time high revenue**

The company achieved sales of 10.2 million in the 2<sup>nd</sup> quarter, which is the highest sale in a single quarter in history of the company. Sales divided by approx. 35% in the U.S. and approx. 65% in Europe and the rest of the world. Sales division between Europe and the United States is also the first time in Europe's favour. The regulatory approvals in the EU in parallel with increased sales and marketing activity are parameters that are essential for this positive development in the EU. In the U.S., however, competition as mentioned earlier, is growing and sales are on the same level as the previous quarter. However, NattoPharma has also in cooperation with the company's new partner, Gnosis, intensified activities in the U.S. and is in progress with several of the major players. For the future, it is expected higher growth in this territory.

As previously reported, there are long sales and product development processes within the market segment fortified food, and it is not expected any commercial sales to this segment until 2011. However, there is a considerable interest, especially in the European dairy sector.

For the fourth consecutive year, NattoPharma had its own stand at Vitafoods, Europe's biggest ingredient fair. This was again a great success, and proved clearly that MeanQ7® is by far the market leader in Europe.

MenaQ7® is linked to high quality, focus on clinical research, regulatory control and superior marketing.

Extra effort has been required on the sales input in connection with the transition to a new supplier of vitamin K2. However, due to the rigorous qualification work of Gnosis' products, processes and quality assurance procedures that NattoPharma has conducted, the response from existing customers are very positive.

## Financial information

As per June 30<sup>th</sup> 2010, the share capital of the company is NOK 2 562 950.30.

In the 2<sup>nd</sup> quarter of 2010, the company show a turnover of NOK 10.2 million. Operating costs account for a total of NOK 11.6 million of which cost of goods amounted to NOK 5.6 million. Thus, for the period a negative operating result of NOK 1.4 million is reported. The costs for the quarter included directors' fees for 2009, NOK 0.7 million of extraordinary consultancy costs, and NOK 0.15 million in costs in relation with the participation at the Vitafoods exhibition. Net financial income was NOK -1.4 million, which resulted in a loss before tax equal to NOK 2.8 million, which is a substantial improvement compared to the reported loss of NOK 6.5 million in the 2<sup>nd</sup> quarter of 2009. Gross margin for the period was 45.4%, up from 43.3% in 1<sup>st</sup> quarter.

Correspondingly, 2<sup>nd</sup> quarter of 2009 show a turnover of NOK 3.9 million, which after operating expenses of NOK 9.5 million and financial costs of NOK 0.9 million, this resulted in a loss before tax of NOK 6.5 million .

The company's cash flow from operations was negative with NOK 5 million for the 2<sup>nd</sup> quarter of 2010 compared to a negative cash flow of operations of NOK 11.9 million for the 2<sup>nd</sup> quarter of 2009.

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 3<sup>rd</sup> 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 1<sup>st</sup> 2008.

The company's balance sheet shows a negative equity of NOK 9 million. The company refinanced a bond loan in July 2009. The bond loan, issued through Norsk Tillitsmann ASA with duration of two years, free of instalments and with a nominal interest rate equal to 10.4 % per annum. The nominal value of the bond loan is NOK 17 million. The loan is classified as short term debt as a result of the company reporting negative equity and thereby is in breach with the loan covenants which requires a positive equity. The representative of the bond

issuer is informed about the situation, and the bond issuer has so far renounced from calling the loan repaid. As part of the bond loan, new warrants is issued, 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. The call for subscribing shares must be made within 2 years from the issuance.

Cash balance per June 30<sup>th</sup> 2010 was NOK 3.3 million of which NOK 0.8 million are restricted funds. As per June 30<sup>th</sup> 2010 the company had approximately 489 shareholders. Total liabilities and shareholders' equity amounted to NOK 8.4 million as per June 30<sup>th</sup> 2010, against NOK 9.7 million as per June 30<sup>th</sup> 2009 and NOK 12.9 million as per December 31<sup>st</sup> 2009.

The Board of Directors continue to evaluate its duty to act in accordance with the Norwegian public limited liability companies act Section 3-4 and Section 3-5, and in this assessment emphasise the above mentioned conditions. The Board of Directors duty to act will on a continuous basis be executed through evaluation and carrying out of various relevant measures.

## Outlook

On July 14<sup>th</sup>, the Board of Directors informed the market that the result of the acquisition process so far, was an indicative bid from an industrial player of NOK 2.86 per share. The Board believes, however, that this price does not reflect the potential value of the company. The Board has not yet completed this process, but have also started other strategic processes. This has intensified, and the company is pursuing other solutions that both involve the sale of non-strategic assets and rights, and the acquisition of another business, and companies that are in line with its strategy.

The company will within the near future carry out a private placement of up to 10% of the existing share capital, to strengthen the company's liquidity, as well as to improve the company's equity. The company will revert with more information about the issue as soon as it is available.

Oslo, August 30<sup>th</sup> 2010

Ola Røthe  
Chairman

Anders Uddén  
Board member

Christel Piron  
Board member

Morten Sundstø  
CEO

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# Income statement by nature of expenses as per June 30<sup>th</sup> 2010

NattoPharma ASA				
Notes	04.01-06.30 2010	01.01-06.30 2010	04.01-06.30 2009	01.01-06.30 2009
<i>(Numbers in NOK 1 000)</i>				
<b>REVENUE</b>				
Revenue	10 208	17 325	3 878	11 839
Other income	21	27		61
<b>TOTAL REVENUE</b>	<b>10 229</b>	<b>17 352</b>	<b>3 878</b>	<b>11 900</b>
<b>OPERATING EXPENSES</b>				
Raw material and consumables used	-5 589	(9 630)	(1 927)	(7 078)
Employee benefit expenses	-1 296	(2 136)	(1 361)	(3 428)
Depreciation and amortisation expense	-214	(449)	(238)	(477)
Other operating expense	-4 528	(8 563)	(5 934)	(11 778)
<b>TOTAL OPERATING EXPENSE</b>	<b>(11 627)</b>	<b>(20 778)</b>	<b>(9 460)</b>	<b>(22 761)</b>
<b>OPERATING PROFIT/LOSS</b>	<b>(1 398)</b>	<b>(3 426)</b>	<b>(5 582)</b>	<b>(10 861)</b>
<b>FINANCIAL INCOME AND EXPENSE</b>				
Finance income	23	45	8	44
Other finance income	87	185	40	294
Interest expense	-1 307	(2 467)	(735)	(1 468)
Other interest expense	-209	(281)	(183)	(476)
<b>NET FINANCE</b>	<b>(1 406)</b>	<b>(2 518)</b>	<b>(870)</b>	<b>(1 606)</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(2 804)</b>	<b>(5 944)</b>	<b>(6 452)</b>	<b>(12 467)</b>
Income tax expense	-	-	-	-
<b>NET PROFIT/LOSS</b>	<b>(2 804)</b>	<b>(5 944)</b>	<b>(6 452)</b>	<b>(12 467)</b>
<i>Result and diluted result per share assigned to the company's shareholders</i>	-2 804	-5 944	-6 452	-12 467
Result and diluted result per share	(0,11)	(0,23)	(0,30)	(0,59)

TOTAL RESULT				
Notes	04.01-06.30 2010	01.01-06.30 2010	04.01-06.30 2009	01.01-06.30 2009
<i>(Numbers in NOK 1 000)</i>				
Result for period	(2 804)	(5 944)	(6 452)	(12 467)
Other income and expenses recorded against equity	-	-	-	-
<b>Total result for the period</b>	<b>(2 804)</b>	<b>(5 944)</b>	<b>(6 452)</b>	<b>(12 467)</b>
<i>Result and diluted result per share assigned to the company's shareholders</i>	(2 804)	(5 944)	(6 452)	(12 467)

# Balance sheet

## Assets

NattoPharma ASA			
(Numbers in NOK 1 000)	Notes	06.30.2010	12.31.2009
<b>NON CURRENT ASSETS</b>			
Intangible assets		2 719	3 120
<b>TOTAL INTANGIBLE ASSETS</b>		<b>2 719</b>	<b>3 120</b>
<b>TANGIBLE ASSETS</b>			
Equipment		78	128
<b>TOTAL TANGIBLE ASSETS</b>		<b>78</b>	<b>128</b>
<b>TOTAL NON CURRENT ASSETS</b>		<b>2 797</b>	<b>3 248</b>
<b>CURRENT ASSETS</b>			
Warehouse		62	63
Accounts receivables and other receivables		2 182	1 305
Cash and cash equivalents		3 337	8 314
<b>TOTAL CURRENTS ASSETS</b>		<b>5 581</b>	<b>9 682</b>
<b>TOTAL ASSETS</b>		<b>8 378</b>	<b>12 930</b>

## Equity and liabilities

NattoPharma ASA			
(Numbers in NOK 1 000)	Notes	06.30.2010	12.31.2009
<b>EQUITY</b>			
<b>Owners equity</b>			
Share capital		2 563	2 563
Share premium reserve		45 561	45 561
Other paid in equity		5 747	5 747
<b>TOTAL OWNERS EQUITY</b>		<b>53 871</b>	<b>53 871</b>
<b>EARNED EQUITY</b>			
Accumulated loss		(62 905)	(56 961)
<b>TOTAL EQUITY</b>		<b>(9 034)</b>	<b>(3 090)</b>
<b>CURRENT LIABILITIES</b>			
Bond loan		13 401	11 819
Accounts payable		1 913	1 611
Public duties payable		234	328
Other current liability		1 864	2 262
<b>TOTAL CURRENT LIABILITIES</b>		<b>17 412</b>	<b>16 020</b>
<b>TOTAL LIABILITIES</b>		<b>17 412</b>	<b>16 020</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8 378</b>	<b>12 930</b>

# CASH FLOW STATEMENT NattoPharma ASA

<i>(Numbers in NOK 1 000)</i>	06.30.2010	12.31.2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before income tax	(5 944)	(12 467)
Depreciation	449	477
Amortisation of interest	1 583	661
Loss on share based remuneration	-	14
<i>Changes in assets and liabilities</i>		
Trade receivables	(877)	899
Trade payables	302	62
Other receivables and payables	(490)	(1 584)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(4 977)</b>	<b>(11 938)</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Payment from sale of subsidiary		55
Purchase of inventory and equipment	-	(16)
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-</b>	<b>39</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
Issuance of share capital		6 290
<b>NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>-</b>	<b>6 290</b>
Net change in cash and cash equivalents	(4 977)	(5 609)
Cash and cash equivalents 01.01.	8 314	10 272
<b>CASH AND CASH EQUIVALENTS 6.30</b>	<b>3 337</b>	<b>4 663</b>
Paid interest	884	806

## Changes in Equity

<i>(Numbers in NOK 1 000)</i>	Share capital	Share premium	Other paid in equity	Accumulated deficit	Total equity
<b>Equity 01.01.2009</b>	2 045	30 932	1 496	(40 086)	(5 613)
Total result for the period	-	-	-	(12 467)	(12 467)
Share issue	200	6 800			7 000
Transaction cost		(710)			(710)
Share based remuneration	-	-	14	-	14
<b>Equity 06.30.2009</b>	<b>2 245</b>	<b>37 022</b>	<b>1 510</b>	<b>-52 553</b>	<b>-11 776</b>
<b>Equity 01.01.2010</b>	2 563	45 561	5 747	(56 961)	(3 090)
Total result for the period	-	-	-	(5 944)	(5 944)
<b>Equity 06.30.2010</b>	<b>2 563</b>	<b>45 561</b>	<b>5 747</b>	<b>(62 905)</b>	<b>-9 034</b>

# Notes to the accounts as per June 30<sup>th</sup> 2010

## 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 NattoPharma ASA for the fiscal year up to and including 31. December 2009.

The interim report was approved by the company's board on August 30<sup>th</sup> 2010.

## 2. BOND LOAN

In accordance with the loan agreement, in case of negative equity, the bond issuer can request immediate repayment of the bond loan. As per June 30<sup>th</sup> 2009 the company's equity was negative with NOK 9 034 thousand. Because of this situation, the bond loan has been classified as short term debt.

As per the date of the approval of the accounts, the bond issuer has not chosen to request repayment of the bond loan. The company has not changed its estimates related to the expected cash flow of the bond loan, which is the basis for the amortised costs. The company expects that the loan will run to the agreed maturity date. The company expects operating cash flow will be sufficient to cover the company's ongoing operations.

## 3. SHAREHOLDER INFORMATION

### Overview of the 20 major shareholders as per June 30<sup>th</sup> 2010

Shareholder list 20 major NattoPharma ASA	June 30. 2010	
	No. Of shares	Owner- ship
1 Anacott Steel AS	2 264 700	8,84 %
2 Banque Invik SA Luxembourg	2 169 500	8,46 %
3 Tibesi AS	2 057 268	8,03 %
4 Sellæg, Bjørn Arne Fr.	1 986 700	7,75 %
5 Bohan & Co AS	1 402 700	5,48 %
6 Macama Invest AS	955 533	3,73 %
7 Pharmavie Consult A/S, Danmark	898 666	3,51 %
8 MP Pensjon	660 000	2,58 %
9 Sobona AS	450 000	1,76 %
10 Haadem Invest AS	427 800	1,67 %
11 Pictet & Cie Banquiers, Sveits	400 000	1,56 %
12 Svenska Handelsbanken Stockholm	316 000	1,23 %
13 Nordnet Pensjonsforsikring	293 000	1,14 %
14 Sellæg Aase	261 600	1,02 %
15 Pro AS	235 300	0,92 %
16 Bjørn Norlie AS	228 000	0,89 %
17 Hagen, Karsten	223 000	0,87 %
18 Uddén, Anders	214 286	0,84 %
19 Bjørnerud, Leif Halvor	200 000	0,78 %
20 Skinstad, Per Ivar	200 000	0,78 %
Other shareholders	9 785 450	38,17 %
Sum 20 major shareholders	25 629 503	100,00 %

## 4. SEGMENT RAPPORTERING

Geographic distribution of sales figures	NattoPharma ASA	
	01.01- 06.30.2010	01.01- 06.30.2009
(Numbers in NOK 1 000)		
USA	7 961	6 313
Europe	8 838	4 513
Other areas	553	1 074
Total sale	17 352	11 900



## 5. CLOSELY RELATED PARTIES

<u>Company</u>	<u>Closely related party</u>	<u>Transaction amount</u>
1. Anacott Steel ASA	Morten Sundstø	NOK 478 400
2. Kvale & Co	Christian Stang Våland	NOK 46 063
3. Sobona AS	Ola Røthe	NOK 237 500

1. A consultancy agreement between NattoPharma ASA and Anacott Steel AS (shareholder in the company) dated August 18<sup>th</sup> 2009 where Morten Sundstø has been appointed CEO in NattoPharma ASA. The agreement runs with a 2 months mutual notice period.
2. 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.
3. Sobona AS has invoiced Nattopharma for NOK 237,500 excluding vat for services rendered this period. Sobona AS is a shareholder in NattoPharma ASA and is owned/controlled by Mr. Ola Røthe, chairman of the board of NattoPharma ASA