

NattoPharma[®]

Interim report – 3rd Quarter 2010

Highlights

➤ **New direction with a new Board of Directors and management**

In an extraordinary general meeting October 11th 2010, a new Board of Directors was elected based on the company's challenging situation. Mr. Peter Carlsson is appointed CEO. The new CEO, supported by the board of directors, has outlined a new marketing and sales strategy. There is a considerable interest in vitamin K2 in the market, and the company sees significant potential in NattoPharma's proprietary product MenaQ7® base on the company's new strategy.

➤ **Extraordinary General meeting**

The company reports a negative equity and the company's financial position is problematic. The Board aims to carry out share issue in the range of NOK 15 to 25 million in 2011. The company will shortly summon for an extraordinary general meeting where also the election of new auditor will take place.

➤ **Lower than expected revenues in the 3rd quarter 2010**

Sales in the 3rd quarter equalled NOK 1.8 million. This is considerably less than expected. The Earnings before tax as per September 30th 2010 is improved compared to the same period in 2009, and the company's gross margin is also improved. The implementation of new source created challenges, which resulted in NattoPharma for a longer period of the 3rd quarter not being able to supply material.

Market- and business development

The company's sales in the 3rd quarter equalled NOK 1.8 million. This is considerably less than expected. Implementation of a new source created challenges that resulted in NattoPharma for a long period of the 3rd quarter not being able to supply material. Deliveries from our new source partner Gnosis, is now satisfactory. In addition, several key accounts purchased extra for stock in the 2 quarter as security in relation to the change of source. This resulted in reduced demand for material in 3 quarter. With an intensive and systematic effort towards the customer base during this transitional period, we experience a strong loyalty to the values MenaQ7® and NattoPharma has developed over the past few years.

The company registers increased competition in the U.S. market, but in cooperation with our partner Gnosis, the company's position in this market is considered to be good.

In Europe, the company still holds a competitive lead on potential competitors wishing to enter the market. However, the competition has increased since our previous supplier Sumitomo has received approval for its product in Europe. The company has decided to increase its sales capacity, and expects a positive effect of this in 2011. In connection with a change in the sales strategy, several of the distributors who have had exclusivity in their markets have been terminated. This includes Frutarom in the Benelux market and Alesco in the Italian market. The company now wants to pursue directly these markets themselves.

In the third quarter, the previous exclusive agreement with Danisco, the company's distributor in the market segment for fortified food, has been amended to be a non-exclusive agreement. This means that NattoPharma can have multiple partners in the food market. This change is in line with what the company has previously made within the dietary supplement market. NattoPharma has established a dialogue with several of the larger players in this market and will intensify the activity ahead including implementation of new, dedicated resources.

The company was represented at the Supply Side West exhibition in Las Vegas and at the NUCE in Milan. This resulted in many important meetings with existing customers as well as new prospects and also important "market intelligence" work. In November NattoPharma participated with a stand at the Health Ingredients Europe in Madrid.

The company sent out two B2B Newsletters in the 3rd quarter through the channel Nutraingredients industry. Very good response and several new prospects appeared to be further developed in order to become customers of NattoPharma. The company has also created a more consumer-friendly newsletter. Marketing activities to educate the consumers about the benefits of MenaQ7® will increase in the future, mainly in collaboration with our customers.

EU health claims

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. 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.

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 continue 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%.

Financial information

As per September 30th 2010, the share capital of the company is NOK 2 738 524. The number of shares issued is 27 385 240, each with a face value of NOK 0.10.

In the 3rd quarter 2010 the company reports a turnover of NOK 1.8 million. Operating costs totalled NOK 6.9 million of which cost of goods equal NOK 0.9 million. The operating result before tax was negative with NOK 5.1 million. Net financial items equalled NOK 1.1 million negative, which resulted in a negative result before tax equal to NOK 6.2 million. The gross margin for the period was 51.2 %, an improvement from the previous reported quarter which was 45,4 %.

The corresponding figures for the 3rd quarter 2009 shows a revenue of NOK 6.7 million and a negative result for the period equal to NOK 1.2 million after operating costs of NOK 8.4 million and negative net finance of NOK 1.1 million.

As per September 30th 2010, accumulated revenue is NOK 19.2 million, compared to NOK 18.6 million as per 3rd quarter 2009. Operating costs is NOK 8.5 million as per September 30th 2010 compared to NOK 12.6 for the same period in 2009. The result before tax as per September 30th 2010 is negative with NOK 12.1 million compared to NOK 15.3 million negative as per September 30th 2009. The gross margin was 45.16 % in 2010 compared to 43.8 % in 2009, which represents an improvement. The company's cash flow from operations was negative with NOK 10.4 million for the 3rd quarter 2010 compared to NOK 15.8 negative for the 3rd quarter 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 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 12.2 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, and that the remaining loan period is less than 12 months. 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.

The cash position as per September 30th 2010 was NOK 0.8 million of which all is restricted funds. As per September 30th 2010 the company had approximately 468 shareholders. Total liabilities and shareholders' equity amounted to NOK 6.2 million as per September 30th 2010, against NOK 12.9 million as per December 31st 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 is working on a refinancing of the company through a share issue which will take place in 2011. On a short term basis, the company has been granted loans from a closely

related party, Anders Uddén (shareholder and board member of NattoPharma ASA) of NOK 2 million and NOK 1 million from Scandinavian Clinical Nutrition AB in Sweden (were Anders Uddén is a shareholder and a board member) with the objective to secure sufficient working capital for the remaining period of 2010.

Outlook

The Board of Directors is aware of the financial situation of the company and its purpose is to offering a share issue in 2011 in the range of NOK 15 to 25 million. As a result, the company can continue the positive work in being the leading player in the global market for vitamin K2 in supplements and fortified food market.

Oslo, November 24th 2010

For further information, please contact:

Mr. Ragnvald Holm Lie,
Mobile phone: +47 900 71 532
Chairman of the Board

NattoPharma ASA
Lysaker Torg 5

P.O Box 397
1326 Lysaker

Phone: +47 67 20 02 50
Fax: +47 67 20 02 51
www.nattopharma.com

Income statement by nature of expenses as per 30th September 2010

NattoPharma ASA					
(Numbers in NOK 1 000)	Notes	07.01-09.30 2010	01.01-09.30 2010	07.01-09.30 2009	01.01-09.30 2009
REVENUE					
Revenue		1 758	19 083	6 687	18 527
Other income		128	155		61
TOTAL REVENUE		1 886	19 238	6 687	18 588
OPERATING EXPENSES					
Raw material and consumables used		(920)	(10 550)	(3 353)	(10 431)
Employee benefit expenses		(1 077)	(3 213)	(1 739)	(5 167)
Depreciation and amortisation expense		(215)	(664)	(238)	(714)
Other operating expense		(4 750)	(13 313)	(3 084)	(14 862)
TOTAL OPERATING EXPENSE		(6 962)	(27 740)	(8 414)	(31 174)
OPERATING PROFIT/LOSS		(5 076)	(8 502)	(1 727)	(12 586)
FINANCIAL INCOME AND EXPENSE					
Finance income		5	50	7	51
Other finance income		95	280	95	388
Interest expense		(1 158)	(3 625)	(1 024)	(2 492)
Other interest expense		(64)	(345)	(180)	(656)
NET FINANCE		(1 122)	(3 640)	(1 102)	(2 709)
LOSS BEFORE INCOME TAX		(6 198)	(12 142)	(2 829)	(15 295)
Income tax expense		-	-	1 648	1 648
NET PROFIT/LOSS		(6 198)	(12 142)	(1 181)	(13 647)
<i>Result and diluted result per share assigned to the company's shareholders</i>		(6 198)	(12 142)	(1 181)	(13 647)
Result and diluted result per share		(0,24)	(0,47)	(0,05)	(0,63)

TOTAL RESULT					
(Numbers in NOK 1 000)		07.01-09.30 2010	01.01-09.30 2010	07.01-09.30 2009	01.01-09.30 2009
Result for period		(6 198)	(12 142)	(1 181)	(13 647)
Other income and expenses recorded against equity		-	-	-	-
Total result for the period		<u>(6 198)</u>	<u>(12 142)</u>	<u>(1 181)</u>	<u>(13 647)</u>
<i>Result and diluted result per share assigned</i>		<u>(6 198)</u>	<u>(12 142)</u>	<u>(1 181)</u>	<u>(13 647)</u>

Balance sheet

Assets

NattoPharma ASA			
(Numbers in NOK 1 000)	Notes	09.30.2010	12.31.2009
NON CURRENT ASSETS			
Intangible assets		2 519	3 120
TOTAL INTANGIBLE ASSETS		2 519	3 120
TANGIBLE ASSETS			
Equipment		64	128
TOTAL TANGIBLE ASSETS		64	128
TOTAL NON CURRENT ASSETS		2 583	3 248
CURRENT ASSETS			
Warehouse		-	63
Accounts receivables and other receivables		2 818	1 305
Cash and cash equivalents		824	8 314
TOTAL CURRENTS ASSETS		3 642	9 682
TOTAL ASSETS		6 225	12 930

Equity and liabilities

NattoPharma ASA			
(Numbers in NOK 1 000)	Notes	09.30.2010	12.31.2009
EQUITY			
Owners equity			
Share capital		2 739	2 563
Share premium reserve		48 403	45 561
Other paid in equity		5 747	5 747
TOTAL OWNERS EQUITY		56 889	53 871
EARNED EQUITY			
Accumulated loss		(69 103)	(56 961)
TOTAL EQUITY		(12 214)	(3 090)
CURRENT LIABILITIES			
Bond loan		13 990	11 819
Accounts payable		2 016	1 611
Public duties payable		138	328
Other current liability		2 295	2 262
TOTAL CURRENT LIABILITIES		18 439	16 020
TOTAL LIABILITIES		18 439	16 020
TOTAL EQUITY AND LIABILITIES		6 225	12 930

CASH FLOW STATEMENT

NattoPharma ASA

(Numbers in NOK 1 000)

09.30.2010 09.30.2009

CASH FLOW FROM OPERATING ACTIVITIES

Loss before income tax	(12 142)	(15 295)
Depreciation	664	714
Amortisation of interest	2 299	1 247
Loss on share based remuneration	-	15

Changes in assets and liabilities

Trade receivables	(1 513)	(520)
Trade payables	405	1 379
Other receivables and payables	(93)	(3 304)

NET CASH FLOW FROM OPERATING ACTIVITIES	(10 380)	(15 764)
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CASH FLOW FROM INVESTMENT ACTIVITIES

Payment from sale of subsidiary		55
Purchase of inventory and equipment	-	(16)

NET CASH FLOW FROM INVESTMENT ACTIVITIES	-	39
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CASH FLOW FROM FINANCIAL ACTIVITIES

Issuance of share capital	3 018	6 235
Payment from issuance of bonds, net transaction costs	(128)	16 535
Repayment of bonds	-	(15 500)

NET CASH FLOW FROM FINANCIAL ACTIVITIES	2 890	7 270
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Net change in cash and cash equivalents	(7 490)	(8 455)
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Cash and cash equivalents 01.01.	8 314	10 272
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CASH AND CASH EQUIVALENTS 6.30	824	1 817
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Paid interest	1 768	1 612
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Changes in Equity

(Numbers in NOK 1 000)	Share capital	Share premium	Other paid in equity	Accumulated deficit	Total equity
Equity 01.01.2009	2 045	30 932	1 496	(40 086)	(5 613)
Total result for the period	-	-	-	(13 647)	(13 647)
Share issue	200	6 800			7 000
Transaction cost		(765)			(765)
Warrants			4 237		4 237
Share based remuneration	-	-	14	-	14
Equity 06.30.2009	2 245	36 967	5 747	-53 733	-8 774
Equity 01.01.2010	2 563	45 561	5 747	(56 961)	(3 090)
Total result for the period	-	-	-	(12 142)	(12 142)
Share issue	176	3 160			3 336
Transaction costs		(318)			(318)

Notes to the accounts as per September 30th 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 November 24th 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 September 30th 2009 the company's equity was negative with NOK 12 142 thousand. Because of this situation and the remaining period is less than 12 months, 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 and cash holdings will be sufficient to cover the company's ongoing operations.

1. SHAREHOLDER INFORMATION

Overview of the 20 major shareholders as per September 30th 2010

Shareholder list 20 major NattoPharma ASA Shareholder	09.30.2010	
	No. Of shares	Owner- ship
Banque Invik SA Luxembourg	2 169 500	7,92 %
Anacott Steel AS	2 164 700	7,90 %
Tibesi AS	2 057 268	7,51 %
Sellæg, Bjørn Arne Fr.	1 986 700	7,25 %
Bohan & Co AS	1 402 700	5,12 %
Nordea Bank Denmark	1 294 561	4,73 %
MP Pensjon	1 200 000	4,38 %
Macama Invest AS	955 533	3,49 %
Sobona AS	528 947	1,93 %
Pro AS	450 346	1,64 %
Haadem Invest AS	427 800	1,56 %
Pictet & Cie Banquiers, Sveits	400 000	1,46 %
Nordnet Pensjonsforsikring	316 000	1,15 %
Svenska Handelsbanken Stockholm	316 000	1,15 %
Bjørn Norlie AS	280 000	1,02 %
Hagen, Karsten	275 000	1,00 %
Nielsen, Trygve	270 000	0,99 %
Log, John Bjarne	250 000	0,91 %
Uddén, Anders	214 286	0,78 %
Bjørnerud, Leif Halvor	200 000	0,73 %
Other shareholders	10 225 899	37,34 %
Sum 20 major shareholders	27 385 240	100,00 %

3. SEGMENT REPORTING

Geographic distribution of sales figures	NattoPharma ASA	
	01.01- 09.30.2010	01.01- 09.30.2009
(Numbers in NOK 1 000)		
USA	8 376	10 375
Europe	10 507	7 314
Other areas	356	899
Total sale	19 239	18 588

4. CLOSELY RELATED PARTIES

<u>Company</u>	<u>Closely related party</u>	<u>Transaction amount</u>
1. Anacott Steel ASA	Morten Sundstø	NOK 2 050 618
2. Sobona AS	Ola Røthe	NOK 497 866
3. Pharmavie A/S	Christel Piron	NOK 58 000

1. A consultancy agreement between NattoPharma ASA and Anacott Steel AS (shareholder in the company) dated August 18th 2009 where Morten Sundstø has been appointed CEO in NattoPharma ASA. The agreement runs with a 2 months mutual notice period. The agreement was terminated September 20th 2010 and expired November 20th 2010. In the third quarter, the board of directors resolved to remunerate Morten Sundstø NOK 665,000 + VAT as a lump sum for 2 months severance pay and the waiver of any claim for bonus or other performance-related remuneration.
2. Sobona AS has invoiced Nattopharma for NOK 497,866 excluding VAT for services rendered for the period January 1st – September 30th 2010. Sobona AS is a shareholder in NattoPharma ASA and is owned and controlled by Ola Røthe, who was acting as the chairman of the board of NattoPharma ASA up until October 11th 2010.
3. Pharmavie A/S has invoice NattoPharma for NOK 58,000 for services rendered by Christel Piron, member of the board of directors for the period June 29th – October 11th 2010. Pharmavie A/S is a shareholder in NattoPharma.