




NattoPharma[®]



Interim report – 1st Quarter 2010

Highlights

➤ **Extensive cost cuts**

The company is satisfied with being able to report that expected operating costs for 2010 is reduced from approximately NOK 30million in 2009, to an expected level equal to NOK 20million in 2010, simultaneously as the R&D budget is increased with approximately 25 %. Together with an expected improvement in the gross margin, this has contributed to the company's annual break even in sales has been reduced from approximately NOK 90million to NOK 40 million.

➤ **Signing with Gnosis-bio S.P.A.:**

For the company it is important to look at all possibilities to increase the gross margin, were the most significant contribution in order to achieve this is to reduce the cost of goods. The company has been searching the market in order to find a new production partner, which can be a long term partner for the company, and which has the ability to produce the various products NattoPharma needs, at the quality, the regulatory requirements and volumes needed, and simultaneously reduce the cost of goods for NattoPharma. Hence, the company is very pleased with signing an agreement with Gnosis-bio S.P.A. as the new manufacturer of vitamin K2. This implies that NattoPharma's cooperation with its existing supplier will terminate.

➤ **NattoPharma – focus on direct sales**

NattoPharma has in a build up phase of the market used local distributors in several of the geographic areas where the company is operating within the food supplement market. This strategy has now been adjusted, and the company will in the future work directly with the major customers in most of the markets, so that they receive the close follow ups they require. The exclusive cooperation with the global business operator Danisco continues within the fortified functional market.

Regulatory

NattoPharma signed in 1st quarter of 2010 a distribution agreement with the Italian-Swiss biotechnology company Gnosis bio-SPA regarding sales and marketing of their natural vitamin K2 products under the brand name MenaQ7®. The collaboration applies globally for the food and animal feed market as well as exclusive rights for the European food supplements market, while for this segment in the rest of the world it will be collaboration between the companies. The signed agreement is effective from 2nd quarter of 2010.

The work with approvals in countries outside the EU, such as the United States, Canada and Australia is progressing as planned. In the EU the regulatory approvals that are already in place will continue to apply.

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.

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.

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.

R&D

During the 1st quarter of 2010 preparations were 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. The first study will compare the bioavailability of three different MK-7 products and the second is to compare the effect of vitamin K1 and MK-7. Both trials will start in 3rd quarter/4th quarter 2010. The first clinical trial in patients treated with MenaQ7® was reported in the scientific literature 1st quarter of 2010. A study sponsored by

NattoPharma demonstrated that MenaQ7® delays bone loss in transplant patients. It is a well known problem that patients often develop severe osteoporosis because of the medical treatment during completion of organ transplantation. As vitamin K2 appears to play an optimal role in bone health, NattoPharma and Rikshospitalet University Hospital in Oslo, Norway (medical division) has entered a collaboration. In a double blind, placebo controlled study a clear and significant advantage of MenaQ7® was observed in bone mineral density in patients receiving MenaQ7® compared to placebo patients. This study thus shows promising data on the use of MenaQ7® in the treatment of patients prone to develop osteoporosis.

Not only NattoPharma works exclusively with vitamin K2, also other operators perform basic scientific research on vitamin K2. Recently vitamin K2 intake was correlated with cancer incidence and mortality of approx. 24,000 participants in a survey that has been ongoing for more than 10 years. With increasing intake of MenaQ7®, it turns out that especially the long chain menaquinones as MK7 (the active component in MenaQ7®) has an effect and can demonstrate a reduction in cancer incidence and mortality. Thus, in addition to the already known benefits of MenaQ7® on bone and vascular health, these are now expanded to include cancer. NattoPharma will in the near future explore this research area further by examining the fundamental role MenaQ7® can have in reducing cancer.

Marketing and business development

The company achieved the expected sales of NOK 7.1 million in the 1st quarter. The sales were divided by approx. 55 % in the US and approx. 45 % in Europe and the rest of the world. Europe is growing at the moment with sales that is 14 % higher than the same period in 2009. The sale to the market segment "fortified food" takes time to develop, and it is not expected any commercial sales to this segment until 2011.

There has been considerable focus in the first quarter to establish direct cooperation with the largest customers who previously went through distributors. Work is on schedule and the response from customers is very positive.

In the US there are now over 60 products with MenaQ7®, in Europe more than 50 products and the rest of the world in close to 10 products. We find that the interest from the market is significant and growing.

An increasing number of contract manufacturers are introduced to MenaQ7®, and several of them are now marketing their formulations and tablets/softgels/-pellets/powder/capsules with MenaQ7® to their customers.

NattoPharma's exclusive distributor to the "fortified food" segment Danisco, is working with several major companies in Europe. As expected, this is a long sales process and long product development process and it is not expected any commercial sales until 2011.

Danisco has introduced MenaQ7® in South America and has received considerable interest. It is likely, due to the regulatory conditions that we also here can expect sales already in 2011. In Asia, the launch has started, but the regulatory requirements vary considerably and a priority is currently undergoing for where to go at what time, depending on sales potential versus regulatory requirements.

It is primarily in the US that NattoPharma is experiencing competition since the regulatory requirements in the food supplement segment in the US is different compared to Europe. However, the big and serious players prefer MenaQ7® since this is still the only product that can deliver a clinically well-documented product where the process and quality assurance meets the requirements of the FDA. Additionally, NattoPharma has several patents pending that will give the customers a protection in several areas when they are granted.

NattoPharma will have an improved commercial and regulatory situation with Gnosis as the new supplier of natural vitamin K2. The agreement shall enter into force in late June, but the company is already well underway with preparations, both internally and externally. The news of the new supplier has been well received by the market.

Financial information

The company's share capital as per March 31st 2010 equals NOK 2 562 950.30.

As per 1st quarter 2010 the company can show revenue of NOK 7.1 million. Operating costs totals NOK 9.1 million, of which cost of goods equal NOK 4 million, salary costs amounts to NOK 0.8 million, R&D NOK 1.6 million, marketing NOK 0.09 million, depreciation NOK 0.2 million and other operating costs amounts to NOK 2.4 million, which gives a negative operating result equal to NOK 2 million. Financial costs amounts to NOK 1.1 million. The result before tax is negative with NOK 3.1 million. The company has carried out various cost reductions. The objective of these cost reductions has been to achieve a result- and cash flow wise break even which equals revenue of NOK 10 million per quarter. This objective is expected to be met in the next or the subsequent quarter. The gross margin for the period was 43.2 %.

Corresponding figures for the 1st quarter 2009 shows sales equal to NOK 8 million, operating costs of NOK 13.3 million and financial expenses of NOK 0.7 million. This gave a negative result before tax equal to NOK 6 million. The gross margin for the period was 35.8 %, which was considered irregular due to build up of own stock.

The company's cash flow from operations was negative with NOK 3 million as per 1st quarter 2010.

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 6.2 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. The representative of the bond issuer is informed about the situation, and the 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 and cash equivalents as per March 31st 2010 amounts to NOK 5.3 million of which NOK 0.8 million are restricted funds. As per March 31st 2010 the company had approximately 482 shareholders. The company's total debt and liabilities amounts to NOK 10.7 million as per March 31st 2010 compared to NOK 12.9 million as per March 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 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

NattoPharma has for some time worked at alternative strategic solutions, were HDR Partners in Sweden has been the company's advisor. This process is still ongoing. The company expects that this process will be finalised within the next 6 weeks. As soon as a result of this process has been reached, the Board of Directors will communicate this to the market.

Furthermore, the Board of Directors points to the objective of achieving a result- and cash flow wise break-even, which is expected to be reached in the next quarter or the subsequent quarter, and also the company's constant focus on increased profitability and sales.

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Income statement by nature of expenses as per March 31st 2010

NattoPharma ASA			
<i>(Numbers in NOK 1 000)</i>	Note	01.01-03.31 2010	01.01-03.31 2009
Revenue			
Revenue	4	7 117	7 961
Other income		6	61
Total revenue		7 123	8 022
Operating expenses			
Raw material and consumables goods		(4 041)	(5 151)
Employee benefit expense		(840)	(2 067)
Depreciation and amortisation expense		(235)	(239)
Other operating expenses		(4 035)	(5 844)
Total operating expenses		(9 151)	(13 301)
Operating profit/loss		(2 028)	(5 279)
Financial income and expense			
Finance income		22	36
Other finance income		98	253
Interest expense		(1 160)	(732)
Other interest expense		(72)	(293)
Net finance		(1 112)	(736)
Loss before income tax		(3 140)	(6 015)
Income tax expense		-	-
Net profit/loss		(3 140)	(6 015)
<i>Result and diluted result per share assigned to the company's shareholders</i>			
		-3 140	-6 015
Result and diluted result per share		(0,12)	(0,29)

TOTAL RESULT			
<i>(Numbers in NOK 1 000)</i>		01.01-03.31 2010	01.01-03.31 2009
Result for the period		(3 140)	(6 015)
Other income and expenses recorded against the equity		-	-
Total result for the period		(3 140)	(6 015)
<i>Result and diluted result per share assigned to the company's shareholders</i>			
		(3 140)	(6 015)

Balance Sheet

Assets

NattoPharma ASA			
<i>(Numbers in NOK 1 000)</i>	Notes	03.31.2010	12.31.2009
Non current assets			
Intangible assets			
Other intangible assets		2 920	3 120
Total intangible assets		2 920	3 120
Tangible assets			
Equipment		93	128
Total tangible assets		93	128
Total non current assets		3 013	3 248
Current assets			
Warehouse		-	63
Accounts receivables and other receivables		2 449	1 305
Cash and cash equivalents		5 284	8 314
Total current assets		7 733	9 682
Total assets		10 746	12 930

Equity and liabilities

NattoPharma ASA			
<i>(Numbers in NOK 1 000)</i>	Notes	03.31.2010	12.31.2009
Equity			
Owners equity			
Share capital		2 563	2 563
Share premium reserve		45 561	45 561
Other paid in equity		5 747	5 747
Total owners equity		53 871	53 871
Earned equity			
Accumulated loss		(60 101)	(56 961)
Total equity		(6 230)	(3 090)
Liabilities			
Bond loan	2	12 537	11 819
Accounts payable		962	1 611
Public duties payable		149	328
Other current liabilities		3 328	2 262
Total liabilities		16 976	16 020
Total debt		16 976	16 020
Total equity and liabilities		10 746	12 930

Cash Flow Statement

NattoPharma ASA

<i>(Numbers in NOK 1 000)</i>	03.31.2010	03.31.2009
Cash flow from operating activities		
Loss before income tax	(3 140)	(6 015)
Depreciation	235	239
Amortisation of interest	718	329
Share compensation expense	-	7
<i>Changes in assets and liabilities:</i>	-	-
Trade receivables and other receivables	(1 144)	(3 546)
Trade payables	(649)	1 344
Other receivables and payables	950	(1 125)
Net cash flow from operating activities	(3 030)	(8 767)
Cash flow from investment activities		
Purchase of inventory	-	(16)
Net cash flow from investment activities	-	(16)
Cash flow from financial activities		
Net cash flow from financial activities	-	-
Net change in cash and cash equivalents	(3 030)	(8 783)
Cash and cash equivalents 1.1.	8 314	10 272
Cash and cash equivalents 3.31.	5 284	1 489
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
Equity 01.01.2009	2 045	30 932	1 496	(40 086)	(5 613)
Total result for the period	-	-	-	(6 015)	(6 015)
Share based remuneration	-	-	7	-	7
Equity 03.31.2009	2 045	30 932	1 503	(46 101)	(11 621)
Equity 01.01.2010	2 563	45 561	5 747	(56 961)	(3 090)
Total result for the period	-	-	-	(3 140)	(3 140)
Equity 03.31.2010	2 563	45 561	5 747	(60 101)	(6 230)

Notes to the accounts as per March 31st 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 May 26th 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 March 31st 2009 the company's equity was negative with NOK 6 230 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

List of shareholders as per March 31st 2010

Shareholder list 20 major NattoPharma ASA Shareholder	March 31. 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	1 612 700	6,29 %
6 Macama Invest AS	955 533	3,73 %
7 Nordea Bank Denmark	736 666	2,87 %
8 MP Pensjon	660 000	2,58 %
9 Zinober Invest AS	473 000	1,85 %
10 Sobona AS	450 000	1,76 %
11 Haadem Invest AS	427 800	1,67 %
12 Pictet & Cie Banquiers, Sveits	400 000	1,56 %
13 Svenska Handelsbanken Stockholm	316 000	1,23 %
14 Easy2Connect AS	300 000	1,17 %
15 Universal Exports AS	268 000	1,05 %
16 Sellæg Aase	261 600	1,02 %
17 Nordnet Pensjonsforsikring	258 000	1,01 %
18 Gjersvik, Karsten	248 000	0,97 %
19 Bjørn Norlie AS	228 000	0,89 %
20 Hagen, Karsten	223 000	0,87 %
Other shareholders	9 333 036	36,42 %
Sum total shares	25 629 503	100,00 %

4. Segment Reporting

<i>Geographic distribution of sales figures</i>	NattoPharma ASA	
	01.01- 03.31.2010	01.01- 03.31.2009
(Numbers in NOK 1 000)		
USA	3 947	4 915
Europe	3 044	2 252
Other areas	132	855
Total	7 123	8 022

5. Closely related parties

<u>Company</u>	<u>Closely related party</u>	<u>Transaction amount</u>
1. Anacott Steel ASA	Morten Sundstø	NOK 562 500
2. Kvale & Co	Christian Stang Våland	NOK 42 281

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.

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.