

NattoPharma ASA

1st Quarter 2016

MenaQ7[®]
Vitamin K2 as MK-7

by NattoPharma

NattoPharma Interim Report 1st Quarter 2016

Highlights in the first quarter of 2016

- Record revenue for the quarter, coming in at **NOK 12,5** million (Q1'15: 6,8 million);
- Positive operating cash flow of **NOK 3,2** million in the quarter (Q1'15: NOK -7,6 million), driven by stronger income statement performance and improved working capital management;
- Gross Margin exceeded **50%**;
- Solidity continues to be very strong, with an equity ratio at the end of the period of **83,4%** (Q4'15: 85,4%)
- Acceleration of media outreach and consumer awareness initiatives; and
- Reorganization largely completed.

Key numbers and facts

1st Quarter 2016

- Revenue rose by 84 % to NOK 12,5 million
- Gross Margin for the period was 50,4 %
- EBITDA coming in at NOK -1,7 million
- Loss before tax was NOK -6,2 million
- Cash at end of quarter was NOK 26,7 million, increased by 7,7 % during Q1

OPERATIONAL REVIEW

Heading into 2016 we outlined seven operating objectives by which we would measure and track our performance. As our First Quarter highlights demonstrate, we have begun the year on solid footing. We are executing on our plan, focused on delivering on our commitments, and building the foundation for great expectations going forward.

Cash management was the first of the key metrics we highlighted in our operating objectives. Through a combination of strong P&L performance and effective working capital management, we improved our cash position, finishing Q1 with a higher cash balance than our closing position at the end of 2015.

Importantly, we also achieved a significant gain in our product margin. This improvement was largely the result of getting our synthetic production running at commercial scale. It also reflects our continuing efforts to improve supply chain efficiencies and procurement costs across all products.

Revenue growth over prior year first quarter was strong, at 84%. We achieved sales growth across all major geographies, driven by a broadened customer base and new product launches at existing and new customers. Importantly, we also started to see contributions from newly entered geographies, such as China, Southeast Asia, and Brazil.

Our initiatives aimed at building consumer awareness through continued media outreach, and public relations efforts, accelerated during the quarter. Highlights of these initiatives include:

- Multiple radio and television interviews in the US market that specifically mentioned MenaQ7[®]. Major metropolitan areas included Chicago, Phoenix, Miami, and Washington DC. On both major networks and radio talk shows, the importance of MenaQ7[®] was discussed with regard to women's heart and bone health.
- Our customers launched multiple new products, including the first kid-specific product featuring MenaQ7[®] in combination with a premium DHA/EPA omega-3. The product, launched by Wiley's Finest Fish Oil,

was prominently featured at the internationally attended Expo West show in Anaheim, California.

- NattoPharma received media coverage about a 2nd yogurt study, which confirmed that the dairy matrix and capsules both successfully increase K status.
- NattoPharma received prime coverage in *Nutraceuticals World* Vitamins feature.
- Doctor's Best MK-7 branded product, featuring MenaQ7, was recognized with the *Delicious Living* Best Bone Health supplement award.
- The first of 3 NattoPharma articles discussing K2 for Human Health: Bone Health appeared in *Nutraceuticals Now*.
- *WholeFoods* magazine ran a K2 & CoQ10 article written by Dr. Katarzyna Maresz, president of the International Science and Health Foundation, with a sidebar from NattoPharma's Dr. Hogne Vik
- NattoPharma got prime coverage in *Nutrition Industry Executive* Women's Health feature
- MenaQ7[®] was specifically mentioned in a *First For Women* article featuring an interview with Dr. Dennis Goodman.

These are just the highlights of a very active first quarter. We have no doubt that the cumulative effect of these efforts is increasing both the consumer awareness of and brand interest in our MenaQ7[®] products.

With regard to resource prioritization, we significantly reduced expenses as compared to the prior (Q4 2015) period, reflecting a partial benefit of the restructuring that was conducted at the end of 2015. Q1 included some carryover of these expenses; however, the majority of these expenditures are now behind us.

Investment in clinical research continued in Q1. Development initiatives were highly focused on 3 to 4 pharmaceutical indications and 2 to 3 additional dietary supplement health areas. The balance of our development expenditure was targeted toward end-user application technologies.

We advanced strategic partnerships in three areas:

- Increasing our production capacity to assure we are well positioned to meet growing volume demand;
- Conducting clinical research, in both dietary supplement and pharmaceutical segments, with leading research universities;
- Strengthening our market access and business development, particularly in new geographies as highlighted in the revenue comments.

Our team has now been working together for its first full quarter, and I believe that the initial results attest to the strong combination of industry experience and functional expertise within NattoPharma. We will selectively add talent where it directly supports our growth and advances our strategic imperatives.

FORWARD LOOKING

The team is highly motivated and confident in our ability to deliver on 2016 commitments. We also remain optimistic about our potential to substantially and profitably grow in the years ahead.

As we progress in 2016 we will remain focused on our 7-Point Plan:

- Cash management;
- Globally competitive, highest quality MK-7;
- Revenue growth;
- Clinical research and customer-relevant applications development;
- Resource prioritization;
- Strategic partnerships; and
- Superb execution with a capable, global team.

We continue to promote expanded awareness of the substantial vitamin K2 health benefits. As a result, we see increasing interest in MenaQ7[®] and a growing demand for our products, with enormous potential still ahead. From the perspectives of scientific validation, brand awareness and ability to execute, we firmly believe that NattoPharma is the company best positioned to deliver on this promise. In the meantime, we remain focused on our operating objectives. We expect that our performance will

continue to improve, and, as communicated in our prior report, that NattoPharma is on track for a positive EBITDA result in the second half of 2016.

1st Quarter Financial Review

First quarter 2016 has started with a record revenue for the period, with a growth of 84% compared to same period last year.

Numbers in NOK million	Q1'16	Q1'15	Change
Revenue	12,5	6,8	84 %

This is the 14th consecutive quarter of sales growth as compared to prior year same quarter sales. Growth compared to previous quarter (Q4'15) is NOK 1,4 million (12,7 %).

Gross profit for the period is significantly higher than same period last year, and also compared to previous quarter (Q4'15).

Numbers in NOK million	Q1'16	Q1'15	Change
Gross Profit	6,3	1,9	4,4
Gross Margin	50,4 %	27,9 %	

The Gross Profit is positively impacted by the increased margin on MenaQ7[®]PURE where the new production facility now is up and running with commercialized pricing structure.

Operating Expenses are slightly higher compared to same quarter last year.

Numbers in NOK 1,000	Q1'16	Q1'15	Change
Personnel Cost	3,9	2,9	1,0
Other OpEx	4,2	2,7	1,5

The company has insourced some of the services previously outsourced to consultants. This has impacted the personnel cost negatively. At the same time, cost for hired services has gone down in the period.

Other operating expenses are negatively impacted by legal fee's related to the ongoing dispute with one of the previous suppliers of natural vitamin K2.

Managements initiative to reduce operating expenses is going forward as planned, and some effects have been implemented with impact to the

Q1'16 results, however, full effect of the restructuring initiative is not expected until end of Q2 2016.

Operating expenses related to R&D is reduced significantly from same quarter last year, and any cost still incurred for R&D initiatives will be expensed as they are incurred.

Earnings Before Interest, Tax & Depreciation (EBITDA) is NOK -1,7 million for the period.

Numbers in NOK million	Q1'16	Q1'15	Change
EBITDA	-1,7	-3,8	3,3
EBITDA Margin	-13,6%	-55,3 %	

The EBITDA Margin is significantly improved as a result of high growth in sales and gross margin.

Depreciation in the period is NOK 1,6 million, which mainly applies to intangible assets and the acquisition of NattoPharma R&D Ltd.

Net Finance cost in the period is highly impacted by realized and un-realized FX losses. This is mostly due to appreciation of the NOK versus USD and EUR. Any un-realized FX loss will potentially be reversed if the NOK weakens in future periods.

Total assets at the end of Q1'16 were as follows,

Numbers in NOK million	Q1'16	Q4'15	Change
Non-Current Assets	54,4	57,0	-2,6
Current Assets	49,5	51,7	-2,2
Total Assets	103,9	108,7	-4,8

Of Current Assets, cash and cash equivalents totals NOK 26,7 million. As per December 31st 2015, corresponding figure equaled NOK 24,7 million.

Trade & Other Receivables (NOK 18 million) can be broken down to NOK 8,2 million in Trade Receivables, NOK 2.8 million in pre-payments and NOK 7 million in other receivables, including NOK 2.8 million related to SkatteFunn funds due in October 2016.

Management is of the opinion that there is no risk related to recoverability of Trade Receivables of NOK 8,2 million.

Working capital management is of highest priority for the new management, and, along with other operating initiatives as previously described, will drive improved cash flow performance in 2016. Management believe, excluding any investments in fixed assets and barring unforeseen events, that the cash flow from operating activities will be sufficient throughout the year to sustain the expected business growth.

Numbers in NOK million	Q1'16	Q4'15	Change
Total Equity	86,6	92,8	-6,2
Non-Current Liabilities	5,5	5,7	-0,2
Current Liabilities	11,8	10,2	1,6
Total Assets	103,9	108,7	-4,8

Equity ratio at the end of Q1'16 is 83.4 % compared to 85.3 % as per December 31st 2015.

NattoPharma's financial position is satisfactory. The company has no long-term debt beyond deferred tax of NOK 5.5 million and no leasing obligations except for office rental at Høvik, which expires at end of 2016.

Other issues

For transactions between related parties, see note 5.

A loan of Euro 450 000 was made to EuroPharma Alliance Sp. Z.o.o. as per April 16th 2015. The agreed interest rate is 2 % p.a. The loan has by 31st March been repaid with Euro 150 000. As the initial repayment date has passed, the remaining balance, including accrued interest, has been rolled into a new loan agreement with repayment date in July 2016. Management's assessment is that there are no risks related to the recoverability of this receivable.

A loan provided to TG Montgomery AS in May 2015 of NOK 1,0 million, with 7% interest rate, has been repaid in May 2016.

As previously informed, the company is currently in a dispute with a former supplier of a fermented vitamin K2 product. NattoPharma has provided all relevant information to Arbitration Tribunal, which is now reviewing the matter before a ruling can be made to the dispute. A conclusion to the

dispute is expected in the 2nd or 3rd quarter of 2016.

The financial statement is prepared under the assumption of going concern.

Høvik, May 19th 2016

Board of Directors



Frode M. Bohan
Chairman



Christopher von Schirach-Smigiel
Board Member



Katarzyna Maresz
Board Member



Daniel H. Rosenbaum
CEO, NattoPharma Group

Consolidated Income statement for the 1st Quarter 2016

		NattoPharma ASA	
	Note	01.01-31.03 2016 <i>(unaudited)</i>	01.01-31.03 2015 <i>(unaudited)</i>
<i>(Numbers in 1 000 NOK)</i>			
REVENUE			
Revenue		12 466	6 785
Other revenue		3	-
TOTAL REVENUE AND OTHER INCOME		12 469	6 785
OPERATING EXPENSES			
Cost of goods sold		-6 185	-4 882
Salaries and benefits		-3 857	-2 919
Depreciation and amortisation		-1 648	-1 427
Other operating expenses		-4 155	-2 737
TOTAL OPERATING EXPENSES		-15 845	-11 936
OPERATING PROFIT / LOSS		-3 376	-5 180
FINANCE INCOME AND EXPENSES			
Interest income		80	42
Other finance income		2 743	33
Interest expense		-930	-11
Other finance expense		-4 752	898
NET FINANCE		-2 860	962
(LOSS)/PROFIT BEFORE INCOME TAX		-6 235	-4 218
Income tax		178	165
NET (LOSS)/PROFIT		-6 057	-4 053
Loss per share (weighted average number of shares in period)		-0,35	-0,30
TOTAL RESULT		01.01-31.03 2016 <i>(unaudited)</i>	01.01-31.03 2015 <i>(unaudited)</i>
Loss for the period		-6 057	-4 053
Other comprehensive income to be reclassified to profit or loss in subsequent period			
Translation difference		598	-2 109
Total other comprehensive income		598	-2 109
Total comprehensive income for the period		-5 561	-6 162

Balance sheet – Assets

<i>(Numbers in 1 000 NOK)</i>	Note	NattoPharma ASA	
		31.03 2016 <i>(unaudited)</i>	31.12 2015 <i>(unaudited)</i>
NON CURRENT ASSETS			
INTANGIBLE ASSETS			
Goodwill		7 105	7 259
Other Intangible Assets		44 108	46 599
TOTAL INTANGIBLE ASSETS		51 212	53 858
OTHER NON-CURRENT ASSETS			
Property, Plant & Equipment		3 182	3 195
TOTAL OTHER NON-CURRENT ASSETS		3 182	3 195
TOTAL NON CURRENT ASSETS		54 394	57 053
CURRENT ASSETS			
Inventory		4 893	6 327
Trade and Other Receivables		17 976	20 578
Cash & Cash Equivalents		26 663	24 761
TOTAL CURRENT ASSETS		49 532	51 666
TOTAL ASSETS		103 926	108 719

Balance sheet – Equity and liabilities

<i>(Numbers in 1 000 NOK)</i>	Note	NattoPharma ASA	
		31.03 2016 <i>(unaudited)</i>	31.12 2015 <i>(unaudited)</i>
EQUITY			
PAID IN EQUITY			
Share Capital	2,3	51 398	51 398
Share Premium Reserve		113 269	113 269
TOTAL PAID IN EQUITY		164 667	164 667
OTHER EQUITY			
Accumulated Loss		-83 745	-77 090
Translation Adjustment		5 721	5 225
TOTAL EQUITY		86 643	92 802
NON-CURRENT LIABILITIES			
Deferred Tax Liability		5 489	5 747
TOTAL NON-CURRENT LIABILITIES		5 489	5 747
CURRENT LIABILITIES			
Trade Payables		4 166	3 509
Other Current Liabilities		7 628	6 661
TOTAL CURRENT LIABILITIES		11 794	10 170
TOTAL EQUITY AND LIABILITIES		103 926	108 719

Cash Flow Statement

(Numbers in 1 000 NOK)	01.01-31.03 2016 <i>(unaudited)</i>	01.01-31.03 2015 <i>(unaudited)</i>
OPERATING ACTIVITIES		
Loss before tax	-6 235	-4 218
Foreign currency (gain)/loss	2 009	-931
Depreciation and amortization	1 648	1 319
Changes in working capital items:		
Inventory	1 434	1 034
Trade and other receivables	1 388	-2 899
Trade payables	657	-1 194
Other short term items	1 503	-747
Finance (income)/expense	851	31
NET CASH FLOW FROM OPERATION ACTIVITIES	3 255	-7 605
INVESTMENT ACTIVITIES		
Investments in property, plant & equipment	-60	-24
NET CASH FLOWS FROM INVESTMENT ACTIVITIES	-60	-24
FINANCING ACTIVITIES		
New short term loans	-	5 000
Foreign currency (gain)/loss	-2 009	931
Finance (income)/expense	-851	-31
NET CASH FLOW FROM FINANCIAL ACTIVITIES	-2 860	5 900
Net change in cash and cash equivalents	335	-1 729
Effect of currency	1 568	-186
Cash and cash equivalents 1.1	24 761	13 101
CASH AND CASH EQUIVALENTS AS PER 31 DECEMBER	26 663	11 186

Changes in Equity

(Numbers in 1 000 NOK)	Share capital	Share premium	Non controlling interest	Accumulated loss	Translation Adjustment	Total Equity
Equity as per 01.01.2015	40 706	78 737	-	-47 329	3 605	75 719
Total comprehensive income for the period				-31 568	1 620	-29 948
Equity based remuneration				1 807		1 807
Share issue	10 714	39 286				50 000
Transaction costs		-4 691				-4 691
Purchase of own shares	-22	-63				-85
EQUITY AS PER 31.12.2015	51 398	113 269	-	-77 090	5 225	92 802
Equity as per 01.01.2016	51 398	113 269	-	-77 909	5 225	92 802
Total comprehensive income for the period				-6 057	496	-5 561
Equity based remuneration				-598		-598
Share issue						
Share issue transaction costs						
EQUITY AS PER 31.03.2016	51 398	113 269	-	-83 745	5 721	86 643

Notes to consolidated accounts as per March 31st 2016

1. ACCOUNTING PRINCIPLES

Interim reports are prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". The report does not contain all information necessary in a full annual report, and must be read in conjunction with the consolidated financial statements for NattoPharma ASA for the fiscal year leading up to and including 31. December 2015. From Q3 2013, the company is a group with subsidiaries in the USA and Cyprus, respectively NattoPharma USA, Inc. and NattoPharma R&D Ltd. (Vitasynth Ltd).

The interim report, which is not audited, was approved by the company's board of directors on 19th May 2016.

2. SHARE CAPITAL

As per 31 March 2016, the share capital is NOK 51 419 799 based on a total number of shares issued equal to 17 139 933 each with a face value of NOK 3.

3. SHAREHOLDER INFORMATION

List of the 20 largest shareholders as of March 31st 2016:

#	Shareholder Name	Type	# of Shares	% Ownership	% of Total	% of Top 20
1	Svenska Handelsbanken, Stockholm	Nominee	2 148 955	12,54 %	12,54 %	16,95 %
2	Six Sis AG	Nominee	1 747 191	10,19 %	22,73 %	13,78 %
3	Novel Nutrition Network Ltd., Cyprus a)	Private	1 436 000	8,38 %	31,11 %	11,32 %
4	KG investment Comp AS	Private	1 240 429	7,24 %	38,35 %	9,78 %
5	Bohan & Co AS b)	Private	783 455	4,57 %	42,92 %	6,18 %
6	Pro AS	Private	738 751	4,31 %	47,23 %	5,83 %
7	Avanza Bank AB	Nominee	678 549	3,96 %	51,19 %	5,35 %
8	Stiftelsen Fritt Ord	Private	623 586	3,64 %	54,82 %	4,92 %
9	Eng AS c)	Private	556 480	3,25 %	58,07 %	4,39 %
10	TG Montgomery AS b)	Private	385 186	2,25 %	60,32 %	3,04 %
11	Skandinaviska Enskilda Banken	Nominee	359 223	2,10 %	62,41 %	2,83 %
12	MP Pensjon	Private	313 647	1,83 %	64,24 %	2,47 %
13	Nielsen, Trygve	Private	307 800	1,80 %	66,04 %	2,43 %
14	Bjerkenes Holding AS, Jan Fredrik Bjerkenes	Private	276 827	1,62 %	67,66 %	2,18 %
15	NxT Capital Ltd. b)	Private	200 000	1,17 %	68,82 %	1,58 %
16	Citibank N.A.	Nominee	187 060	1,09 %	69,91 %	1,48 %
17	Universal Exports AS d)	Private	184 000	1,07 %	70,99 %	1,45 %
18	Gjersvik, Anne-Britt	Private	179 340	1,05 %	72,03 %	1,41 %
19	Nordnet Livsforsikring AS	Private	174 254	1,02 %	73,05 %	1,37 %
20	Log, John Bjarne	Private	160 000	0,93 %	73,98 %	1,26 %
Total 20 Largest Shareholders			12 680 733	73,98 %		
Remaining Shareholders			4 459 200	26,02 %		
Total All Shareholders			17 139 933	100 00%		

- a) Shares controlled by Piotr Jandziak, CEO EuroPharma Alliance Sp Z.o.o. and Director Vitasynth SP Z o.o.
- b) Shares controlled, directly and indirectly, by Frode M. Bohan, Chairman of the Board, NattoPharma ASA
- c) Shares controlled by Hogne Vik, Chief Medical Officer, NattoPharma ASA
- d) Shares controlled by Frank E. Bjordal, chairman of the Nomination Committee, NattoPharma ASA

4. SEGMENT REPORTING

The Company operates in one segment for reporting purposes. The company offers vitamin k2, in natural and synthetic form, in several different geographical markets. Management considers the risk profile and profitability to be approximately equal in all these geographic markets. Management and the Board considers therefore that the company operates as one unit in assessments and decisions about allocating resources and investments.

5. RELATED PARTIES

Entity	Related Party	Balance	Transactions			
		31.12.15	Sales	Purchases	Loans	Interest
EuroPharma Alliance SP Z oo	Piotr Jandziak	5 562	4 056	387	-	6
ImmunoPharma AS	F. Bohan / H. Vik	-44	-	175	-	-
Seminarium Spolka Jawna	Piotr Jandziak	-4	-	300	-	-
Eqology AS	Frode Bohan	-2	214	34	-	-
TG Montgomery AS	Frode Bohan	1 110	31	-	-	17

All numbers in NOK 1,000

Description:

1. EuroPharma Alliance Sp zoo (EPA), Poland has a longstanding customer relationship with NattoPharma ASA and has from fall 2014 been engaged in the production of the Company's new synthetic vitamin K2 product. Piotr Jandziak is the CEO of EuroPharma Alliance Sp zoo. EPA is also a supplier of finished products to TG Montgomery AS.
2. ImmunoPharma AS has supplied graphical and R&D services. Frode Bohan is the Chairman in both ImmunoPharma AS and NattoPharma ASA and Hogne Vik is a shareholder in both companies.
3. Seminarium Spolka Jawna is supplying services related to the production of the Company's new synthetic vitamin K2 product. The company is controlled by Piotr Jandziak.
4. NattoPharma ASA is providing some accounting support to Eqology AS. Frode Bohan is chairman in both companies, and Frode Bohan and Hogne Vik are both shareholders in both companies.
5. TG Montgomery has a loan with NattoPharma ASA, and Frode Bohan is chairman in both companies, and controls TG Montgomery through his ownership in NxT Capital Ltd.

6. EVENTS AFTER BALANCE DATE

There are no material events that have taken place after the balance date which is not accounted for above.

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