

# NattoPharma ASA

Second Half and Preliminary Full Year 2017



# NattoPharma Interim Report Second Half and Preliminary Full Year 2017

## Operational highlights

- Successful launch in several new growing markets, such as **Brazil** and **China**
- Increased capacity in supply of synthetic product
- Continued focus on operational performance, driving the improvement in financial results

## Key financial numbers and facts

- Record sales of NOK 66,6 million full year and 36,0 million H2
- Positive Adj. EBITDA NOK 5,3 million full year and 3,8 million H2
- Significantly improved product margin:
  - 49% in H2-2017 vs 41,6% in H2-2016
- Operating improvement increasing momentum in Q4
- Positive result from discontinued operations NOK 27,1 million full year and 30,9 H2
- Positive Net Result of NOK 22,9 million full year and 30,0 million H2

## OPERATIONAL REVIEW

During the second half of the year we experienced an acceleration of our business growth and improvement of operating fundamentals. This was even more pronounced during our fourth quarter, our highest ever quarterly sales achievement.

Second half revenue of NOK 36M represented growth of 31% as compared to H2 of the prior year. At NOK 36M, the revenue was slightly above the mid-point of guidance issued in our public announcement prior to our Capital Markets Day event. In particular, toward the later part of the fourth quarter we began to see the results of new customer product launches and the addition of new, significant customers. This demand, coupled with improved supply capabilities toward the end of the period, enabled us to deliver a strong finish to the year. As outlined in prior communications, many of these launches and additions had been in the pipeline for several months, and, although later than initially anticipated, these projects are now entering into full commercialization.

Operating improvements were apparent at all levels of the income statement, from increased gross margin to significantly more favorable expense ratios. This was particularly the case with performance during the fourth quarter. The results for this period are highly relevant in the context of our overall operating improvement initiatives and are worth noting in greater detail. Our gross margin in Q4 was very strong at over 53%. This higher margin reflected improvements in our manufacturing operations as long-awaited capacity additions and production improvements began to show positive results. We continue to add capacity to meet increasing demand, and with each new addition we are experiencing faster ramp-up time and efficiency gains.

At the same time as we achieve greater volumes and production efficiencies, we are closely managing our operating expenses. In Q4, the combination of growing volume, improved product margin and tight expense management enabled us to deliver EBITDA of over 20% on continued operations. This is a significant milestone for our business and represents our best quarterly performance to date.

Driving P&L leverage by growing sales at an improved margin while tightly managing operating expenses, enabled us to deliver substantially improved and positive EBITDA. This was evident not just in the 4<sup>th</sup> quarter, but across the full second half of the year. During the H2 period we achieved revenue growth of 31% and gross margin of just under 50%, a dramatic improvement compared to same period prior year in which gross margin was 41%. The H2 gross margin was also an improvement versus the first half of the year, in which gross margin was just under 46%.

Our continued effort on managing operating expenses reflect our focus on commercial activities and the benefits of efficiency measures taken during the year. The combination of all these factors – higher sales, improved margin and focused expenses, resulted in a positive adjusted EBITDA of NOK 3,8M, or 10,5% of revenue during the second half of the year.

We are extremely pleased with these results, as they demonstrate not only a significant improvement versus prior periods, but also demonstrate operating performance that is sustainable, growing and profitable. In H2, and even more so in Q4, we see an indication of the performance we believe this business can deliver in the periods ahead.

During the second half of the year NattoPharma continued to lead the industry in our media outreach and awareness campaigns. The initiatives were both numerous and effective, many of which are highlighted in the examples below:

### Articles, Publications and Events:

- July: NattoPharma Supports Biolab Launch in Brazil, including a presentation by NattoPharma CMO Dr. Hogne Vik.
- August: A MenaQ7 Study Again Shows Improved Arterial Health, this time in Renal transplant patients as described in a study published in the Journal of American Society of Hypertension
- September: New Review shows the Roles of K2 & D for Children's Bone Health, and

highlights an important review paper published in The Journal of the American College of Nutrition.

- September: at the international Supply Side West show, NattoPharma announces the iHeart Presence the Booth, featuring the iHeart technology showing a unique measure of internal age linked to cardio health.
- September: NattoPharma launched new, unique MenaQ7 Full Spectrum K2
- October: NattoPharma and Ortho Molecular Form Exclusive Partnership promoting MenaQ7 in the US practitioner channel.
- November: New MenaQ7 Vitamin K2 Patents Granted in US, Australia and Israel.
- November: a new paper recommends vitamin K2 Support Heart Health in Aortic Valve Calcification, a common cardiovascular condition in the aging population where no medical therapy currently exists
- November: NattoPharma announces a new partnership and launch in China with Fishburg; launch event included participation with several hundred distributors and attendance of the Norwegian consulate.
- December: NattoPharma held its first ever Capital Markets Day, which included a two hour presentation followed by open questions and answer session, to a full house.

In addition to the above events, NattoPharma completed its much-anticipated spinout of the pharmaceutical business) into an independent company (PharmaCo). The private placement offering, which was oversubscribed, was successfully completed in December. The NattoPharma management and board believes that the pharmaceutical path for vitamin K2-MK7 is extremely promising and that this new structure will enable the level of focus and pharma-level funding required to successfully pursue this amazing potential, and to build on the clinical findings that NattoPharma has invested in over the last decade.

On the organizational front, we expanded our

team with the addition two new commercial roles. The first was the creation of a new senior position in charge of sales for the full Americas, and the second position was a senior account manager role, focused in the fast-growing US market. In both cases we successfully on-boarded experienced nutraceutical industry professionals. Active searches continued for open positions in both Asia and Europe.

During the 4<sup>th</sup> quarter we also moved to a new, larger and better equipped facility in the US in order to accommodate our growing organization and significantly increased logistical needs.

Looking ahead we see continued growth in both established and newer markets. We are seeing the first significant volumes into China, and with our recent launches and activities there we are now established as one of the main K2 players in this potentially enormous market. Vitamin K2 continues to gain headline-grabbing news in established markets as more and more practitioners and supplement brand leaders become familiar with the K2 story. Several articles in recent months have referred to vitamin K2 as “the one to watch in 2018.” And increasingly it is NattoPharma that is best positioned to ride this wave, with our:

- Extensive, and unmatched clinical data;
- Patented positions;
- Broadest vitamin K2 offering, including synthetic, natural and encapsulated;
- Customer, application-focused solutions;
- Unparalleled commercial team and technical support;
- Globally competitive cost position.
- And, perhaps most importantly, our reputation as *the expert* in vitamin K2.

We begin 2018 with a high level of energy and excitement about growth and opportunities ahead.

## H2 and FY'17 Financial Review

### Income Statement

2017 has been another strong year for NattoPharma with record revenue and continuously improved results compared to previous years.

The second half of 2017 has continued the path of growing revenue and improved profitability in the core business area. The Supplement business has had record revenue of NOK 36,0 million in the period and has also set a new all-time high for the full year of NOK 66,6 million.

The fourth quarter further stood out as the best quarter ever in the company history, with a revenue of NOK 21,3 million in the period.

Numbers in NOK million	H2'17	H2'16	Change
<b>Revenue</b>	<b>36,0</b>	<b>27,6</b>	<b>8,4</b>

Numbers in NOK million	FY'17	FY'16	Change
Product Revenue	66,4	51,8	14,6
Other Revenue	0,2	1,5	-1,3
<b>Total Revenue</b>	<b>66,6</b>	<b>53,3</b>	<b>13,3</b>

The Gross Margin came in at 48,9 % in the 6 months period from July till December. This is up from 41,6% in the same period last year.

Numbers in NOK million	H2'17	H2'16	Change
<b>Gross Profit</b>	<b>17,6</b>	<b>11,4</b>	<b>6,2</b>
<b>Gross Margin</b>	<b>48,9%</b>	<b>41,6%</b>	

Numbers in NOK million	FY'17	FY'16	Change
<b>Gross Profit</b>	<b>31,6</b>	<b>24,4</b>	<b>7,2</b>
<b>Gross Margin</b>	<b>47,4%</b>	<b>45,8%</b>	

Gross Margin for the full year came in at 47,4% compared to 45,8% in 2016.

Operating Expenses related to the core business area, adjusted for non-cash cost, came in at NOK 13,8 million for the 6 months period ending 31. December 2017, compared to NOK 10,6 million in the same period last year.

Operating Expenses for the full year is NOK 28,8 million, up from NOK 25,8 million in 2016. The increase in Personnel Cost is partly explained by a reclassification of contracted personnel from Other Operating Expenses to Personnel Cost. The

same reclassification has not taken place for 2016, and the amount in 2017 is approx. NOK 2,4 million.

Numbers in NOK million	H2'17	H2'16	Change
Personnel Cost	-10,2	-6,3	-3,9
Other OpEx	-4,8	-5,7	0,9
<b>Total OpEx</b>	<b>-15,0</b>	<b>-12,0</b>	<b>-3,0</b>

Numbers in NOK million	FY'17	FY'16	Change
Personnel Cost	-18,5	-13,3	-5,2
Other OpEx	-10,3	-12,6	2,3
<b>Total OpEx</b>	<b>-28,8</b>	<b>-25,9</b>	<b>-2,9</b>

Non-cash cost expenses, partly related to options to management and board of directors, have been recognized in the income statement in 2017 with NOK 2,5 million. Corrected for this the adjusted Operating Expenses in the period is NOK 26,3 million, compared to adjusted Operating Expenses of NOK 23,5 million during the full year of 2016.

Adjusted Earnings Before Interest, Tax & Depreciation (EBITDA) in the core business area was positive with NOK 3,8 million for the second half of the year, and a positive adjusted EBITDA of NOK 5,3 million for the full year. This compares to a profit of NOK 0,8 million in the second half and NOK 0,9 million for the full year 2016 respectively.

Numbers in NOK million	H2'17	H2'16	Change
<b>EBITDA</b>	<b>2,6</b>	<b>-0,6</b>	<b>3,2</b>
<b>EBITDA Margin</b>	<b>7,2%</b>	<b>-2,22%</b>	
<b>Adj. EBITDA</b>	<b>3,8</b>	<b>0,8</b>	<b>3,0</b>
<b>Adj. EBITDA Margin</b>	<b>10,6%</b>	<b>3,02%</b>	

Numbers in NOK million	FY'17	FY'16	Change
<b>EBITDA</b>	<b>2,8</b>	<b>-1,5</b>	<b>4,3</b>
<b>EBITDA Margin</b>	<b>4,1%</b>	<b>-2,74%</b>	
<b>Adj. EBITDA</b>	<b>5,3</b>	<b>0,9</b>	<b>4,4</b>
<b>Adj. EBITDA Margin</b>	<b>7,9%</b>	<b>1,67%</b>	

Depreciation in 2017 was NOK 7,4 million. This mainly applies to depreciation of intangible assets related to the acquisition of NattoPharma R&D Ltd.

Net financial items in the period was negative NOK -0,2 million. Net finance cost is mainly related to realized and un-realized FX gains and losses.

In December 2017 the group spun-out the pharma related business to a new entity, PharmaCo AS.

This business has been separated from the core business in the income statement and the result from these operations has been presented as Result from discontinued operations in the 2017 financial statements.

NattoPharma recognized a gain of NOK 65,5 million in the transaction with PharmaCo. Based on the accounting principle for non-controlling interest in equity accounted investees, only the portion of the gain related to the ownership by other investors in PharmaCo, i.e. 54,15%, has been recognized in the Income Statement for 2017. This amounts to NOK 35,5 million. The remaining amount, NOK 30,0 million, is partly netted against the book value of the investment in PharmaCo, NOK 8,0 million and partly reported as a long-term liability related to deferred gain on the sale of the business, NOK 22,0 million. This deferred gain will be recognized in the Income Statement in accordance with any future change in ownership percentage, where NattoPharma potentially is diluted as an effect of capital injections in the pharma entity.

The operating expense related to the discontinued operations has in 2017 been NOK 8,4 million. Result from discontinued operations in 2017 is hence a profit of NOK 27,1 million. The comparable cost in 2016 for the discontinued operations is estimated to be NOK 6,8 million, with no recognized revenue. Hence the loss in 2016 for the same operations is estimated to be NOK -6,8 million.

The Net Result, including the result from discontinued operations, is a profit of NOK 22,9 million for the year and NOK 30,0 million for the second half of the year. This compares to a loss of NOK -17,3 million in the full year 2016 and a loss of NOK -7,9 million in the second half of the year.

### Balance Sheet

Total assets at the end of 2017 were as follows,

Numbers in NOK million	FY'17	FY'16	Change
Non-Current Assets	103,6	48,6	55,0
Current Assets	53,6	47,7	5,9
<b>Total Assets</b>	<b>157,2</b>	<b>96,3</b>	<b>60,9</b>

Cash and cash equivalents totaled NOK 13,6 million of current assets, compared to NOK 19,8 million at the end of 2016.

The reduction in cash & cash equivalents is mainly related to continued investment in working capital, as well as the funding of the ongoing Pharma strategy development.

The relatively large increase in Non-Current Assets is related to the loan granted to PharmaCo AS in the spin-off of the pharma business area. Book value of this loan at the end of 2017 is NOK 57,5 million.

Trade and other receivables of NOK 24,3 million can be broken down to NOK 19,5 million in trade receivables and NOK 4,8 million in other receivables, this includes approx. NOK 3,9 million in receivables related to the ongoing SkatteFunn programs and public grants. Management believes there is no risk related to recoverability of trade receivables of NOK 19,5 million.

Working capital management is a priority, and although the investment in working capital has gone up in the period, compared to the end of 2016, management believe that, barring any unforeseen events, any investments in fixed assets or other financial investments, the current cash balance is sufficient to sustain the expected business growth in the coming period.

Total equity and liabilities at the end the period can be broken down in the following categories:

Numbers in NOK million	FY'17	FY'16	Change
Total Equity	111,0	76,2	34,8
Non-Current Liabilities	26,4	4,8	21,6
Current Liabilities	19,8	15,3	4,5
<b>Total Assets</b>	<b>157,2</b>	<b>96,3</b>	<b>60,9</b>

NattoPharma's financial position is strong, with an equity ratio at the end of 2017 of 70,6%. Adjusted for Other Long-Term Liability related to the deferred gain from the PharmaCo transaction, the comparable equity ratio is 84,6%. Equity ratio as per December 31<sup>st</sup>, 2016 was 79,1%.

Increase in total equity is mainly a combination of the net result for the year and the private

placement directed towards Synergia Life Sciences Pvt Ltd in November of NOK 7,0 million.

The increase in Non-Current Liabilities relates mainly to the recognition of the deferred gain on the sale of the pharma business to PharmaCo AS. This deferred gain will be recognized in the Income Statement in accordance with any future change in ownership percentage, where NattoPharma potentially is diluted as an effect of capital injections in the pharma entity. This non-current liability is therefore not representing any cash transaction in the future.

The company has no other long-term debt beyond deferred tax of NOK 4,7 million.

### Other issues

For transactions between related parties, see note 3.

In board proceedings on February 7<sup>th</sup>, 2017 the Board of Directors resolved to grant a total of 315,000 share options to management, key employees and strategic partners. The options are vested immediately upon grant and can be exercised within March 31st, 2022. The strike price is NOK 11,20 per share option and is equal to the closing share price on the Oslo Stock Exchange on February 7<sup>th</sup>, 2017. None of these options are exercised at the time of this interim financial report.

Further, the Board of Directors received through a resolution at the Annual General Meeting on May 15<sup>th</sup>, 2017 options as form of remuneration related to the work performed during 2016/2017. The options are vested immediately upon grant and can be exercised within April 30th, 2019. The strike price is NOK 10,50 per share option and is equal to the closing share price on the Oslo Stock Exchange on May 15<sup>th</sup>, 2017. None of these options are exercised at the time of this interim financial report.

### Statement from The Board of Directors and CEO

We confirm to the best of our knowledge, that the consolidated financial statements as at 31 December 2017, and for the period 01 January to 31 December 2017, have been prepared in accordance with IAS 34 “Interim Financial Reporting”, and that the Interim Management

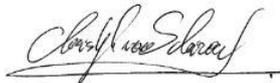
Report for 2017 are presented in accordance with Accounting and Generally Accepted Accounting principles in Norway, and that the accounts give a true and fair view of the company's assets, liabilities, financial position and results as a whole. We also declare that the interim report gives a fair review of the development, performance and position of the company and the group at the time of this interim financial report.

Oslo, February 7<sup>th</sup>, 2018

#### Board of Directors



Frode M. Bohan  
Chairman



Christopher von Schirach-Smigiel  
Board Member



Stefan Hallden  
Board Member



Katarzyna Maresz  
Board Member



Annette Elmqvist  
Board Member



Daniel H. Rosenbaum  
CEO, NattoPharma Group

## Consolidated Income statement for the second half and full year 2017

	Note	01.07-31.12 2017 (unaudited)	01.07-31.12 2016 (unaudited)	01.01-31.12 2017 (unaudited)	01.01-31.12 2016 (audited)
<b>NattoPharma</b>					
<i>(Numbers in 1 000 NOK)</i>					
<b>REVENUE</b>					
Revenue		35 966	26 104	66 418	51 830
Other revenue		29	1 435	188	1 512
<b>TOTAL REVENUE AND OTHER INCOME</b>		<b>35 995</b>	<b>27 539</b>	<b>66 066</b>	<b>53 342</b>
<b>OPERATING EXPENSES</b>					
Cost of goods sold		-18 412	-16 094	-35 013	-28 923
Salaries and benefits		-10 302	-6 335	-18 534	-13 323
Depreciation and amortisation		-3 720	-3 516	-7 364	-6 897
Other operating expenses <sup>1)</sup>		-4 785	-5 721	-10 301	-12 560
<b>TOTAL OPERATING EXPENSES</b>		<b>-37 119</b>	<b>-31 666</b>	<b>-71 212</b>	<b>-61 703</b>
<b>OPERATING PROFIT/-LOSS</b>		<b>-1 125</b>	<b>-4 127</b>	<b>-4 606</b>	<b>-8 361</b>
<b>FINANCE INCOME AND EXPENSES</b>					
Interest income		84	71	100	159
Interest expense		-6	-3 735	-22	-834
Other finance income/-expense		-43	944	-95	0
Revaluation Adjustment		-124	2 974	-138	-2 123
<b>NET FINANCE</b>		<b>-89</b>	<b>254</b>	<b>-155</b>	<b>-2 798</b>
<b>PROFIT/-LOSS BEFORE INCOME TAX</b>		<b>-1 214</b>	<b>-3 873</b>	<b>-4 762</b>	<b>-11 159</b>
Income tax		304	300	634	656
<b>NET PROFIT/-LOSS FROM CONTINUED OPERATIONS</b>		<b>-910</b>	<b>-3 573</b>	<b>-4 128</b>	<b>-10 503</b>
Result from Discontinued Operations	3	30 935	-4 340	27 071	-6 835
<b>NET PROFIT/-LOSS</b>		<b>30 026</b>	<b>-7 913</b>	<b>22 943</b>	<b>-17 338</b>
Gain/-Loss per weighted average number of shares in period		1,69	-0,45	1,30	-1,00
Fully diluted gain/-loss per weighted average number of shares		1,59	-0,45	1,23	-1,00
<b>COMPREHENSIVE INCOME</b>					
<b>Gain/-Loss for the period</b>		<b>30 026</b>	<b>-7 913</b>	<b>22 943</b>	<b>-17 338</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent period</b>					
Translation difference		1 298	-2 178	3 574	-2 314
<b>Total other comprehensive income</b>		<b>31 323</b>	<b>-10 091</b>	<b>26 517</b>	<b>-19 652</b>
<b>Total comprehensive income for the period</b>		<b>31 323</b>	<b>-10 091</b>	<b>26 517</b>	<b>-19 652</b>

## Balance sheet – Assets

(Numbers in 1 000 NOK)	Note	31.12 2017 (unaudited)	NattoPharma 31.12 2016
<b>NON-CURRENT ASSETS</b>			
<b>INTANGIBLE ASSETS</b>			
Goodwill		7 426	6 857
Intangible Assets – IP and patents		36 759	38 198
Other Financial Assets		168	-
<b>TOTAL INTANGIBLE ASSETS</b>		<b>44 353</b>	<b>45 055</b>
<b>OTHER NON-CURRENT ASSETS</b>			
Other Long-Term Receivables	3	57 500	-
Property, Plant & Equipment		1 715	3 599
<b>TOTAL OTHER NON-CURRENT ASSETS</b>		<b>59 215</b>	<b>3 599</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>103 569</b>	<b>48 654</b>
<b>CURRENT ASSETS</b>			
Inventory		12 953	3 767
Trade and Other Receivables <sup>1)</sup>		27 113	24 108
Cash & Cash Equivalents		13 558	19 818
<b>TOTAL CURRENT ASSETS</b>		<b>53 624</b>	<b>47 693</b>
<b>TOTAL ASSETS</b>		<b>157 193</b>	<b>96 347</b>

1) See comments in Financial Review above, page 6

## Balance sheet – Equity and liabilities

(Numbers in 1 000 NOK)	Note	31.12 2017 (unaudited)	NattoPharma 31.12 2016
<b>EQUITY</b>			
<b>PAID IN EQUITY</b>			
Share Capital	2	54 368	52 688
Share Premium Reserve		118 346	113 087
<b>TOTAL PAID IN EQUITY</b>		<b>172 715</b>	<b>165 776</b>
<b>OTHER EQUITY</b>			
Accumulated Loss		-68 050	-92 285
Translation Adjustment		6 292	2 717
<b>TOTAL EQUITY</b>		<b>110 956</b>	<b>76 207</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred Tax Liability		4 442	4 787
Deferred revenue from sale of business	3	22 002	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>26 443</b>	<b>4 787</b>
<b>CURRENT LIABILITIES</b>			
Trade Payables		14 526	10 178
Other Current Liabilities		5 268	5 175
<b>TOTAL CURRENT LIABILITIES</b>		<b>19 793</b>	<b>15 353</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>157 193</b>	<b>96 347</b>

## Cash Flow Statement

<i>(Numbers in 1 000 NOK)</i>	01.01-31.12 2017 <i>(unaudited)</i>	01.01-31.12 2016
<b>OPERATING ACTIVITIES</b>		
Profit / -Loss before tax	22 309	-17 994
Depreciation and amortization	7 364	6 897
Non-Cash items from sale of Pharma Business	-35 498	-
<b>Changes in working capital items:</b>		
Inventory	-9 186	2 560
Trade and other receivables	-2 311	-4 826
Trade payables	4 348	6 669
Other short-term items	-769	1 757
<b>NET CASH FLOW FROM OPERATION ACTIVITIES</b>	<b>-13 743</b>	<b>-4 937</b>
<b>INVESTMENT ACTIVITIES</b>		
Investments in property, plant & equipment	-864	-1 477
<b>NET CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	<b>-864</b>	<b>-1 477</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from share issue / -Transactions Cost	6 939	1 109
<b>NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>6 939</b>	<b>1 109</b>
Net change in cash and cash equivalents	-7 668	-5 305
Effect of currency	1 408	362
Cash and cash equivalents 1.1	19 818	24 761
<b>CASH AND CASH EQUIVALENTS AS PER 31 DECEMBER</b>	<b>13 558</b>	<b>19 818</b>

## Changes in Equity

<i>(Numbers in 1 000 NOK)</i>	Share capital	Share premium	Non controlling interest	Accumulated loss	Translation Adjustment	Total Equity
Equity as per 01.01.2016	51 398	113 269	-	-77 090	5 225	92 802
Total comprehensive income for the period				-17 144	-2 508	-19 652
Equity based remuneration				1 948		1 948
Share issue	1 290					1 290
Transaction costs		-182				-182
<b>EQUITY AS PER 31.12.2016</b>	<b>52 688</b>	<b>113 087</b>	<b>-</b>	<b>-92 286</b>	<b>2 717</b>	<b>76 207</b>
Equity as per 01.01.2017	52 688	113 087	-	-92 286	2 717	76 207
Total comprehensive income for the period				22 943	3 574	26 517
Equity based remuneration				1 293		1 293
Share issue	1 680	5 320				7 000
Share issue transaction costs		-61				-61
<b>EQUITY AS PER 31.12.2017</b>	<b>54 368</b>	<b>118 346</b>	<b>-</b>	<b>-68 050</b>	<b>6 292</b>	<b>110 956</b>

## Notes to consolidated accounts as per December 31<sup>st</sup>, 2017

### 1. ACCOUNTING PRINCIPLES

#### General

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 2016. From Q3 2013, the company is a group with subsidiaries in the USA and Cyprus, respectively NattoPharma USA, Inc. and NattoPharma R&D Ltd.

#### Investments in associated companies

An associated company is an entity over which the Group has significant influence and that is not a subsidiary or a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without the ability to have control over those policies. Significant influence normally exists when the Group has 20% to 50% voting power through ownership or agreements. Investments in associated companies are accounted for using the equity method.

The interim report, which is not audited, was approved by the company's board of directors on 7<sup>th</sup> February 2018.

### 2. SHARE CAPITAL

A private placement towards Synergia Life Sciences Pvt Ltd. (**Synergia**) was approved in an Extraordinary General Meeting on November 24<sup>th</sup>, 2017, where 560 000 new shares at a par value of NOK 3 per share were issued. The subscription price for the shares were NOK 12,5 per share, giving net proceeds of NOK 6,94 million when including the transaction cost related to the private placement.

The shares were registered in the Norwegian Business Registry (Brønnøysundregistrene) on December 4<sup>th</sup>, 2017. Due to a delayed process for Synergia to acquire a Norwegian securities account (VPS account) the shares were not registered for trade in VPS until February 2<sup>nd</sup>, 2018.

As per December 31<sup>st</sup>, 2017, the share capital is NOK 54,389,799 based on a total number of shares issued equal to 18 129 933 each with a face value of NOK 3.

An updated list of the largest shareholders is available on the corporate website – [www.nattopharma.com](http://www.nattopharma.com)

### 3. PHARMA TRANSACTION

NattoPharma sold the pharma business to PharmaCo AS in a transaction that was signed on December 15<sup>th</sup>, 2017 and was effective from December 27<sup>th</sup>, 2017 after completion of several closing conditions related to the transaction.

The pharma business was sold for a total amount of NOK 65,5 million and was all financed by a seller's credit provided from NattoPharma to PharmaCo. After completing the transaction NattoPharma converted NOK 8,0 million of the outstanding seller's credit to equity in PharmaCo at a share price of NOK 5 per share, where each share has a nominal value of NOK 1 per share. NattoPharma had before this conversion approx. 1,5% of the outstanding shares in PharmaCo. NattoPharma ownership in PharmaCo after the conversion is 45,85% where NattoPharma hold 1 630 000 shares of a total number of 3 555 243 shares issued in the company. NattoPharma has thus a non-controlling interest in PharmaCo and has recognized the transaction according to the rules of investments in associated companies with a non-controlling interest.

Total gain for NattoPharma related to this transaction is NOK 65,5 million. Based on the accounting principle for non-controlling interest in equity accounted investees, only the portion of the gain related to the ownership by other investors in PharmaCo, i.e. 54,15%, has been recognized in the Income Statement for 2017. This amounts to NOK 35 468 250. The remaining amount, NOK 30 031 750, is partly netted against the book value of the investment in PharmaCo, NOK 8 030 000, and partly reported as a long-term liability related to deferred gain on the sale of the business, NOK 22 001 750. This deferred gain will be recognized in the Income Statement in accordance with any future change in ownership percentage, where NattoPharma potentially is diluted as an effect of capital injections in the pharma entity. This non-current liability is therefore not representing any cash transaction in the future.

Net result from the discontinued operation is summarized as follows,

<i>(Numbers in 1 000 NOK)</i>	01.07-31.12 2017	01.07-31.12 2016	01.01-31.12 2017	01.01-31.12 2016
Gain on sale of pharma business	35 468	-	35 468	-
Personnel Cost	-1 665	-1 060	-3 100	-2 229
Other Operating Expenses	-2 868	-3 280	-5 297	-4 606
<b>RESULT FROM DISCONTINUED OPERATIONS</b>	<b>30 935</b>	<b>-4 340</b>	<b>27 071</b>	<b>-6 835</b>

#### 4. RELATED PARTIES

Entity	Related Party	Balance	Transactions			
		31.12.2017	Sales	Purchases	Loans	Interest
EuroPharma Alliance SP Z oo	Piotr Jandziak	5 111				23
ImmunoPharma AS	F. Bohan / H. Vik		106	105		
Seminarium Spolka Jawna	Piotr Jandziak			1 004		
Tape Poland SP Z oo	Frode Bohan			305		
Vitasynth Sp. Z oo	Piotr Jandziak	-3 698		4 842		
PharmaCo AS	Associated entity	57 744	206		57 500	39

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.
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. Tape Poland Sp Z oo deliver IT related services to NattoPharma. Frode Bohan is a major shareholder in Tape International AS, the parent company to Tape Poland Sp Z oo
5. Vitasynth Sp Zoo is a supplier of synthetic vitamin K2. Piotr Jandziak is the CEO and owner of Vitasynth Sp Zoo.
6. PharmaCo AS is an associated entity created through a spin-off of the pharmaceutical business from NattoPharma in December 2017. NattoPharma ASA controls 45,85% of the shares in PharmaCo AS at 31<sup>st</sup> December 2017.

## 5. EVENTS AFTER BALANCE DATE

In conjunction with the spin-off of PharmaCo AS, and the appointment of a management team to secure the immediate development of this business area, NattoPharma CEO, Daniel Rosenbaum, has been seconded from NattoPharma as Interim CEO for PharmaCo AS until a permanent management team has been appointed by the PharmaCo Board of Directors. Mr. Rosenbaum will in this interim period be released from all duties in NattoPharma to be able to properly conduct his role in PharmaCo AS. The Board of Directors in NattoPharma ASA has appointed Kjetil Ramsøy as Interim CEO for NattoPharma in this period. Mr. Ramsøy will also continue to act as NattoPharma CFO during this period.

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

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## RECONCILIATION OF NON-GAAP MEASURES

### Reconciliation of Gross Profit (Margin)

	NattoPharma			
	01.07-31.12 2017 (unaudited)	01.07-31.12 2016 (unaudited)	01.01-31.12 2017 (unaudited)	01.01-31.12 2016 (unaudited)
<i>(Numbers in 1 000 NOK)</i>				
<b>REVENUE</b>				
Revenue	35 966	26 104	66 418	51 830
Other revenue	29	1 435	188	1 512
<b>TOTAL OPERATIONAL REVENUE</b>	<b>35 995</b>	<b>27 539</b>	<b>66 606</b>	<b>53 342</b>
<b>OPERATING EXPENSES</b>				
Cost of goods sold	-18 412	-16 094	-35 013	-28 923
<b>TOTAL COST OF GOODS SOLD</b>	<b>-18 412</b>	<b>-16 094</b>	<b>-35 013</b>	<b>-28 923</b>
<b>GROSS PROFIT</b>	<b>17 583</b>	<b>11 445</b>	<b>31 593</b>	<b>24 419</b>
<b>GROSS MARGIN</b>	<b>48,85%</b>	<b>41,56%</b>	<b>47,43%</b>	<b>45,78%</b>

### Reconciliation of EBITDA (earnings before interest, tax, depreciation and amortization)

	NattoPharma			
	01.07-31.12 2017 (unaudited)	01.07-31.12 2016 (unaudited)	01.01-31.12 2017 (unaudited)	01.01-31.12 2016 (unaudited)
<i>(Numbers in 1 000 NOK)</i>				
<b>REVENUE</b>				
Revenue	35 966	26 104	66 418	51 830
Other revenue	29	1 435	188	1 512
<b>TOTAL REVENUE AND OTHER INCOME</b>	<b>35 995</b>	<b>27 539</b>	<b>66 606</b>	<b>53 342</b>
<b>OPERATING EXPENSES</b>				
Cost of goods sold	-18 412	-16 094	-35 013	-28 923
Salaries and benefits	-10 203	-6 335	-18 534	-13 323
Other operating expenses	-4 785	-5 721	-10 301	-12 560
<b>TOTAL OPERATING EXPENSES, excl. Depreciation &amp; Amortization</b>	<b>-33 400</b>	<b>-28 150</b>	<b>-63 848</b>	<b>-54 806</b>
<b>EBITDA</b>	<b>2 595</b>	<b>-611</b>	<b>2 757</b>	<b>-1 464</b>
EBITDA Margin	7,21%	-2,22%	4,14%	-2,74%
Non-Cash Cost for Options program	1 218	1 442	2 511	2 354
<b>Adj. EBITDA</b>	<b>3 813</b>	<b>831</b>	<b>5 268</b>	<b>890</b>
Adj. EBITDA Margin	10,59%	3,02%	7,91%	1,67%