NattoPharma ASA

Second Half and Preliminary Full Year 2018

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About NattoPharma

The Mission of NattoPharma is to advance global health by creating and introducing to the market scientifically validated products and technologies that will deliver measurable health benefits.

Our Vision is to be recognized as a leader in the creation and introduction of novel health ingredients and technologies that provide optimal health outcomes. We make our Vision a reality by:

- Addressing significant health concerns with branded, scientifically validated, proprietary products and technologies, leading with our flagship brand MenaQ7®.
- Leveraging all manner of technology to more effectively and efficiently deliver these products to our target markets.
- Establishing ourselves as the experts in the science underlying our products and associated enabling technologies that allow us to effectively deliver them to the marketplace.
- Developing and maintaining a deep customer and segment understanding of the benefits we deliver.

NattoPharma is committed to delivering clinically validated products that will positively impact global human health.

Our strategy is to strengthen market access with our current technologies, while simultaneously working to expand our product offering to meet ever-changing market demand.

NattoPharma is an undisputed leader in clinical understanding and science. Our long-term history of investing in ground-breaking research has allowed us to identify novel health benefits and open new market opportunities for our partners.

In addition to creating products and technologies grounded in science, NattoPharma offers unparalleled support to its partners, ensuring their success creating unique products and communicating their value to the marketplace.

Key Figures

NattoPharma Consolidated

Amounts in NOK 1.000	2018	H2'18	H1'18	2017 *)	H2'17	H1'17	2016 *)	H2'16	H1'16
Product Revenues	101.722	54.529	47.193	66.418	35.966	30.452	51.830	26.104	25.726
EBITDA	5.070	4.132	937	2.758	2.596	162	-1.464	-611	-853
Adjusted EBITDA	6.652	4.152	2.500	5.269	3.814	1.455	484	425	59
Operating Profit (EBIT)	-2.208	549	-2.757	-4.606	-1.124	-3.482	-8.361	-4.127	-4.234
Pre-Tax Profit Continued Operations	1.047	2.859	-1.812	-4.763	-1.214	-3.549	-11.159	-3.873	-7.286
Net Profit Continued Operations	1.755	3.222	-1.467	-4.130	-910	-3.220	-10.503	-3.567	-6.936
Operational Cash Flow	6.488	5.868	620	-11.229	-3.386	-7.843	-4.937	-686	-4.251
Net Cash Flow	5.096	4.662	434	-6.260	2.322	-8.582	-4.943	-937	-4.006
Gross Margin Products	43,1%	44,3%	41,7%	47,3%	48,8%	45,5%	44,2%	38,4%	50,1%
Equity Ratio	74,5%	74,5%	71,9%	70,6%	70,6%	80,5%	79,1%	79,1%	80,9%
Net Interest-Bearing Debt	0	0	0	0	0	0	0	0	0
Natto Stock Price Last Day in Period	8,10	8,10	9,10	9,10	9,10	10,40	9,09	9,09	9,50
Issued Shares (Thousands)	18.180	18.180	18.130	18.130	18.130	17.570	17.570	17.570	17.570
Market Value (NOK 1.000)	147.257	147.257	164.982	164.982	164.982	182.727	159.711	159.711	166.914
Earnings Per Share	0,10	0,18	-0,08	-0,23	-0,05	-0,18	-0,60	-0,20	-0,39

*) Pro-forma after spin-off of pharma business into Kaydence Pharma in 2017

H2’18 Product Revenues up by NOK 18,6m to **NOK 54,5m** – a 52% increase
Q4’18 Product Revenues of **NOK 30,9m** – a new record quarter

H2’18 Adjusted EBITDA of **NOK 4,2m,** Q4 at **NOK 3,1m**

H2’18 Net Profit of **NOK 3,2m,** up from **NOK -0,9m**

Business Update

"2018 has been a year of opportunities and challenges. The spin-off of the pharma division to Kaydence Pharma in December 2017 has enabled us to focus all of our resources in one direction, being commercialization and sales growth within the dietary supplement/nutraceutical segments. This change has been pivotal in delivering the best financial results in the history of the company."

Kjetil Ramsøy, CEO NattoPharma

Second half revenues of NOK 54 million represent a 51,6% increase on the same period in 2017, ensuring that we exceeded a key revenue milestone of NOK 100 million for the full year. During the second half of the year we also set best ever revenue records for a quarter (~31m) and a single month (~16m). On an annual basis the sales revenue represents growth of 53% on the 2017 financial year and is above our previous market guidance of 40 – 50%. At the same time net profit for second half was NOK 3,2 million, resulting in our first ever full year with a net profit, ending at NOK 1,76 million. Notwithstanding this growth we have, due to strong cash management, increased our cash balance by NOK 5,1 million. These results are testament to the relentless dedication of our team, who despite facing significant supply chain challenges throughout the year, have worked tirelessly to operationally manage this growth.

We continue to see significant market growth driven by increased consumer awareness and understanding of the health benefits of K2. Our unique positioning in the market, as the only full-service provider offering a clinically validated product range, including natural, synthetic and Full Spectrum, has enabled us to successfully capture a notable share of this expansion. We have seen particularly strong development in the US market, and a movement towards volume business is anticipated as a result of our partnership with Weider Global Nutrition, which has earned placement in Costco, and will commence a nationwide roll-out in Q1 of 2019 across 500 stores. This level of product visibility will serve to further increase consumer awareness and fuel sales in the mass market. We have seen some regional commoditization which has led to price pressure in certain geographies, however the decline in our product margin over the past 12 months is predominantly linked to synthetic supply constraints and not only market circumstances.

A key focus during 2018 has been the initiation of the process to build an organization which has the right mix of capabilities to support and drive our growth, and to implement the standards, systems and processes required for us to deliver excellence across all areas of the business.

In this respect we made significant investment in human resources with several key appointments during the year. As we move into 2019, we will be making further additions to our headcount, but at an operational level, and the focus will move to clarification of role responsibilities and building a strong corporate culture. NattoPharma is committed to forging partnerships with both customers and vendors based on trust and transparency.

The project initiated in the second half of 2018 to further develop the synthetic production process is progressing well. As we enter the new year, we are commencing the second stage of this development process and are confident that we will secure increased yields and cost efficiencies during 2019 and beyond. The additional efforts to develop our supply chain which started in early 2018 have already started to deliver results and can be seen in the positive development of the gross product margin which increased to 44,3% in H2 versus 41,7% in the first half of the year.

We continue our dedication to our educational marketing program and to further understanding the science of vitamin K2 in terms of the impact it has on health as a dietary supplement. Through our 19 clinical trials, which has enabled us to foster an understanding of Vitamin K2's safe, effective impact on the human health as a dietary supplement, we have prepared the foundation for the work Kaydence Pharma now continue in the process to take Vitamin K2 to the stage of a registered drug. Our pioneering work has earned the attention of the medical community, which is now driving additional trials currently underway that will reinforce Vitamin K2 as an essential cardiovascular nutrient. Yet NattoPharma continues to initiate trials that will confirm beneficial outcomes beyond bone and heart health, which will expand the demand for Vitamin K2. In a separate project that NattoPharma has initiated with Maastricht University, work has commenced to establish an RDI (Recommended Daily Intake) for Vitamin K2. By our continued involvement in this kind of research, NattoPharma maintains the position as the global leader in the scientific validation of health benefits from Vitamin K2 MK-7.

We drive market awareness through our established relationship with key opinion leaders, media, and influencers, all engaged in reporting the Vitamin K2 developments we share. This type of expertise not only makes NattoPharma a core contributor in the B2B arena, building our brand awareness and appeal with new companies, but allows us to promote product pull through at a consumer level, ensuring our partners experience success in their specific markets. Most recently, NattoPharma engaged a UK-based PR firm for a strategic campaign promoting UK product partners, making its impact measurable. The intention will be to replicate this campaign’s success in other markets.

Our efforts are driven by innovating through research what Vitamin K2 is, how it can be embraced by more brands, and delivered in new ways to reach an even broader audience, be it dietary supplements, functional foods and beverages, or dairy. The ultimate goal is to see our Vitamin K2 become a staple ingredient in all multi-vitamin formulas, replacing Vitamin K1. To that end, NattoPharma has continued to develop our CryoCap microencapsulated advanced protective technology, ensuring K2 stability in multiple ingredient formulations. Our most recent introduction, MenaQ7 Full Spectrum K2, is a first-of-its-kind vitamin K2 that delivers a range of long-chain menaquinones shown to improve long-term cardiovascular health outcomes. At the close of 2018, NattoPharma was awarded patents in both China and Europe for the synthetic production process for the preparation of MK-7 Vitamin K2, further enforcing our position as a market leader.

As the Vitamin K2 leader, NattoPharma has developed intimate relationships with brand owners, giving us unprecedented insight into specific market needs. By knowing all the key stakeholders across the value chain, we work closely to promote a greater understanding of Vitamin K2, while also sharpening our professional sword so we can operate smarter to meet changing market needs. For example, Terranova delivered critical insights that pushed us to customize our offer, making us an undeniable fit for their line, and those advancements make NattoPharma an even more enticing prospect for future companies.

Today we have also announced the next step in our portfolio expansion, as we will take on a new ingredient in cooperation with highly dedicated partners, Inventia Healthcare and Laila Nutraceuticals. This collaboration provides NattoPharma with the exclusive rights in core markets to a new, proprietary ingredient with benefits in the robust mood and energy segments. This ingredient is supported by a unique composition of actives and proprietary novel technology, and IP is pending and being developed to bolster and protect these. In line with NP’s commitment to a clinically validated portfolio, human bioactivity and clinical research is being undertaken to validate the benefits of this new ingredient, which upon completion will be ready to be marketed late this year.

Ingredients for energy and stress management, and sports nutrition have been identified as two of the top 10 categories trending in 2019 by NutraIngredients, the leading global News & Analysis source for supplements. Whilst the categories are both growing in double digits, many ingredients have been subject to criticisms, including not experiential enough, not long lasting, and providing only minimum support for mood, energy, vigor and performance. Our collaboration directly addresses these by creating a unique composition of actives that are recognized for providing efficacy and providing these actives at exceptional levels from the natural sources. Further, the delivery technology developed will ensure an efficacious onset, paired with a sustained benefit, providing maximum support.

The partners we have chosen brings significant expertise to the table. Inventia Healthcare Ltd. is a 33-year-old innovative drug delivery company that specializes in novel, science-based, oral delivery technologies for Pharmaceutical applications. With a state-of-the-art research and development center approved by the Ministry of Science and Technology, Government of India, Inventia is well equipped to undertake formulation and development projects on Novel Drug Delivery Systems in the Nutraceuticals segment.

Laila Nutraceuticals is a world leader in developing innovative botanical ingredients that have become the top sellers across various countries over the last several decades. With a rich heritage of 44 years Laila Nutraceuticals has state of the art GLP laboratories with 150 scientists dedicated to research and innovation of botanical actives coupled with cGMP compliance, NSF GMP certified manufacturing facilities that have been approved by US FDA and other regulatory agencies.

Looking forward to 2019 and beyond we are truly excited about the possibilities for NattoPharma, not only in terms of capitalizing on the exponential growth we foresee in the K2 market, but also as we now continue to develop our pipeline of new ingredients, stimulating even greater revenue growth in the future.

Disclaimer

This report includes forward-looking statements regarding NattoPharma ASA, including projections and expectations, which involve risk and uncertainty. Such statements are included without any guarantees to their future realization. Although NattoPharma ASA believes that the expectations regarding the Company reflected in such forward-looking statements are based on reasonable assumptions, no assurance can be given that such projections will be fulfilled. Any such forward-looking statement must be considered along with knowledge that actual events or results may vary materially from such predictions due to, among other things, political, economic, financial or legal changes in the markets in which NattoPharma ASA does business, and competitive developments or risks inherent to the Company's business plans. Many of these factors are beyond NattoPharma ASA`s ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. The Company does not intend and does not assume any obligation to update the forward-looking statements included in this report as of any date after the date hereof.

Financial Update

This interim report relates to NattoPharma's performance in the second half of 2018 relative to the second half of 2017, and for the full year of 2018 relative to the full year of 2017.

In December 2017 the Group spun-out the pharma related business to a new entity, PharmaCo AS which has since changed name to Kaydence Pharma AS. The data provided in this second half report is therefore purely for the NattoPharma ASA Group of entities, and all prior year comparatives are adjusted to represent only the supplement business. Prior year data related to the pharma segment is presented in this report under result from discontinued operations.

Use of Alternative Performance Measures (APM)

NattoPharma use APMs on certain key performance metrics. These will be noted as "Adjusted" figures in the report. Please refer to the last page in the interim report for a summary of these measures.

Income Statement

Revenues

NattoPharma reported a product revenue of NOK 54,5 million for the second half of 2018, an increase of 52% compared to the same period last year and 53% for the full year, ahead of the previously guided growth rate of 40-50%. The fourth quarter of the year yet again set a new highest revenue record at NOK 30,9 million. Most of the growth has been in the North American market, and Synthetic K2 is growing at a faster pace than Natural K2, overtaking Natural K2 in 1000 parts per million volume equivalents during 2018. Other revenue of NOK 3,2 million largely represents services and other recharges to Kaydence Pharma AS.

Amounts in NOK mill.	H2'18	H2'17	Change	2018	2017	Change
Product Revenue	54,5	36,0	18,6	101,7	66,4	35,3
Other Revenue	3,2	0,0	3,2	5,5	0,2	5,3
Total Revenue	**57,7**	**36,0**	**21,7**	**107,2**	**66,6**	**40,6**

Gross Margin

The Gross Margin came in at 44,3% in the period. This is up from 41,7% in the first half of the year, after many of the previously announced supply and production challenges were mitigated during the second half of the year. The full year margin of 43,1% is within the previously guided range of 40-45% for 2018.

Amounts in NOK mill.	H2'18	H2'17	Change	2018	2017	Change
Gross Profit Product Revenues	24,2	17,6	6,6	43,9	31,6	12,3
Gross Margin Product Revenues	44,3%	48,8%	-4,5%	43,1%	47,4%	-4,4%

Operating Expenses

The total OpEx development is summarized below.

Amounts in NOK mill.	H2'18	H2'17	Change	2018	2017	Change
Personnel Cost	14,2	10,2	4,0	28,4	18,5	9,9
Other OpEx	8,9	4,8	4,2	15,8	10,3	5,5
Total OpEx	**23,1**	**15,0**	**8,1**	**44,2**	**28,8**	**15,4**

Operating expenses includes recharges made to Kaydence Pharma AS and non-cash cost related to options to management and the Board of Directors. The latter included NOK 19.000 in the second half of the year, and

NOK 1,56 million in the first half of the year. Below is a summary of the OpEx development adjusted for these two items.

Amounts in NOK mill.	H2'18	H2'17	Change	2018	2017	Change
Adj. Personnel Cost	12,5	9,0	3,5	23,0	16,0	7,0
Adj. Other OpEx	7,6	4,8	2,8	14,3	10,3	4,0
Total OpEx Adj.	**20,1**	**13,8**	**6,3**	**37,2**	**26,3**	**10,9**
As % of Product Revenues	**36,8%**	**38,3%**	**-1,5%**	**36,6%**	**39,6%**	**-3,0%**

The increase in Personnel Cost is related to hiring of new senior personnel during 2018 to support our growth and the new focus on the supplement/nutraceutical segments. The increase in Other OpEX is related to sales and marketing efforts and R&D.

The decrease in OpEx as % of Product Revenues is as guided in 2018, and a development we expect to continue going forward.

Profitability

Adjusted Earnings Before Interest, Tax & Depreciation (Adj. EBITDA) was positive with NOK 4,2 million for the second half of the year. This compares to NOK 3,8 million for the same period in the prior year. Net Profit was positive with NOK 3,2 million in the period, compared to NOK -0,9 million in 2017. This is the first half year and full year of net profit for NattoPharma, an important milestone.

Amounts in NOK mill.	H2'18	H2'17	Change	2018	2017	Change
Adj. EBITDA	4,2	3,8	0,3	6,7	5,3	1,4
Adj. EBITDA Margin	7,6%	10,6%	-3,0%	6,5%	7,9%	-1,4%
EBITDA	4,1	2,6	1,5	5,1	2,8	2,3
EBITDA Margin	7,6%	7,2%	0,4%	5,0%	4,2%	0,8%
Net Profit	3,2	-0,9	4,1	1,8	-4,1	5,8
Net Profit Margin	5,9%	-2,5%	22,3%	1,7%	-6,1%	16,5%

Depreciation and Net Finance

Depreciation for the period was NOK 3,6 million. This mainly applies to depreciation of intangible assets related to the acquisition of NattoPharma R&D Ltd. in 2013.

Net financial items in the period was positive NOK 2,3 million. NOK 1,4 million was interest income on the loan to Kaydence Pharma AS, NOK 1,1 million in net currency gain and NOK 0,3 million in interest expense and other financial expenses.

Balance Sheet

Assets

Total assets at the end of the period were as follows:

Amounts in NOK mill.	H2'18	H1'18	Change	2017	Change
Non-Current Assets	83,0	93,2	-10,2	103,6	-20,6
Current Assets	64,4	52,3	12,1	53,6	10,8
Total Assets	**147,3**	**145,4**	**1,9**	**157,2**	**-9,9**

Cash and cash equivalents grew by NOK 4,7 million in the second half of the year, and NOK 5,1 million for the full year.

The change in non-current assets in the period relates to expenses on the ongoing development project noted in the press release on November 19th, depreciation of assets, conversion of NOK 9,975 million of the loan to Kaydence Pharma AS to shares, and payback of NOK 1,5 million of the loan. Please see note 3 in the report for a schedule on the change in the loan balance to Kaydence Pharma AS.

Trade receivables of NOK 21,9 million consist of receivables related to product sales. Management believes there is very low risk related to recoverability of trade receivables. This is because the Group has never experienced any losses due to default. A bad debt provision of NOK 130.000 has been recorded for the second half of the year.

Other receivables of NOK 12,2 million consist of accrued interest on the long-term loan to Kaydence Pharma AS, accruals for ongoing SkatteFUNN programs, prepayments, VAT assets and other receivables. The prepayments consist of prepayments for 2019 services and events/tradeshows and large prepayments of raw material to be delivered in 2019. The VAT assets have built up due to the mix, timing and geographical distribution of purchases and sales in the second half of the year. Management believes there is very low risk related to recoverability of these VAT assets.

The Group has not recorded any deferred tax assets as per December 31st, 2018. Per December 31st, 2017, the Group had carry-forward tax losses of NOK 185,7 million, and an unrecognized deferred tax asset of NOK 45,3 million.

Equity and Liabilities

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

Amounts in NOK mill.	H2'18	H1'18	Change	2017	Change
Total Equity	109,8	104,6	5,2	111,0	-1,2
Non-Current Liabilities	15,7	25,9	-10,2	26,4	-10,7
Current Liabilities	21,9	15,0	6,9	19,8	2,1
Total Equity and Liabilities	**147,3**	**145,4**	**1,9**	**157,2**	**-8,7**

NattoPharma continues to maintain a strong financial position, with an equity ratio at the end of the second half of 74,5%, compared to 71,9% as per June 30th, 2018 and 70,6% as per December 31st, 2017. Adjusting non-current liabilities for the deferred gain from the Kaydence Pharma AS transaction, the comparable equity ratio is 82,7%.

The decrease in non-current liabilities relate to capitalization of deferred income (see note 3). The increase in current liabilities largely consists of increases in accounts payables, which is natural given the growth in the Group.

Cash Flow

Despite the growth and required investment in working capital, such as prepayments of raw material and production efficiency development projects, the cash development is positive. High attention to cash management and an improved profitability has both contributed to the positive development. Working capital management is a priority to ensure that the organization will be able to sustain the growing investment required in working capital as the business continues to grow.

Amounts in NOK mill.	H2'18	H2'17	Change	2018	2017	Change
Operational Cash Flow	5,9	-3,4	9,3	6,5	-11,2	17,7
Net Cash Flow	4,7	2,3	2,3	5,1	-6,3	11,4

Due to the ongoing ramp-up of supply the parent Company entered into a short-term loan agreement in January 2019 to manage a commitment for delivery of additional raw material. See note 6 to the Financial Statements for further information about this loan.

Other Items

For transactions between related parties, see note 5.

Statement from the Board of Directors and CEO

We confirm that, to the best of our knowledge, the consolidated financial statements as of December 31st, 2018, and for the period July 1st to December 31st, 2018, have been prepared in accordance with IAS 34 Interim Financial Reporting, and that the Interim Management Report for 2018 are presented in accordance with Accounting and Generally Accepted Accounting principles in Norway. 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 12th, 2019

Board of Directors

Frode M. Bohan Chairman	Sjur Thorsheim Board Member	Stefan Hallden Board Member
Katarzyna Maresz Board Member	Annette Elmqvist Board Member	Kjetil Ramsøy CEO, NattoPharma Group

Condensed Consolidated Statement of Income

Amounts in NOK 1.000	Note	01.07 - 31.12 2018 *(Unaudited)*	01.07 - 31.12 2017 *(Unaudited)*	01.01 - 31.12 2018 *(Unaudited)*	01.01 - 31.12 2017 *(Audited)*
Revenue					
Sales Revenue	2	54.529	35.966	101.722	66.418
Other Revenue	2	3.182	29	5.519	188
Total Revenue		**57.711**	**35.995**	**107.241**	**66.606**
Operating Expenses					
Cost of Goods Sold		-30.449	-18.412	-57.978	-35.013
Personnel Cost	2	-14.189	-10.203	-28.433	-18.534
Depreciation and Amortisation		-3.583	-3.720	-7.278	-7.364
Other Operating Expenses	2	-8.941	-4.784	-15.760	-10.301
Total Operating Expenses		**-57.162**	**-37.119**	**-109.449**	**-71.212**
Operating Profit/Loss		**549**	**-1.125**	**-2.208**	**-4.606**
Finance Income and Expenses					
Interest Income	3	1.448	84	2.837	100
Interest Expense		-200	-6	-201	-22
Other Financial Expense		-70	-43	-134	-95
Net Currency Gain/Loss		1.133	-124	753	-135
Net Financial Profit/Loss		**2.310**	**-89**	**3.255**	**-152**
Profit/Loss Before Tax		**2.859**	**-1.214**	**1.047**	**-4.759**
Income Tax		363	304	708	678
Profit/Loss from Continued Operations		**3.222**	**-910**	**1.755**	**-4.080**
Result from Discontinued Operations (After Tax)	4	0	30.935	0	27.071
Net Profit/Loss		**3.222**	**30.026**	**1.755**	**22.991**
Gain/Loss per Weighted Average Number of Shares in Period		0,18	1,69	0,10	1,30
Fully Diluted Gain/Loss per Weighted Average Number of Shares		0,16	1,59	0,09	1,23

Condensed Statement of Other Comprehensive Income

Amounts in NOK 1.000	01.07 - 31.12 2018 *(Unaudited)*	01.07 - 31.12 2017 *(Unaudited)*	01.01 - 31.12 2018 *(Unaudited)*	01.01 - 31.12 2017 *(Audited)*
Gain/Loss for the Period	3.222	30.026	1.755	22.991
Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Period				
Translation Difference	1.914	1.298	723	3.574
Total Other Comprehensive Income	**5.136**	**31.323**	**2.478**	**26.565**
Total Comprehensive Income for the Period	**5.136**	**31.323**	**2.478**	**26.565**

Condensed Statement of Financial Position – Assets

Amounts in NOK 1.000	Note	31.12 2018 *(Unaudited)*	31.12 2017 *(Audited)*
Non-Current Assets			
Intangible Assets			
Goodwill		7.507	7.426
Other Intangible Assets	5	34.573	36.759
Total Intangible Assets		**42.080**	**44.185**
Tangible Assets			
Property, Plant & Equipment		601	1.715
Total Tangible Assets		**601**	**1.715**
Financial Assets			
Other Long-Term Receivables	3	40.275	57.500
Other Financial Assets		0	168
Total Financial Assets		**40.275**	**57.668**
Total Non-Current Assets		**82.956**	**103.569**
Current Assets			
Inventory		11.565	12.953
Trade Receivables		21.943	19.526
Other Receivables	3	12.217	7.586
Cash & Cash Equivalents		18.655	13.558
Total Current Assets		**64.379**	**53.624**
Total Assets		**147.335**	**157.193**

Condensed Statement of Financial Position – Equity and Liabilities

Amounts in NOK 1.000	Note	31.12 2018 *(Unaudited)*	31.12 2017 *(Audited)*
Equity			
Paid in Equity			
Share Capital	2,3	54.518	54.368
Share Premium Reserve		118.634	118.346
Total Paid in Equity		**173.152**	**172.715**
Other Equity			
Accumulated Loss		-70.414	-68.050
Translation Differences		7.015	6.292
Total Equity		**109.753**	**110.956**
Non-Current Liabilities			
Deferred Tax Liability		3.691	4.442
Deferred Income from Sale of Business	3	12.027	22.002
Total Non-Current Liabilities		**15.718**	**26.443**
Current Liabilities			
Accounts Payables		18.579	14.526
Other Short-Term Debt		3.285	5.268
Total Current Liabilities		**21.864**	**19.793**
Total Equity and Liabilities		**147.335**	**157.193**

Condensed Statement of Cash Flow

Amounts in NOK 1.000	01.07 - 31.12 2018 *(Unaudited)*	01.01 - 31.12 2017 *(Audited)*
Operating Activities		
Profit Before Tax	1.047	22.312
Depreciation and Amortization	7.278	7.364
Non-Cash Items from Sale of Pharma Business	0	-35.498
Other Non-Cash Items	1.582	2.511
Changes in Working Capital Items:		
Inventory	1.388	-9.186
Trade Receivables	-2.417	-2.311
Trade Payables	4.054	4.348
Other Short-Term Items	-6.444	-768
Net Cash Flow from Operational Activities	**6.488**	**-11.229**
Investment Activities		
Investments in Property, Plant & Equipment	-227	-544
Investment in Other Intangible Assets	-3.919	-320
Sale of Property, Plant & Equipment	489	0
Net Cash Flows from Investment Activities	**-3.657**	**-864**
Financing Activities		
Proceeds from Share Issue/Transaction Costs	429	6.939
Payback Long-Term Loan	1.500	0
Net Cash Flow from Financial Activities	**1.929**	**6.939**
Net Change in Cash and Cash Equivalents	4.759	-5.154
Effect of Currency	337	-1.106
Cash and Cash Equivalents as per January 1st	13.558	19.818
Cash and Cash Equivalents as per December 31st	**18.655**	**13.558**

Condensed Statement of Changes in Equity

Amounts in NOK 1.000	Share Capital	Own Shares	Share Premium	Accumulated Loss	Translation Adjustment	Total Equity
Equity as per January 1st, 2017	52.709	-21	113.087	-92.286	2.717	76.207
Total Comprehensive Income for the Period				22.991	3.574	26.565
Equity Based Remuneration				1.293		1.293
Share Issue Including Transaction Costs	1.680		5.259			6.939
Equity as per December 31st, 2017	**54.389**	**-21**	**118.346**	**-68.002**	**6.292**	**111.005**
Equity as per January 1st, 2018	54.389	-21	118.346	-68.002	6.292	111.005
Total Comprehensive Income for the Period				1.755	723	2.478
Equity Based Remuneration				1.582		1.582
Effect from Implementation of IFRS 9				-5.750		-5.750
Share Issue Including Transaction Costs	150		288			438
Equity as per December 31st, 2018	**54.539**	**-21**	**118.634**	**-70.414**	**7.015**	**109.753**

Notes to Consolidated Accounts

As per December 31st, 2018

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 December 31st, 2017. From Q3 2013, the Company is a Group with subsidiaries in the USA and Cyprus, respectively NattoPharma USA, Inc. and NattoPharma R&D Ltd.

Except for the implementation of the new standards IFRS 9 and IFRS 15, the interim consolidated accounts for the six months ending December 31st, 2018, and for the full year of 2018 have been prepared in accordance with accounting principles used in the annual financial statements for 2017.

IFRS 9

Under IFRS 9, Financial Instruments, NattoPharma made an adjustment to the opening balance of the Group's equity on January 1st, 2018, of NOK 5,75 million. We refer to the 2017 annual report (page 19) for further details of the opening adjustment and the implementation effects on the financial statements.

IFRS 15

IFRS 15, Revenue from Contracts with Customers, is based on a five-step model to determine the timing of revenue recognition from contracts with customers. The core principle is that revenue is recognised when control of goods or services is transferred to a customer. As stated in the 2017 annual report the financial statements will not be significantly impacted by implementing IFRS 15, and there was no adjustment to the opening retained earnings as at January 1st, 2018. For the sales of all goods in the 6-month period ended December 31st, 2018 and for the full year of 2018, control of the assets was transferred to the customer within the same period and hence the corresponding revenue recognised.

IFRS 16

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1st, 2018. The date of initial application of IFRS 16 for the Group will be January 1st, 2019.

The Group has decided on using the cumulative catch-up approach — under which the Standard is applied retrospectively with the cumulative effect recognised at the date of initial application in accordance with IFRS 16.C7 to C13.

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.
On initial application of IFRS 16, for all leases (except as noted below), the Group will

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16

In measuring the present value of the lease liability under IFRS 16, the standard requires that the lessee's incremental borrowing rate be used as discount factor if the rate implicit in the lease cannot be readily determined. In establishing NattoPharma's lease liabilities, the incremental borrowing rates used as discount factors in discounting payments are established based on an average of estimated loan terms.

As at December 31st, 2018, the current assessment is that the Group has non-cancellable operating lease commitments of approximately NOK 3,6 million. The present value of the lease commitments is approximately NOK 3,1 million.

In the opening balance of 2019, the Group will recognise a right-of-use asset of NOK 3,1 million and a lease liability of NOK 2,9 million in respect of all these leases. The difference between the asset and liability is due to prepayment of one lease in 2018.

In the consolidated statement of income, operating lease costs will be replaced by depreciation and interest expenses. For leases allocated to activities which are capitalised, the costs will continue to be expensed as before, through depreciation of the asset involved.

In the cash flow statement, lease down-payments will be presented as a cash flow used in financing activities under IFRS 16. Previously, operating lease costs were presented within cash flows from operations.

Finance leases
NattoPharma has no financial leases as at December 31st, 2018.

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 February 12th, 2019.

2. Segment and Revenue Reporting

Sales Revenue
Sales Revenue includes sale of supplement products. The Group offers vitamin K2, in natural and synthetic form, in several different geographic markets. Management considers risk profile and profitability to be approximately equal in all these geographic markets. The Management and the Board therefore consider the Company's operations as a unit in assessments and decisions regarding allocation of resources and investments.

Other Revenue, Personnel Costs and Other Operating Expenses

Other Revenue consists mainly of recharges of services and other costs to associate, Kaydence Pharma. Reference is made to the Financial Review and the Alternative Performance Measures on the final page in the report, presenting an analysis on the development in Personnel Cost and Other Operating Expenses adjusted for these recharged expenses.

3. Investment in Associated Companies

NattoPharma sold the pharma business to PharmaCo AS (later renamed to Kaydence Pharma AS) in a transaction that was signed on December 15th, 2017 and was effective from December 27th, 2017 after completion of several closing conditions related to the transaction.

Kaydence Pharma AS has a long-term liability to NattoPharma ASA per December 31st, 2018 of NOK 46,03 million, which is representing a seller's credit for the acquisition of the pharma business. According to the Loan Agreement between NattoPharma ASA and Kaydence Pharma AS, the credit expires within 7 years from date of payment and the liability should be repaid over 6 yearly instalments starting at the second anniversary date for the loan agreement. Kaydence Pharma AS will have the obligation to perform early repayments in the event of capital injections to the Company where NattoPharma will be entitled to 20% of the net proceeds, limited to NOK 10 million per event until the whole loan balance is repaid.

In the second half of 2018, Kaydence Pharma closed a shared issue of approximately NOK 10 million. NattoPharma converted a similar amount of the outstanding seller's credit to maintain its ownership, which now stands at 46,41%, up from 45,85%. NOK 1.5 million of the loan balance was repaid.

Through the ownership in Kaydence Pharma AS, NattoPharma holds a significant influence in the company but are not in control. The investment is recognized using the equity method, and due to a deferred gain on the initial transaction, the investment currently holds zero book-value in the consolidated accounts. The deferred gain is booked net of the initial investment and is recognized in the balance sheet as a liability of NOK 12 million.

In conjunction with the implementation of the new accounting standard, IFRS 9, the loan receivable to Kaydence Pharma AS has been tested for potential impairment, and management has assessed the risk to be limited. A general 10% impairment was recognized in the opening balance of 2018. In the second half of the year, there have been no indications that have caused the Group to believe that there is not a continued high likelihood of success for Kaydence Pharma AS. NattoPharma has decided to maintain the impairment at the same nominal value as recorded in the opening balance of 2018.

Below is a schedule on the gross value balance sheet items (before impairment and capitalization, without accrued loan interest.)

Amounts in NOK 1.000	Long-Term Loan	Investment	Deferred Revenue	Total
Gross Value January 1st, 2017	**0**	**0**	**0**	**0**
Acquisition Kaydence Pharma AS	0	30	0	**30**
Spin off Kaydence Pharma AS	65.500	0	-30.032	**35.468**
Debt conversion Q4 2017	-8.000	8.000	0	**0**
Gross value December 31st, 2017	**57.500**	**8.030**	**-30.032**	**35.498**
Debt Conversion Q4 2018	-9.975	9.975	0	**0**
Loan Repayment	-1.500	0	0	**-1.500**
Gross Value December 31st, 2018	**46.025**	**18.005**	**-30.032**	**33.998**

Below is a schedule on the recorded assets and liabilities, on a net basis, without accrued loan interest.

Amounts in NOK 1.000	Long-Term Loan	Investment	Deferred Revenue	Total
Book (Net) Value January 1st, 2017	**0**	**0**	**0**	**0**
Acquisition Kaydence Pharma AS	0	30	0	**30**
Spin off Kaydence Pharma AS	65.500	0	-30.032	**35.468**
Debt Conversion Q4 2017	-8.000	8.000	0	**0**
Netting of Investment/Deferred Revenue	0	-8.030	8.030	**0**
Book (Net) Value December 31st, 2017	**57.500**	**0**	**-22.002**	**35.498**
IFRS 9 Opening Balance Adjustment	-5.750	0	0	**-5.750**
Debt conversion Q4 2018	-9.975	9.975	0	**0**
Netting of Investment/Deferred Revenue	0	-9.975	9.975	**0**
Loan Repayment	-1.500	0	0	**-1.500**
Book (Net) Value December 31st, 2018	**40.275**	**0**	**-12.027**	**28.248**

4. Discontinued Operations

The result from the previous pharma activity was presented as discontinued operations in the 2017 accounts. The following table summarizes the impact in the second half of 2018 and for the full year of 2018, versus 2017.

Amounts in NOK 1.000	01.07 - 31.12 2018	01.07 - 31.12 2017	01.01 - 31.12 2018	01.01 - 31.12 2017
Gain on Sale of Pharma Business	0	35.468	0	35.468
Personnel Cost	0	-1.665	0	-3.100
Other Operating Expenses	0	-2.868	0	-5.297
Result from Discontinued Operations	**0**	**30.935**	**0**	**27.071**

5. Intangible Assets

Amounts in NOK 1.000	Acquired Technology	Software	Acquired Rights	Patents	Assets Under Construction	Total Other Intangible Assets
Acquisition Cost January 1st, 2017	**54.957**	**1.189**	**1.099**	**1.798**	**0**	**59.043**
Acquisitions		539	211			750
Disposals						0
Exchange Rate Changes	3.148					3.148
Acquisition Cost January 1st, 2018	**58.105**	**1.728**	**1.310**	**1.798**	**0**	**62.941**
Acquisitions		476	598		2.845	3.919
Disposals						0
Exchange Rate Changes						0
Acquisition Cost December 31st, 2018	**58.105**	**2.204**	**1.908**	**1.798**	**2.845**	**66.860**
Accumulated Deprec. January 1st, 2017	**17.015**	**0**	**953**	**1.688**	**0**	**19.656**
Amortization and Deprec. for the Year	5.632	317	159	110		6.218
Disposals						0
Exchange Rate Changes	308					308
Accumulated Deprec. January 1st, 2018	**22.955**	**317**	**1.112**	**1.798**	**0**	**26.182**
Amortization and Deprec. for the Year	5.795	407	77			6.280
Disposals						0
Exchange Rate Changes	-174					-174
Accumulated Deprec. December 31st, 2018	**28.576**	**724**	**1.189**	**1.798**	**0**	**32.287**
Balance Sheet Value December 31st, 2018	**29.529**	**1.480**	**719**	**0**	**2.845**	**34.573**
Balance Sheet Value December 31st, 2017	**35.150**	**1.411**	**198**	**0**	**0**	**36.759**

The company uses straight-line amortization for all intangible assets.

The economic life is intended for:

- Patent 1 — 10 years
- Patent 2 + 3 — 11 years
- Purchased synthetic K2 technology — 10 years

The Assets Under Construction relates to an on-going production development project, capitalized in accordance with the criteria for recognition, identifiability, control and measurement in IAS 38. Amortization will start during 2019 once the first phase of the project is complete.

6. Share Capital

In May of this year it was announced that Christopher von Schirach-Szmigiel, at the time a board member of NattoPharma ASA, exercised options granted to him in the Annual General Meeting in 2016. In board proceedings on May 8th the Board of Directors approved the issue of 50.000 new shares, with a face value of NOK 3 per share. The price per share was NOK 8.78 and the shares were registered on November 7th.

The share capital was increased by NOK 150,000. The new share capital for the Company is NOK 54,539,799 divided into 18,179,933 shares, each with a face value of NOK 3. In addition, the Company owns 7,143 shares at a face value of NOK 3, valued at a total of NOK 21,429.

An updated list of the largest shareholders is available on the corporate website – *www.nattopharma.com*

7. Related Parties

The table below details the options granted to the executive management team in 2018, and a schedule of outstanding options. Please note that effective June 5th, 2018, the previous CEO of NattoPharma, Daniel Rosenbaum, was appointed as the permanent CEO of Kaydence Pharma AS and as of this date no longer forms part of the NattoPharma executive management team.

		2018			
Name	Options 01.01.2018	Granted Options	Exercised Options	Expired Options	Options 31.12.2018
Kjetil Ramsøy	74.000	88.600	-	37.500	125.100

The following table provide the transactions with related parties for the last six months of 2018.

Amounts in NOK 1,000			Transactions (+ Revenue, - Expense)			
Entity	Related Party	Balance 31.12.2018	Sales	Purchases	Loans	Interest
Kaydence Pharma AS	Associated entity	43.165	3.030			1.417
Pro AS	Sjur Thorsheim	0				-109

Description:

- Kaydence Pharma AS is an associated entity created through a spin-off of the pharmaceutical business from NattoPharma in December 2017. The balance is the long-term loan (net) plus accrued interest.
- Pro AS is 100% owned by Sjur Thorsheim, a major shareholder and board member in NattoPharma ASA. The interest is related to a short-term loan entered into in July 2018, repaid in November 2018.

8. Events After Balance Date

On January 2nd, 2019 NattoPharma received a short-term loan of NOK 6,0 million from Pro AS at an interest rate of 6%, which is due for repayment on January 7th, 2020. This was done to cover a short-term need of working capital in conjunction with securing more product. Pro AS is 100% owned by board member Sjur Thorsheim.

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

For further information, please contact:

Kjetil Ramsøy,
CEO
e-mail: *kjetil.ramsoy@nattopharma.com*

Alternative Performance Measures

The financial information for the NattoPharma Group is prepared in accordance with International Financial Reporting Standards (IFRS). In addition to the ordinary financial performance measures prepared in accordance with IFRS, management believes that alternative performance measures (APM) which are not defined in any IFRS standards, provide additional information which is useful to both management and shareholders in enhancing the understanding of the Group's performance. NattoPharma use the following APMs:

Product Revenue and Gross Profit

NattoPharma's main source of Revenue is sale of products. Other Revenue as reported in the Consolidated Statement of Income are largely related to re-charges of personnel cost and other operating expenses to Kaydence Pharma AS. Hence, the most useful and reliable way to measure NattoPharma's sales development is by evaluating Product Revenues.

The Gross Profit Margin is the product sales revenue less the cost of goods sold, so the residual profit after selling a product and subtracting the costs associated with its production and sale.

Amounts in NOK 1.000	01.07 - 31.12 2018 *(Unaudited)*	01.07 - 31.12 2017 *(Unaudited)*	01.01 - 31.12 2018 *(Unaudited)*	01.01 - 31.12 2017 *(Unaudited)*
Revenue				
Sales Revenue	54.529	35.966	101.722	66.418
Other Revenue	3.182	29	5.519	188
Less Recharges of OpEx to Kaydence Pharma	*-3.030*	*0*	*-5.367*	*0*
Total Adj. Revenue/Product Revenue	**54.681**	**35.995**	**101.874**	**66.606**
Cost of Goods Sold	-30.449	-18.412	-57.978	-35.013
Total Cost of Goods Sold	**-30.449**	**-18.412**	**-57.978**	**-35.013**
Gross Profit	**24.232**	**17.583**	**43.896**	**31.593**
Gross Margin	44,3%	48,8%	43,1%	47,4%

Operating Expenses

NattoPharma use an APM on Operating Expenses due to the re-charges to Kaydence Pharma AS presented on a gross basis under Other Revenue, offset on Personnel Cost and Other Operating Expenses. Non-cash cost for options and shares are also adjusted in this APM. This is the most useful and reliable APM for NattoPharma as it shows the underlying operational development in expenses, and which is comparable between periods.

Amounts in NOK 1.000	01.07 - 31.12 2018 *(Unaudited)*	01.07 - 31.12 2017 *(Unaudited)*	01.01 - 31.12 2018 *(Unaudited)*	01.01 - 31.12 2017 *(Unaudited)*
Operating Expenses				
Personnel Cost	-14.189	-10.203	-28.433	-18.534
Less Recharges to Kaydence Pharma	1.672	0	3.875	0
Less Non-Cash Cost for Options Program	19	1.218	1.582	2.511
Total Adjusted Personnel Cost	**-12.498**	**-8.985**	**-22.976**	**-16.023**
Other Operating Expenses	-8.941	-4.784	-15.760	-10.301
Less Recharges to Kaydence Pharma	1.358	0	1.492	0
Total Adjusted Other Operating Expenses	**-7.583**	**-4.784**	**-14.268**	**-10.301**
Total Adjusted Operating Expenses	**-20.080**	**-13.769**	**-37.244**	**-26.324**
As % of Revenue	36,7%	38,3%	36,6%	39,5%

EBITDA (adjusted)

EBITDA is defined as earnings before interest, tax, depreciation and amortization and measures profitability before the impact of financing methods, income taxes, depreciation of capital assets and amortization of intangible assets. Adjusted EBITDA is used to evaluate profitability from operating business activities and so excludes the non-cash cost related to the options program. EBITDA is the closest APM to cash flow in the Group. The Group has no long-term debt or other financial instruments significantly impacting net cash flow. In the current stage of significant revenue growth, cash generation is pivotal to support future growth, hence the use of this APM.

Amounts in NOK 1.000	01.07 - 31.12 2018 *(Unaudited)*	01.07 - 31.12 2017 *(Unaudited)*	01.01 - 31.12 2018 *(Unaudited)*	01.01 - 31.12 2017 *(Unaudited)*
Total Revenue	**57.711**	**35.995**	**107.241**	**66.606**
Total Cost of Goods Sold	**-30.449**	**-18.412**	**-57.978**	**-35.013**
Personnel Cost	**-14.189**	**-10.203**	**-28.433**	**-18.534**
Other Operating Expenses	**-8.941**	**-4.784**	**-15.760**	**-10.301**
Less Non-Cash Cost for Options Program	19	1.218	1.582	2.511
Adjusted EBITDA	**4.152**	**3.814**	**6.652**	**5.269**
As % of Revenue	7,2%	10,6%	6,2%	7,9%