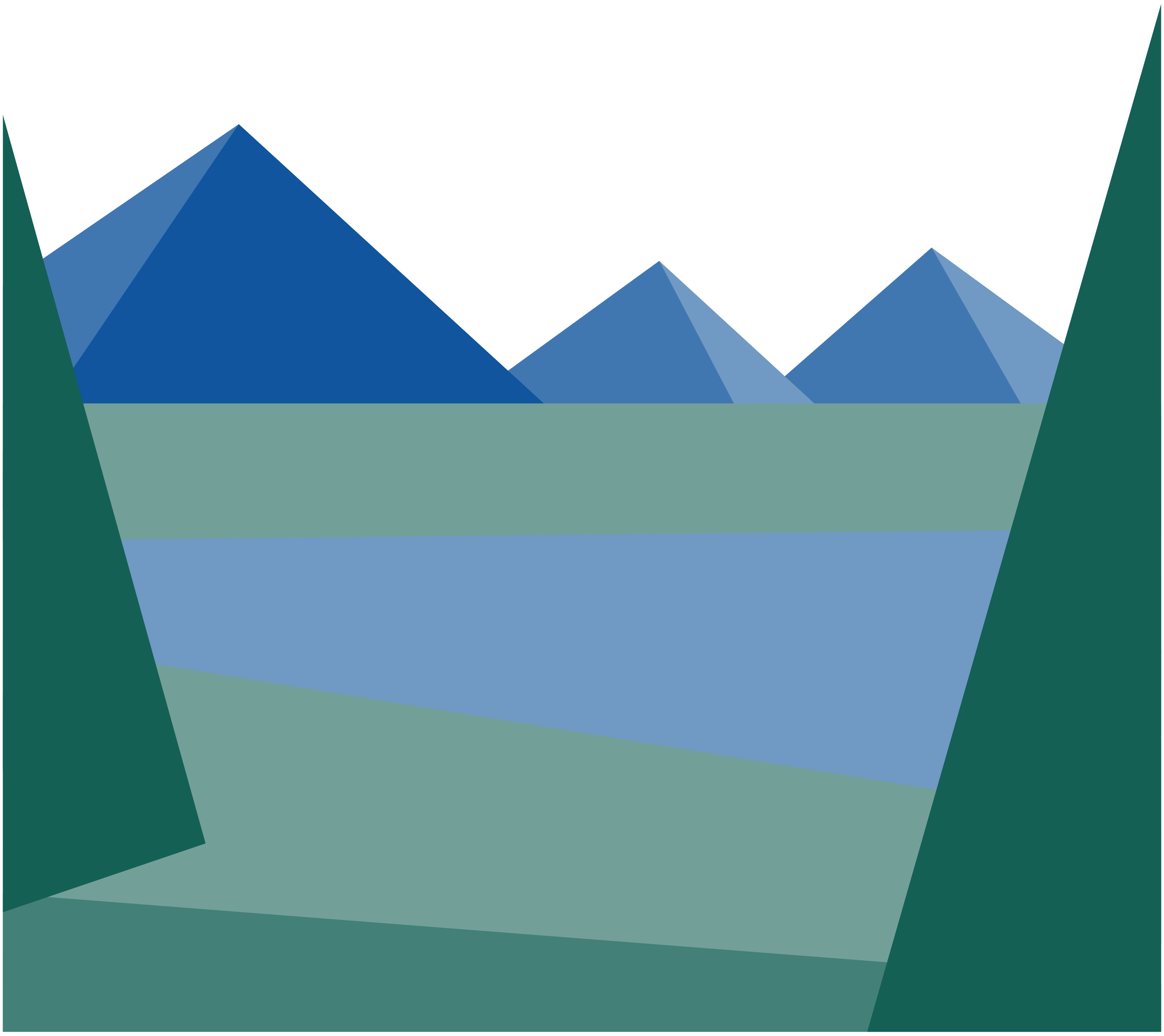
NattoPharma

2019

Q2 Interim Report



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KEY FIGURES

All amounts in NOK mill.

Amounts in NOK 1000/%	Q2'19	Q2'18	YTD'19	YTD'18	2018	2017*)	2016*)
Operating Revenue	30.0	27.4	57.8	47.2	101.7	66.4	51.8
EBITDA	0.5	1.7	2.1	0.9	5.1	2.8	-1.5
EBITDA (Adj.)	0.9	2.1	2.8	2.5	6.7	5.3	0.5
Earnings Before Interest and Tax (EBIT)	-1.5	-0.1	-2.0	-2.8	-2.2	-4.6	-8.4
Earnings Before Tax (EBT)	-1.4	1.7	-1.8	-1.8	1.0	-4.8	-11.2
Net Profit/(Loss)	-1.3	1.8	-1.4	-1.5	1.7	-4.1	-10.5
EBITDA (Adj.) Margin	3.0%	7.8%	4.8%	5.3%	6.5%	7.9%	0.9%
Gross Margin Operating Revenue	39.2%	41.9%	41.5%	41.7%	43.1%	47.3%	44.2%
Equity Ratio	70%	72%	70%	72%	74%	71%	79%
Cash Flow from Operating Activities	-7.2	5.1	-12.5	0.6	6.5	-11.2	-4.9
Net Cash Flow	-8.4	5.0	-12.5	0.4	5.1	-6.3	-4.9
Share Price	10.10	9.10	10.10	9.10	8.10	9.10	9.09
Shares Issued	18 180	18 130	18 180	18 130	18 180	18 130	17 570
Market Value	183 617	164 982	183 617	164 982	147 257	164 982	159 711
Earnings per Share	-0.07	0.10	-0.08	-0.08	0.09	-0.23	-0.60

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

YTD'19 Operating Revenue up from NOK 47.2 mill to **NOK 57.8 mill**

YTD'19 Adjusted EBITDA up from NOK 2.5 mill to **NOK 2.8 mill**

YTD'19 Pre-Tax Profit of **NOK -1.8 mill**

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.

BUSINESS UPDATE

"In the second quarter we continue to deliver growth compared to the same quarter last year, and we are pleased to present yet another period with a positive EBITDA line."

We continue to deliver growth with first half year revenues of NOK 58 million, representing an increase of more than 22% on the same period in 2018. At the same time, we have made pleasing progress with our new ingredient with positive results from the studies that have been completed to date, and with further studies underway.

Whilst the growth achieved versus the previous year is encouraging, we have faced challenges that have suppressed the anticipated revenue increase during the first half. In particular, the complexities involved in the scale up of our natural production capacity resulted in a few less deliveries than planned in the quarter. Coupled with this two of our more significant customer accounts, one in Europe and one in the US, have revised their forecasts as a result of strategic changes to the timing of their product launches. Both these factors have impacted the growth in this quarter, but demand on these accounts is expected to increase again later this year or in early 2020.

In terms of our natural product source the planned increase in production capacity is now back on track. Large investments in production equipment at our main supplier have doubled capacity and we can now look forward to significantly higher volumes. We anticipate this will result in a much stronger second half for this product line as revenue growth accelerates.

The development project to enhance the synthetic production process is now in the concluding stages and we are extremely satisfied with the results to date.

We now have a solid and efficient production process that can be deployed at any contract manufacturer that we choose to work with providing us with scalability and creating a stronger, faster and more agile organization that can meet customer demand that is many times higher than today's volume. Already this year we will have available volume which is 3 to 4 times the gross volume we shipped during 2018.

The relentless effort over the past fifteen to eighteen months on these two initiatives alone, have helped us to build a solid supply platform for both our Synthetic and Natural products. We are now well positioned from a supply perspective to meet the anticipated increased demand for vitamin K2 MK-7 in the coming years.

The capital investment in the synthetic production project has been significant. In addition, during the development period we made a conscious decision to invest heavily in building our inventory, in particular that of our active ingredient. This was to ensure that we had the ability to respond quickly to customer demands by providing the flexibility to produce a range of finished goods within a relatively short lead time. These two strategic decisions have made a significant impact on the cash balance in the period, however moving forward we will see slower growth in inventory, which will reduce the need for further investment in working capital over the coming months. We are also carefully assessing the needs for further working capital and in this context the board and management continuously consider options for future funding, either through credit facilities or new equity, if that should be required.

We are continuing to optimize our operational systems and processes with the objective of being as lean as possible, but at the same time delivering service excellence to our customers. Our Operating Expenses are stable in relation to the revenue compared to last year, and we expect to see this improving during the second half of the year.

Market Development

Global sales continue to grow as our customers enjoy success both organically and via collaborative promotion. New customers are added monthly, and brand awareness continues to mature. For example, Carlson Labs, a long-time customer that generally does not include branded ingredients on their labels, is now migrating its K2 product labels to incorporate the MenaQ7 logo, tying their products to the research supporting MenaQ7® as the only Vitamin K2 clinically proven to support bone and heart health. The US market continues to lead the growth, together with strong results in Brazil and Australia. Europe continues to be a stronghold for the company, while Asia is developing with compelling potential.

NattoPharma's trade presence continues with participation at VitaFoods in Geneva, SupplySide in the USA, and as part of the upcoming VitaFoods Asia in Singapore where the show sponsors interviewed our SVP Global Sales & Marketing Christopher Speed as part of the show's promotion.

Our MenaQ7® Full Spectrum K2 continues to build with offerings in Europe from Springfield Nutritionals and Trippel K2 Vitamin in Norway, while the US is seeing the products from Life Extension with its Super K Elite and Madre Labs, together with several products from other partners currently in development.

NattoPharma created the Global Market for vitamin K2 based upon our proprietary clinical evidence, which enabled our finished product customers to sell into retail sales channels. However, we recognize the need to also educate consumers to create demand to help sell-through. NattoPharma kicked off 2019 with a direct-to-consumer outreach campaign targeting the UK market.

The company engaged a UK PR firm, Brandnation, to orchestrate an intensive media outreach over 12 months to help spread the word about the importance of Vitamin K2, and that consumers should seek out products containing MenaQ7®, the only clinically validated Vitamin K2 as MK-7.

After six months of activity the UK PR program has produced stellar results, increasing awareness and driving sales of MenaQ7 products for NattoPharma's partners. Major consumer-facing media has picked up this message, including but not limited to: Daily Mail, Daily Mirror, Thrive, Chat, Elle, SLOAN! Magazine, Women's Own, Simply You, Fit & Well, and Women & Home. With another 6 months to go, the program is performing beyond expectation, with NattoPharma's intention to replicate the program in future markets in the years to come.

In the United States, NattoPharma has focused on building awareness with dieticians and nutritionists. According to a 2018 survey from the Council for Responsible Nutrition, dieticians/nutritionists are seen by consumers as the second most reliable source of information on dietary supplements (followed only by doctors/physicians). To that end, NattoPharma engaged two respected dieticians to push the important message of the health benefits Vitamin K2 as MK-7 delivers, the state of K2 deficiency, and that supplements containing MenaQ7 K2 as MK-7 are the best options. Heidi Morretti, MS, RD's efforts were focused online with blogs and articles, while Pat Baird, MA, RDN, FAND appeared on morning shows in 5 major US markets, including Dallas and Baltimore.

NattoPharma continues to lead the natural products industry education effort, enhancing its position as the K2 leader via our ongoing B2B outreach emphasizing K2 research developments. Over the last 6 months, NattoPharma has issued monthly press releases highlighting these developments and the company's efforts.

Press releases resulting in significant media coverage, for example, include studies linking Vitamin K2 to Brain and Eye Health in the Journal of Alzheimer's Disease and Scientific Reports; Vitamin K2 Deficiency linked to blood pressure and vascular stiffness from the Journal of the American Heart Association; and a study in Arteriosclerosis, Thrombosis, and Vascular Biology linking vitamin K-dependent processes to vascular calcification, oxidative stress, and free radical damage. Bringing awareness of these studies resulted in numerous media placements with NattoPharma personnel quoted as experts in editorials, interviews, and podcasts.

Frontiers in Cardiovascular Medicine has published a new review paper examining calcium supplementation's impact on bone and cardiovascular health, and the role Vitamin K2 plays in proper calcium utilization.

The review paper is the result of a grant from the Norwegian Research Council awarded to NattoPharma to fund a 4-year PhD project to document the effect of calcium metabolism in the body based on the presence or absence of Vitamin K2, MK-7, where NattoPharma has provided MenaQ7® Vitamin K2 as MK-7 for research conducted at the University of Maastricht.

NattoPharma's earlier announced effort to drive an RDI (Recommended Daily Intake) for Vitamin K2 continues, with the goal of K2 being recognized and recommended by health authorities. Ultimately this will lead to the inclusion of K2 into multivitamins for all ages, meal replacements, and functional foods. The International Journal of Molecular Sciences published a review paper, authored by NattoPharma-sponsored PhD candidates and Prof. Leon Schurgers as part of INTRICARE and EVOluTION research grants, examining the differences between vitamins K1 and K2, showing that, based on its very molecular structure, K2 is available beyond the liver to support systems like the bone and vasculature through proper calcium utilization.

New Product Development

Our new ingredient development program continues with the first new ingredient technologies in the mood and energy segments under way, supported by unique composition of actives and proprietary novel delivery systems. In-vivo research is now complete, demonstrating enhanced bioavailability in Preclinical Pharmacokinetic (PK) studies, which suggested greater bioactivity compared to existing ingredients. Further, two human studies have been initiated with results expected later this year, which with positive results will allow our global sales team to begin introducing these technologies to select customers and prospects during the last part of this year. As per previous guiding we expect commercial revenue to begin towards the summer 2020.

Outlook

Based on the H1 performance and the current expectations for the coming 6 months we expect an annual growth between 20% and 30%, compared to the previous guiding of 30% to 35% growth on a YoY basis. As discussed above, this is mainly due to timing of product launches of two key customers, both of which we believe will come back stronger later in 2019 or early 2020. Based on the projections the margin reduction to below 40% in Q2 is expected to be temporary and the company believes in a strong second half. Hence, we maintain our guiding on overall margin to be between 40% and 45% on a full year basis. Cost programs are nonetheless being evaluated to mitigate any unfavorable developments. We will update the guiding again in conjunction with the results for the third quarter, which will be released in November.

FINANCIAL UPDATE

This interim report relates to NattoPharma's performance in the second quarter and first half of 2019 relative to the second quarter and first half of 2018.

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 pages in the interim report for a summary of these measures.

INCOME STATEMENT

Revenues

NattoPharma reported a product revenue of NOK 30.0 million in the second quarter of 2019, an increase of 9.4% compared to the same period last year. Year to date, sales are up 22.4%. The growth has primarily been in the North American market, and in the second quarter sales of Natural K2 returned strongly. Other revenue represents services and other recharges to related parties.

Amounts in NOK mill.	Q2'19	Q2'18	Change	YTD'19	YTD'18	Change	2018
Operating Revenue	30.0	27.4	2.6	57.8	47.2	10.6	101.7
Other Revenue	1.1	1.1	0.0	2.1	2.3	-0.3	5.5
Total Revenue	**31.1**	**28.6**	**2.5**	**59.8**	**49.5**	**10.3**	**107.2**

Gross Margin

The Gross Margin came in at 39.2% in the period. This is down from 41.9% in the same period last year. The reduction in margin from Q1'19 was primarily caused by unfavorable customer and product mix. The YTD margins are in line with expectations and also our expectation for the periods ahead, although incremental revenue growth in new regions may push the margin lower.

Amounts in NOK mill.	Q2'19	Q2'18	Change	YTD'19	YTD'18	Change	2018
Gross Profit on Operating Revenue	11.8	11.5	0.3	24.0	19.7	4.3	43.7
Gross Margin on Operating Revenue	39.2%	41.9%	-2.7%	41.5%	41.7%	-0.1%	43.1%

Operating Expenses

The total OpEx development is summarized below.

Amounts in NOK mill.	Q2'19	Q2'18	Change	YTD'19	YTD'18	Change	2018
Personnel Cost	7.6	6.9	0.7	15.7	14.2	1.4	28.4
Other OpEx	4.9	4.0	0.9	8.3	6.8	1.5	15.8
Total OpEx	**12.4**	**10.9**	**1.5**	**24.0**	**21.1**	**3.0**	**44.2**

Operating expenses includes recharges made to related parties and non-cash cost related to share options granted to management and employees. Share options expense in the period amounted to NOK 0.46 million compared to NOK 0.39 million in the same period last year. Below is a summary of the OpEx development adjusted for these two items.

Amounts in NOK mill.	Q2'19	Q2'18	Change	YTD'19	YTD'18	Change	2018
Personnel Cost (Adj.)	6.0	5.4	0.6	12.9	10.5	2.5	23.0
Other OpEx (Adj.)	4.8	3.9	0.9	8.3	6.7	1.6	14.3
Total OpEx (Adj.)	**10.9**	**9.4**	**1.5**	**21.2**	**17.2**	**4.0**	**37.2**
As % of Operating Revenue	**36.2%**	**34.1%**	**2.0%**	**36.7%**	**36.4%**	**0.3%**	**36.6%**

The increase in Personnel Cost is mainly related to hiring of new senior personnel during 2018 and low to mid-level personnel in the first half of 2019 to support the growth and strengthen the focus on execution. The increase in Other OpEX is related to sales and marketing efforts and R&D. In the quarter the company attended large trade shows, among them VitaFoods in Europe, which is the driver of the increase in other Opex compared to the first quarter.

As the company continues to grow its revenue base, OpEx as % of Operating Revenues is expected to continue to trend down in the year.

Profitability

Adjusted Earnings Before Interest, Tax & Depreciation (EBITDA (adj.)) was positive with NOK 0.9 million for the period. This compares to NOK 2.1 million for the same period last year. Earnings before tax (EBT) was NOK -1.4 million in the period, compared to NOK 1.7 million in 2018. EBT is impacted by depreciation of the investment in NattoPharma R&D Ltd. In 2013, and fully depreciated at the end of 2023.

Amounts in NOK mill.	Q2'19	Q2'18	Change	YTD'19	YTD'18	Change	2018
EBITDA (Adj.)	0.9	2.1	-1.2	2.8	2.5	0.3	6.7
EBITDA Margin (Adj.)	3%	8%	-5%	3%	2%	2%	5%
EBITDA	**0.5**	**1.7**	**-1.3**	**2.1**	**0.9**	**1.1**	**5.1**
EBITDA Margin	**1%**	**6%**	**-5%**	**3%**	**2%**	**2%**	**5%**
EBT	**-1.4**	**1.7**	**-3.0**	**-1.8**	**-1.8**	**0.0**	**1.0**
EBT Margin	**-4%**	**6%**	**-120%**	**-3%**	**-4%**	**0%**	**1%**

Depreciation and Net Finance

Depreciation for the period was NOK 2.0 million. This applies mainly to depreciation of intangible assets related to the acquisition of NattoPharma R&D Ltd. in 2013 and depreciation in conjunction with the implementation of IFRS 16.

Net financial items in the period was positive NOK 0.1 million. NOK 0.6 million was related to interest income on the loan to Kaydence Pharma AS, NOK -0.2 million in net currency loss 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.	Q2'19	Q2'18	Change	2018	Change
Non-Current Assets	85.9	93.2	-7.2	82.9	3.0
Current Assets	67.3	52.3	15.0	64.4	2.9
Total Assets	**153.2**	**145.4**	**7.8**	**147.3**	**5.9**

Cash and cash equivalents decreased by NOK 8.4 million in the first quarter. See more in the Cash flow chapter below.

The change in non-current assets compared to the start of the year mainly relates to capitalization of the on-going development project, see note 4, and implementation of IFRS 16 (Right Of Use Assets). Otherwise it consists of depreciation of assets. Please see note 3 in the report for a schedule on the change in the loan balance to Kaydence Pharma AS.

Trade receivables from the sale of products are NOK 22 million in the period. Management believes there is very low risk related to recoverability of trade receivables and have made no changes to the bad debt provision from December 31st, 2018, of NOK 130.000.

Other receivables of NOK 15.3 million consist of accrued interest on the long-term loan to Kaydence Pharma AS, accruals for on-going SkatteFUNN programs, prepayments, VAT assets and other receivables. The prepayments consist of prepayments for 2019 services and events/tradeshows and prepayments of raw material to be delivered later in 2019.

The Group has not recorded any deferred tax assets. Per December 31st, 2018, the Group had carry-forward tax losses of NOK 184.5 million, and an unrecognized deferred tax asset of NOK 41.7 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.	Q2'19	Q2'18	Change	2018	Change
Total Equity	108.0	104.6	3.4	109.7	-1.8
Non-Current Liabilities	16.5	25.9	-9.4	15.7	0.7
Current Liabilities	28.8	15.0	13.8	21.9	6.9
Total Equity and Liabilities	**153.2**	**145.4**	**7.8**	**147.3**	**7.6**

NattoPharma continues to maintain a strong financial position, with an equity ratio of 70.5%, compared to 71.9% as per June 30th, 2018 and 74.5% as per December 31st, 2018.

The increase in current liabilities in the year consists largely of a 6.0 million loan given by Pro AS in January 2019 and liabilities related to implementation of IFRS 16.

Cash Flow

The company continued to increase stock in line with plan as stock levels were lower than desired during 2018. This impacted operational cash flow by -8.1 million in the quarter and -12.3 million in the first half. Additionally, the company has made an assessment on the expenses incurred on the ongoing development project for synthetic production of vitamin K2, with a capitalization of 4.6 million so far this year, totaling 7.5 million for the project so far.

The assessment is that cash will be sufficient for working capital purposes going forward.

Amounts in NOK mill.	Q2'19	Q2'18	Change	YTD'19	YTD'18	Change	2018
Cash Flow from Operations	-7.2	5.1	-12.4	-12.5	0.6	-13.1	6.5
Net Cash Flow	-8.4	5.0	-13.4	-12.5	0.4	-12.9	5.1

CONDENSED CONSOLIDATED STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Amounts in NOK 1000	Note	Q2'19 (unaudited)	Q2'18 (unaudited)	YTD'19 (unaudited)	YTD'18 (unaudited)	2018 (audited)
Revenue						
Operating Revenue	2	29 996	27 428	57 767	47 193	101 722
Other Revenue	2	1 102	1 131	2 078	2 337	5 519
Total Operating and Other Revenue		**31 098**	**28 559**	**59 845**	**49 530**	**107 241**
Operating Expenses						
Cost of Goods Sold		-18 233	-15 934	-33 768	-27 529	-57 978
Personnel Cost		-7 555	-6 903	-15 684	-14 244	-28 433
Depriciation and Amortisation	1	-1 986	-1 845	-4 090	-3 694	-7 278
Other Operating Expenses		-4 857	-3 980	-8 333	-6 819	-15 760
Total Operating Expenses		**-32 632**	**-28 662**	**-61 875**	**-52 287**	**-109 449**
Earnings Before Interest and Tax (EBIT)		**-1 534**	**-103**	**-2 031**	**-2 757**	**-2 208**
Financial Items						
Interest Income	3	656	680	1 252	1 389	2 837
Interest Expense	1	-245	0	-385	-1	-201
Other Financial Income/Expense		-48	-40	-84	-63	-134
Net Currency Gain/Loss		-219	1 113	-518	-379	753
Net Financial Items		**144**	**1 753**	**264**	**945**	**3 255**
Earnings Before Tax (EBT)		**-1 390**	**1 650**	**-1 767**	**-1 812**	**1 047**
Income Tax Expense		138	180	322	345	630
Net Profit/(Loss)		**-1 252**	**1 830**	**-1 445**	**-1 467**	**1 677**
Earnings per Share		-0.07	0.10	-0.08	-0.08	0.10
Diluted Earnings per Share		-0.07	0.10	-0.08	-0.08	0.09

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in NOK 1000	Q2'19 (unaudited)	Q2'18 (unaudited)	YTD'19 (unaudited)	YTD'18 (unaudited)	2018 (audited)
Net Profit/Loss	-1 252	1 830	-1 445	-1 467	1 677
Translation Difference	2	-860	-1 043	-1 191	732
Total Other Comprehensive Income	**-1 250**	**970**	**-2 488**	**-2 657**	**2 409**
Total Comprehensive Income	**-1 250**	**970**	**-2 488**	**-2 657**	**2 409**

CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK 1000	Note	30.06.2019 (unaudited)	30.06.2018 (unaudited)	31.12.2018 (audited)
Assets				
Non-Current Assets				
Intangible Assets				
Goodwill		7 315	7 178	7 507
Other Intangible Assets	**4**	35 572	33 121	34 562
Total Intangible Assets		**42 887**	**40 299**	**42 069**
Tangible Assets				
Property, Plant and Equipment		463	1 133	601
Right-of-Use Assets	1	2 309	0	0
Total Tangible Assets		**2 772**	**1 133**	**601**
Financial Assets				
Other Long-Term Receivables	3	40 275	51 750	40 275
Total Financial Assets		40 275	51 750	40 275
Total Non-Current Assets		**85 935**	**93 181**	**82 945**
Current Assets				
Inventory		23 853	9 443	11 565
Trade Receivables		21 961	23 001	21 943
Other Receivables		15 280	5 819	12 217
Cash and Cash Equivalents		6 185	13 992	18 655
Total Current Assets		**67 280**	**52 256**	**64 379**
Total Assets		**153 214**	**145 437**	**147 324**

CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK 1000	Note	30.06.2019 (unaudited)	30.06.2018 (unaudited)	31.12.2018 (audited)
Equity and Liabilities				
Equity				
Share Capital	5	54 518	54 518	54 518
Share Premium Reserve		118 625	118 601	118 625
Accumulated Loss		-71 205	-73 656	-70 492
Translation Differences		6 048	5 101	7 091
Total Equity		**107 985**	**104 564**	**109 742**
Non-Current Liabilities				
Deferred Tax Liability		3 231	3 888	3 691
Deferred Revenue from Sale of Business	3	12 027	22 002	12 027
Financial Lease Liabilities	1	1 209	0	0
Total Non-Current Liabilities		**16 467**	**25 890**	**15 718**
Current Liabilities				
Trade Payables		17 339	12 902	18 579
Borrowings		6 177	0	0
Financial Lease Liabilities	1	1 176	0	0
Other Current Liabilities		4 071	2 082	3 285
Total Current Liabilities		**28 763**	**14 983**	**21 864**
Total Liabilities		**45 230**	**40 873**	**37 582**
Total Equity and Liabilities		**153 214**	**145 437**	**147 324**

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Own Shares	Share Premium	Accumulated Loss	Translation Adjustment	Total Equity
Equity as per January 1st, 2018	**54 389**	**-21**	**118 346**	**-68 002**	**6 291**	**111 004**
Total Comprehensive Income for the Period				-1 467	-1 191	-2 657
Equity Based Remuneration				1 563		1 563
Effect from Implementation of IFRS 9				-5 750		-5 750
Share Issue Including Transaction Costs	150		255			405
Equity as per June 30th, 2018	**54 539**	**-21**	**118 601**	**-73 656**	**5 101**	**104 565**
Equity as per January 1st, 2019	**54 539**	**-21**	**118 625**	**-70 492**	**7 091**	**109 742**
Total Comprehensive Income for the Period				-1 445	-1 043	-2 488
Equity Based Remuneration				731		731
Share Issue Including Transaction Costs						0
Equity as per June 30th, 2019	**54 539**	**-21**	**118 625**	**-71.205**	**6 048**	**107 985**

CONDENSED STATEMENT OF CASH FLOW

Amounts in NOK 1000	Note	Q2'19 (unaudited)	Q2'18 (unaudited)	YTD'19 (unaudited)	YTD'18 (unaudited)	2018 (audited)
Cash Flow from Operating Activities						
Earnings Before Tax (EBT)		-1 390	1 650	-1 767	-1 812	1 047
Depreciation and Amortization	1	1 986	1 845	4 090	3 694	7 278
Other Non-Cash Items		458	389	731	1 563	1 582
Changes in Working Capital Items:						
Inventory		-8 106	4 150	-12 289	3 510	1 388
Trade Receivables		-2 585	-94	-18	-3 076	-2 417
Trade Payables		3 150	-1 079	-1 240	-1 624	4 054
Other Current Items		-764	-1 711	-1 986	-1 650	-6 444
Net Cash Flow from Operating Activities		**-7 250**	**5 149**	**-12 478**	**606**	**6 488**
Cash Flow from Investment Activities						
Investment in Property, Plant and Equipment		-36	0	-80	0	-227
Investments in Intangible Assets	4	-662	-393	-5 060	-610	-3 919
Sale of Property, Plant and Equipment		0	0	0	0	489
Net Cash Flows from Investment Activities		**-697**	**-393**	**-5 140**	**-610**	**-3 657**
Cash Flow from Financing Activities						
Proceeds from Share Issue/Transaction Costs		0	405	0	405	429
Proceeds from Long-Term Loan		0	0	0	0	1 500
Proceeds from Short-Term Loan	7	0	0	6 000	0	0
Lease Payments	1	-304	0	-608	0	0
Net Cash Flow from Financial Activities		**-304**	**405**	**5 392**	**405**	**1 929**
Net Change in Cash and Cash Equivalents		-8 252	5 771	-12 226	1 011	4 759
Foreign Currency Effects		-154	-599	-243	-360	337
Cash and Cash Equivalents at Period Start		14 591	9 036	18 655	13 558	13 558
Cash and Cash Equivalents at Period End		**6 185**	**13 992**	**6 185**	**13 992**	**18 655**

NOTES TO CONSOLIDATED STATEMENTS

NOTE 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, 2018. 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 standard IFRS 16, the interim consolidated accounts for the six months ending June 30th, 2019, have been prepared in accordance with accounting principles used in the annual financial statements for 2018.

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.

IFRS 16 changes 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 has:

a) Recognised 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) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separated 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) are 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.

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 rate used as discount factor is set at 8%, established based on an average of estimated loan terms.

In the opening balance of 2019, the Group has recognised a right-of-use asset of NOK 2.9 million and a lease liability of NOK 2.9 million in respect of these leases. The leases mainly relate to rental of office spaces in Norway and the USA.

As at the end of the quarter, the Group has non-cancellable operating lease commitments of approximately NOK 2.5 million. The present value of the lease commitments is approximately NOK 2.4 million.

NOTE 1 ACCOUNTING PRINCIPLES CONT.

In the consolidated statement of income, operating lease costs are 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 are presented as a cash flow used in financing activities under IFRS 16. Previously, operating lease costs were presented within cash flows from operations.

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.

NOTE 2 SEGMENT AND REVENUE REPORTING

Operating Revenue

The Group operates one segment for reporting of Operating Revenues. It 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. Management and Board therefore consider the company's operation as a unit in assessments and decisions regarding allocation of resources and investments. The Group's operations are primarily located in Poland, Cyprus and in the USA, with headquarters in Norway.

Revenue recognition is done in accordance with the five-step model in IFRS 15, which is based on performance obligations in customer contracts and when control of a good or service transfers to a customer.

The contract with the customer begins following receipt and confirmation of the customer purchase order. The allocation of the transaction price to the performance obligation is a one to one relationship, with no bundled product offerings. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer. According to the standard Sales Terms and Conditions for the Group products are typically delivered EX WORKS at the company warehouse, and therefore the performance obligation is fulfilled when the goods are made available for collection, and this is the point at which control of the product transfers to the customer, and revenue is recognised. Under the standard Sales Terms and Conditions, the returns policy only allows for replacement of goods in the event of defects, when these are notified to the group in writing within 30 days of the transfer of control. The group can typically objectively determine that control of the goods has been transferred to the customer in accordance with the agreed-upon specifications in the contract.

The Group occasionally receives short-term advances from customers. This normally happens for new customers where prepayment is applicable until a sufficient credit check has been established, or where customers have a history of late payment. The period between the receipt of the advance and the transfer of the goods to the customer in these situations is short, and the payment terms are not designed to provide financing. Hence, there is no significant financing element to these contracts.

Other Revenue

Activities that are not allocated to Operating Revenue are presented as Other Revenue. This primarily involves recharges to associated companies for services provided and some other shared expenses and projects. Services, mainly consisting of accounting services and other recharges of project costs, are sold separately and are not bundled with the sales of product. The services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the group, hence revenue is recognised for these service contracts over time.

Intercompany Revenue

Transactions and balances between the companies are eliminated at a Group level. Sale of products (Operating Revenue) between companies in the Group are carried out based on a cost-plus method and in accordance with the arm's length principle. Operating Expenses are allocated between the entities in the Group based partly on External Operating Revenue in the entities and partly on a functional analysis of which entity should incur the expenses.

NOTE 3 INVESTMENT IN ASSOCIATED COMPANIES

NattoPharma sold the pharma business 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 at the end of the quarter of NOK 46.03 million, which is representing a seller's credit for the acquisition of the pharma business. According to the Loan Agreement, 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 NOK 10 million. NattoPharma converted a similar amount to maintain its ownership, which now stands at 46.41%. 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. A general 10% impairment was recognized in the opening balance of 2018. NattoPharma has decided to maintain the impairment at the same nominal value this quarter as the Group believes in positive developments ahead.

NattoPharma management would like to highlight that there is a signficant financial risk related to the investment in Kaydence Pharma AS. Funding is on-going and the value of the investment and loan receivable is dependent on capital injections.

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

Amounts in NOK 1000	Long-Term Loan	Investment	Deferred Revenue	Total
Gross Value January 1st, 2017	**0**	**0**	**0**	**0**
Aquisition & Spin-off of Kaydence Pharma AS	65 500	30	-30 032	35 498
Debt Conversion Q4'17	-8 000	8 000	0	0
Gross Value January 1st, 2018	**57 500**	**8 030**	**-30 032**	**35 498**
Gross Value June 30th, 2018	**57 500**	**8 030**	**-30 032**	**35 498**
Debt Conversion Q4'18	-9 975	9.975	0	0
Loan Repayment Q4'18	-1 500	0	0	-1 500
Gross Value December 31st, 2018	**46 025**	**18 005**	**-30 032**	**33 998**
Gross Value June 30th, 2019	**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 1000	Long-Term Loan	Investment	Deferred Revenue	Total
Book (net) Value January 1st, 2017	**0**	**0**	**0**	**0**
Aquisition & Spin-off of Kaydence Pharma AS	65 500	30	-30 032	35 498
Debt Conversion Q4'17	-8 000	8 000	0	0
Netting of Investment/Deferred Revenue	0	-8 030	8 030	0
Book (net) Value January 1st, 2018	**57 500**	**0**	**-22 002**	**35 498**
IFRS 9 Opening Balance Adjustment	-5 750	0	0	-5 750
Book (net) Value June 30th, 2018	51 750	0	**-22 002**	29 748
Debt Conversion Q4'18	-9 975	9 975	0	0
Loan Repayment Q4'18	-1 500	0	0	-1 500
Netting of Investment/Deferred Revenue	0	-9 975	-9 975	0
Book (net) Value December 31st, 2018	**40 275**	**0**	**-12 027**	**28 248**
Book (net) Value June 30th, 2019	**40 275**	**0**	**-12 027**	**28 248**

NOTE 4 INTANGIBLE ASSETS

Amounts in NOK 1000	Aquired Technology	Assets Under Construction	Other Intangible Assets	Total Other Intangible Assets
Aquisitions Cost January 1st, 2018	**58 105**	**0**	**4 836**	**62 941**
Aquisitions			610	610
Disposals				0
Exchange Rate Changes	-1 941			-1 941
Aquisitions Cost June 30th, 2018	**56 164**	**0**	**5 446**	**61 609**
Aquisitions		2 845	465	3 309
Disposals				0
Exchange Rate Changes	2 638			2 638
Aquisitions Cost December 31st, 2018	**58 802**	**2 845**	**5 910**	**67 557**
Aquisitions		4 653	407	5 060
Disposals				0
Exchange Rate Changes	-1 504			-1 504
Aquisitions Cost June 30th, 2019	**57 298**	**7 498**	**6 317**	**71 112**
Accumulated Depreciation January 1st, 2018	**22 955**	**0**	**3 227**	**26 182**
Amortization and Depreciation for the Period	2 896		201	3 097
Disposals				0
Exchange Rate Changes	-791			-791
Accumulated Depreciation June 30th, 2018	**25 060**	**0**	**3 428**	**28 488**
Amortization and Depreciation for the Period	2900		295	3195
Disposals				0
Exchange Rate Changes	1313			1313
Accumulated Depreciation December 31st, 2018	**29 272**	**0**	**3 723**	**32 996**
Amortization and Depreciation for the Period	2 937		367	3 303
Disposals				0
Exchange Rate Changes	-759			-759
Accumulated Depreciation June 30th, 2019	**31 450**	**0**	**4 090**	**35 540**
Balance Sheet Value June 30th, 2018	**31 104**	**0**	**2 018**	**33 121**
Balance Sheet Value December 31st, 2018	**29 530**	**2 845**	**2 187**	**34 562**
Balance Sheet Value June 30th, 2019	**25 847**	**7 498**	**2 227**	**35 572**

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

The economic life is intended for:
- Acquired synthetic K2 technology 10 years
- Software and Acquired Rights 5 – 10 years
- Patent (2019) 20 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 is planned to start when the company starts receiving finished products from the production phase, either towards the end of 2019 or in 2020.

NOTE 5 SHARE CAPITAL

The share capital for the company is NOK 54 539 799 divided into 18 179 933 shares, each with a face value of NOK 3. 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.

NOTE 6 RELATED PARTIES

The table below details the options granted to the executive management team and the Board in the second quarter of 2019 and an overview of outstanding options.

			Q2 2019			
Name	Role	Options March 31st, 2019	Granted Options	Exercised Options	Expired Options	Options June 30th, 2019
Kjetil Ramsøy	CEO	225 100				225 100
Frode Bohan	Chairman	200 000	50 000		100 000	150 000
Katarzyna Maresz	Board Member	100 000	50 000		50 000	100 000
Annette Elmqvist	Board Member	100 000	50 000		50 000	100 000
Stefan Hallden	Board Member	100 000	50 000		50 000	100 000
Sjur Thorsheim	Board Member		50 000			50 000

The following table provide the transactions with related parties in the quarter.

Amounts in NOK 1000			Q2 2019 transactions (+ Revenue, - Expense)			
Entity	Related Party	Balance March 31st, 2019	Other Revenue	Purchases	Loans	Interest
Kaydence Pharma AS	Associated Entity	44 393	672			631
Pro AS	Sjur Thorsheim	-6 177				-89
Bohan & Co AS	Frode Bohan		428			
Tape Poland	Frode Bohan	-9		94		

Description:

- Kaydence Pharma AS is an associated entity created through a spin-off of the pharmaceutical business from NattoPharma in December 2017.
- 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 January 2019.
- Frode Bohan is the Chairman of the Board and a major investor in NattoPharma.

NOTE 7 OTHER

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.

On April 30th, 2019, NattoPharma issued a loan facility to its significant associate Kaydence Pharma AS of up to NOK 5.0 million. The loan facility has an interest rate of 6% and is due for repayment on December 31st, 2019. NOK 3.8 million of the facility was drawn on in August, 2019. The purpose of the loan facility is to provide Kaydence Pharma with bridge funding until its next equity funding round in 2019 or early 2020.

NOTE 8 EVENTS AFTER THE BALANCE SHEET DATE

There are no material events that have taken place after the balance date which is not disclosed in this report.

For further information, please contact:

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

STATEMENT FROM THE BOARD OF DIRECTORS AND CEO

We confirm that, to the best of our knowledge, the consolidated financial statements as of June 30th, 2019, and for the period January 1st, 2019 to June 30th, 2019, have been prepared in accordance with IAS 34 Interim Financial Reporting, and that the Interim Management Report for 2019 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, August 20th, 2019

Board of Directors, NattoPharma ASA

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

ALTERNATIVE PERFORMANCE MEASURES

In addition to the ordinary financial performance measures prepared in accordance with IFRS, NattoPharma refers to certain non-GAAP financial measures (also called Alternative Performance Measures, APM). NattoPharma makes regular use of these measures to evaluate performance, and believe they provide additional information which is useful to both management and shareholders in enhancing the understanding of the Group's performance.

Reconciliations of alternative performance measures are provided on the next page in the report.

Gross Profit on Operating Revenue (Adj.)
Operating Revenue includes all activities which normally are to be considered as "operating". 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 and does not form part of the product revenues of the Group.

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

Operating Expenses (Adj.)
NattoPharma use an APM on Operating Expenses due to the re-charges described above. Non-cash cost for options and shares and any other special items relevant in the period 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.

EBITDA (Adj.)
EBITDA is used for three main reasons;

- It is the closest APM to cash flow in the Group. The Group has no long-term debt or other financial instruments signifi cantly impacting net cash flow. In the current stage of significant revenue growth, cash generation is pivotal to support future growth
- It excludes interest, tax, depreciation and amortization, which can vary significantly from period to period and does not represent a good view of the underlying operations in the company
- It is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability and also in comparison with peers

For NattoPharma, EBITDA (adj.) excludes non-cash cost related to the options program and any other special items in the period.

Operating Expenses
NattoPharma use an APM on Operating Expenses due to the re-charges to related parties 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.

EBITDA (Adj.)
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. EBITDA (adj.) 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.

RECONCILIATION OF APM

Please see page 8 for definitions of alternative performance measures.

GROSS PROFIT ON OPERATING REVENUE (ADJ.)

Amounts in NOK 1000	Q2'19	Q2'18	YTD'19	YTD'18	2018
Total Operating and Other Revenue					
Operating Revenue	29 996	27 428	57 767	47 193	101 722
Other Revenue	1 102	1 131	2 078	2 337	5 519
Less Recharges of OpEx	- 1 102	- 1 131	-2 078	-2 337	-5 367
Operating Revenue (Adj.)	**29 996**	**27 428**	**57 767**	**47 193**	**101 874**
Cost of Goods Sold	-18 233	-15 934	-33 768	-27 529	-57 978
Cost of Goods Sold	**-18 233**	**-15 934**	**-33 768**	**-27 529**	**-57 978**
Gross Profit Operating Revenue (Adj.)	**11 762**	**11 494**	**23 999**	**19 664**	**43 896**
Gross Margin Operating Revenue (Adj.)	39.2%	41.9%	41.5%	41.7%	43.1%

OPERATING EXPENSES (ADJ.)

Amounts in NOK 1000	Q2'19	Q2'18	YTD'19	YTD'18	2018
Operating Expenses					
Personnel Cost	-7 555	-6 903	-15 684	-14 244	-28 433
Less Recharges	1 087	1 099	2 010	2 207	3 875
Less Non-Cash Cost for Options Program	458	389	731	1 563	1 582
Personnel Cost (Adj.)	**-6 009**	**-5 415**	**-12 944**	**-10 474**	**-22 976**
Other Operating Expenses	-4 857	-3 980	-8 333	-6 819	-15 760
Less Recharges	15	32	68	130	1 492
Other Operating Expenses (Adj.)	**-4 842**	**-3 948**	**-8 265**	**-6 689**	**-14 268**
Operating Expenses (Adj.)	**-10 851**	**-9 363**	**-21 209**	**-17 164**	**-37 244**
As % of Operating Revenue (Adj.)	36.2%	34.1%	36.7%	36.4%	36.6%

EBITDA (ADJ.)

Amounts in NOK 1000	Q2'19	Q2'18	YTD'19	YTD'18	2018
Total Operating and Other Revenue	**31 098**	**28 559**	**59 845**	**49 530**	**107 241**
Cost of Goods Sold	**-18 233**	**-15 934**	**-33 768**	**-27 529**	**-57 978**
Personnel Cost	**-7 555**	**-6 903**	**-15 684**	**-14 244**	**-28 433**
Other Operating Expenses	**-4 857**	**-3 980**	**-8 333**	**-6 819**	**-15 760**
Less Non-Cash Cost for Options Program	458	389	731	1 563	1 582
EBITDA (Adj.)	**911**	**2 131**	**2 790**	**2 500**	**6 652**
As % of Operating Revenue (Adj.)	3.0%	7.8%	4.8%	5.3%	6.5%