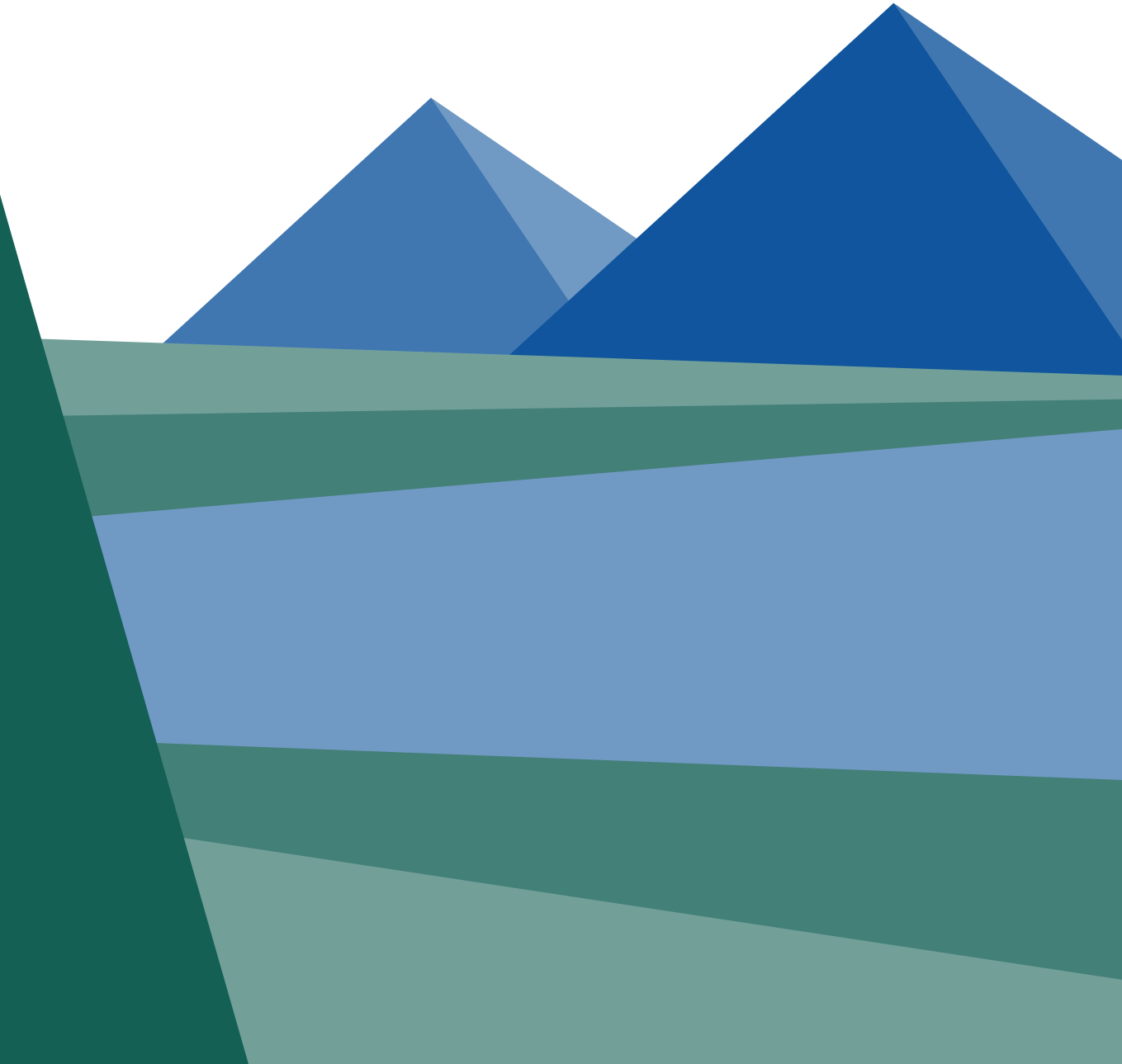


NattoPharma



2019
Q1 Interim Report



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KEY FIGURES

All amounts in NOK mill.

Amounts in NOK 1000/%	Q1'19	Q1'18	2018	2017*)	2016*)
Operating Revenue	27 771	19 765	101 722	66 418	51 830
EBITDA	1 607	-804	5 070	2 758	-1 464
EBITDA (Adj.)	1 879	369	6 652	5 269	484
Earnings Before Interest and Tax (EBIT)	-497	-2 654	-2 208	-4 606	-8 361
Earnings Before Tax (EBT)	-377	-3 462	1 047	-4 763	-11 159
Net Profit/(Loss)	-193	-3 297	1 677	-4 130	-10 503
EBITDA (Adj.) Margin	6.8%	1.9%	6.5%	7.9%	0.9%
Gross Margin Operating Revenue	44.1%	41.3%	43.1%	47.3%	44.2%
Equity Ratio	71.9%	69.8%	74.5%	70.6%	79.1%
Interest-Bearing Debt	6 000	0	0	0	0
Cash Flow from Operating Activities	-5 228	-4 544	6 488	-11 229	-4 937
Net Cash Flow	-4 064	-4 522	5 096	-6 260	-4 943
Share Price	10.80	9.00	8.10	9.10	9.09
Shares Issued	18 180	18 130	18 180	18 130	17 570
Market Value	196 343	163 169	147 257	164 982	159 711
Earnings per Share	-0.01	-0.18	0.09	-0.23	-0.60

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



Q1'19 Operating Revenue up from NOK 19.8 mill to **NOK 27.8 mill** - a 41% increase



Q1'19 Adjusted EBITDA up from NOK 0.4 mill to **NOK 1.9 mill**



Q1'19 Pre-Tax Profit up from NOK -3.5 mill to **NOK -0.4 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

Historically the first quarter has been relatively weak, so we are pleased to deliver a strong start to 2019, underpinning our ambition to maintain our leading position in a growing market for vitamin K2."

First quarter revenues of NOK 28 million represent a 41% increase on the same period in 2018, maintaining the pace of growth seen in the years from 2016 to 2018, and it is above our market guidance of a 30 – 35% annual growth in 2019. The first quarter has historically been a weak quarter, but despite this the adjusted EBITDA came in at NOK 1.9 million, which is in line with expectations. Cash decreased in the quarter, mainly due to the build up of inventory and investment in the on-going development program related to our synthetic production of vitamin K2.

Market Development

The US market is leading the growth in the first quarter and the movement towards mass market continues as the general consumer knowledge related to health benefits of taking vitamin K2 MK-7 as a regular daily supplement increase. The continued momentum in the global K2 market is further underpinned by the awareness K2 gets in the media. We see that the global K2 media hits has tripled over the period from 2015 to 2018 and statistics shows us that the number of global media hits in 2018 reached almost 6000. For other ingredients like Omega3 and vitamin D3, this wave of media hits precedes the general consumer demand for the product as a dietary supplement.

Recent nutritional studies indicate that as much as 97% of the population consuming western diets are lacking adequate vitamin K, in particular vitamin K2 as MK-7, signaling a dangerous deficiency that contributes to increasingly impaired bone and cardiovascular health. Based on the estimated combined global volume for Natural and Synthetic vitamin K2 in 2018, the world population taking vitamin K2 as a daily supplement is estimated to be between 5 million and 10 million, dependent on the average dosage per daily serving.

This represents less than 1% of the total population in Europe and North America combined, and approx. 0.1% of the world population.

Looking at the development of the Omega-3 market and the increase in daily users over the last decades, the market is now assumed to cover between 5% and 15% of the target population. According to the National Center for Complementary and Integrative Health, more than 8% of people have consumed an Omega-3 supplement in the previous 30 days .

This provides a guide to the potential we foresee in the Vitamin K2 market, where we also know that the lack of Vitamin K2 in the diet (due to the industrialization of food preparation) creates an even greater need for a dietary supplement to fight the deficiency of this crucial vitamin in the general population.

In Q1, NattoPharma has continued its efforts as a market leader, focusing on communicating the clinically validated and patented benefits of Vitamin K2 as MK-7 to practitioners and consumers to increase demand for its partners' quality products. The company is three months into a major year-long UK consumer outreach campaign, seeding the UK market with positive educational information around K2 and driving awareness that deficiency is a serious issue that must be addressed. The program is being done in conjunction with finished product partners, so that those touched by the campaign can clearly identify quality products featuring MenaQ7® Vitamin K2 as MK-7.



Marketing support is a cornerstone of all NattoPharma partnerships. We continue to emphasize our IP portfolio with our customers, while providing turnkey marketing solutions available on the MenaQ7® Partner Site, which will soon include our new Retailer Brochure. NattoPharma has also lent our expertise with on-camera training footage to drive the success for Weider Global Nutrition and its innovative Artery Health product.

As previously reported, Artery Health is available in the US via Target.com and in Costco stores, and the company is preparing for the product to be sold on Amazon.co.uk. Weider’s impressive progress is a strong sign that Vitamin K2 is becoming more accepted in the mass channel, and its aggressive engagement with NattoPharma is further confirmation we are leading the way.

NattoPharma is also seeing increased interest in the Asian market for K2 solutions for their nutraceutical needs. Most recently, NattoPharma is in the final stages of a Chinese-specific website to clearly communicate the importance of Vitamin K2 as MK-7, that MenaQ7® is the only clinically validated and patented K2 as MK-7, and that NattoPharma is the respected world leader in K2 as MK-7 research and development.

Based on the above, combined with our unique positioning in the market, as the only full-service provider offering a clinically validated product range, including natural, synthetic and our unique Full Spectrum product, we feel confident that the growth in the coming years will be strong, and the global market for vitamin K2 will expand significantly.

Operations

The second stage of the development project initiated in 2018 to further enhance the synthetic production process is progressing well, and we expect the initial results of this to be ready in Q2. However, the indications from early testing is that this will help secure our synthetic supply at a significantly higher level than in 2018. Due to this we are ready to meet the expected increased demand for synthetic vitamin K2 as the mass market starts to kick in.

We will evaluate further investment into a third phase of the project once all data from the current development work is available. Production volume and product quality have been the key focus of the first two stages, while a third phase would be entirely focused on further cost optimization.

We are continuing the process of building 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. We made two new additions in our sales team during the quarter and we plan to make further additions to our headcount at an operational level in the coming quarters. The Operating Cost base is however still expected to decrease as a percentage of the sales.

New Ventures

Our earlier announced entry into a new ingredient market is also progressing well, and the first results from completed and ongoing studies are now being analyzed. The results so far indicate a superior product compared to the competition in this new category, and we are looking forward to sharing more information on this with the market and to start the launch of this new product.

Kaydence Pharma is also progressing well with their Integrated Development Plan and is preparing for the next major milestone, which is the IND (Investigational New Drug) application to the US Food and Drug Administration (FDA). A pre-IND meeting was held in November last year with some very positive outcomes to the process. Both reducing risk as well as reducing time for the next phase of the plan. Kaydence has also strengthened the Board of Directors and are now well set for the task ahead when the work continues to both finalize the operational process as well as securing funding for the work that must be done.



The Share

In early March Nordea Markets released their Commissioned Equity Research report on the company. Following the 2018 Full Year Earnings Release on February 13th and the analysis from Nordea, we have seen an increase in the share price over the last few weeks, and some higher volumes in the share trading. The Board and Management are actively working to increase the awareness related to the share, and the trading in the stock on Oslo Stock Exchange, Oslo Axess.

Outlook

Going forward we expect to continue the growth on a YoY basis compared to 2018, and the guiding provided in February of an annual growth of 30% to 35% is maintained. We also maintain our guiding on overall margin to be between 40% and 45% on a full year basis. We will update the guiding again in conjunction with the results for the second quarter, which will be released in August.

Kjetil Samuelsen

FINANCIAL UPDATE

This interim report relates to NattoPharma’s performance in the first quarter of 2019 relative to the first quarter 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 page in the interim report for a summary of these measures.

INCOME STATEMENT

Revenues

NattoPharma reported a product revenue of NOK 27.8 million in the first quarter of 2019, an increase of 41% compared to the same period last year, ahead of the previously guided growth rate of 30-35%. The growth has primarily been in the North American market, and Synthetic K2 is growing at a faster pace than Natural K2. Other revenue of NOK 1.0 million represents services and other recharges to related parties.

Amounts in NOK mill.	Q1’19	Q1’18	Change	2018
Operating Revenue	27.8	19.8	8.0	101.7
Other Revenue	1.0	1.2	-0.2	5.5
Total Revenue	28.7	21.0	7.8	107.2

Gross Margin

The Gross Margin came in at 44.1% in the period. This is up from 41.3% in the same period last year, and in the upper regions of the guiding of 40-45% for 2019.

Amounts in NOK mill.	Q1’19	Q1’18	Change	2018
Gross Profit on Operating Revenue	12.2	8.2	4.1	43.7
Gross Margin on Operating Revenue	44.1%	41.3%	2.7%	43.1%

Operating Expenses

The total OpEx development is summarized below.

Amounts in NOK mill.	Q1’19	Q1’18	Change	2018
Personnel Cost	8.1	7.3	0.8	28.4
Other OpEx	3.5	2.8	0.6	15.8
Total OpEx	11.6	10.2	1.4	44.2

Operating expenses includes recharges made to Kaydence Pharma AS and Bohan & Co AS and non-cash cost related to share options granted to management and employees. Share options expense in the period amounted to NOK 0.27 million compared to NOK 1.17 million in the same period last year. Below is a summary of the OpEx development adjusted for these two items.

Amounts in NOK mill.	Q1’19	Q1’18	Change	2018
Adj. Personnel Cost	6.9	5.1	1.9	23.0
Adj. Other OpEx	3.4	2.7	0.7	14.3
Adj. Total OpEx	10.4	7.8	2.6	37.2
As % of Operating Revenue	37.3%	39.5%	-2.2%	36.6%

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

OpEx as % of Operating Revenues is in line with expectations and expected to continue trending down in the year.

Profitability

Adjusted Earnings Before Interest, Tax & Depreciation (EBITDA (adj.)) was positive with NOK 1.9 million for the period. This compares to NOK 0.4 million for the same period last year. Earnings before tax (EBT) was NOK -0.4 million in the period, compared to NOK -3.5 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.	Q1’19	Q1’18	Change	2018
EBITDA (Adj.)	1.9	0.4	1.5	6.7
EBITDA Margin (Adj.)	6.8%	1.9%	4.9%	6.5%
EBITDA	1.6	-0.8	2.4	5.1
EBITDA Margin	5.6%	-3.8%	9.4%	5.0%
EBT	-0.4	-3.5	3.1	1.0
EBT Margin	-1.3%	-16.5%	39.7%	1.0%

Depreciation and Net Finance

Depreciation for the period was NOK 2.1 million. This applies mainly to depreciation of intangible assets related to the acquisition of NattoPharma R&D Ltd. in 2013. For the first quarter 2019, depreciation from Right of use assets related to lease contracts (IFRS 16) have been booked at NOK 0.2 million.

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 -0.3 million in net currency loss and NOK 0.2 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.	Q1’19	Q1’18	Change	2018
Non-Current Assets	87.1	95.1	-8.0	82.9
Current Assets	64.2	52.1	12.2	64.4
Total Assets	151.3	147.2	4.1	147.3

Cash and cash equivalents decreased by NOK 4.0 million in the first quarter. See more under the Cash flow chapter below.

The change in non-current assets compared to the start of the quarter 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. The change from the same quarter in 2018 relates to capitalization of assets, depreciation, 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 from the sale of products are NOK 19.3 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 14.5 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.	Q1'19	Q1'18	Change	2018
Total Equity	108.8	102.8	6.0	109.7
Non-Current Liabilities	16.9	26.1	-9.3	15.7
Current Liabilities	25.7	18.3	7.4	21.9
Total Equity and Liabilities	151.3	147.2	4.1	147.3

NattoPharma continues to maintain a strong financial position, with an equity ratio of 71.9%, compared to 69.8% as per March 31st, 2018 and 74.5% as per December 31st, 2018.

The increase in current liabilities 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

In the quarter the company increased stock in line with plan as stock levels were lower than desired during 2018. This impacted operational cash flow by -4.2 million. 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 4.1 mill in the quarter, totaling 6.9 million for the project so far.

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

Amounts in NOK mill.	Q1'19	Q1'18	Change	2018
Cash Flow from Operations	-5.2	-4.5	-0.7	6.5
Net Cash Flow	-4.1	-4.5	0.5	5.1




STATEMENT FROM THE BOARD OF DIRECTORS AND CEO

We confirm that, to the best of our knowledge, the consolidated financial statements as of March 31st, 2019, and for the period January 1st, 2019 to March 31st, 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, April 29th, 2019

Board of Directors, NattoPharma ASA

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

CONDENSED CONSOLIDATED STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Amounts in NOK 1000	Note	Q1'19 (unaudited)	Q1'18 (unaudited)	2018 (audited)
Revenue				
Operating Revenue	2	27 771	19 765	101 722
Other Revenue	2	976	1 206	5 519
Total Operating and Other Revenue		28 747	20 971	107 241
Operating Expenses				
Cost of Goods Sold		-15 535	-11 595	-57 978
Personnel Cost		-8 130	-7 341	-28 433
Depreciation and Amortisation	1	-2 104	-1 850	-7 278
Other Operating Expenses		-3 476	-2 840	-15 760
Total Operating Expenses		-29 243	-23 625	-109 449
Earnings Before Interest and Tax (EBIT)		-497	-2 654	-2 208
Financial Items				
Interest Income	3	596	709	2 837
Interest Expense	1	-140	-1	-201
Other Financial Income/Expense		-36	-24	-134
Net Currency Gain/Loss		-299	-1 492	753
Net Financial Items		120	-808	3 255
Earnings Before Tax (EBT)		-377	-3 462	1 047
Income Tax Expense		184	165	630
Net Profit/(Loss)		-193	-3 297	1 677
Earnings per Share		-0.01	-0.18	0.10
Diluted Earnings per Share		-0.01	-0.18	0.09

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in NOK 1000	Q1'19 (unaudited)	Q1'18 (unaudited)	2018 (audited)
Net Profit/Loss	-193	-3 297	1 677
Translation Difference	-1 045	-331	732
Total Other Comprehensive Income	-1 238	-3 628	2 409
Total Comprehensive Income for the Period	-1 238	-3 628	2 409

CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK 1000	Note	31.03.2019 (unaudited)	31.03.2018 (unaudited)	31.12.2018 (audited)
Assets				
Non-Current Assets				
Intangible Assets		7 289	7 276	101 722
Goodwill	4	36 422	34 716	34 562
Other Intangible Assets		43 711	41 993	42 069
Other Intangible Assets				
Tangible Assets				
Property, Plant and Equipment		519	1 383	601
Right-of-Use Assets	1	2 595	0	0
Total Tangible Assets		3 114	1 383	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		87 101	95 125	82 945
Current Assets				
Inventory		15 748	13 593	11 565
Trade Receivables		19 376	21 761	21 943
Other Receivables		14 516	7 680	12 217
Cash and Cash Equivalents		14 591	9 037	18 655
Total Current Assets		64 230	52 070	64 379
Total Assets		151 331	147 195	147 324

CONDENSED STATEMENT OF FINANCIAL POSITION

Amounts in NOK 1000	Note	31.03.2019 (unaudited)	31.03.2018 (unaudited)	31.12.2018 (audited)
Equity and Liabilities				
Equity				
Share Capital	5	54 518	54 368	54 518
Share Premium Reserve		118 625	118 346	118 625
Accumulated Loss		-70 412	-75 875	-70 492
Translation Differences		6 046	5 961	7 091
Total Equity		108 777	102 800	109 742
Non-Current Liabilities				
Deferred Tax Liability		3 402	4 123	3 691
Deferred Revenue from Sale of Business	3	12 027	22 002	12 027
Financial Lease Liabilities	1	1 429	0	0
Total Non-Current Liabilities		16 857	26 125	15 718
Current Liabilities				
Trade Payables		14 190	13 981	18 579
Borrowings		6 087	0	0
Financial Lease Liabilities	1	1 197	0	0
Other Current Liabilities		4 224	4 290	3 285
Total Current Liabilities		25 698	18 270	21 864
Total Liabilities		42 555	44 395	37 582
Total Equity and Liabilities		151 331	147 195	147 324

CONDENSED STATEMENT OF CASH FLOW

Amounts in NOK 1000	Note	Q1'19 (unaudited)	Q1'18 (unaudited)	2018 (audited)
Cash Flow from Operating Activities				
Earnings Before Tax (EBT)		-377	-3 462	1 047
Depreciation and Amortization	1	2 104	1 850	7 278
Other Non-Cash Items		272	1 174	1 582
Changes in Working Capital Items:				
Inventory		-4 183	-640	1 388
Trade Receivables		2 567	-2 982	-2 417
Trade Payables		-4 390	-545	4 054
Other Current Items		-1 222	62	-6 444
Net Cash Flow from Operating Activities		-5 228	-4 544	6 488
Cash Flow from Investment Activities				
Investment in Property, Plant and Equipment		-45	0	-227
Investments in Intangible Assets	4	-4 398	-217	-3 919
Sale of Property, Plant and Equipment		0	0	489
Net Cash Flows from Investment Activities		-4 442	-217	-3 657
Cash Flow from Financing Activities				
Proceeds from Share Issue/Transaction Costs		0	0	429
Proceeds from Long-Term Loan		0	0	1 500
Proceeds from Short-Term Loan	7	6 000	0	0
Lease Payments		-304	0	0
Net Cash Flow from Financial Activities		5 696	0	1 929
Net Change in Cash and Cash Equivalents		-3 974	-4 761	4 759
Foreign Currency Effects		-89	239	337
Cash and Cash Equivalents at Period Start		18 655	13 558	13 558
Cash and Cash Equivalents at Period End		14 591	9 036	18 655

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				-3 297	-331	-3 628
Equity Based Remuneration				1 174		1 174
Effect from Implementation of IFRS 9				-5 750		-5 750
Share Issue Including Transaction Costs						0
Equity as per March 31st, 2018	54 389	-21	118 346	-75 875	5 961	102 801
Equity as per January 1st, 2019	54 539	-21	118 625	-70 492	7 091	109 752
Total Comprehensive Income for the Period				-193	-1 045	-1 238
Equity Based Remuneration				272		272
Share Issue Including Transaction Costs						0
Equity as per March 31st, 2019	54 539	-21	118 625	-70 412	6 046	108 777

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 three months ending March 31st, 2019, have been prepared in accordance with accounting principles used in the annual financial statements for 2018.

The interim report, which is not audited, was approved by the Company's Board of Directors on April 29th, 2019.

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 supersedes 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 is 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 March 31st, 2019, the Group has non-cancellable operating lease commitments of approximately NOK 2.9 million. The present value of the lease commitments is approximately NOK 2.6 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 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.

Kaydence Pharma AS has a long-term liability to NattoPharma ASA per March 31st, 2019 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 at NOK 12 million.

The loan receivable to Kaydence Pharma AS has been tested for impairment, and management has assessed the risk to be limited. 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.

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 of Kaydence Pharma AS	0	30	0	30
Spin off Kaydence Pharma AS	65 500	0	-30 032	35 468
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 March 31st, 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 March 31st, 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 of Kaydence Pharma AS	0	30	0	30
Spin off Kaydence Pharma AS	65 500	0	-30 032	35 468
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 March 31st, 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 March 31st, 2019	40 275	0	-12 027	28 248

NOTE 4 INTANGIBLE ASSETS

<i>Amounts in NOK 1000</i>	Aquired Technology	Software	Aquired Rights	Patents	Assets Under Construction	Total Other Intangible Assets
Aquisitions Cost January 1st, 2018	58 105	1 728	1 310	1 798	0	62 941
Aquisitions		11	206			217
Disposals						0
Exchange Rate Changes	-1 169					-1 169
Aquisitions Cost March 31st, 2018	56 936	1 739	1 516	1 798	0	61 989
Aquisitions		465	392		2 845	3 701
Disposals						0
Exchange Rate Changes	1 866					1 866
Aquisitions Cost December 31st, 2018	58 802	2 204	1 908	1 798	2 845	67 557
Aquisitions		14		330	4 054	4 398
Disposals						0
Exchange Rate Changes	-1 710					-1 710
Aquisitions Cost March 31st, 2019	57 092	2 218	1 908	2 128	6 899	70 244
Accumulated Depreciation January 1st, 2018	22 955	317	1 112	1 798	0	26 182
Amortization and Depreciation for the Period	1 454	80	17			1551
Disposals						0
Exchange Rate Changes	-460					-460
Accumulated Depreciation March 31st, 2018	23 949	397	1 129	1 798	0	27 273
Amortization and Depreciation for the Period	4 342	327	72			4 741
Disposals						0
Exchange Rate Changes	982					982
Accumulated Depreciation December 31st, 2018	29 272	724	1 201	1 798	0	32 995
Amortization and Depreciation for the Period	1 470	94	35	91		1 690
Disposals						0
Exchange Rate Changes	-863					-863
Accumulated Depreciation March 31st, 2019	29 880	818	1 236	1 889	0	33 822
Balance Sheet Value March 31st, 2018	32 987	1 342	387	0	0	34 716
Balance Sheet Value December 31st, 2018	29 530	1 480	707	0	2 845	34 562
Balance Sheet Value March 31st, 2019	27 212	1 400	672	239	6 899	36 422

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 will start later in 2019.

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. 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.

NOTE 6 RELATED PARTIES

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

Name	Options January 1 st , 2019	Q1 2019			Options March 31 st , 2019
		Granted Options	Exercised Options	Expired Options	
Kjetil Ramsøy	125 100	100 000	-	-	225 100

The following table provide the transactions with related parties for the last three months of 2019.

Amounts in NOK 1000			Transactions (+ Revenue, - Expense)			
Entity	Related Party	Balance March 31 st , 2019	Other Revenue	Purchases	Loans	Interest
Kaydence Pharma	Associated Entity	43 885	762			596
Pro AS	Sjur Thorsheim	-6 087			-6 000	-87
Bohan & Co AS	Frode Bohan		214			
Tape Poland	Frode Bohan	-23		82		

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.

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.

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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 related parties. 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 1000	Q1'19	Q1'18	2018
Revenue			
Operating Revenue	27 771	19 765	101 722
Other Revenue	976	1 206	5 519
Less Recharges of OpEx	-976	-1 206	-5 367
Total Adj. Revenue	27 771	19 765	101 874
Cost of Goods Sold	-15 535	-11 595	-57 978
Total Cost of Goods Sold	-15 535	-11 595	-57 978
Gross Profit	12 236	8 170	43 896
Gross Margin	44.1%	41.3%	43.1%

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.

Amounts in NOK 1000	Q1'19	Q1'18	2018
Operating Expenses			
Personnel Cost	-8 130	-7 341	-28 433
Less Recharges	923	1 108	5 519
Less Non-Cash Cost for Options Program	272	1 174	1 582
Total Adjusted Personnel Cost	-6 935	-5 059	-22 976
Other Operating Expenses	-3 476	-2 840	-15 760
Less Recharges	53	98	1 492
Total Adjusted Other Operating Expenses	-3 423	-2 742	-14 268
Total Adjusted Operating Expenses	-10 357	-7 801	-37 244
As % of Operating Revenue	37.3%	39.5%	36.6%

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.

Amounts in NOK 1000	Q1'19	Q1'18	2018
Total Operating and Other Revenue	28 747	20 971	107 241
Cost of Goods Sold	-15 535	-11 595	-57 978
Personnel Cost	-8 130	-7 341	-28 433
Other Operating Expenses	-3 476	-2 840	-15 760
Less Non-Cash Cost for Options Program	272	1 174	1 582
Adjusted EBITDA	1 879	369	6 652
As % of Operating Revenue	6.8%	1.9%	6.5%