KARO BIO

YEAR-END REPORT JANUARY-DECEMBER 2012

The January–December period and the fourth quarter 2012 in brief

- Net sales increased to MSEK 33.2 (0.0), whereof the fourth quarter increased to MSEK 8.6 (0.0), mainly attributed to the RoRgamma deal with Pfizer
- Net loss for the group improved to MSEK -98.3 (-226.6), whereof the fourth quarter improved to MSEK -9.0 (-50.6). The net loss was positively impacted by a reversal of provisions of MSEK I.5 related to the eprotirome project
- Loss per share was SEK -0.25 (-0.59) SEK, whereof the fourth quarter SEK -0.02 (-0.13)
- Cash flow from operating activities was MSEK -127.8 (-198.3), whereof the fourth quarter MSEK -20.1 (-37.9)
- Cash and cash equivalents and other short-term investments totaled MSEK 54.1 (158.5) at the end of the period
- The rights issue brought a total of MSEK 28.3 net after transaction costs, whereof MSEK 23.9 in the quarter
- Costs attributed to the termination of the eprotirome project amounted to MSEK 33 during 2012. No further costs are expected to burden the project.

Significant events after end of reporting period

- The composition of the Nomination Committee based on shareholdings as of January 31 will be announced in late February.

Conference call / audiocast today at 9.30 a.m. CET

CEO Per Bengtsson will present the report today at 9.30 a.m. in an audiocast, held in Swedish, available via a link on http://www.karobio.se/ and telephone: +46 8 505 56474 or +44 203 364 5374.

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The information in this report is such that Karo Bio is required to disclose under the Swedish Securities Market Act. The information was disclosed on Febuary 12, 2013 at 8.30 a.m. CET.

Summary of key financial data

	October-December		January-December	
	2012	**2011**	**2012**	**2011**
Net sales	8.6	-	33.2	-
Operating expenses	-17.6	-49.9	-132.9	-231.2
- of which R&D expenses	-12.9	-42.3	-107.9	-189.3
Net earnings/loss for the period	-9.0	-50.6	-98.3	-226.6
Earnings/loss per share (SEK)	-0.02	-0.13	-0.25	-0.59
Cash flow from operating activities	-20.1	-37.9	-127.8	-198.3
Cash and cash equivalents and other short term investments	**54.1**	**158.5**	**54.1**	**158.5**

About Karo Bio

Karo Bio is a research and development company focused on innovative drugs for important medical needs. The world-leading knowledge of nuclear receptors as target proteins for the development of pharmaceuticals and the related mechanisms of action, are utilized as a foundation for developing novel, more effective and safer pharmaceuticals.

Karo Bio is active in preclinical development focused on the areas of neuropsychiatry, inflammation, autoimmune diseases and cancer. The company has a number of strategic collaborations with big pharma.

Karo Bio is based in Huddinge, Sweden. The company has around 43 employees and is listed on NASDAQ OMX Stockholm (Reuters: KARO.ST).

CEO COMMENTARY

Karo Bio's transformation continued in the fourth quarter. The rights issue in late 2012 raised MSEK 28.3, which will enable us to continue to steer our business to become more cost efficient and commercially oriented. A satisfying message and a positive sign is that the Board has increased its commitment to the company in connection with the rights issue. Both Göran Wessman and Per Anders Johansson increased their respective ownership in Karo Bio to 0.8 percent and 3.9 percent.

Our focus is on creating a better financial balance and at the top of our list is of course increasing our revenue. More cooperations and increased revenues improve our ability to maintain a faster development pace without weakening our financial position as our efforts increase. It is therefore very satisfying that the RORgamma project has continued to advance. This enables us to achieve additional revenue soon, in addition to those already secured. The next opportunity is that we reach a first milestone in the project. A continued positive progression of the project will probably result in an extension of the collaboration with Pfizer after our current research funding expires at year-end. We are proud of our expertise efforts in the project thus far and are working hard to ensure that we succeed in our tasks for 2013 in order to secure additional revenue in the project.

Besides RORgamma we have several other commercial opportunities within our portfolio. The most advanced projects are in the ERbeta field. In the MS project we are awaiting new results from animal studies that could provide additional security in the valuation of the mechanism of action. We believe that these results will further strengthen the project, which increases the opportunity for new revenue.

As for ERbeta in the cancer field, we have the opportunity to secure alternative funding through various forms of grants. Those of you who follow us know that we have planned to move the project to the state of Texas due to the favorable conditions that the state has created for public funding in oncology, a field where Texas has an advanced position. In 2012, however, there has been some turbulence in the funding agency CPRIT which has resulted in the resignation of the senior executives. Consequently, the authorizations for grants have been negatively affected. Karo Bio has therefore decided to postpone the planned re-submission of the grant application until the situation has been clarified. We are working simultaneously on other alternatives for securing grant funding for this project.

Our project in GR inflammation and the preparatory work we do on the NURR1 receptor is at an early stage, so traditional licensing agreements are deemed difficult to establish. Our aim with these projects is rather to generate revenue faster through so-called "feasibility studies" funded by potential partners. A positive outcome from such a study would increase the potential for Karo Bio to sign a license agreement in the next stage.

The net operating expenses have been substantially reduced down to a present level of MSEK 4 – 4.5. With continued work on the cost side and success in any of our projects 2013, Karo Bio will be able to take a further step towards a neutral cash flow. In summary, we continue to work hard to achieve success in the business in order to create the necessary conditions for a commercially successful Karo Bio.

Per Bengtsson
CEO

KARO BIOS PROJECTS

ERbeta selective compounds – a platform with many opportunities

The estrogen receptor (ER) is activated by estrogen and regulates a number of functions in the body. Estrogen has several positive effects but its use as a medical treatment has been limited by the associated increased risk for uterine and breast cancer as well as thrombosis. These risks are mainly linked to the estrogen receptor's ERalpha subtype, while ERbeta, which Karo Bio was involved in discovering in the 1990's, seems to account for many of the positive effects of estrogen without the side effects. For ERbeta selective compounds there are clinical opportunities within a number of fields, including neuro-psychiatry, certain forms of cancer, women's health and urology.

Karo Bio's efforts in the field have resulted in a world-leading position and a platform with many promising ERbeta selective compounds. These have slightly different properties and may thus be suitable for different indications.

The first drug candidate within the program KB9520, has shown good efficacy in preclinical models for some forms of cancers. The KB9520 project is being prepared to transfer into a separate subsidiary with its own funding and a focus on cancer. The operations may be located in Houston, where the state of Texas is investing resources to create a good research environment for new forms of cancer treatment. Karo Bio submitted an application for state grants in August 2012. Since then, the funding agency has initiated a review of its operations and announced a moratorium on the granting of new applications. Karo Bio is prepared to renew its application, but is also seeking alternative routes to funding the continued development of the project.

Since 2011, Karo Bio has run a development project for ERbeta focused on the autoimmune disease multiple sclerosis (MS). In preclinical models, ERbeta agonists have demonstrated protective effects on nerve cells. Supplementary studies conducted by Karo Bio have shown that ERbeta agonists have the potential to protect myelin sheaths and affect the repair processes and reconstruction of the structures that surround and insulate nerves and are necessary for efficient conduction of nerve impulses. If treatment with ERbeta agonists proves capable of repairing damaged myelin also in patients this will represent a significant breakthrough in the treatment of MS patients, where damaged myelin are involved in the symptoms of the illness and disability. Karo Bio has conducted animal studies that show that ERbeta has a positive effect in experimental disease models. The results are promising and analysis is therefore under way to confirm the details of ERbeta's therapeutic effect on nerve tissue.

One of Karo Bio's main priorities is to enter into commercial research collaborations around the company's ERbeta selective agonists. Karo Bio has entered into Material Transfer Agreements (MTAs) with a number of international pharmaceutical companies under which the partner companies are evaluating substances for several different indications.

ER Women's Health / MK-6913 – collaboration with Merck & Co., Inc.

A collaboration with Merck (known as MSD outside the US and Canada) regarding estrogen receptors was initiated in 1997 and the joint drug discovery phase was concluded in 2002. In 2010, Merck terminated the development of MK-6913 for hot flashes in postmenopausal women due to lack of efficacy, and in the fourth quarter of 2012 Merck informed that it does not intend to continue the development of the compound. There have not been any safety related issues reported for the compound. Karo Bio is exploring the possibility to regain the rights to the compound in connection with the termination of the contractual relationship with Merck.

GR inflammation – potentially a new broad anti-inflammatory drug

Glucocorticoids are used to treat various inflammatory diseases such as rheumatoid arthritis, inflammatory bowel disease, psoriasis and asthma. Glucocorticoids are powerful anti-inflammatory drugs but side effects on for example metabolism and bone have restricted their use. The separation of

the beneficial effects from the other side effects of glucocorticoids has long been regarded as medically important but at the same time hard to achieve. Hence there is a large need for safer treatments and a significant commercial market.

Karo Bio's project aims to design novel selective glucocorticoids that have as powerful anti-inflammatory properties as conventional glucocorticoid steroids, such as cortisone and other similar substances, but with significantly lower side effects and thereby the potential for broader use. Karo Bio has discovered a previously undescribed mechanism of glucocorticoid regulation and the development project is now focusing on this discovery. Compounds based on this discovery are expected to have a significantly improved side effect profile compared to conventional steroidal therapy while maintaining the desired anti-inflammatory effect. Evaluation is ongoing to identify which compounds are best suited for further development as candidate drugs.

Between 2008 and the first quarter 2012, the project was conducted in collaboration with the Indian pharmaceutical company Zydus Cadila, under which the parties assumed their own costs and shared potential revenue. The parties preferred different paths in the continued development and therefore decided to terminate their joint research and development. Karo Bio continues to develop the project on its own.

LXR inflammation – collaboration with Pfizer

The collaboration with Wyeth LCC, today a wholly owned subsidiary of Pfizer Inc., was initiated in 2001 and targets the liver X receptor (LXR) for the treatment of inflammatory disorders. From September 2009, Wyeth took on full responsibility for all research and development activities under the collaboration.

NURR1 – a new way to treat autoimmune diseases

In the spring of 2012, Karo Bio started preparatory development work on the receptor NURR1. The receptor controls the development of regulatory T cells (Treg) that monitor and control other T cell activity. A low number of Treg cells has been associated with autoimmune diseases such as multiple sclerosis, rheumatoid arthritis, type 1 diabetes and lupus. A drug that stimulates the NURR1 receptor and therefore also regulatory T cells can be expected to have positive impact on autoimmune diseases. There is a biological drug (antibody) under development in clinical phase II by Biotest AG in collaboration with Abbott that demonstrates the potential of activating regulatory T cells for patients with autoimmune diseases. Initial discussions with large pharmaceutical companies verify that there is a clear commercial interest in NURR1 and Karo Bio's assessment is that it may have potential to develop into a so-called hot spot, creating an opportunity to enter into a license agreement at an early stage. The work on this receptor is at a very early stage.

RORgamma – a new opportunity to treat autoimmune diseases

Recent research reveals that the nuclear receptor RORgamma may play a critical role in the development of autoimmune disease, such as rheumatoid arthritis, inflammatory bowel disease and psoriasis. In 2010, Karo Bio initiated a research program to develop and evaluate compounds that inhibit RORgamma activity, which may prove to be a novel concept for a potential new treatment alternative for autoimmune diseases since RORgamma has been shown to control the maturation of, and activity in, a certain type of immune cell, believed to drive inflammatory and debilitating processes in such diseases.

In December 2011, Karo Bio entered into a research collaboration with Pfizer for RORgamma to discover and develop new compounds for the treatment of autoimmune diseases. Pfizer took on the responsibility to fully finance all research for two years and will have exclusive rights for products developed as a result of the collaboration. The development project progressed in a positive direction in the fourth quarter.

The agreement is expected to provide Karo Bio with 10-12 million USD in 2012 and 2013. In 2012, Karo Bio recognized revenue of 5 million USD from the project. Pfizer has the right to extend the research agreement until 2015, and can also withdraw from the contract at the earliest during the second quarter of 2013.

FINANCIAL REPORT

Consolidated earnings

Net sales for 2012 increased to MSEK 33.2 (0.0), whereof the fourth quarter increased to MSEK 8.6 (0.0). Operating expenses for the year decreased by MSEK 98.3 to MSEK 132.9 (231.2) of which MSEK 33 are directly attributable to the termination of the eprotirome program. Research and development expenses accounted for 81.1 per cent of the costs for the period, after a decrease to MSEK 107.9 (189.3), whereof the fourth quarter MSEK 12.9 (42.3). A large portion of the cost reduction is attributable to decreased external project expenses as a result of the termination of the eprotirome program.

Administrative expenses for the year decreased to MSEK 25.1 (40.8), whereof the fourth quarter MSEK 4.7 (7.8). The consolidated operating loss for the year decreased to MSEK 99.7 (231.2). The operating loss for the fourth quarter was MSEK 9.0 (49.9). The earnings in the fourth quarter include a reversal of provisions of MSEK 1.5 attributable to the eprotirome project. Financial net for the year amounted to MSEK 1.5 (4.5). Net loss for the year improved to MSEK 98.3 (226.6). For the fourth quarter the net loss improved to MSEK 9.0 (50.6).

Capital investments and consolidated cash flow

Capital investments for the year amounted to MSEK 0.6 (3.4) and comprise mainly investments in laboratory and IT equipment.

Cash flow from operating activities for the year amounted to MSEK -127.8 (-198.3), whereof the fourth quarter MSEK -20.1 (-37.9).

Financial position

Consolidated cash and cash equivalents amounted to MSEK 28.0 (43.8) at the end of the period. Including other short-term investments with durations exceeding 90 days, liquid assets amounted to MSEK 54.1 (158.5), which corresponds to a change in total cash position and other short-term investments of MSEK -104.4 (-236.5) in the year. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

The company's equity credit facility can be utilized when the share price amounts to or exceeds SEK 0.75, a condition which was not fulfilled at the time of the report. The mandate to use the credit facility will be submitted to the General Meeting for approval on an annual basis.

Total shareholders' equity amounted to MSEK 45.9 (115.9) taking into account the period's earnings. In total, there were 387,063,972 shares outstanding, each with a pair value of SEK 0.02. In the fourth quarter, a rights issue was conducted with preferential rights for existing shareholders. A total of 108,883,397 shares were issued, which after transaction costs provided the company with MSEK 28.3. At year end, MSEK 25.0 of the issued amount, and MSEK 1.1 in transaction costs had affected the cash balance. The remainder of the issued amount of MSEK 7.7 and transaction cost of MSEK 3.2 has been settled in January 2013. All new shares were however registered with the Companies Registration Office in January 2013 and have therefore not affected the number of shares at year end. After completion of the rights issue, the total number of shares is 495,947,369, with a par value of SEK 0.02.

Loss per share amounted to SEK 0.25 (0.59). The Group's equity ratio at the end of the period was 59.1

(67.6) per cent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.12 (0.30).

Employees

At the end of the period, Karo Bio had 43 (68) employees, of whom 37 (60) are engaged in research and development, 1 (3) in business development and intellectual property rights and 5 (5) in administrative roles.

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	October-December		January-December	
	2012	**2011**	**2012**	**2011**
Net sales	8,554	-	33,173	-
Operating expenses				
Administration	-4,709	-7,778	-25,116	-40,797
Research and development	-12,857	-42,284	-107,857	-189,321
Other operating income/expenses	-28	160	51	-1,041
	-17,594	-49,902	-132,922	-231,159
Operating profit/loss	**-9,040**	**-49,902**	**-99,749**	**-231,159**
Financial net	86	-735	1,495	4,533
Earnings after financial items	**-8,954**	**-50,637**	**-98,254**	**-226,626**
Tax	-	-	-	-
NET EARNINGS FOR THE PERIOD	**-8,954**	**-50,637**	**-98,254**	**-226,626**
Net earnings for the period attributable to:				
Shareholders of the parent company	-8,954	-50,637	-98,254	-226,626
Depreciation included in operating expenses	-373	-614	-1,748	-2,409
Earnings per share (SEK)	-0.02	-0.13	-0.25	-0.59
Number of shares outstanding (000)	**387,064**	**387,064**	**387,064**	**387,064**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	October-December		January-December	
	2012	**2011**	**2012**	**2011**
NET EARNINGS FOR THE PERIOD	**-8,954**	**-50,637**	**-98,254**	**-226,626**
Other comprehensive income for the period, net after tax	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-8,954**	**-50,637**	**-98,254**	**-226,626**
Total comprehensive income attributable to:				
Shareholders of the parent company	**-8,954**	**-50,637**	**-98,254**	**-226,626**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **(KSEK)**

	December 31	
	2012	**2011**
Assets		
Equipment	3,771	5,558
Other current assets	19,893	7,409
Financial assets at fair value through profit or loss	26,049	114,780
Cash and cash equivalents	28,024	43,753
TOTAL ASSETS	**77,737**	**171,500**
Shareholders' equity and liabilities		
Shareholders' equity	45,917	115,922
Current liabilities	31,820	55,578
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**77,737**	**171,500**

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	October-December		January-December	
	2012	**2011**	**2012**	**2011**
Operating activities				
Operating profit/loss before financial items	-9,040	-49,902	-99,749	-231,159
Depreciation	373	614	1,748	2,409
Other items not affecting cash flows	-	-	-	19
	-8,667	**-49,288**	**-98,001**	**-228,731**
Financial items received and paid	-8	-263	1,907	4,550
Cash flow from operating activities before changes in working capital	**-8,675**	**-49,551**	**-96,094**	**-224,181**
Changes in working capital	-11,414	11,680	-31,706	25,898
Cash flow from operating activities	**-20,089**	**-37,871**	**-127,800**	**-198,283**
Investing activities				
Net investment in equipment	98	-1,655	-184	-4,262
Net investment in other short-term investments	19,067	60,719	88,319	-45,248
Cash flow from investing activities	**19,165**	**59,064**	**88,135**	**-49,510**
Financing activities				
Net proceeds from rights issue	25,000	-	25,000	-
Transaction costs rights issue [1)]	-1,064	-	-1,064	-33,940
Cash flow from financing activities	**23,936**	**-**	**23,936**	**-33,940**
Cash flow for the period	**23,012**	**21,193**	**-15,729**	**-281,733**
Cash and cash equivalents at the beginning of the period	5,012	22,560	43,753	325,486
Cash and cash equivalents at the end of the period	**28,024**	**43,753**	**28,024**	**43,753**

1) Comprises the portion of transaction related costs that have been paid in the period.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (KSEK)

Attributable to shareholders of the parent company	Share capital	Other contributed capital	Accumulated losses	Total
Amount at January 1, 2011	**191,593**	**982,686**	**-831,731**	**342,548**
Loss for the period	-	-	-226,626	-226,626
Rights issue	1,939	-1,939	-	0
Amount at December 31, 2011	**193,532**	**980,747**	**-1 058,357**	**115,922**
Amount at January 1, 2012	**193,532**	**980,747**	**-1 058,357**	**115,922**
Loss for the period	-	-	-98,254	-98,254
Reduction of share capital*	-185,791	-	185,791	0
Current rights issue	-	28,249	-	28,249
Amount at December 31, 2012	**7,741**	**1,008,996**	**-970,820**	**45,917**

KEY EQUITY DATA

	December 31	
	2012	**2011**
Equity ratio	59.1%	67.6%
Equity per share at the end of period – basic SEK	0.12	0.30
Equity per share at the end of period – diluted, SEK	**0.12**	**0.30**

* The General meeting on April 27 resolved to reduce the share capital to MSEK 7.7, a level more in line with the nature and risks of the business. The reduction also eliminated the shortage in the company's equity.
At an Extraordinary General Meeting on November 19 a formal balance sheet for liquidation purposes was presented which showed that the company's capital exceeded the registered share capital, after which the meeting resolved that the company should not be liquidated.

The Parent Company

Net sales for the Parent Company for the full year amounted to MSEK 33.2 (0.0), whereof the fourth quarter MSEK 8.6 (0.0). Loss after financial items for the parent company was MSEK 98.6 (226.6) for the full year, whereof the fourth quarter MSEK 9.0 (50.6).

The Parent Company's capital investments in equipment for the year amounted to MSEK 0.6 (3.4). Cash, cash equivalents and other short term investments for the parent company amounted to MSEK 54.0 (158.5) at the end of the period.

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	October-December		January-December	
	2012	**2011**	**2012**	**2011**
Net sales	8,554	-	33,173	-
Operating expenses				
Administration	-4,709	-7,778	-25,116	-40,797
research and development	-12,856	-42,284	-108,207	-189,321
Other operating income/expenses	-28	160	51	-1,041
	-17,593	-49,902	-133,272	-231,159
Operating income/loss	**-9,039**	**-49,902**	**-100,099**	**-231,159**
Financial net	90	-737	1,507	4,547
Earnings after financial items	**-8,949**	**-50,639**	**-98,592**	**-226,612**
Tax	-	-	-	-
NET EARNINGS FOR THE PERIOD	**-8,949**	**-50,639**	**-98,592**	**-226,612**
Depreciation included in operating expenses	**-344**	**-396**	**-1,515**	**-1,535**

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	December 31	
	2012	**2011**
Assets		
Equipment	3,509	5,412
Shares in group companies	150	100
Other current assets	19,893	7,409
Financial assets at fair value through profit or loss	26,049	114,780
Cash and cash equivalents	27,964	43,743
TOTAL ASSETS	**77,565**	**171,444**
Shareholders' equity and liabilities		
Total restricted equity	9,919	331,547
Total non-restricted equity	36,013	-215,272
Current liabilities	31,633	55,169
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**77,565**	**171,444**

OTHER INFORMATION

New share issue

A rights issue was conducted in December which provided Karo Bio with MSEK 28.3 net, of which a portion came in at the beginning of January 2013. Overall, 108,883,397 new shares were issued in January 2013, bringing the total number of shares to 495,947,369. Of these, 82,085,759 shares were acquired with subscription rights and 26,797,638 shares without subscription rights. Included in the shares acquired without subscription rights are 16,666,667 shares acquired by Board Member Per-Anders Johansson and 3,333,333 shares acquired by Chairman Göran Wessman under the issue guarantee.

Continued operations

The company believes that there is potential for continued operations for 12 months from the closing date. Without additional funding or revenue, existing cash and cash equivalents and financial investments are expected to finance the current scope of operations until some point at the end of the fourth quarter of 2013. Under these same conditions, the equity at the same time period may be less than 50 per cent of the registered share capital (after the reduction to be proposed at the next AGM).

However, the company also assess that there are opportunities for additional revenue in the coming year and should these not be realized or be postponed, the company is planning for necessary cost adjustments. It cannot be excluded that business may require additional injection of capital during the year.

Significant events after the end of the reporting period

The composition of the Nomination Committee based on shareholdings as of January 31 will be announced in late February.

Dividend

In accordance with the dividend policy, the Board will propose to the AGM that there will be no dividend for the 2012 financial year.

Risk factors

There is no guarantee that Karo Bio's research and development will result in commercial success. There can be no guarantee that Karo Bio will develop products that can be patented, that granted patents can be retained, that future inventions will lead to patents, or that granted patents will be sufficient to protect Karo Bio's rights.

There is no guarantee that Karo Bio will obtain approvals on its clinical trials applications or that the clinical trials conducted by Karo Bio, whether independently or in collaboration with its partners, can demonstrate sufficient safety and efficacy to obtain the necessary approvals from regulatory authorities, or that they will result in marketable products. It cannot be excluded that the approval process at regulatory level will involve requirements for increased documentation and thereby increased costs and delays in the projects or even discontinuation of projects. Increased total development costs and development time of a project could result in an increased project risk and reduce the product's potential to successfully reach the commercial stage or reduce the time from product launch to patent expiry.

There may be a need to turn to the capital market for additional funding in the future. Both the size and the timing of the company's potential future capital requirements are dependent on a number of factors, including opportunities to enter into collaboration or licensing agreements and the progress made in research and development projects undertaken. There is a risk that the required funding of the

operations will not be available when needed or at a reasonable cost.

Accounting and valuation principles

This interim report has been prepared in accordance with International Accounting Standards (IAS) 34 for interim reports and International Financial Reporting Standards IFRS as adopted by the EU. The accounting and valuation principles applied are unchanged compared to those applied in 2011. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2011 or later. These accounting standards and interpretations are deemed not to have a significant impact on the consolidated financial statements other than presentational or disclosures presented in the reports. In addition, there are certain accounting standards and interpretations that are not relevant to Karo Bio.

Compensation received for research collaborations, and for commitments in the agreement that Karo Bio has not yet carried out, are amortized over the duration, in accordance with the agreement, of which Karo Bio fulfills the commitments. Milestone payments are recognized when all conditions for entitlement to compensation under the agreement are met. Revenues from research funding of RORgamma are accrued from January 1st, 2012.

For the Parent Company this interim report has been prepared in accordance with the Swedish Annual Accounts Act and compliance with RFR 2 Accounting for legal entities. The accounting principles applied for the parent company differ from those applied for the Group only regarding accounting of leasing agreements.

Amounts are expressed in KSEK, an abbreviation for thousands of Swedish Kronor, unless otherwise indicated. MSEK is an abbreviation for millions of Swedish Kronor. Amounts or figures in parentheses indicate comparative figures for the corresponding period last year.

Annual Report 2012

Karo Bio's Annual Report for 2012 will be disclosed at the latest on March 29, 2013. Karo Bio has decided, for both environmental and cost reasons, to primarily distribute the Annual Report on the company website. The printed version of the Annual Report will in the future be available for order i.e. on the company website.

Annual General Meeting 2013

Karo Bio's Annual General Meeting will be held in Huddinge, Sweden on May 7, 2013 at 16.00 CET. The Board will among other things propose a reduction in share capital, without repayment to the shareholders, from KSEK 9,919 to KSEK 4,959. Information on how proposals to the Nomination Committee and Annual General Meeting may be submitted and how to give notice to attend the Meeting will be posted on the website. (www.karobio.com).

Scheduled releases of financial information

Annual report 2012	March 2013
Interim report January-March 2013	May 7, 2013
Interim report April-June 2013	July 12, 2013
Interim report July-September 2013	October 25, 2013
Year-end report 2013	February 13, 2014

Financial reports, press releases and other financial information are available on Karo Bio's web site www.karobio.com. It is also possible to download and subscribe to Karo Bio's financial reports and press releases on the web site.

Legal disclaimer

This financial report includes statements that are forward looking and actual future results may differ materially from those stated. In addition to the factors discussed, among other factors that may affect results are development within research programs, including development in preclinical and clinical trials, the impact of competing research programs, the effect of economic conditions, the effectiveness of the Company's intellectual property rights and preclusions of potential third party's intellectual property rights, technological development, exchange rate and interest rate fluctuations, and political risks.

Auditor's review

This year-end report has not been subject to review by Karo Bio's auditors.

Huddinge, February 12, 2013

Göran Wessman
Chairman

Per Bengtsson
CEO and Board member

Christer Fåhraeus
Board member

Per-Anders Johansson
Board member

Anders Waas
Board member

Bo Carlsson
Board member
Employee representative

Johnny Sandberg
Board member
Employee representative