

October 26, 2009

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KARO BIO ANNOUNCES A FULLY UNDERWRITTEN RIGHTS ISSUE OF APPROX. SEK 166 MILLION

STOCKHOLM, October 26, 2009. Karo Bio AB (publ) (Reuters: KARO.ST) today announced that the company's Board of Directors decided, after the closing of trading at NASDAQ OMX Stockholm on Friday, October 23, 2009, to undertake a preferential rights issue, subject to approval at the general meeting. Shareholders in Karo Bio have preferential rights to subscribe for one (1) new share for every three (3) existing shares. The subscription price is SEK 4.30 per share, which will result in total proceeds of approx. SEK 166m before transaction costs.

The purpose of the rights issue is to enable Karo Bio, from a position of financial strength, to continue discussions with potential collaboration partners regarding continued clinical development and commercialization of its lead development program eprotirome, developed for the treatment of dyslipidemia (high blood lipids), and to continue the development of prioritized compounds from the ER-beta platform and the collaboration with Zydus Cadila. The company has obtained underwriting agreements and subscription undertakings corresponding to 100 percent of the proceeds of the rights issue from, among others, Farstorps Gård AB and Farstorp Invest AB. Farstorp is the investment vehicle of one of the company's largest shareholders and board member, Bo Håkansson.

Eprotirome has completed three successful clinical phase II studies. Karo Bio's goal is to initiate clinical phase III trials within the framework of a partnership.

"It is of great importance for us to have a strong financial position when we now continue the discussions with potential partners with a view to secure a potential agreement that will safeguard the short-term interest and the long-term interest of Karo Bio and its shareholders in the best possible way. Our intention is to develop our ER-beta compounds into commercially attractive outlicensing opportunities within the next 18 months", says Per Olof Wallström, President of Karo Bio.

Issue with preferential rights for shareholders

For every share in Karo Bio, the holder is entitled to one (1) subscription right. Three (3) subscription rights entitle the holder to subscribe for one (1) new share. The subscription price is SEK 4.30 per share, which means that the rights issue will raise a maximum of approx. SEK 166m before transaction costs through the issuance of a maximum of 38,706,397 new shares, or the higher amount and higher number of shares that may follow from the exercise of outstanding warrants.

The decision to issue new shares requires approval at an extraordinary general meeting, expected to be held on November 10, 2009 (a separate notification will be published today and be available at Karo Bio's website. The notification will also be published in Svenska Dagbladet and in Post- och Inrikes Tidningar as of tomorrow, October 27, 2009).

The record date for determining which persons are entitled to participate in the rights issue will be November 17, 2009 and the subscription period will take place during the period from and including November 18, 2009 up to and including December 2, 2009, or such later date decided by the Board of Directors. When issued and fully paid, the newly issued shares will rank equally in all respects with the current shares.

One of the single largest shareholders of the company, Bo Håkansson (through Farstors Gård AB), who is also a non-executive board member of Karo Bio, together with other members of the board and the management team have undertaken to subscribe for shares in relation to their respective holdings in Karo Bio, which represent in aggregate approximately 3.1 percent of the rights issue. Moreover, the company has also received underwriting agreements from Bo Håkansson through Farstorp Invest AB, as well as a consortium of external investors, to subscribe for shares corresponding to in total approx. SEK 161m, such that 100 percent of the offering is guaranteed through subscription undertakings and underwriting agreements.

A more detailed description regarding the rights issue will be made available in the prospectus to be issued in connection with the offering, which will be published on or about November 11, 2009, and will be available on Karo Bio's website as of this day.

ABG Sundal Collier and Piper Jaffray are acting as financial advisors to Karo Bio in connection with the rights issue.

Preliminary time plan

- Extraordinary general meeting: November 10, 2009
- Publication of prospectus: On or about November 11, 2009
- Record date: November 17, 2009
- Subscription period: November 18 – December 2, 2009
- Trading in subscription rights: November 18 – November 27, 2009
- Announcement of preliminary outcome of the rights issue: On or about December 7, 2009.

For more information please contact:

Per Olof Wallström, President
Tel: +46 8 608 60 20
E-mail: p.o.wallstrom@karobio.se

Erika Söderberg Johnson, CFO and responsible for Investor Relations
Tel: +46 8 608 60 52
E-mail: erika.soderberg.johnson@karobio.se

About Karo Bio

Karo Bio is a drug discovery and development company specializing in endocrinology and targeting nuclear receptors as target proteins for the development of novel pharmaceuticals. The company has a project portfolio with innovative molecules that primarily target dyslipidemia, CNS-disorders, inflammation, and women's health. In these areas, there are significant market opportunities and a clear need for pharmaceuticals with new mechanisms of action. Karo Bio develops compounds aimed at treating broad patient populations up to clinical proof of concept before out-licensing. In therapeutic niche areas, Karo Bio has the capacity to bring selected compounds into late stage clinical development and, potentially, to the market. In addition to the proprietary projects, Karo Bio has three strategic collaborations with international pharmaceutical companies for development of innovative therapies for the treatment of common diseases. Karo Bio is listed on NASDAQ OMX Stockholm since 1998 (Reuters: KARO.ST).

Karo Bio publishes this information in accordance with the Swedish Securities Markets Act and/or the Swedish Financial Instruments Trading Act. The information was published on October 26, 2009 at 08:30.

This press release is also available online at: www.karobio.com and www.newsroom.cision.com

Notice to UK residents. This announcement is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors as that term is defined in the Prospectus Directive that are also (i) "investment professionals" falling within article 19(5) of the Financial Service and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) "high net worth entities" and other persons to whom it may lawfully be communicated, falling within the meaning of Article 49(2)(a) to (d) of the Order (all such persons being "relevant persons"). The offered shares of Karo Bio AB are only available to relevant persons and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such offered shares will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its content.