KARO BIO

**Press release February 9, 2011**

# INTERIM REPORT JANUARY–DECEMBER 2010

## The January – December period and fourth quarter 2010 in brief

- Net sales amounted to MSEK 0.0 (5.9), with MSEK 0.0 (0.0) in the fourth quarter
- Net loss was MSEK 163.5 (154.6), with MSEK 50.1 (37.6) in the fourth quarter
- Loss per share was SEK 0.67 (0.78), with SEK 0.20 (0.19) in the fourth quarter
- Cash flow from operating activities was MSEK -158,9 (-146.9), with MSEK -44.3 (-30.1) in the fourth quarter
- Cash and cash equivalents and other short-term investments totaled MSEK 395.0 (237.2) at the end of the period
- On March 11, 2010, clinical phase II results on eprotirome as add-on therapy for statin-treated patients were presented in the *New England Journal of Medicine*
- Fredrik Lindgren started as the new CEO of Karo Bio on April 27, 2010
- On July 7, the plan to initially develop eprotirome in the EU for high-risk patients with heterozygous familial hypercholesterolemia (HeFH) was announced
- In October, financing of approx. MSEK 530 was secured, in part through a fully subscribed rights issue generating net proceeds of approx. MSEK 291; in part by an Equity Credit Facility financing agreement of MUSD 35 (approx. MSEK 240)
- In September, Karo Bio's partner Merck announced its decision to discontinue development of MK-6913 for the treatment of hot flashes. An interim analysis of data showed that pre-defined efficacy criteria were not met. Merck is evaluating its options for future studies involving MK-6913
- In October, Karo Bio initiated a research program regarding ROR-gamma and autoimmune disease

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## Summary of key financial information

| (MSEK) | October-December | | January-December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net sales | - | - | - | 5.9 |
| Operating expenses | -47.9 | -37.7 | -161.8 | -163.0 |
| - of which R&D expenses | -39.7 | -30.9 | -129.4 | -132.4 |
| Net earnings for the period | -50.1 | -37.6 | -163.5 | -154.6 |
| Earnings per share (SEK) | -0.20 | -0.19 | -0.67 | -0.78 |
| Cash flow from operating activities | -44.3 | -30.1 | -158.9 | -146.9 |
| Cash and cash equivalents and other short term investments at the period end | **395.0** | **237.2** | **395.0** | **237.2** |

## About Karo Bio

Karo Bio is a pharmaceutical company focused on the research and development of innovative drugs for unmet medical needs. Karo Bio's vision is to become a pharmaceutical company with sustainable profitability, commercial products and a competitive project portfolio. Karo Bio runs a number of drug development projects within the indication areas cardiovascular and metabolic diseases, neuro-psychiatry, inflammation, cancer and women's health. An important foundation for the company's activities is its unique knowledge of nuclear receptors as target proteins for the development of novel pharmaceuticals, as well as related mechanisms of action. Important processes and competencies within the company include structurally based research, drug discovery, preclinical and clinical development, and medical and regulatory expertise.

Karo Bio has the capacity to process select compounds for niche indications through the whole development chain, while compounds addressing large patient groups require development collaborations or outlicensing at some stage in the process. In addition to proprietary projects, Karo Bio has three strategic collaborations with international pharmaceutical companies.

The company's goals through 2014 are to bring the lead project eprotirome through the development program for HeFH in EU, to generate three clinical development projects from its other operations, and to expand the project portfolio through acquisitions, strategic partnerships or inlicensing.

Karo Bio is based in Huddinge, Sweden, has 70 employees and is listed on NASDAQ OMX Stockholm since 1998 (Reuters: KARO.ST).

## CEO COMMENTARY ON 2010

The most important step for Karo Bio in 2010 was our decision to take a new direction in our lead project eprotirome going forward. In early 2010 we concluded that development of eprotirome for a broad primary care dyslipidemia indication would remain unpredictable from a regulatory perspective and require an unreasonably large financial investment. Instead, we chose a smaller indication, high-risk patients with HeFH, as the first target patient population for eprotirome. HeFH is a hereditary condition causing substantially elevated blood lipid levels already at an early age, thus carrying a massively increased risk for cardiovascular disease. Since making this decision, we have designed a new clinical phase III development plan for eprotirome, established support from key opinion leaders within the field, and discussed our development plans with a number of national European regulatory authorities as well as the EMA. At the end of the year, the financial resources needed for Karo Bio to conduct the phase III development program of eprotirome were secured.

Most important in 2011 is to initiate the clinical phase III trials that are pivotal to eprotirome's development program. As these clinical trials will comprise several hundreds of patients at some fifty clinics in about ten countries, the preparatory work is complex and extensive. In addition to the clinical trials, a number of other activities are being initiated and will be driven in parallel. We currently expect to be able to initiate the clinical phase III trials in the third quarter of 2011, with estimated completion in late 2013.

Another important priority for Karo Bio in 2011 is to engage in commercial collaborations. An obvious, but not necessarily immediate, need is a future drug distribution partner in the EU for eprotirome. We have also opened up for development collaborations and distribution partnerships for eprotirome in growing markets such as India, and keep this work on our agenda. In addition, we see opportunities in establishing early research and development collaborations for some of our preclinical projects. Our ER-beta program is well-recognized in the pharmaceutical industry and has been ranked as one of the most interesting neuroscience programs available for partnering. Our recently initiated ROR-gamma program for autoimmune disease has already, being an early stage program, generated large interest. In both these cases we believe that there are promising opportunities to establish commercial collaborations and value at a very early stage, and are already working with these programs in a structured and goal oriented way.

At the same time, we will be open to opportunities to create value through acquisitions or starting-up new projects, as much as we with an open mind critically will review our own projects and the scope of our activities.

All in all, I would like to convey that Karo Bio's top priority in 2011 is to generate measurable results and create tangible value.

*Fredrik Lindgren*

Chief Executive Officer

## KARO BIO'S PROJECTS

| Program | Partner | Start year | Compound | Indication area | Territory | Discovery: Gener | Discovery: Optim. | Preclinical: Res. | Preclinical: Development | Clinical Development: Ph1 | Clinical Development: Ph2 | Clinical Development: Ph3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **TR/Eprotirome** | | 1999 | KB2115 | Dyslipidemia/HeFH | EU | | | | | | | |
| | | | | Dyslipidemia/HeFH | US | | | | | | | |
| | | | | Dyslipidemia/HeFH | Other | | | | | | | |
| | | | | Dyslipidemia/Polygenic | Global | | | | | | | |
| **GR diabetes** | | 1999 | KB3305 | Type 2 Diabetes | Global | | | | | | | |
| **ER** | Merck & Co. | 1997 | MK6913 | Women's health | Global | | | | | | | |
| **ERbeta** | | 2006 | KB9520 | Cancer | Global | | | | | | | |
| | | | KB9520 | New indication | Global | | | | | | | |
| | | | Unnamed | Depression | Global | | | | | | | |
| **GR inflammation** | Zydus Cadila | 2008 | Unnamed | Inflammation | Global | | | | | | | |
| **LXR** | Pfizer | 2001 | Unnamed | Inflammation | Global | | | | | | | |
| **RORgamma** | | 2010 | Unnamed | Autoimmune | Global | | | | | | | |

### TR / Eprotirome – dyslipidemia

Eprotirome is a liver-selective thyroid hormone receptor (TR) agonist for the treatment of dyslipidemia. The compound has demonstrated a unique efficacy profile in combining powerful reductions of several risk factors for the development of atherosclerotic cardiovascular diseases. In clinical phase II studies, eprotirome has shown statistically significant and clinically relevant reductions of LDL cholesterol, non-HDL cholesterol, apoB, triglycerides and Lp(a), both as monotherapy and as add-on to statins or ezetimibe. On March 11, 2010, the *New England Journal of Medicine* published clinical phase II results on eprotirome.

Eprotirome's efficacy profile suggests that the novel compound is suitable as an add-on treatment for the large number of patients who do not reach their treatment targets with existing therapies. The dyslipidemia market is projected to be driven primarily by specialist physicians treating patient groups with high cardiovascular risk.

During 2010, Karo Bio has worked with the planning, preparation and funding for a clinical phase III program for eprotirome targeting high-risk patients with the hereditable condition heterozygous familial hypercholesterolemia (HeFH). Based on the dialogue with regulatory authorities, Karo Bio is planning a clinical phase III program encompassing 1,150 patients under 12 to 18 months treatment, at 30-50 sites in 8-10 countries. If the project proceeds to plan it is expected that an application for the approval of eprotirome in the EU will be filed by the end of 2013 or in 2014.

Key opinion leaders participated in a well-attended seminar on eprotirome and the chosen development path on August 26, 2010. Video clips of all presentations at this seminar are available on Karo Bio's website www.karobio.com.

### GR type 2-diabetes / KB3305 – a liver-selective glucocorticoid receptor antagonist

KB3305 is a liver-selective glucocorticoid receptor (GR) antagonist that has been developed for the treatment of type 2 diabetes and is the first of its kind tested in man. A clinical phase I/II program has confirmed that it is possible to influence glucose levels by inhibiting GR activities in the liver. These data constitute a positive proof-of-principle for the mechanism of action and the magnitude of the effects are of medical relevance. Despite these positive data, the company made the decision in 2009 not to conduct further in-house development of KB3305 for primary care treatment of type 2 diabetes. The

competitive environment, added regulatory requirements and internal resource prioritization all contributed to the decision.

### 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 December 2009, Merck initiated a clinical phase IIa study with MK-6913; a drug candidate in development under the agreement. The purpose was to assess the safety, tolerability, and efficacy of MK-6913 for the treatment of vasomotor symptoms (hot flashes) in postmenopausal women. In September 2010, Merck announced its decision to discontinue the development of MK-6913 for the treatment of hot flashes. The decision was made after an interim analysis of data from the first stage of the phase II study showed that the pre-defined efficacy criteria for advancement of the compound to the second stage of the study were not met. Merck is evaluating options for future studies involving MK-6913.

### ER-beta 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 a number of 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 ER-alpha receptor, while the estrogen receptor's beta sub-type, ER-beta, seems to mediate the positive effects of estrogen without these side effects. For ER-beta selective compounds there are several clinical opportunities within e.g. the fields of CNS related disease, certain forms of cancer, women's health, urology, pain and inflammation. Karo Bio's efforts to develop ER-beta selective compounds have resulted in an exciting platform of many promising compounds. These have slightly different properties and may thus be suitable for different indications. In October 2009, Karo Bio nominated KB9520 as a first drug candidate within the ER-beta program, and preclinical safety documentation work was initiated. KB9520 has shown good effects in preclinical models for e.g. depression and certain cancers. Other compounds are documented for the treatment of depression, and KB9520 is being tested for use within other indications.

### GR inflammation - collaboration with Zydus Cadila

In early 2008, Karo Bio and the Indian pharmaceutical company Zydus Cadila initiated a three-year collaboration to develop drug compounds which affect glucocorticoid receptors (GR) in a selective manner. The aim is to design novel compounds for the treatment of inflammatory diseases that have at least as powerful anti-inflammatory properties as conventional steroids, such as cortisone and other similar substances, but with significantly reduced side effects. The collaboration has generated a series of novel anti-inflammatory compounds with high affinity to GR, for which promising results from cell studies and *in vivo* models have been generated. Evaluation is ongoing for the identification of suitable substances for further development into drug candidates. Both parties carry their own costs within the collaboration program and share potential rewards.

### LXR inflammation - collaboration with Wyeth (Pfizer)

The collaboration with Wyeth LCC (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.

### ROR-gamma – a new means to treat autoimmune diseases

Recent research reveals that the nuclear receptor ROR-gamma may play an important role in the development of autoimmune disease. In 2010, Karo Bio initiated an early stage research effort to explore if the inhibition of ROR-gamma activity may be a novel concept for a potential new treatment-option for autoimmune diseases such as rheumatoid arthritis, ulcerative colitis and multiple sclerosis (MS).

# FINANCIAL REPORT

## Consolidated earnings

No net sales were reported for the full year 2010, compared to MSEK 5.9 last year. The corresponding number for the fourth quarter was MSEK 0.0 (0.0). Net sales last year consisted of research payments from collaborations.

Operating expenses for 2010 decreased by MSEK 1.2 to MSEK -161.8 (-163.0). Research and development expenses were MSEK 3.0 lower than last year. Reported research and development expenses for 2010 totaled MSEK -129.4 (-132.4), with MSEK -39.7 (-30.9) in the fourth quarter. Since a large portion of the research and development expenses are external project related expenses, there can be large variations between reporting periods. Administrative expenses for 2010 amounted to MSEK -32.9 (-30.9), with MSEK -8.4 (-6.6) in the fourth quarter. The 2010 administrative expenses contain certain items outside of the company's regular operations related mainly to the change of CEO and a reorganization of the company's HR function.

Operating profit/loss for 2010 amounted to MSEK -161.8 (-157.1), a loss increase of MSEK 4.7. Operating profit/loss in the fourth quarter was MSEK -47.9 (-37.7). Financial net for 2010 amounted to MSEK -1.7 (2.6), of which MSEK -2.4 an upfront payment of 1 percent of the Equity Credit Facility (ECF) agreement entered into in November 2010. The decrease in net sales together with larger expenses reduced the reported earnings by MSEK 8.9 to MSEK -163.5 (-154.6). The reported earnings for the fourth quarter was MSEK -50.1 (-37.6).

## Capital investments and consolidated cash flow

Capital investments for the full year amounted to MSEK 1.2 (0.3) and comprise mainly investments in laboratory and IT equipment.

Consolidated cash flow from operating activities for the 12-month period was MSEK -158.9 (-146.9), with a cash flow of MSEK -44.3 (-30.1) in the fourth quarter.

## Financial position

Consolidated cash and cash equivalents amounted to MSEK 325.5 (79.2) at the end of the period. Including other short-term investments with durations exceeding 90 days, these assets amounted to MSEK 395.0 (237.2), which corresponds to an increase in total cash position of MSEK 157.8 during the full year. The rights issue of MSEK 325 completed during the fourth quarter 2010 provided the company net proceeds of MSEK 291 after deduction of all transaction related costs. The financial resources at hand are estimated to secure funding of the planned eprotirome development program and, in addition thereto, the company's other operations and projects for more than 12 months. Furthermore, Karo Bio has entered into an ECF agreement providing access to an additional MUSD 35, approx. MSEK 240. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

Share capital at the period end amounted to MSEK 191,6. In total, there were 387,063,972 shares outstanding, whereof 383 186 644 registered and 3 877 328 at that point of time not yet registered with the Swedish Companies registration Office, *Bolagsverket*, each with a par value of SEK 0.50. Total consolidated shareholders' equity amounted to MSEK 342.5, taking into account the period's earnings. Earnings per share for the full year, based on the weighted average number of outstanding shares, amounted to SEK -0.67 (-0.78), with SEK -0.20 (-0.19) in the fourth quarter. The Group's equity ratio at the end of the period was 83.7 (84.8) percent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.87 (0.90).

## Employees

At the end of the period, Karo Bio had 68 (67) employees, of whom 60 (58) are engaged in research and development, 3 (4) in business development and intellectual property rights and 5 (5) in administrative roles.

## The Parent Company

Net sales for the Parent Company for 2010 amounted to MSEK 0.0 (5.9), with MSEK 0.0 (0.0) in the fourth quarter. The reported earnings for the year was MSEK -163.5 (-154.6), with MSEK -50.1 (-37.6) in the fourth quarter.

The Parent Company's capital investments in equipment for the full year amounted to MSEK 1.2 (0.3). Cash, cash equivalents and other short-term investments amounted to MSEK 395.0 (237.2) at the end of the period.

## CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

| | October-December | | January-December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net sales | - | - | - | 5,891 |
| **Operating expenses** | | | | |
| Administration | -8,407 | -6,631 | -32,869 | -30,954 |
| Research and development | -39,726 | -30,951 | -129,382 | -132,403 |
| Other operating income/expenses | 193 | -126 | 412 | 343 |
| | -47,940 | -37,708 | -161,839 | -163,014 |
| **Operating profit/loss** | **-47,940** | **-37,708** | **-161,839** | **-157,123** |
| Financial net | -2,203 | 83 | -1,698 | 2,567 |
| **Earnings after financial items** | **-50,143** | **-37,625** | **-163,537** | **-154,556** |
| Tax | - | - | - | - |
| **NET EARNINGS FOR THE PERIOD** | **-50,143** | **-37,625** | **-163,537** | **-154,556** |
| **Net earnings for the period attributable to:** | | | | |
| Shareholders of the parent company | -50,143 | -37,625 | -163,537 | -154,556 |
| Depreciation included in operating expenses | -607 | -855 | -2,930 | -3,655 |
| **Earnings per share (SEK)** [1] | | | | |
| - based on weighted average number of shares outstanding, basic and diluted | -0,20 | -0,19 | -0,67 | -0,78 |
| **Number of shares outstanding (000)** | | | | |
| - weighted average during the period | 254,740 | 202,777 | 242,334 | 197,464 |
| - at end of period, basic | 387,064 | 238,199 | 387,064 | 238,199 |
| **- at end of period, fully diluted** | **394,897** | **238,989** | **394,897** | **238,989** |

1) The outstanding warrants lead to no dilution of loss per share, as a conversion to shares would lead to a reduced reported loss per share

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

| | October-December | | January-December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **NET EARNINGS FOR THE PERIOD** | **-50,143** | **-37,625** | **-163,537** | **-154,556** |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **-50,143** | **-37,625** | **-163,537** | **-154,556** |
| Total comprehensive income attributable to: | | | | |
| **Shareholders of the parent company** | **-50,143** | **-37,625** | **-163,537** | **-154,556** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

| | December 31 | |
|---|---|---|
| | **2010** | **2009** |
| **Assets** | | |
| Licenses and similar rights | - | 545 |
| Equipment | 4,585 | 5,788 |
| Other current assets | 9,863 | 10,256 |
| Financial assets at fair value through profit or loss | 69,548 | 158,013 |
| Cash and cash equivalents | 325,486 | 79,171 |
| **TOTAL ASSETS** | **409,482** | **253,773** |
| | | |
| **Shareholders' equity and liabilities** | | |
| Shareholders' equity | 342,548 | 215,159 |
| Non-current liabilities | 470 | 1,273 |
| Current liabilities | 66,464 | 37,341 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **409,482** | **253,773** |

## CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

| | October-December | | January-December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Operating activities** | | | | |
| Operating income/loss before financial items | -47,940 | -37,708 | -161,839 | -157,123 |
| Depreciation | 607 | 855 | 2,930 | 3,655 |
| Other items not affecting cash flows | - | 4 | - | 82 |
| | **-47,333** | **-36,849** | **-158,909** | **-153,386** |
| | | | | |
| Financial items received and paid | -984 | 1,782 | 4,453 | 10,182 |
| **Cash flow from operating activities before changes in working capital** | **-48,317** | **-35,067** | **-154,456** | **-143,204** |
| | | | | |
| Changes in working capital | 3 987 | 4,934 | -4,424 | -3,720 |
| **Cash flow from operating activities** | **-44,330** | **-30,133** | **-158,880** | **-146,924** |
| | | | | |
| **Investing activities** | | | | |
| Net investment in equipment | -438 | -306 | -1,985 | -1,238 |
| Net investment in other short-term investments | 28,427 | -51,537 | 82,314 | -19,856 |
| **Cash flow from investing activities** | **27,989** | **-51,843** | **80,329** | **-21,094** |
| | | | | |
| **Financing activities** | | | | |
| Net proceeds from rights issue | 325,134 | 150,241 | 325,134 | 150,241 |
| Transaction costs rights issue [1)] | -268 | - | -268 | - |
| **Cash flow from financing activities** | **324,866** | **150,241** | **324,866** | **150,241** |
| | | | | |
| **Cash flow for the period** | **308,525** | **68,265** | **246,315** | **-17,777** |
| Cash and cash equivalents at the beginning of the period | 16,961 | 10,906 | 79,171 | 96,948 |
| **Cash and cash equivalents at the end of the period** | **325,486** | **79,171** | **325,486** | **79,171** |

1) Comprise the part of transaction related costs that had been paid in 2010. The remainder of the total transaction costs of KSEK 34,208 has been paid in 2011

## 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, 2009** | **58,059** | **675,053** | **-513,638** | **219,474** |
| Loss for the period | - | - | -154,556 | -154,556 |
| Share issue | 19,353 | 130,888 | - | 150,241 |
| **Amount at December 31, 2009** | **77,412** | **805,941** | **-668,194** | **215,159** |
| **Amount at January 1, 2010** | **77,412** | **805,941** | **-668,194** | **215,159** |
| Loss for the period | - | - | -163,537 | -163,537 |
| Share issue [1)] | 114,181 | 176,745 | - | 290,926 |
| **Amount at December 31, 2010** | **191,593** | **982,686** | **-831,731** | **342,548** |

1) Amounts are net of transaction costs of in total KSEK 34,208

## KEY EQUITY DATA

| | December 31 | |
|---|---|---|
| | **2010** | **2009** |
| Equity ratio | 83.7% | 84.8% |
| Equity per share at the end of period – basic, SEK | 0.88 | 0.90 |
| **Equity per share at the end of period - diluted, SEK** | **0.87** | **0.90** |

## PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

| | October-December | | January-December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net sales | - | - | - | 5,891 |
| **Operating expenses** | | | | |
| Administration | -8,407 | -6,631 | -32,869 | -30,954 |
| Research and development | -39,724 | -30,947 | -129,368 | -132,526 |
| Other operating income/expenses | 193 | -126 | 412 | 343 |
| | -47,938 | -37,704 | -161,825 | -163,137 |
| **Operating income/loss** | **-47,938** | **-37,704** | **-161,825** | **-157,246** |
| Financial net | -2,193 | 105 | -1,641 | 2,686 |
| **Earnings after financial items** | **-50,131** | **-37,599** | **-163,466** | **-154,560** |
| Tax | - | - | - | - |
| **NET EARNINGS FOR THE PERIOD** | **-50,131** | **-37,599** | **-163,466** | **-154,560** |
| **Depreciation included in operating expenses** | **-387** | **-637** | **-2,055** | **-2,676** |

## PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

| | December 31 | |
|---|---|---|
| | **2010** | **2009** |
| **Assets** | | |
| Licenses and similar rights | - | 545 |
| Equipment | 3,565 | 3,893 |
| Shares in group companies | 100 | 100 |
| Other current assets | 9,863 | 10,256 |
| Financial assets at fair value through profit or loss | 69,548 | 158,013 |
| Cash and cash equivalents | 325,476 | 79,161 |
| **TOTAL ASSETS** | **408,552** | **251,968** |
| **Shareholders' equity and liabilities** | | |
| Total restricted equity | 331,547 | 239,099 |
| Total non-restricted equity | 11,340 | -23,672 |
| Current liabilities | 65,665 | 36,541 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **408,552** | **251,968** |

## OTHER INFORMATION

### Significant events after the end of the reporting period

Karo Bio has not reported any significant events after the end of the reporting period.

### Dividend

In accordance with its dividend policy, the Board of Directors will propose to shareholders at the annual general meeting to be held on April 27, 2011, that no dividend shall be paid for the financial year 2010.

### Risk factors

There is no guarantee that Karo Bio's research and development will result in commercial success. There is no guarantee that the clinical trials conducted by Karo Bio, whether independently or in collaboration with its partners, will demonstrate sufficient safety and efficacy to obtain the necessary approvals from regulatory authorities, or that they will result in marketable products.

There is 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.

The company may 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 possibility of achieving success in research and development projects undertaken. There is a risk that the required funding for 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 the Annual Report for 2009. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2010 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.

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.

### The auditors' review

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

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## Annual report 2010

Karo Bio's annual report for 2010 will be published in March 2011.

## Annual General Meeting 2011

Karo Bio's annual general meeting 2011 will be held in Stockholm on April 27, 2011.

## Scheduled releases of financial information

- Annual report 2010 — March 2011
- Interim report January- March 2011 — April 27, 2011
- Interim report April-June 2011 — July 13, 2011
- Interim report July-September 2011 — October 25, 2011
- Year-end report 2011 — February 8, 2012

Financial reports, press releases and other 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. Financial reports are available on the web site upon release.

## Legal disclaimer

This financial report includes statements that are forward looking and actual 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.

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Huddinge, February 9, 2011

Bo Håkansson
Chairman

Fredrik Lindgren
President

Birgit Stattin Norinder
Board member

Margaret von Platen
Board member

Johan Kördel
Board member

Jon Risfelt
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Bo Carlsson
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Employee representative

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