KARO BIO

INTERIM REPORT JANUARY–SEPTEMBER 2011

The January–September period and the third quarter 2011 in brief

- Net sales amounted to MSEK 0.0 (0.0)
- Net loss was MSEK 176.0 (113.4), whereof the third quarter MSEK 51.1 (34.4)
- Loss per share was SEK 0.45 (0.48), whereof the third quarter SEK 0.13 (0.14)
- Cash flow from operating activities was MSEK -160.4 (-114.6), whereof the third quarter MSEK -47.7 (-33.7).The difference from the previous period concerns costs related to the phase III program for eprotirome
- Cash and cash equivalents and other short-term investments totalled MSEK 198.4 (116.2) at the end of the period
- Discussions are ongoing regarding the out licensing of ERbeta and RORgamma
- The phase III eprotirome trial AKKA started in September

Significant events after the end of the reporting period

Spin-off of preclinical operations

- The Board of Directors is preparing a spin-off of the preclinical part of the company by transferring these operations to a subsidiary
- The company has initiated an efficiency program to reduce costs as part of the spin-off

Management changes

- Per Bengtsson was appointed CEO
- Henrik Palm was appointed new CFO

Conference call today at 10.00 CET

CEO Per Bengtsson will present the report today at 10.00 CET in an audiocast, held in Swedish, available via a link on www.karobio.se and telephone: +46 8 5051 59809 or +44 20 710 863 03.

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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 October 25, 2011, 08:30 CET.

Summary of key financial information

(MSEK)	July-September		January -September		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Net sales	-	-	-	-	-
Operating expenses	-52.8	-34.6	-181.3	-113.9	-161.8
- of which R&D expenses	-42.0	-26.8	-147.0	-89.7	-129.4
Net earnings/loss for the period	-51.1	-34.4	-176.0	-113.4	-163.5
Earnings/loss per share (SEK)	-0.13	-0.14	-0.45	-0.48	-0.67
Cash flow from operating activities	-47.7	-33.7	-160.4	-114.6	-158.9
Cash and cash equivalents and other short term investments at the period end	**198.4**	**116.2**	**198.4**	**116.2**	**395.0**

About Karo Bio

Karo Bio is a pharmaceutical company focused on the research and development of innovative drugs for unmet medical needs. The foundation for the company's activities is its unique knowledge of nuclear receptors as target proteins for the development of novel pharmaceuticals and the related mechanisms of action, as well as experience and expertise in preclinical and clinical development.

Karo Bio's main project is within cardiovascular disease, the lipid-lowering drug eprotirome, which is currently in phase III trials. In addition, the company is also active in preclinical development in the areas of neuropsychiatry, inflammation, autoimmune diseases, cancer and women's health. The company has a number of strategic collaborations with big pharma.

The company's goals through 2014 are to submit an application for marketing approval of eprotirome in the EU for the treatment of patients with heterozygous familial hypercholesterolemia (HeFH), expand possible indications for eprotirome and enter into agreements with additional commercial partners.

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

CEO COMMENTARY

Karo Bio is among the world elite in preclinical development of drugs that act via nuclear receptors (receptors in the cell nucleus). This class of drugs accounts for 10-15 per cent of the global pharmaceutical market and the area is growing in pace with scientific advances and the emergence of new technologies. Through many years' work we have gathered extensive knowledge and learned how compounds in this class should be designed to be able to serve as efficient and safe drugs. To illustrate this, it can be noted that Karo Bio since long has built up a comprehensive and unique reference data base of molecules that bind to nuclear receptors. This library of compounds is a valuable asset since it is possible, amongst these molecules, to find starting points for molecules to be used in new projects. Today, we run a number of development projects that are attracting great interest both from existing and potential partners. The latest addition, the modulation of the RORgamma receptor, which seems to play a key role in autoimmune disease, illustrates Karo Bio's ability to quickly and accurately develop compounds for the nuclear receptors that are currently in the drug development spotlight.

While being at the cutting edge of preclinical development of pharmaceutical compounds for nuclear receptors, Karo Bio has also undertaken a major project in the phase III program for eprotirome, where investment levels are of such a magnitude that they overshadow our other operations. Eprotirome, which is currently at an advanced clinical phase with major business potential, accounts for most of Karo Bio's costs and dominates the valuation of our share. The funding we have secured is also essentially tied to this project and is deemed sufficient to finance the completion of eprotirome's phase III program.

Clarify values and sharpen business focus

Against this background, we have decided to create a company structure that will provide the optimal conditions for eprotirome, while also improving the conditions for our preclinical operations. The preclinical part of the company will be spun off to a subsidiary, which will become independent both operationally and ownership-wise as soon as possible. Most of the operations carried out in Huddinge today, will be transferred to this subsidiary, as is intended with the name Karo Bio, facilitating capitalization of the strong brand name already built up in academic and industry circles. The new subsidiary will have an independent management and will be funded over a transition period. I will get back to you with the details of the spin-off within six months.

The aim of the spin-off is to sharpen the focus of our current operations, clarify value and lay a foundation that will enable us to optimize future decision making for the respective operations. The division will create a crystal clear allocation of resources and better business opportunities. I am convinced that the division of operations will create greater value and further clarify the inherent value of our operations.

Preparing for the spin-off, we will be implementing a cost efficiency program in our preclinical operations. Karo Bio will promptly initiate negotiations with labour unions about organisational changes.

Phase III trials open new opportunities

During the reporting period, Karo Bio has made several important advances in the eprotirome project. The AKKA trial, our phase III trial, has been approved to commence in 10 countries and we expect to receive approval to start in the remaining two countries within short. The start of the trials is a key milestone, not only in the project itself but also in the history of the company. Patient recruitment is off

to a good start and after just over three weeks is proceeding as expected, which means that the project will follow the planned time schedule.

As you probably already know, at this stage we are developing eprotirome for the niche indication HeFH (heterozygous familial hypercholesterolemia) for approval within the EU. Our strategy is to later expand geographically and to other patient groups and broader indications. Our Indian partner Alkem is in the final stages of planning its phase III trials, which will broaden both the geographical spread and indication area of the product.

In light of the favourable phase II results, it may seem surprising that more partners are not engaged in the project. We have therefore investigated the reasons that certain pharmaceutical companies decided to wait for more data before licensing eprotirome. Happily enough, our analysis does not point to any specific factor but to vaguer motives. The main reason why they decided to wait seems to be the more stringent requirements on documentation for lipid-lowering drugs, especially in the U.S. and for broader indications. The results of the AKKA trial will progressively strengthen the decision support material that we offer potential partners.

Another reason is that eprotirome represents an entirely new class of drugs. Completely new drugs with new mechanisms of action are often associated with higher risk. Eprotirome's properties as a lipid-lowering drug mimic those of the thyroid hormone, of which there is solid clinical knowledge. Such a clinical reference has made it easier for us to identify what criteria eprotirome must fulfil to be a safe drug, thereby generally reducing project risk.

The conclusion is that the project will attract growing interest from the industry as more patients are treated over longer periods. Already during the first half of 2012, the duration of treatment for many patients will have exceeded the three months period used in the phase II trials and in the second quarter we will have access to the first results of the study through an interim analysis. We will only have indirect access to these results, as a committee will make a recommendation if the trials should continue, be adjusted in some way or discontinued.

Preclinical project discussions continue

Our ongoing commercial discussions regarding RORgamma and ERbeta continue. We have received clear interest for both projects from potential partners. Meanwhile, we continue to further develop and advance these projects, making them more attractive and strengthening our negotiating position.

Towards better business

My assessment is that there is major value in the eprotirome project as well as solid potential in our preclinical projects. We are confident that the measures being taken will better clarify and highlight this value than is possible in our current structure. And last but not least, we are creating a framework and commitment that will facilitate good business decisions.

Huddinge in October 2011

Per Bengtsson

CEO

KARO BIO'S PROJECTS

Project portfolio

Program	Partner	Compound	Indication	Discovery	Preclinical	Clinical Development		
						Phase 1	Phase 2	Phase 3
TR/Eprotirome		KB2115	Dyslipidemia/HeFH (EU)					
	Alkem	KB2115	Dyslipidemia/polygenic (India)					
GR diabetes		KB3305	Type 2 Diabetes					
ER	Merck & Co	MK6913	Womens' health					
		KB9520	Cancer					
		KB9520	Urology					
			CNS					
GR Inflammation	Zydus Cadila		Inflammation					
LXR	Pfizer		Inflammation					
RORgamma			Autoimmune disease					

TR / eprotirome – dyslipidemia (high blood lipids)

Eprotirome is a liver-selective thyroid hormone receptor (TR) agonist for the treatment of dyslipidemia. The drug development project is currently in clinical phase III trials, involving patients with the hereditable condition heterozygous familial hypercholesterolemia (HeFH).

Eprotirome, representing a novel treatment concept, has demonstrated a unique efficacy profile by powerful reductions of a combination of several risk factors for the development of atherosclerotic cardiovascular diseases. In phase II clinical trials eprotirome has demonstrated 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. Eprotirome's efficacy profile suggests that the compound may be 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 expected to be driven primarily by specialist physicians, demanding more efficient treatment options for different types of cardiovascular problems when treating high cardiovascular risk patient groups.

Eprotirome is initially being developed for the treatment of high risk patients with the hereditable condition heterozygous familial hypercholesterolemia (HeFH) in the EU. It is estimated that more than one (1) of 500 people in Europe has HeFH. Karo Bio plans to submit an application for marketing approval of eprotirome in the EU during 2014.

The phase III program commenced in 2011 and in September the AKKA pivotal patient study was initiated, involving 630 patients who will be treated with eprotirome or a placebo over a period of two years. The start was preceded by extensive planning, involving applications for approval of launching the trial at national regulatory authorities in 12 countries. The recruitment of patients is proceeding as planned, with the first patient recruited for the trials in early October this year.

In parallel with Karo Bio's AKKA study, the Indian pharmaceutical company Alkem Laboratories Ltd is planning a phase III program consisting of two studies involving around 650 high-risk patients with dyslipidemia and cardiovascular disease as well as mixed dyslipidemia. Karo Bio intends to include safety data from this study in its application for marketing approval for eprotirome. The Indian company Alkem has exclusive rights to commercialize eprotirome in India and certain other countries for which they will pay royalties to Karo Bio.

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 ER-alpha sub-type, while ERbeta seems to mediate many of the positive effects of estrogen without these side effects. For ERbeta selective compounds there are clinical opportunities within a number of fields, including neuropsychiatry, certain forms of cancer, women's health and urology. Several of these opportunities were presented and discussed by researchers from academia and industry at an international scientific symposium organized by Karo Bio in May 2011.

Karo Bio's efforts have resulted in an exciting platform of 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 certain forms of cancers. Other compounds are documented for CNS indications and since 2011 Karo Bio's main focus in this therapeutic area is multiple sclerosis (MS). The reason for focusing on MS is that ERbeta agonists in preclinical models have demonstrated high efficacy in the repair processes and reconstruction of the myelin sheaths 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 in patients this will represent a significant breakthrough in the care of MS patients, where damaged myelin leads to symptoms of the illness and disability.

One of Karo Bio's main priorities for 2011 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. Commercial discussions have been initiated in parallel with the evaluation

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, 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 this indication. 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.

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. In March 2011, this collaboration was extended for one year. The aim of the collaboration is to design novel selective glucocorticoids for the treatment of inflammatory diseases that have as powerful anti-inflammatory properties as conventional glucocorticoid steroids, such as cortisone and other similar substances, but with significantly reduced side effects and thereby the potential for broader 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. Success in this area would be a key breakthrough in the treatment of inflammatory diseases.

Promising – albeit early – results generated under the collaboration indicate that such a breakthrough may be achievable. The partners have used a new and unique approach, which makes it possible to develop a completely new type of selective glucocorticoids that potentially have a significantly more favourable side-effects profile than current compounds on the market. Preclinical evaluation is ongoing

to identify the most suitable compounds for further development into candidate drugs. 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.

RORgamma – a new means to treat autoimmune diseases

Recent research reveals that the nuclear receptor RORgamma may play a decisive role in the development of autoimmune disease, such as rheumatoid arthritis, inflammatory bowel disease and psoriasis. In 2010, Karo Bio initiated an early stage research effort 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.

The project has made great progress in a short time. Chemical starting points have been identified and interesting drug-like molecules are under evaluation. In July 2011, an important breakthrough was made when the three-dimensional structure of the leading drug-like substance bound to the receptor was defined and depicted.

This breakthrough, both in terms of the structural information itself and in terms of the experimental conditions for obtaining the information, greatly facilitates the process of determining the optimal drug candidate. Interest in RORgamma among the major pharmaceutical companies is considerable and a number of companies are currently displaying interest in this project. Commercial discussions are ongoing with potential partners.

FINANCIAL REPORT

Consolidated earnings

Net sales for the nine month period were 0.0 (0.0). Operating expenses for the first nine months increased by MSEK 67.4 to MSEK 181.3 (113.9) of which MSEK 82.5 (21.6) are directly contributable to the phase III program for eprotirome. Research and development expenses accounted for 81 percent of the costs for the period, after an increase to MSEK 147.0 (89.7), whereof the third quarter MSEK 42.0 (26.8). Since a large portion of the research and development expenses are external project related expenses, variations between reporting periods may be significant.

Administrative expenses for the nine month period amounted to MSEK 33.0 (24.5), whereof the third quarter MSEK 10.6 (7.9), including severance costs of MSEK 5.6.

The consolidated operating loss for the nine month period increased by MSEK 67.4, to MSEK 181.3 (113.9). The corresponding figure for the third quarter was a loss of MSEK 52.8 (34.6). Financial net for the nine month period amounted to MSEK 5.3 (0.5). Net loss for the nine month period was MSEK 176.0 (113.4). Net loss for the third quarter was MSEK 51.1 (34.4).

Capital investments and consolidated cash flow

Capital investments for the nine month period amounted to MSEK 2.0 (0.9) and comprise mainly investments in laboratory and IT equipment.

Consolidated cash flow from operating activities for the nine month period was MSEK -160.4 (-114.6), whereof the third quarter MSEK -47.7 (-33.7).

Financial position

Consolidated cash and cash equivalents amounted to MSEK 22.6 (17.0) at the end of the period. Including other short-term investments with durations exceeding 90 days, these assets amounted to MSEK 198.4 (116.2), which corresponds to a decrease in total cash position of MSEK 196.6 (121.0) during the nine month period, whereof SEK 33.9 million are transaction related costs for a rights issue. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

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 equity credit facility entered into in connection with the rights issue was adjusted during the third quarter 2011 so that it can be utilized at the current share price. The mandate to use the credit facility will be submitted to the General Meeting for approval on an annual basis.

It is estimated that the company's resources and the credit facilitiy secure funding of the planned eprotirome development program and, in addition thereto, the company's other operations and projects for more than 12 months.

Share capital at the period end amounted to MSEK 193.5. In total, there were 387,063,972 shares outstanding, each with a par value of SEK 0.50. Total consolidated shareholders' equity amounted to MSEK 166.6, taking into account the period's earnings. Loss per share for the nine month period, based on the weighted average number of outstanding shares, amounted to SEK 0.45 (0.48). The Group's equity ratio at the end of the period was 79.5 (79.0) per cent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.43 (0.43).

Employees

At the end of the period, Karo Bio had 70 (69) employees, of whom 62 (61) are engaged in research and development, 3 (3) in business development and intellectual property rights and 5 (5) in administrative roles. During the quarter, Fredrik Lindgren (CEO) and Jens Kristensen (Director of Clinical Research) left the company.

The Parent Company

Net sales for the Parent Company for the nine month period amounted to MSEK 0.0 (0.0). Loss after financial items for the nine month period was MSEK 176.0 (113.3), whereof the third quarter MSEK 51.1 (34.4).

The Parent Company's capital investments in equipment for the nine month period amounted to MSEK 2.0 (0.9). Cash, cash equivalents and other short-term investments amounted to MSEK 198.4 (116.1) at the end of the period.

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	July-September		January-September		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Net sales	-	-	-	-	-
Operating expenses					
Administration	-10,618	-7,942	-33,019	-24,462	-32,869
Research and development	-41,996	-26,827	-147,037	-89,656	-129,382
Other operating income/expenses	-208	181	-1,201	219	412
	-52,822	-34,588	-181,257	-113,899	-161,839
Operating profit/loss	**-52,822**	**-34,588**	**-181,257**	**-113,899**	**-161,839**
Financial net	1,745	148	5,268	505	-1,698
Earnings/loss after financial items	**-51,077**	**-34,440**	**-175,989**	**-113,394**	**-163,537**
Tax	-	-	-	-	-
RESULTS FOR THE PERIOD	**-51,077**	**-34,440**	**-175,989**	**-113,394**	**-163,537**
Net earnings/loss for the period attributable to:					
Shareholders of the parent company	-51,077	-34,440	-175,989	-113,394	-163,537
Depreciation included in operating expenses	-580	-599	-1,795	-2,323	-2,930
Earnings/loss per share (SEK) [1]					
- based on weighted average number of shares outstanding, basic and diluted	-0.13	-0.14	-0.45	-0.48	-0.67
Number of shares outstanding (000)					
- weighted average during the period	387,064	238,199	387,064	238,199	242,334
- at end of period, basic	387,064	238,199	387,064	238,199	387,064
- at end of period, fully diluted	**387,064**	**238,989**	**387,064**	**238,989**	**387,797**

1) Last day for exercising the stock options from the latest program was in April 2011. Consequently there is no longer any dilution of loss per share.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	July-September		January-September		January-December
	2011	**2010**	**2011**	**2010**	**2010**
RESULTS FOR THE PERIOD	**-51,077**	**-34,440**	**-175,989**	**-113,394**	**-163,537**
Other comprehensive income/loss for the year, net of tax	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD	**-51,077**	**-34,440**	**-175,989**	**-113,394**	**-163,537**
Total comprehensive income/loss attributable to:					
Shareholders of the parent company	**-51,077**	**-34,440**	**-175,989**	**-113,394**	**-163,537**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	September 30		December 31
	2011	**2010**	**2010**
Assets			
Equipment	4,738	4,958	4,585
Other current assets	6,346	6,577	9,863
Financial assets at fair value through profit or loss	175,821	99,192	69,548
Cash and cash equivalents	22,560	16,961	325,486
TOTAL ASSETS	**209,465**	**127,688**	**409,482**
Shareholders' equity and liabilities			
Shareholders' equity	166,559	101,765	342,548
Non-current liabilities	-	676	470
Current liabilities	42,906	25,247	66,464
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**209,465**	**127,688**	**409,482**

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	July-September		January-September		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Operating activities					
Operating income/loss before financial items	-52,822	-34,588	-181,257	-113,899	-161,839
Depreciation	580	599	1,795	2,323	2,930
Other items not affecting cash flows	-	-	19	-	-
	-52,242	**-33,989**	**-179,443**	**-111,576**	**-158,909**
Financial items received and paid	422	1,618	4,813	5,437	4,453
Cash flow from operating activities before changes in working capital	**-51,820**	**-32,371**	**-174,630**	**-106,139**	**-154,456**
Changes in working capital	4,090	-1,340	14,218	-8,411	,-4,424
Cash flow from operating activities	**-47,730**	**-33,711**	**-160,412**	**-114,550**	**,-158,880**
Investing activities					
Net investment in equipment	-1,006	-948	-2,607	-1,547	-1,985
Net investment in other short-term investments	30,909	29,103	-105,967	53,887	82,314
Cash flow from investing activities	**29,903**	**28,155**	**-108,574**	**52,340**	**80,329**
Financing activities					
Net proceeds from rights issue	-	-	-	-	325,134
Transaction costs rights issue [1)]	-	-	-33,940	-	,-268
Cash flow from financing activities	-	-	**-33,940**	-	**324,866**
Cash flow for the period	**-17,827**	**-5,556**	**-302,926**	**-62,210**	**246,315**
Cash and cash equivalents at the beginning of the period	40,387	22,517	325,486	79,171	79,171
Cash and cash equivalents at the end of the period	**22,560**	**16,961**	**22,560**	**16,961**	**325,486**

1) Comprises the portion of transaction related costs that have been paid in 2011.

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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, 2010	**77,412**	**805,941**	**-668,194**	**215,159**
Loss for the period	-	-	-113,394	-113,394
Amount at September 30, 2010	**77,412**	**805,941**	**-781,588**	**101,765**
Amount at January 1, 2011	**191,593**	**982,686**	**-831,731**	**342,548**
Loss for the period	-	-	-175,989	-175,989
Share issue	1,939	-1,939	-	0
Amount at September 30, 2011	**193,532**	**980,747**	**-1,007,720**	**166,559**

KEY EQUITY DATA

	September 30		December 31
	2011	**2010**	**2010**
Equity ratio	79.5%	79.0%	83.7%
Equity per share at the period end – basic, SEK	0.43	0.43	0.88
Equity per share at the period end – diluted, SEK	**0.43**	**0.43**	**0.88**

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	July-September		January-September		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Net sales	-	-	-	-	-
Operating expenses					
Administration	-10,618	-7,942	-33,019	-24,462	-32,869
Research and development	-41,996	-26,824	-147,037	-89,644	-129,368
Other operating income/expenses	-208	181	-1,201	219	412
	-52,822	-34,585	-181,257	-113,887	-161,825
Operating income/loss	**-52,822**	**-34,585**	**-181,257**	**-113,887**	**-161,825**
Financial net	1,747	161	5,284	552	-1,641
Earnings/loss after financial items	**-51,075**	**-34,424**	**-175,973**	**-113,335**	**-163,466**
Tax	-	-	-	-	-
NET EARNINGS/LOSS FOR THE PERIOD	**-51,075**	**-34,424**	**-175,973**	**-113,335**	**-163,466**
Depreciation included in operating expenses	**-361**	**-382**	**-1,139**	**-1,668**	**-2,055**

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	September 30		December 31
	2011	**2010**	**2010**
Assets			
Equipment	4,374	3,720	3,565
Shares in group companies	100	100	100
Other current assets	6,346	7,725	9,863
Other short term investments	175,821	99,192	69,548
Cash and cash equivalents	22,550	16,951	325,476
TOTAL ASSETS	**209,191**	**127,688**	**408,552**
Shareholders' equity and liabilities			
Total restricted equity	331,547	215,427	331,547
Total non-restricted equity	-164,633	-113,335	11,340
Current liabilities	42,277	25,596	65,665
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**209,191**	**127,688**	**408,552**

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OTHER INFORMATION

Nominating Committee

In accordance with the principles adopted by the AGM for appointing the Nominations Committee, the following persons have been appointed to work with the Chairman of the Nominating Committee for the period up to the 2012 AGM:

- Johan Claesson
- Bo Håkansson
- Jan Lundström
- Lars Magnusson
- Mikael Lönn

Proposals from shareholders should be submitted to the following address: Nominating Committee, Karo Bio AB, Novum, 141 57 Huddinge, Sweden. The Nominating committee's proposals will be published at latest in conjunction with the notice to attend the Annual General Meeting. The Nominating Committee's mandate period runs until the appointment of a new committee by shareholders at the 2012 AGM.

Annual General Meeting 2012

Karo Bio's annual general meeting 2012 will be held in Stockholm on April 27, 2012.

Scheduled releases of financial information

Year-end report 2011	February 8, 2012
Annual report 2011	March, 2012
Annual General Meeting	April 27, 2012
Interim report January-March 2012	April 27, 2012
Interim report April-June 2012	July 13, 2012
Interim report July-September 2012	October 24, 2012
Year-end report 2012	February 12, 2013

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.

Significant events after the end of the reporting period

Per Bengtsson appointed CEO

Per Bengtsson, MD and PhD, who since May has been acting CEO and director of Karo Bio AB, was appointed CEO on 24 October 2011. He began his career in the biotech and pharmaceutical industry as a medical officer and project manager at Karo Bio in the early 1990's. He has since then been Medical Director and Therapeutic Area Head at Ferring, CEO of Probi AB (publ), Head of R&D at Pharmacia/Pharmacia & Upjohn Plasma Products, and Development Manager at Bionor Immuno A/S.

Henrik Palm appointed new CFO

Henrik Palm was appointed as new CFO. Henrik Palm has been a business controller in several business areas in Ericsson, CFO of the Electronics Group BK AB (publ) and CFO for Feelgood Swedish AB (publ).

Anneli Hällgren to leave position as CSO

In conjunction with the restructuring of Karo Bio's preclinical research operations, Anneli Hällgren will leave her position as CSO at Karo Bio. She will remain available to the company until the year end.

Preparations for spin-off of preclinical operations

The Board has decided to initiate preparations to spin-off the preclinical part of the company. These operations will be transferred into a subsidiary after which they are to become independent from an operational and ownership perspective. Today, the company's preclinical operations encompass the majority of the company's operations in Huddinge. The new subsidiary will be proposed to take over the name Karo Bio. An independent management will be appointed. The Board intends to present the spin-off structure in more detail within six months.

The purpose of the spin-off is to, in both the eprotirome project as well as in the company's preclinical operations, sharpen business focus, highlight values and create a platform for rational use of expertise and resources.

Initiation of a cost-efficiency program

Karo Bio intends to implement a cost efficiency program in the company's preclinical operations. To this end, negotiations with labour unions about organisational changes will begin immediately.

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 the Annual Report for 2010. 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.

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.

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.

Huddinge, October 25, 2011

Göran Wessman Chairman	Per Bengtsson CEO and Board member	
Christer Fåhraeus Board member	Elisabeth Lindner Board member	Jan N. Sandström Board member
Anders Waas Board member	Bo Carlsson Board member Employee representative	Johnny Sandberg Board member Employee representative

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Review report

We have reviewed this report for the period 1 January 2011 to 30 September 2011 for Karo Bio AB (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

We conducted our review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Stockholm, 25 October 2011

PricewaterhouseCoopers AB

Håkan Malmström
Authorised Public Accountant

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