KARO BIO

INTERIM REPORT JANUARY–DECEMBER 2011

The January–December period and the fourth quarter 2011 in brief

- Net sales amounted to MSEK 0.0 (0.0)
- Net loss was MSEK 226.6 (163.5), whereof the fourth quarter MSEK 50.6 (50.1)
- Loss per share was SEK 0.59 (0.67), whereof the fourth quarter SEK 0.13 (0.20)
- Cash flow from operating activities was MSEK -198.3 (-158.9), whereof the fourth quarter MSEK -37.9 (-44.3). The increase in the full year primarily concerns costs related to the phase III program for eprotirome.
- Cash and cash equivalents and other short-term investments totaled MSEK 158.5 (395.0) at the end of the period
- In March, the research collaboration with Zydus Cadila for GR was extended with one year.
- In April, an agreement was reached with the Indian pharmaceutical company Alkem Laboratories Ltd for eprotirome that lower Karo Bios costs for eprotirome's phase III program with approximately MSEK 100.
- The phase III study (AKKA) for eprotirome commenced in September and the recruitment of patients proceeded according to plan in the fourth quarter. The interim analysis is therefore expected to take place during the second quarter 2012 as planned.

Collaborations

- In December, an agreement was reached with Pfizer for the RORgamma project for autoimmune diseases
- Discussions with leading pharmaceutical companies are on-going as to the licensing of the ERbeta project

Spin-off of the 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, for which new owners will be sought out.
- The company has initiated an efficiency program to reduce costs before the spin-off.

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 8 505 598 75 or +44 20 715 391 56.

For more information, please contact:
Per Bengtsson, Chief Executive Officer
Telephone:+46 8 608 6020 or +46 734 474 128
E-mail: per.bengtsson@karobio.se

Karo Bio AB (publ)
Novum, 141 57 Huddinge, Sweden
Telephone: +46 8 608 60 00
Facsimile: +46 8 774 82 61
Corp. reg. no. 556309-3359
Website: www.karobio.com

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 February 8, 2012, 08:30 CET.

Summary of key financial information

(MSEK)	October-December		January -December	
	2011	**2010**	**2011**	**2010**
Net sales	-	-	-	-
Operating expenses	-49.9	-47.9	-231.2	-161.8
- of which R&D expenses	-42.3	-39.7	-189.3	-129.4
Net earnings/loss for the period	-50.6	-50.1	-226.6	-163.5
Earnings/loss per share (SEK)	-0.13	-0.20	-0.59	-0.67
Cash flow from operating activities	-37.9	-44.3	-198.3	-158.9
Cash and cash equivalents and other short term investments at the period end	**158.5**	**395.0**	**158.5**	**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

It is with great satisfaction that I conclude that Karo Bio was able to end 2011 with the signing of a research collaboration and licensing agreement with Pfizer, one of the world's largest pharmaceutical companies, and that we do this in one of the hottest medical fields, modulation of the nuclear receptor RORgamma. The aim of the collaboration is to develop new, effective small molecule drug compounds for the treatment of autoimmune diseases such as rheumatoid arthritis (RA), multiple sclerosis (MS) and psoriasis.

Karo Bio is much more than eprotirome

The agreement with Pfizer confirms that Karo Bio is much more than just eprotirome. The RORgamma area is not only of interest to us and Pfizer, but also to a number of other players. It is within a field where Karo Bio's expertise in designing molecules is especially valuable. Very few have the expertise to design molecules that are suited for further development in the nuclear receptor field. Karo Bio belongs to this exclusive group.

Studies have shown that autoimmune diseases can be counteracted by inhibiting the differentiation of Th17 cells and the resulting proliferation of the cytokine IL-17. RORgamma is a nuclear receptor that regulates these processes. Many experts are therefore putting a lot of faith in the possibility that by inhibiting RORgamma activity, we will in the future be able to help many of those patients who suffer autoimmune diseases. The studies that have convinced the industry about the potential of RORgamma have been conducted with large molecules (monoclonal antibodies), biological drugs that are significantly more complicated to both manufacture and administer to patients.

Stronger financial position ahead of the spin-off of preclinical operations

The agreement also strengthens our financial position. We received a signing fee which will be followed by research funding and milestone payments as the project progresses. The total income from the agreement until the end of 2013 will amount to MUSD 10-14. The entire funding requirement for the RORgamma project is covered by Pfizer who will also provide a number of milestone payments from the preclinical development phase until registration and thereafter at a number of sales related targets. In addition, Karo Bio is entitled to royalties on sales of a future drug.

The apparent "seal of approval" that this agreement lends our expertise in nuclear receptors will naturally also facilitate the planned spin-off of our operations not related to eprotirome. All in all, this demonstrates a great interest and confidence in that compounds that act via nuclear receptors can be developed into useful drugs.

Good development in eprotirome phase III trials

Our major project eprotirome is progressing well and in accordance with previously announced plans. All centers participating in the AKKA study have received approval from national authorities to start and are now working actively to either recruit patients or launch the trial. Patient recruitment is progressing as planned, which means that we, at the time of writing, have recruited 194 of the 630 patients that are to be included. We look forward to the interim report that is expected to be completed in the second quarter. The most important function of the report is to ensure that patients with HeFH respond positively to eprotirome, in a similar manner as in the phase II program where a larger proportion of patients did not have HeFH but varying genetic causes for high cholesterol (polygenic hypercholesterolemia). Interim results are reviewed, as stipulated by regulations, by a safety committee which also continuously analyzes adverse effects registered in the trial. A green light from the committee to continue a trial gives notice that nothing has appeared that causes a trial to be halted at that time, such as an unexpectedly low efficacy or disturbing adverse effects.

Our Indian partner Alkem, who will be conducting two phase III trials with approximately 650 patients, has now finished planning the first trial and has submitted an application to local authorities to initiate the study. Alkem is thus, given approval, ready to start its first trial this spring.

Continued focus on business

Parallel with the development of the ERbeta project, commercial discussions are being held with leading pharmaceutical companies. These have been advancing well in the past quarter. If all goes well, we aim to complete these discussions in 2012 and enter into an agreement for this project.

The collaboration with Zydus Cadila around the GR receptor expires at the end of the month. We have a dialogue where we are discussing the advantages and common interests in continuing the collaboration. If the agreement is not extended, we each have the freedom to continue development in this field.

In the eprotirome project the responsibility for most of the operational effort lies with the clinical centers and specialized consultancies ("CRO") we have contracted. We are following developments closely, but have no access to results during the study. We are also working on completing special studies within the program, and we are discussing with various experts in order to better understand the effects of eprotirome and to seek expanded uses besides HeFH. The efforts to seek potential partners for the marketing and sale of a future drug will be intensified as the study program advances.

Together with my colleagues, I will devote a lot of energy to developing Karo Bios operations in various ways, above all to increase the commercial perspective in our research and development efforts and to reduce costs. The Pfizer agreement includes research funding, which finances parts of the organization and operations for two years, and also entitles us to payments when certain milestones are achieved. In order to allow for a broader operation that can lead to more licensing agreements we would like additional funding. Therefore, we have recruited a specialist in applying for research grants and other "soft money" for our pre-clinical projects.

As an important part of the change process, we also place great emphasis on preparing the planned split of Karo Bio, with the subsequent spin-off of the pre-clinical operations. We have promised more information on how this will be conducted before the AGM in April. We expect to maintain this schedule.

February 8, 2012

Per Bengtsson
CEO

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. Karo Bio also has preclinical data from diabetes models that suggests that eprotirome may have positive effects on blood sugar, which is a desirable effect when treating high blood lipids in diabetic patients.

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 initiating trials at national regulatory authorities in 12 countries. The recruitment of patients is proceeding as planned, after the first patient was recruited for the trials in early October last year.

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. Alkem plans to initiate its phase III program in spring of 2012. 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 ERalpha subtype, 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 2012 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

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.

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.

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 on-going 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.

In December 2011 Karo Bio entered into a research collaboration with Pfizer for RORgamma to discover and develop new substances for the treatment of autoimmune diseases. Pfizer takes on full responsibility for all research costs and will have exclusive rights for products developed as a result of the collaboration, Karo Bio can receive up to USD 217 million (approx. MSEK 1,500) at signing and when specific development and sales milestones are met as well as royalties on future drug sales.

FINANCIAL REPORT

Consolidated earnings

Net sales for the full year were 0.0 (0.0). Operating expenses for 2011 increased by MSEK 69.4 to MSEK 231.2 (161.8) of which MSEK 101.0 (37.3) are directly contributable to the phase III program for eprotirome. Research and development expenses accounted for 82 per cent of the costs for the full year, after an increase to MSEK 189.3 (129.4), whereof the fourth quarter MSEK 42.3 (39.7). 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 2011 amounted to MSEK 40.8 (32.9), including severance costs of MSEK 5.3. In the fourth quarter administrative expenses amounted to MSEK 7.8 (8.4). The consolidated operating loss for the full year increased to MSEK 231.2 (161.8), of which the fourth quarter accounted for to a loss of MSEK 49.9 (47.9). Financial net for 2011 amounted to MSEK 4.5 (-1.7). Net loss for the full year was MSEK 226.6 (163.5). Net loss for the fourth quarter was MSEK 50.6 (50.1).

Capital investments and consolidated cash flow

Capital investments for 2011 amounted to MSEK 3.4 (1.2) and comprise mainly investments in laboratory and IT equipment.

Consolidated cash flow from operating activities for the 12-month period was MSEK -198.3 (-158.9), whereof the fourth quarter MSEK -37.9 (-44.3).

Financial position

Consolidated cash and cash equivalents amounted to MSEK 43.8 (325.5) at the end of the period. Including other short-term investments with durations exceeding 90 days, these liquid assets amounted to MSEK 158.5 (395.0), which corresponds to a change in total cash position of MSEK -236.5 (157.8) during the full year, 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.

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 115.9, taking into account the period's earnings. Loss per share for the full year, based on the weighted average number of outstanding shares, amounted to SEK 0.59 (0.67). The Group's equity ratio at the end of the period was 67.6 (83.7) per cent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.30 (0.88).

Employees

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

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	October-December		January-December	
	2011	**2010**	**2011**	**2010**
Net sales	-	-	-	-
Operating expenses				
Administration	-7,778	-8,407	-40,797	-32,869
Research and development	-42,284	-39,726	-189,321	-129,382
Other operating income/expenses	160	193	-1,041	412
	-49,902	-47,940	-231,159	-161,839
Operating profit/loss	**-49,902**	**-47,940**	**-231,159**	**-161,839**
Financial net	-735	-2,203	4,533	-1,698
Earnings/loss after financial items	**-50,637**	**-50,143**	**-226,626**	**-163,537**
Tax	-	-	-	-
RESULTS FOR THE PERIOD	**-50,637**	**-50,143**	**-226,626**	**-163,537**
Net earnings/loss for the period attributable to:				
Shareholders of the parent company	-50,637	-50,143	-226,626	-163,537
Depreciation included in operating expenses	-614	-607	-2,409	-2,930
Earnings/loss per share (SEK) [1]				
- based on weighted average number of shares outstanding, basic and diluted	-0.13	-0.20	-0.59	-0.67
Number of shares outstanding (000)				
- weighted average during the period	387,064	254,740	387,064	242,334
- at end of period, basic	387,064	387,064	387,064	387,064
- at end of period, fully diluted	**387,064**	**387,797**	**387,064**	**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)

	October-December		January-December	
	2011	**2010**	**2011**	**2010**
RESULTS FOR THE PERIOD	**-50,637**	**-50,143**	**-226,626**	**-163,537**
Other comprehensive income/loss for the year, net of tax	-	-	-	-
TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD	**-50,637**	**-50,143**	**-226,626**	**-163,537**
Total comprehensive income/loss attributable to:				
Shareholders of the parent company	**-50,637**	**-50,143**	**-226,626**	**-163,537**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	December 31	
	2011	**2010**
Assets		
Equipment	5,558	4,585
Other current assets	7,409	9,863
Financial assets at fair value through profit or loss	114,780	69,548
Cash and cash equivalents	43,753	325,486
TOTAL ASSETS	**171,500**	**409,482**
Shareholders' equity and liabilities		
Shareholders' equity	115,922	342,548
Non-current liabilities	-	470
Current liabilities	55,578	66,464
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**171,500**	**409,482**

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	October-December		January-December	
	2011	**2010**	**2011**	**2010**
Operating activities				
Operating income/loss before financial items	-49,902	-47,940	-231,159	-161,839
Depreciation	614	607	2,409	2,930
Other items not affecting cash flows	-	-	19	-
	-49,288	**-47,333**	**-228,731**	**-158,909**
Financial items received and paid	-263	-984	4,550	4,453
Cash flow from operating activities before changes in working capital	**-49,551**	**-48,317**	**-224,181**	**-154,456**
Changes in working capital	11,680	3,987	25,898	-4,424
Cash flow from operating activities	**-37,871**	**-44,330**	**-198,283**	**-158,880**
Investing activities				
Net investment in equipment	-1,655	-438	-4,262	-1,985
Net investment in other short-term investments	60,719	28,427	-45,248	82,314
Cash flow from investing activities	**59,064**	**27,989**	**-49,510**	**80,329**
Financing activities				
Net proceeds from rights issue	-	325,134	-	325,134
Transaction costs rights issue [1)]	-	-268	-33,940	-268
Cash flow from financing activities	-	**324,866**	**-33,940**	**324,866**
Cash flow for the period	**21,193**	**308,525**	**-281,733**	**246,315**
Cash and cash equivalents at the beginning of the period	22,560	16,961	325,486	79,171
Cash and cash equivalents at the end of the period	**43,753**	**325,486**	**43,753**	**325,486**

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

Karo Bio AB
Novum, 141 57 Huddinge, Sweden
Telephone +46 8 608 60 00 Fax: +48 8 774 82 61
www.karobio.com

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	-	-	-163,537	-163,537
Share issue	114,181	176,745	-	290,926
Amount at December 31, 2010	**191,593**	**982,686**	**-831,731**	**342,548**
Amount at January 1, 2011	**191,593**	**982,686**	**-831,731**	**342,548**
Loss for the period	-	-	-226,626	-226,626
Share issue	1,939	-1,939	-	0
Amount at December 31, 2011	**193,532**	**980,747**	**-1,058,357**	**115,922**

KEY EQUITY DATA

	December 31	
	2011	**2010**
Equity ratio	67.6%	83.7%
Equity per share at the period end – basic, SEK	0.30	0.88
Equity per share at the period end – diluted, SEK	**0.30**	**0.88**

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	October-December		January-December	
	2011	**2010**	**2011**	**2010**
Net sales	-	-	-	-
Operating expenses				
Administration	-7,778	-8,407	-40,797	-32,869
Research and development	-42,284	-39,724	-189,321	-129,368
Other operating income/expenses	160	193	-1,041	412
	-49,902	-47,938	-231,159	-161,825
Operating income/loss	**-49,902**	**-47,938**	**-231,159**	**-161,825**
Financial net	-737	-2,193	4,547	-1,641
Earnings/loss after financial items	**-50,639**	**-50,131**	**-226,612**	**-163,466**
Tax	-	-	-	-
NET EARNINGS/LOSS FOR THE PERIOD	**-50,639**	**-50,131**	**-226,612**	**-163,466**
Depreciation included in operating expenses	**-396**	**-387**	**-1,535**	**-2,055**

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	December 31	
	2011	**2010**
Assets		
Equipment	5,412	3,565
Shares in group companies	100	100
Other current assets	7,409	9,863
Other short term investments	114,780	69,548
Cash and cash equivalents	43,743	325,476
TOTAL ASSETS	**171,444**	**408,552**
Shareholders' equity and liabilities		
Total restricted equity	331,547	331,547
Total non-restricted equity	-215,272	11,340
Current liabilities	55,169	65,665
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**171,444**	**408,552**

Net sales for the Parent Company for 2011 amounted to MSEK 0.0 (0.0). Loss after financial items for the year was MSEK 226.6 (163.5), whereof the fourth quarter MSEK 50.6 (50.1).

The Parent Company's capital investments in equipment for the full year amounted to MSEK 3.4 (1.2). Cash, cash equivalents and other short-term investments amounted to MSEK 158.5 (395.0) at the end of the period.

OTHER INFORMATION

Spin-off of the preclinical operations

Preparations for the previously announced spin-off of the preclinical part of the company are underway. This part, that currently constitutes the majority of the operations in Huddinge, will be transferred to a subsidiary with a separate management and is also proposed to take over the name Karo Bio.

Before the planned spin-off, an efficiency program is being implemented in this part of the operations. As a part of this, 25 people were given notice in November, 2011. Negotiations are underway as to the total need for cutbacks and the results of these will be announced in February. The savings program includes other efficiency measures.

The Board intends to implement the spin-off as a sale of the subsidiary to new owners. Those of Karo Bio's current shareholders that wish to become shareholders in the subsidiary will be offered such an opportunity.

A prerequisite for a sale is that the subsidiary has the necessary financing to conducts its operations. As a part of this, Karo Bio will therefore provide the subsidiary certain financing before the transaction. The sale of the subsidiary is expected to have the right preconditions to bring an amount that exceeds this financing, which means that Karo Bios financial position, provided that the transaction can be carried out, is expected to be strengthened through the sale of the subsidiary.

The Board will provide details as to the planned form for the spin-off prior to the AGM on April 27, 2012.

The aim of the spin-off is to, in both the eprotirome project and in the clinical area, create an increased focus on core business, clarify the values and lay the groundwork for a rational use of the company's skills and resources.

Continued operations

The consolidated cash together with the equity credit facility does not cover the total funding of planned operations for more than twelve months. Continued operations require additional partner or licensing agreements and that the spin-off of the preclinical operations progress as planned. This means that the group, in order to finance its entire operations, also in the future may need to turn to capital markets for further fund raising.

On December 31st, 2011, the registered share capital amounted to MSEK 193.5 and the parent company's total equity amounted to MSEK 116.3. Together with the budgeted costs, this means that the total equity will be less than half of the registered share capital sometime in second half of the first quarter. The Board of Directors will therefore propose to the AGM that the share capital be reduced and any other actions required by the Companies' Act be taken. The reduction in share capital will not have any impact on the parent company's total equity.

Changes in Management

Per Bengtsson, MD and PhD, who since May has been acting CEO and board member of Karo Bio AB, was appointed as CEO in the fourth quarter and Henrik Palm was appointed as new CFO.

Significant events after the end of the reporting period

In January, Maria Sjöberg, MD, Ass. Prof., was appointed Chief Scientific Officer. Maria Sjöberg has an academic background in the field of nuclear receptors and began her career in the biotechnology industry in 2001 as Section Leader and Project Manager at Karo Bio. Since then she has been employed as a Senior Scientist at Astra Zeneca and R&D/Production Manager at SentoClone AB.

Maria Öhlander, who since September has been acting Director of Clinical Development, was appointed in January as department head. Maria Öhlander has previously held positions at both Pharmacia and AstraZeneca, primarily with project management. For the past five years, she has been in charge of Clinical Operations at Karo Bio and Project Manager for eprotirome.

Dividend

In accordance with the dividend policy, the Board will propose to the AGM that there will be no dividend for the 2011 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 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. 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 1at, 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.

The auditors' review

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

Annual Report 2011

Karo Bio's Annual Report for 2011 will be disclosed in the first week of April, 2012.

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

Annual report 2011	1st week of April, 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.

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, February 8, 2012

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

Karo Bio AB
Novum, 141 57 Huddinge, Sweden
Telephone +46 8 608 60 00 Fax: +48 8 774 82 61
www.karobio.com