KARO BIO

**Press release April 27, 2011**

# INTERIM REPORT JANUARY–MARCH 2011

## The January – March 2011 period in brief

- Net sales amounted to MSEK 0.0 (0.0)
- Net loss was MSEK 47.7 (40.5)
- Loss per share was SEK 0.12 (0.17)
- Cash flow from operating activities was MSEK -47.5 (-43.0)
- Cash and cash equivalents and other short-term investments totaled MSEK 312.1 (192.7) at the end of the period
- In March, Karo Bio entered into a one year extension of the research collaboration with Zydus Cadila on glucocorticoid receptors and anti-inflammatory drugs
- Karo Bio is organizing an ER-beta symposium on May 16-17, 2011, where key researchers from the industry and the academic community will present and discuss the frontier of research in the field of ER-beta and its therapeutic applications

## Significant events after the end of the reporting period

- On April 26, Karo Bio announced that it has entered into a collaboration and license agreement regarding eprotirome with the Indian pharmaceutical company Alkem Laboratories Ltd. Alkem will conduct clinical phase III-trials in India and is granted exclusive rights to commercialize eprotirome in India and certain other markets in Asia-Pacific and Africa. Karo Bio is entitled to royalty on Alkem's future sales of eprotirome.

CEO Fredrik Lindgren and CFO Erika Söderberg Johnson will present the report today at 10.00 CET at an audiocast, held in Swedish, available via a link on Karo Bio's website www.karobio.se and per telephone: +46 (0)8 5051 3791 or +44 (0)20 7806 1968

**For more information, please contact:**
Fredrik Lindgren, Chief Executive Officer
Telephone: +46 70 561 61 77
Erika Söderberg Johnson, Chief Financial Officer
Telephone: +46 8 608 60 52

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

## Summary of key financial information

| (MSEK) | January-March | | January-December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| Net sales | - | - | - |
| Operating expenses | -49.6 | -40.7 | -161.8 |
| - of which R&D expenses | -40.4 | -32.6 | -129.4 |
| Net earnings for the period | -47.7 | -40.5 | -163.5 |
| Earnings per share (SEK) | -0.12 | -0.17 | -0.67 |
| Cash flow from operating activities | -47.5 | -43.0 | -158.9 |
| Cash and cash equivalents and other short term investments at the period end | **312.1** | **192.7** | **395.0** |

## 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. The company runs a number of drug development projects within the indication areas cardiovascular and metabolic diseases, neuro-psychiatry, inflammation, autoimmune diseases, 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 submit an application for marketing approval of eprotirome 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).

## THE CEO'S COMMENTS ON THE FIRST QUARTER OF 2011

During the first quarter of 2011, we kept our focus on our top priorities for 2011:

- To initiate the pivotal clinical phase III trials for eprotirome
- To secure development and distribution partnerships for eprotirome
- To secure drug discovery partnerships for our two preclinical programs ER-beta and ROR-gamma

Concerning our top priority, to have eprotirome enter into pivotal clinical phase III trials in high-risk patients with HeFH, we are in the process of completing our preparations. The current plan is to initiate the trials during the third quarter of 2011.

Concerning development and distribution partnerships for eprotirome, we seek partners both for the EU and for growth markets such as India. Our rational for partnerships is not only to secure future distribution of eprotirome in important geographical markets, but also to facilitate further development of eprotirome into other indications than HeFH.

Yesterday, we announced that we have entered into a collaboration and license agreement concerning eprotirome with the Indian pharmaceutical company Alkem. Alkem is granted the commercial rights to eprotirome in India and a number of other Asian and African markets. Alkem will pay royalties to Karo Bio on net sales of eprotirome in its territories. Alkem will also contribute to the development of eprotirome by conducting one of the studies planned as a part of the phase III program. The benefits with the collaboration are several. Firstly, it represents a substantial financial value since our investment in eprotirome's phase III program will decrease with approx. SEK 100 million from SEK 400 million to SEK 300 million as a consequence of Alkem conducting one of the studies. Secondly, we secure distribution in the Indian market as well as a number of other growing markets. Finally, we facilitate a broadening of the indication scope of eprotirome, by conducting the study in India in patients representing a larger patient population.

Concerning drug discovery partnerships for our ER-beta and ROR-gamma programs, we have initiated discussions with a number of interested parties. It is becoming evident that ROR-gamma is a very interesting drug target for several large pharmaceutical companies, and one of our colleague biotech companies entered into a drug discovery collaboration with a world-leading pharmaceutical company earlier this year. In our own program we are making quicker progress than expected. This is based on our knowledge of the nuclear receptor target and on our proprietary library of compounds.

As part of our ER-beta program, we are organizing a scientific symposium in mid-May. This symposium is an excellent way of demonstrating the broad and multiple therapeutic potential of ER-beta as a drug target. The last example of this potential is new American research indicating that an ER-beta agonist could be a game-changing treatment of multiple sclerosis (MS). We are currently investigating this potential through our own research. The most noticeable progress within our ER-beta program is that we believe that we now have compounds that are sufficiently active in the central nervous system (CNS), a pre-requisite for treating MS and depression.

Our drug discovery partnership with Zydus Cadila concerns dissociated GR modulators for treating inflammation. In March we mutually decided to prolong this collaboration with one year, since we have not yet reached the collaboration target to nominate a candidate drug. The collaboration has generated a number of interesting compounds, and we intend to complete the analysis of these compounds during the extension term.

For the remainder of the year, we will continue to focus on our top priorities and expect to be able to continue to deliver on them as planned. In addition to that, we remain open to all interesting business opportunities that represent a way to further strengthen our business.

*Fredrik Lindgren*

Chief Executive Officer

## KARO BIO'S PROJECTS

### Project portfolio

| Program | Partner | Compound | Indication | Territory | Discovery | Preclinical | Clinical Development Ph 1 | Ph 2 | Ph 3 |
|---|---|---|---|---|---|---|---|---|---|
| TR/Eprotirome | | KB2115 | Dyslipidemia/HeFH | EU | | | | | |
| | | KB2115 | Dyslipidemia/HeFH | USA | | | | | |
| | | KB2115 | Dyslipidemia/HeFH | Other | | | | | |
| | | KB2115 | Dyslipidemia/Polygenic | Global | | | | | |
| GR diabetes | | KB3305 | Type 2 Diabetes | Global | | | | | |
| ER | Merck & Co | MK6913 | Womens' health | Global | | | | | |
| | | KB9520 | Cancer | Global | | | | | |
| | | KB9520 | New indication | Global | | | | | |
| | | | Depression | Global | | | | | |
| GR Inflammation | Zydus Cadila | | Inflammation | Global | | | | | |
| LXR | Pfizer | | Inflammation | Global | | | | | |
| ROR-gamma | | | Autoimmune | Global | | | | | |

### TR / eprotirome – dyslipidemia

Eprotirome is a liver-selective thyroid hormone receptor (TR) agonist for the treatment of dyslipidemia. The compound represents a novel treatment concept and 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. In March 2010, the *New England Journal of Medicine* published clinical phase II results on eprotirome. Eprotirome's efficacy profile suggests that the novel 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 projected to be driven primarily by specialist physicians treating patient groups with high cardiovascular risk.

At the end of 2010, Karo Bio secured the 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 625-1,150 patients under 12 to 18 months treatment, at approx. 50 sites in about 10 countries. Recruitment of patients for the pivotal phase III trials is planned to commence in the third quarter of 2011. An application for the product approval of eprotirome for this high-risk population in the EU is expected to be filed by the end of 2013 or in 2014.

The preparatory work for the pivotal clinical phase III studies has continued at a high intensity in the beginning of 2011. The program encompasses a large number of activities, such as e.g. tablet production, further preclinical tests including carcinogenicity studies, a couple of smaller clinical drug interaction studies and the recruitment of clinical trial centers. Extensive documentation of data and plans is compiled and submitted to the medical products authorities and ethics committees in each country where trials will be conducted.

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

KB3305 is a liver-selective glucocorticoid receptor (GR) antagonist developed for the treatment of type 2 diabetes and 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 is of medical relevance. Despite these positive data, the company made the decision in 2009 not to do further in-house

development of KB3305 for the 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 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 ER-alpha receptor, while the estrogen receptor's beta sub-type, ER-beta, seems to mediate many of the positive effects of estrogen without these side effects. For ER-beta selective compounds there are clinical opportunities within e.g. the fields of neuropsychiatry, certain forms of cancer, women's health and urology. Karo Bio's efforts have resulted in an exciting platform of many promising ER-beta selective compounds. These have slightly different properties and may thus be suitable for different indications. In October 2009, Karo Bio nominated KB9520 as a first candidate drug 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. 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 a broader use. The separation of the beneficial effects from the side effects of glucocorticoids has been referred to as the holy grail of anti-inflammatory therapy and has been pursued by many. Promising though yet early results, generated under the collaboration between Zydus Cadila and Karo Bio by using a new and unique approach, indicate that such a separation may be achievable. Preclinical evaluation is ongoing for the identification of 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.

### 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 alternative for autoimmune diseases such as rheumatoid arthritis, ulcerative colitis and multiple sclerosis (MS).

# FINANCIAL REPORT

## Consolidated earnings

Net sales for the quarter were 0.0 (0.0). Operating expenses for the quarter increased by MSEK 8.9 to MSEK 49.6 (40.7), mainly due to that research and development expenses were MSEK 7.8 higher than for the corresponding period last year. Reported research and development expenses for the quarter totaled MSEK 40.4 (32.6). 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 the quarter amounted to MSEK 9.2 (8.2).

Operating profit/loss for the quarter amounted to MSEK -49.6 (-40.7), a loss increase of MSEK 8.9. Financial net for the quarter amounted to MSEK 1.9 (0.2). Net earning for the period was MSEK -47.7 (-40,5).

## Capital investments and consolidated cash flow

Capital investments for the quarter amounted to MSEK 0.5 (0.1) and comprise mainly investments in laboratory and IT equipment.

Consolidated cash flow from operating activities for the quarter was MSEK -47.5 (-43.0).

## Financial position

Consolidated cash and cash equivalents amounted to MSEK 110.0 (71.9) at the end of the period. Including other short-term investments with durations exceeding 90 days, these assets amounted to MSEK 312.1 (192.7), which corresponds to a decrease in total cash position of MSEK 82.9 (44.5) during the quarter, whereof SEK 33.9 million are transaction related costs for a rights issue. 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 Equity Credit Facility 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 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 294.9, taking into account the period's earnings. Earnings per share for the period, based on the weighted average number of outstanding shares, amounted to SEK -0.12 (-0.17). The Group's equity ratio at the end of the period was 90.8 (85.9) percent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.75 (0.73).

## Employees

At the end of the period, Karo Bio had 71 (67) employees, of whom 63 (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 the quarter amounted to MSEK 0.0 (0.0). The reported earnings for the period were MSEK -47.7 (-40.4).

The Parent Company's capital investments in equipment for the quarter amounted to MSEK 0.5 (0.1). Cash, cash equivalents and other short-term investments amounted to MSEK 312.1 (192.7) at the end of the period.

## CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

| | January-March | | January-December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| Net sales | - | - | - |
| **Operating expenses** | | | |
| Administration | -9,213 | -8,241 | -32,869 |
| Research and development | -40,420 | -32,581 | -129,382 |
| Other operating income/expenses | 51 | 128 | 412 |
| | -49,582 | -40,694 | -161,839 |
| **Operating profit/loss** | **-49,582** | **-40,694** | **-161,839** |
| Financial net | 1,885 | 230 | -1,698 |
| **Earnings after financial items** | **-47,697** | **-40,464** | **-163,537** |
| Tax | - | - | - |
| **NET EARNINGS FOR THE PERIOD** | **-47,697** | **-40,464** | **-163,537** |
| **Net earnings for the period attributable to:** | | | |
| Shareholders of the parent company | -47,697 | -40,464 | -163,537 |
| Depreciation included in operating expenses | -601 | -881 | -2,930 |
| **Earnings per share (SEK)** [1] | | | |
| - based on weighted average number of shares outstanding, basic and diluted | -0.12 | -0.17 | -0.67 |
| **Number of shares outstanding (000)** | | | |
| - weighted average during the period | 387,064 | 238,199 | 242,334 |
| - at end of period, basic | 387,064 | 238,199 | 387,064 |
| **- at end of period, fully diluted** | **394,897** | **238,989** | **394,897** |

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)

| | January-March | | January-December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| **NET EARNINGS FOR THE PERIOD** | **-47,697** | **-40,464** | **-163,537** |
| Other comprehensive income for the year, net of tax | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **-47,697** | **-40,464** | **-163,537** |
| Total comprehensive income attributable to: | | | |
| **Shareholders of the parent company** | **-47,697** | **-40,464** | **-163,537** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

| | March 31 | | December 31 |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| **Assets** | | | |
| Licenses and similar rights | - | 256 | - |
| Equipment | 4,441 | 5,312 | 4,585 |
| Other current assets | 8,099 | 5,013 | 9,863 |
| Financial assets at fair value through profit or loss | 202,111 | 120,786 | 69,548 |
| Cash and cash equivalents | 110,024 | 71,896 | 325,486 |
| **TOTAL ASSETS** | **324,675** | **203,263** | **409,482** |
| | | | |
| **Shareholders' equity and liabilities** | | | |
| Shareholders' equity | 294,851 | 174,695 | 342,548 |
| Non-current liabilities | 261 | 1,078 | 470 |
| Current liabilities | 29,563 | 27,490 | 66,464 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **324,675** | **203,263** | **409,482** |

## CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

| | January-March | | January-December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| **Operating activities** | | | |
| Operating income/loss before financial items | -49,582 | -40,694 | -161,839 |
| Depreciation | 601 | 881 | 2,930 |
| Other items not affecting cash flows | 19 | - | - |
| | **-48,962** | **-39,813** | **-158,909** |
| | | | |
| Financial items received and paid | 2,580 | 1,459 | 4,453 |
| **Cash flow from operating activities before changes in working capital** | **-46,382** | **-38,354** | **-154,456** |
| | | | |
| Changes in working capital | -1,083 | -4,608 | -4,424 |
| **Cash flow from operating activities** | **-47,465** | **-42,962** | **-158,880** |
| | | | |
| **Investing activities** | | | |
| Net investment in equipment | -686 | -313 | -1,985 |
| Net investment in other short-term investments | -133,371 | 36,000 | 82,314 |
| **Cash flow from investing activities** | **-134,057** | **35,687** | **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** | **-215,462** | **-7,275** | **246,315** |
| Cash and cash equivalents at the beginning of the period | 325,486 | 79,171 | 79,171 |
| **Cash and cash equivalents at the end of the period** | **110,024** | **71,896** | **325,486** |

1) Comprise the part of transaction related costs that 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, 2010** | **77,412** | **805,941** | **-668,194** | **215,159** |
| Loss for the period | - | - | -40,464 | -40,464 |
| **Amount at March 31, 2010** | **77,412** | **805,941** | **-708,658** | **174,695** |
| **Amount at January 1, 2011** | **191,593** | **982,686** | **-831,731** | **342,548** |
| Loss for the period | - | - | -47,697 | -47,697 |
| Share issue | 1,939 | -1,939 | - | 0 |
| **Amount at March 31, 2011** | **193,532** | **980,747** | **-879,428** | **294,851** |

## KEY EQUITY DATA

| | March 31 | | December 31 |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| Equity ratio | 90.8% | 85.9% | 83.7% |
| Equity per share at the end of period – basic, SEK | 0.76 | 0.73 | 0.88 |
| **Equity per share at the end of period - diluted, SEK** | **0.75** | **0.73** | **0.87** |

## PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

| | January-March | | January-December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| Net sales | - | - | - |
| **Operating expenses** | | | |
| Administration | -9,213 | -8,241 | -32,869 |
| Research and development | -40,420 | -32,576 | -129,368 |
| Other operating income/expenses | 51 | 128 | 412 |
| | -49,582 | -40,689 | -161,825 |
| **Operating income/loss** | **-49,582** | **-40,689** | **-161,825** |
| Financial net | 1,894 | 249 | -1,641 |
| **Earnings after financial items** | **-47,688** | **-40,440** | **-163,466** |
| Tax | - | - | - |
| **NET EARNINGS FOR THE PERIOD** | **-47,688** | **-40,440** | **-163,466** |
| **Depreciation included in operating expenses** | **-382** | **-663** | **-2,055** |

## PARENT STATEMENT OF COMPREHENSIVE INCOME (KSEK)

| | January-March | | January-December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| **NET EARNINGS FOR THE PERIOD** | **-47,688** | **-40,440** | **-163,466** |
| Other comprehensive income for the year, net of tax | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **-47,688** | **-40,440** | **-163,466** |
| Total comprehensive income attributable to: | | | |
| **Shareholders of the parent company** | **-47,688** | **-40,440** | **-163,466** |

## PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

| | March 31 | | December 31 |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| **Assets** | | | |
| Licenses and similar rights | - | 256 | - |
| Equipment | 3,639 | 3,636 | 3,565 |
| Shares in group companies | 100 | 100 | 100 |
| Other current assets | 8,099 | 5,013 | 9,863 |
| Financial assets at fair value through profit or loss | 202,111 | 120,786 | 69,548 |
| Cash and cash equivalents | 110,014 | 71,886 | 325,476 |
| **TOTAL ASSETS** | **323,963** | **201,677** | **408,552** |
| **Shareholders' equity and liabilities** | | | |
| Total restricted equity | 331,547 | 215,427 | 331,547 |
| Total non-restricted equity | -36,348 | -40,440 | 11,340 |
| Current liabilities | 28,764 | 26,690 | 65,665 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **323,963** | **201,677** | **408,552** |

# OTHER INFORMATION

## Significant events after the end of the reporting period

On April 26, Karo Bio announced that it has entered into a collaboration and license agreement regarding eprotirome with the Indian pharmaceutical company Alkem Laboratories Ltd. Alkem will conduct clinical phase III-trials in India and is granted exclusive rights to commercialize eprotirome in India and certain other markets in Asia-Pacific and Africa. Karo Bio is entitled to royalty on Alkem's future sales of eprotirome.

## 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 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 obtains 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 can not 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.

## The auditors' review

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

## Scheduled releases of financial information

- 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.

## 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, April 27, 2011

Bo Håkansson
Chairman

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President

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Margaret von Platen
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Johan Kördel
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Jon Risfelt
Board member

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Board member
Employee representative

Johnny Sandberg
Board member
Employee representative

**Karo Bio AB** (publ), Novum, 141 57 Huddinge, Sweden
Telephone: +46 8 608 60 00
Facsimile:+46 8 774 82 61
Corporate registration number: 556309-3359
Website: www.karobio.com