Press release July 13, 2011

INTERIM REPORT JANUARY–JUNE 2011

The January – June period and the second quarter of 2011 in brief

- Net sales amounted to MSEK 0.0 (0.0)
- Net loss was MSEK 124.9 (79.0), whereof the second quarter MSEK 77.2 (38.5)
- Loss per share was SEK 0.32 (0.33), whereof the second quarter SEK 0.20 (0.16)
- Cash flow from operating activities was MSEK -112.7 (-80.8), whereof the second quarter MSEK -65.2 (-37.9).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 totaled MSEK 245.8 (152.3) at the end of the period.
- In March, Karo Bio entered into a one year extension of the research collaboration with Zydus Cadila on GR.
- In April, Karo Bio entered into an agreement regarding eprotirome with Indian Alkem Laboratories Ltd., which lowers Karo Bio's costs for eprotirome's phase III program by SEK 100 million.
- The Annual General Meeting elected Göran Wessman as Chairman of the Board and Per Bengtsson, Christer Fåhraeus, Elisabeth Lindner, Jan N. Sandström and Anders Waas as Directors.
- Karo Bio arranged a symposium where leading scientists within academia and industry discussed ERbeta data on the cutting edge and its therapeutic applications.
- Per Bengtsson was appointed acting President and CEO in May, after Fredrik Lindgren.
- Applications to start patient studies with eprotirome were filed in 12 countries.

Significant events after the end of the reporting period

- 3D structure depicted for RORgamma receptor with Karo Bio's leading drug-like compound bound to it, which facilitates and shortens the process of identifying an optimal drug candidate.
- Discussions started regarding the out-licensing of ERbeta and RORgamma.

Conference call today at 10.00 CET

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

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Summary of key financial information

(MSEK)	April-June		January -June		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Net sales	-	-	-	-	-
Operating expenses	-78.9	-38.6	-128.4	-79.3	-161.8
- of which R&D expenses	-64.6	-30.2	-105.0	-62.8	-129.4
Net earnings for the period	-77.2	-38.5	-124.9	-79.0	-163.5
Earnings per share (SEK)	-0.20	-0.16	-0.32	-0.33	-0.67
Cash flow from operating activities	-65.2	-37.9	-112.7	-80.8	-158.9
Cash and cash equivalents and other short term investments at the period end	**245.8**	**152.3**	**245.8**	**152.3**	**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 research, preclinical and clinical development, and medical and regulatory expertise.

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, and to generate three clinical development projects from its other operations.

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).

THE CEO'S COMMENTS ON THE FIRST SIX MONTHS OF 2011

The new Board of Directors has started a review of the company's operations. So far, this shows that Karo Bio has advanced its positions in all of its prioritized projects. Since joining the company, the overall impression I have following meetings with global pharmaceutical companies is that there is not only great respect for Karo Bio's competence but also a genuine interest in our projects.

An initial conclusion of the review is that the Board of Directors has decided to give the company's M&A strategy lower priority. At the current share price, we consider it neither advantageous nor pressing to carry out acquisitions, financed by issuing new shares.

The review of current business continues to be performed in a thorough and unbiased manner and we expect to present our conclusions in conjunction with the report for the third quarter.

Getting back to the development of our operations, the most important event in the second quarter is that applications were filed in 12 countries in May to start pivotal patient studies with eprotirome. Feedback has been received from authorities and ethics committees in some ten countries. We expect to be able to provide reassuring answers to all questions that have been raised so far. The studies will thus kick off with an Investigators Meeting in Budapest on September 22.

A second key event was that Karo Bio entered into a collaboration and licensing agreement with Indian Alkem Laboratories Ltd in April. The agreement gives Alkem commercial rights to eprotirome in India and some other countries in Asia and Africa, and entitles Karo Bio to royalties on future sales in these markets.

Alkem also contributes in an essential way to eprotirome's phase III program through a clinical study in 500 high-risk patients with primary hyperlipidemia. These are primarily patients with a history of cardiovascular disease, recruited from a broader patient population than the one we initially focused on in Europe. This study will provide safety data from a large group of patients and will form an essential part of the application for marketing approval in EU that we – as previously announced – plan to submit in 2014. Alkem's contribution reduces our own investment in the phase III program by SEK 100 million to SEK 300 million since we are now able to limit the number of patients in our own study to 630. Karo Bio has visited Alkem in India to discuss the planning of the study and preparations are currently underway.

We are building knowledge as the development program advances which enables us to gradually strengthen the presentation of eprotirome's product profile. Once the patient studies have started, we will therefore have reason to revert to potential partners who previously expressed an interest. In parallel with the phase III program, we therefore continue to seek a partner for eprotirome in Europe and other markets.

Discussions are also underway with potential partners for RORgamma and ERbeta. Several companies are currently investing considerable resources in examining our data. My impression is that there is a sufficiently broad and deep interest to reach an agreement on these substances.

RORgamma is a "hot target" and many companies are interested in acquiring a position in this area. In clinical trials, Novartis has demonstrated that an antibody therapy that blocks the same pathway represented by RORgamma, positively affects patients with autoimmune disease. This provides clinical validation in humans of the effect that we intend to achieve in the project, which obviously means a significant risk reduction and contributes to the strong interest in this field of research. That Karo Bio is aiming for a tablet treatment rather than an antibody therapy is a strength, since tablets are easier to administer to patients and typically can be produced at significantly lower costs. Furthermore, we have achieved great progress in a remarkably short period of time, which the companies that we meet find impressive. The latest achievement in July was that we succeeded in creating a three-dimensional

depiction of the receptor with our leading compound bound to it. This is an important breakthrough as it facilitates the design of an optimum drug structure and hence the selection of a candidate drug. Our assessment is that our RORgamma project is highly competitive.

Strong interest is also being expressed in ERbeta. New findings about the nuclear receptor's role in MS indicate a potential for alternative therapies to conventional inflammation inhibitors, which create opportunities to partner the project. In parallel, we continue to evaluate ERbeta outside CNS.

Finally, I would like to make a personal reflection. Returning to Karo Bio, where I began my career in the pharmaceutical industry more than 20 years ago, is special to me. Before rejoining the company, I noted for quite some time that Karo Bio has been going through a difficult period. I admit that I was a little unsure of how the business would appear after a thorough review. At the time of writing, after my election to the Board of Directors and six weeks after becoming acting president, my overall impression of the company's business is more positive than the image I had from the outside. In combination with the challenges the company faces, this gives a mixed picture that I, along with the rest of the Board, intends to clarify when we present the results of our review in conjunction with the report for the third quarter.

Per Bengtsson

Acting Chief Executive Officer

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					
	Alkem	KB2115	Dyslipidemia/polygenic India					
GR diabetes		KB3305	Type 2 Diabetes					
ER	Merck & Co	MK6913	Womens' health					
		KB9520	Cancer					
		KB9520	New indication					
			CNS					
GR Inflammation	Zydus Cadila		Inflammation					
LXR	Pfizer		Inflammation					
ROR-gamma			Autoimmune					

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 cardio-vascular 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.

In August 2010, Karo Bio presented a strategy for the clinical development of eprotirome for treatment of high- risk patients with the hereditable condition heterozygous familial hypercholesterolemia (HeFH). Based on the dialogue with regulatory authorities, Karo Bio has planned a clinical phase III program.

In April 2011, Karo Bio entered a collaboration and license agreement regarding eprotirome with Indian pharmaceutical company Alkem Laboratories. Under the agreement, Alkem will receive the exclusive rights to commercialize eprotirome in India and certain other markets in Asia-Pacific and Africa. Alkem will conduct a pivotal clinical phase III trial in order to obtain marketing approval of eprotirome in India. The clinical trial will comprise up to 500 high-risk patients with primary hyperlipidemia. Safety data from this study will also be an important part of the application for marketing approval for eprotirome for HeFH in Europe that Karo Bio intends to submit in 2014

The planning and preparation for clinical trials within the phase III program that Karo Bio manages on its own is in the final stage. Applications for the study that involves 630 patients at 70 clinics in 12 countries mainly in Europe, was submitted in May to authorities and ethics committees in the respective countries. Apart from the two pivotal patient studies, the phase III program also includes two small phase I studies.

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 ER-alpha receptor, while the estrogen receptor's beta sub-type, 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. At the symposium, a new interesting indication for CNS-active ERbeta agonist was presented and discussed, namely multiple sclerosis (MS) in which preclinical studies have shown effects on repair processes.

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. In October 2009, Karo Bio nominated KB9520 as a first candidate drug within the ERbeta program, and preclinical safety documentation work was initiated. KB9520 has shown good effects in preclinical models for depression and certain cancers, for example. Other compounds are documented for CNS indications, particularly depression, and since 2011 also MS, while KB9520 is being tested for use within other indications outside CNS.

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 Agreement (MTA) with a number of international pharmaceutical companies under which the partner companies are testing substances. 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. 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 predefined 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 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.

RORgamma – a new means to treat autoimmune diseases

Recent research reveals that the nuclear receptor RORgamma 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 RORgamma 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).

The project has made great progress in a short time. Chemical starting points have been identified and interesting drug-like molecules have been designed. In July 2011, an important breakthrough was made when the three-dimensional structure of the leading drug-like substance bound to the receptor was depicted. This facilitates the process of determining the optimal drug structure and selecting the candidate drug based on this structure. Interest in RORgamma has been steadily increasing among the major pharmaceutical companies and a number of companies are displaying interest in this project. Commercial discussions have been initiated with those potential partners that have advanced furthest in their evaluation.

FINANCIAL REPORT

Consolidated earnings

Net sales for the six month period were 0.0 (0.0). Operating expenses for the first six months increased by MSEK 49.1 to MSEK 128.4 (79.3) mainly due to the phase III program for eprotirome. The increased costs in the period mainly consist of MSEK 42.2 million in higher expenses for research and development. Reported research and development expenses for the six month period totaled MSEK 105.0 (62.8), whereof the second quarter MSEK 64.6 (30.2). 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 six month period amounted to MSEK 22.4 (16.5), whereof the second quarter MSEK 13.2 (8.3).

Operating loss for the six month period amounted to MSEK 128.4 (79.3), a loss increase of MSEK 49.1. The operating loss for the second quarter was MSEK 78.9 (38.6). Financial net for the six month period amounted to MSEK 3.5 (0.4). Net earnings for the six month period were MSEK -124.9 (-79.0). Net earnings for the second quarter were MSEK -77.2 (-38.5).

Capital investments and consolidated cash flow

Capital investments for the six month period amounted to MSEK 1.2 (0.2) and comprise mainly investments in laboratory and IT equipment.

Consolidated cash flow from operating activities for the six month period was MSEK -112.7 (-80.8), whereof the second quarter MSEK -65.2 (-37.9).

Financial position

Consolidated cash and cash equivalents amounted to MSEK 40.4 (22.5) at the end of the period. Including other short-term investments with durations exceeding 90 days, these assets amounted to MSEK 245.8 (152.3), which corresponds to a decrease in total cash position of MSEK 149.2 (84.9) during the six month period, 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. 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 217.6, taking into account the period's earnings. Earnings per share for the six month period, based on the weighted average number of outstanding shares, amounted to SEK -0.32 (-0.33). The Group's equity ratio at the end of the period was 84.2 (83.7) percent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.56 (0.57).

Employees

At the end of the period, Karo Bio had 69 (67) employees, of whom 61 (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 six month period amounted to MSEK 0.0 (0.0). The reported earnings for the six month period were MSEK -124.9 (-78.9), whereof the second quarter MSEK -77.2 (-38.5).

The Parent Company's capital investments in equipment for the six month period amounted to MSEK 1.2 (0.2). Cash, cash equivalents and other short-term investments amounted to MSEK 245.8 (152.3) at the end of the period.

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	April-June		January-June		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Net sales	-	-	-	-	-
Operating expenses					
Administration	-13,188	-8,279	-22,401	-16,520	-32,869
Research and development	-64,621	-30,248	-105,041	-62,829	-129,382
Other operating income/expenses	-1,044	-90	-993	38	412
	-78,853	-38,617	-128,435	-79,311	-161,839
Operating profit/loss	**-78,853**	**-38,617**	**-128,435**	**-79,311**	**-161,839**
Financial net	1,638	127	3,523	357	-1,698
Earnings after financial items	**-77,215**	**-38,490**	**-124,912**	**-78,954**	**-163,537**
Tax	-	-	-	-	-
NET EARNINGS FOR THE PERIOD	**-77,215**	**-38,490**	**-124,912**	**-78,954**	**-163,537**
Net earnings for the period attributable to:					
Shareholders of the parent company	-77,215	-38,490	-124,912	-78,954	-163,537
Depreciation included in operating expenses	-614	-843	-1,215	-1,724	-2,930
Earnings per share (SEK) [1]					
- based on weighted average number of shares outstanding, basic and diluted	-0.20	-0.16	-0.32	-0.33	-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) 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)

	April-June		January-June		January-December
	2011	**2010**	**2011**	**2010**	**2010**
NET EARNINGS FOR THE PERIOD	**-77,215**	**-38,490**	**-124,912**	**-78,954**	**-163,537**
Other comprehensive income for the year, net of tax	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-77,215**	**-38,490**	**-124,912**	**-78,954**	**-163,537**
Total comprehensive income attributable to:					
Shareholders of the parent company	**-77,215**	**-38,490**	**-124,912**	**-78,954**	**-163,537**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	June 30		December 31
	2011	**2010**	**2010**
Assets			
Equipment	4,528	4,813	4,585
Other current assets	8,015	5,633	9,863
Financial assets at fair value through profit or loss	205,418	129,767	69,548
Cash and cash equivalents	40,387	22,517	325,486
TOTAL ASSETS	**258,348**	**162,730**	**409,482**
Shareholders' equity and liabilities			
Shareholders' equity	217,636	136,205	342,548
Non-current liabilities	-	879	470
Current liabilities	40,712	25,646	66,464
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**258,348**	**162,730**	**409,482**

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	April-June		January-June		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Operating activities					
Operating income/loss before financial items	-78,853	-38,617	-128,435	-79,311	-161,839
Depreciation	614	843	1,215	1,724	2,930
Other items not affecting cash flows	-	-	19	-	-
	-78,239	**-37,774**	**-127,201**	**-77,587**	**-158,909**
Financial items received and paid	1,811	2,360	4,391	3,819	4,453
Cash flow from operating activities before changes in working capital	**-76,428**	**-35,414**	**-122,810**	**-73,768**	**-154,456**
Changes in working capital	11,211	-2,463	10,128	-7,071	,-4,424
Cash flow from operating activities	**-65,217**	**-37,877**	**-112,682**	**-80,839**	**,-158,880**
Investing activities					
Net investment in equipment	-915	-286	-1,601	-599	-1,985
Net investment in other short-term investments	-3,505	-11,216	-136,876	24,784	82,314
Cash flow from investing activities	**-4,420**	**-11,502**	**-138,477**	**24,185**	**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	**-69,637**	**-49,379**	**-285,099**	**-56,654**	**246,315**
Cash and cash equivalents at the beginning of the period	110,024	71,896	325,486	79,171	79,171
Cash and cash equivalents at the end of the period	**40,387**	**22,517**	**40,387**	**22,517**	**325,486**

1) Comprises the portion of transaction related costs that have 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	-	-	-78,954	-78,954
Amount at June 30, 2010	**77,412**	**805,941**	**-747,148**	**136,205**
Amount at January 1, 2011	**191,593**	**982,686**	**-831,731**	**342,548**
Loss for the period	-	-	-124,912	-124,912
Share issue	1,939	-1,939	-	0
Amount at June 30, 2011	**193,532**	**980,747**	**-956,643**	**217,636**

KEY EQUITY DATA

	June 30		December 31
	2011	**2010**	**2010**
Equity ratio	84.2%	83.7%	83.7%
Equity per share at the period end – basic, SEK	0.56	0.57	0.88
Equity per share at the period end – diluted, SEK	**0.56**	**0.57**	**0.88**

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PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	April-June		January-June		January-December
	2011	**2010**	**2011**	**2010**	**2010**
Net sales	-	-	-	-	-
Operating expenses					
Administration	-13,188	-8,279	-22,401	-16,520	-32,869
Research and development	-64,621	-30,244	-105,041	-62,820	-129,368
Other operating income/expenses	-1,044	-90	-993	38	412
	-78,853	-38,613	-128,435	-79,302	-161,825
Operating income/loss	**-78,853**	**-38,613**	**-128,435**	**-79,302**	**-161,825**
Financial net	1,643	142	3,537	391	-1,641
Earnings after financial items	**-77,210**	**-38,471**	**-124,898**	**-78,911**	**-163,466**
Tax	-	-	-	-	-
NET EARNINGS FOR THE PERIOD	**-77,210**	**-38,471**	**-124,898**	**-78,911**	**-163,466**
Depreciation included in operating expenses	**-396**	**-623**	**-778**	**-1,286**	**-2,055**

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	June 30		December 31
	2011	**2010**	**2010**
Assets			
Equipment	3,945	3,356	3,565
Shares in group companies	100	100	100
Other current assets	8,015	5,633	9,863
Other short term investments	205,418	129,767	69,548
Cash and cash equivalents	40,377	22,507	325,476
TOTAL ASSETS	**257,855**	**161,363**	**408,552**
Shareholders' equity and liabilities			
Total restricted equity	331,547	215,427	331,547
Total non-restricted equity	-113,558	-78,911	11,340
Current liabilities	39,866	24,847	65,665
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**257,855**	**161,363**	**408,552**

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OTHER INFORMATION

Significant events after the end of the reporting period

A 3D structure of the RORgamma receptor with Karo Bio's leading drug-like substance bound to the receptor has been depicted. This represents a breakthrough in the project as it provides a detailed overview of how the nearby surroundings look where the binding attaches to the receptor. This allows for specific alterations to be made to the molecule's structure of the future drug to optimize its properties.

Resolutions at the Annual General Meeting

The Annual General Meeting elected Göran Wessman as Chairman of the Board. Per Bengtsson, Christer Fåhraeus, Elisabeth Lindner, Jan N. Sandström and Anders Waas were elected as new Directors. None of the previous Directors were re-elected.

The annual general meeting decided that no dividend is to be paid for the 2o1o financial year.

Per Bengtsson appointed acting President and CEO

Per Bengtsson, MD PhD was appointed acting President and CEO in May, succeeding Fredrik Lindgren. Per Bengtsson has previously been CEO of Probi AB (publ), R&D Manager at Pharmacia/ Pharmacia & Upjohn Plasma Products, Medical Director and Therapeutic Area Head at Ferring and Development Manager at Bionor Immuno A/S.

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.

The auditors' review

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

Scheduled releases of financial information

- 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 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.

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The Board of Directors and the President and CEO certify that the Interim Report gives a true and fair overview of the Parent Company's and Group's operations, their financial position and results of operations, and describes significant risks and uncertainties facing the Parent Company and other companies in the Group.

Huddinge, July 13, 2011

Göran Wessman
Chairman

Per Bengtsson
Acting President and Board member

Christer Fåhraeus
Board member

Elisabeth Lindner
Board member

Jan N. Sandström
Board member

Anders Waas
Board member

Bo Carlsson
Board member

Johnny Sandberg
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Employee representative

Employee representative

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