KARO BIO

INTERIM REPORT JANUARY–SEPTEMBER 2012

The January-September period and the third quarter 2012 in brief

- Net sales increased to MSEK 24.6 (0.0), whereof the third quarter increased to MSEK 8.1 (0.0)
- Net loss improved to MSEK 89.3 (176.0), whereof the third quarter improved to MSEK 12.6 (51.1)
- Loss per share was SEK 0.23 (0.45), whereof the third quarter SEK 0.03 (0.13)
- Cash flow from operating activities was MSEK -107.7 (-160.4), whereof the third quarter MSEK -25.1 (-47.7)
- Cash and cash equivalents and other short-term investments totaled MSEK 50.0 (198.4) at the end of the period.

Significant events after end of the reporting period

- Costs in the fourth quarter are expected to amount to MSEK 19-20. For the full year 2013 costs are expected to amount to MSEK 75.
- The Board of Directors has decided to call to an Extraordinary General Meeting on November 19 to propose a rights issue which is expected to provide MSEK 35 after transaction costs. The issue is underwritten to 73 percent.

Conference call/audiocast today at 9.30 CET
CEO Per Bengtsson presents the report today at 9.30 CET in an audiocast, held in Swedish, available via a link on www.karobio.se and telephone: +46 8 505 598 09 or +44 203 364 5739.

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The information in this report is such that Karo Bio is required to disclose under the Swedish Securities Market Act. The information was disclosed on October 24, 2012, 08:30 CET.

Summary of key financial information

(MSEK)	July-September		January -September		January-December
	2012	**2011**	**2012**	**2011**	**2011**
Net sales	8.1	-	24.6	-	-
Operating expenses	-20.9	-52.8	-115.3	-181.3	-231.2
- of which R&D expenses	-16.4	-42.0	-95.0	-147.0	-189.3
Net earnings for the period	-12.6	-51.1	-89.3	-176.0	-226.6
Earnings per share (SEK)	-0.03	-0.13	-0.23	-0.45	-0.59
Cash flow from operating activities	-25.1	-47.7	-107.7	-160.4	-198.3
Cash and cash equivalents and other short term investments at the period end	**50.0**	**198.4**	**50.0**	**198.4**	**158.5**

About Karo Bio

Karo Bio is a research and development company focused on innovative drugs for important medical needs. The world-leading knowledge of nuclear receptors as target proteins for the development of pharmaceuticals and the related mechanisms of action, are utilized as a foundation for developing novel, increasingly effective and safer pharmaceuticals.

Karo Bio is active in preclinical development focused on the areas of neuropsychiatry, inflammation, autoimmune diseases, cancer and women's health. The company has a number of strategic collaborations with big pharma.

Karo Bio is based in Huddinge, Sweden. The company has around 44 employees and is listed on NASDAQ OMX Stockholm (Reuters: KARO.ST).

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CEO COMMENTARY

The "New Karo Bio" now taking shape is based on cutting edge expertise in nuclear receptors accumulated over two decades. In the "New Karo Bio", this is combined together with an active risk analysis and strong business focus early on in projects, which is expected to contribute positively to our future opportunities for revenue. The big pharmaceutical companies have an increasing need to acquire innovative projects that have good future market potential, are considered safer than others, and which are actually advancing in their development. An important requirement for our capability to strike deals is that we identify attractive projects early on.

Efforts to reduce Karo Bio's expenses continued during the third quarter. The layoffs decided on earlier in the year came into effect while we continued to review all expenditures. Costs in the quarter amounted to SEKM 20.8, which was 60 percent lower than in the third quarter last year, when we also had significant costs for eprotirome's Phase III program. In the fourth quarter, we estimate that Karo Bio's costs will drop to MSEK 19-20 and the revenues are expected to be on the same level as in the third quarter.

In order for Karo Bio to reach its goal of becoming self-financed, while also efficiently advancing its development programs, costs must be balanced against various possible sources of revenue. We are therefore working actively to seek different types of financing. We believe that Karo Bio has the potential to achieve a positive cash flow next year.

Nonetheless, we believe the business would benefit from stronger funding since it would provide greater flexibility and stability, making it easier for us to operate in a business-oriented manner. The Board has therefore decided to call to a general meeting to propose a rights issue that is expected to raise MSEK 35 after transaction costs. The issue is underwritten to 73 percent.

The work with finding alternative funding for projects is on-going. In August, Karo Bio submitted a grant application in the U.S. state of Texas for our project in ERbeta focused on cancer. The state of Texas is investing significant resources to create a cluster of commercial activity in the field of cancer around the specialist hospitals and medical universities in the Houston area. Karo Bio sees several advantages to relocating its development of ERbeta for various forms of cancer to this area, including taking advantage of the knowledge available here. Our application has now been reviewed and selected for in-depth assessment. If the application is successful, a large part of our ERbeta cancer project will receive funding for three years up to and including Phase I/II.

I would also like to comment the discussions we are having on ERbeta for MS. These discussions and the experiments planned have been delayed, but our dialogue continues in a positive spirit. As soon as we have more information, I will share this.

In summary, we have now established the "New Karo Bio", which through cutting edge expertise will deliver innovative and value enhancing projects. We have terminated the eprotirome project, and the important collaboration with Pfizer continues according to plan. The organization is very productive and generates new projects and results that strengthen Karo Bio's portfolio. We are in contact with companies that are interested in our expertise and our projects and we continue our efforts to reach additional agreements.

Per Bengtsson
CEO

KARO BIO'S PROJECT PORTFOLIO

Project portfolio

Program	Partner	Compound	Indication	Discovery	Preclinical	Clinical Development		
						Phase 1	Phase 2	Phase 3
ER	Merck & Co	MK6913	Womens' health					
		KB9520	Cancer					
			Multiple sclerosis (MS)					
RORgamma	Pfizer		Autoimmune disease					
GR			Inflammation					
LXR	Pfizer		Inflammation					

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, which Karo Bio was involved in discovering in the 1990's, seems to account for many of the positive effects of estrogen without the 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.

Karo Bio's efforts in the field have resulted in a world-leading position and a platform with 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 severe forms of cancers. The KB9520 project is being prepared to transfer into a separate subsidiary with its own funding and a focus on cancer. The operations are planned to be located in Houston, where the state of Texas is investing resources to create a good research environment for new forms of cancer treatment. Karo Bio submitted an application for state grants in August 2012, which will be processed in the fourth quarter. The subsidiary will need to match a potential grant with other financing corresponding to 1/3 of the total cost. Karo Bio's intention is to seek this financing outside of its broad shareholder base.

Since 2011, Karo Bio has run a development project for ERbeta focused on the autoimmune disease multiple sclerosis (MS). In preclinical models, ERbeta agonists have demonstrated protective effects on nerve cells. Supplementary studies conducted by Karo Bio have shown that ERbeta agonists have the potential to affect 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 also in patients this will represent a significant breakthrough in the treatment of MS patients, where damaged myelin leads to symptoms of the illness and disability.

One of Karo Bio's main priorities 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. This has resulted in ongoing commercial discussions.

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 2010, Merck terminated the development of MK-6913 for hot flashes in postmenopausal women due to lack of efficacy. Merck is evaluating options for future studies involving MK-6913.

RORgamma – a new opportunity 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 a research program 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.

In December 2011, Karo Bio entered into a research collaboration with Pfizer for RORgamma to discover and develop new compounds for the treatment of autoimmune diseases. Pfizer took on the responsibility to fully finance all research and will have exclusive rights for products developed as a result of the collaboration. The agreement can provide Karo Bio with up to USD 217 million (approx. MSEK 1,500) in research funding and milestones, of which USD 10-14 million in 2012 and 2013.

GR inflammation – potentially a new broad anti-inflammatory drug

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. Hence there is a large need for safer treatments and a significant commercial market.

Karo Bio's project aims to design novel selective glucocorticoids that have as powerful anti-inflammatory properties as conventional glucocorticoid steroids, such as cortisone and other similar substances, but with significantly lower side effects and thereby the potential for broader use. Karo Bio has discovered a previously undescribed mechanism of glucocorticoid regulation and the development project is now focusing on this discovery. Compounds based on this discovery are expected to have a significantly improved side effect profile compared to conventional steroidal therapy while maintaining the desired anti-inflammatory effect. Preclinical evaluation is ongoing to identify which compounds are best suited for further development as candidate drugs.

Between 2008 and the first quarter 2012, the project was conducted in collaboration with the Indian pharmaceutical company Zydus Cadila, under which the parties assumed their own costs and shared potential revenue. The parties preferred different paths in the continued development and therefore decided to terminate their joint research and development.

Karo Bio continues to develop the project on its own. In the third quarter of 2012, an early development milestone was achieved and consequently the project entered into a new preclinical stage.

NURR1 – a new way to treat autoimmune diseases

In the spring of 2012, Karo Bio started preparatory development work on the receptor NURR1. The receptor controls the development of regulatory T cells (Treg) that monitor and control other T-cell activity. A low number of Treg cells has been associated with autoimmune diseases such as multiple sclerosis, rheumatoid arthritis, type 1 diabetes and lupus. A drug that stimulates the NURR1 receptor and therefore also regulatory T-cells can be expected to have positive impact on autoimmune diseases. There is a biological drug (antibody) under development in clinical phase II by Biotest AG in

collaboration with Abbott that demonstrates the potential of activating regulatory T-cells for patients with autoimmune diseases. Initial discussions with big pharmaceutical companies also verify that there is a clear commercial interest in NURR1 and Karo Bio's assessment is that it may have potential to develop into a so-called hot spot.

LXR inflammation – collaboration with Pfizer

The collaboration with Wyeth LCC, today 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.

FINANCIAL REPORT

Consolidated earnings

Net sales for the nine month period increased to MSEK 24.6 (0.0), whereof the third quarter increased to MSEK 8.1 (0.0). Operating expenses for the first nine months decreased by MSEK 66.0 to MSEK 115.3 (181.3) of which MSEK 35 are directly contributable to the termination of the eprotirome program. Research and development expenses accounted for 82.4 per cent of the costs for the nine month period, after a decrease to MSEK 95.0 (147.0), whereof the third quarter MSEK 16.4 (42.0). Since a large portion of the research and development expenses are external project related expenses, variations between reporting periods may be significant.

Administrative expenses for the nine month period decreased to MSEK 20.4 (33.0), whereof the third quarter MSEK 4.5 (10.6). The consolidated operating loss for the nine month period decreased to MSEK 90.7 (181.3). The operating loss for the third quarter was MSEK 12.8 (52.8). Financial net for the nine month period amounted to MSEK 1.4 (5.3). Net loss for the nine month period improved to MSEK 89.3 (176.0), whereof the third quarter improved to MSEK 12.6 (51.1)

Capital investments and consolidated cash flow

Capital investments for the nine month period amounted to MSEK 0.6 (2.0) and comprise mainly investments in laboratory and IT equipment.

Cash flow from operating activities for the nine month period was MSEK -107.7 (-160.4), whereof the third quarter MSEK -25.1 (-47.7).

Financial position

Consolidated cash and cash equivalents amounted to MSEK 5.0 (22.6) at the end of the period. Including other short-term investments with durations exceeding 90 days, liquid assets amounted to MSEK 50.0 (198.4), which corresponds to a change in total cash position of MSEK -108.5 (-196.6) during the nine month period. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

The equity credit facility entered into in connection with the rights issue 2010/2011 was adjusted during the third quarter 2011 so that it could be utilized at the then current share price. This is no longer the case since the share price according to the agreement cannot be less than SEK 0.75 for the equity credit facility to be utilized. The mandate to use the credit facility will be submitted to the General Meeting for approval on an annual basis.

Total consolidated shareholders' equity amounted to MSEK 26.6 (166.6), taking into account the period's earnings. In total, there were 387,063,972 shares outstanding, each with a par value of SEK 0.02.

Loss per share amounted to SEK 0.23 (0.45). The Group's equity ratio at the end of the period was 41.3 (79.5) per cent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.07 (0.43).

Employees

At the end of the period, Karo Bio had 44 (70) employees, of whom 38 (62) are engaged in research and development, 1 (3) in business development and intellectual property rights and 5 (5) in administrative roles.

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	July-September		January-September		January-December
	2012	**2011**	**2012**	**2011**	**2011**
Net sales	8,143	-	24,619	-	-
Operating expenses					
Administration	-4,492	-10,618	-20,407	-33,019	-40,797
Research and development	-16,404	-41,996	-95,000	-147,037	-189,321
Other operating income/expenses	1	-208	79	-1,201	-1,041
	-20,895	-52,822	-115,328	-181,257	-231,159
Operating profit/loss	**-12,752**	**-52,822**	**-90,709**	**-181,257**	**-231,159**
Financial net	112	1,745	1,409	5,268	4,533
Earnings after financial items	**-12,640**	**-51,077**	**-89,300**	**-175,989**	**-226,626**
Tax	-	-	-	-	-
NET EARNINGS FOR THE PERIOD	**-12,640**	**-51,077**	**-89,300**	**-175,989**	**-226,626**
Net earnings for the period attributable to:					
Shareholders of the parent company	-12,640	-51,077	-89,300	-175,989	-226,626
Depreciation included in operating expenses	-405	-580	-1,375	-1,795	-2,409
Earnings per share	-0,03	-0.13	-0,23	-0.45	-0.59
Number of shares outstanding (000)	**387,064**	**387,064**	**387,064**	**387,064**	**387,064**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	July-September		January-September		January-December
	2012	**2011**	**2012**	**2011**	**2011**
NET EARNINGS FOR THE PERIOD	**-12,640**	**-51,077**	**-89,300**	**-175,989**	**-226,626**
Other comprehensive income for the year, net of tax	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-12,640**	**-51,077**	**-89,300**	**-175,989**	**-226,626**
Total comprehensive income attributable to:					
Shareholders of the parent company	**-12,640**	**-51,077**	**-89,300**	**-175,989**	**-226,626**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	September 30		December 31
	2012	**2011**	**2011**
Assets			
Equipment	4,268	4,738	5,558
Other current assets	10,169	6,346	7,409
Financial assets at fair value through profit or loss	44,990	175,821	114,780
Cash and cash equivalents	5,012	22,560	43,753
TOTAL ASSETS	**64,439**	**209,465**	**171,500**
Shareholders' equity and liabilities			
Shareholders' equity	26,622	166,559	115,922
Current liabilities	37,817	42,906	55,578
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**64,439**	**209,465**	**171,500**

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	July-September		January-September		January-December
	2012	**2011**	**2012**	**2011**	**2011**
Operating activities					
Operating income/loss before financial items	-12,752	-52,822	-90,709	-181,257	-231,159
Depreciation	405	580	1,375	1,795	2,409
Other items not affecting cash flows	-	-	-	19	19
	-12,347	**-52,242**	**-89,334**	**-179,443**	**-228,731**
Financial items received and paid	246	422	1,915	4,813	4,550
Cash flow from operating activities before changes in working capital	**-12,101**	**-51,820**	**-87,419**	**-174,630**	**-224,181**
Changes in working capital	-13,015	4,090	-20,292	14,218	25,898
Cash flow from operating activities	**-25,116**	**-47,730**	**-107,711**	**-160,412**	**-198,283**
Investing activities					
Net investment in equipment	-153	-1,006	-282	-2,607	-4,262
Net investment in other short-term investments	15,842	30,909	69,252	-105,967	-45,248
Cash flow from investing activities	**15,689**	**29,903**	**68,970**	**-108,574**	**-49,510**
Financing activities					
Net proceeds from rights issue	-	-	-	-	-
Transaction costs rights issue [1)]	-	-	-	-33,940	-33,940
Cash flow from financing activities	**-**	**-**	**-**	**-33,940**	**-33,940**
Cash flow for the period	**-9,427**	**-17,827**	**-38,741**	**-302,926**	**-281,733**
Cash and cash equivalents at the beginning of the period	14,439	40,387	43,753	325,486	325,486
Cash and cash equivalents at the end of the period	**5,012**	**22,560**	**5,012**	**22,560**	**43,753**

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

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, 2011	**191,593**	**982,686**	**-831,731**	**342,548**
Loss for the period	-	-	-175,989	-175,989
Share issue	1,939	-1,939	-	0
Amount at September 30, 2011	**193,532**	**980,747**	**-1,007,720**	**166,559**
Amount at January 1, 2012	**193,532**	**980,747**	**-1,058,357**	**115,922**
Loss for the period	-	-	-89,300	-89,300
Reduction of share capital	-185,791	185,791	-	0
Amount at September 30, 2012	**7,741**	**1,166,538**	**-1,147,657**	**26,622**

KEY EQUITY DATA

	September 30		December 31
	2012	**2011**	**2011**
Equity ratio	41.3%	79.5%	67.6%
Equity per share at the end of period – basic, SEK	0.07	0.43	0.30
Equity per share at the end of period - diluted, SEK	**0.07**	**0.43**	**0.30**

The Parent Company

Net sales for the Parent Company for the nine month period amounted to MSEK 24.6 (0.0), whereof the third quarter MSEK 8.1 (0.0). Loss after financial items for the parent company was MSEK 89.6 (176.0) for the nine month period, whereof the third quarter MSEK 12.6 (51.1).

The Parent Company's capital investments in equipment for the nine month period amounted to MSEK 0.6 (2.0). Cash, cash equivalents and other short-term investments for the parent company amounted to MSEK 49.9 (198.4) at the end of the period.

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	July-September		January-September		January-December
	2012	**2011**	**2012**	**2011**	**2011**
Net sales	8,143	-	24,619	-	-
Operating expenses					
Administration	-4,492	-10,618	-20,407	-33,019	-40,797
Research and development	-16,405	-41,996	-95,351	-147,037	-189,321
Other operating income/expenses	1	-208	79	-1,201	-1,041
	-20,896	-52,822	-115,679	-181,257	-231,159
Operating income/loss	**-12,753**	**-52,822**	**-91,060**	**-181,257**	**-231,159**
Financial net	118	1,747	1,417	5,284	4,547
Earnings after financial items	**-12,635**	**-51,075**	**-89,643**	**-175,973**	**-226,612**
Tax	-	-	-	-	-
NET EARNINGS FOR THE PERIOD	**-12,635**	**-51,075**	**-89,643**	**-175,973**	**-226,612**
Depreciation included in operating expenses	**-376**	**-361**	**-1,171**	**-1,139**	**-1,535**

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	September 30		December 31
	2012	**2011**	**2011**
Assets			
Equipment	3,976	4,374	5,412
Shares in group companies	150	100	100
Other current assets	10,169	6,346	7,409
Financial assets at fair value through profit or loss	44,990	175,821	114,780
Cash and cash equivalents	4,952	22,550	43,743
TOTAL ASSETS	**64,237**	**209,191**	**171,444**
Shareholders' equity and liabilities			
Total restricted equity	116,275	331,547	331,547
Total non-restricted equity	-89,643	-164,633	-215,272
Current liabilities	37,605	42,277	55,169
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**64,237**	**209,191**	**171,444**

OTHER INFORMATION

Continued operations

The Board of Directors assess that Karo Bio has the potential to reach a positive cash flow next year.

The business would nonetheless benefit from stronger funding, since it would provide greater flexibility and stability. The Board has therefore decided to call to an Extraordinary General Meeting to resolve on a rights issue.

The proposed rights issue is expected to provide about MSEK 35 after transaction costs. After the new issue, Karo Bio's liquid funds are expected to cover continued operations for twelve months from September 30, even if no new licensing agreements are signed or other financing obtained.

Significant events after the end of the reporting period

The Board of Directors proposes a new share issue

The Board of Directors proposes that the General Meeting resolves on a share issue in order to provide the company with proceeds of approximately SEK 38.7 million. In order to satisfy any over-subscription in the rights issue, the Board proposes that it be authorized to decide on the issuance of additional shares in order to enable the Company to raise proceeds of additionally approximately MSEK 10.

An agreement with a consortium has been made that underwrites 73 percent of the issue.

Consequently, the Board will call an Extraordinary General Meeting on November 19, 2012 at 4:00 p.m. CET in the Restaurant Tango, Novum Science Park (5th floor), Hälsovägen 7, Huddinge, Sweden. In connection with the General Meeting a second control meeting will also be conducted at which a balance sheet for liquidation purposes will be presented, showing that the equity amounts to at least that value of the registered share capital.

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 2011. 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 1st, 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.

Annual General Meeting 2012

Karo Bio's Annual General Meeting will be held in Huddinge, Sweden on May 7, 2013.

Scheduled releases of financial information

Year-end report 2012	February 12, 2013
Annual report 2013	March 2013
Annual General Meeting	May 7, 2013
Interim report January-March 2013	May 7, 2013
Interim report April-June 2013	July 12, 2013
Interim report July-September 2013	October 25, 2013
Year-end report 2013	February 13, 2014

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, October 24, 2012

Per Bengtsson
CEO and Board member

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Report of Review of Interim Financial Information

Introduction

We have reviewed this report for the period January 1 to September 30, 2012 for Karo Bio AB (publ). The Board and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

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

Conclusion

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

Stockholm October 24, 2012

PricewaterhouseCoopers AB

Håkan Malmström
Certified accountant