KARO BIO

# INTERIM REPORT JANUARY-JUNE 2013

## The January–June period and the second quarter 2013 in brief

- Net sales amounted to MSEK 16.2 (16.5), whereof the second quarter amounted to MSEK 8.1 (8.2)
- Net loss for the group was MSEK 25.3 (76.7), whereof the second quarter MSEK 14.6 (22.6)
- Loss per share was SEK 0.05 (0.20), whereof the second quarter SEK 0.03 (0.06)
- Cash flow from operating activities was MSEK -24.2 (-82.6), whereof the second quarter MSEK -14.3 (-41.0)
- Cash and cash equivalents and other short-term investments totaled MSEK 33.8 (75.4) at the end of the period
- The research agreement with Pfizer on RORgamma was extended one year until 2015

**Conference call / audiocast today at 9.30 a.m. CET**

CEO Per Bengtsson will present the report today at 9.30 a.m. in an audiocast, held in Swedish. The audiocast and slides are available via a link on the corporate website http://www.karobio.se/ or by telephone +46850556477. It is possible to ask questions both over internet and telephone.

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## Summary of key financial data

| (MSEK) | April-June | | January -June | | January-December |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2012** |
| Net sales | 8.1 | 8.2 | 16.2 | 16.5 | 33.2 |
| Operating expenses | -22.8 | -31.3 | -41.6 | -94.4 | -132.9 |
| - of which R&D expenses | -17.3 | -23.9 | -30.9 | -78.6 | -107.9 |
| Net earnings for the period | -14.6 | -22.6 | -25.3 | -76.7 | -98.3 |
| Earnings per share (SEK) | -0.03 | -0.06 | -0.05 | -0.20 | -0.25 |
| Cash flow from operating activities | -14.3 | -41.0 | -24.2 | -82.6 | -127.8 |
| **Cash and cash equivalents and other short term investments at the period end** | **33.8** | **75.4** | **33.8** | **75.4** | **54.1** |

## 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 their related mechanisms of action, are utilized for developing novel, more effective and safer pharmaceuticals.

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

Karo Bio is based in Huddinge, Sweden. The company has around 42 employees and is listed on NASDAQ OMX Stockholm.

## PFIZER AGREEMENT EXTENDED UNTIL 2015

The most important event in the second quarter was that Pfizer decided to extend our research collaboration on RORgamma a year further until 2015. Previously this year, we have communicated that the project progresses well, but due to our non-disclosure agreement, it has been difficult to provide any details on the progress. The extension is a meaningful confirmation that RORgamma retains its status as a hot target in the development of novel pharmaceuticals for autoimmune diseases. The area is very interesting since there are observations in man that reduce development risk. We can now look forward to continue collaborating with Pfizer in this project for another year.

The extension also provides us with significant revenues next year to finance a significant portion of our operations. Furthermore, provided the project advances as planned, it will start to generate milestones, whereof the first is expected in the second half of 2013. Thereafter, we may receive further milestones under the agreement. Total milestones amount to 220 million dollars, which makes the agreement Karo Bio's largest ever.

Alongside RORgamma, we also work diligently on our ERbeta platform. The preclinical work is primarily focused on the MS area, where we in the second quarter started to receive interim results from the new study we commissioned to further improve our understanding of the effect. I am happy to report that these indicate that our assumption are correct, that the compound act through other mechanisms than existing compound and therefore should be attractive for MS therapy. We are still awaiting key findings from the studies that were due before mid-year, though. Thereafter, we will compile the new data in a presentation to be used in discussions with potential partners and funders. Our work with ERbeta in the field of cancer, advanced during the quarter. We now know much more about ERbeta's effect on tumor cells and these findings are expected to make the project more attractive to potential partners.

Discussions with Merck about the conditions and opportunities to regain the drug candidate MK-6913 continued in the quarter. Our aim is to explore the possibility to access a compound that has been in phase II clinical trials in order to determine if it could be developed for other indications.

Work on NURR1 and the new receptor Nur77 continued. There are synergies in exploring the receptors in parallel allowing us to work cost efficiently on the two in tandem. Albeit work is early stage in both receptors, there are interesting results suggesting that they may develop into hot targets, highly interesting for drug development. Work on GR continued and we have a ways to go in terms of further development of molecules before we can move forward and make further preclinical testing.

In parallel with working on our projects, we continue to reduce our costs. In the second quarter, net costs rolling 12 months fell to 47 million, which is significantly lower than the 100 million reported for the full-year 2012, of which 33 million related to the termination of the eprotirome project. Furthermore, we implemented additional savings during the second quarter, mainly in staff, facilities and administration, which will gradually come into effect during the latter half of the year. These are important measures bringing us closer to our long term goal of a neutral cash flow.

As some of you are aware, we are testing new ways of telling a bit more about our activities in a CEO blog on our website. The idea is to provide some more information on a current topic around once a month. The blog can be found here: http://www.karobio.se/investormedia/vd-bloggen. In parallel, we also started a Twitter account in the name KaroBio AB.

CEO Per Bengtsson

# PROJECT PORTFOLIO

## 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 medical use 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, 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 some forms of cancers. Karo Bio is actively seeking financing to continue the development of the project, primarily through public grants.

Since 2011, Karo Bio has 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, which is very promising since damaged myelin are involved in the symptoms of the disease and disability in MS. 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, since current therapies only aim at reducing inflammation. Karo Bio has conducted animal studies that show that ERbeta has a positive effect in experimental disease models. The results are promising and analysis is therefore underway to confirm the details of ERbeta's therapeutic effect on nerve tissue. As part of this effort, Karo Bio performed additional studies in disease models in the beginning of 2013. Results received so far indicate that ERbeta has the effect we have assumed. Additional interim reports from the studies will be available in the second half after which enhanced presentation materials for potential partners and donors will be compiled.

## 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, and in the fourth quarter of 2012 Merck informed that it does not intend to continue the development of the compound. There have not been any safety related issues reported for the compound. Karo Bio is exploring the possibility to regain the rights to the compound in connection with the termination of the contractual relationship with Merck.

## RORgamma – a new opportunity to treat autoimmune diseases

Recent research reveals that the nuclear receptor RORgamma may play a critical 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. 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 has exclusive rights for products developed as a result of the collaboration.

Initially, Pfizer assumed responsibility to fully fund research for two years. In June 2013, Pfizer decided to extend the research funding agreement one year until 2015.

The agreement is expected to provide Karo Bio revenue of 5-7 million USD in 2013. So far in 2013, Karo Bio has recognized revenue of approximately 2.5 million USD from the collaboration. The project is advancing.

### 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 antiinflammatory drugs but negative 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 antiinflammatory 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 that may have desired properties. The development work is focusing on this discovery and evaluation is ongoing to identify compounds suited for further development as candidate drugs.

### 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 large pharmaceutical companies 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 hot spot, creating an opportunity to enter into a license agreement at an early stage. The work on this receptor is at a very early stage.

### Nur77

In parallel with NURR1, Karo Bio has also initiated some investigations of Nur77, a similar receptor to NURR1. There are substantial synergies with working in parallel with the mechanisms of these receptors. Collaboration has been initiated with leading scientists in the field. It is estimated that there are good prospects for Nur77 to become a commercially viable area at an early stage of development.

### 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 six month period were MSEK 16.2 (16.5), whereof the second quarter MSEK 8.1 (8.2). Operating expenses for the first six months decreased by MSEK 52.8 to MSEK 41.6 (94.4). Research and development expenses accounted for 74 per cent of the costs for the six month period, after a decrease to MSEK 30.9 (78.6), whereof the second quarter MSEK 17.3 (23.9). The cost reduction is attributable partly to decreased external project expenses as a result of the termination of the eprotirome program, and partly to the cost reduction program launched in 2012.

Administrative expenses for the six month period decreased to MSEK 11.0 (15.9), whereof the second quarter MSEK 5.7 (7.4). The consolidated operating loss for the six month period decreased to MSEK 25.4 (78.0). The operating loss for the second quarter was MSEK 14.7 (23.1). Financial net for the six month period amounted to MSEK 0.1 (1.3). Net loss for the period improved to MSEK 25.3 (76.7), whereof the second quarter MSEK 14.6 (22.6).

## Capital investments and consolidated cash flow

Capital investments for the six month period amounted to MSEK 0.4 (0.5) and comprise mainly investments in laboratory and IT equipment.

Cash flow from operating activities for the six month period amounted to MSEK -24.2 (-82.6), whereof the second quarter MSEK -14.3 (-41.0).

## Financial position

Consolidated cash and cash equivalents amounted to MSEK 23.8 (14.4) at the end of the period. Including other short-term investments with durations exceeding 90 days, liquid assets amounted to MSEK 33.8 (75.4), which corresponds to a change in total cash position and other short-term investments of MSEK -20.3 (-83.1) in the year. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

The company's equity credit facility can be utilized when the share price amounts to or exceeds SEK 0.75, a condition which was not fulfilled at the time of the report. The mandate to use the credit facility will be submitted to the General Meeting for approval on an annual basis.

Total shareholders' equity amounted to MSEK 20.7 (39.3) taking into account the period's earnings. In total, there were 495,947,369 shares outstanding, each with a pair value of SEK 0.02.

Loss per share amounted to SEK 0.05 (0.20). The Group's equity ratio at the end of the period was 45.6 (45.4) per cent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.04 (0.10).

## Employees

At the end of the period, Karo Bio had 42 (44) employees, of whom 36 (37) are engaged in research and development, 1 (2) in business development and intellectual property rights and 5 (5) in administrative roles.

## CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

| | April-June | | January-June | | January-December |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2012** |
| Net sales | 8,110 | 8,167 | 16,209 | 16,476 | 33,173 |
| **Operating expenses** | | | | | |
| Administration | -5,747 | -7,420 | -11,001 | -15,915 | -25,116 |
| Research and development | -17,254 | -23,934 | -30,895 | -78,596 | -107,857 |
| Other operating income/expenses | 209 | 95 | 323 | 78 | 51 |
| | -22,792 | -31,259 | -41,573 | -94,433 | -132,922 |
| **Operating profit/loss** | **-14,682** | **-23,092** | **-25,364** | **-77,957** | **-99,749** |
| Financial net | 100 | 474 | 113 | 1,297 | 1,495 |
| **Earnings after financial items** | **-14,582** | **-22,618** | **-25,251** | **-76,660** | **-98,254** |
| Tax | - | - | - | - | - |
| **NET EARNINGS FOR THE PERIOD** | **-14,582** | **-22,618** | **-25,251** | **-76,660** | **-98,254** |
| **Net earnings for the period attributable to:** | | | | | |
| Shareholders of the parent company | -14,582 | -22,618 | -25,251 | -76,660 | -98,254 |
| Depreciation included in operating expenses | -341 | -413 | -671 | -970 | -1,748 |
| **Earnings per share (SEK)** [1)] | -0.03 | -0.06 | -0.05 | -0.20 | -0.25 |
| **Number of shares outstanding (000)** | **495,947** | **389,812** | **495,947** | **389,812** | **389,812** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

| | April-June | | January-June | | January-December |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2012** |
| **NET EARNINGS FOR THE PERIOD** | **-14,582** | **-22,618** | **-25,251** | **-76,660** | **-98,254** |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **-14,582** | **-22,618** | **-25,251** | **-76,660** | **-98,254** |
| Total comprehensive income attributable to: | | | | | |
| **Shareholders of the parent company** | **-14,582** | **-22,618** | **-25,251** | **-76,660** | **-98,254** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

| | June 30 | | December 31 |
|---|---|---|---|
| | **2013** | **2012** | **2012** |
| **Assets** | | | |
| Equipment | 3,535 | 4,545 | 3,771 |
| Other current assets | 7,968 | 6,428 | 19,893 |
| Financial assets at fair value through profit or loss | 10,017 | 60,975 | 26,049 |
| Cash and cash equivalents | 23,774 | 14,439 | 28,024 |
| **TOTAL ASSETS** | **45,294** | **86,387** | **77,737** |
| | | | |
| **Shareholders' equity and liabilities** | | | |
| Shareholders' equity | 20,666 | 39,262 | 45,917 |
| Current liabilities | 24,628 | 47,125 | 31,820 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **45,294** | **86,387** | **77,737** |

## CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

| | April-June | | January-June | | January-December |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2012** |
| **Operating activities** | | | | | |
| Operating income/loss before financial items | -14,682 | -23,092 | -25,364 | -77,957 | -99,749 |
| Depreciation | 341 | 413 | 671 | 970 | 1,748 |
| | **-14,341** | **-22,679** | **-24,693** | **-76,987** | **-98,001** |
| | | | | | |
| Financial items received and paid | 2 | 588 | 35 | 1,669 | 1,907 |
| **Cash flow from operating activities before changes in working capital** | **-14,339** | **-22,091** | **-24,658** | **-75,318** | **-96,094** |
| | | | | | |
| Changes in working capital | 83 | -18,889 | 482 | -7,277 | -31,706 |
| **Cash flow from operating activities** | **-14,256** | **-40,980** | **-24,176** | **-82,595** | **-127,800** |
| | | | | | |
| **Investing activities** | | | | | |
| Net investment in equipment | -64 | -442 | -483 | -129 | -184 |
| Net investment in other short-term investments | 15,999 | 9,510 | 16,096 | 53,410 | 88,319 |
| **Cash flow from investing activities** | **15,935** | **9,068** | **15,613** | **53,281** | **88,135** |
| | | | | | |
| **Financing activities** | | | | | |
| Net proceeds from rights issue | - | - | 7,665 | - | 25,000 |
| Transaction costs rights issue [1)] | - | - | -3,352 | - | -1,064 |
| **Cash flow from financing activities** | **-** | **-** | **4,313** | **-** | **23,936** |
| | | | | | |
| **Cash flow for the period** | **1,679** | **-31,912** | **-4,250** | **-29,314** | **-15,729** |
| Cash and cash equivalents at the beginning of the period | 22,095 | 46,351 | 28,024 | 43,753 | 43,753 |
| **Cash and cash equivalents at the end of the period** | **23,774** | **14,439** | **23,774** | **14,439** | **28,024** |

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, 2012** | **193,532** | **980,747** | **-1,058,357** | **115,922** |
| Loss for the period | - | - | -76,660 | -76,660 |
| Reduction of share capital | -185,791 | 185,791 | - | 0 |
| **Amount at June 30, 2012** | **7,741** | **1,166,538** | **-1,135,017** | **39,262** |
| | | | | |
| **Amount at January 1, 2013** | **7,741** | **1,008,996** | **-970,820** | **45,917** |
| Loss for the period | - | - | -25,251 | -25,251 |
| Current rights issue | 2,178 | -2,178 | - | 0 |
| **Amount at June 30, 2013** | **9,919** | **1,006,818** | **-996,071** | **20,666** |

## KEY EQUITY DATA

| | June 30 | | December 31 |
|---|---|---|---|
| | **2013** | **2012** | **2012** |
| Equity ratio | 45,6% | 45.4% | 59.1% |
| Equity per share at the end of period – basic, SEK | 0.04 | 0.10 | 0.12 |
| **Equity per share at the end of period - diluted, SEK** | **0.04** | **0.10** | **0.12** |

## The Parent Company

Net sales for the Parent Company for the six month period amounted to MSEK 16.2 (16.5), whereof the second quarter MSEK 8.1 (8.2). Loss after financial items for the parent company was MSEK 25.3 (77.0) for the six month period, whereof the second quarter MSEK 14.6 (23.0).

The Parent Company's capital investments in equipment for the six month period amounted to MSEK 0.4 (0.5). Cash, cash equivalents and other short term investments for the parent company amounted to MSEK 33.7 (75.4) at the end of the period.

## PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

| | April-June | | January-June | | January-December |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2012** |
| Net sales | 8,110 | 8,167 | 16,209 | 16,476 | 33,173 |
| **Operating expenses** | | | | | |
| Administration | -5,747 | -7,420 | -11,001 | -15,915 | -25,116 |
| Research and development | -17,272 | -24,284 | -30,914 | -78,946 | -108,207 |
| Other operating income/expenses | 209 | 95 | 323 | 78 | 51 |
| | -22,810 | -31,609 | -41,592 | -94,783 | -133,272 |
| **Operating income/loss** | **-14,700** | **-23,442** | **-25,383** | **-78,307** | **-100,099** |
| Financial net | 104 | 479 | 121 | 1,299 | 1,507 |
| **Earnings after financial items** | **-14,596** | **-22,963** | **-25,262** | **-77,008** | **-98,592** |
| Tax | - | - | - | - | - |
| **NET EARNINGS FOR THE PERIOD** | **-14,596** | **-22,963** | **-25,262** | **-77,008** | **-98,592** |
| **Depreciation included in operating expenses** | **-321** | **-384** | **-631** | **-795** | **-1,515** |

## PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

| | June 30 | | December 31 |
|---|---|---|---|
| | **2013** | **2012** | **2012** |
| **Assets** | | | |
| Equipment | 3,311 | 4,224 | 3,509 |
| Shares in group companies | 150 | 150 | 150 |
| Other current assets | 7,968 | 6,428 | 19,893 |
| Financial assets at fair value through profit or loss | 10,017 | 60,975 | 26,049 |
| Cash and cash equivalents | 23,714 | 14,379 | 27,964 |
| **TOTAL ASSETS** | **45,160** | **86,156** | **77,565** |
| **Shareholders' equity and liabilities** | | | |
| Total restricted equity | 9,919 | 7,741 | 9,919 |
| Total non-restricted equity | 10,751 | 31,526 | 36,013 |
| Current liabilities | 24,490 | 46,889 | 31,633 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **45,160** | **86,156** | **77,565** |

# OTHER INFORMATION

## AGM 7 May 2013

The annual general meeting re-elected the board members Christer Fåhraeus, Per-Anders Johansson, Anders Waas, and Göran Wessman while Sibylle Lenz was elected as a new member. Göran Wessman was re-elected as Chairman.

## Continued operations

The company believes that there is potential for continued operations for 12 months from the closing date. Without additional funding or revenue, existing cash and cash equivalents and financial investments are expected to finance the current scope of operations until soon after the turn of the year. Under these same conditions, deemed equity at the end of the fourth quarter may be less than 50 per cent of the registered share capital.

The agreed extension of the research collaboration with Pfizer implies revenue that will finance a significant part of operations in 2014. Moreover, the company believes that there are opportunities for additional revenue during the current year, mainly in the form of a milestone from the existing agreement with Pfizer. Should this not occur, or be displaced, it is conceivable that the operations may require additional injection of capital during the first quarter 2014.

## Significant events after the end of the reporting period

There have been no significant events to report on after the end of the reporting period.

## 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 2012. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2013 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.

## Scheduled releases of financial information

| | |
|---|---|
| Interim report January-September 2013 | 25 October 2013 |
| Year-end report 2013 | 13 February 2014 |

Financial reports, press releases and other financial 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.

## Auditor's review

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

Huddinge, 12 July 2013

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|---|---|---|
| Per Bengtsson<br>CEO | Göran Wessman<br>Chairman | Christer Fåhraeus<br>Board member |
| Per-Anders Johansson<br>Board member | Sibylle Lenz<br>Board member | Anders Waas<br>Board member |
| Bo Carlsson<br>Board member<br>Employee representative | Johnny Sandberg<br>Board member<br>Employee representative | |