

NOT FOR RELEASE, OR FOR PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES, AUSTRALIA, CANADA, HONG KONG, JAPAN, NEW ZEELAND, SINGAPORE, SOUTH AFRICA OR SWITZERLAND, OR WITHIN ANY OTHER JURISDICTION IN WHICH THE DISTRIBUTION OF THIS PRESS RELEASE WOULD NOT COMPLY WITH APPLICABLE LAWS AND REGULATIONS.

KARO BIO IMPLEMENTS A RIGHTS ISSUE OF MSEK 77.7 AND A DIRECTED ISSUE OF MSEK 7.0 TO ANDERS LÖNNER

STOCKHOLM, SWEDEN, February 13, 2014 – The Board of Directors of Karo Bio has decided to implement a rights issue. According to the terms of the issue, three (3) existing shares in Karo Bio entitle the holder to subscribe for one (1) new share at SEK 0.47. The subscription period for the rights issue is between March 24 and April 7, 2014. Fully subscribed, the rights issue will raise MSEK 77.7. There are subscription commitments and underwriting agreements corresponding to 85 per cent of the rights issue.

In addition, the Board of Directors has decided to implement a directed issue of 15 000 000 shares at SEK 0.47 per share, raising MSEK 7.0. The directed issue will be subscribed by Anders Lönnér.

In total, the share issues will raise MSEK 84.7 before transaction costs.

The decision of the Board to issue shares is conditional upon approval by an extraordinary general meeting to be held on March 17, 2014. Notice to the extraordinary general meeting will be published separately.

Background and rationale

During the last year, Karo Bio has had a positive development in several of its projects, which may enable the company to have one or more projects in clinical phase next year. Furthermore, there is a strong interest in the company's projects among potential industrial partners and Karo Bio deems that there are good prospects to enter into a license deal.

The bulk of Karo Bio's resources are currently being focused to three projects. These projects are RORgamma, ERbeta MS and ERbeta Cancer. For RORgamma, Karo Bio has a well-functioning cooperation with Pfizer, which generated about MSEK 44 in revenues in 2013.

Within both ERbeta MS and ERbeta Cancer, important pre-clinical results have been generated during the last year, which further strengthens the potential of the projects as well as increases their commercial value. Karo Bio has also entered into a collaboration within the fibrosis field that will investigate a potential new treatment principle for these hard to treat diseases.

To finance the development of ERbeta MS and ERbeta Cancer towards clinical trials and to strengthen the long term prospects of operations as well as Karo Bios position in commercial discussions, there is a need to raise additional capital. The Board assesses that the net proceeds from the share issues will be sufficient to finance the company for the coming twelve months, also without any additional license agreements or additional financing.

Anders Lönner has declared his intentions to become a long term and active owner in Karo Bio. The Board of Directors deems that Anders Lönner's experience from the pharmaceutical industry and competence within business development is of strategic importance to the company and that it will improve Karo Bio's potential to create value for all shareholders. To the annual general meeting 2014, Karo Bio's nomination committee has nominated Anders Lönner to the position as Chairman of the Board. The complete proposal from the nomination committee is available in a separate press release.

Terms for the rights issue

The rights issue means that Karo Bio's share capital is increased by a maximum of SEK 3,306,279.35 by the issuance of a maximum of 165,315,790 shares. Existing shareholders have preferential rights to subscribe for new shares in proportion to the number of shares already held. Those who on the record date are registered as shareholders in Karo Bio are entitled to subscribe for one (1) new share for every three (3) existing shares in the company.

If not all subscription rights are exercised for subscription with preferential right, the Board shall resolve on allotment of shares without preferential right up to the maximum amount of the rights issue. Such allotment will firstly be made to those who have subscribed for shares by the exercise of subscription rights and who wish to subscribe for additional shares, pro rata in proportion to the number of shares subscribed for using subscription rights, secondly to other parties who have expressed an interest to subscribe for shares without the exercise of subscription rights, pro rata in proportion to their declared interest, and thirdly to those who have provided guarantees for the subscription of shares.

The record date for participation in the issue is March 20, 2014. Subscription shall take place during the period from March 24 until April 7, 2014. The subscription price has been set at SEK 0.47 per share. If fully subscribed, the rights issue will provide Karo Bio with SEK 77,698,421 before transaction costs.

Subscription and underwriting guarantees

Existing shareholders, who together represent 4.0 percent of the share capital in Karo Bio, have undertaken to subscribe in full for their pro rata share in the rights issue, which amount to around MSEK 3.1. In addition to subscription agreements, an underwriting consortium has committed to subscribe for up to MSEK 63 in the rights issue. In total, about MSEK 66.1 of the rights issue is guaranteed by subscription undertakings and underwriting commitments, which represents 85 per cent of the issue amount.

Preliminary time-plan for the rights issue

February 17, 2014	Notice for extraordinary general meeting
March 17, 2014	Extraordinary general meeting
March 18, 2014	First day of trading excluding rights to participate in the rights issue
March 20, 2014	Record date for participation in the rights issue
March 21, 2014	Expected date of publication of the prospectus
March 24 – April 7, 2014	Subscription Period
March 24 – April 2, 2014	Trading in subscription rights
April 10, 2014	Estimated date of publication of the outcome of the rights issue

Terms and time-plan for the directed issue

In the directed share issue, the share capital will be increased with SEK 299,996.69 through the issuance of 15 000 000 new shares. The issue will be subscribed without preferential rights by Anders Lönner in accordance with subscription undertaking. The price in the directed issue is SEK 0.47 per share. The shares shall be subscribed on March 16, 2014 the latest and paid within the subscription period in the rights issue.

Extraordinary general meeting

The shareholders in Karo Bio are convened to an extraordinary general meeting Monday March 17, 2014 at 16.00 in Restaurant Tango, Novum Science Park (level 5), Hälsovägen 7 in Huddinge. The notice of the extraordinary general meeting is available in a separate press release.

Advisors

Redeye is financial advisor and Mannheimer Swartling legal advisor to the company in connection with the rights issue.

For further information, please contact:

Per Bengtsson, CEO, mobile phone +46 76 002 6020 or e-mail per.bengtsson@karobio.se

Henrik Palm, CFO, mobile phone +46 70-540 40 14 or e-mail henrik.palm@karobio.se

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. Karo Bio is based in Huddinge, Sweden. The company has around 39 employees and is listed on NASDAQ OMX Stockholm.

Karo Bio publishes this information in accordance with the Swedish Securities Markets Act and/or the Swedish Financial Instruments Trading Act. The information was published on February 13, 2014 at 08:30 am CET.

IMPORTANT INFORMATION

This press release is not an offer or solicitation to acquire shares in Karo Bio. A prospectus relating to the rights issue referred to in this press release will be filed with the Swedish Financial Supervisory Authority. After approval and registration of the prospectus by the Swedish Financial Supervisory Authority, the prospectus will be published and made available on Karo Bio's website.

This press release does not constitute or form part of an offer or solicitation to purchase or subscribe for securities in the United States. The securities referred to herein may not be sold in the United States absent registration or an exemption from registration under the US Securities Act of 1933, as amended. Karo Bio does not intend to register any portion of the offering of the securities in the United States or to conduct a public offering of the securities in the United States. The information in this press release may not be announced, published or distributed, directly or indirectly, to the United States, Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa or Switzerland, or in any other jurisdiction where the announcement, publication or distribution of the information would not comply with applicable laws and regulations.

No subscription rights, interim shares or shares has been, and will not be registered under the United States Securities Act of 1933 (" Securities Act") or the securities laws of any state or other jurisdiction of the United States and may not be offered, subscribed, exercised, pledged, sold, resold, delivered or transferred, directly or indirectly, within the United States, except with the prior written consent of Karo Bio and pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with the securities laws of the relevant state or other jurisdiction of the United States. Securities are being offered outside the United States pursuant to Regulation S under the Securities Act. There will not be implemented any public offering in the United States. Any offer of securities in the United States will only be provided to a limited number of existing shareholders who (i) Karo Bio at its own discretion, finds to be qualified enough to be offered securities without the risk of triggering the registration requirements under the Securities Act and (ii) has signed and sent a so-called investor letter to Karo Bio.

This press release may contain certain forward-looking statements that reflect Karo Bio's current views of future events and financial and operational performance. Words such as "intends", "anticipates", "expects", "may", "plan ", "anticipate" or similar expressions regarding indications or predictions of future developments or trends, and are not based on historical facts, constitute forward-looking information. Forward-looking information is inherently associated with both known and unknown risks and uncertainties because it is dependent on future events and circumstances. Forward-looking statements are not guarantees regarding future results or developments and actual results may differ materially from those set forth in forward-looking information.