INTERIM REPORT JANUARY-MARCH 2014

The January–March period 2014 in brief

- Net sales amounted to MSEK 6.4 (8.1), first quarter last year included amortized upfront fees of MSEK 2,5
- Net loss for the group was MSEK 13.4 (10.7)
- Loss per share was SEK 0.03 (0.02)
- Cash flow from operating activities was MSEK -13.1 (-9.9)
- Cash and cash equivalents and other short-term investments totaled MSEK 8.6 (48.0) at the end of the period
- Financing of MSEK 1 granted by Vinnova for ERbeta cancer project

Significant events after the end of the reporting period

- Net proceeds of MSEK 77 from equity issues

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 through the corporate website http://www.karobio.se/ or by telephone +468 51 999 365 (audio only). Questions may be submitted over the internet or by telephone.

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Summary of key financial data

	January-March		January-December
	2014	**2013**	**2013**
Net sales	6.4	8.1	47.0
Operating expenses	-19.8	-18.8	-69.3
- of which R&D expenses	-14.1	-13.6	-52.5
Net earnings/loss for the period	-13.4	-10.7	-22.1
Earnings/loss per share (SEK)	-0.03	-0.02	-0.04
Cash flow from operating activities	-13.1	-9.9	-33.4
Cash and cash equivalents and other short term investments	**8.6**	**48.0**	**22.8**

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 agreements and collaborations with international pharmaceutical companies and academic research centers. Karo Bio is based in Huddinge, Sweden. The company has 40 employees and is listed on NASDAQ OMX Stockholm.

CEO COMMENTARY

Strong program advancing towards the clinic

In the first quarter, all of our three main projects advanced their positions. That Karo Bio currently is engaged in several major projects in parallel in a cost efficient manner, illustrates how the company's risk profile has improved. Furthermore, prospects are good for one or more of our projects to be in clinical phase already next year.

After completing the equity issues in April, we have the financial resources in place to run operations until the start of clinical trials regardless if we succeed in creating additional revenue or not. I am delighted with the confidence shareholders have shown us with their strong interest in the rights issue. My colleagues and I will do our best to manage that trust well.

Within ERbeta cancer, continued studies with KB9520 have strengthened our conviction that this is a compound that has an interesting potential in the field of cancer. In the first quarter, we also received funding from Vinnova to conduct toxicity and safety pharmacological studies, both necessary for clinical studies.

Within ERbeta MS, we also performed well during the first quarter. We do not aim to counteract inflammation which is the traditional way to treat MS, but to protect and repair the sheaths surrounding the nerve fibers that carries signals within the brain. Both key opinion leaders in MS and potential licensees show great interest in what we do. I am pleased to note that we have reached a point where several companies are entering a qualified dialogue in order to examine our project in further detail. Meanwhile, we continue the preclinical development that is heading towards the selection of a drug candidate. This work is funded by the U.S. National MS Society.

Due to confidentiality undertakings with our partner Pfizer, I am unable to communicate what we currently are working on in the RORgamma project, but it is important for me to convey that the project continues to perform well and according to the timetable.

Parallel to these three main projects, we continue to work with new ideas in order to create the next generation of projects. By combining active business intelligence and a broad network of contacts with some studies of our own, we identify and evaluate new project ideas. Of importance here is that we work in a structured way and evaluate different options against each other in a systematic way. A future new project should both have great potential and a reasonable risk profile from a scientific, medical and commercial point of view.

Overall, I believe we are in a good position as we now take off into a future of new possibilities and opportunities.

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.

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. Karo Bio conducts advanced preclinical studies on two of these compounds.

ERbeta cancer

Preclinical data suggest that ERbeta has a very interesting potential in the field of cancer. The first drug candidate within the program, KB9520, has shown good efficacy in several preclinical models for different forms of cancer. These effects can be assumed to be of general character in several different forms of cancer tumors, provided they express ERbeta. This image, with positive effects that can be assumed to be general, has been reinforced through in depth preclinical studies in 2013 and 2014.

In March, Karo Bio was granted funding from a Vinnova, whereby the project now has financing for further preclinical development. The grant will be used to finance toxicological and safety pharmacological studies.

ERbeta MS

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 and reparative effects on the myelin sheaths that surround nerve cells, which are very promising since damaged myelin is involved in the symptoms 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 patients with progressive MS, since current therapies only aim at reducing inflammation at early stages of the disease.

To further investigate ERbeta agonists' therapeutic effect, Karo Bio performed additional studies in disease models in animals in the beginning of 2013. The new results indicate that ERbeta has positive effects by protecting and repairing nerve tissue.

Karo Bio continues the preclinical development of the project and has been granted financing with conditional repayment by the U.S. National MS Society totaling MUSD 0.5. The financing is paid out in stages as Karo Bio demonstrates successful results. Until March, MUSD 0.3 had been paid out. The funding is estimated to suffice to advance the project to the selection of a drug candidate, which may occur from the second half of 2014.

Karo Bio is in qualified discussions with several companies about a potential licensing agreement. Such discussions are expected to become more detailed after the selection of a drug candidate.

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 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 dis-

cover and develop new compounds for the treatment of autoimmune diseases. Pfizer has exclusive rights for products developed as a result of the collaboration. Karo Bio receives funding for all its R&D expenses in the project. In addition, Karo Bio has the right to milestone payments as well as royalties on sales.

In June 2013, Pfizer decided to extend the two-year term of the research funding agreement one year further until 2015.

Research

Karo Bio also conducts research at earlier stages on certain receptors to evaluate whether new projects with significant potential can be initiated. Ideas are gathered from academic research and other pharmaceutical research. In a typical case, it is investigated whether certain signaling pathways can be influenced through nuclear receptors. A judgement is made if Karo Bio can use its expertise and create value in new attractive projects. This is very early research where some ideas can be dismissed relatively quickly, while others may be subject to longer evaluation and eventually lead to the start of interesting development projects.

In 2013, Karo Bio entered into collaboration with Dr. Jörg Distler and his company 4D Science GmbH regarding fibrosis. Dr. Distlers research team has discovered that a specific nuclear receptor plays a key role in the pathogenesis of fibrotic diseases, which may have implications for the treatment of patients with this type of intractable diseases. The collaboration focuses on demonstrating that it is possible to address the receptor in question with a drug.

FINANCIAL REPORT

Consolidated earnings

Net sales for the quarter were MSEK 6.4 (8.1), of with MSEK 0.8 in financing for National MS Society and the remainder mainly from Pfizer. The comparison from 2013 include accrued prepayments from Pfizer in 2011 of MSEK 2.5.

Operating expenses for the period increased to MSEK 19.8 (18.8), mainly due to increased cost for preclinical projects that accounted for 72 per cent of the costs for the period, after a increase to MSEK 14.1 (13.6).

Administrative expenses for the quarter were MSEK 5.6 (5.3). The consolidated operating loss for the quarter increased to MSEK 13.4 (10.7). The difference is mainly explained by the prepayment of MSEK 2.5 included in the comparison for the first quarter 2013.

Financial net for the quarter amounted to MSEK 0.0 (0.0). Net loss for the period amounted to MSEK 13.4 (10.7).

Capital investments and consolidated cash flow

Capital investments for the period amounted to MSEK 1.1 (0.4) and comprise mainly investments in laboratory and IT equipment and rebuilding of laboratories.

Cash flow from operating activities for the period amounted to MSEK -13.1 (-9.9). Adjusted for timing differences in quarterly installments from Pfizer, cash flow improved approximately MSEK 1 from the same period last year.

Financial position

Consolidated cash and cash equivalents amounted to MSEK 8.6 (22.1) at the end of the period. Including other short-term investments with durations exceeding 90 days, liquid assets amounted to

MSEK 8.6 (48.0), which corresponds to a change in total cash position and other short-term investments of MSEK -14.2 (-6.1) in the period. Net proceeds from the equity issues completed in April amounted to MSEK 77.

Total shareholders' equity amounted to MSEK 10.5 (35.2) 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 0.03 (0.02). The Group's equity ratio at the end of the period was 37.8 (59.1.) per cent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.02 (0.07).

Employees

At the end of the period, Karo Bio had 40 (43) employees, of whom 34 (37) are engaged in research and development, 2 (1) in business development and intellectual property rights and 4 (5) in administrative roles.

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	January-March		January-December
	2014	**2013**	**2013**
Net sales	6,360	8,099	47,029
Operating expenses			
Administration	-5,595	-5,254	-20,434
Research and development	-14,142	-13,641	-52,529
Other operating income/expenses	-21	114	3,676
	-19,758	-18,781	-69,287
Operating profit/loss	**-13,398**	**-10,682**	**-22,258**
Financial net	20	13	180
Earnings after financial items	**-13,378**	**-10,669**	**-22,078**
Tax	-	-	-
NET EARNINGS FOR THE PERIOD	**-13,378**	**-10,669**	**-22,078**
Net earnings for the period attributable to:			
Shareholders of the parent company	-13,378	-10,669	-22,078
Depreciation included in operating expenses	-449	-330	-1,434
Earnings per share (SEK)	-0.03	-0.02	-0.04
Number of shares outstanding (000)	**495,947**	**495,947**	**495,947**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	January-March		January-December
	2014	**2013**	**2013**
NET EARNINGS FOR THE PERIOD	**-13,378**	**-10,669**	**-22,078**
Other comprehensive income for the period, net after tax	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-13,378**	**-10,669**	**-22,078**
Total comprehensive income attributable to:			
Shareholders of the parent company	**-13,378**	**-10,669**	**-22,078**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	March 31		December 31
	2014	**2013**	**2013**
Assets			
Equipment	5,100	3,843	4,500
Other current assets	13,946	7,789	12,992
Financial assets at fair value through profit or loss	-	25,929	-
Cash and cash equivalents	8,595	22,095	22,799
TOTAL ASSETS	**27,641**	**59,656**	**40,291**
Shareholders' equity and liabilities			
Shareholders' equity	10,461	35,248	23,839
Current liabilities	17,180	24,408	16,452
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**27,641**	**59,656**	**40,291**

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	January-March		January-December
	2014	**2013**	**2013**
Operating activities			
Operating profit/loss before financial items	-13,398	-10,682	-22,258
Depreciation	449	330	1,434
Other items not affecting liquid assets	1	-	-
	-12,948	**-10,352**	**-20,824**
Financial items received and paid	3	33	133
Cash flow from operating activities before changes in working capital	**-12,945**	**-10,319**	**-20,691**
Changes in working capital	-192	399	-12,698
Cash flow from operating activities	**-13,137**	**-9,920**	**-33,389**
Investing activities			
Net investment in equipment	-1,067	-419	-2,245
Net investment in other short-term investments	-	97	26,096
Cash flow from investing activities	**-1,067**	**-322**	**23,851**
Financing activities			
Net proceeds from rights issue	-	7,665	7,665
Transaction costs rights issue [1)]	-	-3,352	-3,352
Cash flow from financing activities	**-**	**4,313**	**4,313**
Cash flow for the period	**-14,204**	**-5,929**	**-5,225**
Cash and cash equivalents at the beginning of the period	22,799	28,024	28,024
Cash and cash equivalents at the end of the period	**8,595**	**22,095**	**22,799**

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, 2013	**7,741**	**1,008,996**	**-970,820**	**45,917**
Loss for the period	-	-	-10,669	-10,669
Current rights issue	2,178	-2,178	-	0
Amount at March 31, 2013	**9,919**	**1,006,818**	**-981,489**	**35,248**
Amount at January 1, 2014	**9,919**	**1,006,818**	**-992,898**	**23,839**
Loss for the period	-	-	-13,378	-13,378
Amount at March 31, 2014	**9,919**	**1,006,818**	**-1,006,276**	**10,461**

KEY EQUITY DATA

	March 31		December 31
	2014	**2013**	**2013**
Equity ratio	37.8%	59.1%	59.2%
Equity per share at the end of period – basic, SEK	0.02	0.07	0.05
Equity per share at the end of period - diluted, SEK	**0.02**	**0.07**	**0.05**

The Parent Company

Net sales for the Parent Company for the quarter amounted to MSEK 6.4 (8.1). Loss after financial items for the parent company was MSEK 13.4 (10.7).

The Parent Company's capital investments in equipment for the quarter amounted to MSEK 1.1 (0.4). Cash, cash equivalents and other short term investments for the parent company amounted to MSEK 8.4 (48.0) at the end of the period.

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	January-March		January-December
	2014	**2013**	**2013**
Net sales	6,360	8,099	47,029
Operating expenses			
Administration	-5,595	-5,254	-20,434
research and development	-14,142	-13,642	-52,547
Other operating income/expenses	-21	114	117
	-19,758	-18,782	-72,864
Operating income/loss	**-13,398**	**-10,683**	**-25,835**
Financial net	23	17	3,751
Earnings after financial items	**-13,375**	**-10,666**	**-22,084**
Tax	-	-	-
NET EARNINGS FOR THE PERIOD	**-13,375**	**-10,666**	**-22,084**
Depreciation included in operating expenses	**-428**	**-310**	**-1,353**

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	March 31		December 31
	2014	**2013**	**2013**
Assets			
Equipment	4,937	3,601	4,316
Shares in group companies	150	150	150
Other current assets	13,907	7,789	12,861
Financial assets at fair value through profit or loss	-	25,929	-
Cash and cash equivalents	8,414	22,035	22,619
TOTAL ASSETS	**27,408**	**59,504**	**39,946**
Shareholders' equity and liabilities			
Total restricted equity	9,919	9,919	9,919
Total non-restricted equity	554	25,347	13,929
Current liabilities	16,935	24,238	16,098
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**27,408**	**59,504**	**39,946**

OTHER INFORMATION

Significant events after the end of the reporting period

In April, the company completed a rights issue to existing shareholders and a share issue directed to Anders Lonner. Net proceeds from both equity issues amounted to MSEK 77. In the rights issue, which was heavily oversubscribed, Karo Bio issued 165,315,790 shares at a price of SEK 0.47 and 15 000 000 shares were issued at the same price in the share issue.

The number of shares increased from 495,947,369 to 676,263,158 and the share capital increased by SEK 3,606,276.

Continued operations

After the equity issues completed in April, Karo Bio asses its liquid assets to cover the continued operation for twelve months, even if no new cooperation agreement is entered into or other source of funding obtained. The Company believes, moreover, that there are opportunities for additional revenue in coming quarters.

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 2013.

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-June 2014	July 11, 2014
Interim report January-September 2014	October 29, 2014
Year-end report 2014	February 13, 2015

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, May 8, 2014

Per Bengtsson
CEO