KARO BIO

ANNUAL REPORT 2014

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ANNUAL GENERAL MEETING AND OTHER INFORMATION

The Annual General Meeting of Karo Bio (publ) will be held on Thursday April 29, 2015 at 4:00 p.m. in the Lecture Hall, Novum Science Park (4th floor – elevator E), Hälsovägen 7, Huddinge, Sweden. The notice to attend the Annual General Meeting is available through Karo Bio's website at www.karobio.com/corporate-governance/general-meeting.

RIGHT TO ATTEND

Entitled to attend the Annual General Meeting are those who are both registered shareholders in the share register held by Euroclear Sweden AB at the record date Thursday April 23, 2015 and have notified the company of their intention to attend the general meeting no later than on April 23, 2015, preferably before 4:00 p.m.

Notification to attend the meeting shall be submitted in writing including name, personal identification number or corporate identity number and phone number, to the address Karo Bio AB, att: Henrik Palm, Novum, S-141 57 Huddinge, Sweden, by fax to +46 (0) 8 774 82 61, or via e-mail to Henrik.palm@karobio.se.

Shareholders whose shares are nominee registered must, in order to be entitled to participate in the meeting, temporarily register their shares in their own name. Such registration must be completed no later than Thursday April 23, 2015, which means that shareholders must notify their nominee well in advance of this date.

OTHER INFORMATION

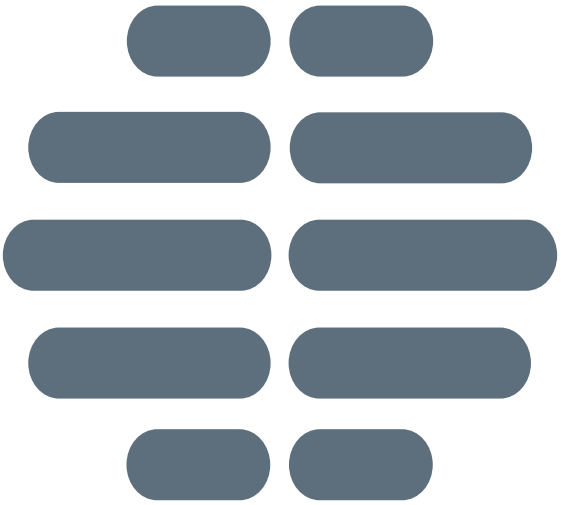
UPCOMING FINANCIAL REPORTS

Interim report January–March	April 29, 2015
Interim report January–June	July 11, 2015
Interim report January–October	October 29, 2015
2014 Year-end report February	February 13, 2016

Financial reports, press releases, notification to extra general meeting and other information are available on Karo Bio's website www.karobio.com from time of publication.

Karo Bio's financial reports and press releases can be subscribed to and downloaded from the website. Karo Bio employs electronic distribution as the main distribution channel for financial reports. The annual report is mailed to shareholders and other stakeholders who have specifically requested this. Printouts of interim reports are mailed upon request.

For further information, please contact Henrik Palm, CFO, phone +46 (0)8-608 60 76, or e-mail: investor@karobio.com.



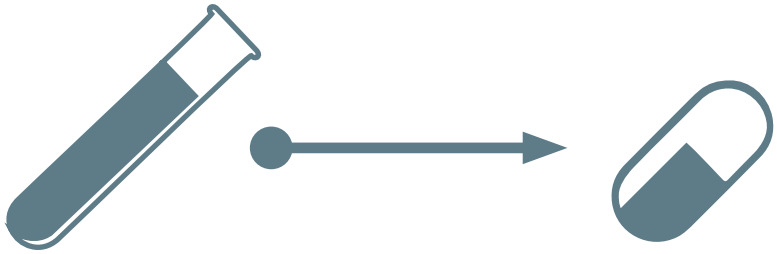
Karo Bio runs projects with the ambition of develop drugs within the field of inflammatory diseases and cancer. The company has an ambition of broadening its operations to include more market oriented projects and products. Karo Bio is based in Huddinge, Sweden and is listed on the NASDAQ Stockholm exchange.

2014 IN BRIEF

- Share issues to shareholders and Anders Lönner raised a net of 77.0 MSEK to the company
- Anders Lönner was elected President
- Karo Bio was granted 3.8 MSEK from Vinnova for the development of ERbeta cancer
- At the start of 2015, Pfizer took over development of the RORgamma project in-house, which means that the project took a step further into a new phase
- Net sales amounted to till 30.1 (47.0) MSEK
- Group net profit was -59.3 (-22.1) MSEK

Financial data

MSEK	2014	2013	2012	2011	2010
Net sales	30.1	47.0	33.2	–	–
Operating expenses	–89.5	–69.3	–132.9	–231.2	–161.8
-of witch R&D expenses	–68.6	–52.5	–107.9	–189.3	–129.4
Net loss	–59.3	–22.1	–98.3	–226.6	–163.5
Loss per share (SEK)	–0.09	–0.04	–0.21	–0.49	–0.57
Cash flow from operating activities	–46.3	–33.4	–127.8	–198.3	–158.9
Cash. cash equivalents and other short term investment	51.6	22.8	54.1	158.5	395.0



Karo Bio is a development company with an objective to expand the business towards a Specialty Pharma Concept.

Karo Bio is a development company with an objective to expand the business towards a Specialty Pharma Concept.

Karo Bio will in limited extent build their own marketing channels in certain priority markets, with can be covered in a cost effective manner.

The revenues primarily come through a partnership agreement in the form of milstones and royalty payments.

In Sweden, there are a large number of interesting development projects in which Karo Bio with its international network and extensive experience in managing development projects can add value.

The objective of Karo Bio is to add at least two new business projects annually.

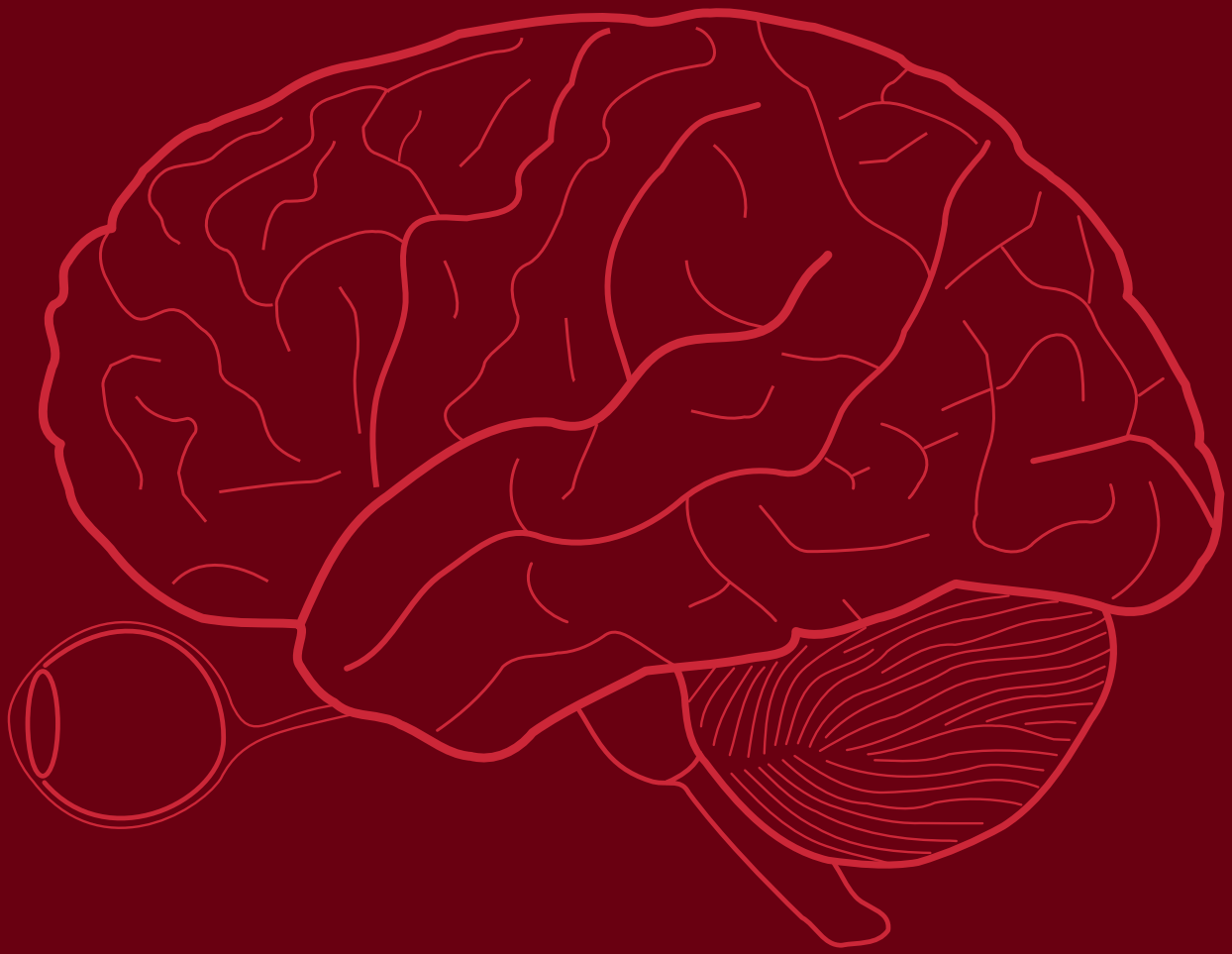
Risk management

- Select projects with lower risk
- Risks are primarily to be shared with others

Commercial approach

- Different types of contracts and financing, and preferably during early phases
- Lean organization with maintained edge
- Acquisition of projects and products in a near-market phase

BUSINESS MODEL



Maria Sjöberg and
Anders Lönner.

KARO BIO SPEEDS UP

"Our ambition is to speed up business, become more cost efficient and reduce our burn rate. Aggressive efforts will require funding, but our guiding principle should be to increase shareholder value", says Karo Bio's Executive Chairman Anders Lönner.

Since the start of the year according to plan, Pfizer carries out all development work in the RORgamma project, which means that the project has taken a step further into a new phase. Consequently, Karo Bio has as previously announced, adapted its organization. Together with other implemented savings in 2014, costs have been reduced by about 25 MSEK annually. Karo Bio may receive up to just over 200 MUSD when Pifzer reaches certain development and sales milestones in the project, as well as royalties on future drug sales.

In the ERbeta cancer project, GLP toxicology studies and other activities that fall into the latter phase of the preclinical development work are being finalized. Thereafter, further preparatory work is required before it is possible to make a decision to initiate the clinical development phase.

In the ERbeta MS project, a drug candidate was selected in the third quarter. During fall, discussions took place with potential licensing partners to the ERbeta MS project.

In early February, the Board decided to appoint Anders Lönner as Executive Chairman of the Board, focusing on the development of Karo Bio´s business and to broaden the company´s product portfolio towards more market oriented projects and products. The company´s current research director, Maria Sjöberg was appointed to succeed Per Bengtsson as CEO, with responsibility for R&D activities.

The marketing company Karo Pharma that was established at the end of the year will be expanded gradually as new products are sourced. There are a large number of interesting development projects in Sweden, where Karo Bio can add value through its international network and its experience from managing development projects. The goal should be to add at least two new business projects annually to the company.

Stockholm in March 2015

CEO Maria Sjöberg and Executive Chairman Anders Lönner

The long road to pharmaceutical product approval

10 REGISTRATION AND PRODUCT LAUNCH

1 Target protein
Initially, the target protein must be identified and validated, which means that the target protein is confirmed to have a key role in the specific disease to be addressed by treatment.

2 Active leads
In the next phase, molecules which influence the target protein are identified.

3 Model compounds
Next, classes of molecules that could be developed into drugs are identified.

4 Optimization phase
Molecules' characteristics are optimized to become safe and effective.

5 CANDIDATE DRUG
One compound is selected for further development.

6 Preclinical development
The chosen candidate drug is tested to ensure that it is safe for entry into human trials.

7 Phase I
The first clinical study is performed on healthy persons, to document the drug's safety, followed by patient studies to define safe and effective dosage.

8 Phase II
The candidate drug is administered to patients to establish safe and effective dosage.

9 Phase III
The candidate drug is tried on a larger patient group to ensure safety and to ascertain effectiveness during extended treatment.

OUR ENVIRONMENT

SEVERAL NEW CHEMICAL ENTITIES TO THE MARKET

The US Food and Drug Administration approved 41 new chemical entities in 2014, the highest number in 18 years. The rise comes after a very lean 2013, with only 29 approvals. Experts indicate a variety of explanations to the high number; from that the authority has normalized the approval processes after the withdrawal of the pain medicine Vioxx in 2004, to that pharmaceutical companies have become better at managing their pipelines, and more tangible reasons such as the low number of applications during 2013. Overall, the number of approvals have only been exceeded in 1966, with 53 registrations.

Out of the new chemical entities, nine were categorized as breakthrough medicines. Many of the new drugs were also designed to take over after major drugs that go off patent. The fact that many large selling drugs go off patent is also illustrated by the fact that an increasing portion of big pharma revenue is generated from drugs that have gone off patent.

In 2013, genereric drugs made up 41 per cent of big pharma's total sales of USD 300 billion.

In Europe, the European Medicines Agency gave clearance for 82 drugs, half of which were new compounds not previously used in pharmaceuticals. Of the 82, 17 targeted rare diseases where treatment options are few if any. Europe was also first to approve a stem cell treatment. It was an orphan pharmaceutical product (Holoclar) used when there are no limbal stem cells, a rare disease that can cause patients to lose their sight.

HIGH BUSINESS ACTIVITY

In addition to many new authorizations, 2014 were also a record year for mergers and acquisitions in the pharmaceutical industry. The transaction amount was 234 billion dollars, more than twice as high as the average over the past ten years, according to EY (formerly Ernst & Young).

Completed transactions reflect a growing interest to specialize in certain therapeutic areas. Higher specialization seems to increase the likelihood of commercial success. Many companies therefore choose to focus their investments in certain areas, for example cancer. A large part of the transactions involved companies buying or selling parts of operations to other companies, often to focus their business. Some US transactions were driven by tax considerations, which among other things were cited as the main reason for Pfizer's interest in AstraZeneca. Such tax incentives were obliterated during the year.

PARTNERING

Activity in the partnering area, where companies license the right to future drugs, continued its upward trend from the previous year. The potential value of agreements concluded during the first 11 months of 2014 was USD 48 billion, up from the USD 35 billion during the same period in the previous year. That the major companies downsized their R&D departments continued to drive the activity. The need to look beyond own laboratories to identify promising products and maintaining high activity remained strong.

41 In 2014, 41 new chemical entities were approved by the US Food and Drug Administration, of which 9 were classified as "breakthrough".

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. Understanding of the ERbeta receptor's role has increased with intense research in the field. The image is clearer that there are several clinical development opportunities for compounds that act through the ERbeta receptor.

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 work with two of these substances.

ERbeta cancer

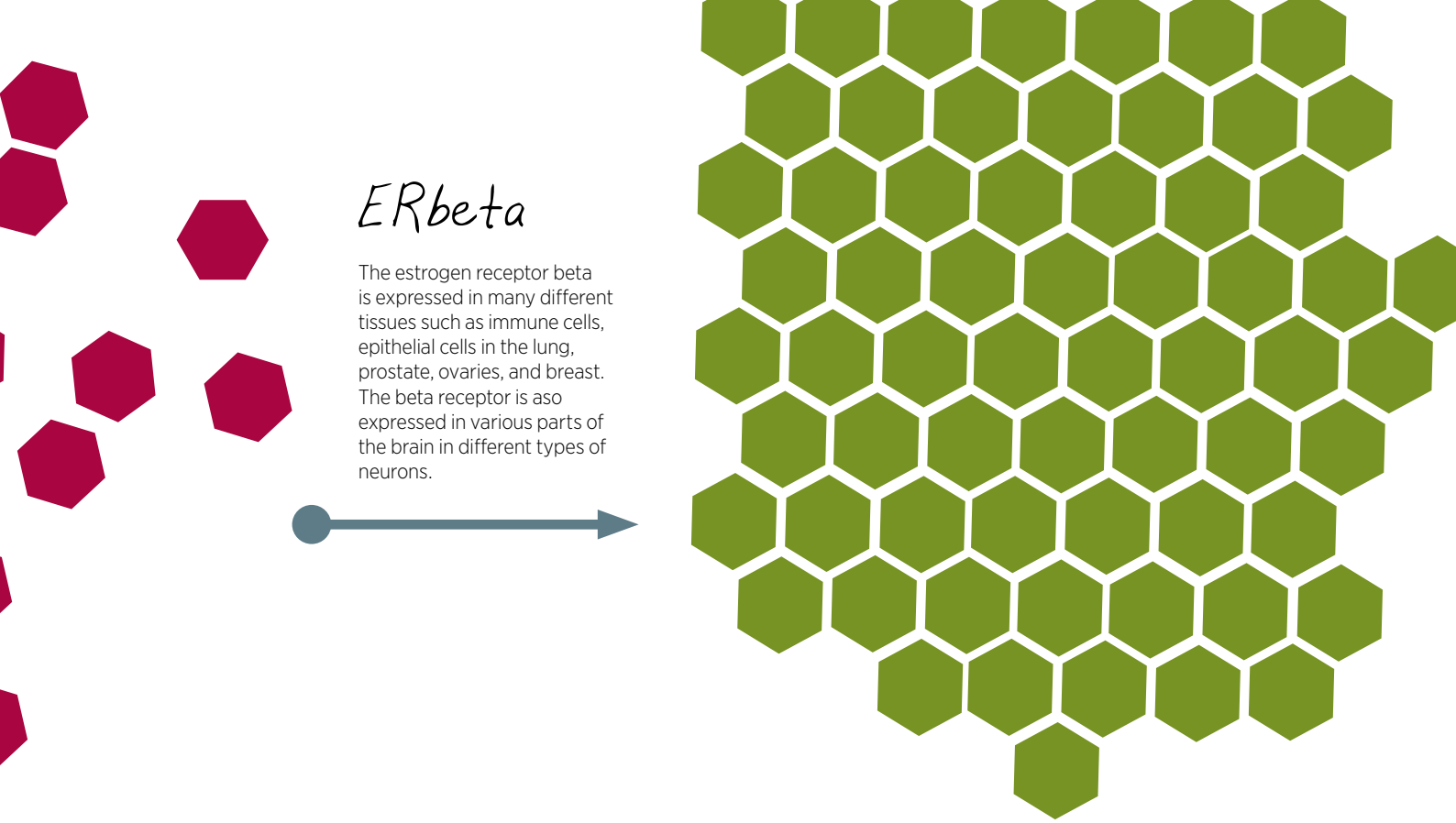
Karo Bio has collated preclinical data that suggest that ERbeta has a very interesting potential as a target protein in the field of cancer. The first drug candidate within the program, KB9520, has shown good efficacy in preclinical models for several different forms of cancer. In these disease models, treatment has shown to provide a significant reduction in tumor size by stimulating apoptosis and block cell growth. These effects can be assumed to have a general effect in several different forms of cancer tumors, provided they express ERbeta.

The image of the positive effects, which can be assumed as general, was reinforced in 2014 through advanced preclinical studies. Karo Bio was during the year granted 4.8 MSEK for toxicity and safety pharmacology studies from VINNOVA's Forska & Väx-progam. The studies are ongoing and aims to complete the preclinical documentation required for regulatory approval to start clinical trials.

ERbeta MS

Since 2011, Karo Bio has a development project for ERbeta focused on the autoimmune disease multiple sclerosis (MS). The project represents a new treatment principle for the disease, which is strongly requested but also places high demands on documenting how the principle works and can be influenced.

In preclinical models, ERbeta agonists have demonstrated protective and reparative effects on the myelin sheaths that surround nerve cells, and that are necessary for efficient conduction of nerve impulses. If treatment with ERbeta agonists prove capable of repairing dama-



ged myelin also in patients it will represent a significant breakthrough in the care of MS patients, where damaged myelin leads to symptoms and disability.ERbeta agonists seem to offer a new way to halt or even reverse disease progression and treat the progressive forms of MS. They may also have beneficial effects on non-core symptoms of MS. They may also have positive effect on certain symptoms associated with MS such as cognition, sleep and depression. Proof-of-concept has been achieved in an animal model. Key opinion leaders in the MS field have expressed interest in participating in advancing the project further.

Karo Bio continued the preclinical development of the project, partly with funding with conditional repayment from the US National MS Society, totaling USD 0.5 million. The grant enabled the selection of a candidate drug during the third quarter of 2014. Qualified discussions have been held with several companies about the possibilities of a license agreement.

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 discover and develop new compounds for the treatment of autoimmune diseases. Pfizer has exclusive rights to products developed as a result of the collaboration. Karo Bio is entitled to milestone payments when the projects reaches certain sub targets and royalties on future sales. Karo Bio received compensation for all their research and development cost of the project. After having extended the research collaboration for one year, Pfizer took over all development work on its own at the start of 2015.

INNOVATION PROJECTS

Karo Bio is active in innovation projects on certain receptors in order to create ideas for radical innovations. Such projects are often derived from innovative smaller companies and academic research. These projects are prioritized according to therapeutic medical needs and potential of innovation. Strong focus is on identifying and developing pharmaceutical projects involving radically new therapeutic principles at as low risk as possible.

THE SHARE AND OWNERS

LISTING
Karo Bio's share is listed on NASDAQ Stockholm since 1998.

SHARE DEVELOPMENT AND TRADING
In 2014, Karo Bio's share price decreased from 0.73 SEK to 0.61 SEK. During the same period OMX Stockholm Health Care PI-index increased by 10 per cent and OMX Stockholm Pharmaceuticals & Biotechnology increased by 34 per cent. In total, turnover amounted to 1,367 million shares, implying that total share capital traded 2.3 times. Karo Bio estimates that trading in shares on other market places is negligible.

SHAREHOLDERS
The number of shareholders was 11,799 at the beginning of the year and 12,141 at the end of 2014. A list of the larger shareholders can be found on the opposite page. At year-end, the ten largest shareholders held 31 (29) per cent of total number of shares. Foreign owners held 15 (14) per cent of the share capital. Shareholders with 1,000 shares or less accounted for 0.2 (0.2) per cent of shares.

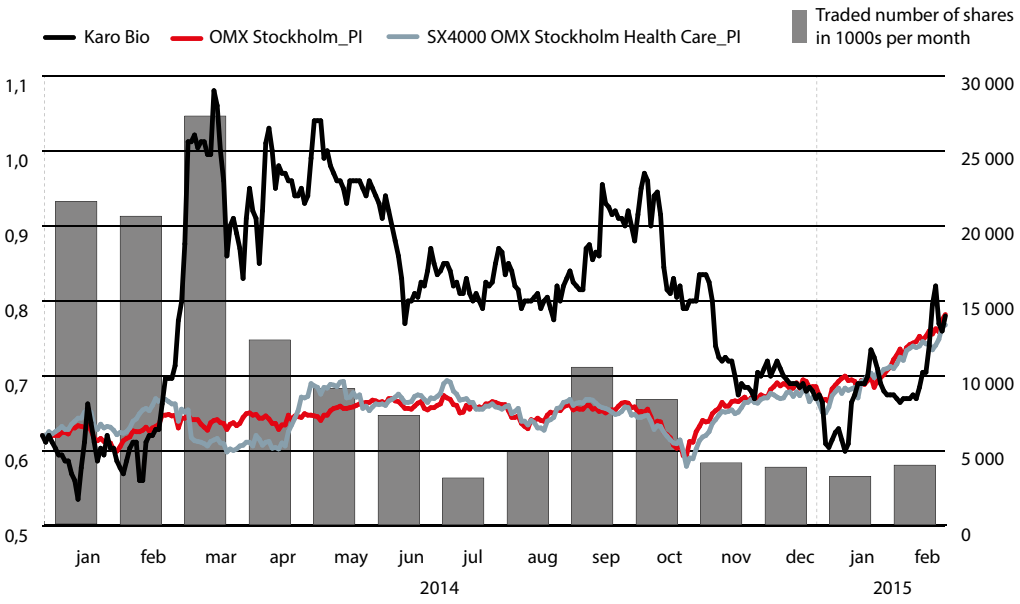
RIGHTS ISSUE
Karo Bio completed a rights issue to existing shareholders of 70.0 MSEK after issue costs and a share issue to Anders Lönner of 7 MSEK. In the rights issue, which was heavily over-subscribed, 165,315,790 shares were issued at a price of 0.47 SEK and in the share issue 15 million shares were issued at the same price.

SHARES AND SHARE CAPITAL
At December 31, 2014, Karo Bio's share capital amounted to 13,525,114 SEK, an increase with 3,606,276 from the previous year. The number of shares increased during 2014 to 676,263,158 from 495,947,369. The share has a par value of 0.02 SEK. The average number of shares in 2014 was 586,105,264.

DIVIDEND POLICY
The Board does not intend to propose any dividends until the company generates healthy profits and cash flows. Karo Bio has not paid dividends since it was founded in 1987.

COMMUNICATION WITH FINANCIAL MARKETS
Karo Bio strives for an open dialogue with current and potential shareholders and to provide the outside world a good insight into and understanding of the business. In each interim report, we describe the current status of all pipeline projects and operations in general. In 2013, Karo Bio also arranged open conference calls in connection with all interim reports. Recorded versions of those calls are available on the website. Karo Bio also participated in several different types of meetings in financial markets.

SHARE PRICE DEVELOPMENT



LARGEST SHAREHOLDERS AT JANUARY 31, 2014

Owner	Number of shares	Holding in % of capital and votes
Försäkringsaktiebolaget Avanza Pension	65 819 969	9,73
JP Morgan Bank	37 865 242	5,60
Nomic AB	26 488 854	3,92
Nordnet Pensionförsäkring AB	22 844 030	3,38
Lönner, Anders	18 263 049	2,70
Robur Försäkring	15 105 633	2,23
Goldman Sachs International Ltd, W8imy	7 872 533	1,16
Lönn, Mikael	7 033 333	1,04
Jpmp I Visby Ab	6 687 074	0,99
LTG Bank Ltd	5 576 219	0,82
Total 10 largest shareholders	**213 555 936**	**31,58**
Total other shareholders	462 707 222	68,42
Total per January 30, 2015	**676 263 158**	**100,00**

OWNERSHIP STRUCTURE AT 30 JANUARI 2015

Holding, number of shares	Number of shareholders	Number of shares	Holding as a % of share capital
1 – 500	1 769	350 985	0,05%
501 – 1 000	977	790 186	0,12%
1 001 – 2 000	1 228	1 906990	0,28%
2 001 – 5 000	1 901	6 678 791	0,99%
5 001 – 10 000	1 610	12 329 276	1,82%
10 001 – 20 000	1 522	22 882 807	3,38%
20 001 – 50 000	1 471	48 646 025	7,19%
50 001 – 100 000	687	50 946 751	7,53%
100 001 – 500 000	745	157 034 242	23,22%
500 001 – 1 000 000	72	51 167 803	7,57%
1 000 001 – 5 000 000	51	99 490 112	14,71%
5 000 001 –	12	224 039 190	33,13%
Total 2015-01-30	**12 045**	**676 263 158**	**100,00%**

SHARE CAPITAL DEVELOPMENT

Year	Transaction	Increase in no. of shares	Accumulated no. of shares	Total share capital (SEK)	Issue amount (SEK)[1)]
	Capital structure January 1, 1998	-	3 943 586	39 435 860	-
1998	Stock split 2: 1	3 943 586	7 887 172	39 435 860	-
1998	New issue - IPO	1 050 000	8 937 172	44 685 860	96 600 000
1998	New issue - IPO	240 000	9 177 172	45 885 860	22 080 000
2000	New issue in kind	2 206 198	11 383 370	56 916 850	699 759 830
2000	New issue – private placement	600 000	11 983 370	59 916 850	196 868 448
2000	Exercise of stock options	15 731	11 999 101	59 995 505	78 655
2001	Exercise of stock options	26 970	12 026 071	60 130 355	134 850
2002	Exercise of stock options	26 586	12 052 657	60 263 285	132 930
2003	Rights issue	4 821 850	16 874 507	84 372 535	118 578 253
2003	Exercise of stock options	3 547	16 878 054	84 390 270	17 735
2004	Exercise of stock options	12 011	16 890 065	84 450 325	60 055
2004	Rights issue	11 260 043	28 150 108	140 750 540	90 737 898
2004	Rights issue	2 815 010	30 965 118	154 825 590	22 684 468
2005	Reduction of share capital	-	30 965 118	61 930 236	-
2005	Rights issue	46 447 677	77 412 795	154 825 590	263 413 134
2006	Reduction of share capital	-	77 412 795	38 706 398	-
2007	Rights issue	38 706 397	116 119 192	58 059 596	387 160 784
2009	Rights issue	38 706 397	154 825 589	77 412 794	150 241 238
2010	Rights issue	232 238 383	387 063 972	193 531 986	290 926 058
2012	Reduction of share capital	-	387 063 972	7 741 279	-
2012	Rights issue	108 883 397	495 947 369	9 918 838	28 249 177
2014	Rights issue	165 315 789	661 263 158	13 225 263	69 300 606
2014	New issue	15 000 000	676 263 158	13 525 114	7 050 000

FIVE-YEAR OVERVIEW

(Amounts in MSEK unless otherwise stated)	Group				
	2010	**2011**	**2012**	**2013**	**2014**
Income statement					
Net sales	0.0	0.0	33.2	47.0	30.1
Administrative expenses	-32.8	-40.8	-25.1	-20.4	-21.0
R&D expenses	-129.4	-189.3	-107.9	-52.5	-68.6
Other operating income and expenses	0.4	-1.0	0.0	3.6	0.1
Operating profit	-161.8	-231.1	-99.8	-22.3	-59.4
Financial net	-1.7	4.5	1.5	0.2	0.2
Results after financial items	-163.5	-226.6	-98.3	-22.1	-59.2
Balance sheet					
Equipment	4.6	5.6	3.7	4.5	4.1
Total non-current assets	4.6	5.6	3.7	4.5	4.1
Other non-current assets	9.9	7.4	19.9	13.0	4.9
Cash and cash equivalents	395.0	158.5	54.1	22.8	51.6
Total current assets	404.9	165.9	74.0	35.8	56.5
Total assets	409.5	171.5	77.7	40.3	60.6
Equity	342.5	115.9	45.9	23.8	40.9
Long-term liabilities	0.5	0.0	0.0	0.0	0.0
Short-term liabilities	66.5	55.6	31.8	16.5	19.7
Total equity and liabilities	409.5	171.5	77.7	40.3	60.6
Cash flow					
Cash flow from operating activities	-158.9	-198.3	-127.8	-33.4	-46.3
Net investments in non-current assets	-2.0	-4.3	-0.2	-2.2	-1.5
Net investments in other short-term placements	82.3	-45.2	88.4	26.1	-
Cash flow from investing activities	80.3	-49.5	88.2	23.9	-1.5
Cash flow from financing activities	324.9	-33.9	23.9	4.3	76.6
Cash flow for the year	246.3	-281.7	-15.7	-5.2	28.8
Operating cash flow	-160.9	-202.6	-128.0	-35.6	-47.8
Key figures					
Equity	342.5	115.9	45.9	23.8	40.9
Return on equity, %	-58.6	-98.9	-121.5	-63.4	-183.0
Return on capital employed, %	-58.0	-100.8	-123.3	-64.0	-183.6
Operating margin, %	n.m	n.m	-300.6	-47.4	-197.4
Profit margin, %	n.m	n.m	-296.1	-47.0	-196.7
Equity ratio, %	83.6	67.6	59.1	59.1	67.5
Interest-bearing assets (net)	395.0	158.5	54.1	22.8	51.6
Net investments in equipment	2.0	4.3	0.2	2.2	1.5
Average number of employees	68	68	51	40	39
– of whom work in R&D	60	60	43	35	33

(Amounts in MSEK unless otherwise stated)	Group				
	2010	2011	2012	2013	2014
Data per share (SEK)					
Earnings per share					
– Average number of shares	-0.57	-0.49	-0.21	-0.04	-0.09
– Number of shares at year end	-0.36	-0.49	-0.21	-0.04	-0.09
Operating cash flow per share					
– Average number of shares	-0.56	-0.44	-0.28	-0.06	-0.07
– Number of shares at year end	-0.35	-0.44	-0.28	-0.06	-0.07
Equity per share, year end	0.75	0.25	0.10	0.04	0.06
Share price at year end	1.66	1.25	0.30	0.62	0.61
Share price/equity per share at year end, %	222%	494%	300%	1519%	1009%
Number of shares (millions)					
Average number of shares	287.0	458.4	458.4	581.1	648.8
Average number of shares including warrants	287.9	458.7	458.4	581.1	648.8
Number of shares at year end	458.4	458.4	458.4	583.2	676.3
Number of shares at year end including warrants	459.2	458.4	458.4	583.2	676.3

DEFINITIONS

AVERAGE NUMBER OF SHARES
Weighted-average number of shares outstanding during the year.

AVERAGE NUMBER OF SHARES, INCLUDING WARRANTS
Weighted-average number of shares, including warrants, outstanding during the year.

CASH AND CASH EQUIVALENTS
Cash and bank balances, and short-term investments with maturities of less than 90 days.

EARNINGS/LOSS PER SHARE
Earnings/loss in relation to the number of shares.

EQUITY PER SHARE
Shareholders' equity in relation to outstanding shares at year-end.

EQUITY RATIO
Equity as a percentage of total assets.

INTEREST BEARING ASSETS (NET)
Cash, bank balances and short-term investments.

NET CAPITAL INVESTMENTS
Capital investments in equipment net of disposals.

NUMBER OF SHARES AT YEAR-END
Number of shares outstanding at the end of the year.

NUMBER OF SHARES AT YEAR-END, INCLUDING WARRANTS
Number of shares, including warrants, outstanding at the end of the year.

OPERATING CASH FLOW
Cash flow from operating activities and cash flow from investments in machines, equipment and licenses.

OPERATING CASH FLOW PER SHARE
Cash flow from operating activities and cash flow from investments in equipment and licenses per share.

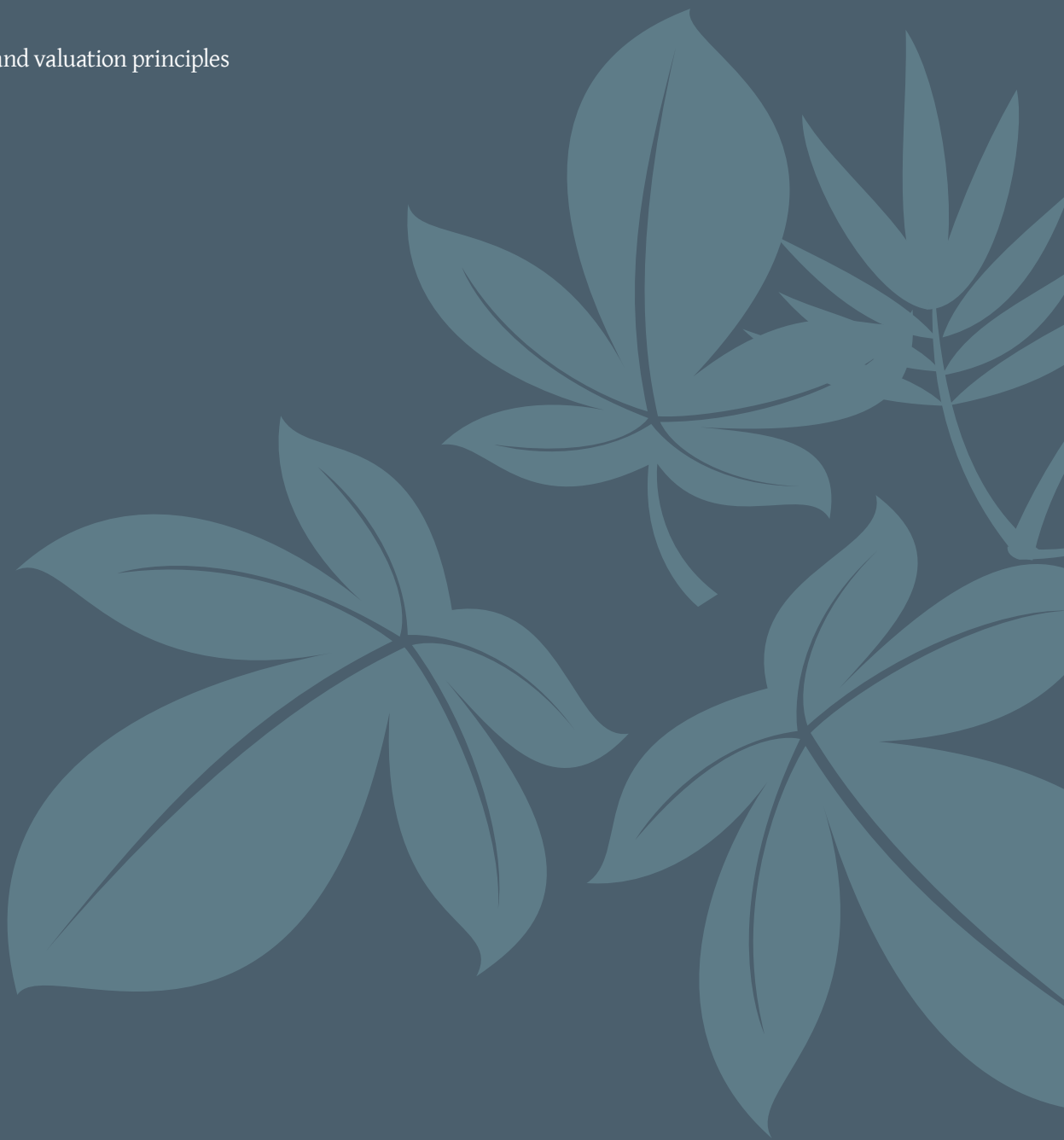
OPERATING MARGIN
Operating loss as a percentage of net sales.

PROFIT MARGIN
Results for the year as a percentage of net sales.

RETURN ON CAPITAL EMPLOYED
Operating loss and financial income as a percentage of the average total assets less non-interest bearing liabilities.

RETURN ON EQUITY
Results after financial items as a percentage of average equity.

SHARE PRICE/EQUITY PER SHARE
Share price as a percentage of shareholders' equity per share at year-end.



FINANCIAL REPORTS

ADMINISTRATION REPORT

The Board of Directors and the CEO of Karo Bio AB (publ), registration number 556309-3359 and domiciled in Huddinge, Sweden, hereby presents its annual report regarding the operations of the Group and the Parent Company for the fiscal year beginning January 1 and ending December 31, 2014.

OPERATIONS

Karo Bio is an innovative research and development company which since the early 1990s has specialized in nuclear receptors as target proteins for the development of new drugs. Nuclear receptors can be seen as on and off switches by which the body's own production of proteins can be regulated with great precision. By targeting these nuclear receptors, the body's own control systems can be tuned to treat several illnesses and diseases. Based on this knowledge, Karo Bio runs preclinical drug development projects within the areas of inflammatory conditions, autoimmune diseases, and cancer.

Important processes within the company include research, drug discovery and preclinical development. Besides these processes, the company's expertise also covers clinical development, medical and regulatory issues. Karo Bio has the capacity to process selected compounds for niche indications through the entire development chain, while compounds addressing large patient groups require development collaborations or out-licensing at some stage of the process.

Karo Bio currently runs two proprietary preclinical projects in-house, one project in collaboration with Pfizer, and additional preclinical research activities. Karo Bio was founded in 1987 and has been listed on NASDAQ Stockholm since 1998.

Research and development
– Current status and significant events 2014
Significant events during 2014 and current status for each of Karo Bio's projects are described briefly below.

ERbeta selective compounds
– a platform with many opportunities
The estrogen receptor (ER) is activated by the estrogen hormone and regulates a number of functions in the body. Estrogen has a number of positive effects, but its medical use has been limited by an increased risk of developing breast and uterus cancer as well as thrombosis. These risks are primarily linked to the receptor subtype ERalfa, while the ERbeta receptor that Karo Bio was instrumental in discovering in the 1990s, appears to mediate many of the positive effects of estrogen without the side effects. From the intense research within this area, there is an increasing understanding of the role of the ERbeta receptor. Today, there is a clearer view that there are several clinical development opportunities for substances that act through the ERbeta receptor.

Karo Bio's work in the ERbeta-field has resulted in a world-leading platform with several promising ERbeta-selective compounds. These substances have slightly varying properties and may thus be suitable for different indications. Karo Bio runs well-advanced preclinical work with two of these compounds.

ERbeta cancer
The preclinical data collated by Karo Bio indicate that ERbeta has an interesting potential in the area of cancer. In several preclinical models, the first drug candidate within the program, KB9520, has shown good efficacy for various forms of cancer. These effects can be assumed to have a general effect in several different types of cancer tumors, provided they express ERbeta. In 2014, Karo Bio was granted 4.8 MSEK from Vinnova´s Forska & Väx-program for continued preclinical development of the projects. The funds finance toxicity and safety pharmacology studies, that in the beginning of 2015 were in the final stages. These are intended to complete the preclinical documentation to enable clinical trails. Karo Bio is working to be able to fund the continued development of ERbeta in the field of cancer.

ERbeta MS
Since 2011, Karo Bio is running a development project for ERbeta focused on the autoimmune disease multiple sclerosis (MS). The project represents a new treatment principle for the disease, which is strongly demanded but also places high requirements on demonstrating how the principle works and can be influenced.

In preclinical models, ERbeta agonists have demonstrated protective and reparative effects on the myelin sheaths that surround nerve cells. This is a significant finding, as myelin damage is involved in the symptoms of and disabilities 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, where damaged myelin is what leads to symptoms of disease and disability. ERbeta agonists seem to slow or even reverse the disease process and be used to treat progressive forms of MS. They may even have a positive effect on some symptoms, associated with MS, such as cognition, sleep and depression. Proof-of-concept in an animal model of the disease has been obtained. Key opinion leaders in the MS area have expressed interest in contributing to the project´s further development.

Karo Bio continues the preclinical development of the project and has received funding with conditional repayment from the US National MS Society of totaling MUSD 0.5. This support enabled the selection of a drug candidate during the third quarter of 2014. Qualified discussions are underway with several companies about possibilities of a license agreement.

RORgamma – a new opportunity to treat autoimmune disease
Recent research reveals that the nuclear receptor RORgamma may play a critical role in the development of autoimmune diseases, such as rheumatoid arthritis and psoriasis. In 2010, Karo Bio initiated a research program to develop and evaluate compounds that inhibit RORgamma activity. These compounds have potential as an inno-

vative treatment 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 a research collaboration and licensing agreement with Pfizer for RORgamma to discover and develop new compounds for the treatment of autoimmune diseases. Pfizer will have exclusive rights to products developed as a result of the collaboration. Karo Bio receives compensation for its research and development costs of the project. In addition, Karo Bio is entitled to milestone payments, when the project reaches certain milestones, and royalties on future sales.

After the research collaboration was extended by one year, Pifzer took over the continued development work in-house at the turn of 2014/2015, which means that the project has taken a further step into a new phase. As a result, Karo Bio has as previously announced, conducted an adaptation of the organization. The adaptation together with other implemented savings in 2014 means that costs are reduced by about MSEK 25 annually.

Innovation projects
Karo Bio is active in explorative innovation projects on certain receptors in order to create ideas for radical innovations. Such projects are often derived from innovative smaller companies and academic research. These projects are prioritized according to the extent to which their indication areas fit into Karo Bio's field of expertise. Strong focus is on identifying and developing pharmaceutical projects involving radically new therapeutic principles at as low risk as possible.

Key events after the end of fiscal year 2014
On February 4, Anders Lönner was appointed Executive Chairman and Maria Sjöberg was appointed CEO, succeeding Per Bengtsson.

Organization
In addition to the parent company Karo Bio AB, the Group consists of the wholly owned subsidiaries Karo Bio Research AB and Karo Bio Discovery AB, none of which currently is conducting operations. The head office is located in Huddinge, outside of Stockholm, Sweden, also the site of the company's operations.

The management team consists of two people: the CEO and the Chief Financial Officer.

At the end of the year, Karo Bio had 24 (39) permanent employees, of whom 18 (34) were engaged in research and development, 2 (1) in business development and patents, and 4 (4) had administrative duties.

RESULTS AND FINANCIAL POSITION

Results
Group consolidated net sales amounted to MSEK 30.1 (47.0). Sales were mainly attributable to the RORgamma collaboration with Pfizer. The decline is mainly explained by the fact that the comparative figures included accrued advance payments from Pifzer in 2011 of 10 MSEK, and the milestone of MUSD 2 received in September 2013.

Operating expenses for 2014 amounted to MSEK 89.5 (69.3). Research and development accounted for 77 per cent of the periods expenses and amounted to MSEK 68.6 (52.5). The increase in expenses was primarily attributable to provisions made in association with redundancies and investments, primarily with in the cancer project, which together represented an increase of MSEK 21 compared with 2013. Administrative expenses amounted to MSEK 21.0 (20.4).

Operating loss amounted to MSEK -59.5 (-22.3). This means that the loss is on a par with 2013, adjusted for the milestone, provisions made, and for the accrual of advance payment that were included in the comparative figure for 2013. In 2013, an acquisition of a limited partnership also contributed to the operating profit by 3.6 MSEK. The purpose of the acquisition was to finance operations which could be done by offsetting a portion of the Group´s accumulated deductible deficiency against the untaxed earnings of the acquired company. The financial net amounted to MSEK 0.2 (0.2). Reported loss was MSEK -59.3 (-22.1).

Investments
Investments amounted to MSEK 1.4 (2.2), and relate primarily to laboratory and IT equipment and laboratory refurbishments.

Cash flow and financial position
Cash flow from operating activities amounted to MSEK -46.3 (-33.4). Adjusted for the milestone of MUSD 2 received in September 2013, and the acquisitions made during 2013 makes cash flow in 2014 about MSEK 4 better than last year.

Cash and cash equivalents amounted to MSEK 51.6 (22.8) at year-end, resulting in a change in total cash of MSEK 28.8 (-31.3) during the year. The two new share issues conducted in April 2014 raised a net of MSEK 76.4 to the company.

Equity and share data
During the year, a new share issue with preferential rights for existing shareholders was made in which 165,315,790 shares were issued at a subscription price of SEK 0.47. In parallel, a directed share issue was performed to Anders Lönner of 15 million shares at the same price. The new share issues raised a total of MSEK 84.7 before transaction costs.

The issues increased the number of shares from 495,947,369 to 676,263,159. The share capital increased by SEK 3,606,276 to SEK 13,525,1145. Total equity was MSEK 40.9 (23.8) after taking the period results into account. The share quota value was SEK 0.02.

Loss per share, based on the weighted average number of outstanding shares, amounted to SEK -0.09 (-0.04). The Group´s equity ratio at year-end was 67.5 (59.2) per cent and equity per share, based on fully diluted number of shares at year end, was SEK 0.06 (0.04).

Parent Company
The parent company's reported revenues amounted to MSEK 30.1 (47.0) and income after financial items to MSEK -59.3 (-22.1). Investments in fixed assets amounted to MSEK 1.4 (2.2). Cash and other short-term investments at year-end amounted to MSEK 51.5 (22.6).

Guidelines for remuneration to senior executives
The Board of Karo Bio proposes that the Annual General Meeting on April 29, 2015 resolves the following guidelines for determining salaries and other remuneration to senior executives of Karo Bio, to be applied until the AGM is held in 2016.

The proposed guidelines are largely the same as those approved by the 2014 AGM.

General Information
Karo Bio will apply remuneration levels and terms of employment that are necessary to recruit and retain a competent management with the capacity to achieve established business goals.

As a result, competitiveness shall be the overriding principle in relation to the salary and other remuneration of executive management.

Fixed salary
A fixed salary will be paid for work performed in a satisfactory manner.

Variable remuneration
In addition to fixed salary, variable remuneration may be offered to reward clearly goal-related achievements by simple and transparent mechanisms. The executive management's remuneration under incentive programs will be based on the extent to which business goals are achieved.

Karo Bio's commitments under incentive programs shall be limited in relation to the fixed annual salary and shall not exceed 40 per cent of the fixed annual salary, before taking into account social security charges, for each executive during the relevant period. The remuneration under incentive programs shall include pension and vacation benefits according to vacation legislation, and is thus not pensionable. The total maximum variable remuneration at 40 per cent of current fixed annual salary levels in 2014, including social security charges, would amount to MSEK 2.6.

Pension benefits
The terms of the executive management's pension benefits shall be competitive taking into account what is generally applicable to equivalent executives on the market and shall be based on defined contribution pension schemes or accede to the Swedish ITP plan. The pension benefits shall be based on a retirement age of 65 years.

Non-monetary benefits
The executive management's non-monetary benefits (such as car and health care benefits) should facilitate the performance of their work and be equivalent to what is considered reasonable in relation to market practice and the benefit for the company.

Dismissal and severance pay
Dismissal and severance pay shall not exceed 12 monthly salaries in total for each executive.

The executives to whom the remuneration guidelines apply
The above guidelines shall apply to the CEO of Karo Bio AB and executives that report directly to the president as well as presidents of Karo Bio's subsidiaries.

Information on remuneration previously resolved upon that has not fallen due
At present, there is no remuneration that has not fallen due that deviates from guidelines decided at previous AGMs.

Consultancy fees paid to board members
Going market rates may be paid to Board members for consultancy work carried out for the company beyond the framework of their commitment to the Board.

Deviation from the guidelines under special circumstances
The Board may par from the guidelines in certain cases if there are special reasons for doing so. In 2014, the Board has used its right to, in individual cases and for special reasons, deviate from the guidelines in order to reward positive cash flows to the company, a newly recruited executive by entitling the executive a certain percentage of the cash flow as remuneration, if an agreement is reached on licensing of the Company´s intellectual property rights. The cost of such compensation may exceed 40 per cent of the executive´s base salary.

Information regarding the Karo Bio share
At December 31, 2014, there were a total of 676,263,158 outstanding shares with a deviate value of SEK 0.02. The shares carry one vote each and are entitled to equal part of the company's distributable earnings. There are no limitations to the transferability of the Karo Bio shares due to legal constraints or by regulations in the company by-laws. To the best of Karo Bio's knowledge, no agreements have been made between any shareholders, which could limit the transferability of the shares. There is no shareholder that alone controls 10 per cent or more of the total number of shares of Karo Bio.

Authorization to issue new shares
The general meeting in 2014 gave the Board of Directors authorization, valid until the 2015 AGM, to at one or more occasions issue shares. The number of shares that may be issued pursuant to the authorization shall not exceed 10 per cent of the registered share capital (at the time of issue resolution). Issues may be made with or

without deviation from the shareholders preferential rights and with or without non-cash issue, or set-off or other conditions.

The purpose of the authorization is to increase the company´s financial flexibility and to facilitate acquisitions with payment in shares. If the Board decides on a new share issue deviating from the shareholders preferential rights, may the reason be of raising new capital and/or new strategic shareholders for the company and/or acquisitions of other companies or businesses. In case of deviation from the shareholders preferential right shall the basis for the issue be competitive. Other conditions may be determined by the Board.

Going concern
The Company assesses that there is potential for continued operations for 12 months from closing date. Without additional funding or revenues, present cash and financial investments are estimated to be sufficient to finance the current scope of operations until the end of the third quarter 2015. Under the same conditions, equity may fall below 50 percent of the registered share capital at the beginning of the fourth quarter 2015.

Corporate governance report
Karo Bio's corporate governance report is available at the company website www.karobio.com and is also included in this Annual Report.

Systems for internal control and risk management
The Group's systems for internal control and risk management regarding the consolidated financial reports are described in the section internal control and risk management regarding financial reporting in Karo Bio's corporate governance report.

Future development
The Board and company management will strive to eventually reach a point where the Group's revenues significantly better match its costs. Revenues in such a situation could be in the form of payments from partnerships, public and private grants and compensation for certain activities. The operations are considered to be attractive enough for this to be achievable, although it may take years to get there. Before Karo Bio reaches this point, additional funding needs may arise.

Karo Bio is focusing its operations on the projects and activities that are expected to generate the best business opportunities and create the greatest value in the short term, thereby creating the best conditions for its development in the long run.

In the long term, the intention is that its activities should generate significant revenues from sales of pharmaceutical products in the market, where Karo Bio receives royalties on partners' product sales.

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 obtains 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, neither that they will result in marketable products. It cannot be excluded that the approval process at regulatory level will involve requirements for extended documentation and thereby increasing costs and introducing 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 for the company 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.

PROPOSED APPROPRIATION OF LOSS

The Board of Directors proposes that the available non-restricted equity of SEK 27,391,532 is carried forward. The company's results for the financial year and the financial position per December 31, 2014, are presented in the attached financial statements and accompanying notes which are integral parts of this Annual Report.

CONSOLIDATED INCOME STATEMENTS AND INCOME STATEMENTS FOR THE PARENT COMPANY

		GROUP			PARENT COMPANY	
KSEK	Note	2014	2013	2012	2014	2013
Net sales	1	30 060	47 029	33 173	30 060	47 029
Operating expenses	2–5					
Administrative expenses		–21 014	–20 434	–25 116	–21 088	–20 434
Research and development expenses		–68 593	–52 529	–107 857	–68 607	–52 547
Other operating income and expenses	6	92	3 676	51	92	117
		–89 515	–69 287	–132 922	–89 603	–72 864
Operating profit/loss		–59 455	–22 258	–99 749	–59 543	–25 835
Income from financial investments						
Income from participations in Group companies[1)]		-	-	-	78	4 839
Write-downs on shares in Group companies	14	-	-	-	-	–1 280
Interest income and other similar income	7	186	198	1 510	186	195
Interest expenses and other similar expenses	8	–13	–18	–15	–2	–3
		173	180	1 495	262	3 751
Income from financial investments		–59 282	–22 078	–98 254	–59 281	–22 084
Tax	9	-	-	-	-	-
PROFIT/LOSS FOR THE YEAR	10	–59 282	–22 078	–98 254	–59 281	–22 084
Loss per share (SEK)	11					
– based on weighted-average number of shares outstanding		–0.09	–0.04	–0.21		

[1)] Refers to KB Odenplans properties in its entirety

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND COMPREHENSIVE INCOME FOR THE PARENT COMPANY

		GROUP			PARENT COMPANY	
KSEK	Note	2014	2013	2012	2014	2013
Profit/loss for the period		–59 282	–22 078	–98 254	–59 281	–22 084
Other comprehensive income for the year, net of tax		-	-	-	-	-
TOTAL COMPREHENSIVE PROFIT/LOSS FOR THE PERIOD		–59 282	–22 078	–98 254	–59 281	–22 084
Total comprehensive profit/loss attributable to:						
Shareholders of the parent company		–59 282	–22 078	–98 254	–59 281	–22 084

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AND BALANCE SHEETS FOR THE PARENT COMPANY

ASSETS (KSEK)		GROUP			PARENT COMPANY	
At December 31	Note	2014	2013	2012	2014	2013
NON-CURRENT ASSETS						
Intangible assets						
Licenses and similar rights	12	-	-	-	-	-
Tangible assets						
Equipment	13, 20	4 050	4 500	3 771	3 921	4 316
Financial assets						
Participations in Group companies	14	-	-	-	150	150
Other financial assets		14	-	-	14	-
Total non-current assets		4 064	4 500	3 771	4 085	4 466
CURRENT ASSETS						
Current receivables						
Accounts receivable		483	6 463	6 371	483	6 463
Derivative instruments	28	-	144	-	-	144
Other receivables		1 413	2 609	2 621	1 332	2 478
Prepaid expenses and accrued income	15	3 052	3 776	10 901	3 052	3 776
		4 948	12 992	19 893	4 867	12 861
Financial assets at fair value through profit or loss	16, 28	-	-	26 049	-	-
Cash and cash equivalents	17	51 609	22 799	28 024	51 549	22 619
Total current assets		56 557	35 791	73 966	56 416	35 480
TOTAL ASSETS		60 621	40 291	77 737	60 501	39 946

SHAREHOLDER'S EQULTY AND LIABILITIES (KSEK)		GROUP			PARENT COMPANY	
At December 31	Note	2014	2013	2012	2014	2013
SHAREHOLDER'S EQULTY	18					
Share capital		13 525	9 919	7 741	13 525	9 919
Other contributed capital		1 079 562	1 006 818	1 008 996	-	-
Share premium reserve, restricted		-	-	-	-	-
Total non-restricted equity (Parent Company)		-	-	-	*13 525*	*9 919*
Share premium reserve (Parent Company)		-	-	-	98 815	26 071
Accumulated loss (incl. Group profit/loss for the year)		–1 052 180	–992 898	–970 820	-12 142	9 942
Profit/loss for the year (Parent company)		-	-	-	–59 281	–22 084
Total non-restricted equity (Parent company)		-	-	-	*27 392*	*13 929*
Total shareholder's equity		40 907	23 839	45 917	40 917	23 848
LIABILITIES						
Non-current liabilities						
Other non-current liabilities	19, 20	18	-	-	18	-
Total non-current liabilities		18	-	-	18	-
Current liabilities						
Accounts payable – trade		3 715	3 657	5 812	3 715	3 657
Payables to Group companies		-	-	-	90	90
Other current liabilities	20	1 700	7 206	7 739	1 480	6 762
Accrued expenses and deferred income	21	14 281	5 589	18 269	14 281	5 589
Total current liabilities		19 696	16 452	31 820	19 566	16 098
TOTAI SHAREHOLDER'S EQUITY AND LIABILITIES		60 621	40 291	77 737	60 501	39 946
Pledged assets		-	-	-	-	-
Contingent liabilities	22	-	-	-	-	-

CONSOLIDATED STATEMENTS OF CASH FLOWS AND CASH FLOW STATEMENTS FOR THE PARENT COMPANY

		GROUP			PARENT COMPANY	
KSEK	Not	2014	2013	2012	2014	2013
Operating activities						
Operating loss before financial items		–59 455	–22 258	–99 749	–59 543	–25 835
Items note effecting cash flow						
Depreciation and amortization	5	1 867	1 434	1 748	1 804	1 353
Other		25	-	-	25	-
		–57 563	**–20 824**	**–98 001**	**–57 714**	**–24 482**
Financial income received	23	184	151	1 921	183	147
Dividends received		-	-	-	78	4 839
Financial items paid	23	–13	–18	–14	–2	–3
Cash flow from operating activities before changes in working capital		**–57 392**	**–20 691**	**–96 094**	**–57 455**	**–19 499**
Changes in working capital						
Changes in current operating receivables		8 046	–763	–4 819	7 997	–632
Changes in accounts payable		57	79	–6 373	57	79
Changes in other current operating liabilities		2 959	–12 014	–20 514	3 124	–12 261
Cash flow from operating activities		**–46 330**	**–33 389**	**–127 800**	**–46 277**	**–32 313**
Investing activities						
Investments in equipment		–1 483	–2 245	–184	–1 416	–2 161
Investments in other financial assets		–14	-	-	–14	-
Investments in subsidiaries	14	-	-	-	-	–1 280
Other short-term investments		-	–25 904	–130 777	-	–25 904
Sale and redemption of other short-term investments		-	52 000	219 096	-	52 000
Cash flow from investing activities		**–1 497**	**23 851**	**88 135**	**-1 430**	**22 655**
Financing activities						
Proceeds from rights issues		84 748	-	32 665	84 748	-
Portion of proceeds from rights issue received in 2013		-	7 665	–7 665	-	7 665
Transaction costs for rights issue [1]		–8 111	–3 352	–1 064	–8 111	–3 352
Cash flow from financing activities		**76 637**	**4 313**	**23 936**	**76 637**	**4 313**
CASH FLOW FOR THE YEAR		**28 810**	**–5 225**	**–15 729**	**28 930**	**–5 345**
Cash and cash equivalents at the beginning of the year	17	22 799	28 024	43 753	22 619	27 964
Cash and cash equivalents at the end of the year	17	51 609	22 799	28 024	51 549	22 619

[1] Paid during the year.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

GROUP

KSEK	Share capital	Restricted reserves	Accumulated loss	Total
Balance at January 1, 2012	193 532	980 747	–1 058 357	115 922
Profit/loss for the year	-	-	–98 254	–98 254
Transactions with shareholders				
Reduction of share capital	–185 791	-	185 791	0
Issuance of new shares (net after deduction of transaction-related costs) [1]	-	28 249	-	28 249
Total transactions with shareholders	–185 791	28 249	185 791	28 249
Balance at January 1, 2013	7 741	1 008 996	–970 820	45 917
Profit/loss for the year	-	-	–22 078	–22 078
Transactions with shareholders				
Issuance of new shares (net after deduction of transaction-related costs) [1]	2 178	–2 178	-	0
Total transactions with shareholders	2 178	–2 178	0	0
Balance at January 1, 2014	9 919	1 006 818	–992 898	23 839
Profit/loss for the year	-	-	–59 282	–59 282
Transactions with shareholders				
Issuance of new shares (net after deduction of transaction related costs)	3 606	72 744	-	76 350
Total transactions with shareholders	3 606	72 744	0	76 350
BALANCE AT DECEMBER 31, 2014	13 525	1 079 562	–1 052 180	40 907

[1] All shares are registered with the companies' registration office in January 2013

THE PARENT COMPANY'S STATEMENT OF CHANGE IN EQUITY

PARENT COMPANY

KSEK	Share capital	On-going rights issue	Restricted reserve	Non-restricted reserve	On-going rights issue	Accumulated loss	Loss of the year	Total
Amount at January 1, 2013	7 741	2 178	0	0	26 071	108 534	–98 592	45 932
Total profit/loss	-	-	-	-	-	-	–22 084	–22 084
Transactions with shareholders								
Issuance of new shares (net after deduction of transaction-related costs)	2 178	–2 178	-	26 071	–26 071	-	-	0
Treatment of loss	-	-	-	-	-	–98 592	98 592	0
AMOUNT AT DECEMBER 31, 2013	9 919	0	0	26 071	0	9 942	–22 084	23 848
Total profit/loss	-	-	-	-	-	-	–59 281	–59 281
Transactions with shareholders								
Issuance of new shares (net after deduction of transaction-related costs)	3 606	-	-	72 744	-	-	-	76 350
Treatment of loss	-	-	-	–	-	-22 084	22 084	0
AMOUNT AT DECEMBER 31, 2014	13 525	0	0	98 815	0	-12 142	–59 281	40 917

See note 18 for further information.

ACCOUNTING AND VALUATION PRINCIPLES

THE GROUP

Statement of compliance
The consolidated financial statements of Karo Bio have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Regulations for Groups, International Financial Reporting Standards (IFRS) and statements concerning interpretation published by IFRIC as adopted by the European Union. The statements have been prepared on a historical cost basis, except for financial assets available for sale and financial assets and liabilities at fair value through profit and loss.

CHANGES IN ACCOUNTING PRINCIPLES AND INFORMATION

New accounting standards, amendments and interpretations applied to the Group
The following standards applied by the Group for the first time for the financial year beginning January 1, 2014 and which has a material effect on the consolidated financial statement:

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of controls as the determining factor for determining whether an entity should be included in the consolidated financial statements. The standard provides additional guidance to assist in the determination of control where there is difficult to assess. It is not expected to have any material effect on the financial statements.

Other standards, amendments and interpretations that come into effect for the financial year beginning January 1, 2014 has no material impact on the consolidated financial statements.

New standards and interpretations not yet applied by the Group
A number of new standards and interpretations will come into effect for the financial year beginning after January 1, 2015 and has not been applied in preparing this financial report. None of these are expected to have a material impact on the consolidated financial statements expect for the following ones:

IFRS 9 Financial instruments handles classifications, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was issued in July 2014. It replaces the parts of IAS 39, which addresses the classification and valuation of financial instruments. IFRS 9 retains a mixed valuation approach but simplifies this approach in certain respects. There will be three valuation categories for financial assets, amortized costs, fair value through other comprehensive income, and fair value through income statements. How an instrument is to be classified depends on the company´s business model and instrument characteristics. Investments in equity instruments are to be recorded at fair value through the income statement but there is also an option upon initial recognition to report instruments at fair value through other comprehensive income. No reclassification to the income statement will take place at the disposal of the instrument. IFRS 9 also introduced a new model for calculating the loan loss reserve based on expected losses. For financial liabilities, the classification and valuation do not change except in the case that the liability is recognized at fair value through the income statement based on the fair value option. Changes in value attributable to changes in credit risk is then recognized in other comprehensive income. IFRS 9 reduces the requirement for the application of hedge accounting by replacing the 80-125 criterion with a requirement for a financial relationship between hedging instruments and hedged items and hedge ratio must be the same as in risk management. Moreover, the hedge documentation is changed a little compared with that being developed under IAS 39. The standard is effective for the financial year beginning January 1, 2018. Earlier application is permitted. The Group has not yet assessed the impact of the introduction of the standard.

IFRS 15 Revenue from contracts with customers regulates how revenue is recognized. The principles behind IFRS 15 is to provide users of financial statements more useful information about the company's revenue. The expanded disclosure requirements entails that information about type of revenue, settlement date, uncertainties related to revenue recognition and cash flow attributable to the company´s customer contracts shall be provided. According to IFRS 15, revenue shall be recognized when the customer obtains control of goods or services sold and have the opportunity to use and receive the benefits of the product or service.

IFRS 15 supersedes IAS 18 Revenues and IAS 11 Construction contracts and related SIC and IFRIC. IFRS 15 shall enter into force January 1, 2017. The Group has not yet assessed the impact of the introduction of the standard.

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are valued at fair value. Amounts are expressed in KSEK (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 2013 and 2012, respectively.

Critical accounting estimates and judgments
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting principles. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, relate to the valuation of tax losses carried forward and decisions regarding expensing or capitalizing development costs. For further information, see accounting and valuation principles below and note 9.

Basis of consolidation
The consolidated financial statements comprise the financial statements of Karo Bio AB and its subsidiaries at December 31 each year. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All intra-group transactions, income and expenses, profits and losses and balance sheet items resulting from intra-group transactions are eliminated in full in the consolidated financial statements.

A subsidiary is a company over which the Parent Company has a controlling influence. The Group controls a company when exposed to or has the right to variable returns from its holdings in the company and have the ability ta affect yields though their influence in the company. A subsidiary is included in the consolidated financial statements as of the date of the acquisition, being the day on which the Parent Company obtains controlling influence, until that date where the controlling influence ceases.

Acquisitions and goodwill
Acquisitions are recognized with the acquisition accounting method. The acquisition is considered to be a transaction by which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and other obligations. The purchase value of an acquisition consists of the fair value of the assets provided, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially valued at fair value on the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill. Goodwill is reported as an asset in the balance sheet. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Shareholders' equity in the subsidiary is entirely eliminated upon acquisition. The Group's equity comprises the equity in the Parent Company and equity in the subsidiaries earned after the acquisition.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Where the recoverable amount is less than the

carrying value, an impairment loss is reported. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use.

Foreign currency translation
The consolidated financial statements are presented in Swedish Kronor (SEK), which is the functional currency of the company's operations. Transactions in foreign currencies are initially recorded at the functional currency rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling on the balance sheet date. Any differences in the rate of exchange arising from the translation are recognized in the income statement. Non-monetary assets and liabilities that are valued at cost are recognized at historical rates of exchange, i.e. at the rates of exchange on the respective transaction dates. Items measured at fair value are translated at the rate of exchange on the valuation date.

Revenue recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from strategic research collaborations
Karo Bio may receive four types of revenues from its strategic collaborative research projects: upfront payments, research funding, milestone payments and royalties. The specific recognition criteria for the different types of revenue described below must be met before revenue is recognized.

Research funding is received periodically, often quarterly in advance, as a fixed amount for a defined number of Karo Bio scientists working in the project during the period. Research funding received is allocated over the contractual period to which it refers.

Milestone payments are triggered when a certain result has been achieved or a certain event has occurred, e.g. when compounds enter or pass a major step in the development process, as defined in the research collaboration agreement. These steps are usually linked to significant decision points in the partner's drug development process. A milestone payment is accounted for when all requirements specified in the research collaboration agreement for earning the milestone are met. Royalty payments are based on the sale of finished partnered pharmaceutical products in the market. Royalty payments are accounted for when they are reported by the partner.

Other revenue
Revenue from out-licensing agreements other than research and development collaborations can be either in the form of upfront payments that is recognized as revenue when the conditions for receiving them are fulfilled, or as license maintenance fees that are allocated over the duration of a specified license period. Karo Bio may also receive compensation for services provided, which is recognized as revenue when contractual terms are met.

Government grants and other public funding are recognized as other operating income in the income statement over the period necessary to match the grant to the cost that it is intended to compensate.

Interest income is recognized on a time proportion basis using the effective interest method. Interest income is recognized as a financial item and not included in operating profit and loss.

Taxes

Income tax
Income tax comprises current and deferred taxes. Income tax is recognized in the income statement in respect of items recognized in the income statement, and recognized directly in equity when the tax is related to items recognized directly in equity.

Deferred tax is calculated as the difference between, on the one hand, the tax base of assets and liabilities and, on the other hand, their carrying amounts in the financial statements (temporary differences). Deferred tax is calculated based on the tax rates estimated to apply to settlement of the tax. As required by IAS 12 Income Taxes, deferred tax liabilities are recognized for all taxable temporary differences using the liability method.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which unused tax losses and deductible temporary differences can be balanced. As Karo Bio historically has reported losses, deferred tax assets are recognized only when there is convincing evidence that sufficient taxable profits will be available.

Value added tax (VAT)
Revenues, expenses and assets are recognized net of VAT. The net amount of VAT recoverable from, or payable to, the Tax Agency is included as part of receivables or payables in the balance sheet.

Intangible assets
Acquired intangible assets are reported as assets in the balance sheet. Intangible assets acquired separately are initially recognized at acquisition cost. The cost of intangible assets in an acquisition is recognized at fair value on the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure for these is charged against profits in the year in which the expenditure is incurred, with the exception of capitalized development costs (see below).

The period of use of all intangible assets of the Group have been assessed to be finite. Intangible assets with finite use, are amortized over their economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset is reviewed at least at each financial year-end. Changes in the expected period of use or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Research and development costs
Costs regarding development activities shall, as stipulated by IAS 38 Intangible Assets, be capitalized and reported in the balance sheet if certain criteria are met, while research costs are expensed as incurred. An intangible asset arising from development expenditure is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete; and the ability to reliably measure the expenditure during the development. To date the Group has expensed all development costs as incurred since the recognition criteria for capitalization have not been met.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes, in addition to the purchase price, expenses directly related to bringing the asset into use. The difference between cost and estimated residual value is depreciated on a straight-line basis over the useful life of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may no longer be recoverable. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year-end.

Depreciation and amortization of non-current assets
Property, plant and equipment and intangible non-current assets are depreciated and amortized, using a straight-line depreciation and amortization method, over their estimated useful life based on the asset's cost as per the following schedule.

Year	
Licenses	3–10
Laboratory equipment	4–7
Leasehold improvements, IT equipment and other equipment	4

Impairment of non-current assets
At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, the Karo Bio Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognized in the income statement in the expense categories consistent with the function of the impaired asset.

Investments and other financial assets
Financial investments in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit and loss, loans and receivables, held to maturity investments, or financial assets available for sale. When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs, except for financial assets at fair value through profit and loss for which attributable transaction costs are included in the income statement. The classification of a financial asset is determined at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired.

Currency forward contracts
Karo Bio may hedge known future cash flows in foreign currencies from large currency rate fluctuations as provided in the company's financial policy. In this respect, a certain level of assurance must exist in order to consider possible transactions and related cash flows. Currency hedging is accomplished through currency forward contracts. In accordance with IAS 39, all derivatives are to be measured at fair value defined as market value by Karo Bio. The derivatives which can be used by the company do not qualify for hedge accounting in accordance with IAS 39. The classification of these instruments provides for them to be reported in the balance sheet at fair value with changes in fair value included in other operating income and expenses in the income statement.

Short-term investments
Short-term investments consist of investments in money market instruments, highly liquid bonds with maturities of less than five years and investments in highly liquid fixed income mutual funds. Short-term investments are classified as financial assets at fair value through profit or loss (financial assets held for trading purposes). This entails that the assets are stated at fair value in the balance sheet, defined as market value.

Changes in fair value are included in financial items in the income statement. Acquisitions and dispositions of short-term investments are reported as of the transaction day, the day when Karo Bio is committed to buy or sell the asset.

Fair value estimation of financial instruments measured in the balance sheet at fair value
When the group value on financial instruments at fair value, fair value is determined using a valuation hierarchy. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from process).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

According to Karo Bio's financial policy, funds shall be invested in financial instruments classified as level 1. The fair value of such financial instruments, traded in active markets, is based on quoted market prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. For further information, see note 28.

Trade and other receivables
Trade receivables, which generally have 30 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Write-downs are made when there is objective evidence that Karo Bio will not be able to collect the debts.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity not exceeding 90 days. Other short-term investments are reported as financial assets at fair value through profit and loss. See notes 16 and 28 for further information on the classification of Karo Bio's short-term investments.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above. The cash flow statements for each year show direct cash flows from investment and financing activities. The operational cash flow is based on the indirect method.

Provisions
Provisions are recognized when the Group has a legal or constructive obligation as a consequence of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the income statement net of any reimbursement.

Pensions and other post-employment benefits
Salaried employees in Sweden are secured by the ITP 2 plan's defined benefit pension obligations for retirement and family pension by insurance in Alecta. In accordance with an announcement (UFR 3) from the Swedish Financial Reporting Council, this arrangement is considered a defined benefit multi-employer plan. For the financial year 2014, the Company had access to information in order to account for its proportionate share of the plan´s obligations, plan assets and costs, which meant that the plan has not been possible to account for as a defined benefit plan. The pension plan ITP 2, which is secured though insurance an Alecta is recognized as a defined contribution plan. The premium for the defined benefit retirement and family pension is individually calculated and is dependent on factors including salary, previously earned pension an expected remaining working lives. Expected charges for the nest reporting period for ITP 2 insurance with Alecta amounted to MSEK 1.0 (2014: MSEK 1.1). The Group´s share of the total contributions to the plan amounts to 0.006 per cent (2013: 0.005 per cent).

The collective consolidation level is the market value of Alecta´s assets as a percentage of the insurance obligations calculated according to Alecta´s actuarial methods and assumptions, which are not consistent with IAS 19. The collective consolidation level is normally allowed to vary between 125 and 155 per cent. If Alecta´s collective consolidation level is below 125 per cent or above 155 per cent action must be taken in order to create conditions for the consolidation to return to normal range. At low consolidation, a measure can be to raise the agreed price for new and expansion of existing benefits. At high consolidation, a measure can be to introduce premium reductions. At the end of 2014, Alecta´s surplus in the form of collective consolidation level was 143 per cent (2013: 148 per cent).

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Karo Bio recognizes termination benefits when it is demonstrably committed to either terminating the employment with current employees according to a detailed formal plan without possibilities of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Lease agreements
Karo Bio has entered into lease agreements with third parties in the ordinary course of business. These contracts are for office and laboratory space, laboratory equipment, automobiles and other equipment. Leasing contracts are classified as either financial or operating, depending on the terms of the lease.

A financial lease transfers substantially all the risks and benefits incidental to ownership of the leased asset to Karo Bio. All other lease contracts are considered operating leases.

Financial leases are capitalized at the inception of the lease at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Thus, the equipment under lease is recorded as an asset and the net present value of future minimum lease payments is recorded as a liability. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable

certainty that the Karo Bio Group will obtain ownership by the end of the lease term. Property, plant and equipment are depreciated as described under the heading Depreciation and amortization of non-current assets.

Operating lease payments are recognized in the income statement over the lease term in the period they relate to.

Stock option program
Karo Bio currently has no share-based incentive programs.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decisionmaker. The chief operating decision-maker is the function responsible for allocating resources and assessing performance of the operating segments. In Karo Bio, this function has been identified as the Group's executive management team. Karo Bio's operations entail only one segment; research and development of drugs, and the consolidated income statement, balance sheet, cash flow statement and the associated notes regard this single segment.

THE PARENT COMPANY
The annual report of the Parent Company is prepared in accordance with the Swedish Annual Accounts Act and in compliance with the Swedish Financial Accounting Standards Council's Recommendation RFR 2 and statements from the Financial Accounting Standards Council. The Parent Company's accounting and valuation principles are the same as the Group's with the exception for leasing. In the Parent Company, all leasing contracts are reported as operating leases.

NOTES

NOTE 1 NET SALES

Net sales for 2014, 2013 and 2012 consisted of research payments for collaboration projects.

NOTE 2 PERSONNEL AND REMUNERATION TO MEMBERS OF THE BOARD AND EXECUTIVE MANAGEMENT

All of the Group's employees are employed by the Parent company, consequently, the information provided below is the same for the Parent Company and the Group.

AVAREGE NUMBER OF EMPLOYEES	2014		2013		2012	
	Number of emploeeys	men	Number of emploeeys	men	Number of emploeeys	men
Huddinge, Sweden	39[1)]	21	40	22	51	28
Total	39	21	40	22	51	28

WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITYY EXPENSES	2014		2013		2012	
	Wages, Salaries, other remuneration	Social security expenses (of which pension costs)	Wages, Salaries, other remuneration	Social security expenses (of which pension costs)	Wages, Salaries, other remuneration	Social security expenses (of which pension costs)
Board and CEO	3 572	1 461	2 976	1 477	3 190	1 450
		(464)		(424)		(507)
Other employees	29 888	11 693	23 996	11 529	35 313	18 006
		(3 545)		(3 090)		(5 036)
Total	33 460	13 154	26 972	13 006	38 503	19 456
		(4 009)		(3 514)		(5 543)

Of wages, Salaries, other remuneration, KSEK 2,142 (1,993 and 2,205) refers to the President.

[1)]At year-end, the number of employees were 24.

REMUNERATION TO BOARD MEMBERS
The Board consists of six Board members elected by the annual general meeting (AGM) and two Board members with one deputy appointed by employee organizations.

The Chairman of the Board receives annual remuneration of KSEK 420, each Board member who is not paid as an employee or consultant by the company receives KSEK 150 based on the decision at the 2014 annual general meeting. In 2014, a total of KSEK 818 (1,200 and 956, respectively) was paid in Board members' fees. Board members are reimbursed for direct expenses such as travel costs. All committee work is done by the full Board, and thus no specific committee fees are paid.

Two of the Boards members in 2014 performed certain consultancy services to Karo Bio outside the normal board work, which included advice in preclinical projects, representing an invoicing value totaling KSEK 297. Total expensed compensation for 2014 for each member of the Board is specified in the table on the next page.

REMUNERATION TO EXECUTIVE MANAGEMENT
The Board of directors has decided that the full Board should carry out the tasks that are to be performed by the compensation committee and thus deal with all matters regarding executive management compensation and benefits.

The guidelines for remuneration of the executive management adopted by the AGM 2014, as well as the Board's proposal for guidelines to be adopted by the AGM 2015, are included in the Administration report. Below is a description of the application of the guidelines in 2014.

Members of the executive management are paid a fixed monthly salary, and some executives have received other benefits in 2014, such as health care insurance. In 2014, one member of executive management has participated in a bonus program. Executive management is entitled to pension benefits in accordance with the nationwide ITP Plan as are all other Swedish employees, unless otherwise stated. Pension benefits are based on a retirement age of 65 years and paid as long as the retiree

lives. Paid salary including bonus qualifies for pension benefits. The ITP Plan provides for no pension benefits for annual salaries currently exceeding KSEK 1,707.

Executive management has also been eligible to participate in companywide share-based incentive programs that occur from time to time. Karo Bio currently has no such programs.

No allocation was made in 2014. See note 27 Stock Option Programs for further information.

At year-end 2014, the executive management consisted of, in addition to the CEO, three (four) persons, whereof one (two) women. The management consists of Maria Sjöberg, Chief Scientific Officer responsible for Preclinical Research and Development, Henrik Palm, Chief Financial Officer and responsible for Human Resources, and Mark Farmery, Head of Business Development. On February 4, 2015 Per Bengtsson left the company and Maria Sjöberg was appointed as new CEO.

AGREEMENTS REGARDING SEVERANCE PAY

The CEO has a notice period of six months and is entitled to six months' salary as severance pay if employment is terminated by the company. Other members of executive management have a notice period of six months and are not entitled to severance pay.

TRANSACTIONS WITH RELATED PARTIES

Karo Bio has not granted any loans, guarantees, or surety to or for the benefit of any of its Board members, executive management or auditors. Apart from the exceptions stated below and under the heading remuneration to Board members, none of the company's Board members or executive management has directly or indirectly participated in any business transactions with the company during the current or previous fiscal year. None of the company's auditors have participated in any such transactions.

Remuneration and other benefits during the year to the board of directors an executive management

KSEK	Board remuneration/ Base salary	Variable salary	Other benefits	Share-based remuneration	Other remuneration	Pension expense	Total
Board of Directors							
Anders Lönner (Chairman since AGM 2014)	315	-	-	-	200	-	515
Göran Wessman (Chairman until AGM 2014)	218	-	-	-	-	-	218
Christer Fåhraeus	150	-	-	-	-	-	150
Per-Anders Johansson	150	-	-	-	-	-	150
Sibylle Lenz	150	-	-	-	-	-	150
Thomas Hedner (member since AGM 2014)	113	-	-	-	97	-	210
Anders Waas (member until AGM 2014)	37	-	-	-	-	-	37
Executive management							
Per Bengtsson, CEO	2 142	-	-	-	-	450	2 592
Other members of Executive management (3 persons)	3 268	-	8	-	-	773	4 049
Total	6 543	-	8	-	297	1 223	8 071

Comments to the table:
- Other benefits refer mainly to company car benefits and health care insurance.
- Pension expense refers to the expense that affected earnings as recognized in accordance with IAS 19 for the year. See Accounting and valuation principles and note 3 for further disclosures concerning the terms and conditions of pension benefits.

NOTE 3 PENSION COSTS

Commitments for retirement and family pension under the ITP plan are secured through an insurance arrangement with Alecta Pension insurance (Alecta). Premiums regarding pension insurance with Alecta total KSEK 1,052 (949 and 1,590, respectively) for the year and premiums to other pension institutions under the ITP plan total KSEK 2,958 (2,564 and 3,953, respectively).

Alecta's surplus may be allocated to the insurance holders and the insured. At year-end, Alecta's surplus in the form of total consolidation level amounted to 143 per cent (148 and 129, respectively). The total consolidation level is defined as the market value of Alecta's assets as a percentage of the actuarial commitments determined as per Alecta's assumptions, which are different from IAS 19 employee benefits. Please refer to Accounting and valuation principles for additional information on pensions.

NOTE 4 OPERATING EXPENSES BY TYPE

Operating expenses are distributed on expense type as follows.

	Group			Parent company	
	2014	2013	2012	2014	2013
Depreciation	–1 867	–1 434	–1 748	–1 804	–1 353
Personnel costs	–46 091	–39 869	–58 033	–46 091	–39 869
Facilities costs	–6 242	–7 873	–9 661	–6 242	–7 873
External costs	–35 407	–23 787	–63 530	–35 558	–23 886
Other operating income and expenses	92	3 676	51	92	117
	–89 515	**–69 287**	**–132 921**	**–89 603**	**–72 864**

NOTE 5 DEPRECIATION AND AMORTIZATION

Depreciation and amortization costs are allocated to the company's functions and types of assets as follows.

	Note	Group			Parent company	
		2014	2013	2012	2014	2013
Function						
Administrative costs		211	233	333	211	233
Research and development costs		1 656	1 201	1 415	1 593	1 120
		1 867	1 434	1 748	1 804	1 353
Type of asset						
Licenses	12	-	-	-	-	-
Equipment	13	1 867	1 434	1 748	1 804	1 353
		1 867	1 434	1 748	1 804	1 353

NOTE 6 OTHER OPERATING INCOME AND EXPENSES

	Group			Parent company	
	2014	2013	2012	2014	2013
Exchange gains and losses, net	92	117	–288	92	117
Income from acquisition of KB Odenplan Fastigheter [1]	-	3 559	-	-	-
Other	-	-	339	-	-
	92	3 676	51	92	117

[1] Net after transaction costs, see the Administration report, page 19.

NOTE 7 INTEREST INCOME AND OTHER SIMILAR INCOME

	Group			Parent company	
	2014	2013	2012	2014	2013
Interest income, capital gains/losses and dividends from short-term investments	186	333	1 818	186	330
Fair value gains and losses	-	–135	–308	-	–135
	186	198	1 510	186	195

NOTE 8 NOTE 8 INTEREST EXPENSE AND OTHER SIMILAR EXPENSES

Interest expense and other similar expenses for the Group amounted to KSEK 13 (18 and 15, respectively) relates of interest charges on banking accounts and financial leasing (see also note 20). For the Parent company, the entire amount of KSEK 2 (3) refers to interest charges on accounts payable.

NOTE 9 TAXES

Since Karo Bio is reporting losses for income taxation it is currently not paying any income taxes. Karo Bio has not recognized any deferred tax assets in relation to the unutilized tax losses carried forward as there is no convincing evidence, according to the definition in IAS 12, that sufficient future taxable profits will be available. At year-end, the Parent Company´s unutilized tax losses carried forward amounted to MSEK 2,211 (2,134 and 2,238, respectively). The Parent Company´s unused tax losses impacted in 2013 primarily to the acquisition of Odenplan KB but also of the 2013 results. For Swedish limited companies, there are no temporal limitation on the ability to utilize tax losses.

RECONCILIATION BETWEEN ACTUAL AND NOMINAL TAX	Group			Parent company	
	2014	2013	2012	2014	2013
Reported loss before tax	–59 282	–22 078	–98 254	–59 281	–22 084
Tax at nominal tax rate 22.0 % (26.3% and 26.3% respectively)	13 042	4 857	25 841	13 042	4 859
Tax effect from deductible items not recorded as expenses	1 847	-	1 161	1 847	-
Tax effect from non-deductible items not recorded as revenue [1]	-16	–26 620	-	–16	–26 620
Tax effect from other non-deductible items	-16	758	–27	–16	758
Tax effect of losses for which no deferred tax assets are recognized	–14 857	-	–26 975	–14 857	-
Tax effect of previously unrecognized loss carryforwards	-	21 005	-	-	21 003
Tax on reported loss	0	0	0	0	0

[1] Refers to KB Odenplans properties in its entirety

NOT 10 LOSS FOR THE YEAR

The entire loss is related to the Parent company's shareholders, no minority interests exist.

NOTE 11 LOSS PER SHARE

Loss per share is calculated as the loss for the year in relation to the weighted average number of shares outstanding during the year. Warrants are non-dilutive as exercise of warrants would decrease the loss per share reported for 2012–2014. Per share data is calculated based on the following number of shares.

NUMBER OF SHARES OUTSTANDING

(000)	2014	2013	2012
Weighted-average during the year	648 788	581 104	458 380
At year-end	676 263	583 185	458 380

The number of shares for periods prior to rights issues has been adjusted for the bonus element in accordance with IAS 33 Earnings per share.

NOTE 12 LICENSES AND SIMILAR RIGHTS

Licenses and similar rights consist of exclusive rights to technologies licensed from Duke University, Durham, North Carolina in 2001 and licenses from University of California, San Francisco for scientific rights that were acquired in 1996. In 2007, a follow-up investment of KSEK 3,460 was made in the license from Duke University, in accordance with the terms of the license agreement.

	Group			Parent company	
	2014	2013	2012	2014	2013
Opening balance acquisition cost	33 779	33 779	33 779	74 719	74 719
Acquisitions	-	-	-	-	-
Closing balance acquisition cost	**33 779**	**33 779**	**33 779**	**74 719**	**74 719**
Opening balance amortization	–33 779	–33 779	–33 779	–74 719	–74 719
Depreciation for the year	-	-	-	-	-
Closing balance accumulated amortization	**–33 779**	**–33 779**	**–33 779**	**–74 719**	**–74 719**
Net book value	**0**	**0**	**0**	**0**	**0**

NOTE 13 EQUIPMENT

	Group			Parent company	
	2014	2013	2012	2014	2013
Opening balance acquisition cost	73 707	75 408	78 506	65 215	66 919
Acquisitions	1 424	2 164	637	1 416	2 161
Sales and discards	–142	–3 865	–3 735	–142	–3 865
Closing balance acquisition cost	**74 989**	**73 707**	**75 408**	**66 489**	**65 215**
Opening balance depreciation	–69 207	–71 637	–72 948	–60 899	–63 410
Sales and discards	135	3 864	3 059	135	3 864
Depreciation for the year	–1 867	–1 434	–1 748	–1 804	–1 353
Closing balance accumulated depreciation	**–70 939**	**–69 207**	**–71 637**	**–62 568**	**–60 899**
Net book value	**4 050**	**4 500**	**3 771**	**3 921**	**4 316**

Laboratory equipment with a carrying value of KSEK 129 (184 and 262, respectively) in the Group is financed through capital leases.

NOTE 14 PARTICIPATION IN GROUP COMPANIES

	Parent company	
	2014	2013
Opening balance acquisition cost	5 680	4 400
Acquisition	-	1 280
Liquidation	–1 280	-
Closing balance acquisition cost	**4 400**	**5 680**
Opening balance depreciation	–5 530	–4 250
Depreciation	-	–1 280
Liquidation	1 280	-
Closing balance accumulated depreciation	**–4 250**	**–5 530**
Net book value	**150**	**150**

Name	Domicile	Reg.no.	Holding	No. Of shares	Book value
Karo Pharma AB	Huddinge, Sverige	556588-3641	100	1 000	100
Karo Bio Discovery AB	Huddinge, Sverige	556880-1541	100	50 000	50

NOTE 15 PREPAID EXPENSES AND ACCRUED INCOME

	Group			Parent company	
Amount at December 31	2014	2013	2012	2014	2013
Prepaid rent	1 222	1 182	1 746	1 222	1 182
Prepaid insurance	325	389	389	325	389
Prepaid licenses and other IT related expenses	1 133	1 762	639	1 133	1 762
Other	372	443	8 127	372	443
	3 052	3 776	10 901	3 052	3 776

NOTE 16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consist of investments in liquid bonds with maturities of more than 90 days but less than five years at the time of acquisition.

NOTE 17 CASH AND CASH EQUIVALENTS

	Group			Parent company	
Amount at December 31	2014	2013	2012	2014	2013
Short-term investments with maturities of less than 90 days	-	-	-	-	-
Cash and bank balances	51 609	22 799	28 024	51 549	22 619
Cash and cash equivalents	51 609	22 799	28 024	51 549	22 619

NOTE 18 SHAREHOLDER´S EQUITY

Share capital consists of 676,263,158 shares (495,947,369 and 387,063,972, respectively) with a par value of SEK 0.02 (0.02 and 0.02, respectively). In April 2014, a new share issue with preferential rights for existing shareholders which resulted in 165,315,789 new shares, and a directed share issue to Anders Lönner of 15 million new shares. The total process resulted in an increase in share capital from KSEK 3,606 to KSEK 13,525. In total, the new share issue generated KSEK 76,351 in net proceeds after transactions costs of KSEK 8,398. On April 27, 2012, the AGM decided on to reduce the share capital to MSEK 7.7. In December 2012, a share issue with preferential rights to existing shareholders was carried out, resulting in 108,883,397 new shares for a total of 495,947,369 shares and an increase in share capital of KSEK 2,178 (whereof KSEK 2,178 was registered in January 2013) to KSEK 9,919 (whereof KSEK 7,741 was registered at the end of 2012 and KSEK 2,178 was registered in January 2013). In total, the rights issue generated KSEK 28,249 in net proceeds after transactions costs of KSEK 4,416.

At year-end, there were no outstanding warrants. No warrants were exercised during 2012, 2013 or 2014.

In accordance with the Board's policy for dividend, the Board of directors will propose to the annual general meeting to be held on April 29, 2015, that no dividend shall be paid for the financial year 2014.

NOTE 19 NON-CURRENT LIABILITIES

The balance sheet item non-current liabilities comprises future lease payments on leased equipment only. None of the non-current liabilities falls due more than five years after the balance sheet date. See note 20.

NOT 20 CAPITAL LEASES

The present value of future minimum lease payments is reported as a liability in the balance sheet. Such payments fall due as outlined below.

	Group		
Amount at December 31	2014	2013	2012
Within one year	137	195	277
Later than one, but within five years	-	-	-
Later than five years	-	-	-
	137	195	277

Variable fees, which mean the difference between the interest when entering into the agreement and paid interest, are included in operating expenses during the year and amount to KSEK 0 (1 and 8, respectively). Capital lease contracts entered into in the year amounted to KSEK 8 (2 and 350, respectively). The capital lease contracts pertain to laboratory equipment with a carrying value of KSEK 184 (184 and 262, respectively). The interest rate in lease contracts is variable and linked to the Swedish general interest rate. Karo Bio has the right to extend the leasing period or acquire, direct or indirectly via another entity, the equipment at a predetermined price upon expiration of the contract.

NOTE 21 ACCRUED EXPENSES AND DEFERRED INCOME

	Group			Parent company	
Amount at December 31	2014	2013	2012	2014	2013
Accrued employee related expenses	10 876	4 093	3 487	10 876	4 093
Deferred income	-	330	10 389	-	330
Accrued research and development expenses	2 243	633	2 884	2 243	633
Other	1 162	533	1 509	1 162	533
	14 281	5 589	18 269	14 281	5 589

NOTE 22 CONTINGENT LIABILITIES

In 2013, Karo Bio was awarded a research grant of MUSD 0.5 from the National MS Society with conditional repayment. In the event that Karo Bio manages to out-license the ERbeta project, MS Society is entitled to 20 per cent of what Karo Bio from time to time receives in the form of milestone payments and similar payments up to a cumulative amount of five times the financing provided corresponding to MUSD 2.5.

Karo Bio's collaboration agreements with former partners Abbot Laboratories and Bristol-Myers Squibb remain in effect. The agreements have varying terms in the event that one of the parties wishes to conclude its active participation.

Certain situations stipulate mutual rights of participation in the other party's future revenue from a concluded collaboration or compound surrendered. Regarding the agreement with Bristol-Myers Squibb and the compound KB2115 (eprotirome), Karo Bio is obligated to pass on part of its future revenue from the compound to Bristol-Myers Squibb, both in the form of one-time payments from a licensing partner and in the form of royalty payments on future product sales.

Pursuant to agreements with a handful of external partners, they are entitled to royalty and/or milestone payments attributable to Karo Bio's future revenues. One agreement gives the counterparty the right to receive a milestone payment and royalty payments attributable to Karo Bio's future US-related revenues from the thyroid receptor area. These payments constitute, in full, a limited share of Karo Bio's future revenue in this area. Another agreement gives the counterparty the right to royalty payments of 5 per cent attributable to Karo Bio's future revenue from certain indications within the GR area.

Karo Bio has also entered into an agreement with staff to waive salary under 2013 in exchange for certain compensation in the event that the company have reported net profits by the end of 2017. At maximum, this can amount to MSEK 2.9 including social security contributions.

NOTE 23 ADDITIONAL INFORAMTION ON CASH FLOW STATMENTS

	Group			Parent company	
	2014	2013	2012	2014	2013
Interest received	184	446	3 040	184	443
Interest paid	–2	–3	–3	–2	–3
Income taxes paid	-	-	-	-	-

NOTE 24 OPERATING LEASING

Leasing costs for the year amounted to KSEK 4,063 (5,538 and 6,535, respectively) for the Group and KSEK 4,125 (5,628) for the Parent Company. Future minimum lease payments on non-cancelable lease contracts fall due as follows. Most contracts state lease payments that are either linked to inflation or based on flexible interest rates. The leasing agreements relate to laboratory and office space and laboratory equipment.

	Group			Parent company	
Amount at December 31	2014	2013	2012	2014	2013
Within one year	4 064	4 062	5 832	4 119	4 142
Later than one, but within five years	4 064	8 120	16 038	4 064	8 120
Later than five years	-	-	-	-	-
	8 128	12 182	21 870	8 183	12 262

NOTE 25 INTER-COMPANY PURCHASES AND SALES

Karo Bio AB did not purchase any services from subsidiaries in 2014, 2013 or 2012.

NOTE 26 REMUNERATION TO AUDITORS

GROUP AND PARENT COMPANY (KSEK)	2014	2013
PwC		
-Auditing commission	410	485
-Auditing in addition to the audit commission	104	131
-Tax guidance	9	35
-Other assignments	-	-
Total	523	651

NOTE 27 STOCK OPTION PROGRAMS

There are currently no stock option programs in Karo Bio.

NOTE 28 FINANCIAL INSTRUMENTS, LIABILITIES AND RISK

FINANCIAL INSTRUMENT PER CATEGORY

31 December 2014	Liabilities and accounts receivable	Financial assets at fair value through profit or loss	Financial assets that may be sold	Total
Assets on the balance sheet				
Derivative instruments	–	–	–	0
Accounts receivable and other receivables (excluding accrued recivables)	483	–	–	483
Cash and cash equivalents	51 609	–	–	51 609
Total	52 092	0	0	52 092

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities on the balance sheet			
Liabilities regarding financial leasing	–	137	137
Accounts payble and other liabilities excluding non-financial debt	–	3 715	3 715
Total		3 852	3 852

31 December 2013	Liabilities and accounts receivable	Financial assets at fair value through profit or loss	Financial assets that may be sold	Total
Assets on the balance sheet				
Derivative instruments	–	144	–	144
Accounts receivable and other receivables (excluding accrued recivables)	6 463	–	–	6 463
Cash and cash equivalents	22 799	–	–	22 799
Total	29 262	144	0	29 406

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities on the balance sheet			
Liabilities regarding financial leasing	–	196	196
Accounts payable and other liabilities excluding non-financial debt	–	8 954	8 954
Total	0	9 150	9 150

RISKS
Karo Bio, like any other business enterprise, is exposed to various risks that change over time. The relevant risks for Karo Bio can be broken down into commercial risks and financial risks. Karo Bio's financial policy determines allocation of responsibility for the finance operations, which financial risks the company is willing to assume and guidelines for how such risks are to be reduced and managed. Financial risk management is centralized and is the responsibility of the chief financial officer. The policy, which is reviewed and approved annually by the Karo Bio Board of directors, is developed to control and manage the following risks:

- Foreign currency risk
- Funding risk
- Liquidity risk
- Interest rate risk
- Credit risk in investments

FOREIGN CURRENCY RISKS
Changes in foreign currency rates have an impact on Karo Bio's earnings and equity in different ways:

- Earnings are affected when revenues and expenses are denominated in different currencies – transaction risk
- Earnings are affected when assets and liabilities are denominated in different currencies – translation risk

Operational currency risks
Karo Bio operates in an international industry. Most of the company's revenues have been denominated in US dollar and approximately 83 (84 and 65, respectively) per cent of expenses are incurred in Swedish krona. The remainder of Karo Bio's expenses is mainly denominated in euros, British pounds (GBP) and US dollars (USD). This leads to an exposure to currency fluctuations, a combination of translation and transaction risks. Karo Bio's reporting currency is Swedish krona.

The table on the next page indicates the effect on Karo Bio's revenues and operating result, if the Swedish krona is strengthened by 10 per cent. Both translation and transaction risks have been considered. The total effect on the operating result would be MSEK -1.1 (-3.4 and 1.4, respectively).

At year-end 2014, there were no active forward contracts. At year-end 2013, the total nominal value of existing currency forward contracts was MSEK 5.5, with an average time to maturity of 0 months. At year-end 2013, the unrealized gain on these contracts amounted to MSEK 0.1. At year-end 2012, were there no active forward contracts. There were no active currency forward contracts at 2014, 2013 or 2012, and the operating losses for these years have not been affected by any matured currency forward contracts.

Financial currency risks
Risks in financial flows related to liabilities and investments is reduced by making investments in Swedish krona, unless an investment using a foreign currency would serve as a hedge of an existing exposure.

Funding risk
The risk that the company will not have access to necessary financing at all times is defined as funding risk. From time to time, the company has raised additional funds in the capital market to secure sufficient funds for the operations and stability of the company. The aim is to always have sufficient capital for at least 12 months of operations. A recurring review of funding needs is carried out in combination with an assessment of capital market developments to evaluate financing strategies. For further information, see under the headline continued operations in the Administration report.

The equity credit facility entered into in connection with the new share issue in 2010 was adjusted during the third quarter of 2011 so that it could be utilized at the then current share price, which is not possible at the prevailing share price. The mandate to utilize the credit facility will be annually submitted to the Annual General Meeting. The option to utilize the equity credit facility expired in the fourth quarter 2013.

Liquidity risk
Liquidity risk refers to the risk that the company will not have sufficient monetary assets readily available to pay current foreseen or unforeseen expenditures. The risk is associated with the supply and maturity of short-term investments and the risk that there is no market for a specific instrument that the company intends to sell. Liquidity risk is managed by structuring the maturities of investments based on cash flow forecasts and also by limiting investments in bonds with low liquidity on the second-hand market. Weighted remaining duration of short-term investments was 0 months (0 and 3 respectively) at year-end.

Interest rate risk
Interest rate risk is the risk that a change in interest rates will cause a negative impact on the value of interest-bearing assets. In accordance with policy, investments are made with variable terms and maturities. The immediate impact on short-term investments if the interest rate would decrease by one percentage is 0 per cent (0 and 0.22, respectively) or MSEK 0 (0 and 0.1, respectively).

Credit risk in investments
Credit risk refers to the risk that Karo Bio will not receive payment for an investment. The credit risk is divided into an issuer's risk and a counterpart's risk. Issuer's risk is the risk that the securities, which Karo Bio owns, will lose their value because the issuer cannot meet its commitments in the form of interest payments and payments on the due date. Counterpart's risk is the risk that the party that from which Karo Bio buys investments from or sells investments to cannot provide securities or fails to make payments as agreed.

The policy manages credit risk by regulating which parties Karo Bio can do business with and what credit ratings are required for investments. There is no material concentration of credit risks.

Fair value of assets and liabilities
Short-term investments comprise investments in money market instruments, highly liquid bonds with maturities of less than five years and investments in highly liquid fixed income mutual funds. These assets are classified as financial assets at fair value through profit and loss. This entails that the assets are stated at fair value in the balance sheet, defined as market value. Changes in fair value are included in financial items in the income statement.

Karo Bio's financial instruments are traded in active markets with readily and regularly available quoted market prices which represent actual and regularly occurring market transactions on an arm's length basis. Thus, these are classified as level 1 according to IFRS 7. The fair value of Karo Bio's financial assets measured at fair value through profit and loss, defined as the quoted price in the market, amounts to MSEK 0 (0 and 26, respectively). For other assets and liabilities, book value corresponds to market value.

CURRENCY EFFECT (MSEK)

Effect on consolidated revenues and operating result before hedging transactions, when the Swedish krona is strengthened by 10 per cent.

Currency	Revenues	Operating profit/loss
USD	–2,5	–2,2
Euro	-	0,8
GBP	-	0,3
Other	-	-
Total	–2,5	–1,1

NOTE 29 SEGMENT INFORMATION

Based on the information that is processed by the Group's management team and used to make strategic decisions, Karo Bio's operations consists of a single operating segment, namely research and development for drug discovery. When evaluating the business and in strategic discussions and decisions, no break- downs are made of the business in additional operating segments. Development of Karo Bio's drug projects is an integrated process coordinated by project managers who report to the executive management.

Different parts of the organization are involved in this process to varying degrees at different stages of the development chain. Project managers establish project budgets, including direct project costs, internal resources and timelines for the various activities. The executive management team evaluates projects budgets and conducts regular monitoring of project costs and timelines. The following table shows how the revenue and assets are distributed by geographic area.

	Group		
KSEK	2014	2013	2012
Revenues			
Sweden	5 793	960	236
Rest of Europe	-	-	-
USA	24 267	46 069	32 937
	30 060	**47 029**	**33 173**
Non-current assets			
Sweden	4 050	4 500	3 771
Rest of Europe	-	-	-
USA	-	-	-
	4 050	**4 500**	**3 771**

The Company´s by far largest customer is Pifzer.

NOTE 30 TRANSACTIONS WITH RELATED PARTIES

Karo Bio has no transactions with related parties as defined in IAS 24 related Party disclosures to disclose other than those named in note 2 regarding remuneration to members of the Board and executive management.

NOTE 31 SIGNIFICANT EVENTS AFTER THE END OF THE FISCAL YEAR

On February 4, Anders Lönner was appointed Executive Chairman and Maria Sjöberg was appointed CEO after Per Bengtsson.

The Board of Directors and the CEO declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent company's financial position and results of operations.

The statutory Administration report for the Group and the Parent company provides a fair review of the development of the Group's and the Parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company and the companies included in the Group.

The income statements and balance sheets will be presented for the annual general meeting on April 29, 2015 for adoption

HUDDINGE APRIL 6 2015

Maria Sjöberg
CEO

Anders Lönner
Executive chairman

Christer Fåhraeus
Board member

Per-Anders Johansson
Board member

Sibylle Lenz
Board member

Thomas Hedner
Board member

Göran Wessman
Board member

Bo Carlsson
Board member
Employee representative

OUR AUDIT REPORT WAS ISSUED APRIL 7, 2014

PricewaterhouseCoopers AB

Håkan Malmström
Authorized Public Accountant

AUDITOR'S REPORT

To the annual meeting of the shareholders of Karo Bio AB (publ), corporate identity number 556309 3359

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Karo Bio AB (publ) for the year 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 18–38.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards , as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the income statement and financial position of the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of ABC AB for the year 2014.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm on April 7, 2015
PricewaterhouseCoopers AB

Håkan Malmström
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

Introduction
The Board of Directors of Karo Bio hereby submits the corporate governance report for 2014, compliant with the Annual Report Act (ÅRL 6 kap 8 §) and the Swedish Code of Corporate Governance ("the Code") (available at www.corporategovernanceboard.se).

Karo Bio has applied the Code since July 1, 2008.

The corporate governance report has been reviewed by the company's auditor, in accordance with the Annual Reports Act. It does not constitute a section of the formal annual report documentation.

The Group consists of the Parent Company, Karo Bio AB, and the subsidiaries, Karo Pharma AB and Karo Bio Discovery AB. The subsidiaries conduct no operations.

Deviation from the Code
Karo Bio comply with the Code's principle of "comply or explain" and in 2015, Karo Bio had a deviation to report, in terms of code rule 9.1 that the Board of Directors shall establish a remuneration committee.

The Board of Directors has, based on its size and composition, determined that the remuneration committee and the audit committee tasks are best performed by the Board of Directors as a whole and have therefore decided not to establish any special committees, which is a deviation from code rule 9.1 that the Board of Directors should establish a remuneration committee.

Shareholders
Karo Bio AB's shares have been listed on the NASDAQ Stockholm exchange since 1998. As per December 31, 2014, the number of shareholders amounted to 12,141 (11,799). According to the shareholder list provided by Euroclear Sweden AB as per December 31, 2014, Försäkringsaktiebolaget Avanza Pension had accumulated shareholdings of 9.1 (9.6) per cent, JP Morgan 5.6 (4.5) per cent and Nomic AB 3.9 (3.9) per cent, respectively. The ten largest shareholders owned 31 (29) per cent of the total number of shares. The proportion of foreign shareholders amounted to 15 (14) per cent. A proportion of 0.2 (0.2) per cent of shareholders held 1,000 shares or fewer.

There are no limitations that apply to the transferability of Karo Bio shares due to either legal restrictions or the Articles of Association. To the best of Karo Bio's knowledge, no agreements exist between any shareholders that could possibly limit the transferability of shares. No single shareholder controls more than 10 per cent of the total number of shares in Karo Bio.

No breaches of the listing agreement or good practice on the stock market according to resolutions from the Exchange's disciplinary committee or the Swedish Securities Council disciplinary committee occurred during the financial year.

Information regarding outstanding shares in Karo Bio
At December 31, 2014, the company had a total of 676,263,158 shares with a par value of SEK 0.02. Each share carries entitlement to one vote and carries the same right to share in the company's assets and profits.

In April 2014, new share issues were conducted to existing shareholders and to Anders Lönner, which in total increased the number of shares from 495,947,369 to 676,263,159. The share issues raised a total of MSEK 84.7 before transaction costs.

General Meeting of the Shareholders
The highest decision-making body is the general meeting of the shareholders, where the shareholders exercise their influence in the company. Shareholders wishing to participate in the general meeting of shareholders, either in person or via a representative, must have their names entered in the shareholders' register maintained by Euroclear Sweden AB no later than five weekdays before the general meeting and must report their intention to attend to the company in accordance with the notice.

Notice of a general meeting of shareholders is given through notices in the press and the company website (www.karobio.com). The annual general meeting shall be held within six months from the end of the financial year. At the annual general meeting, shareholders vote on proposed resolutions regarding such matters as the election of members of the Board of Directors and, where appropriate, the auditors, the manner of appointment of the Nomination Committee and discharge from responsibility for the members of the Board of Directors and CEO for the past year. Resolutions are also adopted regarding the preparation of the financial statements, the allocation of profit or treatment of loss, the fees for the Board of Directors and auditors, and guidelines for remuneration to the CEO and other members of the executive management team.

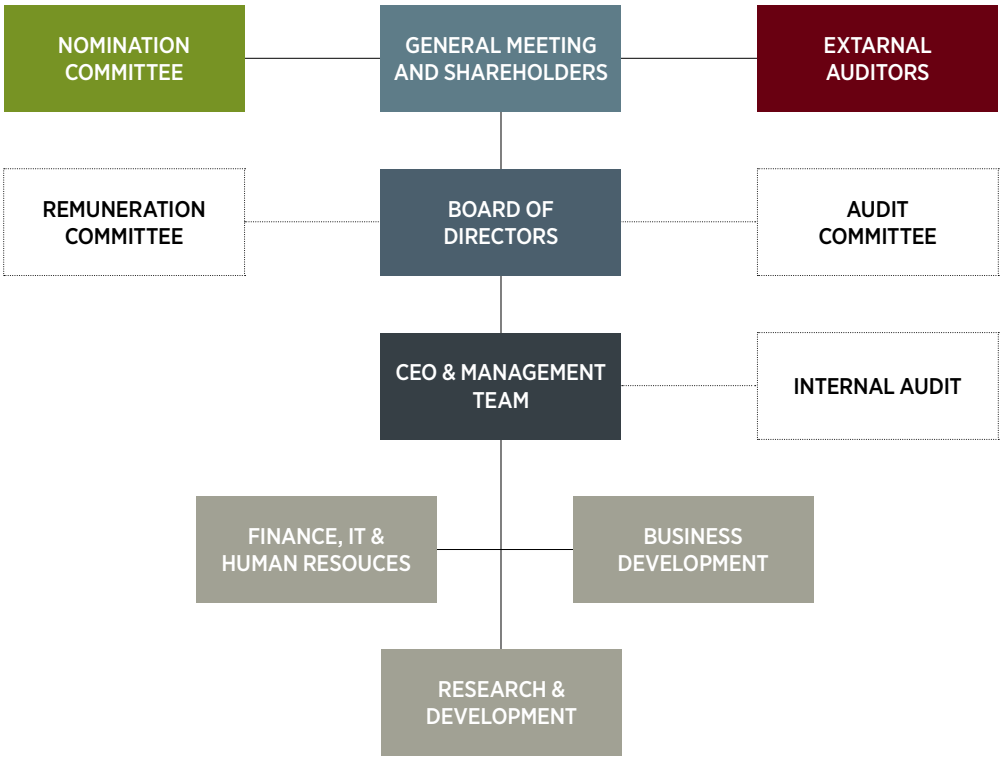
Annual General Meeting 2014
The Board gave the Annual General Meeting (AGM) an account of their work during the year and on corporate governance issues in general. The CEO informed the AGM about the Group's development and position, and commented on financial results for 2013.

The AGM approved the financial statements for 2013, decided on the handling of the Company loss and discharged the members of the Board from liability. The AGM decided that no dividend would be paid. The AGM authorized the Board to – on one or several occasions and until the next AGM – decide on the issuance of shares corresponding to a maximum of 10 per cent of the registered share capital. The objective of this authorization is to increase the company´s financial flexibility and to facilitate acquisition with payment in shares.

The Nomination Committee's Chairman informed on the work during the year and reported the reasons for the suggested proposals. In accordance with the proposal, Anders Lönner (new election) was elected Chairman and Christer Fåhraeus, Thomas Hedner (new election), Per-Anders Johansson, Sibylle Lenz and Göran Wessman were elected as Board members. The AGM resolved on the election of auditor and remuneration to the Board and auditor in accordance with the Nomination Committee's proposal.

The minutes of the AGM held on May 8, 2014 is available at Karo Bio's website (www.karobio.com).

Extraordinary General Meeting in March 2014
An extraordinary General Meeting was held on March 17 2014 to decide on a rights issue and on a share issue to Anders Lönner. The AGM approved a rights issue of approximately MSEK 77.7 with preferential rights for existing shareholders, which increased the share capital by a maximum of 3,306,279.36 SEK through the issue of maximum 165,315,790 shares. The AGM also approved a new share issue to Anders Lönner, which increased the share capital by a maximum of 299,996.69 SEK through the issuance of maximum 15,000,000 shares.



IMPORTANT EXTERNAL AND INTERNAL RULES, REGULATIONS AND POLICIES AFFECTING CORPORATE GOVERNANCE

Important internal rules, regulations and policies:

- Articles of Association
- The Board of Directors' work procedure
- Instructions for the CEO including instructions regarding financial reporting
- Instructions to the respective Board committees
- Information policy
- Insider policy
- Financial policy
- Risk management policy
- Financial manual
- Code of Conduct and provisions regarding business ethics

Important external rules and regulations

- Swedish Companies Act
- Swedish Book-keeping Act
- Swedish Annual Accounts Act
- NASDAQ Stockholm's Rule Book for Issuers
- Swedish Code of Corporate Governance

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

BOARD OF DIRECTORS

ANDERS LÖNNER (1945)
BOARD MEMBER AND CHAIRMAN SINCE 2014
Education: MSc.Pol. Sci. In 2014, nominated Honorary Doctor of Medicine at Karolinska Institutet.
Primary Experience: Previously CEO and President Meda AB and before CEO Astra Läkemedel with responsibility for, among other things, Astra´s Nordic subsidiaries, CEO Karo Bio AB and President.
Other assignments: Board member Valeant Pharmaceuticals International Inc.
Number of shares: 18 263 049

THOMAS HEDNER (1949)
BOARD MEMBER SINCE 2014
Education: M.D., Ph.D and MBA
Primary Experience: Professor in clinical pharmacology at the faculty of medicine at Gothenburg University at the department for Innovation and Entrepeneurship. Founder of several biomedical start-ups such as Blood Pressure AB, DuoCort AB and Laccure AB.
Other assignments: Board member of Ana-Mar AB and Smartsun AB.
Number of shares: 3 901 402

SIBYLLE LENZ (1961)
BOARD MEMBER SINCE 2013
Education: PhD in Medicinal Chemistry from the Faculty of Pharmacy at Copenhagen University.
Primary experience: Vice President, Corporate Business Development at Dako A/S, senior positions withing both research & development and commercial areas in H. Lundbeck A/S.
Other assignments: CEO Alligator Bioscience AB, Board member in Lund University Diabetes Centre (LUDC) Innovation Board.
Number of shares: 0

CHRISTER FÅHRAEUS (1965)
BOARD MEMBER SINCE 2011
Education: M.Sc. Bioengineering, B.Sc. Mathematics, Ph.D. (hc) Lund University. 3 years of medical studies and 4 years of of PhD studies in Neurophysiology.
Primary Experience: Innovator and Entrepreneur. CEO and Board member in several developmental companies and listed companies within medtech, IT and pharmaceuticals. Founder of Anoto Group AB, Precise Biometrics AB, CellaVision AB, Respiratorius AB, Agellis Group AB and EQL Pharma AB amongst others.
Other assignments: CEO of EQL Pharma AB. Chairman of Agellis Group AB, Respiratorius AB and Flatfrog Laboratories AB. Board member of EQL Pharma AB, Lunds University's Utvecklingsaktiebolag (LUAB), Fårö Capital AB and CellaVision AB.
Number of shares: 0

PER-ANDERS JOHANSSON (1954)
BOARD MEMBER SINCE 2012
Primary Experience: Founder of the technical consulting compnay CIMON AB, CFO and Vice President Ellos, Nordico and Karlshamn Group.
Other assignments: CEO and chairman in CIMON. Chairman of the Savings bank in Karlshamn.
Number of shares: 26 488 854

GÖRAN WESSMAN (1948)
BOARD MEMBER SINCE 2011
Education: Biomedicine and Chemistry at Uppsala and Gothenburg Universities.
Primary Experience: Leading positions at Nobel Pharma, consultant within business development. Founder of Protem Wessman Boule Diagnostics and Carmel Pharma. Former CEO of the holding company at Gothenburg University, A+ Science Holding and Chairman of the Board of SCRI and Isconova.
Other assignments: CEO and Board member in Mintage Scientific. Chairman in I-Tech, Vicore Pharma and Protem Wessman.
Number of shares: 5 355 553

EMPLOYEE REPRESENTATIVES

BO CARLSSON (1958)
EMPLOYEE REPRESENTATIVE SINCE 1997
Education: Specialist teacher, Uppsala University.
Primary experience: Employed by Karo Bio since 1997, Senior Research Scientist.
Number of shares: 36 738

CEO AND CFO

MARIA SJÖBERG (1964)
CHIEF EXECUTIVE OFFICER SINCE FEBRUARY 2015
HEAD OF PRECLINICAL DEVELOPMENT EMPLOYED 2011
Education: Ph.D., Associate Professor.
Primary experience: R&D/Production Director SentoClone AB, Senior Scientist Astra Zeneca Biotech, Section Head/ Project Leader KaroBio AB, Group Leader Karolinska Institutet.
Number of shares: 60 000

Per Bengtsson resigned as CEO in February 2015

HENRIK PALM (1958)
DEPUTY CEO SINCE FEBRUARY 2015
CHIEF FINANCIAL OFFICER
EMPLOYED 2011
Education: Bachelor of Business Administration, University of Gothenburg.
Primary experience: Business controller within the Ericsson group (1982-2000), CFO ElektronikGruppen BK AB (publ) (2000-2009) and CFO Feelgood Svenska AB (publ) (2009-2010).
Number of shares: 137 010

The reason for deviating from shareholders preferential rights was to provide the company with a new long-term and active owner of strategic importance to the company.

The minutes of the Meeting is available at Karo Bio's website (www.karobio.com).

Nomination Committee

The AGM 2014 resolved on the principles to apply for the Nomination Committee. The Chairman of the Board shall ensure that by the end of the third quarter each year, the company's by voting rights five largest shareholders or shareholder groups are offered to appoint one representative to the Nomination Committee. Where one or more shareholders decline to appoint a member of the Nomination Committee, the next shareholder in turn based on ownership should be contacted with a mandate to appoint a member to the committee. The Chairman is the convener of the Nomination Committee. If a member leaves the Nomination Committee before the work is completed, the Nomination Committee shall, if it deems it necessary, invite the same shareholder, or if it is no longer one of the major shareholders, the next shareholder in terms of size to appoint a replacement. A change of this kind shall be announced on the company's website.

The Nomination Committee shall prepare proposals for resolution as regards to the election of chairman for the general meeting, the number of Board members and Deputies, fees to the Board of Directors and auditor, the election of Chairman of the Board and other Directors of the Board and auditors.

The term of office for the Nomination Committee runs until the new committee is appointed. The Nomination Committee shall not receive remuneration, but to the extent it considers necessary have the right to contract other resources such as external consultants as part of their assignment at the company's expense, and to a reasonable extent. The AGM 2014 decided that the principles adopted for the Nomination Committee should apply until changed.

The Nomination Committee ahead of the AGM 2015 consists of Anders Lönner, Per-Anders Johansson, Johan Paulsson and Göran Wessman.

External Auditors

According to the Articles of Association, Karo Bio shall engage a registered public accounting firm as external auditor. At the 2014 AGM, the registered public accounting firm PricewaterhouseCoopers AB was re-elected as auditor until the AGM 2015. Since the 2008 AGM, auditor in charge has been Authorized Public Accountant Håkan Malmström, who is also auditor in charge of the companies NCC AB, Nordstjernan AB, Axel Johnson AB and Saab AB.

The auditors review the accounting records and administration of the Parent Company and the Group on behalf of the AGM. The external audit of the accounting records of the Parent Company and the Group and the administration of the Board of Directors and the CEO is performed according to generally accepted auditing standards in Sweden. The Company's auditor in charge participates in some of the Board's Audit Committee meetings. The auditor participates in at least one Board meeting per year to review the year's audit and to have a discussion with the members of the Board without the presence of the CEO.

The company has entrusted the auditor to review one of the interim reports for 2014 in accordance with the Code's statues. Information regarding the auditors' fee is included in Note 26 in the 2014 annual report.

The Board of Directors

The Board of Directors has the overall task of administering the company's affairs on behalf of the shareholders in the best possible manner. The Board shall continuously assess the Group's operations, development and financial situation, as well as assessing its operative management. Among its other work, the Board determines issues concerning the Group's strategic direction and organization, business plans, financial plans and budget, and also makes decisions regarding important agreements, major investments and commitments, in addition to financial, information and insider and risk management policies.

The Board of Directors works according to a work procedure that is determined annually and which governs the frequency and agenda of Board meetings, the distribution of material for meetings and matters to be presented to the Board as information or for resolution. The working procedure further regulates the manner in which the tasks of the Board are divided between the members of the Board and any Board committees. The Board has also approved instructions for the CEO, which regulate the division of duties between the Board of Directors, the Chairman of the Board, and the CEO, as well as defining the authorities of the CEO.

The Chairman of the Board plans the Board meetings together with the CEO. In advance of each Board meeting, the Directors receive a written agenda and adequate supporting documents. At each regular Board meeting, a review of operations is conducted, which includes developments and progress within research and development, business development, the Group's operating results and financial position, financial reporting and forecasts.

The Chairman leads the work of the Board of Directors, represents

Board member	Elected	Total annual fee, KSEK	Attendance ordinary Board meetings[1)]	Attendance extraordinary Board meetings[1)]	Independent in relation to the company and executive management	Independent in relation to the company´s major shareholders
Anders Lönner[2)] (Chairman)	2014	315	6 (7)	0 (1)	Yes	Yes
Christer Fåhraeus	2011	150	6 (10)	3 (3)	Yes	Yes
Thomas Hedner[2)]	2014	113	6 (7)	1 (1)	Yes	Yes
Per-Anders johansson	2012	150	9 (10)	3 (3)	Yes	Yes
Sibylle Lenz	2013	150	8 (10)	3 (3)	Yes	Yes
Anders Waas [3)]	2012	37	4 (4)	2 (2)	Yes	Yes
Göran Wessman [4)]	2011	218	10 (10)	3 (3)	Yes	Yes
Employee representatives						
Bo Carlsson [5)]	1997	0	9 (10)	2 (3)	No	No
Johnny Sandberg [5)6)]	2006	0	10 (10)	3 (3)	No	No
Eva Koch, suppleant [5)6)]	2010	0	8 (10)	3 (3)	No	No

1) The figures in parentheses indicate the number of meetings held during each member's mandate period
2) Elected at the annual general meeting 2014
3) Left assignment at the annual general meeting 2014
4) Chairman until the annual general meeting 2014
5) Employed by Karo Bio AB
6) Resigned in connection with termination of employment in December, 2014

the company in ownership issues, and is responsible for the assessment of the Board of Directors' work. In addition, the Chairman is responsible for on-going interaction with management and for monitoring that the Board fulfills its duties.

According to the Articles of Association, the Board shall consist of a minimum of five and a maximum of nine members, elected by the general meeting of shareholders, with no deputy members. The Board is competent to make decisions when more than half of the total numbers of Directors are present.

The work of the Board of Directors in 2014

In 2014, ten regular meetings and three extra board meetings have been held. At all of these meetings, the Board of Directors has been competent to make decisions. Secretary to the Board in 2014 was solicitor Madeleine Rydberger. Resolutions are made after an open discussion in the Board, led by the Chairman.

Major matters dealt with in 2014 have included rights issues, research operations, business development and adjusting the organization. The Board continuously evaluates the company's performance and development.

Board Committees

Based on its size and composition, the Board has resolved that the respective tasks of the Compensation Committee and the Audit Committee are best conducted by the Board in its entirety, and that no preparatory committees should be appointed, which is a deviation from the Code rule that the Board should form a remuneration committee.

The Board in its entirety thus attends to the matters designated for preparatory Compensation and Audit Committees according to the Companies Act and the Code.

Compensation Committee

The Compensation Committee's responsibilities are discharged by the full Board. The work is governed by instructions determined annually by the Board of Directors, and included in the work procedures for the Board. These include submitting proposals for guidelines for remuneration of senior executives, proposals to the Board on the salary and other terms of employment of the CEO, determine salaries and employment terms for other members of the executive management and develope proposals for incentive programs and other forms of bonuses or similar compensation to employees. The CEO may be rapporteur on issues relating to the Compensation Committee but does not participate in decisions on his or her own salary and employment terms.

At the AGM, the Board proposes guidelines for determining salaries and other compensation for the CEO and other senior executives, for approval by the shareholders.

At the 2013 AGM it was decided that the remuneration of CEO and other senior executives in addition to fixed salary can be rewarded variable remuneration up to a maximum of 40 per cent of the fixed remuneration to reward the achievement of set goals within simple and transparent structures. The total remuneration shall be in line with market terms and competitive.

For further description of the employment terms for senior executives and remuneration of the Board of Directors, see the administration report and note 2 in the financial statements for 2014.

Audit Committee

The Board as a whole fulfills the tasks of the Audit Committee. The tasks follows from instructions set annually by the Board and contained in the Board's work procedures. These include supporting the Board in efforts to monitor and ensure the quality of financial reporting and the effectiveness of the Company's internal control and risk management.

The Board continuously meets the Company's auditors, evaluate audit work, the auditors' independence and approve any supplementary services the company may procure from its external auditors.

CEO and executive management team

The Board of Directors appoints the CEO to lead the company. The CEO is responsible for the ongoing management of the company in accordance with the Board's instructions and guidelines.

In addition to the CEO, the executive management team consisted of three members; the Chief Financial Officer, the Vice President Business Development and the Head of Preclinical Development. The executive management team meets monthly to discuss the Group's financial results and position, the status of research and development projects, strategic issues and the monitoring of budget and forecasts.

The CEO leads the work of the executive management team, which makes decisions together for later implementation in the organization based on the strategy and corporate goals determined by the Board of Directors. Each member of the executive management team ensures that decisions are implemented in his or her respective area of responsibility and follows up this implementation.

The executive management team is responsible for formulating proposals regarding the Group's overall strategies and for implementing these, as well as dealing with matters such as acquisitions and divestments. Information about the members of the executive management team´s age, primary education, work experience, significant assignments outside Karo Bio, own and affiliated holdings of shares in the company, is reported on page 41.

INTERNAL CONTROL AND RISK MANAGEMENT REGARDING FINANCIAL REPORTING

Introduction

The Board of Directors and the CEO are responsible for internal control, as stipulated in the Swedish Companies Act. The responsibility of the Board is also stipulated in the Code. The Annual Reports Act includes requirements regarding the provision of information to external parties about the company's system for internal control and risk management regarding the financial reporting.

Karo Bio's processes for internal control regarding the financial reporting are designed to provide with reasonable security, quality and correctness in the reporting. The process is designed to ensure that the reporting is prepared in accordance with applicable laws and regulations as well as requirements for listed companies in Sweden.

One premise to achieving this is that there is a satisfactory control environment, reliable risk assessments are conducted, the existence of established control structures and control activities and that information, communication, as well as follow-up, all function in a satisfactory manner.

Internal audit

The Board of Directors has assessed the need for an internal audit function, and has concluded that no such function can be justified in Karo Bio at present, with consideration of the scope of operations and the fact that the Board of Directors' follow-up of internal control is deemed to be sufficient to ensure the effectiveness of internal control. The Board of Directors will reassess the need for an internal audit function when any changes arise that may cause reassessment, although at least once per year.

The Control Environment

The internal control is based on Karo Bio's control environment, which includes the values and the ethics which the Board, the Audit Committee, the CEO, executive management team and other employees, communicate and on which they base their actions. The control environment is also defined by the company's organizational structure, leadership, decision-making process, authorities, responsibilities and employees' competence.

Risk Assessment

At least once a year, a review is undertaken to identify and evaluate Karo Bio's risk profile. This work also involves the assessment of the preventive measures which are to be undertaken to reduce and prevent risks in the Group. This work includes ensuring that the Group is sufficiently insured and also includes the preparation of decision-making documentation as regards to any possible changes in policies, guidelines and insurance coverage.

Karo Bio's system for identifying, reporting and addressing risks is an integrated part of the on-going reporting to the management team and the Board of Directors and forms a key foundation for the assessment of risks in terms of errors in the financial reporting.

As part of the process, items in the income statement and balance sheet where the risk of significant error is greater are identified. For

Karo Bio, accrued project costs within the company's clinical projects comprise, at various points in time, significant amounts, the size of which is based to a large extent, on management's assessments of the degree of completion. Cash, cash equivalents and other short term investments account for a substantial part of Karo Bio's total assets and are thus a potential source of risk in the financial reporting. Furthermore, the fact that Karo Bio's administration is managed by a small number of individuals has been noted as a risk, as the dependence on a few key individuals is significant and the possibilities of separation between duties and responsibilities are limited. Therefore, special importance has been placed on designing controls to prevent and identify weaknesses in these areas.

Control Structure
A clear specification of roles and responsibilities is stipulated in the Board's work procedures and in the instructions for the CEO and the Board Committees, respectively. The Board of Directors has the overall responsibility for internal control. The CEO is responsible for the system of procedures, processes and controls, that have been developed for the ongoing operations. These include guidelines and role descriptions for the various officers of Karo Bio and for the regular reporting to the Board. Policies, processes, procedures, instructions and standard formats for the financial reporting and the on-going work with the financial administration and financial issues are documented in Karo Bio's Finance manual. Procedures and activities have been designed to handle and address significant risks which are related to the financial reporting and which are identified in the risk analysis. In addition to the Finance manual, the most significant, overall group-wide governance documents are the finance policy, information policy, insider policy, and the risk management policy.

Control Activities
The major goal of the control activities is to prevent and, at an early stage, identify errors in the financial reporting so that these can be addressed and corrected. There are control activities both at the overall and more detailed levels and these are both manual and automated in nature. Authorization in the IT system is limited according to the established authorizations and specified responsibilities.

The finance function compiles monthly financial reports in which results and cash flows for the former period are reported and in which budget deviations are analyzed and commented.

Follow-up is conducted via regular meetings which review and analyze these reports, together with the line managers and project managers. In this manner, significant fluctuations and deviations are followed which minimizes the risk of error in the financial reporting.

The closing of the books and annual financial statement work involves processes which add further risks for errors in the financial reporting. This work is of a less repetitive nature and includes a number of instances characterized by assessment. Important control activities includes securing that there is a well-functioning reporting structure in which the line managers and project managers report according to standardized reporting formats, and that important income statement and balance sheet items are specified and commented.

Information and Communication
The company's information-oriented operations are regulated by an information policy. For external communication, there are guidelines to ensure that the company meets the high standards for correct information to shareholders and financial markets. Karo Bio's communication shall be correct, transparent, timely and simultaneous to all stakeholders. All communication shall be conducted in accordance with NASDAQ Stockholm's Rule Book for Issuers. The financial information shall provide a comprehensive and clear view of the company, its operations, strategy and financial development.

The Board of Directors adopts the annual reports, financial statements and interim reports. All reports are published on the website (www.karobio.com) after having been published in accordance with stock exchange regulations. The annual report is distributed via the company website, and is made available in print on request.

For internal communication purposes, Karo Bio has established an intranet, where internal information items, policies and guidelines are available for all employees. In addition, company-wide information meetings are held.

Follow-up
The Board's review of internal control regarding financial reporting is conducted by, among other things, reviewing the work and reports of the Chief Financial Officer and the external auditors. This work includes ensuring that measures have been taken regarding any deficiencies and also includes presenting proposals for measures which have been produced in the context of the external audit. The review is conducted with a focus on the manner in which Karo Bio complies with its framework and on the basis of the existence of efficient and goal-oriented processes for risk management, operational management and internal control.

The external auditors review, on an annual basis, selected parts of the internal control within the framework of the statutory audit. The auditor's report the outcome of the review to the Board of Directors and the executive management. Significant observations are reported, as applicable, directly to the Board of Directors. In 2014, as part of the audit of accounts, the external auditors have reviewed the internal control of select key processes and have reported on these to the Audit Committee, the Board of Directors and the executive management.

AUDITOR'S OPINION ON THE CORPORATE GOVERNANCE STATEMENT

To the annual meeting of the shareholders in Karo Bio AB (publ), corporate identity number 556309-3359.

It is the board of Directors who is responsible for the corporate governance statement for the year 2014 on pages 40-46 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our statement that the corporate governance report has been prepared and is consistent with the annual report and group financial reporting, we have read the corporate governance report and reviewed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance statement has been prepared and its statutory content is consistent with the Annual Accounts Act and the consolidated account reports.

Stockholm on April 7, 2015
PricewaterhouseCoopers AB

Håkan Malmström
Certified Public Accountant

GLOSSARY

AGONIST A compound that has an activating effect.

ANTAGONIST A compound that has inhibiting/blocking effect, i.e. has a reverse effect compared to the agonist.

AXON is a projection from one nerve cell leading electrical impulses to other nerve cells or effector (muscle, glands). Axon ends with a synapse where a neurotransmitter substance is released as a result of the impulse.

CD Candidate Drug. A compound, which has desired effects in relevant animal models and which therefore is further developed towards clinical development.

CLINICAL STUDY Testing and evaluation of pharmaceuticals in humans.

ER The receptor for estrogen hormone.

ERBETA A form of the estrogen receptor, the discovery of which can lead to new treatment principles in women's health care, depression, certain forms of cancer with several disease areas.

INDICATION In medical terminology a term for a disease or patient category.

LIGAND A substance, such a hormone, that binds with a receptor protein.

LIVER SELECTIVE A compound that preferentially acts in the liver.

MYELIN Surrounds the outgrowth from nerve cells called axons through which the contact between nerve cells takes place. Myelin has an insulating capability meaning that nerve impulses can propagate faster.

NUCLEAR RECEPTORS Receptors inside a cell that bind to ligands (often hormones) and regulate gene expression.

PHARMACOKINETICS Studies of process time for the uptake, distribution and elimination of a drug in the body.

PHASE I A first clinical study phase where the compound is given as a single dose to healthy volunteers with the primary objective to study safety and pharmacokinetics on a candidate drug.

PHASE II First clinical studies in chosen patient category for which the drug is evaluated.

PHASE III Clinical studies conducted with a large patient population for which the drug is developed. The primary objective is to assure safety and confirm effect in a large database of a selected patient category under long time treatment. The aim with this part of clinical development is to assure that the launched product is safe for the chosen patient category in clinical practice.

PRECLINICAL DEVELOPMENT Development until permission is granted to test a compound on human beings.

PROOF-OF-CONCEPT Proof for intended effect of a drug in patients.

PROOF-OF-PRINCIPLE Proof that a treatment principle has the intended effect on patients.

RECEPTOR A protein on the cell surface or inside the cell (nuclear receptor) that recognizes and binds to ligands such as steroid hormones. Receptors start or stop biological processes when they bind to ligands.

RORgamma Research shows that the nuclear receptor RORgamma may have an important role in the development of autoimmune diseases.

THERAPY Disease treatment method.

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