

INTERIM REPORT JANUARY-JUNE 2015

THE PERIOD AND THE SECOND QUARTER

- o Net sales amounted to MSEK 2.3 (13.2), whereof the second quarter MSEK 1.8 (6.8)
- o Net loss was MSEK 36.9 (27.6), whereof the second quarter MSEK 21.5 (14.2)
- o Non-recurring costs of approximately MSEK 10 in the second quarter
- o Operating expenses is estimated to be 65 per cent lower from the third quarter
- o Loss per share was SEK 0.05 (0.04), whereof the second quarter SEK 0.03 (0.02)
- o Cash flow from operating activities was MSEK -32.4 (-26.3), whereof the second quarter MSEK -13.0 (-13.1)
- o Cash and cash equivalents and other short-term investments at the end of the period totaled MSEK 19.1 (71.9)
- o In April, Karo Bio acquired a unique product for cold disease
- o Two share issues totaling MSEK 250 was carried out, and subscribed to 137 percent. The issues will be completed after period-end, and are hence not reflected in the cash position.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

- o The Board proposes a reverse stock split in which 20 shares are consolidated into 1 share, and has therefore convened an Extra General Meeting on August 7, 2015.

CONFERENCE CALL / AUDIOCAST TODAY AT 10.00 A.M. CET

A presentation of the report (in Swedish) will take place today 10.00 a.m. The presentation and slides will be available through the corporate website www.karobio.se or by telephone +46 8 566 426 69. Questions may be submitted over the internet or by telephone.

COMMENT ON OPERATIONS

FINANCIALLY EQUIPPED FOR GROWTH

During the second quarter, we strengthened Karo Bio's financing through share issues of MSEK 250 from existing and new shareholders. It is very encouraging that the interest in participating in these share issues was so great that subscriptions represented 137 percent.

The funding provides us a strong platform to reach our goal of creating value for shareholders. The strategy is, in addition to reducing costs, to add commercial products and projects closer to market in order for the portfolio to start generating revenue sooner. The target is to add at least two new products annually.

Through the acquisition of Tanomed AB in the second quarter, we added the second product in 2015. The company has a unique, patented product to relieve and prevent colds. By taking this drug early on in cold progression, individuals should be able to prevent or shorten common colds, something that represents a large market potential.

We have added two products so far this year with the agreement on Vagisan in March and the acquisition of the cold product in April. We continue to evaluate acquisitions and partnership opportunities with the aim of adding further products. There are a large number of interesting development projects both in Sweden as well as abroad, where Karo Bio with its new organization, international network and experience can help create value.

Several projects in the portfolio represent interesting values. Since fall 2014, qualified discussions are underway regarding a licensing agreement of ERbeta MS. Discussions are also underway about license agreements for ERbeta cancer. Since the beginning of the year Pfizer develops the ROR-gamma project towards the market inhouse. Karo Bio is entitled to development and sales milestones of up to approximately MUS\$ 200 excluding royalties.

In line with the company's new strategy with a focus on projects and products closer to market, R&D work will mainly be carried out in a virtual setting with a limited number of employees. This will be reflected in the form of substantially lower R&D expenses from the third quarter. Operating expenses before direct project costs are estimated to be approximately 65 per cent lower from the third quarter compared to the latest 12-month period.

Karo Bio has a stated goal of becoming a profitable company and thereby create increased shareholder value. Through aggressive efforts to broaden the company's portfolio with innovative projects with low development risk and short time to market, opportunities for new products are created and thereby sales revenue. In combination with a low and controlled cost level, the company believes that there is good potential to create long-term profitability.

KEY FINANCIAL DATA

(MSEK)	April-June		January-June		Full year
	2015	2014	2015	2014	2014
Net sales	1.8	6.8	2.3	13.2	30.1
Operating expenses	-23.4	-21.1	-39.2	-40.9	-89.5
- of which R&D expenses	-17.2	-15.9	-25.4	-30.0	-68.6
Net loss	-21.5	-14.2	-36.9	-27.6	-59.3
Loss per share (SEK)	-0.03	-0.02	-0.05	-0.04	-0.09
Cash flow from operating activities	-13.0	-13.1	-32.4	-26.3	-46.3
Cash and cash equivalents at the period end	19.1	71.9	19.1	71.9	51.6

NET SALES AND EARNINGS

Net sales for the first six months were MSEK 2.3 (13.2), whereof the second quarter MSEK 1.8 (6.8). The change was mainly due to ceased revenue from the research collaboration with Pfizer, who since the start of the year develops the project in-house.

Operating expenses was MSEK 39.2 (40.9), whereof the second quarter MSEK 23.4 (21.1). Research and development accounted for 65 per cent of costs amounting to MSEK 25.4 (30.0), whereof the second quarter MSEK 17.2 (15.9). The second quarter included non-recurring costs of approximately MSEK 10 mainly attributable to completed adjustments of the workforce. Administrative expenses were MSEK 13.7 (11.0), whereof the second quarter MSEK 6.1 (5.4). Also here the increase was mainly explained by one-off costs in relation to adjustments of the workforce.

Operating loss and net loss were MSEK 36.9 (27.7) and MSEK 36.9 (27.6) respectively, whereof the second quarter MSEK 21.5 (14.3) and MSEK 21.5 (14.2), respectively.

CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities for the period amounted to MSEK -32.4 (-26.3), whereof the second quarter MSEK -13.0 (-13.1). Consolidated cash and cash equivalents amounted to MSEK 19.1 (71.9) at the end of the period. Implemented and ongoing share issues are expected to during July increase liquid funds by more than MSEK 230.

Total shareholders' equity amounted to MSEK 24.0 (72.6) taking into account the period's loss. Loss per share was SEK 0.05 (0.04). The Group's equity ratio at the end of the period was 52.7 (81.3) percent and equity per share was SEK 0.03 (0.11).

THE PARENT COMPANY

Net sales for the Parent Company for the first six months amounted to MSEK 2.3 (13.2), whereof the second quarter MSEK 1.8 (6.8). Loss after financial items was MSEK 36.8 (27.6), whereof the second quarter MSEK 21.5 (14.2). Cash and other short-term investments for the parent company amounted to MSEK 18.9 (71.7).

GOING CONCERN

Implemented and ongoing share issues will raise a total of MSEK 250 before transaction costs. This is estimated sufficient to finance the current scope of operations for considerable time.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

The Board of Directors has convened an Extraordinary General Meeting on August 7, 2015 to make decisions that enable a reversed split of shares where 20 shares are consolidated into 1 new share. A smaller number of shares is more manageable and cost efficient, which for the company is more adequate.

Since the balance date, the rights issue has been registered, resulting in an increase in the number of shares by 218 118 328 to 907 861 878. In July, the over-allotment share issue is expected to be registered, which will increase the number of shares by a further 31 796 188 to a total of 939 658 066.

RISKS

Significant risks and uncertainties are described in the Annual Report for 2014.

ACCOUNTING AND VALUATION PRINCIPLES

This interim report has been prepared in accordance with International Accounting Standards (IAS) 34 for interim reports and International Financial Reporting Standards IFRS as adopted by the EU. The accounting and valuation principles applied are unchanged compared to those applied in 2014.

For the parent company, this interim report has been prepared in accordance with the Swedish Annual Accounts Act and compliance with RFR 2 Accounting for legal entities. The accounting principles applied for the parent company differ from those applied for the Group only regarding accounting of leasing agreements.

REPORT PRESENTATION

A presentation of the report (in Swedish) will take place today 10.00 a.m. The presentation and slides are available through the corporate website

www.karobio.se or by telephone +46 8 566 426 69.
Questions may be submitted over the internet or
by telephone.

FINANCIAL REPORTS

Interim Report July-Sept	October 29, 2015
Year-End Report	February 12, 2016

AUDITOR'S REVIEW

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

Huddinge on July 10, 2015

CEO Maria Sjöberg
Executive Chairman Anders Lönner

FOR FURTHER INFORMATION, PLEASE CONTACT:

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ABOUT KARO BIO

Karo Bio is a development company with a focus on broadening its activities to cover projects and products closer to market. The company has several projects advancing towards clinical phase. Operations are conducted in Huddinge, Sweden and the share is listed on Nasdaq Stockholm.

The information in this report is such that Karo Bio is required to disclose under the Swedish Securities Market Act. The information was disclosed on July 10, 2015 at 8.30 a.m. CET.

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	April-June		January-June		2014
	2015	2014	2015	2014	
Net sales	1 833	6 825	2 258	13 185	30 060
Operating expenses					
Administration	-6 098	-5 434	-13 654	-11 029	-21 014
Research and development	-17 230	-15 887	-25 404	-30 029	-68 593
Other operating income/expenses	-51	205	-99	184	92
	-23 379	-21 116	-39 157	-40 874	-89 515
Operating profit / loss	-21 546	-14 291	-36 899	-27 689	-59 455
Financial net	1	76	9	96	173
Earnings after financial items	-21 545	-14 215	-36 890	-27 593	-59 282
Tax	-	-	-	-	-
NET EARNINGS	-21 545	-14 215	-36 890	-27 593	-59 282
Net earnings attributable to:					
Shareholders in the parent company	-21 545	-14 215	-36 890	-27 593	-59 282
Depreciation included in operating expenses	-369	-480	-815	-929	-1 867
Earnings / loss per share (SEK)	-0.03	-0.02	-0.05	-0.04	-0.09
Number of shares issued (000)	689 744	676 263	689 744	676 263	676 263

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	April-June		January-June		2014
	2015	2014	2015	2014	
NET EARNINGS FOR THE PERIOD	-21 545	-14 215	-36 890	-27 593	-59 282
Other comprehensive income for the year, net of tax	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-21 545	-14 215	-36 890	-27 593	-59 282
Total comprehensive income attributable to:					
Shareholders of the parent company	-21 545	-14 215	-36 890	-27 593	-59 282

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	30 June		31 Dec 2014
	2015	2014	
Product acquisition	19 767	-	-
Equipment	1 871	4 882	4 050
Other financial assets	21	-	14
Other current assets	4 858	12 474	4 948
Cash and cash equivalents	19 087	71 929	51 609
TOTAL ASSETS	45 604	89 285	60 621
Shareholders' equity	24 017	72 596	40 907
Current liabilities	21 587	16 689	19 714
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	45 604	89 285	60 621

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (KSEK)

Attributable to shareholders of the parent company	Share capital	Other contributed capital	Accumulated losses	Total
Amount at January 1, 2014	9 919	1 006 818	-992 898	23 839
Loss for the period	-	-	-27 593	-27 593
Current rights issue	3 606	72 744	-	76 350
Amount at June 30, 2014	13 525	1 079 562	-1 020 491	72 596
Amount at January 1, 2015	13 525	1 079 562	-1 052 180	40 907
Loss for the period	-	-	-36 890	-36 890
Current rights issue	270	19 730	-	20 000
Amount at June 30, 2015	13 795	1 099 292	-1 089 070	24 017

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	April-June		January-June		
	2015	2014	2015	2014	2014
Operating activities					
Operating income/loss before financial items	-21 546	-14 291	-36 899	-27 689	-59 455
Depreciation	369	480	815	929	1 867
Other items not affecting liquid assets	1 381	6	1 386	7	25
	-19 796	-13 805	-34 698	-26 753	-57 563
Financial items received and paid	3	-1	7	2	171
Cash flow from operating activities before changes in working capital	-19 793	-13 806	-34 691	-26 751	-57 392
Changes in working capital	6 817	661	2 327	469	11 062
Cash flow from operating activities	-12 976	-13 145	-32 364	-26 282	-46 330
Investing activities					
Net investment in other financial instruments	-4	-	-7	-	-14
Net investment in equipment	-131	-286	-151	-1 353	-1 483
Cash flow from investing activities	-135	-286	-158	-1 353	-1 497
Financing activities					
Net proceeds from share issues	-	84 748	-	84 748	84 748
Transaction costs share issue ¹⁾	-	-7 983	-	-7 983	-8 111
Cash flow from financing activities	-	76 765	-	76 765	76 637
Cash flow for the period	-13 111	63 334	-32 522	49 130	28 810
Cash at the beginning of the period	32 198	8 595	51 609	22 799	22 799
Cash at the end of the period	19 087	71 929	19 087	71 929	51 609

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

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	April-June		January-June		Full year
	2015	2014	2015	2014	2014
Net sales	1 833	6 825	2 258	13 185	30 060
Operating expenses					
Administration	-6 098	-5 434	-13 654	-11 029	-21 088
Research and development	-17 187	-15 902	-25 361	-30 044	-68 607
Other operating income/expenses	-51	205	-99	184	92
	-23 336	-21 131	-39 114	-40 889	-89 603
Operating income/loss	-21 503	-14 306	-36 856	-27 704	-59 543
Financial net	3	78	12	101	262
Earnings after financial items	-21 500	-14 228	-36 844	-27 603	-59 281
Tax	-	-	-	-	-
NET EARNINGS	-21 500	-14 228	-36 844	-27 603	-59 281
Depreciation included in operating expenses	-362	-466	-794	-894	-1 804

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	30 June		31 Dec
	2015	2014	2014
Equipment	1 871	4 725	3 921
Other financial assets	21	-	14
Shares in group companies	20 150	150	150
Other current assets	4 807	12 434	4 867
Cash and cash equivalents	18 900	71 749	51 549
TOTAL ASSETS	45 749	89 058	60 501
Total restricted equity	13 795	13 525	13 525
Total non-restricted equity	10 278	59 070	27 392
Current liabilities	21 676	16 463	19 584
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	45 749	89 058	60 501