

INTERIM REPORT JANUARY-SEPTEMBER 2015

THE JANUARY-SEPTEMBER PERIOD 2015 IN BRIEF

- o Net sales amounted to MSEK 11.7 (22.0), whereof the third quarter MSEK 9.4 (8.8)
- o Net loss was MSEK 53.5 (37.5), whereof the third quarter MSEK 16.6 (9.9)
- o Loss per share was SEK 1.14 (1.01), whereof the third quarter SEK 0.35 (0.27)
- o Cash flow from operating activities was MSEK -46.7 (-35.7), whereof the third quarter MSEK -14.3 (-9.4)
- o Cash and cash equivalents and other short-term investments at the end of the period totaled MSEK 132.1 (62.3)
- o Acquisition of the companies Apropharm AS and DNE Sverige AB

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

- o Acquisition of Swereco Group. The company has an annual turnover exceeding MSEK 150. Swereco markets products to pharmacies and directly to healthcare providers
- o Acquisition of MedCore AB. The company has an annual turnover of approx. MSEK 50. MedCore markets primarily licensed medtech products to pharmacies and hospitals in the Nordic region.

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

HIGH LEVEL OF ACTIVITY

Since mid-year, Karo Bio has taken several important steps. The acquisitions of Apropharm and Swereco provide Karo Bio with an annual turnover of approximately MSEK 200 and an operating profit of approximately MSEK 30.

The companies market products to pharmacies and directly to healthcare providers.

Karo Bio will take active part in the consolidation of the healthcare area in the Nordic region.

Consolidation results in interesting acquisition opportunities. Our investment is in the long term directed towards an aging population where the need for medical devices and personal care products is increasing.

The research will be placed in a virtual setting. We refrain from the early platform research and focus

our development activities to projects nearer to market. This also results in significantly lower costs. Running costs are at an annual level of MSEK 20, which is 30 per cent of the level a year ago. The RORgamma project with Pfizer continues at full force and the potential for milestones is positive.

For our development projects, we intend to work primarily through partners outside the Nordic region.

The new organization within Karo Bio has a unique expertise with an international network that facilitates both in- and out-licensing. The goal is to already next year, turn Karo Bio into a profitable company with positive cash flow and an attractive product portfolio.

KEY FINANCIAL DATA

(MSEK)	July-September		January-September		Full year
	2015	2014	2015	2014	2014
Net sales	9.4	8.8	11.7	22.0	30.1
Cost of sales	-5.5	-	-5.2	-	-
Operating expenses	-17.8	-18.8	-57.0	-59.6	-89.5
- of which R&D expenses	-4.2	-14.4	-29.6	-44.4	-68.6
Net loss before tax	-13.6	-9.9	-50.5	-37.5	-59.3
Loss per share (SEK)	-0.35	-0.27	-1.14	-1.01	-1.60
Cash flow from operating activities	-14.3	-9.4	-46.7	-35.7	-46.3
Cash and cash equivalents at the period end	132.1	62.3	132.1	62.3	51.6

Net sales for 2015 mainly consists of sales of products in acquired companies during September, while corresponding numbers for 2014 mainly consists of income from commissioned research.

NET SALES AND EARNINGS

Net sales for the first nine months were MSEK 11.7 (22.0), whereof the third quarter MSEK 9.4 (8.8).

Operating expenses was MSEK 57.0 (59.6), whereof the third quarter MSEK 17.8 (18.8). Research and development accounted for 52 per cent of costs amounting to MSEK 29.6 (44.4), whereof the third quarter MSEK 4.2 (14.4). Administrative expenses were MSEK 19.2 (15.3), whereof the third quarter MSEK 5.6 (4.3). Distribution costs amounted to MSEK 1.0 (-) and are attributable to the companies that Karo Bio acquired in August. Other operating expenses mainly comprise impairment of a product right as well as costs in conjunction with acquisitions.

Operating loss and net loss were MSEK 50.0 (37.6) and MSEK 53.5 (37.5) respectively, whereof the third quarter MSEK 13.6 (9.9) and MSEK 16.6 (9.9), respectively.

CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities for the period amounted to MSEK -46.7 (-35.7), whereof the third quarter MSEK -14.3 (-9.4). Consolidated cash and cash equivalents amounted to MSEK 132.1 (62.3) at the end of the period. Implemented share issues increased liquid funds in July to over MSEK 232.

Total shareholders' equity amounted to MSEK 239.5 (62.7) taking into account the period's loss. Loss per share amounted to SEK 1.10 (1.01). The Group's equity ratio at the end of the period was 86.7 (80.4) per cent and equity per share was SEK 5.10 (1.70).

ACQUISITIONS

In April, Karo Bio acquired Tanomed AB for MSEK 20, whereby Karo Bio obtained a patented product to relieve and prevent colds.

In August, Karo Bio acquired Norwegian Apropharm AS and Swedish DnE Sverige AB for approximately MSEK 100. The two companies have a combined annual turnover of around MSEK 50 and an operating profit of about MSEK 12. The acquisition represents an important step to form a base for expansion in the Nordic region.

The product portfolio consists mainly of pharmacy products in Norway and Sweden. Triolif, a newly registered non-prescription sore throat medication, is about to be launched.

Acquired assets in Apropharm AS, Norway, and DnE Sverige AB, Sweden.

Preliminary purchase price allocation MSEK

Purchase price	105 748
	Fair value
Acquired assets	
Goodwill	73 623
Product rights, customer agreements	28 834
Intangible assets	5 058
Property, plant and equipment	124
Accounts receivable and other assets	8 956
Accounts payable and other liabilities	-5 316
Deferred tax	-6 343
Cash and cash equivalents	812
	105 748

The purchase price allocation is preliminary until the final allocation between goodwill and other Intangible assets is definite.

THE PARENT COMPANY

Net sales for the Parent Company for the first nine months amounted to MSEK 2.9 (22.0), whereof the third quarter MSEK 0.7 (8.8). Loss after financial items was MSEK 50.8 (37.5), whereof the third quarter MSEK 14.0 (9.9). Cash and other short-term investments of the parent company amounted to MSEK 131.1 (62.2). During the quarter, the parent company acquired product rights from the subsidiary Tanomed AB.

GOING CONCERN

Implemented share issues and acquisitions is estimated to be sufficient to finance the current scope of operations for considerable time.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Swereco Group was acquired in October for MSEK 250, of which MSEK 118 in cash and the remainder in shares. Swereco, who in 2014 had a turnover of approx. MSEK 150, markets products to pharmacies or directly to healthcare providers. The portfolio includes several well-established brands that provide stable earnings. Greatest is MABS medical

compression stockings which constitute about 40 per cent of sales.

In October, an agreement was concluded to acquire more than 90 per cent of the shares in MedCore AB for approximately MSEK 16. A cash offer will be directed to the remaining shareholders at the same price per share. MedCore has annual sales of approximately MSEK 50, and markets primarily licensed medtech products to pharmacies and hospitals in the Nordic region.

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

Year-End Report	February 12, 2016
Annual Report 2015	March 2016
Annual General Meeting	May 12, 2016
Interim Report Jan-March	May 12, 2016

Huddinge on October 29, 2015

CEO Maria Sjöberg
Executive Chairman Anders Lönner

FOR FURTHER INFORMATION, PLEASE CONTACT:

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ABOUT KARO BIO

Karo Bio is a healthcare company that develops and markets products to pharmacies and directly to healthcare providers. 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 **October 29, 2015 at 8.30 a.m. CET.***

CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	July-September		January-September		2014
	2015	2014	2015	2014	
Net sales	9 406	8 813	11 664	21 998	30 060
Cost of sales	-5 169	-	-5 169	-	-
Gross profit	4 237	8 813	6 495	21 998	30 060
Operating expenses					
Distribution costs	-989	-	-989	-	-
Administration	-5 555	-4 292	-19 209	-15 321	-21 014
Research and development	-4 188	-14 382	-29 592	-44 411	-68 593
Other operating income/expenses	-7 113	-83	-7 212	101	92
	-17 845	-18 757	-57 002	-59 631	-89 515
Operating profit / loss	-13 608	-9 944	-50 507	-37 633	-59 455
Financial net	-13	34	-4	130	173
Earnings after financial items	-13 621	-9 910	-50 511	-37 503	-59 282
Tax	-2 962	-	-2 962	-	-
NET EARNINGS	-16 583	-9 910	-53 473	-37 503	-59 282
Net earnings attributable to:					
Shareholders in the parent company	-16 583	-9 910	-53 473	-37 503	-59 282
Depreciation included in operating expenses	-282	-471	-1 097	-1 400	-1 867
Earnings / loss per share (SEK)	-0.35	-0.27	-1.14	-1.01	-1.60
Number of shares issued (000)	46 993	36 975	46 993	36 975	36 975

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	July-September		January-September		2014
	2015	2014	2015	2014	
NET EARNINGS FOR THE PERIOD	-16 583	-9 910	-53 473	-37 503	-59 282
Other comprehensive income for the year, net of tax					
Exchange rate differences	-263	-	-263	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-16 846	-9 910	-53 736	-37 503	-59 282
Total comprehensive income attributable to:					
Shareholders of the parent company	-16 846	-9 910	-53 736	-37 503	-59 282

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	30 September		31 Dec
	2015	2014	2014
Intangible assets	122 326	-	-
Equipment	1 753	4 517	4 050
Other financial assets	21	-	14
Other current assets	20 159	11 136	4 948
Cash and cash equivalents	132 064	62 303	51 609
TOTAL ASSETS	276 323	77 956	60 621
Shareholders' equity	239 545	62 686	40 907
Deferred tax	6 343	-	-
Current liabilities	30 435	15 270	19 714
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	276 323	77 956	60 621

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (KSEK)

Attributable to shareholders of the parent company	Share capital	Other		Accumulated losses	Total
		contributed capital			
Amount at January 1, 2014	9 919	1 006 818		-992 898	23 839
Total comprehensive income for the period	-	-		-37 503	-37 503
Current rights issue	3 606	72 744		-	76 350
Amount at September 30, 2014	13 525	1 079 562		-1 030 401	62 686
Amount at January 1, 2015	13 525	1 079 562		-1 052 180	40 907
Total comprehensive income for the period	-	-		-53 736	-53 736
Issue of shares related to business combination	270	19 730		-	20 000
Issue of shares related to reverse split	4	-		-	4
Rights issue	4 998	227 372		-	232 370
Amount at September 30, 2015	18 797	1 326 664		-1 105 916	239 545

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	July-September		January-September		2014
	2015	2014	2015	2014	
Operating activities					
Operating income/loss before financial items	-13 608	-9 944	-50 507	-37 633	-59 455
Depreciation	282	471	1 097	1 400	1 867
Other items not affecting liquid assets	3 602	-	4 988	7	25
	-9 724	-9 473	-44 422	-36 226	-57 563
Financial items received and paid					
Financial items received and paid	-13	-3	-6	-1	171
Cash flow from operating activities before changes in working capital	-9 737	-9 476	-44 428	-36 227	-57 392
Changes in working capital	-4 598	96	-2 271	565	11 062
Cash flow from operating activities	-14 335	-9 380	-46 699	-35 662	-46 330
Investing activities					
Net investment in company acquisitions	-104 937	-	-104 937	-	-
Net investment in other financial instruments	1	-	-6	-	-14
Net investment in equipment	-126	-118	-277	-1 471	-1 483
Cash flow from investing activities	-105 062	-118	-105 220	-1 471	-1 497
Financing activities					
Net proceeds from share issues	249 919	-	249 919	84 748	84 748
Transaction costs share issue ¹⁾	-17 545	-128	-17 545	-8 111	-8 111
Cash flow from financing activities	232 374	-128	232 374	76 637	76 637
Cash flow for the period	112 977	-9 626	80 455	39 504	28 810
Cash at the beginning of the period	19 087	71 929	51 609	22 799	22 799
Cash at the end of the period	132 064	62 303	132 064	62 303	51 609

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

PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	July-September		January-September		Full year
	2015	2014	2015	2014	2014
Net sales	673	8 813	2 931	21 998	30 060
Operating expenses					
Administration	-5 555	-4 367	-19 209	-15 396	-21 088
Research and development	-4 126	-14 381	-29 487	-44 425	-68 607
Other operating income/expenses	8	-83	-91	101	92
	-9 673	-18 831	-48 787	-59 720	-89 603
Operating income/loss	-9 000	-10 018	-45 856	-37 722	-59 543
Financial net	-4 998	74	-4 986	175	262
Earnings after financial items	-13 998	-9 944	-50 842	-37 547	-59 281
Tax	-	-	-	-	-
NET EARNINGS	-13 998	-9 944	-50 842	-37 547	-59 281

PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	30 September		31 Dec
	2015	2014	2014
Intangible assets	15 000	-	-
Equipment	1 617	4 374	3 921
Other financial assets	21	-	14
Shares in group companies	124 435	150	150
Other current assets	3 668	11 013	4 867
Cash and cash equivalents	131 138	62 243	51 549
TOTAL ASSETS	275 879	77 780	60 501
Total restricted equity	18 797	13 525	13 525
Total non-restricted equity	223 652	49 126	27 392
Current liabilities	33 430	15 129	19 584
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	275 879	77 780	60 501

Report of review of Interim Financial Information

Report of Review of Interim Financial Information prepared in accordance with IAS 34 and chapter 9 of the Annual Accounts Act

Introduction

We have reviewed this report for the period 1 January 2015 to 30 September 2015 for Karo Bio AB (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the **International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity**. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act, regarding the Group, and with the Annual Accounts Act, regarding the Parent Company.

Stockholm, 29 October 2015

PricewaterhouseCoopers AB

Mikael Winkvist

Authorised Public Accountant