

Press release July 13, 2010

INTERIM REPORT JANUARY-JUNE 2010

NICHE INDICATION WITH LARGE UNMET MEDICAL NEEDS SELECTED AS FIRST INDICATION FOR EPROTIROME

The period January-June and the second quarter of 2010 in brief

- Net sales amounted to MSEK - (4.4), whereof the second quarter MSEK - (2.2)
- Net loss decreased to MSEK 79.0 (82.7), whereof the second quarter MSEK 38.5 (36.8)
- Loss per share decreased to SEK 0.51 (0.65), whereof the second quarter SEK 0.25 (0.29)
- Cash flow from operating activities amounted to MSEK -80.8 (-79.6), whereof the second quarter MSEK -37.9 (-38.6)
- Cash and cash equivalents and other short-term investments totaled MSEK 152.3 (156.3) at the end of the period
- Scientific publication in New England Journal of Medicine on March 11 of clinical phase II results on eprotriome and its ability to further reduce serum LDL cholesterol levels in statin-treated patients
- Important meetings with European authorities and key opinion leaders regarding the clinical phase III program for eprotriome were carried out in a positive mode
- Clarified general product development strategy, with a focus on drugs for treating niche indications within selected indication areas with large unmet needs
- Annual general meeting held on April 23, Bo Håkansson, Johan Kördel, Jon Risfelt, Birgit Stattin Norinder (re-elections) and Margaret von Platen (new election) were elected as board members. Bo Håkansson was elected chairman of the board.
- Fredrik Lindgren started as the new CEO of Karo Bio on April 27, 2010
- The publication of the interim report for the period January-September 2010 has been moved from October 21 to October 26

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

- On July 7, Karo Bio decided that the clinical phase III program around eprotriome initially will be concentrated on the treatment of the insufficiently treated, hereditary disease heterozygous familial hypercholesterolemia (HeFH)

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Selected financial information in summary

(MSEK)	April-June		January-June		January-December
	2010	2009	2010	2009	2009
Net sales	-	2.2	-	4.4	5.9
Operating expenses	-38.6	-38.9	-79.3	-89.2	-163.0
- whereof of R&D expenses	-30.2	-31.9	-62.8	-73.7	-132.4
Profit/loss for the period	-38.5	-36.8	-79.0	-82.7	-154.6
Profit/loss per share (SEK)	-0.25	-0.29	-0.51	-0.65	-1.31
Cash flow from operating activities	-37.9	-38.6	-80.8	-79.6	-146.9
Cash and cash equivalents and other short term investments at end of period	152.3	156.3	152.3	156.3	237.2

About Karo Bio

Karo Bio is a pharmaceutical company focused on the research and development of innovative drugs for unmet medical needs. Karo Bio's vision is to become a pharmaceutical company with sustainable profitability, products on the market and a competitive project portfolio.

Karo Bio runs a number of development projects within the indication areas cardiovascular and metabolic diseases, neuropsychiatry, inflammation, cancer and women's health. An important foundation for the company's activities is the unique knowledge around nuclear receptors as target proteins for the development of novel pharmaceuticals, as well as the related mechanisms of action. Important processes and competences within the company are structurally based research, drug discovery, pre-clinical and clinical development, and medical and regulatory expertise.

Karo Bio has the possibility to take selected compounds for niche indications through the whole development chain, while compounds addressing large patient groups need development collaborations or out-licensing at some stage in the process. In addition to the proprietary projects, Karo Bio has three strategic collaborations with international pharmaceutical companies.

Karo Bio, headquartered in Huddinge, has 70 employees, and is listed on NASDAQ OMX Stockholm since 1998 (Reuters: KARO.ST).

Development Projects			Exploratory	Drug	Preclinical	Clinical Development			Market	Industrial
Substance	Indication	Country	Research	Discovery	Development	Phase 1	Phase 2	Phase 3	Approval	Partner
Liver selective TR agonist for CV and metabolic										
eprotriome	Dyslipidemia / HeFH	EU								
	Dyslipidemia / HeFH	US								
	Dyslipidemia / HeFH	Other								
	Dyslipidemia / Polygenic	Global								
ER agonist for women's health										
MK6913	Hot flashes	Global								Merck
Liver selective GR antagonist for diabetes										
KB3305	Diabetes Type 2	Global								
ERbeta agonists for several indications										
KB9520	Cancer	Global								
	New indication	Global								
New	Depression	Global								
GR modulator for inflammation										
New	Inflammation	Global								Zydus Cadila
LXR agonist for inflammation										
Unknown	Inflammation	Global								Pfizer/Wyeth

CEO'S COMMENTS ON STATUS, STRATEGY AND GOALS

As the new CEO, I have since I started on April 27 had the opportunity to get well acquainted with Karo Bio. Therefore, I want to give my picture of the company and its possibilities, as well as an update of the strategy that we have decided upon. However, firstly, I would like to take the opportunity to encourage you to provide feedback on our information practice. You find my contact details on the front page of this report. I also want to inform you that we will arrange a seminar on eprotrirome and the chosen indication HeFH in the end of August, and you will later on find an invitation and more details on our web site.

Summary

- Karo Bio is a strong company with good projects both in clinical and pre-clinical development, a clear focus and a strong brand in the industry.
- We will focus our operation more on niche indications where we can take more responsibility during the whole development process.
- As a first step, we have decided to develop eprotrirome in clinical phase III studies for the niche indication heterozygous familial hypercholesterolemia (HeFH). It is a medically and commercially interesting indication that can also pave the way for a broader indication.

We start with a niche indication in phase III

As a first step, we have decided to develop eprotrirome (KB2115) for the indication HeFH in clinical phase III. We estimate that this is the fastest possible and financially most attractive path available. We also believe that it can enable a potential future expansion to a broad primary care indication.

HeFH is a hereditary condition where patients suffer from very high blood lipid levels already at an early age. It affects about 3 million patients in mature and growing markets, with some 1 million patients in the EU alone. Today only about 20-30 % of the diagnosed and treated patients reach their treatment goals.

One advantage with a smaller patient group with a clear and under-treated medical need is that we can perform a limited phase III program. Our present plans include, roughly speaking, hundreds of treated patients in a study running between 12 to 18 months, compared to several thousand patients during several years for a broad primary care indication. The investment to take eprotrirome to the market can therefore be counted in tens of millions USD, rather than hundreds of millions USD which a broad primary care indication would cost. If the studies progress as planned, an application for approval can be submitted towards the end of 2013 or during 2014. Even if this group is only a part of the whole population of patients with dyslipidemia, the potential revenues from eprotrirome for HeFH are estimated to up to a billion USD on an annual basis.

The niche indication can pave the way for a broad indication

Eprotrirome has a very interesting and well documented efficacy profile regarding lowering of lipids in the blood. This is endorsed by the commitment we see from opinion leaders and potential collaboration partners, which emphasizes the need for lipid lowering agents with novel mechanisms of action. Eprotrirome has the potential to become a blockbuster. Our decision to start with a smaller indication does not mean that we give up the development for broader indications. The dialogue with the FDA has, however, confirmed that the increased US regulatory requirements that have been noted for other broad primary care indications probably will include dyslipidemia drugs as well. With our selected niche strategy, we can gradually build up a safety database for a future expansion of the indication area. We estimate that eprotrirome has a good patent protection until at least 2026, which means that we have a fair amount of time ahead of us.

Several clinical studies have documented the efficacy of eprotirome when it comes to the lowering of blood lipid levels. The studies of up to three months dosing performed so far shows a good safety profile. In the next development step, eprotirome's safety profile will be documented at longer treatment regimens, which is exactly the purpose of the clinical phase III studies that we are now planning. All in all, we believe we have very good chances with eprotirome.

This also means that we are confident with financing abilities. Eprotirome is a candidate drug that is of interest to a large number of potential industrial collaboration partners. The development plan that we now pursue is a very interesting investment in itself.

The agreement with Merck is one of our most important assets

Our most important collaboration program is with Merck around the estrogen receptor, ER. Before the year-end 2009, Merck announced that they will take the leading candidate drug MK-6913 into clinical phase II for the treatment of moderate-to-very-severe vasomotor symptoms (hot flashes) in postmenopausal women. It is a large indication for which there currently is no drug available with both good efficacy and safety profile. If Merck is successful, it will be a good financial return for us. However, it would also provide an important scientific validation of the estrogen receptor that is the object of our most important internal project.

A retake of KB3305 as a GR antagonist for diabetes

Our other internal program is around the compound KB3305 as glucocorticoid receptor antagonist for treatment of type 2 diabetes. A clinical phase I/II program constituted a positive proof of principle by showing that it is possible to influence the glucose levels by inhibiting the GR activities in the liver.

There are, however, at the moment a number of issues around KB3305. Among other things, a new formulation and a new production process should be developed before further clinical studies commence. The production costs of KB3305 are unacceptably high with the present production process. In addition, we have noted a dramatic improvement of the regulatory demands for approval of type 2 diabetes drugs, and the competition in the area is intense. We are now investigating other possible indications for KB3305. We are of course also evaluating the possibility to find a new compound that can capitalize on the clinical proof of principle we have demonstrated.

ER-beta - many possibilities

Our most extensive internal pre-clinical program is around ER-beta selective agonists for use within a number of therapy areas. ER-beta is a "new" receptor that Karo Bio was part of discovering in the 1990s. Last year, we selected the compound KB9520 as candidate drug, primarily to evaluate it for the CNS indication depression. We are also testing this compound for other indications, including cancer. Furthermore, we are evaluating other compounds for use within CNS-related diseases. We have evaluation collaborations with a number of industrial collaborations partners that may become licensors in the future.

Solid progress within GR agonists for inflammation

The three-year collaboration with Zydus Cadila will end in the first half of 2011. The collaboration has given the results we anticipated in the form of a number of interesting compounds. We have received signals from international pharmaceutical companies that they might be interested in a collaboration.

Focus on nuclear receptors and a qualified organization make new projects possible

For a long time, Karo Bio has focused on nuclear receptors as target proteins and today has a strong brand on the market, as well as a highly qualified organization. As many as 10% of all the pharmaceuticals in the world act through nuclear receptors. Among our strengths is a unique knowledge

about nuclear receptors and the design of compounds that affects them. Our R&D organization can deal with drug discovery and pharmaceutical development alike, and is capable of handling several projects in parallel. This means that we can initiate new projects without any considerable increase of costs or investments.

Update of the strategy

We have based our strategic review on the following strategic analysis of our market and industry:

- An increased need for niche pharmaceuticals – the whole market structure, including patients, doctors and payors demand drugs with a clear clinical rationale for specific patient groups
- A more demanding regulatory climate for broad indications – the authorities put higher demands on new drugs that are to be used for broad patient groups
- The growth markets are becoming more important – the use of pharmaceuticals in India, China, Korea, Eastern Europe and South America is growing quickly. It is no longer only the US and Western Europe that are commercially interesting.
- A new economic situation for the large-scale pharmaceutical industry – the factors above in combination with patent expirations in the following years will increase the interest for niche drugs and for collaborations with smaller companies in clinical as well as preclinical phase.

This has led us to update our strategy as follows:

- Increased focus on niche indications - eprotirome for the treatment of HeFH, starting in the EU, with the opportunity to widen the indication scope at a later stage, is the first example to be followed by others
- Continued focus on nuclear receptors – with our strong R&D organization, we can be open also for in-licensing and collaborating around other target proteins
- Continued strengthening of the clinical development competence – this will improve the conditions for existing projects and makes it possible for us to increase the number of clinical projects over time
- Increased responsibility for the projects – we estimate that we can take certain niche drugs through the whole development process and eventually also market them on selected markets. For broad indications, we continue to seek collaborations and out-licensing opportunities

Business objectives

We have formulated the following business objectives, and set the following expectations, for the time through 2013:

- Application for market approval of eprotirome to be submitted in the EU
- The Merck collaboration compound MK-6913 to be in clinical phase III
- Our pre-clinical projects to yield three clinical projects

Besides these objectives, we have an outspoken ambition to develop our business also by way of in-licensing, strategic alliances and acquisitions. We believe, that our relative strengths make us an strong partner on potential merger and acquisition deals.

I hardly have to add that there are risks associated with the goals above, and there are not guarantees that we get there, but it is towards these goals that we will strive. If we succeed, I am convinced that we create great value for our shareholders.

Fredrik Lindgren
President and CEO

RESEARCH AND DEVELOPMENT

Eprotirome (KB2115) – dyslipidemia

The thyroid hormone is one of the body's own ways of regulating lipids in the blood. Most of this effect is exercised in the liver. Eprotirome is a novel, liver selective thyroid hormone receptor agonist for the treatment of dyslipidemia. Eprotirome's profile is unique. In one single compound, powerful reductions of several independent risk factors for the development of atherosclerotic cardiovascular diseases are combined.

In the clinical phase II studies, eprotirome has shown statistically significant and clinically relevant reductions of LDL-cholesterol, non-HDL cholesterol, apoB, triglycerides and lipoprotein(a). The effects are of the same magnitude whether eprotirome is given as monotherapy or as add-on to statins or ezetimibe. In March, the scientific publication *New England Journal of Medicine* published clinical phase II results on eprotirome and its ability to further reduce serum LDL cholesterol levels in statin-treated patients. Karo Bio has also generated preclinical data that indicate that eprotirome has positive effects on blood glucose. This would be of additional value when treating type 2 diabetics suffering from elevated blood lipids. Eprotirome has been well tolerated in the clinical studies of up to three months duration.

The treatment of dyslipidemia is initiated to reduce the risk for heart attack and stroke. The efficacy profile of eprotirome suggests that the compound is suitable as an add-on treatment for the large number of patients that do not reach their treatment targets with existing therapies. The statins have become the largest pharmaceutical category in the world and will likely continue to form the first line treatment for dyslipidemia. Eprotirome is expected to be used primarily as add-on to statins and to compete with ezetimibe, nicotinic acid, fibrates, omega-3 fatty acids and new specialist products. The market is projected to be driven primarily by the specialist physicians treating patient groups with high or very high cardiovascular risk.

During the first six months of 2010, Karo Bio continued to plan and prepare for clinical phase III studies of eprotirome. The complete documentation of all performed clinical and pre-clinical studies of the compound is handed over to the authorities that are responsible for approving applications to perform clinical studies and the marketing approval of the drug. This work, carried out to bring clarity to what is expected from the regulatory authorities to eventually approve the drug, has resulted in the decision to concentrate the initial clinical phase III program on heterozygous familial hypercholesterolemia (HeFH). Studies will be carried out in Europe, and also potentially on other markets, such as for instance India.

HeFH is a hereditary condition where patients suffer from very high blood lipid levels already in early years. HeFH patients are therefore a high-risk group for cardiovascular disease. The prevalence is estimated to be between 1 of 350 to 1 of 500 people globally. In total, it is Karo Bio's estimation that there are about 3 million patients in mature markets and growth markets, with 1 million patients in the EU alone, and as many in the US and Japan combined. Like other dyslipidemia patients, HeFH patients are mainly treated with statins. Only about 20-30 % of the patients reach their treatment goals. Today, the degree of diagnosis of HeFH is about 15 %, which is expected to grow substantially when existing gene tests and DNA mapping are becoming more recurrent.

In the light of the dialogue with European pharmaceutical authorities, it is Karo Bio's estimate that the clinical phase III program will include in the order of hundreds of patients and run between 12 to 18 months, compared to several thousand patients during a number of years for a broad primary care indication. Prof. Steven E. Nissen has been engaged as the chairman of the steering committee of the clinical program, and Prof. John J.P. Kastelein as principal investigator. Steven E. Nissen is Professor of Medicine and Chairman of the Department of Cardiovascular Medicine at the Cleveland Clinic in

Ohio, US. John J.P. Kastelein is Professor of Medicine and Chairman of the Department of Vascular Medicine at the Academic Medical Center (AMC) in Amsterdam, Netherlands.

If the project is developed according to plan, Karo Bio should be able to submit the application for the product approval of eprotirome in the EU by the end of 2013 or early 2014.

ER-beta selective compounds – a platform with many clinical opportunities

The estrogen receptor (ER) is activated by the female sex hormone estrogen and regulates a number of functions in the body. Estrogen has a number of positive effects, but its use as a medical treatment has been limited by the associated increased risk for uterine and breast cancer as well as an increased cardiovascular risk. These risks are mainly linked to ER-alpha, while ER-beta seems to mediate the positive effects of estrogen without these side effects. Karo Bio's efforts to develop ER-beta selective compounds have resulted in an exciting platform of many promising compounds, with slightly different properties, for which there are several clinical opportunities.

The compound KB9520 was nominated in October 2009 as a first candidate drug within the ER-beta program, and the work to compile the pre-clinical safety documentation is ongoing. The compound has shown good effects in animal models for depression. In parallel, Karo Bio continues the documentation of other compounds that are considered even more efficient and suitable for depression, and at the same time, KB9520 is being tested for use within other indications.

Karo Bio, in collaboration with academic collaborators, has generated data that support the use of ER-beta selective compounds for certain forms of cancer. The company has also decided to initiate tests in pre-clinical models for another identified, undisclosed indication. Besides the CNS area and certain forms of cancer, Karo Bio's ER-beta program has a potential within e.g. women's health, urology, pain and inflammatory conditions.

KB3305 – a glucocorticoid receptor antagonist

KB3305 is a first in class liver selective glucocorticoid receptor antagonist for treatment of type 2 diabetes, and the first compound of its kind to be tested in man. In preclinical studies, KB3305 has been shown to be both efficacious and safe. A clinical phase I/II program confirmed that it is possible to influence the glucose levels by inhibiting the GR activities in the liver. These data constitute a positive proof of principle for the mechanism of action, and the effects are of a magnitude that are considered undoubtedly medically relevant for treating patients with type 2 diabetes.

Despite these data, in 2009, the company took the decision not to do further in-house development of KB3305 for the treatment of type 2 diabetes. The competitive situation within this field, added requirements imposed by the FDA and internal resource prioritizations made the company come to this decision. Before further clinical studies, a new formulation and a less expensive production process must be developed. Other potential therapy areas of use for the compound are being evaluated, as are possibilities of developing a new liver selective GR antagonist for the treatment of diabetes.

Collaboration with Merck & Co., Inc. - Women's Health (ER)

The collaboration with Merck regarding estrogen receptors (ER) in the field of women's health was initiated in 1997. The joint drug discovery phase in the collaboration was concluded in 2002. In December 2009, Merck initiated a clinical phase IIa study with MK-6913, the leading candidate drug in development within the collaboration. The study will assess the safety, tolerability, and efficacy of MK-6913 for the treatment of moderate-to-very-severe vasomotor symptoms (hot flashes/hot flushes) in postmenopausal women. Under the terms of the collaboration agreement, Karo Bio has the rights to milestone payments from Merck based upon the further successful clinical development and final drug approval as well as royalties on future drug sales. The initiation of clinical phase II development in December 2009 did not trigger a milestone payment to Karo Bio.

Collaboration with Wyeth Pharmaceuticals - Inflammation (LXR)

The collaboration with Wyeth (now acquired by Pfizer) was initiated in 2001 and targets the liver X receptor (LXR) for the treatment of inflammatory disorders. From September 2009, Wyeth takes on full responsibility for all research and development activities under the drug discovery collaboration.

Collaboration with Zydus Cadila - Inflammatory diseases (GR)

In early 2008, Karo Bio and the Indian pharmaceutical company Zydus Cadila initiated a three-year research collaboration to develop novel compounds for the treatment of inflammatory diseases. The compounds are designed for the activation of glucocorticoid receptors (GR) in a selective manner. While conventional steroids are powerful anti-inflammatory agents, they are also associated with a number of side effects that limit their use. The aim is to design novel compounds that maintain the anti-inflammatory effects of conventional steroids but with significantly reduced side effects.

The collaboration has generated a series of novel anti-inflammatory GR agonist lead compounds with high affinity to GR. Promising results from cell studies and in *in vitro* models suggest that these compounds are as potent in models of inflammation as conventional steroids, but with a significantly lower probability to cause side effects. Preclinical evaluation is ongoing for the identification of a candidate drug. Both parties share risks and rewards and cover their own costs within the collaboration program.

PROFIT/LOSS AND FINANCIAL POSITION

Profit/loss and financial position for the Group

Revenue

Net sales for the six month period decreased to MSEK - as compared to MSEK 4.4 for the same period last year. The corresponding number for the second quarter was MSEK - (2.2). The reported net sales for the same period last year consist of research payment from collaborations.

Expenses

Operating expenses for the first six months decreased with MSEK 9.9 to MSEK 79.3 (89.2). This decrease is mainly due to reduced research and development expenses of MSEK 10.9 compared to last year. For the six month period, reported research and development expenses totaled MSEK 62.8 (73.7), whereof the second quarter MSEK 30.2 (31.9). Administrative expenses for the six month period amounted to MSEK 16.5 (15.6), whereof the second quarter MSEK 8.3 (6.8).

Profit/loss

Operating loss for the six month period amounted to MSEK 79.3 (84.7), an improvement of MSEK 5.4. The operating loss for the second quarter was MSEK 38.6 (36.7). Financial net for the six month period amounted to MSEK 0.4 (2.0). The reported loss decreased with MSEK 3.7 to MSEK 79.0 (82.7). The reported loss for the second quarter was MSEK 38.5 (36.8).

Capital investments

Capital investments in equipment for the six month period amounted to MSEK 0.2 (0.1).

Cash flow

Cash flow from operating activities for the first six months amounted to MSEK -80.8 (-79.6), whereof the second quarter MSEK -37.9 (-38.6).

Financial position

Cash and cash equivalents amounted to MSEK 22.5 (62.3) at the end of the period. Including other short-term investments with duration exceeding 90 days, these assets amounted to MSEK 152.3 (156.3), which corresponds to a change in total cash position of MSEK -84.9 during the six month period. The company's currently available financial assets are estimated to sustain operations, in accordance with present plan, to the second half of 2011. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

Profit/loss and financial position of the Parent Company

Net sales for the Parent Company for the first six months amounted to MSEK - (4.4), whereof the second quarter MSEK - (2.2). The reported loss for the six month period amounted to MSEK 78.9 (82.8). The reported loss for the second quarter was MSEK 38.5 (36.8).

The Parent Company's capital investments in equipment for the six month period amounted to MSEK 0.2 (0.1). Cash, cash equivalents and other short-term investments amounted to MSEK 152.3 (156.3) at the end of the period.

Shareholders' equity and per share data

The share capital at the end of the period amounted to MSEK 77.4. The total number of shares amounted to 154,825,589 shares with a ratio value of SEK 0.50. Total consolidated shareholders' equity amounted to MSEK 136.2 after taking into account the loss for the period.

Loss per share for the six month period, based on the weighted average number of outstanding shares, amounted to SEK 0.51 (0.65), whereof the second quarter SEK 0.25 (0.29). The Group's equity ratio at the end of the period was 83.7 (80.4) percent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 0.85 (1.07).

Organization

At the end of the period, Karo Bio had 67 (68) employees, of whom 58 (59) are engaged in research and development, 4 (3) in business development and intellectual property rights and 5 (6) in administrative roles.

Risk factors

There is no guarantee that Karo Bio's research and development will result in commercial success.

There is no guarantee that the clinical trials conducted by Karo Bio, whether independently or in collaboration with its partners, can demonstrate sufficient safety and efficacy to obtain the necessary approvals from regulatory authorities, or that they will result in marketable products.

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 may be a need to turn to the capital market for additional funding in the future. Both the size and the timing of the company's potential future capital requirements are dependent on a number of factors, including opportunities to enter into collaboration or licensing agreements and the possibility of achieving success 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.

CONSOLIDATED INCOME STATEMENTS (KSEK)

	April-June		January-June		January-December
	2010	2009	2010	2009	2009
Net sales	-	2,244	-	4,436	5,891
Operating expenses					
Administrative expenses	-8,279	-6,801	-16,520	-15,601	-30,954
Research and development expenses	-30,248	-31,851	-62,829	-73,730	-132,403
Other operating income and expenses	-90	-266	38	159	343
	-38,617	-38,918	-79,311	-89,172	-163,014
Operating profit/loss	-38,617	-36,674	-79,311	-84,736	-157,123
Financial net	127	-155	357	2,009	2,567
Profit/loss after financial items	-38,490	-36,829	-78,954	-82,727	-154,556
Tax	-	-	-	-	-
PROFIT/LOSS FOR THE PERIOD	-38,490	-36,829	-78,954	-82,727	-154,556
Profit/loss for the period attributable to:					
Shareholders of the parent company	-38,490	-36,829	-78,954	-82,727	-154,556
Depreciation included in operating expenses	-843	-891	-1,724	-1,915	-3,655
Profit/loss per share (SEK) *)					
- based on weighted average number of shares outstanding, basic and diluted	-0.25	-0.29	-0.51	-0.65	-1.31
Number of shares outstanding (000)					
- weighted average during the period	154,826	127,197	154,826	127,197	117,932
- at end of period, basic	154,826	127,197	154,826	127,197	154,826
- at end of period, fully diluted	160,339	127,717	160,339	127,717	155,339

*) The outstanding warrants lead to no dilution of loss per share, as a conversion to shares would lead to a reduced reported loss per share

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	April-June		January-June		January-December
	2010	2009	2010	2009	2009
PROFIT / LOSS FOR THE PERIOD	-38,490	-36,829	-78,954	-82,727	-154,556
Other comprehensive income for the year, net of tax	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-38,490	-36,829	-78,954	-82,727	-154,556
Total comprehensive income attributable to:					
Shareholders of the parent company	-38,490	-36,829	-78,954	-82,727	-154,556

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	June 30		December 31
	2010	2009	2009
Assets			
Licenses and similar rights	-	1,121	545
Equipment	4,813	6,818	5,788
Other current assets	5,633	5,886	12,320
Financial assets at fair value through profit or loss	129,767	94,077	158,013
Cash and cash equivalents	22,517	62,258	79,171
TOTAL ASSETS	162,730	170,160	255,837
Shareholders' equity and liabilities			
Shareholders' equity	136,205	136,747	215,159
Non-current liabilities	879	1,654	1,273
Current liabilities	25,646	31,759	39,405
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	162,730	170,160	255,837

CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	April-June		January-June		January-December
	2010	2009	2010	2009	2009
Operating activities					
Operating profit/loss before financial items	-38,617	-36,674	-79,311	-84,736	-157,123
Depreciation	843	891	1,724	1,915	3,655
Other items not affecting cash flows	-	50	-	78	82
	-37,774	-35,733	-77,587	-82,743	-153,386
Financial items received and paid	2,360	5,135	3,819	8,012	10,182
Cash flow from operating activities before changes in working capital	-35,414	-30,598	-73,768	-74,731	-143,204
Changes in working capital	-2,463	-8,025	-7,071	-4,895	-3,720
Cash flow from operating activities	-37,877	-38,623	-80,839	-79,626	-146,924
Investing activities					
Net investment in equipment	-286	-215	-599	-721	-1,238
Net investment in other short-term investments	-11,216	45,720	24,784	45,657	-19,856
Cash flow from investing activities	-11,502	45,505	24,185	44,936	-21,094
Financing activities					
Share issue	-	-	-	-	150,241
Cash flow from financing activities	-	-	-	-	150,241
Cash flow for the period	-49,379	6,882	-56,654	-34,690	-17,777
Cash and cash equivalents at the beginning of the period	71,896	55,376	79,171	96,948	96,948
Cash and cash equivalents at the end of the period	22,517	62,258	22,517	62,258	79,171

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, 2009	58,059	675,053	-513,638	219,474
Loss for the period	-	-	-82,727	-82,727
Amount at June 30, 2009	58,059	675,053	-596,365	136,747
Amount at January 1, 2010	77,412	805,941	-668,194	215,159
Loss for the period	-	-	-78,954	-78,954
Amount at June 30, 2009	77,412	805,941	-747,148	136,205

EQUITY DATA

	June 30		December 31
	2010	2009	2009
Equity ratio	83.7%	80.4%	84.1%
Equity per share at the end of period - basic, SEK	0.88	1.08	1.39
Equity per share at the end of period - diluted, SEK	0.85	1.07	1.39

INCOME STATEMENTS FOR THE PARENT COMPANY, IN SUMMARY (KSEK)

	April-June		January-June		January-December
	2010	2009	2010	2009	2009
Net sales	-	2,244	-	4,436	5,891
Operating expenses					
Administrative expenses	-8,279	-6,801	-16,520	-15,601	-30,954
Research and development expenses	-30,244	-31,848	-62,820	-73,861	-132,526
Other operating income and expenses	-90	-267	38	159	343
	-38,613	-38,916	-79,302	-89,303	-163,137
Operating profit/loss	-38,613	-36,672	-79,302	-84,867	-157,246
Financial net	142	-124	391	2,080	2,686
Profit/loss after financial items	-38,471	-36,796	-78,911	-82,787	-154,560
Tax	-	-	-	-	-
PROFIT/LOSS FOR THE PERIOD	-38,471	-36,796	-78,911	-82,787	-154,560
Depreciation included in operating expenses	-623	-674	-1,286	-1,374	-2,676

BALANCE SHEETS FOR THE PARENT COMPANY, IN SUMMARY (KSEK)

	June 30		December 31
	2010	2009	2009
Assets			
Licenses and similar rights	-	1,121	545
Equipment	3,356	4,487	3,893
Shares in group companies	100	100	100
Other current assets	5,633	5,886	12,320
Financial assets at fair value through profit or loss	129,767	94,077	158,013
Cash and cash equivalents	22,507	62,248	79,161
TOTAL ASSETS	161,363	167,919	254,032
Shareholders' equity and liabilities			
Total restricted equity	215,427	219,746	239,099
Total non-restricted equity	-78,911	-82,787	-23,672
Current liabilities	24,847	30,960	38,605
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	161,363	167,919	254,032

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 the Annual Report for 2008, except for the amended IAS 1 *Presentation of financial statements*. The revised IAS 1 has been applied by the Group as from January 1, 2009, with additional information regarding comprehensive income specified as a separate statement in conjunction with the consolidated income statement, and the statement of changes in equity containing solely transactions with the equity holders. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2009 or later. These accounting standards and interpretations are deemed not to have a significant impact on the consolidated financial statements other than presentational or disclosures presented in the reports. In addition, there are certain accounting standards and interpretations that are not relevant to Karo Bio.

For the Parent Company this interim report has been prepared in accordance with the Swedish Annual Accounts Act and compliance with RFR 2.3 *Accounting for legal entities*. The accounting principles applied for the parent company differ from those applied for the Group only regarding accounting of leasing agreements.

Amounts are expressed in KSEK (thousands of Swedish Kronor) unless otherwise indicated. MSEK is an abbreviation for millions of Swedish Kronor. Amounts or figures in parentheses indicate comparative figures for the corresponding period last year.

Scheduled releases of financial information

- Interim report January-September 2010 October 26, 2010
- Year-end report 2010 February 9, 2011

Financial reports, press releases and other information are available on Karo Bio's web site www.karobio.com. It is also possible to download and subscribe to Karo Bio's financial reports and press releases on the web site at www.karobio.com/finance. Financial reports are available on the web site upon release.

Legal disclaimer

This financial report includes statements that are forward looking and actual results may differ materially from those stated. In addition to the factors discussed, among other factors that may affect results are development within research programs, including development in preclinical and clinical trials, the impact of competing research programs, the effect of economic conditions, the effectiveness of the Company's intellectual property rights and preclusions of potential third party's intellectual property rights, technological development, exchange rate and interest rate fluctuations, and political risks.

The Board of Directors and the President and CEO certify that the Interim Report gives a true and fair overview of the Parent Company's and Group's operations, their financial position and results of operations, and describes significant risks and uncertainties facing the Parent Company and other companies in the Group.

Huddinge, July 13, 2010

Bo Håkansson
Chairman

Fredrik Lindgren
President

Birgit Stattin Norinder
Board member

Margaret von Platen
Board member

Johan Kördel
Board member

Jon Risfelt
Board member

Bo Carlsson
Board member

Johnny Sandberg
Board member

This report has not been subject to review by the Company's auditors.

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The information is of a nature which Karo Bio shall need to disclose according to the Securities Market Act. The information was disclosed July 13, 2010, 08:30 am CET