KARO BIO

MAIN EVENTS

THE COMPANY

THE PEOPLE

ANNUAL REPORT **2010**

A summary of contents

KARO BIO IN BRIEF

Innovative drugs for key medical needs

Karo Bio is a pharmaceutical company focused on the research and development of innovative drugs for key medical needs. An important foundation for the company's activities is its unique knowledge of nuclear receptors as target proteins for the development of novel pharmaceuticals. Several of the projects are based on new treatment principles and innovative, first-in-class compounds. The company is located at Karolinska Institute's southern campus in Huddinge, Stockholm. The share is listed on NASDAQ OMX Stockholm.

This annual report includes statements that are forward looking and future 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.

Karo Bio's vision is to become a pharmaceutical company with sustainable profitability, commercial products and a competitive project portfolio that combines collaborative projects with its own development projects.

STRATEGY

From knowledge to value

Karo Bio develops pharmaceuticals for key medical needs. Within niche areas, Karo Bio has the capacity to process selected compounds throughout the entire development process and then market the registered compound in collaboration with distribution partners. Karo Bio is also open to engaging in different types of business development through strategic alliances or commercial partnerships, encompassing compound development or research programs from exploratory stage to later stages of development.

GOALS

Tangible value creation

Karo Bio has established the following goals for its operations until 2014:

- To develop eprotirome through clinical phase III for high-risk patients with HeFH in the EU and submit an application for marketing authorization in the EU
- To generate three other clinical projects from the development pipeline
- To expand the project portfolio through acquisitions, strategic partnerships or inlicensing of projects

PROJECT PORTFOLIO

Phase III clinical trials to start in 2011

Karo Bio currently has four proprietary development projects and three strategic collaborations with international pharmaceutical companies: Merck, Pfizer and Zydus Cadila. The project that has progressed the furthest is Karo Bio's dyslipidemia drug eprotirome, which is currently being prepared for phase III clinical trials in 2011. The indication areas targeted by Karo Bio's projects are primarily cardiovascular and metabolic diseases, neuropsychiatry, inflammation, autoimmune diseases, cancer and women's health.

WORLD LEADING EXPERTISE

Nuclear receptors regulate key bodily functions

An important foundation of Karo Bio's operations is the company's unique expertise in nuclear receptors as target proteins for the development of novel pharmaceuticals. Nuclear receptors regulate key functions in the body affecting many widespread diseases. Due to their important role in a broad range of biological processes, for example, immune defence, cardiovascular functions, tumor growth and the metabolism of carbohydrates and lipids, nuclear receptors have become a valuable class of target proteins for pharmaceuticals. There are 48 different nuclear receptors that are assumed to be of relevance for humans. Around 10 percent of today's medicines act through nuclear receptors.

A summary of 2010

- In March, the New England Journal of Medicine published clinical phase II results on eprotirome as an add-on to statin treatment.
- Fredrik Lindgren took over as CEO in April.
- The decision to initially develop eprotirome for the treatment of heterozygous familial hypercholesterolemia (HeFH) within the EU was made in July.
- During the autumn, the company sought scientific advice from the EMA regarding development plans for eprotirome, after which the capital requirement could be established.
- In November, funding was secured for the planned phase III program for eprotirome as well as for other activities for at a minimum of 12 months.
- Merck announced its decision to discontinue the development of MK-6913 for the treatment of hot flashes in September. Merck is currently evaluating its options for future studies of the compound.
- In October, Karo Bio initiated a new program focused on ROR-gamma and autoimmune diseases.

KEY EVENTS AFTER THE PERIOD END 2010

- In March 2011, Karo Bio extended its collaboration with Zydus Cadila in the development of drug compounds which affect gluococorticoid receptors in a selective manner and inflammatory conditions

CEO commentary

Dear shareholders,

The best of 2010 for Karo Bio was that we found a medically and commercially interesting way forward for our lead project eprotirome. And we were also successful in securing the required funding for the investment required. The worst of 2010 for Karo Bio was the poor performance of our share price.

In early 2010 we concluded that development of eprotirome for a broad primary care dyslipidemia indication would remain unpredictable from a regulatory perspective and require an unreasonably large financial investment. For this reason, in July 2010, we chose a smaller indication, high-risk patients with HeFH, as the first target patient population for eprotirome. HeFH is a hereditary condition causing substantially elevated blood lipid levels already at an early age, thus carrying a massively increased risk for cardiovascular disease. We have designed a new clinical phase III development plan for eprotirome, established support from key opinion leaders in the field, and discussed our development plans with a number of national European regulatory authorities as well as the European Medicines Agency, EMA. At the end of the year, we secured the financial resources required for Karo Bio to conduct the phase III development program of eprotirome in-house.

Eprotirome's phase III program is an entire business in itself. Karo Bio's task is now to as quickly as possible and at as low an investment and risk as possible to demonstrate eprotirome's long-term efficacy and safety.

Our top priority for 2011 is to commence the pivotal clinical phase III trials of eprotirome. These trials will study the efficacy and safety of the compound in the target patient population, and on a larger scale and over a longer time period than in previous trials. As these trials will comprise several hundred patients at some fifty clinics in about ten different countries, the preparatory work is extensive. At present, we expect to start recruiting patients to test our drug compound in the third quarter 2011, which means that we are on schedule with our plan to complete the phase III program by the end of 2013.

In addition to pivotal clinical trials, eprotirome's development within the framework of the phase III program includes numerous activities such as tablet production, further preclinical tests including carcinogenicity studies and a couple of smaller clinical trials to examine interaction with other types of drugs. Furthermore, we recruit a large number of centers which in turn will recruit patients. Extensive documentation of data and plans is compiled. Applications for trial approval is submitted to the medical products authorities and ethics committees in each country where the trials are being carried out. A number of activities within the phase III program were initiated already in 2010.

Eprotirome has a unique efficacy profile and it is our belief that eprotirome may in time become a key drug for the treatment of dyslipidemia and preventing cardiovascular disease. The current business climate, with an unclear regulatory environment for new lipid lowering drugs and a market in upheaval for existing drugs in this field, presents both opportunities and challenges. We have therefore chosen to carry out a large part of the continued development work ourselves but will of course be open for collaboration further down the road.

Another important priority for Karo Bio therefore is to engage in commercial collaboration encompassing eprotirome. An obvious, but not necessarily immedi-

> For 2011, our overriding goal is to generate measurable results and create tangible value.

ate, need is a future drug distribution partner for eprotirome in the EU. If it is possible to enter into a financially opportune partnership before commencing phase III trials, we will do so. If not, an acceptable alternative is to enter into a distribution partnership at a later date, after completing phase III trials. We are also open to development collaborations and distribution partnerships for eprotirome in growing markets such as India.

Karo Bio has a unique expertise in nuclear receptors and on that basis has a good reputation in the pharmaceutical industry. We have the expertise to drive early stage drug discovery projects and believe that there are opportunities for interesting partnerships already at an early stage for some of our projects.

A third priority is therefore to establish early research and development collaborations for preclinical projects. Our ER-beta program is well-recognized in the pharmaceutical industry and our recently initiated ROR-gamma program for the treatment of autoimmune disease has already generated large interest. In both cases we believe that there are promising opportunities to establish commercial collaboration and value. Such collaborations can provide us with additional competenses and financial resourses, and give us the staying power that is needed to run early research programs. The extent of our operations is evaluated on a continuous basis to ensure cost efficiency and an optimal exploitation of resources.

A necessary ingredient for success in the development of innovative pharmaceuticals is perseverance. I think Karo Bio as a company; its shareholders, board members and employees have shown a great dedication for many years. And I would like to thank shareholders, as well as board members and employees for the perseverance and commitment that I have seen since joining the company in April 2010. Thank you.

Finally, I would like to emphasize that Karo Bio's overriding goal is to generate measurable results and create tangible value both in the long- and short-term. To the extent that we are successful with this, we will be open to opportunities in creating even greater value through acquisitions and starting new projects.

Huddinge, March 2011

Fredrik Lindgen, President & CEO

Projects

Karo Bio's portfolio of pharmaceutical projects is based on nuclear receptors as target proteins for the treatment of key medical needs. These projects are aimed at developing innovative pharmaceuticals in numerous indication areas, primarily cardiovascular and metabolic diseases, inflammation, autoimmune diseases, cancer, neuropsychiatry and women's health.

NUCLEAR RECEPTORS – Regulate key functions

Nuclear receptors regulate key functions in the body affecting many diseases. Due to their important role in a broad range of biological processes including immune defence, cardiovascular functions, tumor growth and the metabolism of carbohydrates and lipids, nuclear receptors have become a valuable class of target proteins for pharmaceuticals. There are 48 different nuclear receptors that are assumed to be of relevance for humans. Around 10 percent of today's medicines act through nuclear receptors.

This class of receptors function as a switch for the expression of genes. The gene expression regulates the cell's protein production and thus the function of the cell. Most nuclear receptors are agonized or antagonized through compounds (ligands) binding into specific binding pockets of the receptor. Some nuclear receptors are activated or inhibited by hormones, others by vitamins, fatty acids or bile acids. In some cases, the natural ligand is unknown.

By designing drugs that in a specific manner bind to a certain nuclear receptor, gene expression can be affected for the purpose of treating or preventing diseases and medical conditions.

PROJECT PORTFOLIO

Karo Bio's projects are based on the company's unique knowledge of nuclear receptors as target proteins for the development of novel pharmaceuticals. Several of the projects are based on new treatment principles and innovative first-in-class compounds.

EPROTIROME

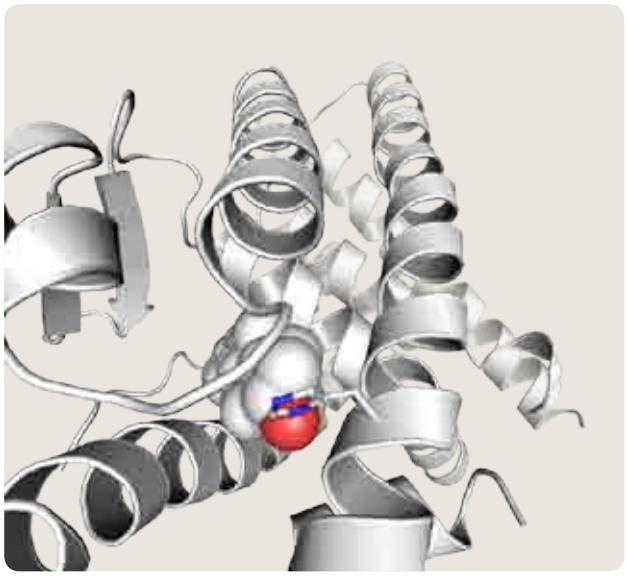
Dyslipidemia (high blood lipids)

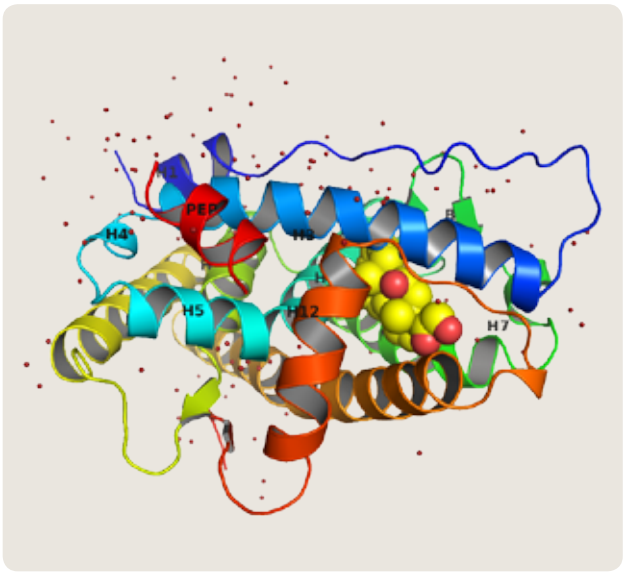
The thyroid hormone affects the balance of lipids in the body. However, the natural thyroid hormone cannot be used for the treatment of dyslipidemia due to its side effects on the heart and other organs. Karo Bio's liver-selective thyroid hormone receptor (TR) agonist, eprotirome, has proved to be both efficacious and safe in clinical phase II studies.

Eprotirome is a new treatment concept for reducing the risk of cardiovascular disease. The compound has a unique efficacy profile that significantly lowers

Project portfolio

Program	Partner	Compound	Indication	Territory	Discovery	Preclinical	Clinical Development		
							Ph 1	Ph 2	Ph 3
TR/Eprotirome		KB2115	Dyslipidemia/HeFH	EU					
		KB2115	Dyslipidemia/HeFH	USA					
		KB2115	Dyslipidemia/HeFH	Other					
		KB2115	Dyslipidemia/Polygenic	Global					
GR diabetes		KB3305	Type 2 Diabetes	Global					
ER	Merck & Co	MK6913	Womens' health	Global					
		KB9520	Cancer	Global					
		KB9520	New indication	Global					
			Depression	Global					
GR Inflammation	Zydus Cadila		Inflammation	Global					
LXR	Pfizer		Inflammation	Global					
ROR-gamma			Autoimmune	Global					





several risk factors. Three clinical phase II trials have demonstrated that eprotirome, when administered either as monotherapy or on top of ongoing statin and ezetimibe treatments, produced a profound and clinically meaningful lowering of several important risk factors for the development of cardiovascular disease in patients with high blood lipid levels. These results are very positive as many patients today do not reach their treatment goals with existing treatment options. The results from the clinical phase II study where eprotirome was given as an add-on to statins were published in the New England Journal of Medicine in March 2010.

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 who do not reach their treatment goals with existing therapies. 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 an 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 specialist physicians looking for better treatment options for various types of blood lipid problems in patient groups with high or very high cardiovascular risk.

During 2010, Karo Bio continued to plan and prepare for clinical phase III studies of eprotirome. In July, after discussions with regulatory authorities, Karo Bio decided to concentrate the initial clinical phase III program on patients with heterozygous familial hypercholesterolemia (HeFH) in the EU.

HeFH is a hereditary condition in which patients suffer from very high blood lipid levels from an early age. HeFH patients are therefore a high-risk group for cardiovascular disease. Prevalence of HeFH is estimated at between 1 of 350 to 1 of 500 people globally. Karo Bio estimates that there are about 1 million patients in the EU alone. Like other dyslipidemia patients, HeFH patients are mainly treated with statins, but only about 20-30 percent of these patients are estimated to reach their treatment goals. The HeFH diagnosis rate, which at present is less than 15 percent in the EU, is expected to grow substantially in coming years with the increasing prevalence of genetic testing and DNA mapping.

Based on dialogue with European pharmaceutical authorities, Karo Bio is planning a clinical phase III program encompassing 625 – 1,150 patients under 12 to 18 months treatment, at approximately 50 sites in about 10 countries. Recruitment of patients for these pivotal stage III trials is expected to commence in the third quarter 2011. An application for the product approval of eprotirome for this high-risk population in the EU is expected to be submitted by the end of 2013 or in 2014.

KB3305 –
Type 2 diabetes

KB3305 is a liver-selective glucocorticoid receptor (GR) antagonist for the treatment of type 2 diabetes. It is the first of its kind to have been tested in man. In preclinical studies, KB3305 has been shown to be both efficacious and safe. A clinical phase I/II program has confirmed that it is possible to influence glucose levels by inhibiting GR activities in the liver.

Several of the company's projects are based on new treatment principles and innovative, first-in-class compounds

These data constitute a positive proof-of-principle for the mechanism of action. The effects are of a magnitude considered to be of clear medical relevance.

Despite these positive data, the company made the decision in 2009 not to conduct further in-house development of KB3305 for primary care treatment of type 2 diabetes. The competitive environment, additional requirements imposed by regulatory authorities for type 2 diabetes and internal resource prioritization all contributed to this decision.

ER-BETA SELECTIVE AGONISTS

A platform of many opportunities

The estrogen receptor (ER) is activated by the 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 risk for thrombosis. These risks are mainly linked to the ER-alpha receptor, while the ER-beta receptor, which Karo Bio co-discovered in the 1990s, seems to mediate many of the positive effects of estrogen.

Karo Bio's efforts to develop ER-beta selective compounds have resulted in a platform with potential in many different treatment areas, particularly certain forms of cancer, neuropsychiatry and women's health, as well as certain types of pain and inflammation. The company has established a leading position in the ER-beta field.

KB9520

The first drug candidate within Karo Bio's ER-beta program, KB9520, was nominated in the second half of 2009, after which work to compile preclinical safety documentation began.

KB9520 has been evaluated in the neuropsychiatric indication depression as well as for a certain type of cancer. Also ongoing is the evaluation of the compound for other indications. At the same time, the company is documenting follow-up compounds in the program. Karo Bio has entered into evaluation collaborations with potential future industrial partners.

Collaboration with Merck

Since 2007, Karo Bio has also been involved in a collaboration with Merck ("MSD" outside the U.S. and Canada) regarding estrogen receptors. In 2002, Merck assumed full responsibility for the development work. The aim of the partnership is to develop drugs in the area of women's health. In September 2010, Merck discontinued a phase II study of the candidate drug MK-6913 for the treatment of hot flashes in menopausal women after an interim analysis of data showed that the predefined efficacy criteria were not met. Merck is evaluating alternatives for future studies of MK-6913.

Karo Bio is entitled to milestone payments from Merck based on successful clinical development and drug registration, as well as royalties on the future sale of drugs developed within the framework of the partnership.

GR INFLAMMATION

Collaboration with Zydus Cadila

In early 2008, Karo Bio and the Indian pharmaceutical company Zydus Cadila initiated a three-year collaboration to develop drug compounds which affect glucocorticoid receptors (GR) in a selective manner. In March 2011, this collaboration was extended for one year.

Glucocorticoids are used to treat many different inflammatory conditions, such as rheumatoid arthritis, inflammatory bowel disease, psoriasis and asthma, which together represent a market potential of over USD 10 billion. These anti-inflammatory agents for long term use can, however, lead to the development of unwanted side effects such as diabetes and osteoporosis. The aim of the collaboration is to design novel, selective glucocorticoids for the treatment of inflammatory diseases that have as powerful anti-inflammatory properties as conventional glucocorticoid steroids, such as cortisone and other similar substances, but with significantly reduced side effects and thereby the potential for a broader use.

The separation of the beneficial effects from the side effects of glucocorticoids has been referred to as the holy grail of anti-inflammatory therapy and has been pursued by many. Promising though yet early results, generated under the collaboration between Zydus Cadila and Karo Bio by using a new and unique approach, indicate that such a separation may be achievable. Preclinical evaluation is ongoing for the identification of the most suitable compounds for further development into candidate drugs.

Both parties carry their own costs within the collaboration program and share potential rewards.

LXR INFLAMMATION

Collaboration with Wyeth (Pfizer)

The collaboration with Wyeth LCC (a wholly-owned subsidiary of Pfizer Inc.) was initiated in 2001 and focuses on the development of new drugs for the treatment of inflammatory diseases with the liver X receptor (LXR) as a target protein. From September 2009, Wyeth took on full responsibility for research and development.

ROR-GAMMA

A new opportunity for the treatment of autoimmune diseases

New research reveals that the nuclear receptor ROR-gamma may play an important role in the development of autoimmune disease. In 2010, Karo Bio initiated a program to explore compounds that inhibit ROR-gamma activity as a potential new treatment option for autoimmune diseases such as rheumatoid arthritis, ulcerative colitis and multiple sclerosis (MS).

Employees

One of Karo Bio's most important assets is the collective expertise and experience of its employees. Over 90 percent of Karo Bio's employees have a university degree and almost half have a doctorate degree. In recent years, Karo Bio has built up new areas of expertise in preclinical and clinical development, partly through external recruitment of experts with experience in the field, but also by further training existing staff.

FLEXIBILITY

Karo Bio has built up a project-focused organization in order to drive the company's research and development activities in an efficient and goal-oriented manner. At year end 2010, the company had 68 employees, which is few considering the ongoing projects and research activities. By engaging external resources when needed, Karo Bio can adequately man its projects, while maintaining the dynamism and flexibility that characterizes a small organization. This type of staffing also facilitates, where necessary, adaptation of the company to new priorities.

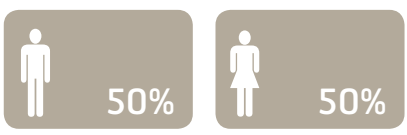
EXPERTISE

Karo Bio's staff are highly educated. The drug discovery process is complex and involves many different specialists. Success requires an experienced team of experts with competencies in many different specialty areas; experts who support each other with complementary knowledge.

EQUALITY

Equality issues are a natural part of a company's everyday operations. Many nationalities are represented among Karo Bio's employees, which creates a positive, stimulating and dynamic work environment. Men and women should have the same opportunities within the organization and no one should be discriminated against.

At year end 2010, 50 percent of the employees were women and 50 percent men. At the same point in time, Karo Bio's management team comprised 40 percent women and 60 percent men.



HEALTH AND WORKING ENVIRONMENT

Individual and group health and well-being is an important competitive factor. Karo Bio affords its staff a comprehensive health program. In order to prevent long-term sick leave the company works actively with rehabilitation in the early stages of an illness or disease.

Karo Bio pursues systematic work to continually improve and ensure a sound working environment, with a high safety profile, work that is delegated to line management. Safety work is particularly important in laboratories and handled primarily through risk assessment, specially designed procedures, training of staff and regular inspections. The company has extensive protective equipment and advanced technical systems that are regularly inspected, and undergo regular maintenance and upgrades. Karo Bio has the necessary regulatory approvals to carry out laboratory work involving chemicals and biological materials.

CORPORATE SOCIAL RESPONSIBILITY

As an industrial company, Karo Bio has an impact on the environment. Because we are a research and development company with no in-house production, our consumption of energy and other natural resources and our air and water emissions are relatively limited. The largest part of environmentally harmful emissions emitted by the company is through employee transportation. In order to limit these emissions the company uses telephone and video conferencing as often as possible for meetings, which otherwise would entail employee travel.

Karo Bio's daily activities involving chemical substances and genetically modified cells and microorganisms entail strict requirements in terms of comprehensive environmental and safety efforts to minimize the risk of negative impact on the environment and human health. Our environmental program is conducted as an integral part of our operations, and is geared toward preventive measures and constant improvement, where the goal is to meet or exceed applicable legal requirements, regulations and international agreements.

46% of employees have PhDs

93% of employees are university graduates

Board of directors


Bo Håkansson


Johan Kördel


Margaret von Platen


Jon Risfelt


Birgit Stattin Norinder

BO HÅKANSSON (Born 1946)
Eslöv, Sweden
Board member since 2009
Chairman since 2010
Education: Degree in Economics and Business Administration and Med Dr H.c., Lund University
Primary experience: Self employed since 1970. Positions as CEO, board member or chairman in various listed companies since 1986, including Wihlborg Fastigheter AB, Active Biotech AB, Midelfart Sonesson AB and ACAP Invest AB. Founder of Hansa Medical AB, Active Biotech AB and ACAP Invest AB.
Other board assignments: Chairman in Exini Diagnostics AB and Hansa Medical AB. Board member in Farstorps Gård AB, Farstorp Invest AB and POC Sweden AB. Deputy board member in Cartela R&D AB.
Number of shares: 11,949,531
Independent board member

JOHAN KÖRDEL (Born 1962)
Malmö, Sweden
Board member since 2009
Education: M.Sc. and PhD in physical chemistry and Associate Professor, Lund University
Primary experience: Extensive experience from leading positions within research and business development in international pharmaceutical and biotechnology companies, primarily at Pharmacia and Biovitrum.
Other board assignments: Chairman and President in Chori Pars AB. Board member in EQL Pharma AB.
Number of shares: 33,335
Independent board member

MARGARET VON PLATEN (Born 1959)
Stockholm, Sweden
Board member since 2010
Education: B.Soc. Sc., Uppsala University and MBA, Columbia Business School, New York
Primary experience: Financial analyst, journalist and author. Former board member in Nordstjernan AB and Världsnaturfondens Allemansfond.
Other assignments: none
Number of shares: none
Independent board member

JON RISFELT (Born 1961)
Täby, Sweden
Board member since 2009
Education: M.Sc. Chemical Technology, Royal Institute of Technology, Stockholm
Primary experience: Full-time board member in various companies. Prior operative senior positions include Ericsson, SAS, American Express, Nyman & Schultz (CEO), Europolitan and Vodafone Sverige (CEO) and Gambro Renal (CEO).
Other board assignments: Chairman in Ortivus AB, C3 Technologies AB and Mawell Oy. Board member in Telia-Sonera AB, Bilia AB, ÅF AB, Braganza AS , Vanna AB, Ticket Travel Group AB, Ticket Leisure Travel AB and Ticket Business Travel AB.
Number of shares: 17,500
Independent board member

BIRGIT STATTIN-NORINDER (Born 1948)
London, United Kingdom
Board member since 2007
Education: M.Sc. Pharm, Uppsala University
Primary experience: Extensive experience from leading positions within research and development in several international pharmaceutical companies. Former CEO and chairman of Prolifix Ltd.
Other assignments: Deputy board member in Wingfirm AB.
Number of shares: none
Independent board member

Employee representatives

BO CARLSSON (Born 1958)
Stockholm, Sweden
Employee representative since 1997
Education: Specialist teacher exam, Uppsala University
Primary experience: Employed by Karo Bio since 1989, Project Manager
Number of shares: 20,666
Number of stock options: 2,554

JOHNNY SANDBERG (Born 1967)
Danderyd, Sweden
Employee representative since 2006
Education: Biomedical analyst, Vårdhögskolan
Primary experience: Employed by Karo Bio since 1994, Senior Research Investigator
Number of shares: 26,250
Number of stock options: 2,675

EVA KOCH (Born 1966)
Stockholm, Sweden
Employee representative (Deputy) since 2010
Education: PhD. in organic chemistry
Primary experience: Employed by Karo Bio since 1999, Senior Research Scientist
Number of shares: 6,500
Number of stock options: 3,405

Executive management and auditors


Fredrik Lindgren


Anneli Hällgren


Jens Kristensen


Erika Söderberg Johnson


Lars Öhman

FREDRIK LINDGREN (Born 1971)
Chief Executive Officer. Employed by Karo Bio since 2010
Education: Law degree from Lund University, basic university studies in philosophy and administration, Financial Analyst graduate Stockholm School of Economics
Previous experience: Responsible since early 1990's for strategic company processes such as reconstructions, acquisitions, capitalizations within, among others, the biotech sector. Previous employers include Active Biotech AB, Meaning Green AB, Midelfart Sonesson AB and Biolin Scientific AB
Other assignments: Board member in Genovis AB, Mecana and Prosta-Lund AB
Number of shares: 1,250,000
Number of stock options: none

ANNELI HÄLLGREN (Born 1965)
Chief Scientific Officer, Vice President Preclinical Research & Development. Employed by Karo Bio since 2006
Education: PhD, M.Sc. Pharma, Uppsala University
Previous experience: Manager of preclinical development within Biolipox AB (2003-2006), manager of *in-vivo* pharmacology within Melacure Therapeutics AB (2001-2003), senior researcher and preclinical project manager within AstraZeneca (1997-2001)
Number of shares: 65,000
Number of stock options: none

JENS KRISTENSEN (Born 1958)
Chief Medical Officer, Vice President Clinical Development and Regulatory Affairs. Employed by Karo Bio since 2005
Education: M.D., Odense University. PhD., Uppsala University. Board certified Specialist in Pharmaceutical Medicine (ECMP), University of Basel, Switzerland
Previous experience: Medical expert within Neuroscience, AstraZeneca (1998-2001 and 2004-2005); Manager of clinical development and regulatory affairs, Biofactor AB and Melacure Therapeutics AB (2001-2004). Physician clinically active within anesthesia, thorax/cardiovascular intensive care and pain management (1984-1998)
Other assignments: Board member in Polycraft AB and Pharmalink AB
Number of shares: 58,262
Number of stock options: none

ERIKA SÖDERBERG JOHNSON (Born 1970)
Chief Financial Officer, Vice President Finance, Investor Relations and Human Resources.
Employed by Karo Bio since 2007
Education: M.Sc. Business Administration, Stockholm School of Economics
Previous experience: CFO Affibody AB (2005-2007) and Global Genomics AB (2002-2005). Investment banking advisor at SEB Enskilda Securities, Corporate Finance (1993-2002)
Other assignments: Board member in Sectra AB since 2007
Number of shares: 35,000
Number of stock options: none

LARS ÖHMAN (Born 1957)
Vice President Business Development. Employed by Karo Bio since 1989
Education: MBA, Stockholm School of Economics. Chemical Engineering, Royal Institute of Technology, Stockholm
Previous experience: Project manager and manager within Karo Bio's research and development organization
Number of shares: 28,660
Number of stock options: 4,548

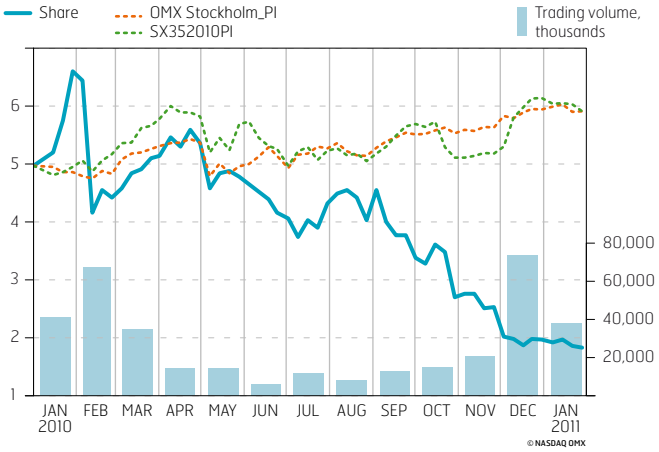
Auditors

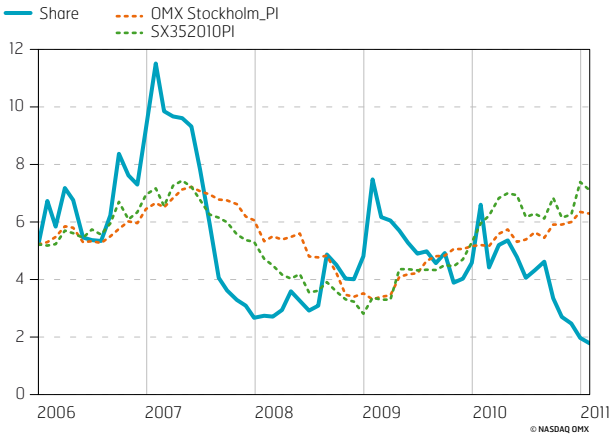
Auditors are elected by the annual general meeting.

PricewaterhouseCoopers AB were elected auditors at the annual general meeting in April 2007 for the period until the annual general meeting 2011. Auditor-in-charge is since April 2008 authorized public accountant Håkan Malmström. Previously, authorized public accountant Claes Dahlén was auditor-in-charge for Karo Bio from 2001-April 2008. It is the nomination committee's intention to propose to the AGM a reelection of the current auditors for the mandate period through the 2012 AGM.

The board and executive management's shares and options in Karo Bio are listed as per January 31, 2011 and also include family and ownership through companies. The information on stock options provided refers to the number of shares to which the stock option holdings correspond.

The share





SHAREHOLDERS

Karo Bio had 12,874 shareholders at the start of 2010 and 12,158 at the year end. Karo Bio has been listed on OMX NASDAQ Stockholm since 1998.

SHARE CAPITAL

Karo Bio's share capital amounts to SEK 193.5 million. In total, there are 387,063,972 shares out-standing each with a par value of SEK 0.50. In 2010, a rights issue was implemented resulting in 232,238,383 new shares and an increase of the share capital of SEK 116.1 million. The rights issue raised SEK 291 million for the company after the deduction of transaction costs.

WARRANTS

The company has issued outstanding warrants representing 732,640 shares through a employee stock option program introduced in 2003. The warrants are held by Karo Bio's wholly owned subsidiary Karo Bio Research AB. The stock options were issued in four series at no cost to the employee. They have vested and became exercisable in one series per year over four years until May 2008. The last day for exercise is April 30, 2011 for all series, subject to continued employment. The exercise price is SEK 11.00, 12.10, 13.30 and 14.40 per series respectively. Exercise of all options outstanding at December 31, 2010, under the employee stock option program would lead to an increase of the number of shares of 0.05 percent.

In addition to the above, warrants representing 7,100,000 shares for an executive management incentive program were approved at the 2010 annual general meeting. The Board of Directors made the decision not to proceed with this program, which is why no allocation of these warrants has been made.

DIVIDEND POLICY

The Board of Directors does not intend to propose any dividends until the company generates solid profit and cash flows. Karo Bio has not paid a dividend since the company was founded in 1987.

PRINCIPAL SHAREHOLDERS AT JANUARY 31, 2011

Owner	Number of shares	Holding in % of capital and votes
JP Morgan Bank	34,514,274	8.9%
Försäkringsaktiebolaget, Avanza Pension	30,863,583	8.0%
Friends Provident International Ltd	19,890,459	5.1%
Nordnet Pensionsförsäkring AB	12,197,321	3.2%
Farstorp Invest AB	11,924,531	3.1%
Carlbergssjön AB	6,761,660	1.7%
Bliwa Livförsäkring, ömsesidigt	6,241,027	1.6%
Goldman Sachs International Ltd, W8IMY	5,965,695	1.5%
RSP Holding	5,222,614	1.3%
Lönn, Mikael	4,775,000	1.2%
Other shareholders	248,707,808	64.3%
Total	**387,063,972**	**100.0%**

Source: Euroclear Sweden AB

OWNERSHIP STRUCTURE AT JANUARY 31, 2011

Ownership stake, no. of shares	Number of share-holders	Holding as a % of share-holders	Number of shares	Holding as a % of share capital
1 – 500	2,665	21.9%	551,057	0.1%
501 – 1,000	1,322	10.9%	1,093,252	0.3%
1,001 – 2,000	1,410	11.6%	2,223,831	0.6%
2,001 – 5,000	2,484	20.4%	8,783,796	2.3%
5,001 – 10,000	1,496	12.3%	11,803,950	3.0%
10,001 – 20,000	1,071	8.8%	15,836,626	4.1%
20,001 – 50,000	990	8.1%	32,653,305	8.4%
50,001 – 100,000	351	2.9%	26,407,290	6.8%
100,001 – 500,000	299	2.5%	57,905,190	15.0%
500,001 – 1,000,000	24	0.2%	17,433,692	4.5%
1,000,001 – 5,000,000	37	0.3%	78,790,819	20.4%
5,000,001 –	9	0.1%	133,581,164	34.5%
Total	**12,158**	**100.0%**	**387,063,972**	**100.0%**

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[2]	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[3]
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[4]	232,238,383	387,063,972	193,531,986	290,926,058

1) Amount generated by issue after transaction costs
2) Result of over-allotment option
3) A non-cash issue
4) The issued shares were registred in part in December 2010 and in part in January 2011. For further details, please refer to note 18 in the annual report.

Five-year overview

	GROUP				
Amounts in MSEK unless otherwise stated	2006	2007	2008	2009	2010
INCOME STATEMENT					
Net sales	44.0	7.5	10.7	5.9	0.0
Administrative expenses	–31.8	–33.3	–28.6	–30.9	–32.8
R&D expenses	–145.0	–190.8	–169.4	–132.4	–129.4
Other operating income and expenses	0.8	0.8	–3.4	0.3	0.4
Operating profit	**–132.0**	**–215.8**	**–190.7**	**–157.1**	**–161.8**
Financial net	5.9	12.4	15.9	2.6	–1.7
Results after financial items	**–126.1**	**–203.4**	**–174.8**	**–154.5**	**–163.5**
BALANCE SHEET					
Licenses and similar assets	-	2.8	1.7	0.5	-
Equipment	8.6	5.9	8.1	5.8	4.6
Total non-current assets	**8.6**	**8.7**	**9.8**	**6.3**	**4.6**
Other current assets	9.4	12.2	8.7	10.2	9.9
Cash and cash equivalents	233.9	432.6	242.7	237.2	395.0
Total current assets	**243.3**	**444.8**	**251.4**	**247.4**	**404.9**
Total assets	**251.9**	**453.6**	**261.2**	**253.7**	**409.5**
Equity	210.5	394.3	219.5	215.2	342.5
Long-term liabilities	0.7	0.2	2.0	1.2	0.5
Short-term liabilities	40.7	59.1	39.7	37.3	66.5
Total equity and liabilities	**251.9**	**453.6**	**261.2**	**253.7**	**409.5**
CASH FLOW					
Cash flow from operating activities	**–110.4**	**–178.3**	**–186.4**	**–146.9**	**–158.9**
Net investments in non-current assets	–2.0	–6.6	–3.8	–1.2	–2.0
Net investments in other short-term placements	–101.1	–96.9	88.0	–19.9	82.3
Cash flow from investing activities	**–103.1**	**–103.5**	**84.2**	**–21.1**	**80.3**
Cash flow from financing activities	**-**	**387.2**	**-**	**150.2**	**324.9**
Cash flow for the year	**–213.5**	**105.4**	**–102.2**	**–17.8**	**246.3**
Operating cash flow	–112.4	–184.9	–190.2	–148.1	–160.9
KEY FIGURES					
Equity	210.5	394.3	219.5	215.2	342.5
Return on equity, %	–46.1	–67.3	–57.0	–71.1	–58.6
Return on capital employed, %	–45.7	–67.0	–56.8	–72.3	–58.0
Operating margin, %	n.m	n.m	n.m	n.m	n.m
Profit margin, %	n.m	n.m	n.m	n.m	n.m
Equity ratio, %	83.5	86.9	84.0	84.8	83.6
Interest-bearing assets (net)	233.9	432.6	242.7	237.2	395.0
Investments in licenses and similar assets	-	3.5	-	-	-
Net investments in equipment	2.0	3.1	3.8	1.2	2.0
Average number of employees	72	71	63	67	68
of whom work in R&D	63	63	54	60	60

	GROUP				
	2006	2007	2008	2009	2010
DATA PER SHARE (SEK) [1) 2)]					
Earnings per share					
-Average number of shares	–0.82	–1.14	–0.89	–0.78	–0.67
-Number of shares at year end	–0.82	–1.04	–0.89	–0.65	–0.42
Operating cash flow per share					
-Average number of shares	–0.73	–1.04	–0.97	–0.75	–0.66
-Number of shares at year end	–0.73	–0.94	–0.97	–0.62	–0.42
Equity per share, year end	1.36	2.01	1.12	0.90	0.88
Share price at the year end[3)]	9.26	2.67	4.81	4.58	1.97
Share price/equity per share at the year end, % [3)]	679	133	429	507	223
NUMBER OF SHARES (MILLIONS) [1) 2)]					
Average number of shares	154.3	178.5	195.7	197.5	242.3
Average number of shares including warrants	156.4	180.5	196.9	198.3	248.3
Number of shares at the year end	154.3	195.7	195.7	238.2	387.1
Number of shares at the year end including warrants	156.4	197.7	196.5	239.0	394.9

1) The outstanding warrants have no dilution effect as their conversion to shares would lead to an improvement in earnings and cash flow per share for the years included.
2) The number of shares for periods prior to rights issues have been adjusted for the bonus element in accordance with IAS 33, *Earnings per share*.
3) Share price data has been adjusted to reflect later share issues.

Definitions

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

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

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

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

OPERATING MARGIN
Operating loss as a percentage of net sales

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

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

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

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

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

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

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

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

A necessary ingredient for success in the development of novel pharmaceuticals is perseverance.

Annual Report and Corporate Governance Report

CONTENTS

This annual report includes statements that are forward-looking, and actual future results may differ materially from those stated. In addition to the factors discussed, among other factors that may affect results, are developments 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 third party's intellectual property rights, technological development, exchange rate and interest rate fluctuations, regulatory and political risks.

ANNUAL GENERAL MEETING AND FURTHER INFORMATION

ANNUAL GENERAL MEETING

The annual general meeting of Karo Bio AB (publ) will be held on Wednesday April 27, 2011 at 5.00 pm CET at Klarasalen, Klara Konferens, Vattugatan 6, Stockholm, Sweden. The notice for the annual general meeting is available on Karo Bio's web site at www.karobio.com/agm.

RIGHT TO PARTICIPATE AND NOTICE

To be entitled to participate in the annual general meeting, shareholders must have their holdings registered in their names at Euroclear Sweden AB by April 19, 2011, and must notify the company of their intention to participate in the meeting by no later than April 19, 2011 at 4.00 pm CET.

Notice of intention to participate in the annual general meeting shall be made in writing, including name, personal or corporate identity number (where applicable), address, e-mail address and telephone number, either via mail to Karo Bio AB, attn: Eva Kruse, Novum, 141 57 Huddinge, Sweden or by facsimile to +46 8 774 52 80,
e-mail to **agm@karobio.com** or via Karo Bio's website **www.karobio.com/agm.**

SHARE REGISTRATION

Shareholders whose shares are registered under the name of a nominee through a bank notary department or other nominee must, to be entitled to participate in the annual general meeting, temporarily register their shares in their own names. Such registration must be in effect no later than April 19, 2011, which means that shareholders must notify their nominee well in advance of that date.

FURTHER INFORMATION

Upcoming report dates:

Interim report January-March	April 27, 2011
Interim report April-June	July 13, 2011
Interim report July-September	October 25, 2011
Year-end report for 2011	February 8, 2012

Financial reports, press releases and other information are available on Karo Bio's website at www.karobio.com upon release. It is also possible to download and subscribe to Karo Bio's financial reports and press releases on the website. Karo Bio uses electronic distribution as the primary means for the distribution of financial reports. The annual report will also be mailed to shareholders and others specifically subscribing to the printed version. Printouts of interim reports are mailed upon request.

For further information, please contact: **Fredrik Lindgren**, Chief Executive Officer, tel. +46 70 561 61 77 or **Erika Söderberg Johnson**, Chief Financial Officer and VP Investor Relations, tel. +46 8 608 60 52, or **e-mail: investor@karobio.com**

Administration report

The Board of Directors and the President 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 financial year beginning January 1 and ending December 31, 2010.

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 may be regarded as on and off switches by which the body's own production of proteins can be regulated with great precision. By targeting nuclear receptors, the body's own control systems can be tuned, for instance to normalize the metabolism of lipids in patients with elevated blood lipid levels.

Karo Bio develops innovative drugs for key medical needs. Karo Bio's vision is to become a pharmaceutical company with sustainable profitability, commercial products and a competitive project portfolio. The company has a number of pharmaceutical development projects, primarily focused on cardiovascular and metabolic diseases, inflammatory conditions and neuropsychiatric disorders as well as certain cancers and women's health. A foundation for Karo Bio's activities is a unique knowledge of nuclear receptors as target proteins for drugs and related mechanisms of action. Important processes within the company include research, drug discovery and preclinical and clinical development. Besides these processes, medical and regulatory issues are also covered by the company's competences.

Karo Bio has the capacity to process selected compounds for niche indications through the whole development chain, while compounds addressing large patient groups require development collaborations or outlicensing at some stage of the process. The business model allows Karo Bio to balance its operating risks by creating the flexibility to enter into various types of partnership agreements. The company currently has seven pharmaceutical development programs. Four of the programs are run in-house by Karo Bio and three are strategic collaborations with international pharmaceutical companies.

Karo Bio was founded in 1987 and has been listed on NASDAQ OMX Stockholm since 1998 (Reuters: KARO.ST).

RESEARCH AND DEVELOPMENT – CURRENT STATUS AND SIGNIFICANT EVENTS 2010

Significant events in 2010 and current status for each of Karo Bio's projects are described briefly below.

Eprotirome (KB2115) – Dyslipidemia

The thyroid hormone receptor (TR) plays an important role in the regulation of the body's metabolism, including the control of plasma lipid levels. Karo Bio has synthesized and tested a large number of compounds that act on this receptor and eprotirome is the leading compound in this class. Studies have shown that eprotirome is liver-selective, which makes it different from the natural thyroid hormone. Many of the side effects associated with thyroid hormones are hereby avoided, which has been verified through data from clinical studies.

Eprotirome represents an innovative new concept for reducing the risk for cardiovascular disease and shows a unique efficacy profile with significant lowering of several risk factors for the development of cardiovascular disease. Three completed clinical phase II-studies have shown that eprotirome -whether administered as monotherapy or as add-on to ongoing statin or ezetimibe treatment – gives patients with elevated levels of blood lipids a significant and clinically relevant reduction of several key risk factors related to the development of cardiovascular disease. The results are very positive since there is a need to combine statins and other currently available treatment alternatives with compounds that have other mechanisms of action in order to achieve the desired levels of LDL-cholesterol and other blood lipids. The results from the clinical phase II study where eprotirome was given as an add-on to statins were published in the New England Journal of Medicine on March 11, 2010. Karo Bio has also generated preclinical data that indicate that eprotirome has positive effects on blood glucose, which would be of additional value when treating type 2 diabetics with elevated blood lipids.

Eprotirome has the potential to become an important new drug for treating dyslipidemic patients that do not reach their treatment goals with existing treatment alternatives. The addressable market is huge. Treatment of dyslipidemia aims at reducing the risk for cardiovascular disease. Statins have become the largest pharmaceutical category in the world and will most 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 possible 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 2010, Karo Bio decided to initially develop eprotirome for high-risk patients with heterozygous familial hypercholesterolemia ("HeFH") in clinical phase III. This is considered a medically and commercially interesting indication that can also facilitate the development of the compound for a broader primary care indication in the future.

HeFH is a hereditary condition in which patients suffer from very high blood lipid levels from an early age. The condition afflicts about a million people in the EU alone. At present, however, only less than 15 percent of the patients are diagnosed, probably mainly because of the absence of efficient and specific drugs for HeFH. Only about 20-30 percent of those being diagnosed and treated today reach their treatment goals.

During 2010, Karo Bio has worked with the planning and funding for a clinical phase III program for eprotirome targeting high-risk patients with HeFH within the EU and sought scientific advice from national European regulatory

authorities as well as the EMA. On the basis of this advice, Karo Bio estimates that the required investment for this program will be around MSEK 400. The recruitment of patients for the pivotal clinical phase III trial will involve 625 - 1,150 patients for treatment for up to 18 months. The recruitment of patients for the pivotal clinical phase III trial is planned to commence in the third in the third quarter of 2011. An application for market approval is expected to be submitted to EMA in late 2013 or during 2014.

GR type 2 diabetes – KB3305

Type 2 diabetes is becoming ever more common and is characterized by increased glucose production in the liver, which is regulated by the glucocorticoid receptor (GR). Karo Bio's KB3305 compound is a liver-selective GR antagonist which was developed for treatment of type 2 diabetes and, as far as Karo Bio is aware, the first in its class to be tested on humans for this indication. Karo Bio demonstrated in a clinical phase I/IIa study reported in 2009 that blood sugar levels can be normalized by blocking GR activity in the liver. These data provide a positive proof-of-principle for the mechanism of action, and the magnitude of the effects are medically relevant for the treatment of patients with type 2 diabetes. In addition to better control of glucose levels, preclinical studies indicate that KB3305 also lowers a number of other risk factors for type 2 diabetics, such as LDL cholesterol, triglycerides and free fatty acids in plasma. Despite these data, the company decided in 2009 not to further develop the compound on its own for the primary care indication type 2 diabetes. The competitive situation, more stringent regulatory requirements and internal resource prioritization all contributed to this decision.

The ER -program – a platform with many opportunities

The estrogen receptor (ER) is activated by the 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 risk for thrombosis. These risks are mainly linked to the ER-alpha receptor, while the ER-beta receptor, which Karo Bio co-discovered in the 1990s, seems to mediate many of the positive effects of estrogen without these side-effects and therefore offers many clinical interesting opportunities. Karo Bio's efforts to develop ER-beta selective compounds have resulted in a platform with promise in many different treatment areas, particularly neuropsychiatry, women's health and certain forms of cancer, as well as certain types of pain and inflammation. In 2009, Karo Bio's ER-beta program was nominated one of the ten most interesting neuroscience projects available for partnering by the healthcare business analyst Windhover Information Inc together with independent expertise.

The first candidate drug within Karo Bio's ER-beta program, KB9520, was nominated in October 2009. The compound is in preclinical development and has been evaluated in the neuropsychiatric indication depression, as well as for other indications, including a certain type of cancer. Documentation of follow-up compounds in the ER-beta program continues in parallel with the evaluation of other potential clinical areas of use for the company's selective ER-beta agonists.

Since 1997, Karo Bio has a collaboration on estrogen receptors with Merck ("MSD" outside the U.S. and Canada). In 2002, Merck assumed full responsibility for the development work. The aim of the partnership is to develop drugs in the area of women's health. In September 2010, Merck discontinued a phase II study of the collaboration compound MK-6913 for the treatment of hot flashes in menopausal women after an interim analysis of data showed that the predefined efficiency criterias were not met. Merck is evaluating alternatives for future studies of MK-6913. Based on successful clinical development and drug registration, Karo Bio has the rights to milestone payments from Merck, as well as royalties on the future sale of drugs developed within the framework of the partnership.

GR inflammation – collaboration with Zydus Cadila

In early 2008, Karo Bio and the Indian pharmaceutical company Zydus Cadila initiated a three-year collaboration to develop drug compounds which affect glucocorticoid receptors (GR) in a selective manner. In March 2011, this collaboration was extended for one year.

Glucocorticoids are used to treat many different inflammatory conditions, such as rheumatoid arthritis, inflammatory bowel disease, psoriasis and asthma, which together represent a market potential of over USD 10 billion. These anti-inflammatory agents for long term use can, however, lead to the development of unwanted side effects such as diabetes and osteoporosis. The aim of the collaboration is to design novel, selective glucocorticoids for the treatment of inflammatory diseases that have as powerful anti-inflammatory properties as conventional glucocorticoid steroids, such as cortisone and other similar substances, but with significantly reduced side effects and thereby the potential for a broader use.

The separation of the beneficial effects from the side effects of glucocorticoids has been referred to as the holy grail of anti-inflammatory therapy and has been pursued by many. Promising though yet early results, generated under the collaboration between Zydus Cadila and Karo Bio by using a new and unique approach, indicate that such a separation may be achievable. Preclinical evaluation is ongoing for the identification of the most suitable compounds for further development into candidate drugs.

Both parties carry their own costs within the collaboration program and share potential rewards.

LXR inflammation – collaboration with Wyeth (Pfizer)

Karo Bio's collaboration with Wyeth LCC (a wholly-owned subsidiary of Pfizer Inc.) was initiated in 2001 and focuses on developing new drugs for treating inflammatory disorders with the liver X receptor (LXR) as target protein. The project is in preclinical development. From September 2009, Wyeth

bears full responsibility for research and development under the collaboration.

ROR-gamma – a new opportunity to treat autoimmune diseases

New research reveals that the nuclear receptor ROR-gamma may play an important role in the development of autoimmune disease. During the fall 2010, Karo Bio launched a research program on ROR-gamma to explore if the inhibition of ROR-gamma activity may be a novel concept for a potential new treatment option for autoimmune diseases such as rheumatoid arthritis, ulcerative colitis and multiple sclerosis (MS).

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR 2010

In March 2011, Karo Bio and Zydus Cadila agreed to extend the research collaboration regarding glucocorticoid receptors and anti-inflammatory drug compounds for one year.

ORGANIZATION

In addition to the parent company, Karo Bio AB, the Group consists of the wholly-owned subsidiary Karo Bio Research AB, which currently does not conduct any business. The head office is located in Huddinge, Sweden, where also the company's operations are based. Karo Bio's management team currently consists of five individuals: the Chief Executive Officer; the Chief Financial Officer, who is also Vice President Investor Relations and Human Resources; the Chief Scientific Officer, who is also Vice President Preclinical Research & Development; the Chief Medical Officer, who is also Vice President Clinical Development and Regulatory Affairs; and the Vice President Business Development. At the end of the period, Karo Bio had 68 (67) employees, of whom 60 (58) are engaged in research and development, 3 (4) in business development and intellectual property rights and 5 (5) in administrative roles.

FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Profit/loss

Net sales amounted to MSEK 0.0 (5.9). Net sales last year consisted of research payments from collaborations.

Operating expenses decreased by MSEK 1.2 to MSEK 161.8 (163.0). This decrease is mainly due to lower external expenses regarding clinical studies. Research and development expenses for 2010 totaled MSEK 129.4 (132.4). The administrative expenses for the year amounted to MSEK 32.9 (30.9). The 2010 administrative expenses contain certain items outside of the company's regular operations related mainly to the change of CEO and a reorganization of the company's HR function.

Operating loss amounted to MSEK 161.8 (157.1), a loss increase of MSEK 4.7 mainly due to a decrease in revenues. Financial net for 2010 amounted to MSEK –1.7 (2.6), of which MSEK –2.4 was an upfront payment of 1 percent of the Equity Credit Facility (ECF) agreement entered into in 2010. Reported loss for the year increased by MSEK 8.9 to MSEK 163.5 (154.6).

Capital Investments

Capital investments in equipment amounted to MSEK 1.2 (0.3) and consists mainly of laboratory and IT equipment.

Cash flow and financial position

Cash and cash equivalents amounted to MSEK 325.5 (79.2) at the end of the year. Including other short-term investments with duration exceeding 90 days, financial assets amounted to MSEK 395.0 (237.2). Cash flow from operating activities amounted to MSEK –158.9 (–146.9). The rights issue of MSEK 325.1 completed during the fourth quarter 2010 provided the company net proceeds of MSEK 290.9 after deduction of transaction related costs.

In addition, the company has, following the approval of the extraordinary general meeting, entered into an Equity Credit Facility ("ECF") agreement with Azimuth Opportunity Ltd. (Azimuth). Provided renewal of the authorization resolution at future general meetings, the ECF gives the company access to additional funding of USD 35 million (approximately MSEK 240) through the right, but not the obligation, to, on at most 36 occasions over 36 months until the end of 2013, implement new share issues directed to Azimuth. The subscription price per share will be at a discount of five percent to market price. Azimuth received a lump sum payment of one percent of the commitment amount under the contract in conjunction with the contract entering into force and is entitled to a draw down fee of one percent for each draw down.

The Group's financial resources at hand and available through the ECF agreement are estimated to secure funding of the planned eprotirome development program through 2013 and, in addition thereto, the company's other operations and projects for more than 12 months from the date of this annual report.

Shareholders' equity and share data

The registered share capital at December 31, 2010, amounted to MSEK 191.6. In total, there were 387,063,972 shares outstanding, whereof 383,186,644 registered and 3,877,328 at that point in time were not yet registered with the Swedish Companies Registration Office, Bolagsverket. At the end of the period, there were warrants representing 732,640 shares outstanding related to an employee stock option program, Program 2003. In addition, there were warrants representing 7,100,000 shares outstanding from the 2010 warrant incentive program resolved at the annual general meeting 2010. The Board of Directors has since then decided that the further transfer in accordance with the 2010 warrant program shall not take place. The number of warrants are adjusted for effects from rights issues according to the terms and conditions for each program respectively.

Total consolidated shareholders' equity amounted to MSEK 342.5 after taking into account the loss for the year. Loss per share, based on the weighted average number of shares outstanding, amounted to SEK 0.67 (0.78). The Group's equity ratio at the end of the year was 83.7 (84.8)

percent and equity per share, based on the fully diluted number of shares at year-end, was SEK 0.87 (0.90).

Parent Company

The Parent Company recorded revenues amounting to MSEK 0.0 (5.9). The reported loss after financial items was MSEK 163.5 (154.6). Capital investments in equipment amounted to MSEK 1.2 (0.3). Cash, cash equivalents and other short-term investments amounted to MSEK 395.0 (237.2) at the end of the year.

GUIDELINES FOR REMUNERATION OF THE EXECUTIVE MANAGEMENT

The Board of Karo Bio proposes that the annual general meeting to be held on April 27, 2011 resolves to adopt the following guidelines for salary and other remuneration to the executive management of Karo Bio, and that these guidelines should remain in force until the 2012 annual general meeting. The proposed guidelines are the same as those adopted by the annual general meeting in 2010, with the exception of an addition related to consultancy fees paid to board members.

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 the Karo Bio executive management.

Fixed salary

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

Variable remuneration

In addition to the 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 have been achieved.

Karo Bio's commitments under incentive programs shall be limited in relation to the fixed annual salary and shall not exceed 40 percent of the fixed annual salary, before taking into account social security charges, for each executive during the relevant period, with the requirement on the recipient to invest the net amount after tax of the portion of the remuneration that exceeds 20 percent of the fixed annual salary in Karo Bio shares in the market. The remuneration under incentive programs will be paid in the form of salary and qualify for pension benefits. The total maximum variable remuneration at current fixed annual salary levels, including social security charges, would be MSEK 4.4.

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.

Dismissal and severance pay

Dismissal and severance pay shall not exceed 24 monthly salaries in total for each executive.

The executives to whom the remuneration guidelines apply

The above guidelines shall apply to the president 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 an employee stock option program covering all employees including executive management. The allocation of stock options was made in previous years and no additional allocation under this program is possible. All employee stock options have vested and are possible to exercise. The company's exposure under the employee stock option program is hedged through warrants intended to cover both the stock options and social security charges that may arise as a result of the employee stock option program. For further information, please refer to note 27.

Consultancy fee 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 committment to the Board.

Deviation from the guidelines under special circumstances

The Board may deviate from the guidelines in certain cases if there are special reasons for doing so.

INFORMATION REGARDING THE KARO BIO SHARE

At December 31, 2010, there were a total of 387,063,972 shares (whereof 383,186,644 registered and 3,877,328 at that point of time not yet registered with the Swedish Companies registration Office, Bolagsverket) with a deviate value of SEK 0.50. 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 percent or more of the total number of shares of Karo Bio.

The general meeting's authorization of the Board of Directors to issue new shares

Shareholders at the extraordinary general meeting of Karo Bio on November 24, 2010, resolved to authorize the Board of Directors to issue shares to Azimuth within the framework of the ECF agreement approved at the same general meeting (see *Cash Flow and Financial Position* above). The Board is hereby given authorization, proprietary for the period until the next annual general meeting, to issue new shares to Azimuth without limitation in any way other than as is prescribed by the articles of association applicable from time to time concerning limits on the number of shares and share capital. The subscription price shall be determined in accordance with the financing contract between the company and Azimuth.

CORPORATE GOVERNANCE REPORT

Karo Bio's corporate governance report is available at the company website www.karobio.com and is also included in the printed annual report for 2010.

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 company has established the following goals for its operation through 2014:

- Eprotirome to be developed through clinical phase III for HeFH in the EU and an application for marketing authorization submitted regarding the EU
- Preclinical research and development work to have resulted in three clinical projects
- The project portfolio to be expanded through acquisitions, strategic partnerships or in-licensing of projects

Karo Bio conducts drug development projects targeting markets where there is a significant unmet medical need. In niche areas, Karo Bio can develop selected compounds all the way to the market. Compounds intended for broad patient groups can be licensed out after proof-of-concept has been demonstrated in clinical phase II, or earlier.

The company's expertise in nuclear receptors, and the project portfolio that has been built up on the basis thereof, provide a solid foundation. Karo Bio sees good opportunities to capitalize on the commercial interest in the company's preclinical programs by entering into research collaborations for select projects already at an early stage and thereby benefitting from the partners' competencies and resources. In 2011, this will be a priority for Karo Bio in order to enable a more cost-effective research operation going forward.

In addition, Karo Bio has a clearly stated ambition to engage in active business development through inlicensing, strategic alliances and acquisitions that can help the company to reach its vision to become a pharmaceutical company with sustainable profitability, commercial products and a competitive project portfolio.

Until Karo Bio generates significant revenues from product sales, either from proprietary products or as royalty on partners' products, there will be a need for additional funding. The financial assets currently at hand and available through the ECF agreement secure funding of the planned eprotirome development program through 2013, as well as the company's other operations and projects for more than 12 months from the date of this report. For the company's other operations and projects, Karo Bio focuses on those projects and activities that are expected to generate the best business opportunities and create the largest values in the short term, thereby creating the best abilities for the company's long-term development.

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, or that they will result in marketable products. It can not be excluded that the approval process at regulatory level will involve requirements for increased documentation and thereby increased costs and delays in the projects, or even discontinuation of projects. Increased total development costs and development time of a project could result in an increased project risk and reduce the product's potential to successfully reach the commercial stage or reduce the time from product launch to patent expiry.

There may be a need to turn to the capital market for additional funding in the future. Both the size and the timing of the company's potential future capital requirements are dependent on a number of factors, including opportunities to enter into collaboration or licensing agreements and the progress made in research and development projects undertaken. There is a risk that the required funding of the operations will not be available when needed or at a reasonable cost.

PROPOSED APPROPRIATION OF EARNINGS

The Board of Directors proposes that the Parent Company's retained earnings of SEK 11,341,040 is brought forward.

The company's net result for the financial year and financial position as of December 31, 2010, are shown on the appended financial statements and notes to the accounts, which are an integral part of the financial statements.

Consolidated income statements and income statements for the Parent Company

KSEK	Note	GROUP 2010	GROUP 2009	GROUP 2008	PARENT COMPANY 2010	PARENT COMPANY 2009
Net sales	1	-	5,891	10,689	-	5,891
Operating expenses	2–5					
Administrative expenses		–32,869	–30,954	–28,600	–32,869	–30,954
Research and development expenses		–129,382	–132,403	–169,428	–129,368	–132,526
Other operating income and expenses	6	412	343	–3,372	412	343
		–161,839	**–163,014**	**–201,400**	**–161,825**	**–163,137**
Operating profit / loss		**–161,839**	**–157,123**	**–190,711**	**–161,825**	**–157,246**
Income from financial investments						
Interest income and other similar income	7	802	2,691	16,069	802	2,691
Interest expenses and other similar expenses	8	–2,500	–124	–155	–2,443	–5
		–1,698	**2,567**	**15,914**	**–1,641**	**2,686**
Profit / loss after financial items		**–163,537**	**–154,556**	**–174,797**	**–163,466**	**–154,560**
Tax	9	-	-	-	-	-
PROFIT / LOSS FOR THE YEAR	10	**–163,537**	**–154,556**	**–174,797**	**–163,466**	**–154,560**
Earnings per share (SEK)	11					
– based on weighted-average number of shares outstanding		–0.67	–0.78	–0.90		
– based on weighted-average number of shares fully diluted [1)]		–0.67	–0.78	–0.90		

[1)] No dilutative effect from warrants outstanding is taken into account, as a conversion would lead to a reduced loss per share

Consolidated statement of comprehensive income and comprehensive income for the Parent Company

KSEK	Note	GROUP 2010	GROUP 2009	GROUP 2008	PARENT COMPANY 2010	PARENT COMPANY 2009
Profit / loss for the period		–163,537	–154,556	–174,797	-163,466	-154,560
Other comprehensive income for the year, net of tax		-	-	-	-	-
TOTAL COMPREHENSIVE PROFIT /LOSS FOR THE PERIOD		**–163,537**	**–154,556**	**–174,797**	**-163,466**	**-154,560**
Total comprehensive profit /loss attributable to:						
Shareholders of the parent company		–163,537	–154,556	–174,797	-163,466	-154,560

Consolidated statement of financial position and balance sheets for the Parent Company

ASSETS (KSEK)		GROUP			PARENT COMPANY	
At December 31	Note	2010	2009	2008	2010	2009
NON-CURRENT ASSETS						
Intangible assets						
Licenses and similar rights	12	-	545	1,698	-	545
Tangible assets						
Equipment	13, 20	4,585	5,788	8,079	3,565	3,893
Financial assets						
Participations in group companies	14	-	-	-	100	100
Total non-current assets		**4,585**	**6,333**	**9,777**	**3,665**	**4,538**
CURRENT ASSETS						
Current receivables						
Other receivables		3,993	5,884	4,180	3,993	5,884
Prepaid expenses and accrued income	15	5,870	4,372	4,543	5,870	4,372
		9,863	**10,256**	**8,723**	**9,863**	**10,256**
Financial assets at fair value through profit or loss	16, 28	69,548	158,013	145,773	69,548	158,013
Cash and cash equivalents	17	325,486	79,171	96,948	325,476	79,161
Total current assets		**404,897**	**247,440**	**251,444**	**404,887**	**247,430**
TOTAL ASSETS		**409,482**	**253,773**	**261,221**	**408,552**	**251,968**

SHAREHOLDERS' EQUITY AND LIABILITIES (KSEK)		GROUP			PARENT COMPANY	
At December 31	Note	2010	2009	2008	2010	2009
SHAREHOLDERS' EQUITY	18					
Share capital		191,593	77,412	58,059	191,593	77,412
Other contributed capital		982,686	805,941	675,053	-	-
Rights issue of new shares – ongoing		-	-	-	1,939	-
Share premium reserve, restricted		-	-	-	138,015	161,687
Total restricted equity (Parent Company)		-	-	-	*331,547*	*239,099*
Share premium reserve, non-restricted		-	-	-	174,806	130,888
Accumulated loss (incl. Profit / loss for the year for the Group)		–831,731	–668,194	–513,638	-	-
Profit / loss for the year		-	-	-	–163,466	–154,560
Total non-restricted equity (Parent Company)		-	-	-	*11,340*	*–23,672*
Total shareholders' equity		**342,548**	**215,159**	**219,474**	**342,887**	**215,427**
LIABILITIES						
Non-current liabilities						
Other non-current liabilities	19, 20	470	1,273	2,022	-	-
Total non-current liabilities		**470**	**1,273**	**2,022**	**-**	**-**
Current liabilities						
Accounts payable – trade		45,578	17,164	16,808	45,578	17,164
Payables to group companies		-	-	-	90	90
Other current liabilities	20	2,372	2,271	2,668	1,483	1,381
Accrued expenses and deferred income	21	18,514	17,906	20,249	18,514	17,906
Total current liabilities		**66,464**	**37,341**	**39,725**	**65,665**	**36,541**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**409,482**	**253,773**	**261,221**	**408,552**	**251,968**
Pledged assets		-	-	-	-	-
Contingent liabilities	22	51,134	50,879	50,253	51,134	50,879

Consolidated statement of cash flows and cash flow statement for the Parent Company

KSEK	Note	GROUP 2010	GROUP 2009	GROUP 2008	PARENT COMPANY 2010	PARENT COMPANY 2009
Operating activities						
Operating loss before financial items		–161,839	–157,123	–190,711	–161,825	–157,246
Items not affecting cash flow						
Depreciation and amortization	5	2,930	3,655	5,025	2,055	2,676
Other		-	82	175	-	82
		–158,909	**–153,386**	**–185,511**	**–159,770**	**–154,488**
Financial income received	23	6,953	10,306	15,752	6,953	10,306
Financial items paid	23	–2,500	–124	–155	–2,442	–5
Cash flow from operating activities before changes in working capital		**–154,456**	**–143,204**	**–169,914**	**–155,259**	**–144,187**
Changes in working capital						
Changes in current operating receivables		359	–1,666	1,448	359	–1,666
Changes in accounts payable		–5,527	356	725	–5,527	356
Changes in other current operating liabilities		744	–2,410	–18,646	744	–2,410
Cash flow from operating activities		**–158,880**	**–146,924**	**–186,387**	**–159,683**	**–147,907**
Investing activities						
Investment in equipment		–1,985	–1,238	–3,798	–1,182	–255
Investments in other short-term investments		–191,399	–271,864	–249,509	–191,399	–271,864
Sale and redemption of other short-term investments		273,713	252,008	337,478	273,713	252,008
Cash flow from investing activities		**80,329**	**–21,094**	**84,171**	**81,132**	**–20,111**
Financing activities						
Proceeds from rights issues		325,134	150,241	-	325,134	150,241
Transaction costs rights issue (at year end paid part of total KSEK 34,208)		–268	-	-	–268	-
Cash flow from financing activities		**324,866**	**150,241**	**-**	**324,866**	**150,241**
CASH FLOW FOR THE YEAR		**246,315**	**–17,777**	**–102,216**	**246,315**	**–17,777**
Cash and cash equivalents at the beginning of the year	17	79,171	96,948	199,164	79,161	96,938
Cash and cash equivalents at the end of the year	17	325,486	79,171	96,948	325,476	79,161

Consolidated statement of changes in equity

GROUP KSEK	Share capital	Restricted reserves	Accumulated loss	Total
Balance at January 1, 2008	**58,059**	**675,045**	**–338,841**	**394,263**
Profit / loss for the year	-	-	–174,797	–174,797
Transactions with shareholders				
Employee stock option program				
- value of employee services	-	8	-	8
Total transactions with shareholders	**0**	**8**	**0**	**8**
Balance at January 1, 2009	**58,059**	**675,053**	**–513,638**	**219,474**
Profit / loss for the year	-	-	–154,556	–154,556
Transactions with shareholders				
Issuance of new shares (net after deduction of transaction related costs)	19,353	130,888	-	150,241
Total transactions with shareholders	**19,353**	**130,888**	**0**	**150,241**
Balance at January 1, 2010	**77,412**	**805,941**	**–668,194**	**215,159**
Profit / loss for the year	-	-	–163,537	–163,537
Transactions with shareholders				
Issuance of new shares (net after deduction of transaction related costs)	114,181	176,745	-	290,926
Total transactions with shareholders	**114,181**	**176,745**	**0**	**290,926**
Balance at December 31, 2010	**191,593**	**982,686**	**–831,731**	**342,548**

The Parent Company's statement of changes in equity

PARENT COMPANY KSEK	Share capital	Rights issue – ongoing	Restricted reserve	Non-restricted reserve	Accumulated loss	Loss for the year	Total
Amount at January 1, 2009	**58,059**	**0**	**172,210**	**367,808**	**–203,737**	**–174,594**	**219,746**
Profit / loss for the year	-	-	-	-	-	–154,560	–154,560
Transactions with shareholders							
Issuance of new shares (net after deduction of transaction related costs)	19,353	-	-	130,888	-	-	150,241
Treatment of loss	-	-	–10,523	–367,808	203,737	174,594	0
AMOUNT AT DECEMBER 31, 2009	**77,412**	**0**	**161,687**	**130,888**	**0**	**–154,560**	**215,427**
Profit / loss for the year	-	-	-	-	-	–163,466	–163,466
Transactions with shareholders							
Issuance of new shares (net after deduction of transaction related costs)	114,181	1,939	-	174,806	-	-	290,926
Treatment of loss	-	-	–23,672	–130,888	-	154,560	0
AMOUNT AT DECEMBER 31, 2010	**191,593**	**1,939**	**138,015**	**174,806**	**0**	**–163,466**	**342,887**

See note 18 for further information.

Accounting and valuation principles

THE GROUP

Statement of compliance

The consolidated financial statements 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 at fair value through profit and loss.

New accounting standards

A number of new or updated accounting standards and interpretations of existing standards are applicable for financial year beginning January 1, 2010. These are currently not relevant for Karo Bio but will be applied if and when they become applicable for the Group, and may impact the Group's future reporting of transactions and business events: IFRS 3 (revised) *Business combinations*, and related revisions of IAS 27 *Consolidated and separate financial statements*, IAS 28 *Investments in associates* and IAS 31 *Interests in joint ventures*.

As part of the IASB's annual improvement project, among others, IAS 1 *Presentation of financial statements*, IAS 34 *Interim financial reporting* and IFRS 7 *Financial instruments* are all revised as from January 1, 2011. These revisions have been applied retroactively by Karo Bio but do not have any material impact on the Group's financial reports.

There are a number of new or updated accounting standards, amendments and interpretations of existing standards that are applicable for financial years beginning after January 1, 2010, or will be applicable for financial years beginning January 1, 2011, or later, that are or may be relevant for Karo Bio, but have not been adopted early by the Group. In addition, there are certain accounting standards and interpretations that are not relevant to Karo Bio.

IFRS 9, *Financial Instruments*, handles the valuation and classification of financial instruments. The standard is valid for financial years commencing January 1, 2013 or later, and will be supplemented before it takes effect. Once the standard is complete, its influence on the Group's financial reports will be evaluated.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured 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 2009 and 2008, 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, the valuation of stock options issued to employees and the decision regarding expensing or capitalizing development costs. For further information, see accounting and valuation principles below and notes 9 and 27.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Karo Bio AB and its subsidiary as at December 31 each year. The financial statements of the subsidiary 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, generally as a consequence of a holding of shares that, directly or indirectly, provides the Parent Company with the control over more than 50 percent of the voting power. A subsidiary is included in the consolidated financial statements as of the date of the acquisition, being the day on which the Parent Company acquires a controlling influence, and until the date on which the controlling influence ceases.

Business combinations and goodwill

Business combinations are accounted for using 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 cost of an acquisition is measured as the fair value of the assets given, 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 measured initially at their fair value at 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 recorded 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. The shareholders' equity in the subsidiary is entirely eliminated upon acquisition. The Group's equity comprises the equity in the Parent Company and the 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 be impaired. Where the recoverable amount is less than the carrying amount, an impairment loss

is recognized. An asset's recoverable amount is the higher of an asset's fair value less costs to sell 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.

Upfront payments are received at the initiation of collaborations and are non-refundable. Upfront payments are recognized as revenue when no further obligations for receiving the upfront payment rest on Karo Bio.

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 period to which it refers.

Milestone payments are triggered when a certain result has been achieved or a certain event has occured, 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 that are not research and development collaborations can be either in the form of upfront payments or technology access fees which are recognized as revenue when the conditions for receiving them are fulfilled, or as license maintenance fees which are allocated over the duration of a specified license period.

Government grants 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 utilized. As Karo Bio has historically 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 taxation authority is included as part of receivables or payables in the balance sheet.

Intangible assets

Acquired intangible assets are recognized as assets in the balance sheet. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at 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 useful lives of all intangible assets of the Group have been assessed to be finite. Intangible assets with finite lives are amortized over the useful 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 useful lives 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 measure reliably 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.

Years	
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 available for sale financial assets. 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.

Derivatives
Derivatives are recognized on the trade day and measured at fair value both initially and on subsequent revaluations. The method of recognizing the gains or losses arising on revaluation depends on whether the derivative is identified as a hedging instrument, and, if so, the nature of the item being hedged.

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
Effective January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value according to the following fair value measurement hierarchy:

- 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 libility, 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 occuring market transactions on an arm's length basis. See also 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.

Interest bearing loans and borrowings
All loans and borrowings are initially recognized at the fair value of the consideration less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are carried at amortized cost using the effective interest method. Gains and losses are recognized in net profit or loss when the liabilities are derecognized. Borrowing cost, including arrangement fees, are recognized as an expense in the income statement in the period to which they relate.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) 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 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
Employees in Sweden are entitled to retirement and family pension benefits in accordance with the nationwide ITP Plan. Commitments for these pensions are secured through an insurance arrangement with Alecta Pension Insurance (Alecta). In accordance with an announcement (UFR 3) from the Swedish Financial Reporting Council , this arrangement is considered a defined benefit multi-employer plan. Karo Bio has not had access to such information to facilitate reporting of the plan as a defined benefit plan. Consequently, the ITP plan that is secured through an insurance arrangement with Alecta is reported, in accordance with IAS 19 *Employee Benefits*, as a defined contribution plan. Under a defined contribution plan, fixed payments are made to an unaffiliated entity and thereafter no legal or constructive obligation exists to pay further contributions. Premiums for pension insurance written with Alecta are expensed in the year they relate to.

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

According to IFRS 2 *Share-based Payments*, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are allocated. The cost is recognized, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Karo Bio's best estimate of the number of equity instruments that will ultimately vest.

Karo Bio has issued stock options to employees that are outstanding under a stock option program, Program 2003, for which IFRS 2 applies. Program 2003 is considered an equity-settled payment transaction under IFRS 2, where the fair value of the options granted is recognized in the income statement as a payroll expense over the vesting period. The fair value of the options granted under Program 2003, determined as of the grant date, is based on a valuation performed by Ernst & Young. The Black-Scholes model for option pricing was used for the valuation. The program's vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Karo Bio recognizes the impact of revisions of original estimates, if any, in the income statement, and a corresponding entry to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to equity when options are exercised.

Any dilutive effect of outstanding employee stock options is reflected in the number of fully diluted shares.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Karo Bio'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 *Accounting for legal entities*. The Parent Company's accounting and valuation principles are the same as the Group's with the exception for leasing. All leasing contracts are reported as operating leases in the Parent Company.

Notes

NOTE 1 NET SALES

No net sales were reported for 2010. Net sales in 2009 consist of research payments for collaborations. Net sales for 2008 consist of research payments for collaborations and a license fee of MSEK 3.7 from the outlisencing of specific patent rights.

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.

AVERAGE NUMBER OF EMPLOYEES	2010		2009		2008	
	Number of employees	Men	Number of employees	Men	Number of employees	Men
Huddinge, Sweden	68	34	67	33	63	32
Total	**68**	**34**	**67**	**33**	**63**	**32**

WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES	2010		2009		2008	
	Wages, salaries and other remuneration	Social security expenses (of which pension costs)	Wages, salaries and other remuneration	Social security expenses (of which pension costs)	Wages, salaries and other remuneration	Social security expenses (of which pension costs)
Board and Presidents	4,715	2,072	4,980	1,908	4,493	1,839
		(492)		(380)		(414)
Other employees	41,229	23,278	41,648	22,897	38,869	21,225
		(7,869)		(7,872)		(7,444)
Total	**45,944**	**25,350**	**46,628**	**24,805**	**43,362**	**23,064**
		(8,361)		**(8,252)**		**(7,858)**

Of wages, salaries and other remuneration, KSEK 3,474 (3,821 and 3,084, respectively) refers to the President. The amount for 2010 consists of KSEK 1,099 regarding the former President Per Olof Wallström who left the Company on April 23, 2010 and of KSEK 2,375 regarding the current President Fredrik Lindgren who assumed the position on April 27, 2010.

LEAVE OF ABSENCE DUE TO ILLNESS January 1–December 31	2010	2009	2008
Leave of absence due to illness, total	1.4%	1.5%	1.1%
where of long-term illness (60 days or more)	0.3%	0.3%	0.3%
Leave of absence due to illness			
men	0.7%	1.0%	0.6%
women	2.1%	2.0%	1.6%
Leave of absence due to illness, employees			
under 30 years of age	-	-	-
30–50 years of age	1.4%	1.7%	1.2%
over 50 years of age	0.9%	0.5%	0.3%

Information has been intentionally omitted in cases where a group of employees is too small for disclosure in accordance with the Swedish Annual Accounts Act.

REMUNERATION TO BOARD MEMBERS

The Board consists of five Board members whereof two women, elected by the annual general meeting and two Board members with one deputy appointed by employee organizations.

The Chairman of the Board receives annual remuneration of KSEK 495. Each Board member who is not paid as an employee or consultant by the company receives KSEK 180 based on the decision at the 2010 annual general meeting. In 2010, a total of KSEK 1,215 (1,080 and 1,305, respectively) was paid in Board members' fees. Board members are reimbursed for direct expenses such as travel costs. The 2010 AGM decided on a sum of KSEK 120 for committee work performed in 2010. After the 2010 AGM, all committee work has been carried out by the Board in its entirety. Consequently, the Board believes that the fee adopted by the AGM should be divided equally among the board members, with the exception of the chairman, who will not receive any remuneration for committee work. The Board has therefore decided to submit this for the AGM's approval on April 27, 2011. No part of the KSEK 120 fee has been expensed. The expensed committee fees in 2010 of KSEK 26 consist of fees fallen due that were approved by the AGM 2009.

No other compensation has been expensed or paid to board members or companies owned by them in 2010. Two Board members have performed certain consulting services to Karo Bio in 2010 outside normal board procedures, including data analysis and advice in preclinical projects as well as services provided in connection with recruitment of a new Chief Executive Officer, representing a total billing value of KSEK 320. Because compensation for such consultancy services carried out by Board members is not covered by the guidelines for remuneration of senior executives adopted by the AGM 2010, the Board has decided to submit this to the AGM for approval on April 27, 2011. Total expensed compensation for 2010 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 as of the AGM held on April 23, 2010, the full Board will carry out the tasks that are to be performed by the compensation committee. Thus, since then the Board handles all issues related to remuneration of the executive management. During the first part of 2010, when there was a separate remuneration committee, the committee prepared remuneration issues for resolution by the Board and a number of less important remuneration issues were resolved. The Board handles all policy decisions regarding remuneration of executive management and resolves all issues regarding the salary of the CEO.

The guidelines for remuneration of the executive management adopted by the AGM 2010, as well as the Board's proposal for guidelines to be adopted by the AGM 2011, are included in the Administration Report. Below is a description of the application of the guidelines in 2010.

Members of executive management are paid a fixed monthly salary and, except for the CEO, participate in an incentive bonus program. The program is based on achievement of goals set by the compensation committee. Maximum bonus for the individuals covered by the program is 40 percent of their annual base salary, with the requirement on the recipient to invest the net amount after tax of the portion of the bonus payment that exceeds 20 percent of the annual salary in Karo Bio shares in the market. The monetary information below regarding bonus represents the bonus for 2010, which is paid out in 2011. Other benefits provided to executive management are company cars and health care insurance. 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 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 1,533.

Executive management has also been eligible to participate in company-wide share-based incentive programs. At December 31, 2010, the President and CEO Fredrik Lindgren held no employee stock options in Karo Bio. Other members of executive management held employee stock options representing in total 11,768 (11,768 and 24,916, respectively) shares. No allocation was made during 2010. See Note 27 Stock Option Programs for further information.

At year-end 2010, the executive management consisted of four (six) persons, whereof two (four) women, in addition to the CEO; Anneli Hällgren, Chief Scientific Officer and VP Preclinical Research and Development; Erika Söderberg Johnson, Chief Financial Officer and VP Finance, Investor Relations and Human Resources; Jens Kristensen, Chief Medical Officer and VP Clinical Development and Regulatory Affairs and Lars Öhman, VP Business Development. The former President Per Olof Wallström and Director Human Resources Berit Edlund left the company in 2010. Elisabet Kallin, employed by Karo Bio since 2003, was from January 2009 to January 2010 acting Head of Chemical & Pharmaceutical Sciences. From February 1, 2010, that position was eliminated and Anneli Hällgren is responsible for all preclinical research and development.

AGREEMENTS REGARDING SEVERANCE PAY

The President has a notice period of six months and is entitled to 12 months salary as severance pay if employment is terminated by the company. The employment contract contains a non-compete clause and consequently, if the CEO, upon termination of employment on his initiative, incurs loss of income due to the non-compete provision, is entitled to compensation for a maximum of 60 percent of his monthly salary for up to 12 months. Other members of executive management have a notice period of six months and are entitled to severance pay of up to 12 months salary.

TRANSACTIONS WITH RELATED PARTIES

Karo Bio has not granted any loans, guaranties, 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.

Professor Jan-Åke Gustafsson, who was a deputy Board member of Karo Bio until and including the 2007 annual general meeting, has previously been active at the department of Biosciences and Nutrition at Karolinska Institutet, with which Karo Bio had a research collaboration. Prof. Gustafsson also provides scientific consulting services for the company. Prof. Gustafsson has received no Board fee, but for his consultancy services Karo Bio has paid a total of KSEK 500 (500 and 552, respectively). Prof. Gustafsson did not participate in Karo Bio's preparations of or decisions regarding financial terms in such collaborations. In 2005, following the receipt of anonymous information, the Public Prosecutors' Authority initiated an investigation into suspected taking of bribes and bribery concerning Prof. Gustafsson and the company. As part of the investigation, information has been obtained from company representatives and through a search of the company's premises in May 2006. Following, amongst other things, consultations with legal expertise, the Board is of the opinion that the service relationship that subsists does not contravene the rules of bribery. The investigation was shut down April 15, 2010.

In connection with Karo Bio's rights issue in 2009, a number of guarantors entered into underwriting agreements with the company and its advisor ABG Sundal Collier. One of the underwriters was the Board member and shareholder Bo Håkansson, through his company Farstorp Invest AB. For these guarantee undertakings, a fee of 5 percent on the guaranteed amount was paid.

IsoSep AB, a company that is owned by Elisabet Kallin and her husband, and in which Elisabet Kallin is deputy board member, has since 2005, on market terms, performed certain work related to synthesis and analysis of chemical compositions on behalf of Karo Bio. Since 2006, Karo Bio has paid consultancy fees of in total KSEK 1,380 to IsoSep AB.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR TO THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT KSEK	Board remuneration/ Base salary	Variable salary	Other benefits	Share-based compensation	Other remuneration	Pension expense	Total
Board of Directors							
Leon E. Rosenberg (chairman through the AGM 2010)	129	-	-	-	-	-	129
Bo Håkansson (chairman after the AGM 2010)	421	-	-	-	-	-	421
Birgit Stattin Norinder	184	-	-	-	-	-	184
Johan Kördel	185	-	-	-	-	-	185
Jon Risfelt	187	-	-	-	-	-	187
Margaret von Platen (elected at AGM 2010)	135	-	-	-	-	-	135
Executive management							
Per Olof Wallström, President until April 23, 2010	1,099	-	41	-	-	104	1,244
Fredrik Lindgren, President from April 27, 2010	2,375	-	42	-	-	388	2,805
Other members of Executive Management (5 persons)*	6,955	500	284	-	709	2,149	10,597
Total	**11,670**	**500**	**367**	**-**	**709**	**2,641**	**15,887**

* The number of persons and the amounts include Berit Edlund who left the Company in 2010

Comments on the table:
- When applicable, board remuneration includes expensed remuneration for Audit Committee and Compensation Committee work.
- Variable salary was expensed in 2010, but settled in cash in 2011.
- 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 valution principles* and note 3 for further disclosures concerning the terms and conditions of pension benefits.
- Share-based compensation refers to the expense that affected earnings as recognized in accordance with IFRS 2 for the year.

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 2,101 (1,932 and 1,457, respectively) for the year and premiums to other pension institutions under the ITP plan total KSEK 6,259 (6,320 and 6,401, 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 percent (141 and 112, 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	
	2010	2009	2008	2010	2009
Depreciation	–2,930	–3,655	–5,025	–2,055	–2,676
Personnel costs	–72,127	–72,664	–67,011	–72,127	–72,664
Facilities costs	–9,997	–10,310	–10,565	–9,997	–10,310
External costs	–77,197	–76,728	–115,427	–78,058	–77,830
Other operating income and expenses	412	343	–3,372	412	343
	–161,839	**–163,014**	**–201,400**	**–161,825**	**–163,137**

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	
		2010	2009	2008	2010	2009
Function						
Administrative expenses		349	344	470	349	344
Research and development expenses		2,581	3,311	4,555	1,706	2,332
		2,930	**3,655**	**5,025**	**2,055**	**2,676**
Type of asset						
Licenses	12	545	1,153	1,153	545	1,153
Equipment	13	2,385	2,502	3,872	1,510	1,523
		2,930	**3,655**	**5,025**	**2,055**	**2,676**

NOTE 6 OTHER OPERATING INCOME AND EXPENSES

	Group			Parent Company	
	2010	2009	2008	2010	2009
Exchange gains and losses, net	412	334	–572	412	334
Government grants within the European Commission's 6th Framework Program	-	-	871	-	-
Strategy related projects	-	-	–3,747	-	-
Other	-	9	76	-	9
	412	**343**	**–3,372**	**412**	**343**

NOTE 7 INTEREST INCOME AND OTHER SIMILAR INCOME

	Group			Parent Company	
	2010	2009	2008	2010	2009
Interest income, capital gains/losses and dividends from short-term investments	1,098	3,928	14,905	1,098	3,928
Fair value gains and losses	–296	–1,237	1,164	–296	–1,237
	802	**2,691**	**16,069**	**802**	**2,691**

NOTE 8 INTEREST EXPENSE AND OTHER SIMILAR EXPENSES

Interest expense and other similar expenses amounted to KSEK 2,500 (124 and 155, respectively) for the Group. Of the amount for 2010, KSEK 2,440 was an upfront payment of 1% of the Equity Credit Facility (ECF) agreement that the Company entered into in 2010. Since the utilization of the ECF is conditional upon future resolutions of general meetings, this upfront payment is accounted for as a financial expense in the income statement. The remaining part of KSEK 60 as well as the reported numbers for the comparative years, consist of interest charges on banking accounts and financial leasing (see also note 20). Also for the Parent Company KSEK 2,440 is an upfront payment of the ECF agreement while the remaining amount of KSEK 3 (5) is interest charges on banking accounts.

NOTE 9 TAXES

Since the company is reporting losses 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 1,909 (1,712 and 1,541, respectively). There is no statutory time limit for Swedish companies to utilize tax losses.

RECONCILIATION BETWEEN ACTUAL AND NOMINAL TAX	Group			Parent Company	
	2010	2009	2008	2010	2009
Reported loss before tax	–163,537	–154,556	–174,797	–163,466	–154,560
Tax at nominal tax rate 26,3% (28,0% and 28,0%, respectively)	43,010	40,648	48,943	42,991	40,649
Tax effect from deductible items not recorded as expenses	8,997	4,260	-	8,997	4,260
Tax effect from other non-deductible items	–62	–53	–61	–62	–53
Tax effect of losses for which no deferred tax assets are recognized	–51,945	–44,855	–48,882	–51,926	–44,856
Tax on reported loss	**0**	**0**	**0**	**0**	**0**

NOTE 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 2008–2010. Per share data is calculated based on the following number of shares.

NUMBER OF SHARES OUTSTANDING (000)	2010	2009	2008
Weighted-average during the year	242,334	197,464	195,693
At year-end	387,064	238,199	195,693

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-on 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	
	2010	2009	2008	2010	2009
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	–33,234	–32,081	–30,928	–74,174	–73,021
Depreciation for the year	–545	–1,153	–1,153	–545	–1,153
Closing balance accumulated amortization	**–33,779**	**–33,234**	**–32,081**	**–74,719**	**–74,174**
Net book value	**0**	**545**	**1,698**	**0**	**545**

NOTE 13 EQUIPMENT

	Group			Parent Company	
	2010	2009	2008	2010	2009
Opening balance acquisition cost	75,703	88,497	83,228	67,563	80,357
Acquisitions	1,182	255	6,125	1,182	255
Sales and discards	–39	–13,049	–856	–39	–13,049
Closing balance acquisition cost	**76,846**	**75,703**	**88,497**	**68,706**	**67,563**
Opening balance depreciation	–69,915	–80,418	–77,344	–63,670	–75,150
Sales and discards	–2,385	13,003	798	–1,511	13,003
Depreciation for the year	39	–2,500	–3,872	39	–1,523
Closing balance accumulated depreciation	**–72,261**	**–69,915**	**–80,418**	**–65,142**	**–63,670**
Net book value	**4,585**	**5,788**	**8,079**	**3,564**	**3,893**

Laboratory equipment with a carrying value of KSEK 1,020 (1,894 and 2,873, respectively) in the Group is financed through capital leases.

NOTE 14 PARTICIPATIONS IN GROUP COMPANIES

	Parent Company	
	2010	2009
Opening balance acquisition cost	4,350	4,350
Closing balance acquisition cost	**4,350**	**4,350**
Opening balance write-downs	–4,250	–4,250
Closing balance accumulated write-downs	**–4,250**	**–4,250**
Net book value	**100**	**100**

Subsidiaries	Domicile	Reg.no.	Holding	No. of shares	Book value
Karo Bio Research AB	Huddinge, Sweden	556588-3641	100%	1,000	100
					100

NOTE 15 PREPAID EXPENSES AND ACCRUED INCOME

	Group			Parent Company	
At December 31	2010	2009	2008	2010	2009
Prepaid rent	1,985	2,041	2,100	1,985	2,041
Prepaid insurance	641	671	388	641	671
Prepaid licenses and other IT-related costs	1,291	836	1,008	1,291	836
Other	2,295	824	1,047	2,295	824
	6,212	**4,372**	**4,543**	**6,212**	**4,372**

NOTE 16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss was earlier named Other short-term investments and 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	
At December 31	2010	2009	2008	2010	2009
Short-term investments with maturities of less than 90 days	-	49,989	69,796	-	49,989
Cash and bank balances	325,486	29,182	27,152	325,476	29,172
Liquid assets	**325,486**	**79,171**	**96,948**	**325,476**	**79,161**

NOTE 18 SHAREHOLDERS' EQUITY

Share capital consists of 387,063,972 shares (154,825,589 and 116,119,192, respectively) with a par value of SEK 0.50 (0.50 and 0.50, respectively), whereof 383,186,644 registered and 3,877,328 at that point of time not yet registered with the Swedish Companies registration Office, Bolagsverket. In 2010 a new share issue with preferential rights to existing shareholders was carried out, resulting in 232,238,383 new shares and an increase in share capital of KSEK 116,120 (whereof KSEK 114,181 regarding shares registered 2010 and KSEK 1,939 regarding shares registered in January 2011) to KSEK 193,532 (whereof KSEK 191,593 was registered at the end of 2010 och KSEK 1,939 was registered in January 2011). In total, the rights issue generated KSEK 290,926 net of transaction costs amounting to KSEK 34,208. In 2009 a new share issue with preferential rights to existing shareholders was carried out, resulting in 38,706,397 new shares and an increase in share capital of KSEK 19,353 to KSEK 77,413. In total, the rights issue generated KSEK 150,241 net of transaction costs amounting to KSEK 16,196.

At year-end, warrants representing 732,640 shares were outstanding relating to an employee stock option program impremented in 2003. No warrants were exercised during 2008, 2009 or 2010. In addition, there were warrants representing 7,100,000 shares outstanding from the 2010 warrant incentive program resolved at the annual general meeting 2010. The Board of Directors has since then decided that the further transfer in accordance with the 2010 warrant program shall not take place. The number of warrants are adjusted for effects from rights issues according to the terms and conditions for each program respectively.

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 27, 2011, that no dividend shall be paid for the financial year 2010.

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.

NOTE 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		
At December 31	2010	2009	2008
Within one year	889	889	1,123
Later than one but within five years	470	1,273	2,022
Later than five years	-	-	-
	1,359	**2,162**	**3,145**

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 63 (57 and 64, respectively). Capital lease contracts entered into during the year amounted to KSEK – (– and 3,497, respectively). The capital lease contracts pertain to laboratory equipment with a carrying value of KSEK 1,020 (1,894 and 2,873 , respectively).

The interest rate in the 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	
At December 31	2010	2009	2008	2010	2009
Accrued employee related expenses	9,454	11,111	10,035	9,454	11,111
Deferred income	-	-	1,428	-	-
Accrued research and development expenses	5,540	4,709	7,895	5,540	4,709
Other	3,520	2,086	891	3,520	2,086
	18,514	**17,906**	**20,249**	**18,514**	**17,906**

NOTE 22 CONTINGENT LIABILITIES

Between 1995 and 1997, the Swedish Industrial Development Fund "Industrifonden" provided MSEK 24 to co-finance Karo Bio's research and development of pharmaceutical compounds for the treatment of dyslipidemia. The amount received was recorded as revenue during this period. This amount including interest (diskonto plus 6% per annum) is to be repaid by royalties of up to 15 % of Karo Bio's revenues from the thyroid hormone projects (including eprotirome) up to and including 2010. Following full repayment, reduced royalties of 7 % shall be paid on revenues from this area up to and including December 31, 2010. The amount reported as a contingent liability is the amount recorded as revenue plus accrued interest after deduction of royalties expensed. Karo Bio's obligations to pay any amount under this agreement ceased at the end of December 31, 2010.

Despite the absence of active projects, 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 the collaboation that has concluded or a compound that has been surrendered. Regarding the agreement with Bristol-Myers Squibb and the compound KB2115 (eportirome), 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 drug 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 furure revenue in this area. Another agreement gives the counterparty the right to royalty payments of 5% attributable to Karo Bio's future revenue from certain indications within the GR area.

NOTE 23 ADDITIONAL INFORMATION CASH FLOW STATEMENTS

	Group			Parent Company	
	2010	2009	2008	2010	2009
Interest received	3,285	7,424	11,628	3,285	7,424
Interest paid	–2,443	–5	–14	– 2,443	–5
Income taxes paid	-	-	-	-	-

NOTE 24 OPERATING LEASES

Leasing costs for the year amounted to KSEK 7,351 (8,246 and 8,072, respectively) for the Group and KSEK 8,211 (8,484) for the Parent Company. Future minimum lease payments on non-cancelable lease contracts fall due as follows. Most contracts have lease payments that are either linked to inflation or based on flexible interest rates. The leasing agreements relate to laboratory and office space, laboratory equipment and cars.

	Group			Parent Company	
At December 31	2010	2009	2008	2010	2009
Within one year	6,786	7,182	7,415	7,657	8,037
Later than one but within five years	11,792	19,127	12,841	12,010	20,040
Later than five years	-	-	-	-	-
	18,578	**26,309**	**20,256**	**19,667**	**28,077**

NOTE 25 INTER-COMPANY PURCHASES AND SALES

Karo Bio AB did not purchase any services from subsidiaries in 2010, 2009 or 2008.

NOTE 26 REMUNERATION TO AUDITORS

	Group			Parent Company	
	2010	2009	2008	2010	2009
PricewaterhouseCoopers					
Auditing comission	328	365	441	328	365
Auditing in addition to the audit comission	210	200	17	210	200
Tax guidance	-	-	32	-	-
Other assignments	50	-	1,156	50	-
	588	**565**	**1,646**	**588**	**565**

NOTE 27 STOCK OPTION PROGRAMS

WARRANT INCENTIVE PROGRAM 2010

The annual general meeting 2010 approved a warrant incentive program for executive management. The Board has since decided not to pursue the program, why no allocation of warrants under the program has been made. The program originally comprised warrants representing 5,000,000 shares, which, following adjustment for effects of the rights issue in 2010 in accordance with the terms and conditions for this program correspond to 7,100,000 shares. The warrants are issued to the wholly-owned subsidiary Karo Bio Research AB.

PROGRAM 2003

At year-end 2010, Karo Bio had warrants representing 732,640 shares outstanding referring to an employee stock option program introduced in accordance with a resolution at the annual general meeting in April 2003 (Program 2003). The program is an employee stock option program settled with shares in Karo Bio AB and cover permanent employees of Karo Bio. On April 30, 2008, all remaining warrants outstanding regarding an earlier program (Program 2001), corresponding to 572,400 shares at year-end 2007, were forfeited.

The financial exposure from the stock option program is hedged by warrants issued to the wholly-owned subsidiary Karo Bio Research AB. A specified portion of the warrants is reserved to cover payroll taxes and other related costs and is transferred to a bank under separate agreements. The agreements stipulate for the bank to provide cash to facilitate payment of such payroll taxes and other related costs. Cash will be generated from the reserved lot of warrants, which are held by the bank.

The terms of the stock option program provide for adjustments of the exercise price and number of shares for each stock option if new shares are issued with preferential rights to shareholders. The figures below are adjusted accordingly, unless otherwise indicated.

The program originally involved 190,000 stock options, which at December 31, 2010, represent 577,600 shares. An additional 51,000 warrants representing 155,040 shares at December 31, 2010, are reserved to cover payroll taxes. Maximum allocation of stock options represents 60,800 shares to the President, 15,200 shares per person to executive management and key employees, and 6,080 shares per person to other employees.

Of the originally involved 190,000 stock options, 102,135 stock options, representing 310,490 shares at year-end 2010, were allocated to employees in 2004. Stock options representing 138,426 shares were outstanding at year-end.

The stock options in Program 2003 were issued in four series and at no cost to employees. The stock options have vested and become exercisable in one series per year over a four-year period until May 2008. Last date for exercise is in April 2011 for all series, provided continued employment. The exercise price is SEK 11.00, 12.10, 13.30 and 14.40 for each series, respectively.

Ernst & Young has been engaged to carry out a valuation of the stock options allocated. The valuation was made in accordance with IFRS 2 *Share-based Payments*. The Black-Scholes model for option pricing has been used for the valuation with the assumptions that there will be no dividend during the term of the program, an anticipated volatility of 50 percent (based on historically measured volatility in the share), the share price as of April 30, 2004, which was SEK 23.50, and a risk-free interest rate of 3.66%, 3.82% 4.09% och 4.20% for each series, respectively. Factual circumstances and expectations relevant to Karo Bio have been considered in accordance with the accounting standard, such as restrictions for exercise, vesting periods and expected life of stock options. Based on the foregoing, the fair value of the allocated stock options was MSEK 0.4 at the date of allocation. The valuation serves as the basis for financial reporting in accordance with IFRS 2 *Share-based payments*, to reflect the value of services employees provide.

EFFECT ON FINANCIAL STATEMENTS

The accounting principles for stock option programs are described in the section *Accounting and valuation principles* above. The cost charged to the income statement in 2010 for Program 2003 amounts to KSEK – (– and 8, respectively) with a corresponding entry to equity.

Any future exercise of stock options will have a positive effect on the company's financial position, as plan participants will provide cash payments to the company to exercise options in accordance with the exercise price. Additional costs occurring as an effect of the program, consisting primarily of payroll taxes levied upon exercise, will be covered by exercise of the additional warrants held by an external party. There will be no adverse effect on the company's financial position from the program, provided that the percentage at which payroll taxes are levied does not change significantly during the remainder of the exercise period.

INCREASE IN NUMBER OF SHARES

Exercise of all employee stock options outstanding under the plan at December 31, 2010, would lead to an increase of the number of shares by 0.05 percent, including warrants required to cover payroll taxes. The issued warrants would not imply dilution of earnings per share in 2008–2010, as a conversion to shares would lead to a decrease in the reported loss per share. The warrants issued as resolved at the AGM 2010, equivalent to 7,100,000 shares at December 31, 2010 would, fully allocated, represent an increase in the number of shares by 1.8 percent.

ALLOCATION OF STOCK OPTIONS (CORRESPONDING NUMBER OF SHARES)	2010	2009	2008
Outstanding at January 1	98,395	99,524	305,629 [1]
Allocated	-	-	-
Effect from rights issue	42,038	8,083	-
Exercised	-	-	-
Forfeited	–2,006	–9,212	–206,105 [2]
Outstanding at December 31	**138,427**	**98,395**	**99,524**
Whereof vested	138,427	98,395	99,524

1) whereof 126,071 relate to Program 2003 and the remainder to Program 2001 which expired in April 2008
2) whereof 26,546 relate to Program 2003 and the remainder to Program 2001 which expired in April 2008

WEIGHTED AVERAGE EXERCISE PRICE FOR STOCK OPTIONS SEK	2010	2009	2008
Outstanding at the beginning of the year	13	19	97
Effect from issuance of shares	10	18	-
Forfeited during the year	13	18	134
Exercised during the year	-	-	-
Outstanding at the end of the year	10	18	19
Exercisable at the end of the year	10	18	19

The weighted average remaining period for stock options outstanding at year-end was 0.3 years (1.3 and 2.3, respectively) with exercise prices ranging from SEK 11.00 to SEK 14.40.

NOTE 28 FINANCIAL INSTRUMENTS AND RISKS AND SENSITIVITY ANALYSIS

FINANCIAL INSTRUMENTS PER CATEGORY

Group KSEK	Debt and trade assets	Financial assets at fair value through profit or loss	Total
December 31, 2010			
Financial assets at fair value through profit or loss	-	69,548	69,548
Trade and other receivables (excluding interim receivables)	101	-	101
Cash and cash equivalents	325,486	-	325,486
Total	**325,587**	**69,548**	**395,135**
December 31, 2009			
Financial assets at fair value through profit or loss	-	158,013	158,013
Trade and other receivables (excluding interim receivables)	70	-	70
Cash and cash equivalents	79,171	-	79,171
Total	**79,241**	**158,013**	**237,254**
December 31, 2008			
Financial assets at fair value through profit or loss	-	145,773	145,773
Trade and other receivables (excluding interim receivables)	67	-	67
Cash and cash equivalents	96,948	-	96,948
Total	**97,015**	**145,773**	**242,788**

Karo Bio, like any other company engaged in business, is exposed to various risks varying from time to 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 RISK

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.
- Earnings are affected when the income statements of foreign subsidiaries are converted into Swedish kronor – translation risk.
- Shareholder's equity is affected when the balance sheets of foreign subsidiaries are converted into Swedish kronor – translation risk.

Operational currency risks

Karo Bio operates in an international industry. Most of the company's revenues have been denominated in US dollars and approximately 78 (75 and 74, respectively) percent of expenses are incurred in SEK. The remainder of Karo Bio's expenses is mainly denominated in euros, British pounds (GBP) and dollars (USD). This leads to an exposure to currency fluctuations, a combination of both translation and transaction risks. Karo Bio's reporting currency is SEK.

The table on the next page indicates the effect on Karo Bio's revenues and operating result, if the SEK strengthens by 10 percent. Both translation and transaction risks have been considered. The total effect on the operating result would be MSEK 3.5 (3.4 and 3.9, respectively).

The company's financial policy stipulates that Karo Bio should hedge transaction-related foreign exchange risk such that the net exposure in foreign currency from known (contracted or invoiced) outgoing and incoming payments for the upcoming three to twelwe months exceeding MSEK 5 should be hedged by 50–90%, and any gross exposure from known (contracted or invoiced) flows for the upcoming 13–36 months exceeding MSEK 5 should be hedged by 20–50%. Currency hedging is accomplished primarily through currency forward contracts.

There were no currency forward contracts at year-end 2010, 2009 or 2008, and the operating losses for these years have not been affected by any matured currency forward contracts.

Financial risks

Currency risks in financial flows related to liabilities and investments is reduced by making investments in SEK, unless an investment in 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' going concern. A recurring review of funding needs is carried out in combination with an assessment of capital market developments to evaluate financing strategies.

In addition to the financing currently at hand, the company in 2010 entered into an Equity Credit Facility ("ECF") agreement which, provided renewal of the authorization resolution at the general meetings to come, gives the company the right, but not the obligation, to issue shares to Azimuth Opportunity Ltd. corresponding to an additional USD 35 million (approximately MSEK 240) for the period until the end of 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 needs to sell. Liquidity risk is managed by structuring the maturities of investments based on cash flow forecasts and also limiting investments

in bonds with low liquidity on the second-hand market. Weighted remaining duration of short-term investments was 5 months (5 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 the 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 0.38 percent (0.43 and 0.26, respectively) or MSEK 0.3 (0.9 and 0.6, 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 issuer's risk and counterpart's risk. Issuer's risk is the risk that the securities, which Karo Bio has in its possession, 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 Karo Bio buys investments from or sells investments to cannot provide securities or make payment in accordance with what has been agreed.

The policy manages credit risk by regulating which parties Karo Bio can do business with and what credit ratings are re-acquired 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 measured in the balance sheet at fair value are traded in active markets, with readily and regularly available quoted market prices which represent actual and regularly occuring market transactions on an arm's length basis. Thus, these are according to IFRS 7 classified as level 1 in the fair value measurement hierarchy. The fair value of of Karo Bio's financial instruments measured at fair value through profit and loss, defined as the quoted price in the market, amounts to MSEK 70 (158 and 146, respectively). Book value corresponds to market value for other assets and liabilities.

CURRENCY EFFECT (MSEK)
Effect on consolidated revenues and operating result before hedging transactions if SEK strengthen by 10 percent.

Currency	Revenues	Operating result
USD	-	0.9
Euro	-	1.1
GBP	-	1.5
Other	-	0.0
Total	-	**3.5**

NOTE 29 SEGMENT INFORMATION

Based on the information reviewed and used by the executive management team as the basis for making strategic decisions, Karo Bio's business comprises one single operational segment, namely drug research and development. When assessing the business operations and in strategic discussions, no further break-down of the business in segments is made. The development of Karo Bio's drug discovery and development projects is an integrated process coordinated by project managers who report to the executive management.

Various parts of the organization are involved in various degrees in this process at the different stages of the development process. The project managers compile budgets for their respective projects containing direct costs for the project as well as internal resource spending and timelines for the project activities. The executive management team evaluates the project budgets and follows up the expenses and timelines of each budget on a regular basis. The table below shows revenues and non-current assets by geographical area.

	Group		
KSEK	2010	2009	2008
Revenues			
Sweden	-	-	-
Rest of Europe	-	-	3,741
USA	-	5,891	6,948
	-	**5,891**	**10,689**
Non-current assets			
Sweden	4,585	6,332	9,777
Rest of Europe	-	-	-
USA	-	-	-
	4,585	**6,332**	**9,777**

All reported revenue for 2009 concern research payments from one single collaboration partner.

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 disclosed in note 2 regarding remuneration to members of the Board and executive management.

NOTE 31 EVENTS AFTER THE BALANCE SHEET DATE

In March 2011, Karo Bio announced a one year extension of the research collaboration with Zydus Cadila on glucocorticoid receptors and anti-inflammatory drugs.

The Board of Directors and the President 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 of 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 Aprl 27, 2011 for adoption.

HUDDINGE MARCH 22, 2011

Fredrik Lindgren
President and CEO

Bo Håkansson
Chairman

Johan Kördel
Board member

Jon Risfelt
Board member

Margaret von Platen
Board member

Birgit Stattin Norinder
Board member

Bo Carlsson
Board member
(employee representative)

Johnny Sandberg
Board member
(employee representative)

OUR AUDIT REPORT WAS ISSUED MARCH 22, 2011

PricewaterhouseCoopers AB

Håkan Malmström
Authorized Public Accountant

Audit Report

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF KARO BIO AB (PUBL)
CORPORATE IDENTITY NUMBER 556309-3359

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Karo Bio AB (publ) for the year 2010. The company's annual accounts and the consolidated accounts are included in the printed version on pages 16-42. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member 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 our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company as well as the income statement and the statement of financial position be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm March 22, 2011
PricewaterhouseCoopers AB

Håkan Malmström
Authorized Public Accountant

Corporate Governance Report

INTRODUCTION

Karo Bio AB was formed in 1987 and has developed from being a research company to its current position of being a pharmaceutical discovery and development company. The Group consists of the Parent Company, Karo Bio AB, and the subsidiary, Karo Bio Research AB. The subsidiary conducts no operations.

The Board of Directors of Karo Bio hereby submits the corporate governance report for 2010, compliant with the Annual Reports Act (ÅRL 6 kap 6 §) and the Swedish Code of Corporate Governance (" the Code") (available at www.corporategovernanceboard.se), which has been applied by Karo Bio since July 1, 2008. No deviation from the Code was made by the company in 2010. The corporate governance report has been examined by the company's auditor, in accordance with the Annual Reports Act. It does not constitute a portion of the formal annual report documentation.

SHAREHOLDERS

Karo Bio AB's shares have been listed on the NASDAQ OMX Stockholm exchange since 1998. Each share carries entitlement to one vote and carries the same right to share in the company's assets and profits.

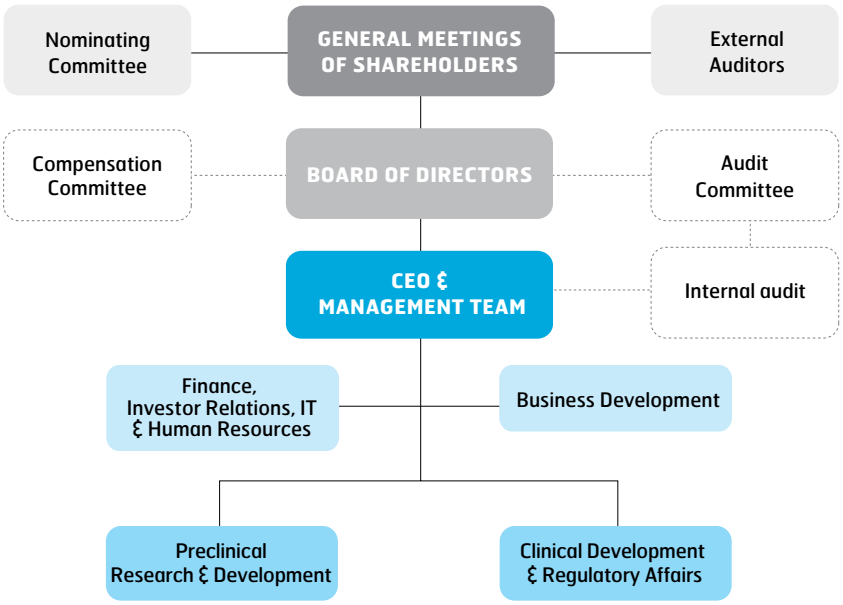
As per December 31, 2010, the number of shareholders amounted to 12,259 (12,874). According to the shareholder list provided by Euroclear Sweden AB as per December 31, 2010, with adjustments for shares then unregistered by Euroclear following the rights issue which was completed in December 2010, JP Morgan Bank had accumulated shareholdings of 8.4 percent, Avanza Pension 8.0 procent, and Friends Provident International 5.0 percent, respectively. A proportion of 0.4 (39) percent of shareholders held 1,000 shares or fewer. The ten largest shareholders owned 35 (28) percent of the total number of shares. The proportion of foreign shareholders amounted to 31 (19) percent.

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 which could possibly limit the transferability of shares. No single shareholder controls more than 10 percent 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.

KARO BIO'S CORPORATE GOVERNANCE MODEL

The chart below illustrates Karo Bio's corporate governance model and the manner in which the central bodies interact.



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 President 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 OMX Stockholm's Rule Book for Issuers
- Swedish Code of Corporate Governance

INFORMATION REGARDING OUTSTANDING SHARES IN KARO BIO

At December 31, 2010, the company had a total of 387,063,972 shares (of which 383,186,644 shares were registered and 3,877,328 shares at that time were still unregistered with the Swedish Companies Registration Office) with a par value of SEK 0.50. Each share carries entitlement to one vote and carries the same right to share in the company's assets and profits.

On November 24, 2010, shareholders at an extraordinary general meeting authorized the Board to issue shares within the framework of an Equity Credit Facility (ECF) which, subject to approval by future shareholders' meetings, gives the company the right, but not the obligation, to issue shares equivalent to MUSD 35, approx MSEK 240, Azimuth Opportunity Ltd. (Azimuth) through 2013.

GENERAL MEETING OF SHAREHOLDERS

The highest decision-making body is the general meeting of shareholders, where the shareholders exercise their influence in the company. Each share is associated with one vote. 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 via notices in the press and via 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, the shareholders vote on proposed resolutions regarding such matters as the election of the 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 President for the last 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 President and other members of executive management.

2010 Annual general meeting

At the annual general meeting in 2010, the Board of Directors presented a report detailing its work during the year, together with general corporate governance issues. The President informed the annual general meeting of the Group's development and financial position, and commented on the results of operations for 2009. The annual general meeting approved the annual report and consolidated financial statements for 2009, as prepared by the Board of Directors and the President, resolved on the treatment of the company's loss and discharged the members of the Board and President from liability. The general meeting resolved that no dividend would be paid.

Furthermore, the chairman of the Nomination Committee presented an account of the Committee's work for the year, together with a justification for the proposal submitted. The meeting resolved to pay remuneration to the Board and auditors in accordance with the proposal of the Nomination Committee. Bo Håkansson (also elected Chairman of the Board), Johan Kördel, Jon Risfelt, and Birgit Stattin Norinder were reelected as Directors, and Margaret von Platen was elected as a new member of the Board. Leon E. Rosenberg, who joined the Board in 2000 and served as Board Chairman since 2007, declined re-election and stepped down from the Board.

No election of auditor was carried out, as at the 2007 annual general meeting, the company's auditor, PricewaterhouseCoopers AB, was elected for a mandate period of four years, until the 2011 annual general meeting. The meeting was informed the auditor in charge since the 2008 annual general meeting was Håkan Malmström.

Board members Bo Håkansson, Johan Kördel, Jon Risfelt and Birgit Stattin Norinder, the auditor in charge and the chairman of the nomination committee were present at the 2010 annual general meeting. The minutes of the annual general meeting are available at Karo Bio's website (www.karobio.com).

2010 Extraordinary general meeting

On November 24, 2010, an extraordinary general meeting was held, at which the Board of Directors' decision on a new issue of shares with pre-emptive rights for shareholders, a proposal for a financing contract through an Equity Credit Facility, a proposal to give the Board of Directors authority to decide upon issues of new shares, and proposals for changes to the Articles of Association regarding the limits upon share capital and number of shares, the eventual location of general meetings, and the means of notice for a general meeting, were all approved. The minutes of the extraordinary general meeting are available at Karo Bio's website (www.karobio.com).

NOMINATION COMMITTEE

At the 2010 annual general meeting, it was resolved that the four largest shareholders per August 31, 2010 shall appoint one representative each who is not a Board member, to form the Nomination Committee in respect of the 2011 annual general meeting, together with the Chairman of the Board. These representatives shall be appointed and publicly announced no later than six months before the 2011 annual general meeting. The Nomination Committee shall appoint a chairman internally. However, the Chairman of the Board may not be Chairman of the Nomination Committee. In the event that a shareholder declines participation or leaves the Nomination Committee before its work is completed, the right to appoint a representative will devolve to the next largest shareholder not represented in the Nomination Committee. In the event that significant changes take place in the ownership structure after the formation of the Nomination Committee, the composition of the Nomination Committee

shall also be changed in accordance with the principles above.

The Nomination Committee shall develop proposals for presentation to the annual general meeting for adoption as regards the chairman of the meeting, Chairman and other members of the Board of Directors, fees to the Board of Directors, fees to and election of auditor (where applicable) and principles for the appointment of the Nomination Committee. The Nomination Committee's mandate period runs until the appointment of a new Nomination Committee in accordance with the resolution of the annual general meeting regarding the principles for appointment of the Nomination Committee. To the extent it deems necessary, and at the company's expense, the Nomination Committee shall have the right to engage other resources such as external consultants within the framework of its assignment.

The Nomination Committee for the 2011 annual general meeting consists of Bengt Belfrage (Nordea Fonder), chairman, Thomas Josefsson (Borås Postorder), Adam Bruce (Carlbergssjön AB), Mikael Lönn (own mandate), and Bo Håkansson, Chairman of the Board of Karo Bio. The composition of the Nomination Committee was announced on October 26, 2010, in conjunction with the interim report for the period January to September 2010. Shareholders may submit proposals to the Nomination Committee at the address *Valberedningen, Karo Bio AB, Novum, 141 57 Huddinge, Sweden.*

PRESIDENT AND CEO

FREDRIK LINDGREN (1971)
Bjärred, Sweden
Employed by Karo Bio since 2010
Education: Law degree from Lund University, basic university studies in philosophy and administration, Financial Analyst graduate Stockholm School of Economics.
Primary experience: Responsible since early 1990s for strategic company processes such as reconstructions, acquisitions, capitalizations within, among others, the biotech sector. Previous employers include Active Biotech AB, Meaning Green AB, Midelfart Sonesson AB and Biolin Scientific AB.
Other assignments: Board member of Genovis AB, Mecena and ProstaLund AB
Shares in Karo Bio AB: 1,250,000

BOARD MEMBERS

BO HÅKANSSON (1946),
Eslöv, Sweden
Board member since 2009. Chairman since 2010.
Education: Degree in Economics and Business Administration, and Med Dr h.c., Lund University
Primary experience: Self employed since 1970. Positions as CEO, board member or chairman in various listed companies since 1986, including Wihlborgs Fastigheter AB, Active Biotech AB, Midelfart Sonesson AB and ACAP Invest AB. Founder of Hansa Medical AB, Active Biotech AB and ACAP Invest AB.
Other assignments: Chairman of Exini Diagnostics AB and Hansa Medical AB. Board member in Farstorps Gård AB, Farstorps Invest AB and POC Sweden AB. Deputy board member in Cartela R&D AB.
Shares in Karo Bio: 11,949,531
Independent board member

JOHAN KÖRDEL (1962)
Malmö, Sweden
Board member since 2009
Education and title: M.Sc., and PhD in physical chemistry and Associate Professor, Lund University
Primary experience: Extensive experience from leading positions in research and business development in international pharmaceutical and biotechnology companies, primarily at Pharmacia and Biovitrum.
Other assignments: Chairman and President in Chori Pars AB. Board member in EQL Pharma AB.
Shares in Karo Bio: 33,335
Independent board member

MARGARET VON PLATEN (1959)
Stockholm, Sweden
Board member since 2010
Primary education: B.Soc. Sc., Uppsala University and MBA, Columbia Business School.
Primary experience: Former board member in Nordstjernan AB and Världsnaturfondens Allemansfond.
Other assignments: None
Shares in Karo Bio: None
Independent board member

JON RISFELT (1961)
Täby, Sweden
Board member since 2009
Education: M.Sc. Chemical Technology, Royal Institute of Technology, Stockholm
Primary experience: Full-time board member in various companies. Prior operative senior positions include Ericsson, SAS, American Express, Nyman & Schultz (CEO), Europolitan and Vodafone Sverige (CEO) and Gambro Renal (CEO).
Other assignments: Chairman in Ortivus AB, C3 Technologies AB and Mawell Oy. Board member in TeliaSonera AB, Bilia AB, ÅF AB, Braganza AS, Vanna AB, Ticket Travel Group AB, Ticket Leisure Travel AB and Ticket Business Travel AB.
Shares in Karo Bio: 17,500
Independent board member

BIRGIT STATTIN NORINDER (1948)
London, United Kingdom
Board member since 2007
Education: M.Sc.Pharm., Uppsala University
Primary experience: Extensive experience from leading positions within research and development in several international pharmaceutical companies. Former CEO and chairman of Prolifix Ltd.
Other assignments: Deputy Board Member in Wingfirm AB.
Shares in Karo Bio: None
Independent board member

BOARD MEMBERS – EMPLOYEE REPRESENTATIVES

BO CARLSSON (1958)
Stockholm, Sweden
Employee representative, appointed 1997
Education: Specialist teacher exam, Uppsala University
Primary experience: Employed by Karo Bio since 1989, Project Manager
Shares in Karo Bio: 20,666
Employee stock options: 2,554

JOHNNY SANDBERG (1967)
Danderyd, Sweden
Employee representative, appointed 2006
Education: Biomedical analyst, Vårdhögskolan
Primary experience: Employed by Karo Bio since 1994, Senior Research Investigator
Shares in Karo Bio: 26,250
Employee stock options: 2,675

EVA KOCH (1966)
Stockholm, Sweden
Employee representative (deputy), appointed 2010
Education: PhD. in organic chemistry
Primary experience: Employed by Karo Bio since 1999, Senior Research Scientist
Shares in Karo Bio: 6,500
Employee stock options: 3,405

Nomination Committee proposals are announced, at latest, in conjunction with the notice to attend the annual general-meeting.

The work of the Nomination Committee since the 2010 annual general meeting

Since the Nomination Committee was appointed in October 2010, it has met on several occasions. The Chairman of the Board has described to the Nomination Committee the process applied in the annual assessment of the Board, the members of the Board and the President and has also described the outcome of these assessments, where relevant, and the company's strategy. In advance of the forthcoming annual general meeting, the Nomination Committee has worked out proposals regarding the procedure for appointment of the next Nomination Committee. The Nomination Committee will present proposals regarding the fee for the Board of Directors, and in order to form an opinion of a reasonable level of remuneration, an analysis and comparison with similar companies has been carried out. In the process of nominating auditors and determining auditor's fees, the Nomination Committee has been assisted by the Board of Directors.

Based on the assessment of the Board of Directors and the company's strategy etc., as well as on the present Board members' availability for re-election, the Nomination Committee makes an assessment of whether the present Board meets the requirements that will be placed on the Board as a result of the company's financial position and future focus, or whether the composition of skills and experience needs to be changed. The Nomination Committee's proposal regarding the election and re-election of members of the Board, its substantiated statement concerning proposals to the Board of Directors and other proposals are submitted no later than in conjunction with the notice to attend the annual general meeting.

EXTERNAL AUDITORS

According to the Articles of Association, Karo Bio shall engage a registered public accounting firm as external auditor. At the annual general meeting 2007, the registered public accounting firm PricewaterhouseCoopers AB was re-elected as auditor for a mandate period of four years until the close of the 2011 annual general meeting. Since the 2008 annual general meeting, auditor in charge has been Authorized Public Accountant Håkan Malmström, who is also auditor in charge of the companies NCC AB, Gambro AB, and Nordstjernan AB, among others. At the 2011 annual general meeting, the current auditors will be nominated for re-election.

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

The company has entrusted the auditor to review one of the interim reports for 2010 in accordance with the Code's

			ATTENDANCE RATE [1]				INDEPENDENT	
NAME OF BOARD MEMBER	Elected to Board	Total annual fee, SEK	Ordinary Board meetings	Extra-ordinary Board meetings	Compen-sation Committee	Audit Committee	In relation to the Company and executive management	In relation to the Company's major shareholders
Elected by the general meeting								
Bo Håkansson (Chairman after AGM April 23, 2010)	2009	421	7 (7)	8 (8)	-	2(2)	Yes	Yes
Johan Kördel	2009	185	7 (7)	8 (8)	-	2(2)	Yes	Yes
Margaret von Platen [2]	2010	135	4 (5)	3 (3)	-	-	Yes	Yes
Jon Risfelt	2009	187	7(7)	8 (8)	-	2(2)	Yes	Yes
Leon E. Rosenberg (Chairman through AGM April 23, 2010) [3]	2000	129	2 (2)	5 (5)	2(2)	-	Yes	Yes
Birgit Stattin Norinder	2007	184	7 (7)	6 (8)	2(2)	-	Yes	Yes
Employee representatives								
Bo Carlsson	1997	-	7 (7)	8 (8)	-	-	No [6]	Yes
Johnny Sandberg	2006	-	7 (7)	8 (8)	-	-	No [6]	Yes
Eva Koch, Deputy [4]	2010	-	0 (0)	0 (3)	-	-	No [6]	Yes
Henrik Jernstedt, Deputy [5]	2005	-	1 (1)	2 (2)	-	-	No [6]	Yes

1) The figures in parentheses indicate the number of meetings during each member's mandate period . Following the AGM on April 23, 2010, both the Compensation Committee and the Audit Committee are composed of the Board in its enirety. The attendance rates provided are for separate committee meetings that were held until April 23, 2010.
2) The board member was elected at the annual general meeting 2010.
3) The board member left his assignment in conjunction with the annual general meeting 2010.
4) Appointed employee representative (deputy) on October 27, 2010
5) Left his employment at Karo Bio on March 24, 2010
6) Employee of Karo Bio AB

statues. Information regarding the auditors' fee is included in Note 26 in the 2010 annual report.

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 which is determined annually and which regulates 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 President, which regulate the division of duties between the Board of Directors, the Chairman of the Board, and the President, as well as defining the authorities of the President.

The Chairman of the Board plans the Board meetings together with the President. 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 the company in ownership issues, and is responsible for the assessment of the Board of Directors' work. In addition, the Chairman is responsible for ongoing interaction with management and for monitoring that the Board fulfils 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 number of Directors are present. The members of the Board shall possess broad competence and versatility, as well as have backgrounds suitable for Karo Bio's organisation, industry and operations. New members of the Board undergo introductory training so as to rapidly obtain the knowledge expected to best safeguard the interests of the company and the shareholders.

THE WORK OF THE BOARD OF DIRECTORS IN 2010

During 2010, seven regular meetings, at which minutes have been kept, and eleven special Board meetings have been held. At all of these meetings, the Board of Directors has been competent to make decisions. Up to and including June 2010, Thomas Wallinder, solicitor, Mannheimer Swartling Advokatbyrå, has acted as Secretary to the Board, thereafter succeeded by Erika Söderberg Johnson, Chief Financial Officer, Karo Bio. Resolutions are taken by the Board after an open discussion, led by the Chairman. Major matters dealt with during 2010 have included the recruitment of a President and Chief Executive Officer, strategic issues dealing with clinical projects, research operations, business development and financing through a rights issue and an Equity Credit Facility agreement. Decisions have been made in important areas such as business and financial plans, strategic issues related to scientific plans, substantial contracts, major capital expenditures, budget, financing and other central company policies. The Board continuously evaluates the company's performance and development.

Board of Directors' fees, independence and attendance rate

The table on the previous page illustrates the independence of the Board as regards the company, executive management and the company's major shareholders, in addition to attendance rates and expensed fees for 2010, as determined by the annual general meeting.

BOARD COMMITTEES

In 2010, the Board has, based on its size and composition, 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. After the 2010 annual general meeting, 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

During the period January 1 through April 23, 2010, the Compensation Committee held two separate recorded meetings. The Compensation Committee then consisted of Leon E. Rosenberg (Chairman) and Birgit Stattin Norinder, both of whom were independent in relation to the company's major shareholders, as well as to the Company and executive management. After the 2010 annual general meeting, the Compensation Committee is formed by the Board of Directors in its entirety.

The work of the Compensation Committee is governed by instructions determined annually by the Board of Directors, and included in the work procedures for the Board. When the work of the Compensation Committee was conducted in a separate committee, it submited proposals for guidelines for the remuneration of executive management, and proposals for the President's salary and other terms of employment, determined salaries and terms of employment for other members of the executive management team and prepared proposals for incentive programs and other forms of bonus or compensation schemes for employees. These tasks have since the 2010 annual general meeting been performed by the Board of Directors in its entirety.

The President may present Compensation Committee related issues, but does not participate in deliberations which involve his own salary and terms of employment. When it was a separate committee, the Committee chairman was responsible for ensuring that the Committee's meetings were recorded

according to instructions and that the Board of Directors was continually kept informed of the Committee's work through the distribution of minutes, as well as, when necessary, submitting matters to the Board for resolution.

At the annual general meeting, the Board of Directors presents, for the approval of the shareholders, proposals for guidelines for the determination of salaries and other remuneration for the President and other individuals in executive management. At the 2010 annual general meeting, it was resolved that remuneration to the President and other individuals in executive management would consist of fixed salaries, possible variable remuneration, additional benefits and pensions. The total remuneration shall be in line with the market and competitive, as well as being related to the individual's level of responsibility and authority. Any variable remuneration shall be based on outcome in relation to defined and measurable financial and operational targets, shall have an upper limit in relation to fixed remuneration, and be pensionable. The Board shall have the right to deviate from these guidelines, when particular reason exists for doing so in any individual case. A further description of terms of employment for the Board of Directors and executive management, are found in the Administration Report and Note 2 in the 2010 annual report.

Audit Committee

Until April 23, 2010, the Audit Committee was formed by Jon Risfelt (chairman), Johan Kördel and Bo Håkansson, all of whom were independent in relation to the company's major shareholders, as well as to the Company and executive management. After the 2010 annual general meeting, the Audit Committee is formed by the Board of Directors in its entirety.

The work of the Audit Committee follows instructions annually determined by the Board of Directors and included in the work procedures for the Board. The main task of the Audit Committee when a separate committee was to provide assistance to the Board in the work of supervising and ensuring the quality of the financial reports and the company's system of internal controls. The Committee continuously met with the company auditors, assessed the audit work and the independence of the auditors, and approved the supplementary services that the company may procure from the external auditors. These tasks have after the 2010 annual general meeting been performed by the Board of Directors in its entirety.

On the basis of the scope, processes and workflows of the operations, the Board, within the framework of the Audit Committee tasks, together with management, carries out an assessment of the company's risks (business risks and risks of errors in the financial reporting), as well as the processes and procedures established to manage these risks. This evaluation is carried out annually or more frequently when called for by special circumstances. Based on the outcome of this risk assessment, the emphasis and scope of the audit are discussed with the company auditors in order to streamline and improve the quality of the current auditing work. Before each new financial year, the audit plan is discussed with the external auditors, in addition to significant accounting matters affecting the Group. Within the framework of the Audit Committee work, the Board of Directors assists the Nomination Committee in the preparation of proposals for the election of auditors and the fees for the auditors.

During the period January 1 through April 23, 2010, the Audit Committee held two recorded meetings, in which the Chief Financial Officer and President also participated, as did the auditor (one meeting). Issues dealt with by the Committee and the Board of Directors during 2010 include the review of the 2009 year-end report and the 2009 annual report, the auditor's report from the 2009 audit, the audit plan for 2010, the mid-year report for 2010, the auditor's interim audit, the prospectus compiled for the company's rights issue, the structure of internal controls, risk management process and policy, corporate governance, principles for the procurement of other services than auditing services from the auditors, the financial policy, the investment strategy for surplus liquidity, and the strategic financial planning. The Board has also carried out an evaluation of the work of the auditors.

When a seperate committee, the Committee chairman was responsible for ensuring that the Committee's meetings were recorded according to instructions and that the Board of Directors was continually kept informed of the Committee's work through the distribution of minutes, as well as, when necessary, submitting matters to the Board for resolution.

PRESIDENT AND EXECUTIVE MANAGEMENT TEAM

The Board of Directors appoints the President to lead the company. The President is responsible for the current administration of the company in accordance with the directions and guidelines issued by the Board of Directors.

Since October 2010 (when Berit Edlund, former Director of Human Resources, left her position), the executive management team consists of four individuals in addition to the President; the Chief Financial Officer, who is also Vice President Investor Relations and Human Resources, the Chief Scientific Officer, who manages preclinical research and development, the Chief Medical Officer, who manages clinical development and regulatory affairs; and the Vice President Business Development.

The executive management team holds monthly meetings to discuss the Group's result of operations and financial position, the status of research and development projects, strategic issues and the monitoring of budget and forecasts. As the Group only has one subsidiary, in which no operations are conducted, the operating results and financial position of the Parent Company and the Group, respectively, are largely the same.

The President leads the work of the executive management team, which together makes decisions 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 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. Such matters, as well as investments exceeding MSEK 2, are prepared by the executive management team for resolution by the Board of Directors.

Disclosures regarding the President's age, main education, working experience, significant assignments outside Karo Bio and holdings of shares and other financial instruments in the company (both his own and those of related parties) are disclosed on page 46. The President has no significant shareholdings or partnerships in companies with which Karo Bio has significant business connections.

INTERNAL CONTROL AND RISK MANAGEMENT REGARDING FINANCIAL REPORTING

Introduction

The Board of Directors and the President 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 in terms of the manner in which the internal controls regarding financial reporting are organised.

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 processes shall ensure that the reporting is prepared in accordance with the applicable laws and regulations, and in agreements with the requirements placed on publicly traded companies in Sweden. One premise that this is achieved is that there is a good *control environment*, that reliable *risk assessments* are undertaken, that there is an established *control structure* and that *control activities* and *information and communication*, as well as *follow-up* function in a satisfactory manner.

Internal audit

The Board of Directors has assessed the need for an internal audit function, and 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 President, management and other employees communicate and on which they base their actions. The control environment is also defined by the company's organisational 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 any possible changes in policies, guidelines and insurance.

Karo Bio's system for identifying, reporting and addressing risks is an integrated part of the ongoing 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 handled 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. Special importance has, therefore, been placed on designing the 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 President and the Board Committees, respectively. The Board of Directors has the overall responsibility for internal control. When a seperate committee, the Audit Committee serves the Board with regard to significant accounting issues and follows up internal control with regard to the financial reporting.

The President is responsible for the system of procedures, processes and controls which 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 ongoing 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-wise 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 upon. These reports are compiled for Karo Bio in its entirety and for the respective departments and projects. 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 upon.

Information and communication

The company's information-oriented operations are regulated by an information policy. For external communication, there are guidelines which aim to ensure transparent, relevant and consistent communication on a fair and equal basis with all interested parties. All communication conducted place in accordance with NASDAQ OMX 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 submitted to NASDAQ OMX Stockholm. The printed annual report is distributed to shareholders and other parties who have notified Karo Bio that they wish to receive this document.

In the case of a leaking of information impacting the share price or in the case of special events which may impact the evaluation of the company, NASDAQ OMX Stockholm will be informed, following which a press release with the corresponding information will be issued. The internal distribution of information will not take place until Karo Bio has published the corresponding information.

For internal communication purposes, Karo Bio has established an intranet, where internal information items, policies and guidelines are available for all employees. Every second month, and more often if needed, 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 takes 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 auditors report the outcome to the Board of Directors and the executive management. Significant observations are reported, as applicable, directly to the Board of Directors. During 2010, 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 REPORT 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 2010 on pages 44-51 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance statement has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the corporate governance statement and assessed 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 and the consolidated accounts.

Stockholm March 22, 2011
PricewaterhouseCoopers AB

Håkan Malmström
Authorized Public Accountant

Glossary

ABSORPTION Uptake of an active compound in the body, e.g. through the gastrointestinal tract or the skin

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

ATHEROSCLEROSIS Originates from deposits of fatty substances such as cholesterol and calcium in the walls of the blood vessels. The atherosclerotic process may begin early in life and over time lead to a build-up known as plaque, which hardens as people get older. The consequences are restricted blood flow, especially in arteries and areas where the blood vessels branch. There is also increased risk of blood clot formation. When this occurs in the heart, the result is a heart attack and, in the brain, a stroke. Blood flow in the extremities may also be restricted, which causes pain during exercise

BLOCKBUSTER A product with annual sales exceeding USD 1 billion

CARDIOVASCULAR DISEASE Examples of diseases that fall within this category include heart attack or stroke. Elevated levels of cholesterol in the blood, hypercholesterolemia, is a risk factor associated with cardiovascular diseases

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

CNS Central nervous system.

DYSLIPIDEMIA Imbalance in lipid/cholesterol metabolism

ECF Equity Credit Facility

EMA European Medicines Agency

ER The receptor for estrogen hormone.

ER-BETA 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

ESTROGEN Female sex hormone

EZETIMIBE A drug that inhibits absorption of cholesterol from the intestines to the blood

GLUCOCORTICOID The hormone that is the natural ligand to the glucocorticoid receptor and is produced in the adrenal cortex, and thus also referred to as adrenocortical hormone. The hormone regulates the body's use of carbohydrates, fat and protein and is a normal response to stress. Compounds that activate the receptor are called glucocorticoids.

GR The receptor for glucocorticoid hormone

HeFH Heterozygous familial hypercholesterolemia , is a hereditary condition in which patients suffer from very high blood lipid levels from an early age. Around 1 million patients are afflicted with the condition in the EU alone.

HORMONE Compound secreted from an endocrine gland that is transmitted by the blood to the tissue on which it has a specific effect

HYPERCHOLESTEROLEMIA (HIGH CHOLESTEROL) Elevated levels of cholesterol in the blood

HYPERLIPIDEMIA High levels of blood lipids (including cholesterol)

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

INSULIN Hormone responsible for uptake of blood sugar in tissues

LDL Low Density Lipoprotein (the "bad cholesterol")

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

LIPIDS Endogenous fat components

LIVER SELECTIVE A compound that preferentially acts in the liver

LXR Liver X Receptor, regulates cholesterol metabolism and is target for new drugs against e.g. atherosclerosis and inflammation

MAA Market Approval Application to register a new drug in the EU

NDA New Drug Application in the US

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 Ia 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 Ib Has the same objective as Phase Ia but with repeated dosing

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

PHASE IIb Extended trials on patients where the primary objective is to find a dose to secure effect and safety before Phase III studies

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

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

STATIN Drugs used for lowering of elevated levels of blood cholesterol

SYSTOLIC BLOOD PRESSURE Blood pressure when the heart is contracting

THERAPY Disease treatment method

THYROID HORMONE A hormone synthesized and secreted by the thyroid gland, which is essential for normal metabolic processes

TISSUE A collection of cells specialized to perform a particular function. The cells may be of the same type or of different types. Aggregates of tissue constitute organs

TR A nuclear receptor that is activated by thyroid hormone.

TRIGLYCERIDES Fat made up of glycerol and fatty acids

TYPE 2 DIABETES A form of diabetes, which develops in adult and often obese patients

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