KARO BIO

Press release

April 26, 2001

QUARTERLY REPORT – JANUARY-MARCH 2001

- Björn Nilsson appointed new President.
- Bristol-Myers Squibb collaboration expanded to include Molecular Braille® technology for identification of second generation compounds and development of new indications.
- Major breakthrough achieved through the determination of the three-dimensional structure of the glucocorticoid receptor.
- The LXR receptor established as an important target for treatment of atherosclerosis.
- US patent awarded for new treatment of skin disorders by use of thyroid hormone and thyroid hormone analogs.
- Group net sales decreased to MSEK 23.8 (25.7), and cash used in operating activities amounted to MSEK -20.5 (5.4).
- The loss after financial items increased to MSEK -80.6 (-8.0), primarily due to goodwill depreciation regarding Karo Bio USA. Loss excluding goodwill depreciation amounted to MSEK -20.2 (-6.7).
- Cash and cash equivalents and short-term investments amounted to MSEK 305.8 (190.5) at the end of the period.

OPERATIONS

Karo Bio is a leading drug discovery company in the field of nuclear receptor biology and medicinal chemistry. The Company develops receptor-selective and tissue-selective pharmaceuticals for treatment of major disorders. Karo Bio has operations in Sweden, and in North Carolina and California in the United States and maintains collaborations with leading academic groups and the international pharmaceutical industry. The Company is engaged in five research programs.

Estrogen Receptor (ER) Program

This program focuses on development of new therapies for diseases, primarily in the area of women's health, where the estrogen receptors play key roles in disease development. The program is a collaboration with Merck & Co.

Thyroid Hormone Receptor (THR) Program

This program covers indications affected by THR with a major focus on metabolic diseases with Bristol-Myers Squibb as a collaborator. Internal projects in the areas of cardiac arrhythmia, skin disorders and glaucoma are a part of the program.

The Glucocorticoid Receptor (GR) Program
Metabolic diseases and inflammatory disorders are important indications in this program. Karo Bio collaborates with Abbott Laboratories for novel treatments of type 2 diabetes whereas the inflammation project is internal.

Exploratory Program
The nuclear receptor technology and expertise at Karo Bio are applicable to any nuclear receptor and Karo Bio is currently launching new projects covering previously known receptors but with a focus on new indications.

Several new projects have been strengthened with access to new technology, such as Karo Bio USA's BioKey® probe technology. The program covers the androgen receptor (AR) with indications such as prostate cancer and the mineralocorticoid receptor (MR) for heart failure.

Karo Bio is also involved in the identification of new nuclear receptors and the validation of these receptors as targets for new indications. The research is conducted in collaboration with academia and as new receptors and targets are validated, new projects are initiated by Karo Bio, such as the Liver X Receptor (LXR) project for atherosclerosis.

BioKey® Program
This program is conducted by Karo Bio USA and the targets are various human genomic-based proteins as well as bacterial and fungal proteins for development of broad spectrum antibiotics and G-protein coupled receptors for various indications. The program covers both external collaborations and internal projects.

COLLABORATIVE PROJECTS

Abbott Laboratories
The Abbott collaboration focuses on a novel therapy for type 2 diabetes that involves development of Glucocorticoid Receptor antagonists. The project was initiated in January 2000, and lead identification and optimization are ongoing. In a major scientific breakthrough, the collaboration recently solved the three-dimensional structure of the glucocorticoid receptor.

Bristol-Myers Squibb
This collaboration focuses on novel treatments for metabolic disorders using the thyroid hormone receptor as the target. The primary indication is obesity, and proof of principle with lead compounds has been obtained in relevant animal models. Preclinical development is being completed, and an IND for obesity is currently in the process of being assembled.

On March 12 the three-year collaboration between Karo Bio and Bristol-Myers Squibb (BMS) was extended for the second time and expanded to include Karo Bio Molecular Braille® technology. The expansion extended the term of the collaboration for one year and includes new milestones. It is also the first agreement that will apply Molecular Braille® technology. The aim is to accelerate the development of the second generation products within the BMS collaboration. The technology appears promising for the characterization and selection of tissue selective compounds.

Merck & Co.
The collaboration with Merck & Co. includes estrogen receptors alpha and beta and covers several possible clinical indications, primarily in the field of women's health care. The project was initiated in November 1997 and was extended last fall for two more years. Clinical indications have been prioritized, and the project is advancing as planned through preclinical testing.

BioKey® Assays Collaborations
Karo Bio has several genomics based drug discovery collaborations with companies such as Aventis Pharma, Bayer AG, Boeringer Ingelheim Pharmaceuticals, Inc., GPC Biotech, NovImmune S.A. and Serono International S.A. In these collaborations, Karo Bio uses its proprietary BioKey® probe assay technology to establish high throughput screens for the discovery of novel chemical compounds. These compounds act via drug targets discovered in Karo Bio's partner's genomics programs. In addition to receiving research support and milestone payments, Karo Bio is eligible to receive royalty payments upon sales of therapeutic products resulting from these collaborations.

INTERNAL PROJECTS

Skin Disorders
Karo Bio has developed a product containing a thyroid hormone analog formulated in an ointment. This product may be of value in a variety of skin disorders. Karo Bio has chosen steroid induced skin atrophy as the first indication. Clinical phase II studies were initiated last year and were recently finalized. The documentation regarding clinical appearance, skin thickness and collagen content is currently being prepared. A phase I study on stimulation of collagen production in healthy volunteers has recently been concluded.

Cardiac Arrhythmia
There is a great need for novel anti-arrhythmic pharmaceuticals. Karo Bio has developed KB 130015, which in animals has shown promising properties. The compound is now being evaluated by potential industrial partners. Karo Bio has also developed second-generation compounds, which are currently being evaluated in animals.

Glaucoma
Animal studies with various thyroid hormone analogs have recently been finalized. Compounds given as eye drops were well taken up and caused no irritation. Karo Bio is now seeking a partner for the project for further evaluation in preclinical and clinical studies.

Exploratory Program
The prioritized receptors and indications in this program are MR for heart failure, AR for male hormone replacement therapy, GR for inflammatory disorders and LXR for atherosclerosis. All projects are in the early stages of drug discovery. However the breakthrough in the solving of the three-dimensional structure for GR is very significant for the GR inflammation project. In relation to inflammatory disorders, GR is one of the most important pharmaceutical targets and the three dimensional structure gives Karo Bio an important competitive advantage especially for the design of novel compounds. Recently, the concept of treating and preventing atherosclerosis by targeting LXR has received strong academic and industrial support. In this field, Karo Bio has a strong patent position and an excellent academic network.

BioKey® Assay
Karo Bio continues to utilize its proprietary BioKey® assay technology to screen for compounds targeting gene products known to be essential for bacterial growth. Recently the Company has initiated lead optimization for one compound series.

ORGANIZATION
By the end of the period, there were 119 employees (88). Of these, 33 are based in the United States and 101 are engaged in research.

RESULTS AND FINANCING
Net sales for the period for the Group decreased to MSEK 23.8 (25.7 in January-March 2000 after restatement following the change in accounting principle regarding revenues, see Accounting and Valuation Principles below), made up of research funding and down payments from the Group's partners. Group expenses increased by MSEK 72.1 to MSEK 107.8 (35.7), which is primarily due to the acquisition of Karo Bio USA. Goodwill depreciation increased by MSEK 59.2 and operating expenses increased by MSEK 12.7 from the activities in Karo Bio USA, which are not included in prior period figures. In addition, marketing expenses increased due to increased focus on business development in relation to both existing projects and exploratory programs, and increased activity regarding intellectual property.

The operating loss increased to MSEK -84.0 (-10.0). Financial income increased to MSEK 3.4 (2.0).

Cash used in operating activities amounted to MSEK -20.5 (5.4) primarily due to the absence of down payments and milestone payments in 2001. Capital investments in equipment amounted to MSEK 2.7 (2.7). Capital investments were mainly laboratory equipment for high throughput screening.

As a consequence, cash and cash equivalents and short-term investments amounted to MSEK 305.8 (190.5) at period-end.

Loss per share for the period amounted to SEK -6.71 (-0.87), based on the weighted average number of shares outstanding. Corresponding fully diluted figures are SEK -6.63 (-0.87). The Group's equity/assets ratio as of period-end was 93% (75%) and equity per share at period-end was SEK 66.72 (20.70).

SHAREHOLDERS' EQUITY
Shareholder's equity increased by MSEK 58.5 from the exercise of warrants, leading to 11,702 new shares.

Consequently, the Company's share capital of SEK 60,054,015 is now divided among 12,010,803 shares at par value of SEK 5. In addition, there are warrants outstanding representing 145,631 shares.

Total shareholder's equity amounts to MSEK 801.3 after the effect from change in accounting principle and the loss for the period

ACCOUNTING AND VALUATION PRINCIPLES

This quarterly report has been prepared in accordance with the Swedish Financial Accounting Standards Council's (the Council) standard RR 20 for interim reports. The accounting and valuation principles applied are consistent with provisions of the Swedish Annual Accounts Act and standards issued by the Council. With exception from the change in accounting policy described below, the principles are unchanged compared to what was applied in the Annual Report for 2000.

Karo Bio has decided to change the accounting for down payments from collaborative research projects. Such down payments are received at the initiation of the collaboration and are non-refundable. In previous periods, non-refundable down payments were reported as revenue when received. Beginning January 1, 2001, non-refundable down payments are reported as revenue over the term of the research agreement, which usually is three years. The change is compliant with the new accounting standard regarding Revenue Recognition RR 11 issued by the Council, which is effective January 1, 2001. Comparative figures have been restated accordingly.

Amounts or figures in parentheses indicate comparative figure for corresponding period last year.

EVENTS AFTER THE END OF THE REPORT PERIOD

New President

Karo Bio's Board of Directors has recruited Björn O. Nilsson to become the new President for the company succeeding Torben Jørgensen who left the company on April 23, 2001. Until now Björn Nilsson has been Head of Research at Amersham Pharmacia Biotech AB in Uppsala. The Board has also appointed Per Otteskog, Senior Vice President Investor Relations, as acting President. The exact time for Björn Nilsson's start at Karo Bio has not been determined but it will take place within three months.

US Patent for New Treatment of Skin Disorders

Karo Bio announced in a press release April 25 that the company has received a US patent for methods to treat certain skin disorders. This patent provides broad coverage including method-of-treatment claims as well as claims for skin treatment compositions with thyroid hormone as well as analogs of thyroid hormone.

Previously, Karo Bio has carried out animal studies that demonstrated desirable effects of thyroid hormone and thyroid hormone analogs upon the composition of treated skin. These studies also demonstrated that these compounds blocked the negative effects of anti-inflammatory steroids upon skin composition. The Company believes that the treatment of certain skin diseases with thyroid hormone analogs has considerable advantages over other treatments such as those with vitamin A analogs.

SCHEDULED RELEASES OF FINANCIAL INFORMATION

Financial Reports Karo Bio intends to distribute financial reports as follows:

- Quarterly Reports: July 12, October 17.
- Full Year Report: February 8, 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT (kSEK)

	Jan-Mar 2001	Jan-Mar 2000	Jan-Dec 2000
Net sales	23,781	25,743	100,584
Operating expenses			
Marketing expenses	-3,605	-1,571	-12,359
Administrative expenses	-9,283	-4,295	-23,598
Research and development expenses	-94,779	-28,511	-289,814
Pension refund from SPP	-	-	3,473
Other operating expenses	-101	-1,317	-2,008
	-107,768	-35,694	-324,306
Operating loss	**-83,987**	**-9,951**	**-223,722**
Income from financial investments	3,386	1,989	10,399
Loss after financial items	**-80,601**	**-7,962**	**-213,323**
Tax	-	-	-
LOSS FOR THE PERIOD	**-80,601**	**-7,962**	**-213,323**
Depreciation of goodwill included in R&D expenses	*-60,449*	*-1,289*	*-162,916*
Other depreciation included in operating expenses	*-2,565*	*-1,763*	*-8,689*
	-63,014	***-3,052***	***-171,605***
Loss per share:			
- weighted average number of shares outstanding	-6.71	-0.87	-19.51
- ditto, fully diluted	-6.63	-0.87	-19.33
- shares outstanding at end of period	-6.71	-0.87	-17.78
- ditto, fully diluted	-6.63	-0.87	-17.55

CONDENSED CONSOLIDATED BALANCE SHEET (kSEK)

	Mar 31 2001	Mar 31 2000	Dec 31 2000
Assets			
Licenses and similar rights	483	591	510
Goodwill	517,492	29,651	577,943
Equipment	25,526	18,136	24,667
Other current assets	10,013	13,366	13,612
Short-term investments, cash and cash equivalents	305,830	190,487	328,967
TOTAL ASSETS	**859,344**	**252,231**	**945,699**
Shareholders' equity and liabilities			
Shareholders' equity	801,338	189,966	881,597
Current liabilities	58,006	62,265	64,102
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**859,344**	**252,231**	**945,699**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (kSEK)

	Jan-Mar 2001	Jan-Mar 2000	Jan-Dec 2000
Operating activities			
Operating loss before financial items	-83,987	-9,951	-223,722
Depreciation	63,014	3,052	171,605
Other items not affecting liquid assets	101	-	38,293
	-20,872	**-6,899**	**-13,824**
Financial income received and expenses paid	1,551	1,303	12,775
Cash flow from operating activities before changes in working capital	**-19,321**	**-5,596**	**-1,049**
Changes in working capital	-1,130	10,951	-19,798
Cash flow from operating activities	**-20,451**	**5,355**	**-20,847**
Investing activities			
Investment in group companies	-	-	-18,230
Investment in equipment	-2,745	-2,714	-9,009
Sale of equipment	-	-	50
Cash flow from investing activities	**-2,745**	**-2,714**	**-27,189**
Cash flow from operations	**-23,196**	**2,641**	**-48,036**
Financing activities			
Proceeds from new share issues	59	-	196,946
Repayment of loans	-	-	-7,789
Cash flow from financing activities	**59**	**0**	**189,157**
Cash flow for the period	**-23,137**	**2,641**	**141,121**
Liquid assets at the end of the period	**305,830**	**190,487**	**328,967**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (kSEK)

	Jan-Mar 2001	Jan-Mar 2000	Jan-Dec 2000
Amount at beginning of period	**881,597**	**209,175**	**209,175**
Effect from change in accounting principle	-	-11,251	-11,251
New issues of shares			
- in kind	-	-	699,751
- directed placement	-	-	196,868
- warrants exercise	59	-	81
Translation difference	283	4	296
Loss for the period	-80,601	-7,962	-213,323
Amount at end of period	**801,338**	**189,966**	**881,597**

KEY RATIOS AND NUMBER OF SHARES	Jan-Mar 2001	Jan-Mar 2000	Jan-Dec 2000
Equity ratio, %	93.2%	75.3%	93.2%
Equity per share outstanding at end of period, SEK	66.72	20.70	73.47
Equity per share outstanding at end of period, fully diluted, SEK	65.92	20.70	72.52
Weighted average number of shares outstanding during period (000)	12,006	9,177	10,932
Weighted average number of shares outstanding during period, fully diluted (000)	12,156	9,177	11,036
Number of shares outstanding at end of period (000)	12,011	9,177	11,999
Number of shares outstanding at end of period, fully diluted (000)	12,156	9,177	12,156

Huddinge, April 26, 2001

Per Otteskog
President

For further information, please contact Per Otteskog, President, tel. +46 8 608 60 18 or Bertil Jungmar, Vice President Finance & Administration, tel. +46 8 608 60 52.

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