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Press Release

March 7, 2003

Karo Bio to issue new shares with preferential rights

- The Board of Directors of Karo Bio AB has on March 6, 2003 decided, subject to the approval by the Annual General Meeting, on a rights issue with preferential right for existing shareholders
- The rights issue is implemented in order to secure continued R&D activities and to provide Karo Bio with a better position when negotiating new collaboration agreements, and is expected to raise approximately SEK 160 million based on the closing price on March 6, 2003,
- The subscription price will be determined as the volume weighted average share price during the period from and including April 2 through and including April 8, 2003, multiplied by a factor of .75
- Existing shareholders have the right to subscribe for two new shares for each five shares held
- Shareholders representing approximately 29 percent of the shares in Karo Bio have declared their support of the rights issue and intend to subscribe for their respective parts. In addition, guarantors have undertaken to subscribe for shares that have not been subscribed for by the shareholders up to an amount of SEK 70 million
- Annual General Meeting on April 9, 2003, to approve the decision by the Board of Directors.
- The Board of Directors proposes that the Annual General Meeting resolve to adopt Employee Stock Option Program 2003/2011

Background and reasons

Karo Bio develops pharmaceuticals in collaboration with leading pharmaceutical companies. In such collaborations, Karo Bio provides advanced research technology, while the clinical development, production and marketing of pharmaceuticals is carried out by the collaborator.

Karo Bio's revenues are generated in four different ways; up-front payments when new collaborations are entered into, R&D funding, milestone payments when stated milestones are reached and royalties on sales once the product reach the market.

Karo Bio has the objective to enter into one new collaboration on average each year. Having a number of parallel collaborations will increase the possibilities for Karo Bio to generate drug compounds that will generate revenues in the form of milestone or royalty payments and at the same time decrease the operational risk if certain projects fail.

At present, Karo Bio has four strategic drug discovery collaboration projects. All projects are progressing well and three of the projects are approaching clinical trials. The collaboration project nearest clinical trials is the drug discovery collaboration in the field of estrogen receptors with Merck & Co., Inc. In this project, a drug candidate was selected for clinical trial in July 2002. The Bristol-Myers Squibb collaboration for obesity and the Abbott Laboratories collaboration for diabetes type 2 are in the late stages before selecting drug candidates. The fourth collaboration with Wyeth Pharmaceuticals for treatment and prevention of atherosclerosis was initiated in 2001 and has made considerable progress regarding the identification of promising lead compounds.

When existing projects enter clinical trials, the R&D funding ceases, which implies a significant reduction in revenues in the short-term, since R&D funding is received only for a minor share of the Company's employees unless new collaboration agreements are entered into or existing agreements are prolonged. However, when a collaboration project enters into a clinical trial, Karo Bio may receive substantial milestone payments provided the clinical trial is successful for the collaboration partner. The uncertainty regarding the timing for milestone payments and royalty is substantial and consequently, new collaboration agreements are essential for Karo Bio to be able to continue its research operations. It is however difficult to predict when new collaboration agreements can be entered into and thereby when new R&D funding can be received.

It is the Board of Directors' opinion that Karo Bio's current financial position needs to be strengthened in order to ensure that Karo Bio has sufficient funds for continued R&D activities, both within the indication areas included in previous collaboration agreements as well as within new areas, which are to form the platform for future collaboration agreements.

Against this background, and with the knowledge that an enhanced financial position provides Karo Bio with a better position when negotiating new collaboration agreements, the Board of Directors decided on March 6, 2003, to implement a new share issue with preferential rights for existing shareholders. Based on the closing price on March 6, 2003, the rights issue is expected to generate proceeds of approximately SEK 160 million prior to transaction costs. Thereby, liquid funds will amount to approximately SEK 360 million pro forma as of December 31, 2002 assuming full subscription and the above mentioned share price.

The rights issue

The Board of Directors has on March 6, 2003 decided, subject to approval by the Annual General Meeting on April 9, 2003, to implement a rights issue of no more than 4,821,396 shares¹, each with a nominal value of SEK 5, with preferential rights for existing shareholders. Each five shares held entitle to subscription of two new shares. The subscription price will be determined in accordance with the formula stated below, and is expected to be announced after market close on April 8, 2003.

For each new share payment shall be made with an amount equal to the average volume weighted share price for the Karo Bio share on the Stockholm Stock Exchange during the period from and including April 2 through and including April 8, 2003, multiplied by a factor of .75. The payment for each share shall however be no less than SEK 5, the nominal value per share.

Assuming full subscription, the share capital will increase by no more than SEK 24,106,980 from SEK 60,267,445 to no more than SEK 84,374,425 prior to the exercise of outstanding warrants. Based on the closing price on March 6, 2003 and assuming that the rights issue is fully subscribed, total proceeds will amount to approximately SEK 160 million prior to transaction costs.

Shareholders, representing a total of approximately 29 percent of the share capital and voting rights in Karo Bio, prior to exercise of outstanding warrants, have declared their support of the rights issue and intend to subscribe for their respective parts.

Undertaking

Stena AB, Johan Claesson² and the Third Swedish National Pension Fund have irrevocably undertaken to subscribe for shares that are not subscribed for by the shareholders up to a subscription amount of in total SEK 70 million.

Terms in brief

The new issue, with preferential rights for existing shareholders, comprises of no more than 4,821,396 shares¹, each with a nominal value of SEK 5. Below are stated terms in brief and time schedule for the rights issue.

- Each five shares held entitles to subscribe for two new shares
- The subscription price is determined as the volume weighted average share price during the period from and including April 2 through and including

¹ Prior to exercise of outstanding warrants. Should new shares be issued before the record date for the rights issue through the exercise of warrants, such shares will be entitled to participate in the rights issue whereby the number of new shares will increase.

² Through CA-Fastigheter AB.

April 8, 2003, multiplied by a factor of .75 and is expected to be announced after market close on April 8, 2003

- Record date for participation in the rights issue is April 14, 2003, consequently the last date for trading in the Karo Bio shares including subscription rights is April 9, 2003
- Trading in subscription rights will take place during the period April 17 – May 5, 2003
- The subscription period is from April 17 – May 8, 2003
- Prospectus, subscription form and issue statement will be distributed to Karo Bio's shareholders beginning on or about April 15, 2003

Stock option plan

The Board of Directors proposes that the Annual General Meeting resolve to adopt Employee Stock Option Program 2003/2011. The company's share capital will at full subscription pursuant to the Board of Directors' proposal be increased by no more than in total SEK 1,205,000, corresponding to 2.0 percent of the current share capital.

Annual General Meeting

The Board of Directors' decision on a rights issue is subject to approval by the Annual General Meeting on April 9, 2003. For further information regarding the Annual General Meeting please refer to the notice which will be made public on or about March 11, 2003 and will thereafter be available at the company's web page www.karobio.com/agm

Carnegie is financial advisor to Karo Bio.

Huddinge, March 7, 2003

KARO BIO AB

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Facts about Karo Bio

Karo Bio has operations in Sweden and the United States. The Company employs 116 people.

Karo Bio has been listed on the Stockholm stock exchange (Reuters: KARO.ST) since 1998 and maintains a leading position in the field of drug discovery focused on nuclear receptors. Nuclear receptors are validated drug targets for a number of clinical indications and the Company uses proprietary technologies for the development of novel and improved therapies for major markets. Karo Bio has 368 patent cases including 120 granted patents.

Karo Bio has drug discovery programs in several therapeutic areas including men and women's health care, metabolic disorders such as obesity, cardiovascular disease, diabetes, dermatology and ophthalmology.

Karo Bio collaborates with major pharmaceutical companies for the development of products and marketing. In these collaborations Karo Bio receives upfront payments, R&D funding and milestone payments, as well as royalties on net sales when products reach the market.

Karo Bio has strategic pharmaceutical drug discovery collaborations with Abbott Laboratories, Bristol-Myers Squibb, Merck & Co., Inc. and Wyeth Pharmaceuticals.

This press release is also available online at www.karobio.com and at www.waymaker.net.