KARO BIO

Press Release

October 15, 2003

QUARTERLY REPORT JULY - SEPTEMBER 2003

- **Merck & Co., Inc. has decided to discontinue the development of one compound in the collaboration. A second candidate compound continues in preclinical development.**
- **Karo Bio and Bristol-Myers Squibb have published data in support for the obesity project in the scientific journal P.N.A.S. (Proceedings of the National Academy of Sciences of the United States of America).**
- **A new project aiming at development of selective thyroid hormone agonists for treatment of dyslipidemia (STADs) has been launched.**
- **Net sales amounted to MSEK 10.5 (76.8).**
- **Cash flows from operating activities amounted to MSEK -38.2 (8.3).**
- **The loss for the period, including goodwill amortization, decreased to MSEK 34.3 (37.4). Operating result excluding goodwill amortization amounted to MSEK -35.2 (21.2).**
- **Cash and cash equivalents and short-term investments amounted to MSEK 234.6 (235.2) at the end of the period.**
- **Loss per share for the period amounted to SEK 2.03 (2.92).**

Operations

Karo Bio is a leading drug discovery company in the field of nuclear receptors. The Company develops receptor-selective and tissue-selective pharmaceuticals for treatment of major disorders. Karo Bio has operations in Sweden and in the United States.

Karo Bio has four strategic collaborations with international pharmaceutical companies for development of innovative therapies for the treatment of common diseases. Karo Bio also runs several internal projects in various clinical areas where the Company has competitive advantages for discovery of new pharmaceuticals that target nuclear receptors. To maintain a strong pipeline, exploratory studies are conducted in clinically important nuclear receptor areas. These studies cover new indications for previously well-characterized receptors as well as discovery and characterization of new receptors.

Strategic Collaborations

Estrogen Receptors - Merck & Co., Inc.

Merck & Co., Inc. has decided to discontinue development of the first of the two candidate compounds that have been identified in the collaboration between the two companies. Development of the compound was discontinued due to adverse findings in

the final stages of preclinical testing. The second drug candidate continues to be studied in preclinical testing in preparation of clinical trials. In addition, other estrogen receptor compounds, arising from the Karo Bio and Merck & Co, Inc. collaboration continue to be evaluated**.**

The collaboration with Merck & Co., Inc. was initiated in November 1997 with the objective of developing new treatments in the field of estrogen receptors, which is particularly relevant in women's health care. The collaboration is based on the discovery of the estrogen receptor beta, which offers the potential for the development of selective drugs that can target either the alpha-receptor or the beta-receptor. Such selective compounds may have the potential to address unmet clinical needs.

The pre-clinical milestone for the first drug candidate was reached in July 2002, and a milestone for a second drug candidate was reached in May 2003.

Atherosclerosis - Wyeth Pharmaceuticals

The collaboration with Wyeth Pharmaceuticals targets the liver X-receptor (LXR) for treatment of atherosclerosis. The role of LXR, as a key regulator of cholesterol homeostasis, has been strengthened. Pharmaceuticals targeting LXR may be useful for both treatment and prevention of atherosclerosis. Karo Bio has been in collaboration with Wyeth Pharmaceuticals since September 2001. The project continues to make good progress and proceeds according to plan.

Diabetes - Abbott Laboratories

Karo Bio and Abbott Laboratories have been collaborating since January 2000 for development of novel treatments for diabetes with the glucocorticoid receptor as a target. The joint drug discovery phase ended in January this year and has resulted in the identification of a novel, first-in-class compound, A-348441, for the treatment of type 2 diabetes. The compound normalizes blood glucose levels and has beneficial effects on elevated lipids in diabetic, dyslipidemic animals. In multiple species the compound significantly reduces hepatic glucose output with secondary improvements in insulin sensitivity. No increase in body weight, commonly observed with the insulin sensitizers currently on the market, is observed in animals treated with the compound that binds to the glucocorticoid receptor (GR) with a high affinity and selectivity. The compound is liver selective and not systemically active.

Abbott Laboratories is continuing to explore opportunities for future development of A-348441.

Obesity - Bristol-Myers Squibb

Karo Bio and Bristol-Myers Squibb have been collaborating since the fall of 1997 for the discovery of novel treatments for obesity and the metabolic syndrome with the thyroid hormone receptor as the target protein. The native hormone cannot be used for this purpose due to the risk of serious cardiac adverse effects. Karo Bio and Bristol-Myers Squibb has demonstrated in a number of animal models, including monkeys, that novel compounds acting on the thyroid hormone receptor can increase body metabolism and significantly lower body weight without cardiac side effects.

Karo Bio and Bristol-Myers Squibb described together with scientific collaborators in August this year through a publication in P.N.A.S. (Proceedings of the National Academy of Sciences of the United States of America) that cardiac side effect can be avoided by using selective compounds. The experimental compound KB-141, selective for the thyroid hormone receptor beta, reduced body weight with up to seven percent in monkeys after only one week of treatment without any detectable stimulation of the heart. The compound also significantly lowered cholesterol and reduced the level of lipoprotein (a), both factors also strongly associated with risk for development of cardiovascular disease. These results show together that selective agonists of thyroid hormone receptors have the potential to become new pharmaceutical classes for treatment of obesity and hypercholesterolemia.

The joint drug discovery phase has been concluded in April 2003 and since May this year Bristol-Myers Squibb continues with the preclinical evaluation of various lead compounds with the objective of selecting the most optimal compound as a candidate for clinical testing.

Internal Projects

Prostate Cancer and Male Hormone Replacement Therapy

Karo Bio targets the androgen receptor (AR) for treatment of prostate cancer. Prostate cancer proliferation is driven by androgens and there is a great need to improve on existing antagonists for treatment of prostate cancer. In particular, receptor specificity and tissue selectivity need to be improved. Karo Bio is well positioned to discover novel compounds with improved properties. Karo Bio has been successful in the discovery of promising lead compounds by applying novel virtual screening methods, which are built on Karo Bio's unique knowledge about receptor structures and receptor biology. The lead compounds have effectively inhibited androgen dependent prostate growth in animal trials. Karo Bio continues the research towards lead compound optimization and preclinical development. The unique Karo Bio assets in the field are in-house pharmacophore models, novel screening technologies for discovery, selection and characterization of compounds. In addition, promising lead series of compounds and the exclusive European patent rights to the androgen receptor as a target are important assets. Karo Bio has also in collaboration with scientists at University of California, San Francisco recently discovered new opportunities to control receptor activity that provide opportunities for completely new strategies for treatment of prostate cancer.

Inflammatory Disorders

The glucocorticoid receptor is the target for the anti-inflammatory steroids that are very powerful but also are associated with a number of adverse effects. Karo Bio has applied its proprietary technologies, such as Molecular Braille®, and receptor structures with the purpose to discover new compounds which should be anti-inflammatory but with significantly reduced side effects in relation to compounds on the market. Karo Bio has discovered compounds that show such dissociating properties in laboratory models. Some of these compounds are now being evaluated in animal models.

Estrogen Receptors

Estrogen receptors are important targets for a wide range of disorders where there is a need for improvement of existing therapies. Estrogens have beneficial effects on a variety of disease conditions but are also associated with side effects. Future drugs targeting estrogen receptors therefore have to be more selective at the tissue and receptor level and target specific clinical indications. New discoveries, such as the estrogen receptor beta, have provided opportunities for development of new innovative therapies for diseases not currently treated with pharmaceuticals targeting the estrogen receptors. Karo Bio has prioritized clinical indications and is making progress towards the discovery of lead compounds aimed for testing in relevant animal models. Significant resources are allocated to the project and Karo Bio continues to make important progress.

Thyroid Hormone Receptors

The thyroid hormone receptor has evolved as an important target for metabolic disturbances like obesity and dyslipidemia. Karo Bio has taken a leadership in the field and has a vast experience around the thyroid hormone receptor as a target. Karo Bio also has unique technologies that allow the Company to develop receptor- and tissue selective drugs and is now focusing on dyslipidemia as a clinical target. The field of dyslipidemia is dominated by the statins, which are efficacious lipid lowering drugs. However, there is a need for new drugs in the field. In particular, drugs to treat patients who do not respond adequately to statin treatment, and drugs with a new mechanism of action that are more efficacious in lowering of triglycerides, are of interest. Thyroid hormones have most of the wanted properties since they are very efficacious in lowering of cholesterol and have many other positive effects on the blood lipid profile but cannot be used due to cardiac side effects. Karo Bio has demonstrated that cardiac side effects can be avoided by making compounds that are selective for the beta-receptor. Karo Bio has also showed that selective thyroid hormone agonists for treatment of dyslipidemia (STADs) have the desired properties without cardiac side effects. In addition to significant cholesterol lowering and triglyceride lowering effects, STADs will be efficacious in lowering of important markers for development of cardiovascular disease like lipoprotein (a) and homocystein. STADs have the potential to become important agents as a monotherapy for mixed dyslipidemia and in combination therapies with statins. Karo Bio is prioritizing this project and is making good progress with discovery of novel compounds with the desired profile.

Exploratory Studies

Karo Bio continues to strengthen its pipeline of new projects through internal drug discovery and by collaborations within its scientific network. Significant progress has been made during the period in the field of the mineralocorticoid receptor (MR) through the solving of the receptor structure of the hormone-binding domain in complex with the natural hormone aldosterone. MR is an important target for treatment of hypertension and heart failure and there is a need for development of new improved drugs in this area. In particular, there is a need to improve in receptor selectivity of current drugs and the receptor structure information gives Karo Bio a competitive advantage for design of more selective drugs.

The MR, GR and AR receptors all resemble each other from a structural point of view and therefore many drugs acting on these receptors show cross reactivity which limits their use. For this reason the breakthrough in solving of the MR structure should facilitate design of new and more selective compounds for MR and also for GR and AR. Progress in compound characterization and selection has also been made in several areas through receptor structure determinations and application of the Molecular Braille® technology. Karo Bio has also been successful in the period in finding lead compounds through virtual screening of compound libraries. To do this, Karo Bio is using proprietary receptor structure information and can thus in silico select and design compounds that are likely to bind to the target.

Organization

By the end of the period, Karo Bio had 119 (135) employees. Of these, 25 (37) are based in the United States and 95 (109) are engaged in research.

Nomination Committee

A nomination committee has been appointed in accordance with the decision at the shareholders' meeting in April 2003. The committee consists of Ramsay Brufer, representing Alecta Pension Insurance, Björn Franzon, Fourth Swedish National Pension Fund, Thomas Ehlin, Nordea Bank and Per-Olof Mårtensson, chairman of the Karo Bio board of directors.

Result

Net sales decreased to MSEK 10.5 as compared to MSEK 76.8 for the same period last year. The decrease in revenue is the effect of the ending of research funding to Karo Bio under the joint drug discovery programs with Merck & Co., Abbott Laboratories and Bristol-Myers Squibb as the joint efforts were completed in prior periods. Current revenues included research funding and the period's share of the up-front payment from the research collaboration with Wyeth Pharmaceuticals. Revenues in the corresponding period 2002 included, in addition to research funding, a milestone payment from the collaboration with Merck & Co. Recorded revenues were negatively affected by the strengthened SEK against the US Dollar.

Expenses decreased by MSEK 68.9 to MSEK 47.1 (116.0), due primarily to the completion of the amortization of goodwill from the acquisition of Karo Bio USA, Inc. in May 2000. Operating expenses also decreased as a result of savings initiatives implemented in the first quarter of 2003. The strengthened SEK against the US Dollar had a positive effect on expenses incurred in USD.

The operating result excluding goodwill amortization amounted to MSEK -35.2 (21.2). Operating loss including goodwill amortization decreased to MSEK 36.5 (39.2). Financial income amounted to MSEK 2.2 (1.8), including currency gains of MSEK

0.9 (-0.1) relating to financial items. The reported loss for the period amounted to MSEK 34.3 (37.4).

Cash Flow

Cash flows from operating activities amounted to MSEK -38.2 (8.3). The decrease is an effect of the decrease in revenues, which is partially offset by lower expenses.

Capital investments in equipment during the period amounted to MSEK 0.8 (0.3). Cash and cash equivalents and short-term investments amounted to MSEK 234.6 (235.2) at the end of the period, while the corresponding amount for previous quarter was MSEK 273.6.

Shareholders' Equity and Per Share Data

At period-end, warrants representing 623 430 shares were outstanding. The warrants were issued in conjunction with the acquisition of Karo Bio USA, Inc. in 2000 (warrants representing 15 230 shares), the implementation of the Incentive Program 2001 (warrants representing 367 200 shares) and the stock option program resolved by the shareholders' meeting April 9, 2003 (warrants representing 241 000 shares).

The share capital at the end of the period amounted to kSEK 84 390 after an increase by kSEK 2 from the exercise of warrants. The total number of shares amounted to 16 878 054 shares at a par value of SEK 5. Total consolidated shareholders' equity amounted to MSEK 231.9 after taking into account the loss for the period.

Loss per share for the period, based on the weighted average number of shares outstanding, amounted to SEK 2.03 (2.92). The Group's equity ratio at the end of the period was 80.4 percent (79.6) and equity per share at period-end was SEK 13.74 (27.90).

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 unchanged compared to what was applied in the Annual Report for 2002.

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

Scheduled releases of Financial Information

Karo Bio intends to release financial reports as follows:

- Quarterly Report October - December
  and Full Year Report 2003 February 6, 2004

Financial reports, press releases and other information are available on Karo Bio's web site www.karobio.com Karo Bio's financial reports and press releases may be downloaded and subscribed to on the web site at www.karobio.com/finance Financial reports are available on the web site upon release.

CONDENSED CONSOLIDATED INCOME STATEMENTS (kSEK)

	July – September		January - September	
	2003	**2002**	**2003**	**2002**
Net sales	10 530	76 753	74 072	153 131
Operating expenses				
Administrative expenses	-10 789	-12 700	-32 551	-41 512
Research and development expenses	-36 502	-41 216	-121 761	-131 719
Amortization of goodwill	-1 289	-60 449	-82 747	-181 347
Other operating income and expenses	1 529	-1 619	1 961	-6 159
	-47 051	-115 984	-235 098	-360 737
Operating loss	**-36 521**	**-39 231**	**-161 026**	**-207 606**
Financial net	2 237	1 804	8 295	10 950
Loss after financial items	**-34 284**	**-37 427**	**-152 731**	**-196 656**
Tax	-	-	-	-
LOSS FOR THE PERIOD	**-34 284**	**-37 427**	**-152 731**	**-196 656**
Other depreciation included in operating expenses	*-5 090*	*-5 498*	*-15 180*	*-16 927*
Loss per share (SEK) [*)]				
- weighted average number of shares outstanding	-2.03	-2.92	-10.46	-15.34
Number of shares outstanding (000)				
- weighted average during period	16 878	12 829	14 600	12 817
- weighted average during period, including warrants	17 501	13 212	15 109	13 212
- at end of period	16 878	12 830	16 878	12 830
- at end of period, including warrants	17 474	13 212	17 474	13 212

[*)] The outstanding warrants lead to no dilution of earnings per share, as a conversion to shares would lead to an improvement of earnings per share.

CONDENSED CONSOLIDATED BALANCE SHEETS (kSEK)

	September 30		December 31
	2003	**2002**	**2002**
Assets			
Licenses and similar rights	6 449	16 314	13 848
Goodwill	11 602	154 798	94 349
Equipment	25 020	32 113	30 063
Other current assets	10 814	11 256	11 000
Cash, cash equivalents and short-term investments	234 627	235 212	201 162
TOTAL ASSETS	**288 512**	**449 693**	**350 422**
Shareholders' equity and liabilities			
Shareholders' equity	231 923	357 973	269 060
Non-current liabilities	3 797	8 343	8 078
Deferred revenue	22 374	51 710	37 254
Current liabilities	30 418	31 667	36 030
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**288 512**	**449 693**	**350 422**

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (kSEK)

	July - September		January - September	
	2003	**2002**	**2003**	**2002**
Operating activities				
Operating loss before financial items	-36 521	-39 231	-161 026	-207 606
Amortization and depreciation	6 380	65 947	97 928	198 274
	-30 141	**26 716**	**-63 098**	**-9 332**
Financial income received and expenses paid	820	1 678	2 451	5 982
Cash flow from operating activities before changes in working capital	**-29 321**	**28 394**	**-60 647**	**-3 350**
Changes in working capital	-8 829	-20 081	-17 825	-34 867
Cash flow from operating activities	**-38 150**	**8 313**	**-78 472**	**-38 217**
Investing activities				
Investment in licenses and similar rights	-	-	-3 884	-5 110
Investment in equipment	-829	-281	-2 775	-3 892
Cash flow from investing activities	**-829**	**-281**	**-6 659**	**-9 002**
Cash flow from operations	**-38 979**	**8 032**	**-85 131**	**-47 219**
Financing activities				
Proceeds from new share issues	2	12	118 596	133
Cash flow from financing activities	**2**	**12**	**118 596**	**133**
Cash flow for the period	**-38 977**	**8 044**	**33 465**	**-47 086**
Liquid assets at the end of the period	**234 627**	**235 212**	**234 627**	**235 212**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (kSEK)

	July - September		January - September	
	2003	**2002**	**2003**	**2002**
Amount at beginning of period	**267 547**	**393 684**	**269 060**	**557 682**
Currency translation difference	-1 342	1 704	-3 657	-3 186
New issues of shares				
- rights issue	-	-	118 578	-
- warrants exercise	2	12	18	133
Issue of warrants	-	-	655	-
Loss for the period	-34 284	-37 427	-152 731	-196 656
Amount at end of period	**231 923**	**357 973**	**231 923**	**357 973**

EQUITY DATA

	September 30		December 31
	2003	**2002**	**2002**
Equity ratio	80.4%	79.6%	76.8%
Equity per share at the end of period, SEK	13.74	27.90	20.97
Equity per share at the of period, including warrants, SEK	13.27	27.09	20.36

Huddinge, October 15, 2003

Björn Nilsson
President & CEO

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Legal disclaimer

This financial report includes statements that are forward looking and actual results may differ materially from those stated. In addition to the factors discussed, among other factors that may affect results are developments within research programs, including development in pre-clinical 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.

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

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