

EARNINGS REPORT JANUARY – DECEMBER 1999

- New collaboration with Abbott Laboratories in the field of diabetes started on January 1, 2000.
- First milestone in the Bristol-Myers Squibb collaboration obtained.
- The Merck collaboration has entered into a new phase and the project has been given higher priority by Merck.
- A clinical phase II trial will be started during the spring within the skin disorders program.
- Group income amounted to SEK 73.0 million (62.9).
- Group cash flow from operations was improved to SEK –21.3 million (-28.6), while net results after financial items declined to SEK -35.1 million (-24.3) due to progress and increased investments in the research programs.
- Liquid funds and short-term investments amounted to SEK 187.8 million (209.1).

COLLABORATIVE PROJECTS

Bristol-Myers Squibb – metabolic disorders (THR)

This collaboration is aimed at developing drugs according to a new method for the treatment of obesity and elevated cholesterol. The treatment method was confirmed in October 1999, which triggered the first milestone payment. The pharmaceutical compounds tested reduce body weight and lower cholesterol without increasing heart rate. Compounds to be brought to clinical trials are selected thereafter.

Merck & Co. – estrogen receptors (ER)

The aim of the project is to develop drugs targeting the estrogen receptors Alfa and Beta. The collaboration may thus result in several products targeting different clinical applications. The first indications were prioritized during 1999. Merck assigned higher priority and allocated additional total resources to the project during the year.

In 1999, Karo Bio was granted patents on the estrogen receptor Beta in Europe and the United States.

Abbott Laboratories – Type 2 diabetes (GR)

Karo Bio has in collaboration with Karolinska Institutet developed a new method for the treatment of type 2 diabetes. A number of compounds of various classes were developed during the year, which showed the desired properties in animal models.

Karo Bio entered into a collaboration agreement with Abbot Laboratories in November 1999. Karo Bio received a down payment in January 2000 and will receive research funding for three years. Abbott will retain world marketing rights for the products developed and Karo Bio will be paid royalties on sales. In addition, Karo Bio will receive milestone payments as the compounds undergo the various stages of development. If two products are developed, total income will amount to USD 54 million, before royalties.

Corresponding amounts for the BMS and Merck collaborations are USD 40 million and USD 80 million respectively.

INTERNAL PROJECTS

Skin disorders- THR

Patients treated with steroids are at risk for developing skin atrophy. This can be counteracted by compounds that affect the thyroid hormone receptors, in accordance with a method developed by Karo Bio. A pre-study was conducted during the year on healthy human subjects. Active compounds and a formulation have been developed for clinical trials. A clinical phase II study is planned to start in April.

Cardiac arrhythmia-THR

Discussions are in progress with potential licensees for the preclinical drug candidate KB 130 015. The compound has shown promising properties in animal trials, with significantly fewer side effects than the drug currently available, amiodarone. The company is concentrating internal resources on a new generation of thyroid hormone antagonists. New compounds are continuously tested in animal models.

Glaucoma-THR

Additional animal tests were carried out during the year, which supported Karo Bio's patent-applied method to treat glaucoma by lowering pressure in the eye with thyroid hormone agonists. Development of eye drops is in progress. Animal trials of the eye drops will begin in spring 2000. An additional application for patent on the treatment method was submitted during the year.

New project and exploratory research

Karo Bio has identified new potential clinical applications within the orphan receptor field. Evaluation of those and a number of known nuclear receptors is in progress, aimed at starting new research programs during 2000.

In pace with the progress of the projects and as a result of the year's new collaboration, Karo Bio has expanded its activities within chemistry. A new chemistry lab was completed during the year and additional chemists were recruited.

There were 84 employees at the end of the year, to be compared with 74 at the end of 1998. Of these, 76 individuals are engaged in research.

RESULTS AND FINANCING

Net sales for the year for the group and parent company amounted to SEK 73.0 million (62.9), made up of research funding from the company's partners and a milestone payment from BMS. Group costs increased according to plan to SEK 115.5 million (96.2), including SEK 7 million in personnel costs, mainly attributable to the expanded R&D organization. Other significant cost increases were SEK 4 million for external academic R&D collaborations, preclinical trials and patents, SEK 2 million for IT expenditures and consultants, and SEK 2 million in depreciation.

Group cash flow from operations improved to SEK -21.3 (-28.6) million but net results for the group declined to SEK -35.1 million (-24.3). The parent company is reporting a net loss of SEK -29.8 (-19.8). The difference between the group and parent company is primarily made up of depreciation on goodwill in the amount of SEK 5.2 million (5.2).

Investments in equipment were made during the year in the amount of SEK 6.5 million (12.4) for the group and the parent company. The largest item was for the medicinal chemistry laboratory built in the company's premises in Novum.

Liquid funds and short-term investments amounted to SEK 187.8 million (209.1) at year-end for the group and 187.8 (208.9) for the parent company.

SHAREHOLDERS' EQUITY

In February 1999, the remaining 164,224 series C shares were converted to series B, pursuant to an agreement with the former owners of Serra Pharmaceuticals Inc. Thereafter, all outstanding shares were of series B. Accordingly, the annual general meeting voted on April 22, 1999 to convert all B shares to shares with no series designation. Consequently, the company's share capital of SEK 45,885,860 is now divided among 9,177,172 shares at par value of SEK 5.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

On February 1, the Board of Directors of Karo Bio decided to appoint Torben Jørgensen as new President, as of the annual general meeting on April 26th. The board is recommending that the current president Per-Olof Mårtensson be appointed Chairman of the Board.

FUTURE DEVELOPMENT

The international pharmaceutical industry has a continuous need for new products to compensate for declining sales of products for which patent has expired and in order to maintain stable sales and earnings growth. As a result, there will be a strong future demand for research collaborations and drug candidates that may result in innovative pharmaceuticals.

Karo Bio's projects are developing successfully. Conditions for entering into new collaboration agreements and outlicensing drug candidates within the next few years are favorable. In order to meet the needs of internal projects and to prepare for new collaborations, about ten researchers will be recruited in 2000. Additional premises in Novum (600 square meters) were rented beginning in 2000.

ANNUAL GENERAL MEETING AND FINANCIAL REPORTS

The board of directors intends to convene the annual general meeting on Wednesday 26 April 2000 at 4 p.m. Since there are no distributable profits, the board shall recommend that no dividend be paid for 1999.

Karo Bio intends to distribute financial reports as follows:

- Annual Report, 20 March.
- Quarterly Reports, 26 April, 12 July and 17 October.
- Earnings report, 8 February 2001.