KARO BIO

Press Release

July 16, 2002

QUARTERLY REPORT APRIL-JUNE 2002

- **The partner projects continue to make progress in compound characterization for selection of clinical development candidates.**
- **The internal GR-inflammation and AR-prostate cancer projects have both been strengthened by progress in lead compound identification and in receptor structure determinations by crystallography.**
- **Cash flows from operating activities amounted to MSEK -7.9 (-26.3). Cash and cash equivalents and short-term investments amounted to MSEK 227.2 (263.2) at the end of the period.**
- **Group net sales increased to MSEK 39.0 (27.2).**
- **The loss after financial items decreased to MSEK 79.7 (92.5). Operating loss excluding goodwill depreciation decreased to MSEK 26.1 (33.0).**

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 USA.

Karo Bio has four strategic partnerships with international pharmaceutical companies for development of new 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. Exploratory studies in novel nuclear receptor areas are conducted in order to maintain a strong pipeline. These studies cover new indications for classical receptors as well as discovery and characterization of new receptors.

Strategic Partnerships

Atherosclerosis - Wyeth Pharmaceuticals

The collaboration with Wyeth Pharmaceuticals aims at development of new treatments for atherosclerosis, with the liver X receptor (LXR) as drug discovery target. LXR plays a key role in regulation of cholesterol homeostasis and is therefore a new promising intervention point in treatment of atherosclerosis. The collaboration with Wyeth Pharmaceuticals started in September 2001 and has made considerable progress. The project has accomplished screening of large compound libraries, and promising lead structures are being investigated.

Diabetes - Abbott Laboratories

The collaboration with Abbott Laboratories is focused on a new treatment for type 2 diabetes. The aim is to normalize the increased glucose output from the liver by developing liver selective antagonists for the glucocorticoid receptor. The project has made substantial progress and preparations for selection of clinical development candidates are ongoing.

Obesity - Bristol-Myers Squibb

Karo Bio and Bristol-Myers Squibb collaborate for development of a new treatment for obesity by targeting the thyroid hormone receptor. Convincing proof of principle has been obtained in various animal models. Phase I clinical trials were discontinued in March this year for the first compound after potentially toxic metabolites were discovered in animals. The parties have launched a program for development of new clinical candidates and significant progress has been made in development of new candidates.

Women's Health Care - Merck & Co., Inc.

Karo Bio and Merck & Co., Inc. have a broad collaboration in the field of women's health care. The estrogen receptors are important targets for different clinical indications, which have been prioritized. The program is progressing with further study and characterization of potential clinical development candidates.

Technology Outlicensing

Karo Bio's BioKey® technology is well suited for high throughput screening of compound libraries to find drug candidates for new genomics targets. Karo Bio takes the opportunity to license the technology outside the field of nuclear receptors. Numerous assays have been successfully developed for several companies, which use these assays internally and when compounds identified in screening are further developed, Karo Bio will receive milestones and royalties. Karo Bio has delivered BioKey® assays to partners such as Bayer AG, Boehringer Ingelheim Pharmaceuticals, Aventis Pharma, and GPC Biotech.

In June, GPC Biotech announced that the BioKey® molecular probe assays developed for GPC Biotech are included in an outlicensing agreement with PanTherix.

Internal Projects

Male Hormone Replacement Therapy and Prostate Cancer

The androgen receptor (AR) mediates physiological responses from male sex hormones and is an important target for treatment of prostate cancer as well as for male hormone replacement therapy. During the period significant progress has been made regarding identification of lead compounds in screening of compound libraries. Karo Bio has a dominating patent position in Europe for the androgen receptor as a drug target, and also has recently received patent protection in Canada.

Inflammatory Disorders

Anti-inflammatory steroids are very powerful anti-inflammatory pharmaceuticals and act through the glucocorticoid receptor (GR). The anti-inflammatory steroids also have serious side effects, thus, there is a great need to improve on existing drugs. Karo Bio has a very strong position in the field of drug discovery around the glucocorticoid receptor. Unique technologies like receptor structures and Molecular Braille® information gives Karo Bio strong competitive advantages. Karo Bio has by using these technologies further strengthened its position in the field.

Skin Disorders

Karo Bio has developed a product, KB002611, with a potential use for treatment of various skin disorders. The product is an ointment containing a thyroid hormone analog and Karo Bio has developed evidence that KB002611 can prevent steroid induced skin atrophy. Recently a US patent was granted for treatment and prevention of skin atrophy by use of thyroid hormone analogs. Karo Bio intends to outlicense the product.

Exploratory Studies

During the period Karo Bio has strengthened its pipeline of new projects by discoveries of new treatment possibilities for common diseases. Several patent applications for promising lead compounds have been filed.

Organization

By the end of the period, Karo Bio had 135 employees (124). Of these, 37 (36) are based in the United States and 109 (103) are engaged in research.

Result, Cash Flow and Financing

Group net sales for the second quarter increased by MSEK 11.8 to MSEK 39.0 compared to MSEK 27.8 for the same period last year. The increase in revenue relates primarily to research funding and the period's share of the down payment from the research collaboration with Wyeth Pharmaceuticals that was initiated in September 2001.

Group expenses increased by MSEK 4.9 to MSEK 125.5 (120.6). The increase is an effect of the expansion of the research organization, the strengthened management team, and depreciation of the license of technology from Duke University in May 2001, which is included only for one month in prior period figures.

The operating loss for the quarter amounted to MSEK 86.5 (93.4). Operating loss excluding goodwill depreciation amounted to MSEK 26.1 (33.0).

Financial income for the second quarter amounted to MSEK 6.7 (0.9). Currency exchange gains pertaining to liabilities in US dollars are included in financial income, leading to a significant increase in financial net. More favorable market conditions led

to significantly better development of Karo Bio's short-term investments in the second quarter 2002 compared to the same period 2001.

Cash flows from operating activities for the second quarter amounted to MSEK -7.9 (-26.3). The change in cash flow is primarily an effect from reduced operating loss excluding depreciation and changes in working capital. Significant factors affecting change in working capital is the receipt of research funding from one partner for both the second and third quarter during the report period. Reduction of unearned revenue, primarily from downpayments received but not yet recorded as revenue, has a significant impact on the change in working capital.

Capital investments in equipment amounted to MSEK 1.8 (5.7). Capital investments were mainly laboratory equipment to enhance capacity and capabilities, such as screening instruments. A payment of MSEK 5.1, treated as investment in licenses and similar rights, was made for the licensing of technology in accordance the payment schedule as per the May 2001 agreement with Duke University. Similar payments will be made on each anniversary of the agreement for three more years.

Cash and cash equivalents and short-term investments amounted to MSEK 227.2 (263.2) at end of period.

Loss per share for the second quarter amounted to SEK 6.62 (7.70), based on the weighted average number of shares outstanding. The Group's equity ratio as of period-end was 77.8% (89.2%) and equity per share at period-end was SEK 32.67 (58.97).

Shareholders' Equity

Shareholders' equity increased during the second quarter by kSEK 92.2 from the exercise of warrants.

At period-end, warrants representing 361 144 shares were outstanding. The warrants were issued in conjunction with the acquisition of Karo Bio USA, Inc. in 2000 (21.144 warrants) and the implementation of the Incentive Program 2001 (340 000 warrants). The outstanding warrants will lead to no dilution of earnings per share in 2002, as a conversion to shares would lead to an improvement of earnings per share.

The Company's share capital amounted to SEK 60 251 450 at the end of the period representing 12 050 290 shares at a par value of SEK 5. Total consolidated shareholder's equity amounted to MSEK 391.3 at the end of 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. The principles applied are unchanged compared to what was applied in the Annual Report for 2001.

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

Scheduled Releases of Financial Information

Karo Bio intends to distribute financial reports as follows:

- Quarterly Report July – September — October 16
- Quarterly Report October – December and Full Year Report 2002 — February 7, 2003

Financial reports, press releases and other information is available on Karo Bio's website www.karobio.com

CONDENSED CONSOLIDATED INCOME STATEMENT (kSEK)

	April - June		January - June	
	2002	**2001**	**2002**	**2001**
Net sales	39 004	27 183	76 378	50 964
Operating expenses				
Administrative expenses	-16 699	-21 482	-33 149	-34 370
Research and development expenses	-48 279	-38 585	-90 503	-72 915
Depreciation of goodwill	-60 449	-60 449	-120 898	-120 898
Other operating expenses	-102	-102	-203	-203
	-125 529	-120 618	-244 753	- 228 386
Operating loss	**-86 525**	**-93 435**	**-168 375**	**-177 422**
Financial net	6 780	944	9 146	4 330
Loss after financial items	**-79 745**	**-92 491**	**-159 229**	**-173 092**
Tax	-	-	-	-
LOSS FOR THE PERIOD	**79 745**	**-92 491**	**-159 229**	**-173 092**
Other depreciation included in operating expenses	*-5 749*	*- 3 737*	*-11 429*	*-6 302*
Loss per share (SEK) [*)]				
- weighted average number of shares outstanding	-6.62	-7.70	-13.23	-14.41
- shares outstanding at end of period	-6.62	-7.69	-13.21	-14.40
Number of shares outstanding (000)				
- weighted average during period	12 039	12 013	12 034	12 010
- weighted average during period, fully diluted	12 411	12 306	12 411	12 231
- at end of period	12 050	12 021	12 050	12 021
- at end of period, fully diluted	12 411	12 411	12 411	12 411

[*)] The outstanding warrants lead to no dilution of earnings per share in 2002, as a conversion to shares would lead to an improvement of earnings per share.

CONDENSED CONSOLIDATED BALANCE SHEET (kSEK)

	June 30		December 31
	2002	**2001**	**2001**
Assets			
Licenses and similar rights	18 780	28 645	23 713
Goodwill	215 247	457 043	336 145
Equipment	34 791	28 907	38 762
Other current assets	9 732	16 485	7 408
Cash, cash equivalents and short-term investments	227 168	263 208	282 298
TOTAL ASSETS	**505 718**	**794 288**	**688 326**
Shareholders' equity and liabilities			
Shareholders' equity	393 684	708 883	557 683
Non-current liabilities	12 362	13 788	13 939
Current liabilities	99 672	71 617	116 704
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**505 718**	**794 288**	**688 326**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (kSEK)

	April - June		January - June	
	2002	**2001**	**2002**	**2001**
Operating activities				
Operating loss before financial items	-86 525	-93 435	-168 375	-177 422
Depreciation	66 198	64 186	132 327	127 200
Other items not affecting liquid assets	-	-101	-	-
	-20 327	**-29 350**	**-36 048**	**-50 222**
Financial income received and expenses paid	2 358	95	4 304	1 646
Cash flow from operating activities before changes in working capital	**-17 969**	**-29 255**	**-31 744**	**-48 576**
Changes in working capital	10 110	2 962	-14 786	1 832
Cash flow from operating activities	**-7 859**	**-26 293**	**-46 530**	**-46 744**
Investing activities				
Investment in licenses and similar rights	-5 110	-10 700	-5 110	-10 700
Investment in equipment	-1 830	-5 683	-3 611	-8 428
Cash flow from investing activities	**-6 940**	**-16 383**	**-8 721**	**-19 128**
Cash flow from operations	**-14 799**	**-42 676**	**-55 251**	**-65 872**
Financing activities				
Proceeds from new share issues	92	53	121	112
Cash flow from financing activities	**92**	**53**	**121**	**112**
Cash flow for the period	**-14 707**	**-42 623**	**-55 130**	**-65 760**
Liquid assets at the end of the period	**227 168**	**263 208**	**227 168**	**263 208**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (kSEK)

	April - June		January - June	
	2002	**2001**	**2002**	**2001**
Amount at beginning of period	**477 555**	**801 338**	**557 682**	**881 597**
Translation difference	-4 218	-17	-4 890	266
New issues of shares - warrants exercise	92	53	121	112
Loss for the period	-79 745	-92 491	-159 229	-173 092
Amount at end of period	**393 684**	**708 883**	**393 684**	**708 883**

EQUITY DATA

	June 30		December 31
	2002	**2001**	**2001**
Equity ratio	77.8%	89.2%	81.0%
Equity per share at the end of period, SEK	32.67	58.97	46.37
Equity per share at the end of period, fully diluted, SEK	31.72	57.12	44.93

Huddinge, July 16, 2002

Björn Nilsson,
President & CEO

For further information, please contact

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

Legal disclaimer

This Quarterly 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.