KARO BIO

Press Release

July 15, 2003

QUARTERLY REPORT APRIL - JUNE 2003

- **A second preclinical milestone reached and milestone payment received in the Merck collaboration.**
- **Promising animal data obtained in the AR prostate cancer project.**
- **Drug discovery phase in obesity project with Bristol-Myers Squibb has been completed.**
- **New share issue successfully completed and fully subscribed, generated MSEK 118.6.**
- **Net sales increased to MSEK 50.8 (39.0).**
- **Cash flows from operating activities improved to MSEK -0.6 (-7.9).**
- **Operating loss excluding goodwill amortization decreased to MSEK 1.0 (26.1). The loss for the period, including goodwill amortization, decreased to MSEK 18.1 (79.7).**
- **Cash and cash equivalents and short-term investments amounted to MSEK 273.6 (227.2) at the end of the period.**
- **Loss per share for the period amounted to SEK 1.28 (6.22).**

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.

In October 1997 Karo Bio and Merck & Co., Inc. initiated a drug discovery collaboration with estrogen receptors as targets for drug discovery in several areas, including the field of women's health care. The collaboration has reached successfully

its primary drug discovery objectives, the identification of estrogen receptor subtype selective compounds with potential for multiple clinical indications. The joint drug discovery phase ended in October 2002. A preclinical milestone was achieved in July 2002. A second preclinical milestone for a second compound that targets additional indications was reached during the period. The project is making good progress and Merck continues with preclinical development for selected compounds.

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. During the period important progress has been made in several areas of the drug discovery effort. In particular several receptor structures have been solved in complex with discovered compounds and a scientific paper covering the LXR beta structure has been accepted for publication in The Journal of Biological Chemistry.

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 parties recently announced 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.

The joint drug discovery collaboration has successfully been concluded and Abbott is evaluating the compound for candidate drug selection and clinical testing. As Abbott moves forward the agreement between the parties remains in full force and effect, and may give Karo Bio future milestone payments and royalties on sales.

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 believe that they will be able to avoid the cardiac adverse effects by developing orally active and selective thyroid hormone receptor modulators (STRMs) which maintain a stimulating effect on body metabolism and lead to weight loss and a significant reduction of serum cholesterol.

Under the agreement Karo Bio and Bristol-Myers Squibb jointly collaborate in the drug discovery phase whereas Bristol-Myers Squibb has the sole responsibility for

development of compounds through preclinical and clinical studies. The collaboration was initially a three-year collaboration with possibility for extensions. The last extension was from September 30, 2002 to March 31, 2003. Karo Bio reported in the quarterly report for January-March 2003 on the successful discovery of a compound that shows promising weight lowering effects in relevant animal models. In addition to significant weight lowering effects, the compound also appears to efficiently reduce serum cholesterol. This makes the profile very attractive for the treatment of the metabolic syndrome.

With the discovery of this compound and numerous analogs, the drug discovery phase has now been completed, and Bristol-Myers Squibb is further evaluating these novel compounds with the aim to select a candidate drug for clinical trials. As Bristol-Myers Squibb moves forward, the agreement between the parties remains in full force and effect and may give Karo Bio future milestone payments and royalties on sales. In the period, progress continues in the program. A joint scientific paper from Karo Bio, Bristol-Myers Squibb and the University of California San Francisco supporting the concept has been accepted for publication in P.N.A.S. (Proceedings of the National Academy of Sciences of the United States of America).

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. During the period Karo Bio has developed promising animal data for selected compounds and will move forward with expanded preclinical studies and lead optimization. Karo Bio also has an exclusive patent protection for AR outside of the USA as a drug discovery target.

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 is using its leading technology such as Molecular Braille® and receptor structures to discover new and more selective anti-inflammatory drugs but with significantly reduced side effects. Karo Bio continues to make important progress towards development of dissociating glucocorticoids for treatment of inflammatory disorders. Compounds are being further optimized by making new and improved chemical analogs.

Estrogen Receptors

Estrogen receptors are important targets for a wide range of disorders where there is a need for improvement of existing therapies. New discoveries have also offered opportunities for development of new innovative therapies for diseases not currently treated with pharmaceuticals targeting the estrogen receptors. Karo Bio has prioritized indications to move forward with and is building up new projects around novel

compounds targeting estrogen receptors. During the period the project has made good 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 has started a new project with the aim to establish a new partnership in the area.

Exploratory Studies

Karo Bio continues to strengthen its pipeline of new projects through internal drug discovery and by collaborations within its scientific network. 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 in the period been successful in finding lead compounds through virtual screening of compound libraries. To do this Karo is using proprietary receptor structure information and can thus in silico select and design compounds that are likely to bind to the target molecular properties.

Organization

By the end of the period, Karo Bio had 124 (135) employees. Of these, 27 (37) are based in the United States and 99 (109) are engaged in research.

Employee Stock Option Program

An employee stock option program was unanimously adopted by the shareholders' meeting on April 9, 2003 in accordance with the documentation provided for the meeting. The program covers all permanent employees of Karo Bio. A maximum of 190 000 stock options, representing the same number of shares, can be issued under the program. Stock options will be issued in four series in May 2004, which expire in 2011. The stock options vest and become exercisable in one series per year over a four-year period until May 2008. The exercise price is determined to SEK 33, 36, 39, and 44 for each series, respectively.

Karo Bio's obligation to deliver shares under the program is hedged by the issuance of warrants, which will also cover social security charges that may arise from the exercise of stock options. The number of warrants amounts to 241 000, of which 51 000 are to cover social security charges et cetera. Other costs are of an administrative nature and are not expected to be extensive.

A valuation of the stock option program was performed by Ernst & Young Corporate Finance in accordance with the updated draft accounting standard regarding employee

stock options, ED 2 Share-Based Payment, issued by the International Accounting Standards Board (IASB). The valuation was part of the formal documentation for the shareholders' meeting. Further, the valuation was made using the Black-Scholes model for option pricing. Based on the share price at that time, March 20, 2003, which was SEK 36.50, the valuation indicates a value for the program between MSEK 2.1 and 2.3 including the relevant share of warrants deemed required to cover social security costs et cetera.

No employee stock options have yet been issued. Hence, there is no impact on the Company's financial statements at the end of the report period, except for administrative costs.

New Share Issue

Karo Bio's rights issue has been completed. The subscription period was extended until May 13, 2003 to allow the Company's shareholders to consider the information disclosed in the morning of May 8, 2003, the originally last day of subscription, about a significant milestone achieved in a strategic research collaboration.

The issue generated MSEK 118.6 to the Company after transaction costs, and 98.5 percent were subscribed with preferential right for shareholders. The Karo Bio Board of Directors allocated remaining shares to shareholders.

Result

Net sales increased to MSEK 50.8 as compared to MSEK 39.0 for the same period last year. The increase in revenue is the net effect of the preclinical milestone payment received under the collaboration with Merck & Co. and 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. In addition to the Merck & Co. milestone, revenues included research funding and the period's share of the up-front payment from the research collaboration with Wyeth Pharmaceuticals. Recorded revenues were negatively affected by the strengthened SEK against the US Dollar.

Expenses decreased by MSEK 52.6 to MSEK 72.9 (125.5), due primarily to the completion of the amortization of goodwill from the acquisition of Karo Bio USA, Inc. in May 2000, which means there was only one month amortization in the second quarter 2003. Operating expenses have 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 loss excluding goodwill amortization decreased to MSEK 1.0 (26.1). Operating loss including goodwill amortization decreased to MSEK 22.1 (86.5). Financial income amounted to MSEK 4.0 (6.8), including currency gains of MSEK 2.3 (3.7) relating to financial items, leading to a loss for the period of MSEK 18.1 (79.7).

Cash Flow

Cash flows from operating activities improved to MSEK -0.6 (-7.9).

Capital investments in equipment during the period amounted to MSEK 1.6 (1.8). A payment of MSEK 3.9 (5.1) was made during the period in accordance with the agreement with Duke University for licensing of technology.

Cash and cash equivalents and short-term investments amounted to MSEK 273.6 (227.2) at the end of the period, while the corresponding amount for previous quarter was MSEK 161.2.

Shareholders' Equity and Per Share Data

At period-end, warrants representing 623 824 shares were outstanding. The warrants were issued in conjunction with the acquisition of Karo Bio USA, Inc. in 2000 (15 624 warrants), 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 (241 000 warrants).

The number of warrants relating to the Incentive Program 2001 was originally 340 000 warrants, which now represents 367 200 shares as a result of the rights issue of new shares in accordance with the terms of the program. The subscription price for the incentive program 2001 warrants has changed from SEK 321.00 to SEK 297.80 for the same reason.

The share capital at the end of the period amounted to kSEK 84 388 after an increase by kSEK 24 109 from the new share issue and exercise of warrants kSEK 12. The total number of shares amounted to 16 877 660 shares at a par value of SEK 5. Total consolidated shareholders' equity amounted to MSEK 267.5 after taking into account the loss for the period and other changes in equity.

Loss per share for the period amounted to SEK 1.28 (6.22), based on the weighted average number of shares outstanding. The Group's equity ratio at the end of the period was 80.5 percent (77.8) and equity per share at period-end was SEK 15.85 (30.69).

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 July - September — October 15
- 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)

	April - June		January - June	
	2003	**2002**	**2003**	**2002**
Net sales	50 805	39 004	63 542	76 378
Operating expenses				
Administrative expenses	-11 275	-14 321	-21 762	-28 812
Research and development expenses	-39 935	-48 279	-85 259	-90 503
Amortization of goodwill	-21 009	-60 449	-81 458	-120 898
Other operating income and expenses	-665	-2 480	432	-4 540
	-72 884	-125 529	-188 047	-244 753
Operating loss	**-22 079**	**-86 525**	**-124 505**	**-168 375**
Financial net	4 025	6 780	6 058	9 146
Loss after financial items	**-18 054**	**-79 745**	**-118 447**	**-159 229**
Tax	-	-	-	-
LOSS FOR THE PERIOD	**-18 054**	**-79 745**	**-118 447**	**-159 229**
Other depreciation included in operating expenses	*-4 990*	*-5 749*	*-10 090*	*-11 429*
Loss per share (SEK) [*)]				
- weighted average number of shares outstanding	-1.28	-6.22	-8.80	-12.43
Number of shares outstanding (000)				
- weighted average during period	14 091	12 816	13 461	12 810
- weighted average during period, including warrants	14 619	13 212	13 916	13 212
- at end of period	16 878	12 827	16 878	12 827
- at end of period, including warrants	17 501	13 212	17 501	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)

	June 30		December 31
	2003	**2002**	**2002**
Assets			
Licenses and similar rights	8 915	18 780	13 848
Goodwill	12 891	215 247	94 349
Equipment	26 470	34 791	30 063
Other current assets	10 559	9 732	11 000
Cash, cash equivalents and short-term investments	273 604	227 168	201 162
TOTAL ASSETS	**332 439**	**505 718**	**350 422**
Shareholders' equity and liabilities			
Shareholders' equity	267 547	393 684	269 060
Non-current liabilities	3 582	12 362	8 078
Deferred revenue	26 134	56 110	37 254
Current liabilities	35 176	43 562	36 030
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**332 439**	**505 718**	**350 422**

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (kSEK)

	April - June		January - June	
	2003	**2002**	**2003**	**2002**
Operating activities				
Operating loss before financial items	-22 079	-86 525	-124 505	-168 375
Amortization and depreciation	25 998	66 198	91 548	132 327
	3 919	**-20 327**	**-32 957**	**-36 048**
Financial income received and expenses paid	855	2 358	1 631	4 304
Cash flow from operating activities before changes in working capital	**4 774**	**-17 969**	**-31 326**	**-31 744**
Changes in working capital	-5 412	10 110	-8 996	-14 786
Cash flow from operating activities	**-638**	**-7 859**	**-40 322**	**-46 530**
Investing activities				
Investment in licenses and similar rights	-3 884	-5 110	-3 884	-5 110
Investment in equipment	-1 617	-1 830	-1 946	-3 611
Cash flow from investing activities	**-5 501**	**-6 940**	**-5 830**	**-8 721**
Cash flow from operations	**-6 139**	**-14 799**	**-46 152**	**-55 251**
Financing activities				
Proceeds from new share issues	118 590	92	118 594	121
Cash flow from financing activities	**118 590**	**92**	**118 594**	**121**
Cash flow for the period	**112 451**	**-14 707**	**72 442**	**-55 130**
Liquid assets at the end of the period	**273 604**	**227 168**	**273 604**	**227 168**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (kSEK)

	April - June		January - June	
	2003	**2002**	**2003**	**2002**
Amount at beginning of period	**167 753**	**477 555**	**269 060**	**557 682**
Currency translation difference	-1 397	-4 218	-2 315	-4 890
New issues of shares				
– rights issue	118 578	-	118 578	-
– warrants exercise	12	92	16	121
Issue of warrants	655	-	655	-
Loss for the period	-18 054	-79 745	-118 447	-159 229
Amount at end of period	**267 547**	**393 684**	**267 547**	**393 684**

EQUITY DATA

	June 30		December 31
	2003	**2002**	**2002**
Equity ratio	80.5%	77.8%	76.8%
Equity per share at the end of period, SEK	15.85	30.69	20.97
Equity per share at the of period, including warrants, SEK	15.29	29.80	20.36

Huddinge, July 15, 2003

Björn Nilsson
President & CEO

For further information, please contact

Björn Nilsson, President & CEO tel. +46 8 608 60 20 or Bertil Jungmar, Chief Financial Officer, tel. +46 8 608 60 52.

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.

Karo Bio AB (publ.), Novum, SE-141 57 Huddinge, Sweden.
Telephone: +46-8-608 60 00.
Fax: +46-8-774 82 61
Corporate identity number: 556309-3359
Website: http://www.karobio.com