KARO BIO

Press Release

April 19, 2007

QUARTERLY REPORT JANUARY - MARCH 2007

- **The first phase II study with KB2115 in patients with primary hypercholesterolemia has been successfully completed and the results will be presented in June this year**
- **The Board of Directors of Karo Bio decided on March 26 to propose a new share issue with preferential rights that would generate MSEK 406 to the company before transaction costs. The proposal for a new share issue was approved at an extra General Shareholders Meeting on April 11**
- **Net sales for the period amounted to MSEK 2.0 (2.0)**
- **The loss for the period amounted to MSEK 51.4 (36.2)**
- **Cash flows from operating activities for the period amounted to MSEK -56.4 (-41.0)**
- **Liquid assets and other short-term investments amounted to MSEK 173.4 (304.5) at the end of the period**
- **Loss per share for the period amounted to SEK 0.66 (0.47)**

Operations

Karo Bio is a drug discovery and development company specializing in nuclear receptors for the development of novel pharmaceuticals with focus on metabolic diseases. Karo Bio has three clinical (two with partners) and four preclinical projects.

The company has expanded from being a drug discovery company by adding in-house preclinical and clinical development resources and competence for development of drugs to treat metabolic diseases. The company has a strong project portfolio with innovative molecules that primarily targets diseases such as dyslipidemia, diabetes and atherosclerosis. In all of these areas there are significant market opportunities and a growing need for new pharmaceuticals with new mechanisms of action.

In addition to the proprietary projects Karo Bio has two strategic collaborations with international pharmaceutical companies and one biotech collaboration for development of innovative therapies for the treatment of common diseases.

Karo Bio is listed on the Stockholm Stock Exchange since 1998 (Reuters: KARO.ST).

Research and Development

KB2115 – Severe Dyslipidemia

Karo Bio develops the pharmacologically selective thyromimetic KB2115 for treatment of severe dyslipidemia. In a previous two week phase I study it has been demonstrated that the compound appeared to be safe and efficacious with an LDL lowering of up to 40 percent in healthy but overweight individuals with high plasma levels of cholesterol. In the fourth quarter of 2006, Karo Bio initiated a 12 week phase II study in patients with primary hypercholesterolemia. The aim of the study is to study the effect and safety of KB2115 at doses that produce clinically relevant reduction of LDL-cholesterol. The study has been finalized and the results will be presented in June this year.

KB5359 – Dyslipidemia

KB5359 is a liver selective thyroid hormone mimetic that significantly lowers LDL cholesterol in several animal models without any recorded negative effects on the heart. In preclinical models KB5359 has an efficacy and safety profile that may be beneficial for treatment of common forms of dyslipidemia. In addition to the powerful LDL lowering capacity of KB5359 the compound also has positive effects in diabetes and triglyceride animal models. In addition, in animal models KB5359 significantly improves the LDL-lowering in combination with statins compared to the effect obtained with statins alone.

In the period Karo Bio has continued to strengthen the preclinical documentation for KB5359. The cardiac safety of the compound has been further demonstrated in a monkey model. Two week dose range finding toxicology studies in rats and dogs have also been finalized and the results are being evaluated. Furthermore, 28 day toxicology study in rats and dogs have been finalized and the data are being compiled. Finally, GMP manufacturing and development of a pharmaceutical formulation for phase I clinical studies are progressing well. The aim is to initiate phase I studies with KB5359 during fall and the company intends to conduct these studies within the frame of an outlicensing agreement with a partner.

KB3305 – Type 2 Diabetes

KB3305 has a favorable pharmacological profile in several different animal diabetes models and acts by selectively antagonizing the action of glucocorticoid hormone in the liver. In animals, KB3305 normalizes the hyperglycemia associated with type 2 diabetes. Preclinical safety and toxicology studies suggest that KB3305 should be a safe and well-tolerated drug with more than a 100-fold safety margin over the expected clinical dose. Karo Bio is currently improving the quality of the pharmaceutical capsule formulation with the aim to initiate clinical studies during the second half of the year.

ER beta selective compounds – Depression

ER beta selective compounds have potential for a number of important diseases such as inflammatory diseases, cancer and depression. Karo Bio is currently prioritizing development of CNS-active compounds for treatment of depression and proof of principle in animal models for the use of ER beta selective agonists in depression has been obtained. The lead compounds have a high selectivity for ER beta and thereby adverse effects like a stimulation of uterine growth will be minimized. The aim now is

to improve the bioavailability of the compounds and to select a candidate drug. Karo Bio is also exploring additional clinical opportunities for its ER beta compounds.

Karo Bio Partner Projects

Atherosclerosis – Wyeth Pharmaceuticals
The collaboration with Wyeth Pharmaceuticals is aimed at new treatments of atherosclerosis with the liver X receptor (LXR) as a target. Preclinical studies have shown that compounds which stimulate LXR have anti-atherogenic effects. Evaluation of a compound in phase I studies is ongoing.

Estrogen Receptors – Merck & Co., Inc.
Merck and Karo Bio have collaboration in the field of estrogen receptors. Estrogen receptors are important targets for several diseases in the field of women's health. The joint drug discovery phase has been concluded and Merck is responsible for the development phase. A candidate compound from the collaboration is progressing in phase I clinical development.

Osteoporosis – Radius Health, Inc.
Karo Bio announced a licensing agreement with Radius, a private US based company, in 2006. Under the terms of the agreement Radius acquired the exclusive worldwide rights, excluding the Nordic and Baltic countries, to a new class of Selective Androgen Receptor Modulators (SARMs) discovered by Karo Bio. Radius is advancing these SARM compounds in preclinical studies for the treatment of osteoporosis and frailty associated with loss of muscle mass.

Organization

By the end of the period, Karo Bio had 75 (75) employed, of which 67 (61) are engaged in research and development.

Result and Financial Position

Result

Net sales for the quarter amounted to MSEK 2.0 as compared to MSEK 2.0 for the same period last year.

Expenses for the quarter increased to MSEK 55.0 (39.7) which is mainly attributable to higher costs in the drug development projects regarding costs for clinical trials

Operating loss for the quarter amounted to MSEK 53.0 (37.8). Financial net for the quarter amounted to MSEK 1.5 (1.6). The reported loss for the quarter amounted to MSEK 51.4 (36.2).

Cash Flow

Cash flows from operating activities for the quarter amounted to MSEK -56.4 (-41.0).

Liquid assets amounted to MSEK 61.2 (22.3) at the end of the period. If including other short-term investments, with duration exceeding 90 days, the assets amounted to MSEK 173.4 (304.5).

Capital Investments

Capital investments in equipment for the quarter amounted to MSEK 0.8 (0.7) including equipment financed with capital leases.

Shareholders' Equity and Per Share Data

At period-end, warrants representing 1,014,470 shares were outstanding. The warrants were issued in conjunction with the implementation of the 2001 and 2003 stock option programs (warrants representing 612,000 and 402,470 shares, respectively, after adjustment for the effect of rights issues in accordance with the terms of the programs).

The share capital at the end of the period amounted to MSEK 38.7. The total number of shares amounted to 77,412,795 shares with a ratio value of SEK 0.50. Total consolidated shareholders' equity amounted to MSEK 159.1 after taking into account the loss for the period.

Loss per share for the quarter, based on the weighted average number of shares outstanding, amounted to SEK 0.66 (0.47). The Group's equity ratio at the end of the period was 82.4 percent (91.3) and equity per share was SEK 2.05 (3.88).

New Share Issue

On March 26, 2007 the Board of Directors of Karo Bio AB has decided to propose a new share issue with preferential rights for existing shareholders.

The primary purpose of the issue is to secure additional capital to implement Karo Bios strategy and enable further clinical development of KB2115. The secondary purpose is to enable further development of other projects. KB2115 is intended chiefly for treatment of dyslipidemia. Karo Bio also plans to take drug candidate KB3305 to clinical development for the treatment of diabetes.

The financing will also enable Karo Bio to construct a platform for out-licensing of the ER beta project for depression and for the launch of additional preclinical and clinical development projects from the platform.

The April 11, 2007 special general meeting approved the Board's decision concerning a new share issue. The issue price has been set at SEK 10.50 per share, as a result of which the issue will increase Karo Bio's liquid assets by a maximum of 406 MSEK, less issue expenses. The offer entitles a shareholder to subscribe for one (1) new share in Karo Bio for every two shares held in Karo Bio. Trading in new shares is expected to begin around June 8, 2007.

CONDENSED CONSOLIDATED INCOME STATEMENTS (kSEK)

	January-March 2007	January-March 2006	Jan-Dec 2006
Net sales	1,974	1,982	44,021
Operating expenses			
Administrative expenses	-9,386	-8,405	-31,828
Research and development expenses	-45,496	-32,708	-144,969
Other operating income and expenses	-74	1,367	782
	-54,956	-39,746	-176,015
Operating loss	**-52,982**	**-37,764**	**-131,994**
Financial net	1,543	1,610	5,878
Loss after financial items	**-51,439**	**-36,154**	**-126,116**
Tax	-	-	-
LOSS FOR THE PERIOD	**-51,439**	**-36,154**	**-126,116**
Depreciation included in operating expenses	*-1,220*	*-1,477*	*-5,559*
Loss per share (SEK) [*)]			
- weighted average number of shares outstanding	-0.66	-0.47	-1.63
- including warrants outstanding	-0.66	-0.47	-1.63
Number of shares outstanding (000)			
- weighted average during period	77,413	77,413	77,413
- weighted average during period, incl warrants	78,427	78,427	78,427
- at end of period	77,413	77,413	77,413
- at end of period, including warrants	78,427	78,427	78,427

[*)] 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)

	March 31 2007	March 31 2006	Dec 31 2006
Assets			
Equipment	7,995	12,082	8,632
Other current assets	11,520	12,571	12,291
Other short-term investments	112,220	282,200	137,270
Liquid assets	61,220	22,269	93,779
TOTAL ASSETS	**192,955**	**329,122**	**251,972**
Shareholders' equity and liabilities			
Shareholders' equity	159,072	300,411	210,503
Non-current liabilities	592	1,423	712
Current liabilities	33,291	27,288	40,757
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**192,955**	**329,122**	**251,972**

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (kSEK)

	January-March		Jan-Dec
	2007	**2006**	**2006**
Operating activities			
Operating loss before financial items	-52,982	-37,764	-131,994
Depreciation	1,220	1,477	5,559
Other items not affecting cash flows	35	45	180
	-51,727	-36,242	-126,255
Financial items received and paid	795	994	7,686
Cash flow from operating activities before changes in working capital	**-50,932**	**-35,248**	**-118,569**
Changes in working capital	-5,435	-5,722	8,210
Cash flow from operating activities	**-56,367**	**-40,970**	**-110,359**
Investing activities			
Investment in licenses and similar rights	-	-	-
Net investment in equipment	-828	-675	-2,043
Net investment in other short-term investments	24,636	-243,356	-101,089
Cash flow from investing activities	**23,808**	**-244,031**	**-103,132**
Financing activities			
Proceeds from new share issues	-	-	-
Cash flow from financing activities	**-**	**-**	**-**
Cash flow for the period	**-32,559**	**-285,001**	**-213,491**
Liquid assets at the end of the period	**61,220**	**22,269**	**93,779**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (kSEK)

	January-March		Jan-Dec
	2007	**2006**	**2006**
Amount at beginning of period	**210,503**	**336,548**	**336,548**
Effect from changes in accounting principles	-	-	-
Currency translation difference	-	-1	1
Employee stock option program – value of employee services	8	18	70
New issues of shares	-	-	-
Loss for the period	-51,439	-36,154	-126,116
Amount at end of period	**159,072**	**300,411**	**210,503**

EQUITY DATA

	March 31		Dec 31
	2007	**2006**	**2006**
Equity ratio	82.4 %	91.3 %	83.5 %
Equity per share at the end of period, SEK	2.05	3.88	2.72
Equity per share at the of period, including warrants, SEK	2.03	3.83	2.68

Accounting and Valuation Principles

This quarterly report has been prepared in accordance with International Accounting Standards 34 for interim reports and international financial reporting standards IFRS as adopted by the EU. The accounting and valuation principles applied are unchanged compared with what was applied in the Annual Report for 2006. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2007 or later. These accounting standards and interpretations are deemed not to have a significant impact on the consolidated financial statements other than presentational or disclosures presented in the reports. In addition, there are certain accounting standards and interpretations that are not relevant to Karo Bio.

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 distribute financial reports as follows:

- Quarterly Report April - June July 12, 2007
- Quarterly Report July - September October 16, 2007
- Earnings Report 2007 February 7, 2008

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.

Huddinge April 19, 2007

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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 preclinical 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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