KARO BIO

Press release August 5th, 2008

INTERIM REPORT JANUARY–JUNE 2008

The period in brief

- Net sales for the six month period amounted to MSEK 7.2 (3.9)
- Net loss for the six month period amounted to MSEK 101.8 (118.2)
- Loss per share for the six month period amounted to SEK 0.88 (1.24)
- Cash flow from operating activities for the six month period amounted to MSEK -105.7 (-90.9). Cash and cash equivalents and other short-term investments totaled MSEK 325.1 (520.5) at the end of the period
- A phase IIb study with eprotirome as add-on to statin treatment has been successfully concluded. Data show that eprotirome was efficacious, safe and well tolerated at all three doses tested
- An additional phase IIb study with eprotirome as add-on to ezetimibe is progressing according to plan. Data will be presented in the fourth quarter of 2008
- A phase I single ascending dose study with the type 2 diabetes compound KB3305 has been successfully completed
- A strategic collaboration with Zydus Cadila, with the aim to develop novel anti-inflammatory compounds, was initiated in the first quarter and identification of lead compounds is progressing

Significant events after the end of the reporting period

- After the end of the reporting period, Karo Bio has obtained and reported data from the phase IIb study with eprotirome that was conducted during the first half of 2008

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Selected financial information in summary

(MSEK)	April-June		January-June		January-December
	2008	**2007**	**2008**	**2007**	**2007**
Net sales	5.5	1.9	7.2	3.9	7.5
Operating expenses	-58.5	-70.8	-116.7	-125.8	-223.4
- whereof of R&D expenses	-46.6	-61.2	-96.8	-106.7	-190.8
Profit/loss for the period	-49.9	-66.8	-101.8	-118.2	-203.4
Profit/loss per share (SEK)	-0.43	-0.67	-0.88	-1.24	-1.92
Cash flow from operating activities	-49.7	-34.5	-105.7	-90.9	-178.3
Cash and cash equivalents and other short term investments at end of period	325.1	520.5	325.1	520.5	432.3
Equity ratio (%)	83.3	87.8	83.3	87.8	86.9
Numbers of shares outstanding ('000)					
- weighted average during the period	116,119	99,764	116,119	95,676	105,897
- at the end of the period, basic	116,119	116,119	116,119	116,119	116,119
- at the end of the period, fully diluted	116,594	117,315	116,594	117,315	117,315

About Karo Bio

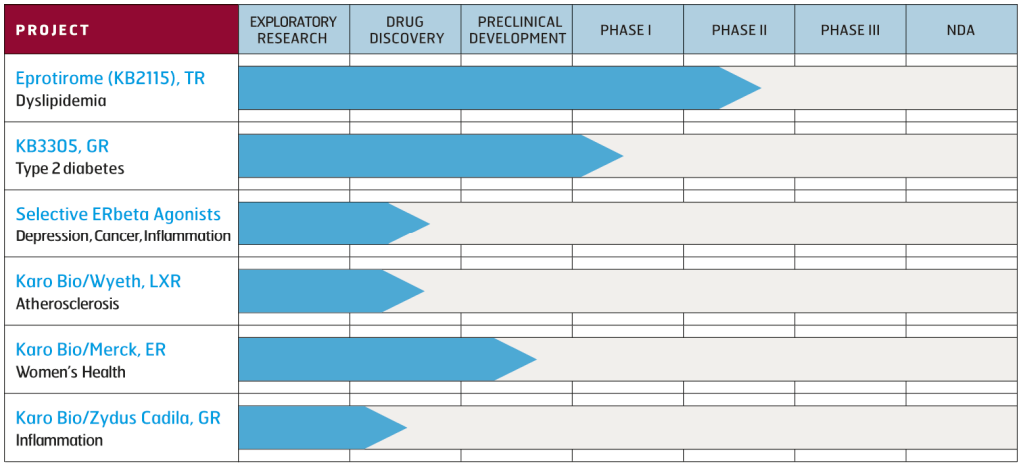
Karo Bio is a drug discovery and development company specializing in nuclear receptors for the development of novel pharmaceuticals.

The Company has a strong project portfolio with innovative molecules that primarily target metabolic diseases such as diabetes, atherosclerosis and dyslipidemia. In all of these areas there are significant market opportunities and a need for pharmaceuticals with new mechanisms of action. Karo Bio intends to bring selected compounds within niche therapeutic areas into late stage clinical development and, potentially, to the market. In addition to pursuing niche opportunities, Karo Bio continues to develop compounds aimed at treatment of broad patient populations to clinical proof of concept before out licensing.

In addition to the proprietary projects, Karo Bio has three strategic collaborations with international pharmaceutical companies for development of innovative therapies for the treatment of common diseases.

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

Project portfolio



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CEO'S COMMENTS ON THE FIRST SIX MONTHS OF 2008

Convincing data from eprotirome phase IIb study

We are very encouraged by the results from the phase IIb study where eprotirome was given as add-on to statin treatment. This study shows that eprotirome can be given safely together with statins, and that eprotirome has significant therapeutic efficacy on LDL-cholesterol, triglycerides and lipo-protein(a) over and above the effect of statin. The clinical efficacy, tolerability and safety make this combination a potentially attractive therapy for patients who cannot achieve their treatment goals with statin alone.

We have also started an additional phase IIb study where eprotirome is given as add-on to the cholesterol absorption inhibitor ezetimibe. The study proceeds according to plan and we look forward to the results which will be available in the fourth quarter. If positive, this study can further expand the market opportunities for eprotirome.

We are proceeding with our communicated strategy with the aim to bring eprotirome through phase III development with a partner.

KB3305 is making progress in clinical development

A first phase I single ascending dose clinical study with KB3305, for treatment of type 2 diabetes, has been successfully completed. The compound exhibited robust and predictable pharmacokinetics and was well tolerated. We are now preparing for a multiple ascending dose study in healthy volunteers, followed by a small study in patients. If successful, the next step is to perform a proof of concept study in 2009.

Partnership events and progress in exploratory research

In February we initiated a strategic collaboration with Zydus Cadila with the intention to jointly develop novel and improved compounds for treatment of inflammatory disorders. The project is off to a good start and the compound flow is working well. The heavy chemistry and preclinical pharmacology will be done in India, while structural biology and screening is done in Sweden.

In our collaboration with Wyeth Pharmaceuticals we have built a deepened understanding about LXR (the liver X receptor), which will provide guidance in selection of new development candidates.

Karo Bio's internal drug discovery program that targets ERbeta has also made considerable progress and in July we presented new data at the CINP neuro-psychopharmacology meeting in Munich. Apart from depression, we see several other clinical opportunities for our ERbeta compounds.

Per Olof Wallström
President and CEO

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

After the end of the reporting period, Karo Bio has obtained and reported data from the phase IIb study with eprotirome that was conducted during the first half of 2008.

RESEARCH AND DEVELOPMENT

Eprotirome (KB2115) – Dyslipidemia

Karo Bio's compound eprotirome is a novel, selective, thyroid hormone agonist for treatment of dyslipidemia. In a previous clinical phase II study, eprotirome as monotherapy has shown a broad and unique efficacy profile with significant reduction of LDL-cholesterol, triglycerides and lipoprotein (a), as well as good clinical safety and tolerance.

Recently, an additional three month phase IIb study was finalized. To explore the potential for eprotirome as add-on to standard statin treatment, Karo Bio conducted a phase IIb placebo controlled, randomized, double blind, 12 week study in 189 patients, each with high levels of serum cholesterol. Eprotirome was given in one of either three different doses or placebo on top of statin treatment.

The results show that eprotirome, in a dose-dependent manner, significantly lowered LDL-cholesterol, triglycerides and lipoprotein(a) when added to statin. The additional reductions are clinically relevant and of the same magnitude as eprotirome given alone. Eprotirome was safe and well tolerated. Sensitive markers for the body's thyroid hormone balance were unaffected by the treatment.

The profile of eprotirome is unique in producing simultaneous and powerful reductions of three independent risk factors for the development of atherosclerotic cardiovascular diseases. This combined effect on LDL-cholesterol, triglycerides and lipoprotein(a) indicates that eprotirome has the potential for being an important new dyslipidemia drug. Scientific data from the study will be presented at upcoming conferences during the fall of 2008.

In March, Karo Bio initiated a second clinical phase IIb study with eprotirome. This study is a placebo controlled, parallel group, double blind, 10 week dose ranging study in 100 patients. Eprotirome is given once daily in addition to the cholesterol absorption inhibitor ezetimibe. The purpose of this dose ranging study is to expand the clinical and commercial potential for eprotirome in dyslipidemia treatment by exploring whether eprotirome in combination with ezetimibe can serve as an alternative to statin treatment. The study is progressing according to plan and the results are expected in the fourth quarter of 2008.

In the period Karo Bio has also generated preclinical data on blood sugar which indicate that eprotirome has potential for treatment of type 2 diabetes. The opportunities in this area will be further explored.

KB3305 – Type 2 diabetes

KB3305 is a liver selective glucocorticoid antagonist that suppresses hepatic glucose production. This novel mechanism of action for improvement of glycemic control has the potential to become an important contribution to the treatment of type 2 diabetes.

In preclinical studies, KB3305 is both efficacious and safe. In addition to glucose lowering, KB3305 also lowers other important risk factors for cardiovascular disease such as cholesterol, triglyceride and free fatty acid levels in plasma.

During spring, a first phase I study has been finalized with promising results. KB3305 was administered in single ascending doses to healthy volunteers. The compound showed robust and predictable pharmacokinetics and the subjects were well exposed. No serious adverse events were recorded.

A multiple ascending dose study in healthy volunteers will be started following approval from the regulatory authorities. On completion of this study, Karo Bio intends to dose the first type 2 diabetes patients in order to get preliminary proof of principle for clinical efficacy in diabetes.

ERbeta selective compounds – Depression, cancer, inflammation

Considerable progress has been made regarding improvement of selectivity and bioavailability of the Karo Bio lead compounds in the ERbeta program. Currently several series of compounds are being evaluated for candidate drug selection. Karo Bio has also presented data at the CINP neuro-psychopharmacology meeting in Munich, July 13-17. According to the data presented, novel and improved compounds have shown efficacy in preclinical depression models, both alone and in combination with other currently available therapies. Additional clinical opportunities for selective ERbeta selective ligands are also explored.

Atherosclerosis – Wyeth Pharmaceuticals

The collaboration with Wyeth Pharmaceuticals, initiated in 2001, 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. Apart from atherosclerosis other clinical opportunities for LXR ligands are being explored.

Estrogen Receptors – Merck & Co., Inc.

Estrogen receptors are important targets for several diseases in the field of women's health. The collaboration with Merck was initiated in 1997. The joint drug discovery phase in the collaboration with Merck was concluded in 2002, with Merck responsible for development of selected compounds. The candidate compound from the collaboration that entered phase I clinical development in 2006 was discontinued in 2007 due to an unsuitable profile. A back-up compound is in preclinical development.

Inflammatory diseases - Zydus Cadila

In February, Karo Bio and Zydus Cadila, one of India's leading healthcare companies, initiated a three year research collaboration with the purpose to discover and develop novel, selective glucocorticoid receptor (GR) modulators for the treatment of inflammatory diseases. Both parties share risks and rewards for the collaboration program. The project is progressing well with design, synthesis and screening of novel lead compounds.

SARMs - Radius Health, Inc.

In 2006, Karo Bio and Radius announced a licensing agreement in which Radius acquired the exclusive worldwide rights to a new class of selective androgen receptor modulators (SARMs) developed by Karo Bio. In February, Karo Bio reacquired the full rights to these compounds.

RESULT AND FINANCIAL POSITION

The operations of the Group are mainly conducted in the parent company. The parent company holds only one subsidiary with assets of MSEK 0.1 (0.1), liabilities of MSEK 0.0 (0.0) and shareholders' equity of 0.1 (0.1). The subsidiary has had no revenue or expenses. The Group's accounts correspond, in all material respects, with that of the parent company why this is not separately disclosed.

Revenue

Net sales for the six month period increased to MSEK 7.2 as compared to MSEK 3.9 for the same period last year. The reported net sales for the period consist of research payment from collaborations and a license fee of MSEK 3.7 from a non-exclusive license to certain intellectual property rights granted by Karo Bio to a not disclosed company.

Expenses

Operating expenses for the six month period decreased by MSEK 9.1 to MSEK 116.7 (125.8). The MSEK 9.9 decrease in research and development expenses and MSEK 3.7 decrease in administrative expenses is to a large extent an effect of the overall reduction of the Company's internal cost base that was initiated in 2007. Other operating income and expenses of MSEK -3.9 comprises costs incurred in strategy related projects during the second quarter.

Profit/loss

Operating loss for the six month period amounted to MSEK 109.5 (121.9). The improvement of MSEK 12.4 is a combined effect of the increase in net sales and lower operating expenses. Financial net for the six month period amounted to MSEK 7.7 (3.7). The reported loss for the six month period decreased with MSEK 16.4 to MSEK 101.8 (118.2).

Capital investments

Capital investments in equipment for the six month period amounted to MSEK 3.8 (1.9) and comprise mainly laboratory equipment financed with capital leases.

Cash flow

Cash flow from operating activities for the six month period amounted to MSEK -105.7 (-90.9).

Financial position

Cash and cash equivalents amounted to MSEK 97.0 (451.9) at the end of the period. Including other short-term investments with duration exceeding 90 days, these assets amounted to MSEK 325.1 (520.5), which corresponds to a change in total cash position of MSEK -107.2 during the six month period.

Shareholders equity and per share data

The share capital at the end of the period amounted to MSEK 58.1. The total number of shares amounted to 116,119,192 shares with a ratio value of SEK 0.50. Total consolidated shareholders' equity amounted to MSEK 292.5 after taking into account the loss for the period.

Loss per share for the six month period, based on the weighted average number of shares outstanding, amounted to SEK 0.88 (1.24). The Group's equity ratio at the end of the period was 83.3

per cent (87.8) and equity per share, based on fully diluted number of shares at the end of the period, was SEK 2.51 (4.09).

Organization

At the end of the period, Karo Bio had 63 (74) employees, of which 58 (68) are engaged in research and development.

Risk factors

There is no guarantee that Karo Bio's research and development will result in commercial success.

There is no guarantee that the clinical trials conducted by Karo Bio, whether independently or in collaboration with its partners, can demonstrate sufficient safety and efficacy to obtain the necessary approvals from regulatory authorities, or that they will result in marketable products.

There can be no guarantee that Karo Bio will develop products that can be patented, that granted patents can be retained, that future inventions will lead to patents, or that granted patents will be sufficient to protect Karo Bio's rights.

There may be a need to turn to the capital market in the future. Both the size and the timing of the Company's potential future capital requirements are dependent on a number of factors, including opportunities to enter into collaboration or licensing agreements and the possibility of achieving success in research and development projects undertaken.

CONDENSED CONSOLIDATED INCOME STATEMENTS (KSEK)

	April-June		January-June		January-December
	2008	**2007**	**2008**	**2007**	**2007**
Net sales	5,458	1,899	7,207	3,873	7,534
Operating expenses					
Administrative expenses	-7,920	-10,221	-15,928	-19,607	-33,320
Research and development expenses	-46,582	-61,239	-96,841	-106,735	-190,754
Other operating income and expenses	-4,010	633	-3,917	559	712
	-58,512	-70,827	-116,686	-125,783	-223,362
Operating profit/loss	**-53,054**	**-68,928**	**-109,479**	**-121,910**	**-215,828**
Financial net	3,140	2,178	7,720	3,721	12,393
Profit/loss after financial items	**-49,914**	**-66,750**	**-101,759**	**-118,189**	**-203,435**
Tax	-	-	-	-	-
PROFIT/LOSS FOR THE PERIOD	**-49,914**	**-66,750**	**-101,759**	**-118,189**	**-203,435**
Depreciation included in operating expenses	-1,375	-1,236	-2,821	-2,456	-5,531
Profit/loss per share (SEK) *)					
- based on weighted average number of shares outstanding, basic and diluted	-0.43	-0.67	-0.88	-1.24	-1.92
Number of shares outstanding (000)					
- weighted average during the period	116,119	99,764	116,119	95,676	105,897
- at end of period, basic	116,119	116,119	116,119	116,119	116,119
- at end of period, fully diluted	116,594	117,315	116,594	117,315	117,315

**) The outstanding warrants lead to no dilution of loss per share, as a conversion to shares would lead to a reduced reported loss per share*

CONDENSED CONSOLIDATED BALANCE SHEETS (KSEK)

	June 30		December 31
	2008	**2007**	**2007**
Assets			
Licenses and similar rights	2,275	3,428	2,851
Equipment	7,459	8,108	5,884
Other current assets	16,331	13,872	12,580
Other short-term investments	228,112	68,587	233,093
Cash and cash equivalents	96,964	451,864	199,164
TOTAL ASSETS	**351,141**	**545,859**	**453,572**
Shareholders' equity and liabilities			
Shareholders' equity	292,512	479,492	394,263
Non-current liabilities	2,455	471	225
Current liabilities	56,174	65,896	59,084
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**351,141**	**545,859**	**453,572**

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (KSEK)

	April-June		January-June		January-December
	2008	**2007**	**2008**	**2007**	**2007**
Operating activities					
Operating profit/loss before financial items	-53,054	-68,928	-109,479	-121,910	-215,828
Depreciation	1,375	1,236	2,821	2,456	5,531
Other items not affecting cash flows	32	37	91	72	154
	-51,647	**-67,655**	**-106,567**	**-119,382**	**-210,143**
Financial items received and paid	2,009	3,145	4,454	3,940	16,029
Cash flow from operating activities before changes in working capital	**-49,638**	**-64,510**	**-102,113**	**-115,442**	**-194,114**
Changes in working capital	-98	29,986	-3,615	24,551	15,818
Cash flow from operating activities	**-49,736**	**-34,524**	**-105,728**	**-90,891**	**-178,296**
Investing activities					
Investment in licenses and similar rights	-	-3,460	-	-3,460	-3,460
Net investment in equipment	-502	-1,533	-831	-2,361	-3,087
Net investment in other short-term investments	61,876	43,000	4,359	67,636	-96,933
Cash flow from investing activities	**61,374**	**38,007**	**3,528**	**61,815**	**-103,480**
Financing activities					
Proceeds from new share issues	-	387,161	-	387,161	387,161
Cash flow from financing activities	**-**	**387,161**	**-**	**387,161**	**387,161**
Cash flow for the period	**11,638**	**390,644**	**-102,200**	**358,085**	**105,385**
Cash and cash equivalents at the end of the period	96,964	451,864	96,964	451,864	199,164

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (KSEK)

	April-June		January-June		January-December
	2008	**2007**	**2008**	**2007**	**2007**
Equity at the beginning of the period	**342,424**	**159,072**	**394,263**	**210,503**	**210,503**
Employee stock option program - value of employee services	2	9	8	17	34
Share issuances	-	387,161	-	387,161	387,161
Profit/loss for the period	-49,914	-66,750	-101,759	-118,189	-203,435
Equity at the end of the period	292,512	479,492	292,512	479,492	394,263

EQUITY DATA

	June 30		December 31
	2008	**2007**	**2007**
Equity ratio	83.3%	87.8%	86.9%
Equity per share at the end of period – basic, SEK	2.52	4.13	3.40
Equity per share at the end of period - diluted, SEK	2.51	4.09	3.36

Accounting and valuation principles

This interim 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 to those applied in the Annual Report for 2007. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2008 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 Swedish Kronor. Amounts or figures in parentheses indicate comparative figures for the corresponding period last year.

Scheduled releases of financial information

- Interim report January - September 2008 October 23, 2008
- Year-end report 2008 February 6, 2009

Financial reports, press releases and other information are available on Karo Bio's web site www.karobio.com. It is also possible to download and subscribe to Karo Bio's financial reports and press releases on the web site at www.karobio.com/finance. Financial reports are available on the web site upon release.

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 development 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.

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The Board of Directors and the President and CEO certify that the Interim Report gives a true and fair overview of the Parent Company's and Group's operations, their financial position and results of operations, and describes significant risks and uncertainties facing the Parent Company and other companies in the Group.

Huddinge, August 5, 2008

Leon E. Rosenberg Chairman	Per Olof Wallström President and Board member	
Leif Carlsson Board member	Dana M. Fowlkes Board member	Laurent Leksell Board member
Birgit Stattin Norinder Board member	Bo Carlsson Board member	Johnny Sandberg Board member

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

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The information is of a nature which Karo Bio shall need to disclose according to the Securities Market Act. The information was disclosed August 5, 2008, 08:30 am