

Press release April 22, 2009

INTERIM REPORT JANUARY–MARCH 2009

The quarter in brief

- Net sales for the period amounted to MSEK 2.2 (1.7)
- Net loss for the period amounted to MSEK 45.9 (51.8)
- Loss per share amounted to SEK 0.40 (0.45)
- Cash flow from operating activities for the period amounted to MSEK -41.0 (-56.0). Cash, cash equivalents and other short-term investments totaled MSEK 200.4 (375.7) at the end of the period
- At *The Annual American College of Cardiology Meeting* in Orlando, Florida, March 29, 2009, results from Karo Bio's phase IIb study with eprotirome as add-on to statin treatment was presented in the *Late breaking Clinical Trial Session*
- In March, positive results from the phase I program with KB3305 were reported. In addition to healthy volunteers, a group of type 2 diabetes patients was included in the trials. The results show that KB3305 induces a profound, clinically relevant and statistically significant lowering of fasting blood glucose and an improvement of glucose tolerance in patients with type 2 diabetes. The safety profile was acceptable and no serious adverse events were recorded.

Significant events after the end of the reporting period

- There are no significant events after the end of the reporting period to report

For further information, please contact:

Per Olof Wallström, President, tel. +46 8 608 60 20

Per Otteskog, Senior Vice President Investor Relations, tel. +46 8 608 60 18

Erika Johnson, Chief Financial Officer, tel. +46 8 608 60 52

Selected financial information in summary

(MSEK)	January-March		January-December
	2009	2008	2008
Net sales	2.2	1.7	10.7
Operating expenses	-50.3	-58.2	-201.4
- whereof of R&D expenses	-41.9	-50.3	-169.4
Profit / loss for the period	-45.9	-51.8	-174.8
Profit / loss per share (SEK)	-0.40	-0.45	-1.51
Cash flow from operating activities	-41.0	-56.0	-186.4
Cash, cash equivalents and other short term investments at end of period	200.4	375.7	242.7
Equity ratio (%)	80.9	85.6	83.4
Numbers of shares outstanding ('000)			
- weighted average during the period	116,119	116,119	116,119
- at the end of the period, basic	116,119	116,119	116,119
- at the end of the period, fully diluted	116,594	117,315	116,594

About Karo Bio

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

The company has a project portfolio with innovative molecules that primarily target dyslipidemia, diabetes and inflammation. In these areas, there are significant market opportunities and a need for pharmaceuticals with new mechanisms of action. Karo Bio develops compounds aimed at treating broad patient populations up to clinical proof of concept before out-licensing. In therapeutic niche areas, Karo Bio has the capacity to bring selected compounds into late stage clinical development and, potentially, to the market. 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 NASDAQ OMX Stockholm since 1998 (Reuters: KARO.ST).

Project portfolio

Program	Discovery	Preclinical Development	Phase I	Phase II	Phase III
Eprotirome TR, Dyslipidemia					
KB3305 GR, Type 2-Diabetes					
ER-beta Agonists					
LXR, Inflammation Partner: Wyeth					
ER, Women's Health Partner: Merck					
GR, Inflammation Partner: Zydus Cadila					

THE PRESIDENT COMMENTS ON THE FIRST QUARTER OF 2009

The new year has started in a positive way for Karo Bio.

Karo Bio's clinical phase IIb study with eprotirome as add-on to statin treatment was chosen as one of five studies to be presented at the *Late Breaking Clinical Trial Session* at the *Annual American College of Cardiology Meeting* in Orlando, Florida, at the end of March. The presentation was given by Professor Bo Angelin from the Karolinska University Hospital. Detailed data from the study has been submitted for publication in a well renowned medical journal.

It is Karo Bio's intention to conduct clinical phase III studies with eprotirome within the framework of a partnership. Partnering discussions are ongoing in a changing environment with uncertainties regarding regulatory issues and general concerns regarding long term safety for compounds aimed for treatment of broad patient populations. This is influencing the decision processes for big pharma companies.

By the end of March, Karo Bio reported positive results from the phase I program for the anti-diabetes compound KB3305. By showing that KB3305 has clinically relevant effects on the level of fasting blood glucose in type 2 diabetes patients, Karo Bio has succeeded in establishing proof-of-principle for a new class of drugs. The clinical results are pronounced and consistent and provide excellent grounds for continued clinical development. The safety profile was acceptable and no serious adverse reactions were recorded. Before clinical phase II studies will commence, Karo Bio will evaluate all data and decide on the potential need for further optimization of the pharmaceutical formulation.

Karo Bio's ER-beta program makes good progress and develops into a new platform for Karo Bio, with a potential for several different clinical applications. For the time being, Karo Bio focuses on two substantial opportunities; diseases within the central nervous system and cancer. Compounds are being evaluated versus specific criteria, with the objective to select one or more candidate drugs.

Our partners Merck, Wyeth and Zydus Cadila all make progress with their respective projects. Karo Bio is committed to contribute to these projects, each of which - if successful - has great potential impact on Karo Bio.

Per Olof Wallström

President and CEO

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

There are no significant events after the end of the reporting period to report.

RESEARCH AND DEVELOPMENT

Eprotriome (KB2115) – dyslipidemia

Karo Bio's compound eprotriome is a novel, liver selective thyroid hormone receptor agonist for the treatment of dyslipidemia. Eprotriome has been well tolerated in the clinical studies which have lasted up to three months and in which eprotriome has been given as monotherapy, as add-on to statins and as add-on to treatment with ezetimibe.

In clinical phase II studies, eprotriome has shown statistically significant and clinically relevant reductions of LDL-cholesterol, non-HDL cholesterol, apoB, triglycerides and lipoprotein(a). The effects are of the same magnitude whether eprotriome is given as monotherapy or as add-on to statins or ezetimibe. In summary, the data show that eprotriome is unique in producing simultaneous and powerful reductions of several independent risk factors for the development of atherosclerotic cardiovascular diseases. Karo Bio has also generated preclinical data that indicate that eprotriome has positive effects blood glucose. This would be of great value for treatment of type 2 diabetics with elevated blood lipids.

The results from the clinical phase IIb study where eprotriome was given as add-on to statins was presented at the *Late Breaking Clinical Trial Session* at the *American College of Cardiology Meeting* in Orlando, Florida, March 29. The presentation was given by Professor Bo Angelin from the Karolinska Institute and received great attention from media and the industry.

It is Karo Bio's intention to conduct clinical phase III studies within the framework of a partnership, and discussions with potential partners are progressing. As a preparation for clinical phase III studies, Karo Bio has initiated a dialogue with FDA with the purpose to receive feedback on the accumulated preclinical and clinical documentation. Karo Bio is currently conducting limited and complementing preclinical and clinical phase I studies

KB3305 – type 2 diabetes

KB3305 is a first in class liver selective glucocorticoid antagonist for treatment of type 2 diabetes. In preclinical studies, KB3305 has been shown to be both efficacious and safe.

Karo Bio has concluded a clinical phase I program with KB3305 that comprises three parts. The first part, where KB3305 was successfully given as increasing single doses to healthy volunteers, was reported in April 2008. In March 2009, Karo Bio reported top line results from the second and third parts of the clinical phase I program; repeated dosing to healthy volunteers and repeated dosing in a group of type 2 diabetes patients, respectively.

In the second part of the phase I program, a total of 24 healthy volunteers were treated with KB3305 at doses up to 450 mg per day for a period of five days. The tolerability and safety were satisfactory, and no serious adverse events were recorded. The pharmacokinetic profile of the compound was robust and predictable.

In the third part of the program, 14 patients with type 2 diabetes were treated with up to 450 mg KB3305 per day over a period of 14 days. A control group was given the corresponding placebo, and the allocation to each treatment group was randomized and blinded. Since KB3305 is a first-in-class compound, the purpose of this study was to establish proof-of-principle by showing that KB3305 has clinically relevant effects on fasting plasma glucose levels in diabetes patients.

The results show a pronounced, clinically relevant and statistically significant lowering of fasting plasma glucose levels compared to baseline as well as placebo, and also a statistically significant

improvement in glucose tolerance tests. The side-effect profile was acceptable, and no serious adverse events were recorded. Before initiation of clinical phase II trials, Karo Bio will evaluate all existing data and decide on the potential need for further optimization of the pharmaceutical formulation.

ER-beta selective compounds – depression, women’s health, cancer

The estrogen receptor subtype ER-beta offers many clinical possibilities in areas such as depression, inflammatory diseases, and women’s health care, as well as certain forms of cancer. In Karo Bio’s ER-beta program the project objectives regarding selectivity and bioavailability of lead compounds in the ER-beta program have been reached. The preclinical development of lead compounds is ongoing with the intention to select a candidate drug for CNS disorders. Karo Bio is evaluating additional clinical applications for its ER-beta selective ligands, for example in the field of cancer.

Collaboration with Wyeth Pharmaceuticals - Inflammation (LXR)

The collaboration with Wyeth Pharmaceuticals, initiated in 2001, targets the liver X receptor (LXR) for treatment of inflammatory disorders. In 2008, the collaboration was prolonged until August 31, 2009.

Collaboration with Merck & Co., Inc. - Women’s Health (ER)

Estrogen receptors (ER) 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 the development of selected compounds. In December 2008 Merck initiated clinical phase I development with a new collaboration compound.

Collaboration with Zydus Cadila - Inflammatory diseases (GR)

In early 2008, 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 compounds for treatment of inflammatory diseases. The compounds are designed for a selective activation of glucocorticoid receptors (GR). Thereby, some of the side effects associated with corticosteroids can be avoided while the anti-inflammatory effects can be maintained. Both parties share risks and rewards and cover their own costs for the collaboration program.

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 assets held by the subsidiary comprise intra-group receivables. The subsidiary has had no revenue or expenses. The accounting principles applied for the parent company differ from those applied for the Group only regarding accounting of leasing agreements. The Group's accounts correspond, in all material respects, to that of the parent company why the latter is not separately disclosed.

Revenue

Net sales for the quarter increased to MSEK 2.2, as compared to MSEK 1.7 for the same period last year. The reported net sales for the period consist of research payment from collaborations.

Expenses

Operating expenses for the quarter decreased by MSEK 7.9 to MSEK -50.3 (-58.2). This decrease is mainly due to reduced research and development expenses of MSEK 8.4 compared to last year. For the quarter, reported research and development expenses totaled MSEK -41.9 (-50.3). Administrative expenses for the period amounted to MSEK -8.8 (-8.0).

Profit/loss

Operating loss for the quarter amounted to MSEK 48.1 (56.4), which is an improvement of MSEK 8.3. Financial net for the quarter amounted to MSEK 2.2 (4.6). The reported loss for the quarter decreased with MSEK 5.9 to MSEK 45.9 (51.8).

Capital investments

Capital investments in equipment for the quarter amounted to MSEK 0.9 (3.6).

Cash flow

Cash flow from operating activities for the quarter amounted to MSEK -41.0 (-56.0).

Financial position

Cash and cash equivalents amounted to MSEK 55.4 (85.3) at the end of the period. Including other short-term investments with duration exceeding 90 days, these assets amounted to MSEK 200.4 (375.7). At the beginning of the year, cash and cash equivalents including other short-term investments totaled MSEK 242.7, which implies a change in total cash position of MSEK -42.3 during the period. The company's currently available financial assets are estimated to sustain operations, in accordance with present plan, to the second half of 2010. As stipulated in the company's finance policy, Karo Bio's funds are invested solely in low risk, interest-bearing assets.

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 173.6 after taking into account the loss for the period.

Loss per share for the quarter, based on the weighted average number of outstanding shares, amounted to SEK 0.40 (0.45). The Group's equity ratio at the end of the period was 80.9 (85.6)

percent and equity per share, based on fully diluted number of shares at the end of the period, was SEK 1.49 (2.92).

Organization

At the end of the period, Karo Bio had 67 (61) employees, of whom 60 (53) 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 for additional funding 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. There is a risk that the required funding of the operations will not be available when needed or at a reasonable cost.

CONDENSED CONSOLIDATED INCOME STATEMENTS (KSEK)

	January-March		January-December
	2009	2008	2008
Net sales	2,192	1,749	10,689
Operating expenses			
Administrative expenses	-8,800	-8,008	-28,600
Research and development expenses	-41,879	-50,259	-169,428
Other operating income and expenses	425	93	-3,372
	-50,254	-58,174	-201,400
Operating profit / loss	-48,062	-56,425	-190,711
Financial net	2,164	4,580	15,914
Profit / loss after financial items	-45,898	-51,845	-174,797
Tax	-	-	-
PROFIT / LOSS FOR THE PERIOD	-45,898	-51,845	-174,797
Profit / Loss for the period attributable to:			
Equity holders of the parent	-45,898	-51,845	-174,797
Depreciation included in operating expenses	-1,024	-1,446	-5,025
Profit / loss per share attributable to equity holders of the parent during the period (SEK) *)			
- based on weighted average number of shares outstanding, basic and diluted	-0.40	-0.45	-1.51
Number of shares outstanding (000)			
- weighted average during the period	116,119	116,119	116,119
- at end of period, basic	116,119	116,119	116,119
- at end of period, fully diluted	116,594	117,315	116,594

*) 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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	January-March		January-December
	2009	2008	2008
PROFIT / LOSS FOR THE PERIOD	-45,898	-51,845	-174,797
Other comprehensive income for the year, net of tax	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-45,898	-51,845	-174,797
Total comprehensive income attributable to:			
Owners of the parent company	-45,898	-51,845	-174,797

STATEMENT OF FINANCIAL POSITION (KSEK)

	March 31		December 31
	2009	2008	2008
Assets			
Licenses and similar rights	1,409	2,563	1,698
Equipment	7,434	8,346	8,079
Other current assets	5,400	13,294	10,691
Other short-term investments	145,038	290,383	145,773
Cash and cash equivalents	55,376	85,326	96,948
TOTAL ASSETS	214,657	399,912	263,189
Shareholders' equity and liabilities			
Shareholders' equity	173,576	342,424	219,474
Non-current liabilities	1,840	2,720	2,022
Current liabilities	39,241	54,768	41,693
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	214,657	399,912	263,189

STATEMENT OF CASH FLOWS (KSEK)

	January-March		January-December
	2009	2008	2008
Operating activities			
Operating profit / loss before financial items	-48,062	-56,425	-190,711
Depreciation	1,024	1,446	5,025
Other items not affecting cash flows	28	59	175
	-47,010	-54,920	-185,511
Financial items received and paid	2,877	2,445	15,597
Cash flow from operating activities before changes in working capital	-44,133	-52,475	-169,914
Changes in working capital	3,130	-3,517	-16,473
Cash flow from operating activities	-41,003	-55,992	-186,387
Investing activities			
Net investment in equipment	-506	-329	-3,798
Net investment in other short-term investments	-63	-57,517	87,969
Cash flow from investing activities	-569	-57,846	84,171
Financing activities			
Cash flow from financing activities	-	-	-
Cash flow for the period	-41,572	-113,838	-102,216
Cash and cash equivalents at the end of the period	55,376	85,326	96,948

STATEMENT OF CHANGES IN EQUITY (KSEK)

Attributable to owners of the parent company	Share capital	Other contributed capital	Accumulated losses	Total
Amount at January 1, 2008	58,059	675,045	-338,841	394,263
Total comprehensive income for the period	-	-	-51,845	-51,845
Employee stock option program - value of employee services	-	6	-	6
Amount at March 31, 2008	58,059	675,051	-390,686	342,424
Amount at January 1, 2009	58,059	675,053	-513,638	219,474
Total comprehensive income for the period	-	-	-45,898	-45,898
Amount at March 31, 2009	58,059	675,053	-559,536	173,576

EQUITY DATA

	March 31		December 31
	2009	2008	2008
Equity ratio	80.9%	85.6%	83.4%
Equity per share at the end of period - basic, SEK	1.49	2.95	1.89
Equity per share at the end of period - diluted, SEK	1.49	2.92	1.88

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 2008, except for the amended IAS 1 *Presentation of financial statements*. The revised IAS 1 has been applied by the Group as from January 1, 2009, with additional information regarding comprehensive income specified as a separate statement in conjunction with the consolidated income statement, and the statement of changes in equity containing solely transactions with the equity holders. A number of new or updated accounting standards and interpretations are applicable for financial years beginning January 1, 2009 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 April-June 2009 July 14, 2009
- Interim report July-September 2009 October 22, 2009
- Year-end report 2009 February 9, 2010

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.

Huddinge, April 22, 2009

Per Olof Wallström
President

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

Analyst coverage

ABG Sundal Collier, Stockholm

Alexander Lindström

Danske Markets, Stockholm

Mattias Häggblom

D. Carnegie, Stockholm

Camilla Oxhamre

Handelsbanken Capital Markets, Stockholm

Erik Hultgård

Nordea Markets, Stockholm

Patrik Ling

Redeye, Stockholm

Björn Fahlén

Independent analyst

Stefan Wikholm

Independent analyst

Peter Östling

Karo Bio AB (publ.), Novum, 141 57 Huddinge, Sweden

Telephone: +48 8 608 60 00

Facsimile: +46 8 774 82 61

Corporate registration number 556309-3359

Website: www.karobio.com

The information is of a nature which Karo Bio shall need to disclose according to the Exchange and Clearings Operations Act and/or the law covering trade with financial instruments. The information was disclosed on April 22, 2009, 08:30 am