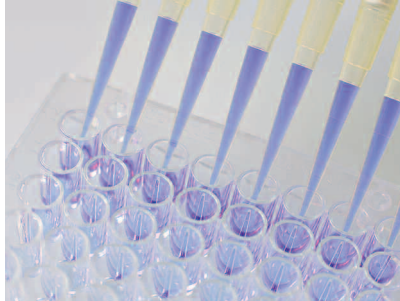




Financial

Statements 2009



Financial condition and results of operations

Balance sheet

Funds available for financing the operations amounted to CHF 60.5 million at December 31, 2009, and include cash, cash equivalents, financial assets and trade receivables from collaboration partners. They were thus CHF 37.5 million lower than end of December 2008. This net change is composed of payments from collaboration partners and financing of the ongoing operating, investing and financing activities including the buy back of 18.4% of the convertible bonds.

As of December 31, 2009, CHF 57.1 million nominal value of convertible bonds maturing in February 2012 are outstanding (see note 8 to the statutory financial statements).

Revenues

Revenues decreased from CHF 19.7 million in 2008 to CHF 9.1 million in 2009. The revenues in 2009 resulted mainly from the recognition of deferred income in conjunction with the execution of commercial license agreements in December 2008 by Pfizer and the subsequent transfer of manufacturing technology as well as license income from a development collaboration. Revenue in 2008 resulted mainly from payments made by Pfizer for the Immunodrug™ agreement in human health and a compensation of CHF 5.0 million by Novartis due to the progress made with the Alzheimer's vaccine candidate CAD106.

Operating costs

The total operating costs, including other income and expense, decreased from CHF 43.6 million in 2008 by CHF 7.3 million to CHF 36.3 million in 2009. Research and development costs decreased from CHF 39.5 million by CHF 6.5 million to CHF 33.0 million in 2009 due to decreased pre-clinical and clinical activities and lower employee expenses because of the head count reduction in the 3rd quarter 2009.

Sales and marketing and general and administrative expenses all together decreased from CHF 4.6 million in 2008 by CHF 0.7 million to CHF 3.9 million in 2009 due to less communication costs and lower administrative expenses. The position "Other income/(expense), net" was almost unchanged compared to 2008 and amounted to CHF 0.5 million.

Operating loss

The operating loss increased from CHF 23.9 million in 2008 by CHF 3.3 million to CHF 27.2 million in 2009.

Financial income/expense (net)

Net financial income in 2009 was CHF 2.4 million compared to CHF 2.1 million net financial expense in 2008. Financial income in 2009 was CHF 6.9 million and hence higher by about CHF 4.5 million than in 2008, mainly due to the gain from buying back part of the issued convertible bonds. Financial expense was almost unchanged compared to 2008 and amounted to CHF 4.5 million.

Net loss

Net loss decreased from CHF 26.0 million in 2008 by CHF 1.2 million to CHF 24.8 million in 2009. Net loss per share decreased from CHF 4.94 in 2008 to CHF 4.71 in 2009.

Cash burn

The gross cash burn for operating activities decreased from CHF 3.3 million per month in 2008 to CHF 2.5 million per month in 2009.

Capital expenditure

In 2009, the Company invested CHF 0.1 million into property and equipment, predominantly in laboratory equipment, compared to CHF 0.5 million in 2008.

Report of the statutory auditor
to the general meeting of
Cytos Biotechnology AG
Schlieren, Switzerland

Report of the statutory auditor on the consolidated financial statements

As statutory auditors, we have audited the consolidated financial statements of Cytos Biotechnology AG, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 79 to 122), for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

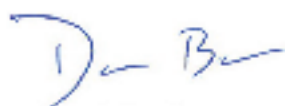
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Stefan Räsänen
Audit expert
Auditor in charge



Daniel Banks

Basel, February 3, 2010

Cytos Biotechnology Ltd and subsidiaries

Consolidated Balance Sheets as of			
in TCHF	Note	December 31, 2009	December 31, 2008
Non-current assets:			
Property and equipment, net	12	5,993	8,383
Investment in associates	13	48	235
Trade and other receivables	10	–	2,500
Total non-current assets		6,041	11,118
Current assets:			
Prepayments and other assets	11	1,671	2,603
Trade and other receivables	10	3,021	15,712
Financial assets	9	37,000	41,000
Cash and cash equivalents	8	20,969	40,322
Total current assets		62,661	99,637
Total assets		68,702	110,755
Shareholders' equity:			
Share capital	17	527	527
Legal reserves	17	136	136
Additional paid-in capital	17	210,018	207,899
Convertible bond – equity component		7,645	8,430
Treasury shares	17	(6)	(42)
Accumulated deficit		(210,079)	(185,090)
Total shareholders' equity		8,241	31,860
Non-current liabilities:			
Accrued expenses	15	680	772
Convertible bond – liability component	14	51,864	60,887
Pension liabilities	24	910	924
Provisions	16	2,148	1,979
Total non-current liabilities		55,602	64,562
Current liabilities:			
Trade accounts payable		253	800
Other current liabilities		224	294
Accrued expenses	15	3,564	4,500
Deferred income	6	814	8,704
Provisions	16	4	35
Total current liabilities		4,859	14,333
Total shareholders' equity and liabilities		68,702	110,755

See accompanying notes which are an integral part of these consolidated financial statements.

Cytos Biotechnology Ltd and subsidiaries

Consolidated Income Statements		Twelve months ended	Twelve months ended
in TCHF	Note	December 31, 2009	December 31, 2008
Revenue	5/6	9,108	19,728
Revenue		9,108	19,728
Research and development		(32,972)	(39,495)
Sales and marketing		(858)	(958)
General and administrative		(2,998)	(3,670)
Other income/(expense), net		481	512
Net operating costs	18	(36,347)	(43,611)
Operating loss		(27,239)	(23,883)
Financial income		6,923	2,380
Financial expense		(4,516)	(4,511)
Share of gain on associates	13	6	5
Loss before tax		(24,826)	(26,009)
Net loss		(24,826)	(26,009)

Consolidated Statements of Comprehensive Income		Twelve months ended	Twelve months ended
in TCHF (except for share information)	Note	December 31, 2009	December 31, 2008
Net loss		(24,826)	(26,009)
Currency translation differences		(163)	183
Other comprehensive gain/(loss)		(163)	183
Total comprehensive loss		(24,989)	(25,826)
Basic and diluted net loss per share	26	(4.71)	(4.94)
Weighted average number of shares used in computing basic and diluted net loss per share		5,268,759	5,264,996

See accompanying notes which are an integral part of these consolidated financial statements.

Cytos Biotechnology Ltd and subsidiaries

Consolidated Statements of Cash Flows		Twelve months ended	Twelve months ended
in TCHF	Note	December 31, 2009	December 31, 2008
Cash flow from operating activities:			
Net loss before tax		(24,826)	(26,009)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	12	2,475	2,738
Change of provisions	16	138	125
(Gain)/loss on sale of equipment		(53)	(2)
(Gain)/loss on foreign exchange movements		-	(262)
Financial income		(6,923)	(2,380)
Financial expense		4,516	4,511
(Gain)/loss on associates	13	(6)	(5)
Share-based compensation	25	2,142	2,734
Outflow for cash settled options		-	(47)
Research material expensed		853	-
Changes in assets and liabilities:			
Trade and other receivables	10	15,191	(16,518)
Pension asset/(liability)	24	(14)	1,178
Prepayments and other assets	11	79	(715)
Trade accounts payable		(547)	(359)
Other current liabilities and accrued expenses		(8,273)	7,116
Net cash (used in)/provided by operating activities		(15,248)	(27,895)
Cash flow from investing activities:			
(Purchase)/sale of financial assets, net	9	4,000	25,000
(Purchase)/sale of property and equipment, net		(37)	(468)
Interest received		211	2,214
Investment in associated companies		-	(203)
Net cash (used in)/provided by investing activities		4,174	26,543
Cash flow from financing activities:			
Interest paid		(2,013)	(2,012)
Partial repurchase of convertible bonds	14	(6,280)	-
Proceeds from issuance of share capital		-	440
Sale/(purchase) of treasury shares, net		24	(12)
Share issuance costs		(11)	(47)
Net cash (used in)/provided by financing activities		(8,280)	(1,631)
Net effect of currency translation on cash		1	262
Net increase/(decrease) in cash and cash equivalents	8	(19,353)	(2,721)
Cash and cash equivalents, beginning of period	8	40,322	43,043
Cash and cash equivalents, end of period	8	20,969	40,322

See accompanying notes which are an integral part of these consolidated financial statements.

Cytos Biotechnology Ltd and subsidiaries
Consolidated Statements of Change in Shareholders' Equity

in CHF (except for share information)	Number of shares	Share capital	Legal reserves	Additional paid-in capital	Convertible bond – equity component	Treasury shares	Accumulated deficit	Cumulative translation adjustments	Total
December 31, 2007	5,261,375	526	136	204,707	8,430	(101)	(159,049)	(215)	54,434
Total comprehensive loss	-	-	-	-	-	-	(26,009)	183	(25,826)
Issuance of share capital	8,681	1	-	439	-	-	-	-	440
Share issuance costs	-	-	-	(47)	-	-	-	-	(47)
Net movement of treasury shares	-	-	-	(71)	-	59	-	-	(12)
Share-based compensation	-	-	-	2,871	-	-	-	-	2,871
December 31, 2008	5,270,056	527	136	207,899	8,430	(42)	(185,058)	(32)	31,860
Total comprehensive loss	-	-	-	-	-	-	(24,826)	(163)	(24,989)
Share issuance costs	-	-	-	(11)	-	-	-	-	(11)
Partial repurchase of convertible bonds	-	-	-	-	(785)	-	-	-	(785)
Net movement of treasury shares	-	-	-	(12)	-	36	-	-	24
Share-based compensation	-	-	-	2,142	-	-	-	-	2,142
December 31, 2009	5,270,056	527	136	210,018	7,645	(6)	(209,884)	(195)	8,241

See accompanying notes which are an integral part of these consolidated financial statements.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

1. General information

Cytos Biotechnology Ltd (the “Company”), a public Swiss biotechnology company, and its subsidiaries (together the “Group”) specialize in the discovery, development and commercialization of a new class of biopharmaceutical products – the Immunodrugs™. Immunodrugs™ are intended for use in the prevention and treatment of chronic diseases and aim at activating the patient’s immune system to induce specific antibody and targeted T cell responses to modulate chronic disease processes.

The consolidated financial statements for the year ended 2009 have been approved for issuance by the Board of Directors on February 3, 2010.

The Company is listed on the SIX Swiss Exchange.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and effective for 2009. The accounting policies set forth below have been consistently applied to all years presented.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4, “Critical accounting estimates and judgements”.

For better readability the amounts in the Group’s financial statements and notes are presented in thousand Swiss Francs (TCHF) unless stated otherwise.

New accounting standards and IFRIC interpretations

Relevant standards, amendments and interpretations to existing standards adopted by the Group in 2009

- IAS 1 (Revised/Amendment), Presentation of Financial Statements (effective from January 1, 2009). The Group applies this standard since January 1, 2009. Apart from presentation impacts, it does not have any impact on the Group’s accounts.
- IAS 19 (Amendment), Employee Benefits (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group’s accounts.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

- IAS 20 (Amendment), Accounting for Government Grants and Disclosure of Government Assistance (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IAS 23 (Amendment), Borrowing Costs (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IAS 28 (Amendment), Investments in Associates (and consequential amendments to IAS 32, Financial Instruments: Presentation, and IFRS 7, Financial Instruments: Disclosures) (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IAS 32 (Amendment), Financial Instruments: Presentation, and IAS 1 (Amendment), Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IAS 36 (Amendment), Impairment of Assets (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IAS 38 (Amendment), Intangible Assets (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IFRS 1 (Amendment), First Time Adoption of IFRS, and IAS 27, Consolidated and Separate Financial Statements (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IFRS 2 (Amendment), Share-based Payment (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IFRS 7, (Amendment), Financial Instruments: Disclosures (effective from January 1, 2009). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.
- IFRS 8, Operating Segments (effective from January 1, 2009). The Group applies this standard since January 1, 2009. Apart from presentation impacts, it does not have any impact on the Group's accounts.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective from October 1, 2008). The Group applies this standard since January 1, 2009, but it does not have any impact on the Group's accounts.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Relevant standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- IAS 1 (Amendment), Presentation of Financial Statements (effective from January 1, 2010). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IAS 27 (Revised), Consolidated and Separate Financial Statements (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IAS 38 (Amendment), Intangible Assets (effective from January 1, 2010). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement (effective from January 1, 2010). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRS 2 (Amendment), Share-based Payment (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRS 3 (Revised), Business Combinations (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRS 5 (Amendment), Non-current Assets Held-for-sale and Discontinued Operations (and consequential amendment to IFRS 1, First-time Adoption) (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRS 8 (Amendment), Operating Segments (effective from January 1, 2010). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRIC 16 (Amendment), Hedges of a Net Investment in a Foreign Operation (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRIC 18, Transfers of Assets from Customers (effective from July 1, 2009). The Group will apply this standard from January 1, 2010. It is not expected to have an impact on the Group's accounts.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective from July 1, 2010). The Group will apply this standard from January 1, 2011. It is not expected to have an impact on the Group's accounts.

Consolidation

The consolidated financial statements include all companies over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are deconsolidated from the date control ceases.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the income statement.

The Group applies the equity method of accounting for investments in companies that are considered associated companies and for which it has the ability to exercise significant influence, but not control. This generally exists when it owns between 20% and 50% of the voting rights of an associated company. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

All inter-company balances, transactions and unrealized gains on transactions have been eliminated in consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The consolidated financial statements include the accounts of Cytos Biotechnology Ltd, Schlieren, Switzerland, and its wholly-owned subsidiaries Cytos Biotherapeutics Ltd, Schlieren, Switzerland, (share capital: CHF 100,000), Mavena AG in liquidation, Belp, Switzerland, (share capital: CHF 6 million) and Proteome Therapeutics GmbH, Singen, Germany, non-operative, (partner's capital: EUR 25,000).

During 2002, the Company acquired Askli Holding AG ("Askli"), a publicly owned Swiss corporation domiciled in Belp, Switzerland, including its wholly owned subsidiary Mavena AG (put into liquidation in 2008). All other operating companies of Askli were sold, merged or liquidated.

Segment reporting

The Group operates in one segment, focusing on the discovery, development and prospective commercialization of a new class of biopharmaceutical products that are intended for use in the treatment and prevention of chronic diseases. The segment is reported in a manner consistent with the internal reporting provided to the CEO who is the chief operating decision-maker.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Foreign currency translation and transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss Francs (CHF), which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities of companies whose functional currency is other than CHF are included in the consolidation by translating the assets and liabilities into the presentation currency at the exchange rates applicable at the end of the reporting period. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction). All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Impairment of assets

Non-financial assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. An impairment loss is recognized for this difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash and cash equivalents

The Group considers all short-term, highly liquid investments convertible into known amounts of cash with original maturities of three months or less at the date of the purchase to be cash equivalents. The cash flow statement is based on cash and cash equivalents.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Trade and other receivables

Trade and other receivables are recorded at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount and is recognized in the income statement.

Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are measured at their fair value plus initial transaction costs. Fair value changes on financial assets at fair value through profit or loss are included in financial income or expense for the period in which they arise. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. As per year end the Group held no investments in this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are shown separately in the balance sheet. Loans and receivables are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. Assets under this category that have a fixed

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

maturity are valued at amortized cost using the effective interest rate method. As per year end the Group held no investments in this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are measured at their fair value. Fair value movements are recorded in equity. Gains or losses are included in net profit or loss for the period in which the asset has been sold. As per year end the Group held no investments in this category.

Purchases and sales of all above mentioned categories of investments are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the Company's specific circumstances.

The Group assesses at each period end whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses on equity instruments recognized in the income statement are not reversed through the income statement.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Gains or losses from remeasured derivatives are recognized immediately in the income statement if the derivatives are not designated as hedging instrument. The Group did not designate any derivative as a hedging instrument and did not hold any derivatives at the end of the reporting period.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Property and equipment

Property and equipment is stated at historical costs less accumulated depreciation and any impairment. Historical costs include expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories.

The applicable estimated useful lives are as follows:

Leasehold improvements	5–10 years
Machinery and equipment	5–10 years
Office equipment, furniture and fixtures	3–10 years
Automobiles	5 years

Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease term. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount.

Cost and accumulated depreciation related to assets retired or otherwise disposed are removed from the accounts at the time of retirement or disposal and any resulting gain or loss is included in the income statement in the period of disposition.

Loans payable

Loans payable are recognized initially at fair value, net of transaction costs incurred, and subsequently stated at amortized cost. Any difference between the proceeds and the redemption value is recognized in the income statement over the period of the loan payable using the effective interest method. Borrowing costs are recognized as an expense in the period in which they incurred.

Loans payable are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability of at least 12 months after the balance sheet date.

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Deferred taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The Group has only recognized a deferred tax asset arising from unused tax losses or tax credits to the extent that the Group has sufficient taxable temporary differences.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Pension plan

The Group provides retirement benefits to its employees in line with local customs and requirements. Contributions are based on periodic actuarial calculations. The pension scheme is funded through payments to an insurance company. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The asset/liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. In respect of defined benefit plans, pension costs are calculated by an independent actuary using the projected unit credit method annually. Under this method the costs of providing pensions are charged to the income statements in order to spread the regular costs over the service lives of employees in accordance with the advice of qualified actuaries. The pension obligation is the actuarially computed present value of the estimated future net cash outflow using interest rate assumptions in line with high quality corporate bonds. All actuarial gains and losses exceeding the 10% corridor are spread forward over the average remaining service lives of the employees.

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Share-based compensation

The Group operates different share-based compensation plans. The share-based compensation plans qualify either as equity or cash-settled plans. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. For equity-settled plans, the fair value is determined at the grant date, whereas for cash-settled plans, the liability is revised at each period end. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity.

Until the liability resulting from the cash-settled plan is settled, the Group re-measures the fair value of the liability at each reporting date and at the date of settlement, with any change in fair value recognized in the income statement.

In the year the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid-in capital or to liabilities in the case of cash-settled compensations.

Bonus plans

The Group recognizes an accrual where contractually obliged or where there is a past practice that has created a constructive obligation. The expense for bonuses is based on a formula that takes into consideration the company goals reached.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is more likely than not that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as other operating expense.

Shareholders' equity

All shares of the Company are registered shares and classified as part of shareholders' equity.

Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Where the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income tax), is deducted from total shareholders' equity as treasury shares until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in shareholders' equity.

The Company has not paid any dividends since its inception and does not anticipate paying dividends in the foreseeable future.

Revenue recognition

Revenues under collaborative long-term research and development agreements are recognized when earned based upon the performance requirements of the respective agreements. For revenue arrangements with separately identifiable components the revenue recognition criteria are separately applied. The consideration received is allocated among the separate components based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate components. Payments received in excess of amounts earned are recorded as deferred revenue. Revenues under these long-term collaborative agreements typically consist of the following:

- Sale of goods: Sales of goods are recognized when the Group has delivered products to the customer and the customer has accepted the products.
- Technology access fees: Lump-sum up-front fees are typically received by the Group for past and ongoing research and development activities. Revenues from technology access fees associated with collaborative research and development efforts are recognized on a straight-line basis over the related forecasted research period.
- Revenues from technology transfer fees are recognized on the basis of the progress of the project in accordance with the percentage of completion method (PoC).
- Research payments: Revenues from research payments are earned in relation to direct costs incurred in connection with the Group's ongoing research and development activities and in relation of certain other administrative costs incurred. Revenues from research payments are recognized in relation to the percentage of the work completed and in accordance with the substance of the relevant agreement.
- Non refundable up-front fees: Revenues from non refundable up-front fees relate principally to product opt-in. In situations where no further performance obligation exists, revenues are recognized on the earlier of when payments are received or collection is most likely ensured. Up-front fees related to future obligations, such as maintenance of patents, are either spread over the duration of such obligations or part of the revenue is provisioned therefore. Where continuing significant involvement is required in the form of support, revenues are recognized over the relevant period.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

- Success and milestone payments: Revenues contingent upon the achievement of certain research and development milestones are recognized in the period the outcome can be estimated reliably which is in general when the milestone was successfully achieved, which is determined when the funding party agrees that the required results stipulated in the agreement have been met.
- Revenues from royalties and licences: Revenues related to royalties and licences are recognized when earned on an accrual basis in accordance with the substance of the relevant agreements.

Research and development expenses

Research and development expenses consist primarily of compensation and other expenses related to research and development personnel; costs associated with pre-clinical testing and clinical trials of the Group's product candidates, including the costs of manufacturing the product candidates; expenses for research and services under collaboration agreements or government grant programs; outsourced research and development at research institutions, and relevant facility expenses.

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other expenses are not recognized as an asset in a subsequent period. The Group charges all research and development expenses, including internal patent filing and patent maintenance costs, to the income statement when incurred as the criteria for recognition are currently not met.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Rent expense for leases of real estate include the land and building component together when it is clearly a single operating lease and the components cannot reliably be separated.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

3. Financial risk management

Risk management in accordance with CO 663b.12

On August 30, 2007, the Board of Directors of Cytos Biotechnology Ltd approved the guidelines of the internal control system ("ICS") as part of the risk management system ("RMS") and delegated the introduction of the ICS to the CFO. On the same date, the Board of Directors asked the Executive Board to revise the risk management handbook. By means of the risk management handbook and the ICS, the Board of Directors and the Executive Board intend to recognize risks which might endanger the goals of the Company or the compliance with regulations and to define risk minimizing measures where appropriate.

On November 29, 2007, the Board of Directors approved the risk management handbook and the comprehensive assessment of the risks which were systematically captured and analyzed with regard to a potential impact on the Company, whereby measures to prevent or minimize risks were presented in a risk/probability matrix.

In 2008, the Executive Board has dealt with the RMS in several meetings and proposed a RMS/ICS report to the Board of Directors which was approved on November 27, 2008, by the Board of Directors.

At its November 2009 meeting, the Board of Directors approved the report for the year 2009.

The Executive Board and the Board of Directors are informed by a standardized report on a yearly basis, or if necessary also during the year.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Financial risk factors

The Group is subject to risks common to companies in the biotechnology industry, including, but not limited to, uncertainties regarding conversion and repayment of convertible bonds, uncertainties regarding the effectiveness and safety of new drugs, new and unproven technologies, development process and outcome of clinical trials, rigorous governmental regulation and uncertainty regarding regulatory approvals, long product development cycles, continuing capital requirements to fund research and development, history of operating losses and uncertainty of future profitability, uncertainty regarding commercial success and acceptance, third party reimbursements, uncertainties regarding patents and legally protected products or technologies, uncertainty regarding third party intellectual property rights, dependence on third parties, dependence on publicly available scientific findings and research data, lack of experience with own production facility, dependence on third party manufacturers and service providers, competition, concentration of operations, product liability, dependence on important employees, environment, health, data protection and safety, lack of experience in marketing and sales, litigation, currency fluctuations risks and other financial risks, volatility of market value, as well as limited liquidity and shares eligible for future sale.

The Group is developing several products currently not generating constant revenue stream resulting in a negative cash flow from operating activities. At present the lack of positive operating cash flow may expose the Group to financing risks in the medium-term; see note 4, "Critical accounting estimates and judgements".

Risk management is carried out centrally under policies approved by the Board of Directors. Furthermore, management controls financial risks such as foreign exchange risk and liquidity.

The Group is marginally exposed to market risks such as currency risk, interest rate risk and price risk. They are insignificant for the Group as it has a borrowing (convertible bond) with fixed interest rate and only small assets and liabilities in foreign currencies. The Group is not exposed to market price development as it has no saleable products.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Liquidity risk

The Group manages its liquidity by planning and closely monitoring cash burn and investments in fixed-term time deposits on an ongoing basis to ensure a sufficient liquidity and an appropriate interest income. The financial status at December 31, 2009, provides funds for operations into 2012, not taking into account further revenue streams or variations to the present financial plan.

The table below shows the maturities of the liquidity relevant financial liabilities as of December 31, 2009:

Maturity table in TCHF (undiscounted amounts)	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	over 5 years
Convertible bond 2,875% – coupon	1,642	–	3,284	–
Convertible bond 20.2.2012 – principal	–	–	57,115	–
Trade accounts payables	253	–	–	–
Other liabilities and accrued expenses	2,774	1,014	680	–
Rent and leasing	269	804	1,095	–

The table below shows the maturities of the liquidity relevant financial liabilities as of December 31, 2008:

Maturity table in TCHF (undiscounted amounts)	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	over 5 years
Convertible bond 2,875% – coupon	2,013	–	6,038	–
Convertible bond 20.2.2012 – principal	–	–	70,000	–
Trade accounts payables	800	–	–	–
Other liabilities and accrued expenses	3,982	812	772	–
Rent and leasing	269	804	2,168	–

Foreign exchange risk

The Group has an investment in a foreign entity and is exposed to exchange risks which are discussed in the accounting policies section “Foreign currency translation and transactions”. The Group is currently not subject to significant foreign currency transactions.

As of December 31, 2009, if the Swiss Franc had weakened/strengthened by 5% against the Euro with all other variables held constant, the net loss for the period would have been TCHF 4 (2008: TCHF 3) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated assets and liabilities.

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Credit risk

Out-licensing agreements for Immunodrugs™ have only been entered with industry leading companies, which limits the credit risk relating to trade receivables. Trade and other receivables are fully performing, not past due and not impaired. The vast majority of outstanding trade receivables are attributable to leading pharmaceutical companies.

Investment risk

Fixed-term time deposits and money market investments are entered only with highly rated counterparties. The Group is not exposed to equity securities price risks and to commodity price risks.

Interest rate risk

The Group holds time deposits and a convertible bond with a fixed interest rate. As such the Group's income and operating cash flows are substantially independent of changes in market interest rates.

As of December 31, 2009, if interest rates on time deposits had been 50 basis points higher/lower with all other variables held constant, the net loss for the period would have been TCHF 185 (2008: TCHF 305) lower/higher, as a result of higher/lower interest income.

Capital risk management

The Group is not regulated and not subject to specific capital requirements. It aims to maintain the specific needs of the Code of Obligations. To ensure that statutory capital requirements remain intact, the Group monitors capital periodically on an interim and annual basis. From time to time the Group may take appropriate measures or propose capital increases to the Annual Shareholders' Meeting to ensure the necessary capital remains intact.

Fair value estimation

The Group does not hold any financial assets except fixed-term time deposits and the carrying amounts of the financial assets including trade and other receivables correspond to the fair value.

The fair value of the financial liabilities for disclosure purposes (see note 14, "Convertible bond") is calculated by discounting the future contractual cash flows at the current market interest rates. The convertible bond itself is carried at amortized cost and is accounted for using the effective interest rate method.

4. Critical accounting estimates and judgements

The Group's accounts are prepared on a going concern basis. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities identified by the Group relate to provisions, going concern and revenue and are discussed below:

- Provisions for legal cases: Estimates and judgements are performed by the Group with support of its legal advisers in order to determine the probability, timing and amount involved with probable required outflow of resources. Details are discussed in note 16, "Provisions".
- Going concern: Considering cash and financial assets (including trade receivables from collaboration partners) and the Group's current plans and budgets, the Group can continue as a going concern.
- Revenue: Fluctuation in revenues is not uncommon to biotech companies as the revenues are often linked to up-front fees, milestones or license payments as well as income for delivery of drug substance, which occur sporadically.

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5. Segment information

Business segment

The Group operates in one segment, focusing on the discovery, development and prospective commercialization of a new class of biopharmaceutical products that are intended for use in the treatment and prevention of chronic diseases. The Group's Executive Board reviews the profit or loss of the Group on an aggregated basis. The operations of the Group are managed as a single operating segment. The Group derives its research and collaboration revenues from research and development collaborations with third parties.

Geographical segment

Research and collaboration revenues are attributable to individual countries and are based on the location of the customer, while the non-current assets and the liabilities are based on the location of the Group. All operating costs including research and development, sales and marketing, general and administrative, other operating income and expense are generated in Switzerland. Therefore management does not allocate the expenses to the individual countries where the Group generated revenue.

The Group's geographic information is as follows:

in TCHF	Twelve months ended December 31, 2009				Twelve months ended December 31, 2008			
	CH	USA	Other	Total	CH	USA	Other	Total
Revenue	1,000	8,022	86	9,108	6,024	13,704	-	19,728
Unallocated expenses				(36,347)				(43,611)
Operating loss				(27,239)				(23,883)
Financial income/(expense), net				2,407				(2,131)
Share of gain on associates				6				5
Net loss				(24,826)				(26,009)
Currency translation differences				(163)				183
Total comprehensive loss				(24,989)				(25,826)
Other information:				December 31, 2009				December 31, 2008
Assets				68,702				110,755
Liabilities				60,461				78,895
				December 31, 2009				December 31, 2008
Capital expenditure for property and equipment				132				495
Depreciation and amortization				2,475				2,738

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Analysis of revenue by category:

in TCHF	Twelve months ended December 31, 2009	Twelve months ended December 31, 2008
Revenue from technology access and technology transfer	7,881	9,500
Revenue from research and development	227	204
Revenue from up-front fees, success and milestone payments	–	9,000
Revenue from royalties and licences	1,000	1,024
Total	9,108	19,728

Analysis of revenue by major customers:

in TCHF	Twelve months ended December 31, 2009	Twelve months ended December 31, 2008
Major customer "A" CH	1,000	6,000
Major customer "B" USA	8,022	13,696
Other customers CH/USA/Other	86	32
Total	9,108	19,728

6. Licensing, research and development collaborations

In August 2008, Cytos Biotechnology entered into an exclusive global research, option and license agreement with Pfizer to research, develop, manufacture and commercialize novel vaccines for a defined number of human diseases. After exercise of its options, Pfizer acquired world-wide exclusive rights to commercialize certain vaccines, which are based on Cytos Biotechnology's Immunodrug™ technology and that will incorporate specific disease targets, which are outside the scope of Cytos Biotechnology's own programs. In return, Cytos Biotechnology received in 2008 an upfront payment for technology access of CHF 10 million from Pfizer and is eligible to receive up to CHF 140 million in pre-commercial milestone payments and manufacturing technology transfer fees. In addition, Cytos Biotechnology will receive research funding and royalty payments, which may reach a double digit percentage depending upon levels of annual net sales of the products.

In December 2008, Pfizer exercised its options under the exclusive global research, option and license agreement signed in August 2008 and took commercial licenses for specified vaccines based on Cytos Biotechnology's Immunodrug™ technology. The event triggered payments to Cytos Biotechnology for the execution of the commercial license agreements and transfer of manufacturing technology. Revenue recognition of part of these payments was deferred.

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7. Financial instruments by category

December 31, 2009 in TCHF	Loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale
Cash and cash equivalents	20,969	-	-	-
Financial assets	37,000	-	-	-
Trade and other receivables	3,021	-	-	-
Total	60,990	-	-	-

December 31, 2008 in TCHF	Loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale
Cash and cash equivalents	40,322	-	-	-
Financial assets	41,000	-	-	-
Trade and other receivables	18,212	-	-	-
Total	99,534	-	-	-

The above mentioned amounts were neither past due nor impaired at the end of the respective reporting period and were of highly rated quality.

December 31, 2009 in TCHF	Liabilities at fair value through profit or loss	Held-to-maturity investments	Available-for-sale	Other financial liabilities
Trade accounts payable	-	-	-	253
Other current liabilities	-	-	-	224
Convertible bond – liability component	-	-	-	51,864
Total	-	-	-	52,341

December 31, 2008 in TCHF	Liabilities at fair value through profit or loss	Held-to-maturity investments	Available-for-sale	Other financial liabilities
Trade accounts payable	-	-	-	800
Other current liabilities	-	-	-	294
Convertible bond – liability component	-	-	-	60,887
Total	-	-	-	61,981

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8. Cash and cash equivalents

in TCHF	2009	2008
Cash at bank and in hand	20,969	20,322
Current bank deposits	-	20,000
Balance at December 31	20,969	40,322
Current bank deposits:		
Effective interest rate p.a.	-	0.15%
Average maturity (in days)	-	43

9. Financial assets

in TCHF	2009	2008
Fixed-term time deposits, current	37,000	41,000
Balance at December 31	37,000	41,000
Effective interest rate p.a.	0.51%	2.80%
Average maturity (in days)	366	44

Financial assets are not considered impaired and the credit risk is judged as insignificant as all contracts are entered with highly rated financial institutes. In 2009, the Company recorded CHF 0.2 million interest income (2008: CHF 2.1 million).

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10. Trade and other receivables

in TCHF	2009	2008
Trade receivables	2,763	16,656
Value added taxes (VAT)	49	180
Withholding tax	110	1,060
Interest accrued	92	164
Other	7	152
Balance at December 31	3,021	18,212
thereof non-current	-	2,500

The fair values of trade and other receivables do not differ from the carrying amounts. Trade and other receivables are denominated in CHF and are not considered impaired as they are fully performing and not past due. The maximum exposure to credit risk at the reporting date is the carrying amount of trade and other receivables mentioned above. The Group does not hold any collateral as security. The credit quality of the debtors is high as they are composed of tax authorities and leading pharmaceutical companies.

11. Prepayments and other assets

in TCHF	2009	2008
Prepayments for research material	793	1,646
Capital taxes	-	94
Social insurances	760	805
Other	118	58
Balance at December 31	1,671	2,603

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12. Property and equipment, net

in TCHF	Leasehold improvements	Machinery and equipment	Office equipment, furniture and other	Total
At December 31, 2007				
Historical cost	13,449	10,937	1,962	26,348
Accumulated depreciation	(7,412)	(6,735)	(1,558)	(15,705)
Net book amount	6,037	4,202	404	10,643
Twelve months ended December 31, 2008				
Opening net book amount January 1, 2008	6,037	4,202	404	10,643
Additions	12	400	83	495
Disposals	–	(17)	–	(17)
Depreciation charge	(1,353)	(1,192)	(193)	(2,738)
Closing net book amount December 31, 2008	4,696	3,393	294	8,383
At December 31, 2008				
Historical cost	13,461	11,310	2,014	26,785
Accumulated depreciation	(8,765)	(7,917)	(1,720)	(18,402)
Net book amount	4,696	3,393	294	8,383
Twelve months ended December 31, 2009				
Opening net book amount January 1, 2009	4,696	3,393	294	8,383
Additions	–	114	18	132
Disposals	(4)	(43)	–	(47)
Depreciation charge	(1,311)	(1,015)	(149)	(2,475)
Closing net book amount December 31, 2009	3,381	2,449	163	5,993
At December 31, 2009				
Historical cost	13,456	11,290	1,970	26,716
Accumulated depreciation	(10,075)	(8,841)	(1,807)	(20,723)
Net book amount	3,381	2,449	163	5,993

In 2009 and 2008, the Group invested TCHF 132 and TCHF 495, respectively, predominantly into laboratory equipment.

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Depreciation expense has been charged to:

in TCHF	2009	2008
Research and development	2,216	2,450
Sales and marketing	58	59
General and administrative	201	229
Total year ended December 31	2,475	2,738

13. Investment in associates

in TCHF	2009	2008
Balance at January 1	235	37
Change in investments	(193)	193
Share of gain	6	5
Balance at December 31	48	235

The Company owns 33% of BioSupport AG's shares. As the Company has significant influence, it accounts for BioSupport AG under the equity based method of accounting.

BioSupport AG		
in TCHF	2009	2008
Interest held	33%	33%
Assets*	1,226	1,512
Liabilities*	1,081	1,384
Revenues*	882	838
Profit/(loss)*	17	16
* = 100%		

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14. Convertible bond

Convertible bond

In February 2007, the Company issued 2.875% p.a. convertible bonds ("Convertible Bond") with a total nominal value of CHF 70.0 million, which are listed on the SIX Swiss Exchange under the symbol CYT07 (security number 2 906 073). The bonds mature on February 20, 2012, and are convertible into the Company's shares at a conversion price of CHF 175. The values of the liability component and the equity conversion component were determined at issuance of the Convertible Bond.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity. The Company has an early redemption option that can be exercised in limited circumstances. This option was deemed closely related to the host debt contract and as such is not valued.

Transaction costs associated with the issuance have been allocated proportionately to the liability and equity components.

The Convertible Bond recognized in the balance sheet is calculated as follows:		
in TCHF	2009	2008
Liability component at January 1	62,618	60,127
Interest expense	4,516	4,503
Partial repurchase of convertible bonds	(6,279)	-
Gain on partial repurchase of convertible bonds	(6,350)	-
Reversal of equity component	785	-
Interest paid	(2,013)	(2,012)
Liability component at December 31	53,277	62,618
thereof current (included in accrued expenses)	1,413	1,731

The fair value of the liability component of the Convertible Bond at December 31, 2009 amounted to TCHF 26,406 (2008: TCHF 24,222), calculated using cash flows discounted on the borrowing rate of 43.9% (2008: 40.5%).

Interest expense of TCHF 4,516 for the convertible bond has been recognized as "Financial expense" for 2009 (2008: TCHF 4,503).

In 2009, Cytos bought back in the market some outstanding convertible bonds. The nominal value of these bonds amounted to CHF 12.9 million and the average purchase price was 46.8% of the nominal value. These repurchases resulted in a financial gain of CHF 6.4 million.

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15. Accrued expenses

in TCHF	2009	2008
Accrued project costs	1,262	1,667
Accrued payroll and bonuses	1,418	1,218
Accrued interest convertible bond	1,413	1,731
Other	151	656
Balance at December 31	4,244	5,272
thereof non-current	680	772

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16. Provisions

in TCHF	Other	Legal claims	Total
Balance at December 31, 2007	144	1,745	1,889
Additions	–	132	132
Utilization	(7)	–	(7)
Balance at December 31, 2008	137	1,877	2,014
Additions	–	169	169
Utilization	(31)	–	(31)
Balance at December 31, 2009	106	2,046	2,152
Thereof at December 31, 2009:			
current	4	–	4
non-current	102	2,046	2,148

At the time of the acquisition of AskliA in 2002, a number of provisions were included in the acquisition balance sheet, including provisions for legal claims as well as costs for lawyers, accounting and liquidating companies. Since the acquisition, most of the provisions have been utilized or reversed to the income statement.

AskliA was involved in (i) various claims and lawsuits arising in the ordinary course of its business and (ii) claims regarding representations, warranties and covenants given by AskliA when divesting its business. Some of these AskliA claims and lawsuits (including claims regarding representations, warranties and covenants given by AskliA when divesting its business) were settled. Other cases of legal disputes, involving subsidiaries of AskliA that were divested prior to the acquisition were transferred as part of the divested business. With regard to two such lawsuits, whereby the plaintiffs claimed CHF 1.3 million and CHF 0.6 million each, AskliA agreed to indemnify the acquirer of the divested business for all costs the divested company or the acquirer will incur in connection with these proceedings.

As a consequence of the acquisition of AskliA these liabilities and lawsuits as well as the other pending and threatened lawsuits and claims of AskliA were taken over by the Group. The Group believes that adequate provisions were made to cover the risks associated with these various claims and lawsuits pending or threatened. Management estimates the lawsuits not to be finished in the short-term.

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

17. Shareholders' equity

	Shares (number)	Share capital (TCHF)	Treasury shares (TCHF)
December 31, 2007	5,260,180	526	(101)
Treasury shares (bought)/sold, net	(489)	–	59
Employee option shares issued	8,681*	1	–
December 31, 2008	5,268,372	527	(42)
Treasury shares (bought)/sold, net	1,202	–	36
Employee option shares issued	–	–	–
December 31, 2009	5,269,574	527	(6)

* not registered in the Commercial Register at end of respective reporting period

Number of shares at	Issued and fully paid shares	Treasury shares	Total shares
December 31, 2008	5,270,056	1,684	5,268,372
December 31, 2009	5,270,056	482	5,269,574

Summary of authorized and conditional capital (see articles 4b to 4f of the articles of association of the Company)

in TCHF	2009	2008
Authorized capital at December 31	200	200
Conditional capital at December 31	167	167

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

Legal reserves

The legal reserves are built in line with the Swiss law and can only be used for compensating losses carried forward. The legal reserves cannot be used for distribution to shareholders.

Additional paid-in capital

The additional paid-in capital resulted from several capital increases.

Treasury shares

In order to improve the liquidity of the Company's shares, the Company is engaged in trading its own shares from time to time. In 2009, the Company sold 1,202 shares net.

18. Expenses by nature

in TCHF	2009	2008
Depreciation and amortization	(2,475)	(2,738)
Employee benefits	(17,468)	(21,324)
Materials, consumables, services	(13,173)	(16,095)
Rental expenses	(1,437)	(1,378)
Other expenses not allocated to above	(2,275)	(2,588)
Other income/(expenses), net	481	512
Total year ended December 31	(36,347)	(43,611)

In 2009, the amounts of "Other income/(expenses), net" are primarily related to pass through costs recovered from subtenants and release of accrued expenses in relation to the sale of real estate in 2007.

In 2008, the amounts of "Other income/(expenses), net" are primarily related to pass through costs recovered from subtenants and research collaborations with universities.

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

19. Employee benefits

in TCHF	2009	2008
Salaries	(13,138)	(14,629)
Social security costs	(1,018)	(1,296)
Pension costs, defined benefit plan (note 24)	(891)	(2,179)
Share-based compensation	(2,142)	(2,734)
Other costs related to employees	(279)	(486)
Total year ended December 31	(17,468)	(21,324)

The decrease in pension costs is primarily due to a curtailment gain resulting from the headcount reduction in the context of the restructuring in 2009.

20. Operating leases

The Group has several non-cancelable operating leases principally for its offices and development facilities, office equipment and vehicles that expire on various dates through December 2013. As the fair value of land and building components at inception of the lease has not been determined and lease is defined as operating rent, expense for the components are combined. Lease expenses incurred for the years ended December 31, 2009 and 2008 were CHF 1.1 million each. The future minimum lease payments under non-cancelable operating leases at December 31, 2009 are as follows:

Year ending December 31, in TCHF	Operating leases
2010	(1,073)
2011	(1,073)
2012 and beyond	(22)
Total	(2,168)

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

21. Related party transactions

BioSupport AG, a related party, is providing research related services to the Group and to its other shareholders. During 2009 and 2008, the Group paid TCHF 239 and TCHF 235, respectively, for the services rendered.

Key management (including the Board of Directors and the Executive Board) personnel compensation of the Company is:

in TCHF	2009	2008
Short-term employee benefits	2,785	2,863
Post-employment benefits	331	342
Share-based compensation	1,000	1,068
Total	4,116	4,273

No further compensation has been paid to the key management in the year 2009 and 2008.

22. Board and executive compensation disclosures

The compensation disclosures for the members of the Board of Directors and the Executive Board required by the Swiss Code of Obligations Art. 663bbis and 663c are included in note 11, "Compensation and participations", of the Cytos Biotechnology Ltd statutory financial statements for the year ended December 31, 2009.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

23. Income taxes

As of December 31, 2009, the Group had total gross operating loss carry forwards, which amounted to CHF 152.9 million of which CHF 144.7 million related to the Company, CHF 4.1 million related to Proteome Therapeutics GmbH, CHF 3.6 million related to Mavena AG in liquidation and CHF 0.5 million related to Cytos Biotherapeutics Ltd (2008: CHF 137.5 million, of which CHF 129.3 million related to the Company, CHF 4.1 million related to Proteome Therapeutics GmbH and CHF 4.1 million related to Mavena AG in liquidation).

The gross operating loss carry forwards of the Group expire as follows:

- CHF 8.5 million expiring on December 31, 2009
- CHF 29.0 million expiring on December 31, 2010
- CHF 25.5 million expiring on December 31, 2011
- CHF 27.8 million expiring on December 31, 2012
- CHF 32.6 million expiring on December 31, 2013
- CHF 9.5 million expiring on December 31, 2014
- CHF 15.9 million expiring on December 31, 2016 and
- CHF 4.1 million can be set off against future profit indefinitely;
it is management's best estimate that this loss carry-forward will not be used in the foreseeable future.

As of December 31, 2009, the Group had deductible temporary differences (including capitalized research and development costs, capitalized patents, investments, accrued expenses, convertible bond and pension) of CHF 45.1 million (2008: CHF 37.0 million).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Group did not recognize deferred tax assets relating to tax loss carry-forwards and deductible temporary differences since the criteria for recognition are not met.

The unrecognized tax loss carry-forwards and deductible temporary differences would have given rise to deferred tax assets of CHF 43.6 million in 2009 and CHF 38.4 million in 2008.

The Group has neither recorded any provisions for income taxes payable nor for current or deferred income taxes for the years ended December 31, 2009 and 2008 due to taxable losses.

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

The Company's income tax expense differed from the amount computed by applying the statutory Swiss income tax rate as summarized in the following table:

in TCHF	2009	2008
Loss before tax	(24,826)	(26,009)
Expected income tax rate (%)	22	22
Expected income tax	(5,462)	(5,722)
Expenses not deductible for tax purposes	1,145	1,397
Effect of changes in unrecognized deferred taxes	4,318	4,326
Other	(1)	(1)
Income tax expense	-	-

The Group calculates its taxes with 22% for the year 2009 and 2008.

Capital tax expenses amounted to TCHF 183 and TCHF 76 for the years ended December 31, 2009 and 2008, respectively and are included in the net operating costs.

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

24. Benefit plans

The Group maintains a retirement plan (the “Plan”) covering all of its employees in Switzerland including its Executive Board. In addition to retirement benefits, the Plan provides death or long-term disability benefit to its employees. Benefits under the Plan are principally based on contributions, computed as a percentage of salary, adjusted for the age of the employee. In addition, the Plan provides a guaranteed minimum return. Under the agreement, both the Group and the employee share the costs, including contributions, 50/50.

Due to the impact of changes in salary, the guaranteed minimum return element and cost sharing arrangement, the Plan is accounted for as a defined benefit plan in accordance with IAS 19. To minimize the risk associated with a pension obligation, the Group has entered into a term agreement with a third party insurance company. For accounting purposes this insurance contract represents the sole asset of the Plan. Fair value of plan assets is the estimated cash surrender value at the respective balance sheet date.

The obligation and funded status of the Plan are as follows:

Change in benefit obligation		
in TCHF	2009	2008
Benefit obligation at beginning of year	22,430	18,828
Service cost	2,416	2,097
Interest cost	729	612
Actuarial (gain)/loss	(714)	316
Benefits paid	(4,759)	(1,805)
Benefit obligation entitlement of new employees	747	1,323
Curtailments	(634)	1,059
Benefit obligation at December 31	20,215	22,430

Change in plan assets		
in TCHF	2009	2008
Fair value at beginning of year	21,059	18,350
Expected return on cash surrender value	716	587
Actuarial gain/(loss)	(75)	601
Employer contributions	904	1,002
Plan participant contributions	904	1,002
Benefits paid	(4,759)	(1,805)
Benefit obligation entitlement of new employees	747	1,322
Pension assets at December 31	19,496	21,059

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

Funded status		
in TCHF	2009	2008
Net funded/(unfunded) status	(719)	(1,371)
Unrecognized actuarial (gain)/loss	(191)	447
Net amount recognized in the balance sheet	(910)	(924)

Plan assets (at September 2009) were comprised of 74% fixed term deposits and cash, 8% mortgages and receivables, 10% real estate properties and 8% other.

In 2009, the assumed return on plan assets by the actuary was TCHF 641 (2008: TCHF 1,188).

The component of net periodic benefit cost recognized in the consolidated income statement is as follows:

Net periodic benefit cost		
in TCHF	2009	2008
Service cost	2,416	2,097
Interest cost	729	612
Expected return on the cash surrender value	(716)	(587)
Plan participants contribution	(904)	(1,002)
(Gain)/loss on curtailment	(634)	1,059
Net periodic benefit cost year ended December 31	891	2,179

The pension expense 2009 is included in the income statement in research and development with TCHF 798 (2008: TCHF 1,950), in sales and marketing with TCHF 21 (2008: TCHF 47) and in general and administrative with TCHF 72 (2008: TCHF 182).

In 2009, the curtailment gain of CHF 0.6 million resulted from the headcount reduction in the context of the restructuring in the 3rd quarter 2009.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

The following table provides the weighted average assumptions used to develop net periodic benefit cost and the actuarial present value of projected benefit obligations:

Assumptions	2009	2008
Discount rate	3.25%	3.25%
Expected long-term return	3.40%	3.20%
Rate of compensation increase	1.00%	2.00%

Future Contributions

In 2010, the Group expects to contribute approximately CHF 0.7 million to the Plan.

Mortality rate	2009	2008
Average life expectancy in years of a pensioner retiring at age 65 is as follows:		
Male	17.90	17.90
Female	20.98	20.98
Average life expectancy in years of a pensioner retiring at age 65 in 20 years is as follows:		
Male	17.90	17.90
Female	20.98	20.98

Overview and experience adjustments as of December 31

in TCHF	2009	2008	2007	2006	2005
Present value of defined benefit obligation	20,215	22,430	18,828	15,140	10,947
Fair value of plan assets	19,496	21,059	18,350	13,755	11,128
Deficit/(surplus)	719	1,371	478	1,385	(181)
Experience adjustments:					
On plan liabilities	(714)	316	(809)	1,268	(361)
On plan assets	(75)	601	76	(583)	(655)

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

25. Share options

The Group granted regularly share options to employees, members of the Board of Directors and consultants. All the share options are equity-settled. The fair value of the options is determined at the grant date based on the market price using the Black-Scholes model. The usual vesting period lasts two years. The Group applies IFRS 2 for recognizing the share option expense.

The following table provides the conditions as well as the range of the assumptions applied to all valid share-based payment arrangements that existed during the reporting period:

Share options, conditions and assumptions	
Nature of arrangement	Grant of share options
Grant date	May 1, 2002 - May 1, 2009
Number of options granted	948,206
Exercise price (CHF)	12.38 - 117.83
Share price at date of grant (CHF)	12.90 - 118.00
Contractual life (years)	3.0 - 10.5
Vesting period (years)	2.0
Settlement	Shares
Expected volatility (%)	39.5 - 50.0
Expected option life at grant date (years)	3.5 - 5.0
Risk-free interest rate p.a. (%)	1.3 - 3.2
Expected dividend	zero
Estimated fair value of option at grant date (CHF)	5.01 - 38.06
Expiry date	January 7, 2010 - April 30, 2014
Valuation model	Black-Scholes

The exercise price of the granted options is equal to the market price of the Company's shares on the grant date or equal to the average of the prices at several days before the grant. The volatility is based on comparable companies' volatility or on the Company's historical volatility where available. The risk free interest rate is based on CHF swap rate for the expected life of the options.

**Cytos Biotechnology Ltd and subsidiaries,
notes to the consolidated financial statements**

The movements in the number of all valid share options are as follows:

Share option movements	Options (number)	Weighted average exercise price (CHF)
Balance outstanding December 31, 2007	366,251	74.81
Granted	106,204	79.35
Exercised	(8,681)	45.23
Forfeited	(16,352)	91.99
Balance outstanding December 31, 2008	447,422	75.80
Granted	243,363	26.08
Exercised	–	–
Forfeited	(25,661)	54.32
Balance outstanding December 31, 2009	665,124	58.44

The following table applies to all valid share options outstanding at December 31, 2009:

Exercise price (CHF)	Options (number)	Remaining life (years)	Exercisable options (number)
12.38	82,352	4.3	0
33.42	154,915	4.0	0
39.85	833	0.5	833
42.46	37,581	3.4	37,581
44.26	21,560	0.0	21,560
53.29	65,724	1.0	65,724
79.35	97,300	3.0	0
79.50	137,618	2.8	137,618
117.83	67,241	2.0	67,241
Total	665,124		330,557

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

The following table applies to all valid share options outstanding at December 31, 2008:

Exercise price (CHF)	Options (number)	Remaining life (years)	Exercisable options (number)
31.00	833	0.5	833
39.60	5,320	0.0	5,320
39.85	833	1.5	833
42.46	37,581	4.4	37,581
44.26	23,740	1.0	23,740
53.29	69,564	2.0	69,564
79.35	101,596	4.0	0
79.50	137,618	3.6	137,618
117.83	70,337	3.0	0
Total	447,422		275,489

The expense for share-based payments recognized in the income statement according to IFRS 2 can be summarized as follows:

in TCHF	2009	2008
Research and development	1,918	2,417
Sales and marketing	50	55
General and administrative	174	262
Total year ended December 31	2,142	2,734

26. Net loss per share

Basic and diluted net loss per share have been computed based upon the weighted average number of common shares outstanding. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities. Neither outstanding options to purchase shares of common stock nor shares resulting from the conversion right of the bond holders were included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

Cytos Biotechnology Ltd and subsidiaries, notes to the consolidated financial statements

27. Contingencies

The operations and earnings of the Group continue, from time to time and in varying degrees, to be effected by political, legislative, fiscal, regulatory developments and other various risks. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable.

As part of the acquisition of Askliia, the Group assumed certain guarantees and provisions for legal claims. As of December 31, 2009, a guarantee in the amount of TCHF 62 was outstanding. No provision has been recorded for this guarantee as of December 31, 2009.

28. Events after balance sheet date

In November 2009, the Board of Directors approved a new share option plan ("SOP 2010"), according to which a total of 90,993 options were granted in January 2010. 25% of these options are granted definitively whereas 75% of these options will only be granted if the shareholders approve additional conditional capital at the shareholders' meeting in April 2010. Each option entitles the holder to purchase one share of the Company within five years after the grant date. Options can only be exercised after a cliff vesting period of two years. In the case of a change of control the options become exercisable. The exercise price is CHF 14.05, corresponding to the average closing price of the shares during the first three trading days in the year 2010. Management is convinced this represents the best estimate of the fair value of the underlying common stock. This option plan is classified as equity settled.

Report of the statutory auditor
to the general meeting of
Cytos Biotechnology AG
Schlieren, Switzerland

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Cytos Biotechnology AG, which comprise the balance sheet, income statement and notes (pages 125 to 134), for the year ended December 31, 2009.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

Without qualifying our opinion we draw your attention to note 10 of the financial statements, whereas a material uncertainty regarding the valuation of the capitalised research and development costs exists. This cannot be finally assessed at this date. The capitalised research and development costs of CHF 32.4 Million may be fully or partially impaired if the research and development projects can not be successfully finalised as currently assumed and therefore could not be realised through future revenues.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

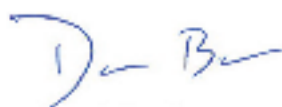
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of accumulated losses complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Stefan Räbsamen
Audit expert
Auditor in charge



Daniel Banks

Basel, February 3, 2010

Cytos Biotechnology Ltd

Balance Sheets as of			
in TCHF	Note	December 31, 2009	December 31, 2008
Current assets:			
Cash and cash equivalents		20,635	40,140
Treasury shares	5	6	42
Other financial assets		37,000	41,000
Trade and other receivables – third parties		2,879	12,862
Other accounts receivable – group companies		179	14
Prepaid expenses and accrued revenue		1,763	7,675
Total current assets		62,462	101,733
Non-current assets:			
Property and equipment, net		5,993	8,383
Investments	6	1,074	1,074
Loan – group companies	10	20,000	19,000
Intangible assets – capitalized costs	10	32,359	20,860
Total non-current assets		59,426	49,317
Total assets		121,888	151,050
Current liabilities:			
Trade accounts payable – third parties		248	740
Other accounts payable – third parties		241	269
Other accounts payable – group companies		10,502	10,303
Accrued expenses		3,498	4,092
Provisions		94	120
Total current liabilities		14,583	15,524
Non-current liabilities:			
Convertible bond – 2012	8	57,115	70,000
Provisions		2,828	2,751
Total non-current liabilities		59,943	72,751
Shareholders' equity:			
Share capital		527	527
Free reserves		205,178	200,399
Legal reserves:			
– General reserves		136	136
– Additional paid-in capital		439	5,182
– Reserves for treasury shares	5	6	42
Retained (loss):			
– Brought forward		(143,511)	(172,373)
– Net profit/(loss) for the year		(15,413)	28,862
Total shareholders' equity		47,362	62,775
Total liabilities and shareholders' equity		121,888	151,050

Cytos Biotechnology Ltd

Income Statements		Twelve months ended	Twelve months ended
in TCHF	Note	December 31, 2009	December 31, 2008
Research and collaboration revenues		1,227	27,720
Research expense		(13,173)	(16,095)
Employee benefits		(15,340)	(17,459)
Depreciation of property and equipment		(2,475)	(2,738)
Amortization and impairments of intangible assets	10	(5,415)	-
Other operating expenses		(3,682)	(3,861)
Income from disposal of fixed assets		53	2
Total operating expenses		(40,032)	(40,151)
Operating loss		(38,805)	(12,431)
Other income	6/10	17,938	41,491
Financial income		7,906	2,183
Financial expense		(2,452)	(2,381)
Net profit/(loss)		(15,413)	28,862

Cytos Biotechnology Ltd

Notes to the Financial Statements	December 31, 2009	December 31, 2008	
	in TCHF	in TCHF	
1. Fire insurance value of property and equipment	25,200	23,600	
2. Pension obligations	-	-	
3. Guarantees	62	95	
4. Authorized and conditional capital			
Authorized capital to the nominal value of	200	200	
Conditional capital to the nominal value of	167	167	
5. Treasury shares	Number of shares	Average price in CHF	In TCHF
Balance as of December 31, 2008	1,684	25.00	42
Purchase	123,320	18.40	2,269
Sale	(124,522)	18.51	(2,305)
Balance as of December 31, 2009	482	12.45	6
6. Important investments	December 31, 2009	December 31, 2008	
	in TCHF	in TCHF	
Proteome Therapeutics GmbH, Singen, Germany			
Non-operative since May 2002			
Paid-in capital (TEUR)	25	25	
Shareholding (%)	100	100	
Cytos Biotherapeutics Ltd, Schlieren, Switzerland			
Share capital (TCHF)	100	100	
Shareholding (%)	100	100	
Incorporated in December 2008 by way of a contribution in kind, whereby certain patents not related to the Immunodrug™ technology of Cytos Biotechnology Ltd were transferred to Cytos Biotherapeutics Ltd. This transaction generated "other income" in the amount of CHF 20.0 million in the 2008 income statement.			
BioSupport AG, Schlieren, Switzerland			
Purpose: Provider of research services			
Share capital (TCHF)	100	100	
Shareholding (%)	33	33	
Mavena AG in liquidation, Belp, Switzerland			
Share capital (TCHF)	6,000	6,000	
Shareholding (%)	100	100	

7. Main shareholders

As far as can be ascertained from the information available, the following shareholders owned 5% or more of the Company's share capital.

	December 31, 2009	December 31, 2008
Wolfgang A. Renner, 8802 Kilchberg, Switzerland	361,658 shares, 6.86%	386,050 shares, 7.34%
InCentive Asset Management AG, Zurich, Switzerland (For details see annual reports 2008 and 2009, subsection "Significant shareholders (DCG 1.2)" to the Corporate Governance section)		342,706 shares, 6.51% 33,402 reverse convertible rights, 1.90%
Vontobel Fonds Services AG, Zurich, Switzerland (For details see annual reports 2008 and 2009, subsection "Significant shareholders (DCG 1.2)" to the Corporate Governance section)	335,065 shares, 6.36%	296,705 shares, 5.64%

8. Convertible bond

In February 2007, the Company issued 2.875% p.a. convertible bonds with a total nominal value of CHF 70.0 million. The bonds mature on February 20, 2012, and are convertible into the Company's shares at a conversion price of CHF 175. In 2009, the Company bought back convertible bonds in the amount of CHF 12.9 million (nominal value).

9. Risk management

Information about risk management in accordance with CO 663b.12 is published in note 3, "Financial risk management", to the consolidated financial statements of the Group.

10. Other disclosures

Capitalization of costs

Research and development costs are capitalized to the extent that research and development projects are considered to represent sustained and valuable prospective commercial opportunities and the financing of the finalization of the projects is expected.

The capitalized research and development costs are being amortized over the shorter of the patents' useful life or a period of 10 years.

The capitalization of research and development costs resulted in "other income" of CHF 16.9 million for the year 2009 (2008: TCHF 20.9 million).

The reported amount in the balance sheet (intangible assets) of CHF 32.4 million depends on management's assumption that the results of the respective research and development projects can be successfully finalized according to Cytos' strategy.

This assessment indicate the existence of a material uncertainty regarding the valuation of the capitalized research and development costs, because it is uncertain whether the projects can be successfully finalized as currently assumed and therefore these capitalized research and development costs could be realized through future revenues. Whenever some or all of the capitalized research and development projects are not successful, the amount of CHF 32.4 million is partially or fully impaired and charged to the income statement.

Loan to group companies

At December 31, 2009 Cytos Biotechnology Ltd has granted a loan to Cytos Biotherapeutics Ltd amounting to CHF 20.0 million (December 31, 2008: CHF 19.0 million).

11. Compensation and participations

Compensation for Board of Directors (BoD) for the year 2009

Name	Base		Variable	Car	Pension	Total	Options
	cash	options	bonus	leasing			
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	number
Francois L'Eplattenier Chairman of the Board	46.0	-	-	-	1.5	47.5	-
Thomas Hecht Vice Chairman of the Board	46.0	-	-	-	2.3	48.3	-
Wolfgang A. Renner Delegate of the Board, CEO	404.4	80.0*	87.6	3.6	58.0	633.6	12,000
Jean-Yves Le Cotonnec Member of the Board	46.0	-	-	-	2.3	48.3	-
Sir Mark H. Richmond Member of the Board	42.0	-	-	-	1.3	43.3	-
Thorlef Spickschen Member of the Board	42.0	-	-	-	-	42.0	-
Othmar Vock Member of the Board	-	46.0	-	-	-	46.0	3,443
Total Board of Directors	626.4	126.0	87.6	3.6	65.4	909.0	15,443

* variable, equivalent to Executive Board members

Compensation for Executive Board (EB) for the year 2009

Name	Base	Variable		Pension	Total	Options
	cash	options	bonus			
	TCHF	TCHF	TCHF	TCHF	TCHF	number
Martin F. Bachmann, CSO (highest compensated member of EB)	304.4	220.3	117.6	43.0	685.3	30,000
Total Executive Board	1,652.1	771.1	555.8	265.6	3,244.6	120,000

Explanations:

- Individuals acting simultaneously as member of the Board of Directors and of the Executive Board are reported under Board of Directors.
- Bonus period lasts from April to March. Bonus amount is composed of 1/4 bonus which was compensated in 2009 in options and 3/4 accrued bonus (cash).
- The options allocated in 2009 were granted on January 8, 2009, and on May 1, 2009, they have a vesting period of 2 years and expire on January 7, 2014, and on April 30, 2014. The fair values at grant date amounted to CHF 13.35 and CHF 5.01 per option and were calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company with an exercise price of CHF 33.42 and CHF 12.38.
- No loans or credits were granted to members of BoD or EB.
- No compensations were made to former members of BoD or EB.

Cytos Biotechnology Ltd

Participations as of December 31, 2009

The following numbers of participations were held by members of BoD or EB (including parties closely related to these members):

Name	Shares	Employee options	Employee options expiring		
			2010	2011	2012 or later
Francois L'Eplattenier Chairman of the Board	3,000	-	-	-	-
Thomas Hecht Vice Chairman of the Board	1,064	-	-	-	-
Wolfgang A. Renner Delegate of the Board, CEO	361,658	18,000	-	-	18,000
Jean-Yves Le Cottonnec Member of the Board	-	-	-	-	-
Sir Mark H. Richmond Member of the Board	1,110	-	-	-	-
Thorlef Spickschen Member of the Board	7,000	1,604	-	1,604	-
Othmar Vock Member of the Board	-	6,200	-	-	6,200
Martin F. Bachmann Member of the Executive Board	4,884	123,000	-	7,200	115,800
Mark Dyer Member of the Executive Board	-	40,200	-	3,600	36,600
Frank Hennecke Member of the Executive Board	1,000	37,860	-	3,600	34,260
Philipp Müller Member of the Executive Board	150	31,500	300	3,600	27,600
Jakob Schlapbach Member of the Executive Board	5,125	37,860	-	3,600	34,260
Hans Stocker Member of the Executive Board	-	32,100	900	3,600	27,600

Compensation and participations

Compensation for Board of Directors (BoD) for the year 2008

Name	Base		Variable		Car	Pension	Total	Options
	cash	options	bonus	leasing				
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	number
Francois L'Eplattenier Chairman of the Board	46.0	-	-	-	-	1.5	47.5	-
Thomas Hecht Vice Chairman of the Board	46.0	-	-	-	-	2.3	48.3	-
Wolfgang A. Renner Delegate of the Board, CEO	404.4	128.7	80.0	7.0	59.3	679.4	6,000	
Jean-Yves Le Cotonnec Member of the Board	46.0	-	-	-	-	2.3	48.3	-
Sir Mark H. Richmond Member of the Board	46.0	-	-	-	-	1.5	47.5	-
Thorlef Spickschen Member of the Board	46.0	-	-	-	-	-	46.0	-
Othmar Vock Member of the Board	-	38.9	-	-	-	-	38.9	1,812
Total Board of Directors	634.4	167.6	80.0	7.0	66.9	955.9	7,812	

Compensation for Executive Board (EB) for the year 2008

Name	Base	Variable		Pension	Total	Options
	cash	options	bonus			
	TCHF	TCHF	TCHF	TCHF	TCHF	number
Martin F. Bachmann, CSO (highest compensated member of EB)	304.4	257.4	80.0	43.7	685.5	12,000
Total Executive Board	1,662.0	900.9	480.0	274.6	3,317.5	42,000

Explanations:

- Individuals acting simultaneously as member of the Board of Directors and of the Executive Board are reported under Board of Directors.
- Bonus period lasts from April to March. Bonus amount is composed of 1/4 paid bonus (cash) and 3/4 accrued bonus, which was compensated in 2009 in options.
- All options allocated in 2008 were granted on January 7, 2008, have a vesting period of 2 years and expire on January 6, 2013. The fair value at grant date amounted to CHF 21.45 per option and was calculated using Black-Scholes method. Each option entitles the holder to buy one share of the Company with an exercise price of CHF 79.35.
- No loans or credits were granted to members of BoD or EB.
- No compensations were made to former members of BoD or EB.

Cytos Biotechnology Ltd

Participations as of December 31, 2008

The following numbers of participations were held by members of BoD or EB (including parties closely related to these members):

Name	Shares	Employee options	Employee options expiring		
			2010	2011	2012 or later
Francois L'Eplattenier Chairman of the Board	3,000	-	-	-	-
Thomas Hecht Vice Chairman of the Board	1,064	-	-	-	-
Wolfgang A. Renner Delegate of the Board, CEO	386,050	6,000	-	-	6,000
Jean-Yves Le Cotonnec Member of the Board	-	-	-	-	-
Sir Mark H. Richmond Member of the Board	1,110	-	-	-	-
Thorlef Spickschen Member of the Board	7,000	1,604	-	1,604	-
Othmar Vock Member of the Board	-	2,757	-	-	2,757
Martin F. Bachmann Member of the Executive Board	5,204	93,000	-	7,200	85,800
Mark Dyer Member of the Executive Board	-	22,200	-	3,600	18,600
Frank Hennecke Member of the Executive Board	1,000	19,860	-	3,600	16,260
Philipp Müller Member of the Executive Board	150	13,500	300	3,600	9,600
Jakob Schlapbach Member of the Executive Board	5,125	19,860	-	3,600	16,260
Hans Stocker Member of the Executive Board	-	14,100	900	3,600	9,600

Appropriation of the accumulated loss

On the Annual Shareholders' Meeting on April 23, 2009, the shareholders approved the net profit of the year 2008 in the amount of TCHF 28,862 and the transfer of TCHF 4,743 of additional paid-in capital to free reserves.

The Board of Directors proposes to carry forward the net loss of the year 2009 in the amount of TCHF 15,413 and to transfer TCHF 311 of additional paid-in capital to free reserves.