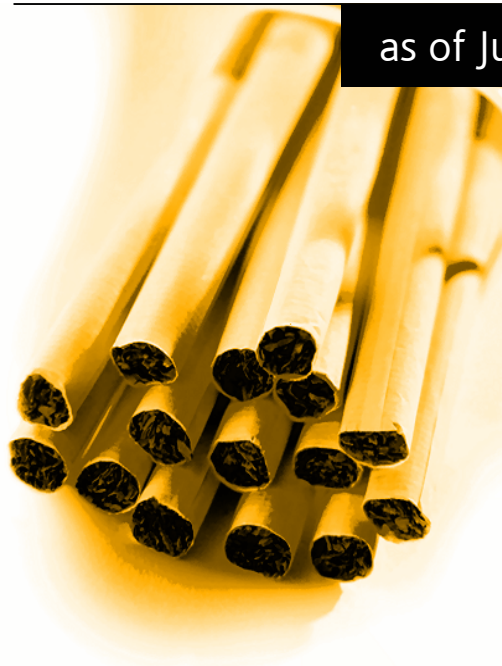


# Second Quarter Report

as of June 30, 2005

July 28, 2005



## Highlights Q2

### **Presentation of the phase II study results with CYT002-NicQb at ASCO**

#### **1) Presentation of the phase II study results with CYT002-NicQb at ASCO**

On May 14, 2005, results of the phase II study with the vaccine candidate CYT002-NicQb to treat nicotine addiction were presented at the Annual Meeting of the American Society of Clinical Oncology (ASCO). The phase II trial included 341 smokers and assessed safety, tolerability and efficacy of the vaccine candidate. Efficacy of the vaccine was determined by continuous abstinence from smoking between week 8 and 24 after treatment start and was measured by self-reporting of the participating smokers and by independent biochemical validation.

Two thirds of the smokers received the vaccine, whereas one third received placebo. All smokers who received the vaccine mounted an anti-nicotine antibody response, which corresponds to an immunological response rate of 100%. An intent-to-treat analysis of the entire study population has not achieved statistical significance; therefore, a sub-group analysis based on antibody levels was performed. The vaccine treated smokers were divided into three equal groups of increasing antibody levels (low, medium, and high responder group), and efficacy analysis was performed on each group. All smokers who received placebo had no measurable anti-nicotine antibodies in their blood.

The following table provides the continuous abstinence values of the analysis of all smokers from whom complete antibody measurements were available and who refrained from using nicotine replacement products (NRT) (NRT use was considered a major protocol violation):

		Continuous Abstinence	
CYT002-NicQb	high antibody response	57% (30 / 53) <sup>1</sup>	} 40% (64/159)
	medium antibody response	32% (17 / 53) <sup>1</sup>	
	low antibody response	32% (17 / 53) <sup>1</sup>	
Placebo	no antibody response	31% (25 / 80) <sup>1</sup>	

<sup>1</sup> (Number of continuously abstinent subjects / total number of subjects in group)

The difference of continuous abstinence between the high responder group and the placebo group was highly significant (p=0.004). Overall cigarette consumption in the high responder group was less than half of that seen in the placebo group (p=0.004). The vaccine was safe and generally well tolerated with common side effects being local injection site reactions and flu-like symptoms, which usually resolved within 24 hours.

Those promising phase II results mark an important milestone for the Immunodrug™ technology platform of Cytos Biotechnology: The data show elegantly that the body's own defence, the immune system, can be used to modulate even such complex conditions like addiction.

**CAD106 enters clinical trials – milestone payment to Cytos Biotechnology**

**2) Immunodrug™ candidate CAD106 to treat Alzheimer's disease enters phase I clinical trial - Cytos Biotechnology receives a development milestone payment from Novartis**

On May 18, 2005, Cytos Biotechnology announced that its collaboration partner Novartis Pharma AG ("Novartis") has obtained approval from the Swedish health authority to initiate a phase I clinical trial with the Immunodrug™ candidate CAD106, an immunotherapeutic product for the treatment of Alzheimer's disease. The achievement of this milestone triggered a payment to Cytos Biotechnology.

CAD106 treatment aims at the generation of antibodies against the β-amyloid-protein that inhibit the formation of "plaques" involved in the Alzheimer's disease process. CAD106 is the product of the collaborative program between Novartis and Cytos Biotechnology first announced in October 2001. The double-blind and placebo-controlled phase I study planned and conducted by Novartis will include 60 patients with mild to moderate Alzheimer's disease and will investigate safety, tolerability and β-amyloid specific antibody response following treatment with CAD106. Novartis expects patient recruitment to start in the course of 2005 and first results of the study to be available in 2007.



## **Obesity vaccine enters clinical trial**

### **3) Obesity vaccine enters clinical trial**

On May 11, 2005, Cytos Biotechnology announced that it has initiated a combined phase I/IIa clinical trial with the Immunodrug™ candidate CYT009-GhrQb, a therapeutic vaccine for the treatment of obesity. CYT009-GhrQb aims to treat obesity by induction of antibodies against ghrelin, a neuropeptide, which has recently been identified as a regulator of eating behaviour. The clinical study will include 112 obese individuals with a body mass index (BMI) between 30 and 35, and is designed to evaluate safety, tolerability, and exploratory efficacy of the vaccine.

The multicenter study is being conducted according to a randomized, double-blind and placebo-controlled design. Three different dose regimens of the vaccine will be compared against placebo. The treatment period of six months per individual will be followed by monitoring of safety and exploratory efficacy over a further six months. During the treatment, all participants will receive professional counselling to achieve a change in eating habits and improve physical activity. Efficacy of the vaccine will be determined by measurement of body weight. First results of the study are expected in the second half of 2006.

**Milestone payment  
results in lower  
net loss in Q2**

**4) Financial results**

Cash and cashable assets increased to an amount of CHF 84.4 million as of June 30, 2005, in comparison to CHF 76.4 million at the end of December 2004. This rise is primarily attributable to the capital increase executed in the first quarter 2005. The Company issued 460,000 shares, hence receiving CHF 21.3 million net proceeds.

In order to get higher yields than on the money market, the Group invested in high grade short- and long-term investments during the first half year.

Revenues increased from CHF 0.3 million in the second quarter 2004 by CHF 2.9 million to CHF 3.2 million in the second quarter 2005. The revenue in the second quarter 2005 stemmed mainly from a development milestone payment from Novartis. Year to date revenues increased from CHF 3.0 million in the first half year 2004 by CHF 0.4 million to CHF 3.4 million in the first half year 2005. The fluctuation in revenues is not uncommon to biotech companies as the revenues are often linked to up-front fees, milestones and license payments as well as income for delivery of drug substance, which occur sporadically.

Operating costs increased from CHF 6.5 million in the second quarter 2004 by CHF 1.3 million to CHF 7.8 million in the second quarter 2005 predominantly due to extended clinical trials. Year to date operating costs increased from CHF 13.3 million in the first half year 2004 by CHF 3.0 million to 16.3 million in the first half year 2005.

Net loss in the second quarter 2005 decreased by CHF 1.6 million in comparison to the second quarter 2004 and amounted to CHF 4.5 million, as a result of the milestone payment received in the second quarter 2005. Net loss in the first half year 2005 increased by CHF 2.4 million in comparison to the first half year 2004 and amounted to CHF 12.6 million, due to increased operating costs.

Cash burn for operating activities increased from CHF 2.1 million per month in the first half year 2004 to CHF 2.5 million per month in the first half year 2005 for the same reasons as the operating costs increased.

# Balance Sheets

## Cytos Biotechnology AG and subsidiaries

<b>Consolidated Balance Sheets as of</b> In thousand Swiss Francs (except for share information)	<b>June 30, 2005</b> unaudited	<b>December 31, 2004</b> audited
<b>Current assets:</b>		
Cash and cash equivalents	13,039	21,033
Short-term investments	38,995	28,000
Trade accounts receivable	6	274
Notes receivable acquired	-	3,000
Prepaid expenses and other current assets	727	848
<b>Total current assets</b>	<b>52,767</b>	<b>53,155</b>
<b>Long-term assets:</b>		
Property and equipment, net	13,372	14,035
Net pension benefit	1,794	734
Long-term investments	15,000	6,992
Other long-term assets	14,152	14,159
<b>Total long-term assets</b>	<b>44,318</b>	<b>35,920</b>
<b>Total assets</b>	<b>97,085</b>	<b>89,075</b>
<b>Current liabilities:</b>		
Trade accounts payable	1,100	1,213
Accrued payroll and bonuses	584	1,026
Current portion of loan	121	118
Other current liabilities and accrued expenses	4,253	4,490
<b>Total current liabilities</b>	<b>6,058</b>	<b>6,847</b>
<b>Long-term liabilities:</b>		
Loan	1,282	1,344
<b>Total long-term liabilities</b>	<b>1,282</b>	<b>1,344</b>
<b>Shareholders' equity:</b>		
Common stock, CHF 0.10 par value, authorized 7,583,329 shares, issued 5,083,329 shares at June 30, 2005; authorized 6,583,329 shares, issued 4,623,329 shares at December 31, 2004	508	462
Legal Reserves	136	136
Additional paid-in capital	190,276	168,859
Treasury stock (3,923 shares at June 30, 2005, and 5,235 shares at December 31, 2004, at cost)	(143)	(158)
Accumulated deficit	(100,890)	(88,272)
Accumulated other comprehensive income (loss)	(142)	(143)
<b>Total shareholders' equity</b>	<b>89,745</b>	<b>80,884</b>
<b>Total liabilities and shareholders' equity</b>	<b>97,085</b>	<b>89,075</b>

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

# Statements of Operations

## Cytos Biotechnology AG and subsidiaries

<b>Consolidated Statements of Operations</b>	Six months ended <b>June 30, 2005</b> unaudited	Six months ended <b>June 30, 2004</b> unaudited	Three months ended <b>June 30, 2005</b> unaudited	Three months ended <b>June 30, 2004</b> unaudited
In thousand Swiss Francs (except for share information)				
Research and collaboration revenues	3,432	3,004	3,201	337
<b>Total revenues</b>	<b>3,432</b>	<b>3,004</b>	<b>3,201</b>	<b>337</b>
Research and development	(13,974)	(11,662)	(6,682)	(5,802)
Sales and marketing	(585)	(408)	(385)	(170)
General and administrative	(1,913)	(1,710)	(843)	(735)
Other operating income	407	748	238	291
Other operating costs	(213)	(290)	(115)	(47)
<b>Net operating costs</b>	<b>(16,278)</b>	<b>(13,322)</b>	<b>(7,787)</b>	<b>(6,463)</b>
<b>Operating loss</b>	<b>(12,846)</b>	<b>(10,318)</b>	<b>(4,586)</b>	<b>(6,126)</b>
Financial income	228	135	106	35
<b>Net loss</b>	<b>(12,618)</b>	<b>(10,183)</b>	<b>(4,480)</b>	<b>(6,091)</b>
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	1	52	1	52
Total other comprehensive income (loss)	1	52	1	52
<b>Comprehensive loss</b>	<b>(12,617)</b>	<b>(10,131)</b>	<b>(4,479)</b>	<b>(6,039)</b>
Basic and diluted net loss per share	(2.58)	(2.41)	(0.88)	(1.32)
Weighted average number of shares used in computing basic and diluted net loss per share	4,886,615	4,227,894	5,079,732	4,619,809

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

# Cash Flows

## Cytos Biotechnology AG and subsidiaries

### Consolidated Statements of Cash Flows

	Six months ended June 30, 2005 unaudited	Six months ended June 30, 2004 unaudited	Three months ended June 30, 2005 unaudited	Three months ended June 30, 2004 unaudited
In thousand Swiss Francs				
<b>Cash flow from operating activities:</b>				
Net loss	(12,618)	(10,183)	(4,480)	(6,091)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,243	1,193	625	599
(Gain) loss on sale of property held for sale	-	(143)	-	(135)
(Gain) loss on sale of equipment	(3)	-	-	-
(Gain) loss on foreign exchange movements	14	(5)	12	(5)
Stock option compensation cost	84	31	43	7
Changes in assets and liabilities:				
Trade accounts receivable	263	477	226	3,124
Pension benefits	(1,060)	(974)	398	250
Prepaid expenses and other current assets	121	(333)	339	(217)
Trade accounts payable	(122)	(90)	(933)	(99)
Accrued payroll and bonuses	(442)	(406)	(980)	(694)
Other current liabilities and accrued expenses	(237)	(571)	(792)	(1,862)
<b>Net cash (used in) provided by operating activities</b>	<b>(12,757)</b>	<b>(11,004)</b>	<b>(5,542)</b>	<b>(5,123)</b>
Cash flows from investing activities:				
(Increase) decrease in short-term investments	(7,995)	(5,000)	(2,995)	(5,000)
(Increase) decrease in long-term investments	(8,008)	(6,989)	7,994	(6,989)
Purchase of property and equipment	(573)	(742)	(316)	(335)
Sale of property and equipment	3	-	-	-
Sale of property held for sale	-	2,555	-	135
<b>Net cash (used in) provided by investing activities</b>	<b>(16,573)</b>	<b>(10,176)</b>	<b>4,683</b>	<b>(12,189)</b>
Cash flows from financing activities:				
Repayment of loan	(58)	-	(29)	-
Proceeds from issuance of common stock	21,632	33,610	-	-
Purchase of treasury shares	(261)	(62)	(117)	(30)
Sale of treasury shares	338	10	36	-
Stock issuance costs	(316)	(2,572)	-	(4)
<b>Net cash (used in) provided by financing activities</b>	<b>21,335</b>	<b>30,986</b>	<b>(110)</b>	<b>(34)</b>
Net effect of currency translation on cash	1	75	1	75
Net increase (decrease) in cash and cash equivalents	(7,994)	9,881	(968)	(17,271)
Cash and cash equivalents, beginning of period	21,033	37,839	14,007	64,991
<b>Cash and cash equivalents, end of period</b>	<b>13,039</b>	<b>47,720</b>	<b>13,039</b>	<b>47,720</b>

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

# Consolidated Statements of Change in Shareholders' Equity

## Cytos Biotechnology AG and subsidiaries

### Consolidated Statements of Change in Shareholders' Equity

in thousand Swiss Francs (except for share information)

	Number of shares	Common stock	Additional paid in capital	Treasury stock	Accumulated deficit and legal reserves	Accumulated comprehensive other income (loss)	Total
<b>December 31, 2003, audited</b>	<b>3,783,081</b>	<b>378</b>	<b>137,850</b>	<b>(104)</b>	<b>(64,918)</b>	<b>(302)</b>	<b>72,904</b>
Comprehensive loss:							
Net loss	-	-	-	-	(23,218)	-	(23,218)
Other comprehensive income (loss)	-	-	-	-	-	159	159
Total comprehensive loss							(23,059)
Issuance of common stock	840,248	84	33,525	-	-	-	33,609
Stock issuance costs	-	-	(2,572)	-	-	-	(2,572)
Net movement of treasury stock	-	-	-	(54)	-	-	(54)
Stock option compensation cost	-	-	56	-	-	-	56
<b>December 31, 2004, audited</b>	<b>4,623,329</b>	<b>462</b>	<b>168,859</b>	<b>(158)</b>	<b>(88,136)</b>	<b>(143)</b>	<b>80,884</b>
Comprehensive loss:							
Net loss	-	-	-	-	(12,618)	-	(12,618)
Other comprehensive income (loss)	-	-	-	-	-	1	1
Total comprehensive loss							(12,617)
Issuance of common stock	460,000	46	21,586	-	-	-	21,632
Stock issuance costs	-	-	(316)	-	-	-	(316)
Net movement of treasury stock	-	-	63	15	-	-	78
Stock option compensation cost	-	-	84	-	-	-	84
<b>June 30, 2005, unaudited</b>	<b>5,083,329</b>	<b>508</b>	<b>190,276</b>	<b>(143)</b>	<b>(100,754)</b>	<b>(142)</b>	<b>89,745</b>

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

## 1) Organization

Cytos Biotechnology AG ("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 treatment and prevention of chronic diseases and aim at triggering the patient's immune system to induce specific antibody and targeted T-cell responses, which actively fight disease processes.

The Group is subject to risks common to companies in the biotechnology industry, including, but not limited to, uncertainties regarding the effectiveness and safety of new drugs, new and unproven technologies, clinical trials, regulatory approvals, long product development cycles and high failure rates, continuing capital requirements to fund research and development, commercial success and acceptance, patents and legally protected technologies, third party intellectual property rights, dependence on third parties, competition, concentration of operations, product liability insurance, history of operating losses and uncertainty of future profitability, dependence on important employees, environment, health, data protection and safety, lack of experience in marketing and sales, merger ("Merger") with Askliä Holding AG ("Askliä"), volatility of market value, as well as limited liquidity and shares eligible for future sale.

## 2) Basis of presentation

The accompanying unaudited condensed interim consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("US-GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US-GAAP have been condensed or omitted.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited financial statements and footnotes related thereto for the period ended December 31, 2004, included in the Group's Annual Report. The unaudited interim consolidated financial statements include, in the opinion of management, all adjustments necessary to present fairly the Group's consolidated financial position as of June 30, 2005, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the six month period ended June 30, 2005. The consolidated results of such interim periods are not necessarily indicative of the results to be achieved for the period ended December 31, 2005.

The unaudited condensed interim consolidated financial statements include the accounts of Cytos Biotechnology AG and its wholly-owned subsidiaries, Mavena AG, Belp, Switzerland, Askliä Holding (Germany) GmbH in Liquidation, Ravensburg, Germany, and Proteome Therapeutics GmbH, Singen, Germany.

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain amounts in the period ended June 30, 2004, financial statements have been reclassified to conform with the audited consolidated financial statements and footnotes related thereto for the year ended December 31, 2004, included in the Group's 2004 Annual Report. These reclassifications have no effect on previously reported net loss or shareholders' equity.

#### *New accounting pronouncement*

In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123 (revised 2004) "Share-Based Payment". FAS 123 (revised) supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance and it requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award with limited exceptions. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Under the transition provisions of FAS 123 (revised), the Group shall have to apply this new standard as from July 1, 2005. For the disclosures on the Group's stock option plans, see note 8.

### **3) Shareholders' Equity**

On March 10, 2005, the Board of Directors decided to increase the common stock of the Company by CHF 46,000 and by 460,000 shares with a nominal value of CHF 0.10 each. Effective March 14, 2005, an increase of CHF 46,000 and 460,000 shares with a nominal value of CHF 0.10 each was registered at the Commercial Register in the Canton of Zurich and subsequently the new shares were issued to new shareholders. The total net proceeds for the issuance of common stock amounted to CHF 21.3 million.

The new shares have been issued out of the authorized capital of Cytos Biotechnology AG which was approved by the shareholders at the Annual Shareholders' Meeting on April 27, 2004.

In connection with the increase in common stock, the Company incurred costs of approximately CHF 0.3 million. The costs have been recorded as a reduction to Additional Paid-in Capital.

### **4) Research and Development Collaborations**

On May 18, 2005, the Company announced that its collaboration partner Novartis, a related party, has obtained approval from the Swedish health authority to initiate a phase I clinical trial with the Immunodrug™ candidate CAD106. The achievement of this milestone triggered a payment to the Company.

On January 6, 2005, the Company announced, that Pfizer Inc. ("Pfizer") and the Company signed a research and commercial license option agreement for the testing of Immunodrugs™ for animal health applications. Pfizer gains exclusive access to test two Immunodrug™ candidates in its models and, if the option on the commercial license agreement is executed, exclusive development and commercial rights to these two animal health product candidates of the Company. In return, the Company received an up-front payment for the option and one-time delivery of the technical quality vaccines, and may earn milestones and additional fees on commercial license execution, on technology transfer for GMP manufacturing, on supply of drug substance, and on approval of Immunodrug™ candidates in major markets. After a successful launch of a product, the Company has a right to earn royalties based on Pfizer's net sales.

In the course of the first quarter 2005 the Company and Medarex Inc. ("Medarex") expanded the scope of their collaborative research, development and license agreement for new drug targets. The first agreement between the companies was announced in

November 2002 and focused on drug targets for immunological diseases. This new agreement expands the collaboration scope and will include drug targets discovered in other disease areas of interest.

Under terms of this new agreement, Medarex will acquire the exclusive rights to develop and commercialize monoclonal antibody therapeutics against the collaboration targets. Medarex also receives a first right of negotiation for use of these targets in small molecule drug discovery and as protein therapeutics. In return, Cytos Biotechnology received an up-front payment, and has the opportunity to earn license fees, milestones, and royalties on net sales of products that are successfully brought to market. Cytos Biotechnology also retains rights to develop and commercialize the target proteins discovered for its own Immunodrugs™.

In the first quarter 2005 the Company entered into a non-exclusive research license agreement with a large pharmaceutical company for protein expression technology. Under the terms of this agreement the Company received an up-front fee and has the potential to earn annual license fees starting on the first anniversary of signing the agreement.

### 5) Segment and geographic information

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 and loss of the Group on an aggregated basis and manages the operations of the Group as a single operating segment. The Group currently derives its research and collaboration revenues from research and development collaborations with third parties. Research and collaboration revenues are attributable to individual countries and are based on the location of the customer, while the long-term assets are based on the location of the Group.

The Group's geographic information is as follows:

In thousand Swiss Francs

<b>June 30, 2005:</b>	Switzerland	USA	Other	Total
Research and collaboration revenues	3,100	311	21	3,432
Long-term assets	44,318	-	-	44,318
<b>June 30, 2004:</b>	Switzerland	USA	Other	Total
Research and collaboration revenues	2,856	44	104	3,004
Long-term assets	39,083	-	-	39,083

### 6) Benefit plans

The Group maintains a retirement plan (the "Plan") covering all of its employees in Switzerland including its executive officers. 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 FAS 87.

The component of net periodic benefit cost recognized in the unaudited interim consolidated statements of operations is as follows:

<b>Net Periodic Benefit Cost</b>	Six months ended	Six months ended
in thousand Swiss Francs	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Service cost	460	313
Interest cost	100	73
Expected return on the cash surrender value	(215)	(163)
Amortization of unrecognized net transition obligation	4	5
<b>Net periodic benefit cost</b>	<b>348</b>	<b>228</b>

In the six month periods ended June 30, 2005, and 2004, the Group contributed against the annual costs TCHF 1,864 and TCHF 1,579, respectively, to the Plan at a ratio of 50%/50% for the cost sharing between the Group and employees. These contributions are recorded against the Net Pension Benefit in the Balance Sheet. The Group was repaid by its employees up to June 30, 2005, TCHF 448 and up to June 30, 2004, TCHF 399 for their 50% of the pro rata contribution. This is recorded as a reduction of the Net Pension Benefit in the Balance Sheet.

## 7) Earnings (Loss) per share

Basic and diluted net loss per share have been computed based upon the weighted average number of common shares outstanding in conformity with Statement of Financial Accounting Standard No. 128. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities. All outstanding options to purchase shares of common stock were not included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

## 8) Stock option plans

The Group has elected to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock issued to Employees", (APB 25 and related interpretations) in accounting for its employee stock option plans. Any compensation costs from the granting of stock options to employees is recognized on a straight line basis over the vesting period.

On December 13, 2004, the board of directors approved a new stock option plan ("SOP 2005"), whereas all employees (except the CEO) received options in January 2005. 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. The exercise price is CHF 44.26 corresponding to the average closing price of the share during the first five trading days in the year 2005. Management believes this represents the best estimate of the fair value of the underlying common stock. Under this program a total of 74,040 shares were granted on January 10, 2005. As the exercise price is lower than the fair market value at the date of grant, the difference between the exercise price and the fair market value times the number of options allocated will be expensed over the vesting period.

On January 8, 2005, consultants were granted 500 options, which are exercisable after a two year cliff vesting period until January 7, 2010. The exercise price is CHF 44.26 for one option, corresponding to the average closing price of the share during the first five trading days in the year 2005.

For all stock options granted the Group expensed TCHF 84 and TCHF 25 for the first six months of 2005 and 2004, respectively.

Had compensation costs been determined based upon the method of FAS 123, as amended by FAS 148, the estimated fair value of the options would be amortized over the vesting period of the options as compensation expense, the Group's net loss and basic and diluted net loss per share would have been as follows:

In thousand Swiss Francs (except for share information)	Six months ended <b>June 30, 2005</b>	Six months ended <b>June 30, 2004</b>
Net loss as reported	(12,618)	(10,183)
Net loss pro forma	(13,058)	(11,602)
Basic and diluted net loss per share	(2.58)	(2.41)
Pro forma per share	(2.67)	(2.74)

For stock options issued in 2002, 2004 and 2005, which impact the six month periods ended June 30, 2005 and 2004 pro forma net loss computation, the following assumptions were used applying the Black-Scholes Option Pricing Model:

Risk-free interest rate:	1.6% - 3.2%
Expected life (in years):	3.5 - 5
Volatility:	41% - 46%
Dividend:	zero

## 9) Short-term investments

In the course of the first quarter of 2005, the Group invested in a fixed-term time deposit amounting to CHF 10 million. The maturity date is September 30, 2005.

Fixed-term time deposits of CHF 21 million which matured during the second quarter 2005 have been reinvested in fixed-term time deposits with maturity dates of October 24, 2005 and November 11, 2005.

A bond of CHF 2 million has been reclassified into short-term investments as the maturity date of May 12, 2006 causes it to be of a short-term nature.

## 10) Notes receivable acquired

As of March 31, 2005, the Group received CHF 3 million for the outstanding note receivable from Vétoquinol paid back by early redemption.

## 11) Long-term investments

CHF 16 million were invested in fixed-term time deposits in the course of the first quarter 2005 with maturity dates of June 30, 2006 and December 31, 2006. During the second quarter 2005, fixed-term time deposits of CHF 8 million matured and were paid to the Group.

## 12) Property and Equipment

In the course of the first half year of 2005, the Group invested TCHF 573 into property and equipment, primarily for laboratory equipment.

## 13) Contingencies and legal proceedings

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.

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 the AskliA that were divested prior to the Merger, 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 Merger these liabilities and lawsuits of AskliA as well as the other pending and threatened lawsuits and claims of AskliA were taken over by the Group. The Group believes that appropriate provisions were made to cover the risks associated with these various claims and lawsuits pending or threatened as well as any potential obligation for guarantees.

#### 14) Subsequent events

On July 1, 2005, consultants were granted 4,441 options, which are exercisable after a two year cliff vesting period until June 30, 2010. Each option entitles the holder to purchase one share of the Company. The exercise price of the option is CHF 39.85 for one share, the closing price as of June 30, 2005.

In July 2005, the board of directors approved a new stock option plan ("SOP2005 5years"), whereas employees (except the CEO) having been employed for longer than five years on July 14, 2005 receive options. Each option entitles the holder to purchase one share of the Company within three years after the grant date. The exercise price is CHF 39.58 for one share corresponding to the volume weighted average price of the share as of July 14, 2005. Management believes this represents the best estimate of the fair value of the underlying common stock. Under this program a total of 26,475 options were granted on July 15, 2005.

## Disclaimer

### Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this Quarterly Report, including but not limited to, statements, estimates and projections of future trends and of the anticipated future performance of Cytos Biotechnology AG and its subsidiaries (together "the Group") constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievement of the Group, or industry results, to differ materially from any future results, performance or achievement implied by such forward-looking statements. The forward-looking statements are based on the Group's current beliefs and assumptions regarding a large number of factors affecting its business. Such beliefs and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. There can be no assurance that: (i) the Group has correctly measured or identified all of the factors affecting its business or the extent of their likely impact, (ii) the publicly available information with respect to these factors on which the Group's analysis is based is complete or accurate, (iii) the Group's analysis is correct or (iv) the Group's strategy, which is based in part on this analysis, will be successful. Factors which affect the Group's business include, but are not limited to, (i) general market, governmental and regulatory trends, (ii) competitive pressures, (iii) technological developments, (iv) effectiveness and safety of the Group's technology and therapeutics, (v) uncertainty regarding outcome of clinical trials and regulatory approval process, (vi) management changes, (vii) changes in the market in which the Group operates and (viii) changes in the financial position or credit-worthiness of the Group's customers and partners.

# Shareholder Information

## Stock Exchange Listing

As of June 30, 2005, the registered shares of Cytos Biotechnology AG were listed at the SWX Swiss Exchange (SWX:CYTN). Swiss Security No.: 1 102 521

## Share Register

Aktienregister Cytos Biotechnology AG  
c/o Nimbus AG  
Postfach, CH-8866 Ziegelbrücke

## Capital Structure

Number of registered shares (nominal value CHF 0.10)	5,083,329
Conditional Capital	CHF 46,000
Authorized Capital	CHF 204,000
Free Float	91%

## Investor Contact

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## Company Profile

Cytos Biotechnology AG is a public Swiss biotechnology company that specializes in the discovery, development and commercialization of a new class of biopharmaceutical products – the Immunodrugs™. Immunodrugs™ are intended for use in the treatment and prevention of common chronic diseases, which afflict millions of people worldwide. Immunodrugs™ are designed to instruct the patient's immune system to produce desired therapeutic antibody or cytotoxic T-cell responses that modulate chronic disease processes. Taking advantage of the high flexibility of its Immunodrug™ platform, Cytos Biotechnology has built a pipeline of 25 different Immunodrug™ candidates in various disease areas, of which seven are currently in clinical development. The Immunodrug™ candidates are developed both in-house (22) and together with Novartis (1) and Pfizer Animal Health (2). Founded in 1995 as a spin-off from the Swiss Federal Institute of Technology (ETH) in Zurich, the company is located in Schlieren (Zurich). Currently, the company has 113 employees. Cytos Biotechnology AG has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.

