

First Quarter Report

as of March 31, 2006

April 27, 2006



Highlights Q1 2006

- 1) Positive 8 months follow-up results of the phase IIa study with CYT005-AllQbG10 in house dust mite allergy patients: the median allergen tolerance remains increased by a factor of 100 ($p < 0.0001$), emphasizing the significant long-term therapeutic benefit of this vaccine candidate.
- 2) CYT002-NicQb to treat nicotine addiction surpassed target antibody level in clinical dose-optimization study.
- 3) Full patient enrollment for phase I/IIa clinical trial with CYT009-GhrQb for the treatment of obesity.
- 4) Financial summary Q1 2006 and Q1 2005, respectively :

		Q1 2006	Q1 2005
Net revenue	CHF mio	0,2	0,2
Net operating costs	CHF mio	8,8	8,8
Net loss	CHF mio	8,4	8,4

		March 31, 2006	December 31, 2005
Cash & cashable assets*	CHF mio	63,6	71,1
Employees	Full-time empl.	125	124

* including cash and cash equivalents, short-term and long-term financial assets and properties held for sale.

Significant long-term efficacy for vaccine to treat allergic diseases

1) CYT005-AllQbG10 to treat allergic diseases shows significant long-term efficacy in house dust mite allergy patients

In April 2006, Cytos Biotechnology announced positive follow-up results for the phase IIa study with CYT005-AllQbG10 to treat allergic diseases. The phase IIa trial in 20 patients with allergic rhinoconjunctivitis and asthma due to house dust mite allergy evaluated the safety, tolerability and exploratory efficacy of a 10 week treatment with 300 µg CYT005-AllQbG10 in conjunction with house dust mite allergen. First positive results of the study were announced end of last year (see Press Release, December 14, 2005).

The follow-up results obtained 8 months after start of treatment (i.e. 24 weeks after the last injection) show that the powerful efficacy achieved with CYT005-AllQbG10 treatment offers significant therapeutic benefit for an extended period of time. As measured by the conjunctival provocation test, the median allergen tolerance after 8 months remained increased by a factor of 100 (p<0.0001). Allergic rhinitis and asthma in daily life also remained significantly improved at 8 months. The table below shows the median symptom scores of allergic rhinitis and asthma in daily life before treatment, and at 3 months and 8 months after start of treatment. Also shown are the median scores for the consequences of allergic rhinitis and asthma, which describe restrictions due to the disease during work, leisure time, or sleep.

(Median scores are shown)	Before treatment	3 months	8 months
Allergic rhinitis symptom score (p-value)	10.5	1.5 p < 0.0001	3 p < 0.0001
Consequences of allergic rhinitis (p-value)	3	0 p < 0.0001	1 p < 0.0001
Asthma symptom score (p-value)	2	0 p < 0.0001	0 p = 0.0007
Consequences of asthma (p-value)	3	0 p < 0.0001	0 p = 0.0001

Positive results for CYT002-NicQb dose-optimization study

2) CYT002-NicQb to treat nicotine addiction surpassed target antibody level in clinical dose-optimization study

In February 2006, Cytos Biotechnology announced positive results from a clinical dose-optimization study with CYT002-NicQb. The previous phase II study with 341 smokers completed in 2005 has demonstrated that 100 µg doses of CYT002-NicQb were effective in the participants who achieved a high antibody level upon vaccination ("high responder group"). The goal of this dose-optimization study was thus to identify a dose that would induce antibody levels sufficiently high for efficacy in a majority of vaccinated individuals.

In this dose-optimization study, the safety, tolerability and immunogenicity of a 300 µg dose of CYT002-NicQb were tested. 10 healthy volunteers received two intramuscular injections of the vaccine at an interval of 4 weeks. The 300 µg dose of CYT002-NicQb yielded a 4.2-fold increase in the geometric mean antibody level compared to the one obtained with the 100 µg dose in the phase II study (p = 0.0011). A calculation based on the phase II data predicts that this 4.2-fold higher antibody level would have resulted in 87% of the vaccine-treated smokers being in the "high responder group". CYT002-NicQb was safe and generally well tolerated with side effects similar to those observed in the phase II study, being local injection site reactions and flu-like symptoms, which usually resolved within 24 hours.



Full enrollment for obesity trial

3) Patient enrollment for phase I/IIa study with CYT009-GhrQb for treatment of obesity completed

In March 2006, the enrollment for the combined phase I/IIa clinical trial with CYT009-GhrQb for the treatment of obesity has been completed. The study was initiated in May 2005 and includes 111 obese individuals with a body mass index (BMI) between 30 and 35. The randomized, double-blind and placebo-controlled study is conducted at different centers in Switzerland and is designed to evaluate the safety, tolerability, and exploratory efficacy of the vaccine candidate. First results of the study are expected in the fourth quarter of 2006.

Stable financial situation

4) Financial results

Cash and cashable assets decreased to CHF 63.6 million as of March 31, 2006, in comparison to CHF 71.1 million at the end of December 2005.

Revenues remained with CHF 0.2 million in the first quarter 2006 on the same level as in the first quarter 2005.

Operating costs amounted to CHF 8.8 million and net loss amounted to CHF 8.4 million in the first quarter 2006 and were stable compared to the first quarter 2005.

The gross cash burn for operating activities calculated based on the Cash Flow Statement remained stable with CHF 2.4 million per month in the first quarter of 2006 compared to the first quarter of 2005.

Glossary

Allergen: a normally harmless substance that elicits a misdirected immune response.

Allergen tolerance: non-reactivity to a certain allergen or reactivity only up to the level of a predefined minimal symptom score.

Allergic rhinitis: a condition due to allergy that mimics a chronic cold. Rhinitis means "irritation of the nose".

Antibody: class of blood proteins generated by the immune system to neutralize foreign material such as bacteria, viruses or toxins (i.e. antigens).

Antibody level: the strength of an induced antibody response can be expressed in high or low antibody levels. The antibody level induced against a certain antigen is mostly depending on the immunogenicity and amount of such an antigen.

Asthma: a chronic inflammatory disorder of the airways leading to recurrent episodes of wheezing, breathlessness, chest tightness and cough in susceptible individuals.

Conjunctival provocation test: a certain test commonly applied to determine the allergic disease status of a patient.

Dose-optimization study: a study to assess the effect of different doses of the study drug.

Double-blind: a set-up often used in clinical trials where neither the doctor nor the patient knows if placebo or the active drug substance is applied.

Efficacy: strength, effectiveness; the ability of a drug to control or cure an illness.

Geometric mean: geometric mean is kind of an average of a set of numbers and is commonly used to characterize averages of antibody levels.

Immunogenicity: the ability of a substance to evoke an immune response.

Phase IIa/Phase II: a clinical trial that examines a new drug candidate's safety and exploratory efficacy in the targeted population and may involve 10 (IIa) to 500 (II) people.

Placebo: Dummy medical treatment.

Randomized: Random assignation of clinical trial volunteers to different treatment groups.

Rhinoconjunctivitis: a combination of rhinitis (inflammation of the nose) and conjunctivitis (inflammation of the eye).

Balance Sheet

Cytos Biotechnology AG and subsidiaries

Consolidated Balance Sheet as of in TCHF	Note	March 31, 2006	December 31, 2005
Current assets:			
Cash and cash equivalents		14,186	11,469
Financial assets	7	26,999	34,998
Trade and other receivables		796	845
Derivative financial instruments		-	379
Real estate inventories		14,124	14,124
Prepaid expenses		1,663	1,931
Total current assets		57,768	63,746
Long-term assets:			
Property and equipment, net	8	13,469	13,591
Financial assets	7	5,000	5,000
Pension assets		25	25
Investment in associates		32	32
Total long-term assets		18,526	18,648
Total assets		76,294	82,394
Current liabilities:			
Trade accounts payable		891	1,139
Loans payable		126	125
Other current liabilities		353	409
Accrued expenses		3,465	3,005
Provisions		575	575
Total current liabilities		5,410	5,253
Long-term liabilities:			
Loans payable		1,187	1,219
Provisions		1,911	1,911
Total long-term liabilities		3,098	3,130
Shareholders' equity:			
Share capital	3	513	509
Legal reserves		136	136
Additional paid-in capital	3	193,886	191,506
Treasury shares		(488)	(298)
Accumulated deficit		(126,261)	(117,842)
Total shareholders' equity		67,786	74,011
Total liabilities and shareholders' equity		76,294	82,394

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

Income Statement

Cytos Biotechnology AG and subsidiaries

Consolidated Income Statement

in TCHF (except for share information)	Note	Three months ended March 31, 2006	Three months ended March 31, 2005
Research and collaboration revenues	4	163	231
Total revenues		163	231
Research and development		(7,784)	(7,704)
Sales and marketing		(222)	(214)
General and administrative		(902)	(896)
Other income / (expenses), net		149	57
Net operating costs		(8,759)	(8,757)
Operating loss		(8,596)	(8,526)
Financial income		201	156
Financial expense		(25)	(20)
Net loss		(8,420)	(8,390)
Basic and diluted net loss per share	5	(1.65)	(1.79)
Weighted average number of shares used in computing basic and diluted net loss per share		5,113,729	4,693,499

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

Cash Flows

Cytos Biotechnology AG and subsidiaries

Condensed Consolidated Statement of Cash Flows in TCHF	Note	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash flow from operating activities:			
Net loss		(8,420)	(8,390)
Depreciation and amortization		689	618
Share option compensation cost	6	722	230
Other financial cash-flow items		(193)	(148)
Changes in assets and liabilities		42	403
Net cash (used in) provided by operating activities		(7,160)	(7,287)
Net cash (used in) provided by investing activities		8,127	(21,184)
Net cash (used in) provided by financing activities		1,750	21,445
Net effect of currency translation on cash		0	0
Net increase/(decrease) in cash and cash equivalents		2,717	(7,026)
Cash and cash equivalents, beginning of period		11,469	21,033
Cash and cash equivalents, end of period		14,186	14,007

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

Change in Shareholders' Equity

Cytos Biotechnology AG and subsidiaries

Consolidated Statements of Change in Shareholders' Equity in TCHF (except for share information)

	Number of shares	Share capital	Legal reserves	Additional paid in capital	Treasury shares	Accumulated deficit	Cumulative translation adjustments	Total
January 1, 2005	4,623,329	462	136	169,099	(158)	(89,142)	(222)	80,175
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	0	0
Loss for the year	-	-	-	-	-	(8,390)	-	(8,390)
Total recognized loss								(8,390)
Issuance of share capital	460,000	46	-	21,586	-	-	-	21,632
Share issuance costs	-	-	-	(316)	-	-	-	(316)
Net movement of treasury shares	-	-	-	66	92	-	-	158
Share option compensation cost	-	-	-	230	-	-	-	230
March 31, 2005	5,083,329	508	136	190,665	(66)	(97,532)	(222)	93,489
January 1, 2006	5,086,993	509	136	191,506	(298)	(117,622)	(220)	74,011
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	1	1
Loss for the year	-	-	-	-	-	(8,420)	-	(8,420)
Total recognized loss								(8,419)
Issuance of share capital	42,724	4	-	1,713	-	-	-	1,717
Net movement of treasury shares	-	-	-	254	(190)	-	-	64
Share option compensation cost	-	-	-	413	-	-	-	413
March 31, 2006	5,129,717	513	136	193,886	(488)	(126,042)	(219)	67,786

See accompanying notes which are an integral part of these consolidated condensed interim 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 prevention and treatment 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.

2) Basis of preparation

These consolidated condensed interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2005.

These consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2005.

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

Certain amounts presented in the comparative figures of the consolidated financial statements as per March 31, 2005, have been reclassified to conform with the presentation as per December 31, 2005, respectively March 31, 2006, with no effect on previously reported net loss or shareholders' equity.

3) Shareholders' equity

On March 24, 2006, the Board of Directors registered an increase of the share capital of the Company by CHF 366.40 and by 3,664 shares with a nominal value of CHF 0.10 each at the Commercial Register in the Canton of Zurich. This increase is due to exercised options by employees in 2005.

In the course of the first quarter 2006 42,724 options have been exercised by employees and consultants, which resulted in an additional capital increase as of March 31, 2006 by CHF 4,272.40 and by 42,724 shares with a nominal value of CHF 0.10 each.

The total net proceeds (exercise price times number of options exercised) for the issuance of share capital in the first quarter of 2006 amounted to CHF 1.7 million.

4) Segment and geographic information

Primary reporting format – 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 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.

Secondary reporting format – geographical segment

Research and collaboration revenues are attributable to individual countries and are based on the location of the customer, while the long-term 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 expenses are generated in Switzerland. Management does not allocate the expenses to the individual countries where the company generated revenue.

The Group's geographic information is as follows:

in TCHF	Jan. 1 - March 31, 2006				Jan. 1 - March 31, 2005			
	CH	USA	Other	Total	CH	USA	Other	Total
Research and collaboration revenue	50	113	-	163	100	110	21	231
Segment result	50	113	-	163	100	110	21	231
Unallocated expenses				(8,759)				(8,757)
Operating loss				(8,596)				(8,526)
Financial income/(expenses), net				176				136
Net loss				(8,420)				(8,390)

<u>Other information</u>	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Assets	76,294	82,394
Liabilities	8,508	8,383
	<u>Jan. 1 - March 31, 2006</u>	<u>Jan. 1 - March 31, 2005</u>
Capital expenditure	567	257
Depreciation	689	618

5) Earnings (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. 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.

6) Share option plans

The Group granted regularly share options to employees. Usually the share options are equity-settled; one plan is cash settled. The fair value of the options is determined at the grant date based on the market price using the Black-Scholes model.

On December 1, 2005, the board of directors approved a new share option plan ("SOP 2006"), whereas all employees received options. 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 53.29 corresponding to the average closing price of the share during the first four trading days in the year 2006. Management believes this represents the best estimate of the fair value of the underlying common stock. Under this program a total of 80,320 shares were granted on January 9, 2006. Furthermore, one member of the Board of Directors received 1,604 options with the same characteristics as the ones of the SOP 2006.

For these stock options the following assumptions were used applying the Black-Scholes Option Pricing Model:

<u>Share option conditions and assumptions</u>	<u>SOP 2006</u>
Nature of arrangement	Grant of share options
Grant date	09.01.2006
Number of options granted	80,320
Exercise price (CHF)	53.29
Share price at date of grant (CHF)	56.40
Contractual life (years)	5.0
Vesting period (years)	2.0
Settlement	Equity
Expected volatility (%)	49.5
Expected option life at grant date (years)	3.5
Risk-free interest rate (%)	2.1
Expected dividend	zero
Estimated fair value at grant date (CHF)	22.44
Expiry date	08.01.2011
Valuation model	Black-Scholes

For all stock options granted the Group expensed TCHF 722 and TCHF 230 for the first quarter of 2006 and 2005, respectively.

7) Financial assets

In the course of the first quarter of 2006, the Group received a repayment of a fixed-term time deposit of CHF 8 million.

8) Property and equipment

In the course of the first quarter of 2006, the Group invested TCHF 567 into property and equipment.

9) Adjustment of the income statement for the first quarter of 2005

Due to the adoption of IFRS as of January 1, 2005, the following amounts have been adjusted in the income statement for the first quarter of 2005:

in TCHF	
Applying IFRS 2*: Difference to US GAAP (FAS 123R and APB 25) for 2005	(189)
Applying IAS 19**: Difference to FAS 87 for 2005	(63)
Total impact to income statement	(252)

* IFRS 2: Share-based payment

** IAS 19: Employee benefits

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 March 31, 2006, 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)	5,129,717
Conditional Capital	CHF 41,361
Authorized Capital	CHF 204,000
Free Float	91%

Contacts

Jakob Schlapbach
CFO
Phone: +41 44 733 46 46
E-mail: jakob.schlapbach@cytos.com

Claudine Blaser, PhD
Director Corporate Communications
Phone: +41 44 733 47 20
E-mail: claudine.blaser@cytos.com

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 26 different Immunodrug™ candidates in various disease areas, of which 7 are currently in clinical development. The Immunodrug™ candidates are developed both in-house (23) and together with Novartis Pharma (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 125 employees. Cytos Biotechnology AG has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.

