

April 22, 2009

First Quarter Report

as of March 31, 2009

Important events in Q1 2009

- Cytos Biotechnology announced alignment of resources following a setback in the development of its hypertension vaccine CYT006-AngQb
- Recruitment of allergic patients for phase IIb dose-finding study with CYT003-QbG10 completed
- Upcoming events
 - Presentation of phase II study results for CYT003-QbG10 monotherapy at the XXVIII Congress of the European Academy of Allergy and Clinical Immunology, June 9, 2009, Warsaw, Poland
 - Company presentation at the 6th Annual Bank of America-Merrill Lynch Pan-European Biotech/Medtech Conference, May 19, 2009, London, UK
- Financial summary

		Q1 2009	Q1 2008
Revenues	CHF million	0.3	0.3
Net operating costs	CHF million	(11.0)	(10.5)
Net loss	CHF million	(11.8)	(10.2)
		March 31, 2009	December 31, 2008
Cash, cash equivalents, financial assets and trade receivables	CHF million	87.9	98.0
Full-time employees	number	133	132

Cytos Biotechnology announced the alignment of resources following a setback in the development of its hypertension vaccine CYT006-AngQb

In March 2009, Cytos Biotechnology announced results from a phase IIa study with CYT006-AngQb, a vaccine candidate for the treatment of hypertension. The study was a double-blind, placebo-controlled clinical trial in 69 patients with mild to moderate hypertension designed to explore the safety, tolerability and exploratory efficacy of a modified treatment regimen of CYT006-AngQb. First study results showed that the vaccine was safe and well tolerated, but the new treatment regimen failed to induce a significant reduction of the ambulatory blood pressure. Cytos Biotechnology is currently analyzing the data in detail to understand the reasons for this negative outcome, particularly in the light of an earlier phase IIa trial, which showed a clinically relevant and significant reduction of the blood pressure¹.

Cytos Biotechnology has decided to suspend all process development activities with CYT006-AngQb and preparations towards the previously planned phase IIb study until availability of results of a third study with CYT006-AngQb expected in Q3, 2009 and detailed data from the biochemical analyses of the effect of the new regimen on the renin-angiotensin system.

In order to align its financial resources on the key development programs and its collaborations with Novartis and Pfizer, Cytos Biotechnology has decided to reduce its workforce. By March 31, 2009, 57 employees are affected by the reorganization in form of layoffs or part-time solutions. As a result of the workforce reduction and the concentration on the most advanced research and development programs, the gross cash burn rate of the company should be reduced in 2009 to approximately CHF 36 million and in 2010 to approximately CHF 25 million, which aims at extending the available financing of the company's research and development expenditures into the year 2012.

¹ *The Lancet; Effect of immunisation against angiotensin II with CYT006-AngQb on ambulatory blood pressure: a double-blind, randomised, placebo-controlled phase IIa study; 2008, 371:821*

Recruitment of allergic patients for phase IIb dose-finding study with CYT003-QbG10 completed

In early April 2009, recruitment of patients for the phase IIb dose-finding study with CYT003-QbG10 was completed. Approximately 300 patients with rhinoconjunctivitis due to house dust mite allergy will be included in the study, which will evaluate the safety, tolerability and efficacy of two different doses of CYT003-QbG10 applied as a monotherapy (i.e. without any allergen). Initial study results are expected in the third quarter of 2009.

Upcoming events

Presentation of phase II study results for CYT003-QbG10 monotherapy at the XXVIII Congress of the European Academy of Allergy and Clinical Immunology (EAACI), June 9, 2009, Warsaw, Poland

Prof. Audra Blažiene, University Hospital Vilnius, Lithuania, principal investigator of the study will present: "CYT003-QbG10, a novel allergen-independent immunotherapy, shown to be safe and efficacious for treating allergic rhinoconjunctivitis and asthma in placebo-controlled phase II study" on Tuesday, June 9, 2009 at 10.30 am.

The EAACI is an important professional medical association including 40 European National Societies and more than 5,500 research investigators and clinicians aimed at promoting basic and clinical research in the field of allergic diseases, and promoting good patient care in this important area of medicine.

Company presentation at the 6th Annual Bank of America-Merrill Lynch Pan-European Biotech/Medtech Conference, May 19, 2009, London, UK

CEO Wolfgang A. Renner, PhD, will present Cytos Biotechnology and its R&D portfolio at this conference taking place at the Merrill Lynch Financial Centre in London, UK.

Financial results

Funds available for financing the operations amounted to CHF 87.9 million at March 31, 2009, and included cash, cash equivalents, financial assets and trade receivables from collaboration partners. They were thus CHF 10.1 million lower than end of December 2008. The funds were used for financing the ongoing operating activities.

Revenues remained stable in the first quarter 2009 compared to the first quarter 2008, amounting to CHF 0.3 million.

Net operating costs in the first quarter 2009 were CHF 11.0 million and thus CHF 0.5 million higher than in the first quarter 2008. Research and development costs increased in the same period by CHF 0.5 million due to higher expenses for consumables and clinical studies. General and administrative and sales and marketing expenses all together were almost unchanged compared to the first quarter 2008 and amounted to CHF 1.1 million.

As a consequence of lower interest received on the deposits, net financial expense in the first quarter 2009 was higher by CHF 1.0 million compared to the first quarter 2008.

Net loss increased from CHF 10.2 million in the first quarter 2008 by CHF 1.6 million to CHF 11.8 million in the first quarter 2009 due to higher research and development costs and lower financial income.

The gross cash burn for operating activities as calculated based on the Cash Flow Statement was CHF 2.8 million per month in the first three months 2009 compared to CHF 3.6 million per month in the first three months 2008.

Cytos Biotechnology Ltd and subsidiaries

Consolidated Balance Sheets as of			
in TCHF	Note	March 31, 2009	December 31, 2008
Non-current assets:			
Property and equipment, net	8	7,857	8,383
Investment in associates		42	235
Trade and other receivables		–	2,500
Total non-current assets		7,899	11,118
Current assets:			
Prepayments and other assets		2,963	2,603
Trade and other receivables		2,736	15,712
Financial assets	7	13,000	41,000
Cash and cash equivalents	7	72,379	40,322
Total current assets		91,078	99,637
Total assets		98,977	110,755
Shareholders' equity:			
Share capital	3	527	527
Legal reserves		136	136
Additional paid-in capital		208,449	207,899
Convertible bond – equity component	9	8,430	8,430
Treasury shares		(24)	(42)
Accumulated deficit		(197,035)	(185,090)
Total shareholders' equity		20,483	31,860
Non-current liabilities:			
Accrued expenses		741	772
Convertible bond – liability component	9	61,556	60,887
Pension liabilities		924	924
Provisions		2,060	1,979
Total non-current liabilities		65,281	64,562
Current liabilities:			
Trade accounts payable		969	800
Other current liabilities		132	294
Accrued expenses		3,686	4,500
Deferred income		8,392	8,704
Provisions		34	35
Total current liabilities		13,213	14,333
Total shareholders' equity and liabilities		98,977	110,755

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

Cytos Biotechnology Ltd and subsidiaries

Consolidated Income Statements		Three months ended	Three months ended
in TCHF	Note	March 31, 2009	March 31, 2008
Revenues	4	250	260
Revenues		250	260
Research and development		(9,921)	(9,419)
Sales and marketing		(270)	(178)
General and administrative		(803)	(879)
Other income/(expenses), net		8	11
Net operating costs		(10,986)	(10,465)
Operating loss		(10,736)	(10,205)
Financial income		119	1,082
Financial expense		(1,166)	(1,123)
Loss before tax		(11,783)	(10,246)
Net loss		(11,783)	(10,246)

Consolidated Statements of Comprehensive Income		Three months ended	Three months ended
in TCHF (except for share information)	Note	March 31, 2009	March 31, 2008
Net loss		(11,783)	(10,246)
Currency translation differences		(162)	(3)
Other comprehensive loss		(162)	(3)
Total comprehensive loss		(11,945)	(10,249)
Basic and diluted net loss per share	5	(2.24)	(1.95)
Weighted average number of shares used in computing basic and diluted net loss per share		5,268,422	5,260,545

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

Cytos Biotechnology Ltd and subsidiaries

Consolidated Condensed Statements of Cash Flows		Three months ended	Three months ended
in TCHF	Note	March 31, 2009	March 31, 2008
Cash flow from operating activities:			
Net loss before tax		(11,783)	(10,246)
Depreciation and amortization		643	708
Share option compensation costs	6	576	561
Other financial cash flow items		1,109	263
Changes in assets and liabilities		15,415	(1,924)
Net cash (used in)/provided by operating activities		5,960	(10,638)
Net cash (used in)/provided by investing activities		28,071	(14,198)
Net cash (used in)/provided by financing activities		(1,992)	(2,582)
Net effect of currency translation on cash		18	(138)
Net increase/(decrease) in cash and cash equivalents		32,057	(27,556)
Cash and cash equivalents, beginning of period		40,322	43,043
Cash and cash equivalents, end of period		72,379	15,487

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

Cytos Biotechnology Ltd and subsidiaries

Consolidated Statements of Change in Shareholders' Equity

in TCHF (except for share information)

	Numbers of shares	Share capital	Legal reserves	Additional paid-in capital	Convertible bond – equity component	Treasury shares	Accumulated deficit	Cumulative translation adjustments	Total
January 1, 2008	5,261,375	526	136	204,707	8,430	(101)	(159,049)	(215)	54,434
Total comprehensive loss	-	-	-	-	-	-	(10,246)	(3)	(10,249)
Issuance of share capital	360	-	-	17	-	-	-	-	17
Net movement of treasury shares	-	-	-	(22)	-	88	-	-	66
Share option compensation costs	-	-	-	614	-	-	-	-	614
March 31, 2008	5,261,735	526	136	205,316	8,430	(13)	(169,295)	(218)	44,882
January 1, 2009	5,270,056	527	136	207,899	8,430	(42)	(185,058)	(32)	31,860
Total comprehensive loss	-	-	-	-	-	-	(11,783)	(162)	(11,945)
Share issuance costs	-	-	-	(3)	-	-	-	-	(3)
Net movement of treasury shares	-	-	-	(23)	-	18	-	-	(5)
Share option compensation costs	-	-	-	576	-	-	-	-	576
March 31, 2009	5,270,056	527	136	208,449	8,430	(24)	(196,841)	(194)	20,483

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

1. Organization

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 treatment and prevention 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.

2. Basis of preparation

These consolidated condensed interim financial statements have been 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, 2008.

The International Accounting Standards Board (IASB) revised or introduced various International Financial Reporting Standards (IFRS) effective on January 1, 2009. The following revised or new standards or interpretations are relevant for the Group and are reflected within this interim report and had an impact on disclosure aspects of the reporting:

- IAS 1 (Revised): Presentation of statement of comprehensive income
- IFRS 8: Consideration of additional segment disclosures

As required by the standards, additional disclosures will be presented on an annual basis.

These consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2008.

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

3. Shareholders' equity

On March 4, 2009, the board of directors registered at the Commercial Register of the Canton of Zurich an increase of the share capital of the Company by CHF 868.10 and by 8,681 shares up to CHF 527,005.60 and 5,270,056 shares with a nominal value of CHF 0.10 each. This increase is a consequence of options exercised by employees in 2008.

In the course of the first three months of 2009, no options have been exercised by employees.

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. 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.

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 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 expenses are generated in Switzerland. Therefore management does not allocate the expenses to the individual countries where the Group generated revenues.

The Group's geographic information is as follows:

in TCHF	Three months ended March 31, 2009				Three months ended March 31, 2008			
	CH	USA	Other	Total	CH	USA	Other	Total
Revenues	250	–	–	250	252	8	–	260
Segment result	250	–	–	250	252	8	–	260
Unallocated expenses				(10,986)				(10,465)
Operating loss				(10,736)				(10,205)
Financial income/(expense), net				(1,047)				(41)
Net loss				(11,783)				(10,246)
Currency translation differences				(162)				(3)
Total comprehensive loss				(11,945)				(10,249)
Other information:				March 31, 2009				December 31, 2008
Assets				98,977				110,755
Liabilities				78,494				78,895
				Three months ended March 31, 2009				Three months ended March 31, 2008
Capital expenditure for property and equipment				117				200
Depreciation				643				708

5. 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.

6. Share option plans

The Group granted regularly share options to employees, members of the board of directors and consultants. Usually 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.

In November 2008, the board of directors approved a new share option plan ("SOP 2009"), according to which a total of 116,491 options were granted in January 2009. 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 33.42, corresponding to the average closing price of the shares during the first three trading days in the year 2009. 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.

In November 2008, the board of directors decided to grant – in place of a cash bonus – share options to the members of the Executive Board ("EB SOP 2009"). According to the EB SOP 2009, 42,000 options were granted in January 2009. 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 blocking period of two years. In the case of a change of control the options become exercisable. The exercise price is CHF 33.42, corresponding to the average closing price of the shares during the first three trading days in the year 2009. 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.

The following table provides the conditions as well as the assumptions applied to the granted share options during 2009:

Share options, conditions and assumptions	SOP 2009/EB SOP 2009
Nature of arrangement	Grant of share options
Grant date	08.01.2009
Number of options granted	158,491
Exercise price (CHF)	33.42
Share price at date of grant (CHF)	35.10
Contractual life (years)	5.0
Vesting period (years)	2.0
Settlement	Equity
Expected volatility (%)	48.4
Expected option life at grant date (years)	3.5
Risk-free interest rate p.a. (%)	1.462
Expected dividend	zero
Estimated fair value of option at grant date (CHF)	13.35
Expiry date	07.01.2014
Valuation model	Black-Scholes

For all share options granted the Group expensed TCHF 576 and TCHF 561 for the first three months of 2009 and 2008, respectively.

7. Cash, cash equivalents and financial assets

In the first three months of 2009, fixed-term time deposits (with original maturities of 1 month to 12 months) in the amount of CHF 61 million were paid back to the Group. Thereof, CHF 17 million have been reinvested according to the Group's financial plan.

8. Property and equipment

In the first three months of 2009, the Group invested TCHF 117 into property and equipment (predominantly for laboratory equipment).

9. Non-current liabilities

In February 2007, the Company issued a 2.875% p.a. convertible bond with a nominal value of CHF 70 million, which is listed on the SIX Swiss Exchange under the symbol CYT07 (security number 2 906 073). The bond matures on February 20, 2012, and is 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 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.

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:	TCHF
Nominal value of convertible bond issued in February 2007	70,000
Equity component	(11,788)
Transaction costs allocated to liability component	(1,811)
Liability component on initial recognition	56,401
Interest expense	9,395
Interest paid	(4,025)
Liability component at March 31, 2009	61,771
thereof short-term (included in "accrued expenses")	215

Interest expense of TCHF 1,166 and TCHF 1,123 for the convertible bond has been recognized as "Financial expense" for the first three months of 2009 and 2008, respectively.

On February 20, 2009, the annual interest payment of the convertible bond was due and amounted to TCHF 2,013.

Ambulatory blood pressure	blood pressure measured by numerous readings over a 24-hour period or longer. Provides accurate and reliable information about a person's blood pressure.
Allergen	a normally harmless substance that elicits a misdirected immune response.
Double-blind	a set-up often used in clinical trials where neither the doctor nor the patients know if placebo or the active drug is applied.
Monotherapy	treatment with one drug as opposed to combination therapy. Here the term refers to treatment with QbG10 alone (i.e. CYT003-QbG10) in contrast to an earlier regimen where QbG10 was combined to allergen extract (i.e. CYT005-AllQbG10).
Phase IIa / II / IIb	clinical trial that examines a new drug candidate's safety, tolerability and efficacy in patients. Phase IIa trials usually include small patient numbers, whereas phase IIb studies are conducted in larger patient cohorts.
Placebo	dummy medical treatment.
QbG10	Cytos Biotechnology's Immunodrug™ Qb filled with the immunostimulatory DNA sequence G10.
Renin angiotensin system	important system of the body that regulates blood pressure.
Rhinoconjunctivitis	combination of rhinitis (inflammation of the nasal mucosa) and conjunctivitis (inflammation of the eye).

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 Ltd 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.

Stock exchange listings at SIX Swiss Exchange

Registered shares: Swiss Security No. 1 102 521, SIX:CYTN

Convertible bond 2012: Swiss Security No. 2 906 073, SIX:CYT07

Share register

Aktienregister Cytos Biotechnology Ltd

c/o Nimbus AG

Postfach, CH-8866 Ziegelbrücke

Capital structure

Number of registered shares (nominal value CHF 0.10)	5,270,056
Conditional capital	CHF 167,327
Authorized capital	CHF 200,000
Free float	92.7%

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Cytos Biotechnology Ltd 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 T cell responses that modulate chronic disease processes. Taking advantage of the high flexibility of its Immunodrug™ platform, Cytos Biotechnology has built a diversified pipeline of Immunodrug™ candidates in various disease areas, of which five are currently in clinical development. The Immunodrug™ candidates are developed both in-house and together with Novartis, Pfizer and Pfizer Animal Health. 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 133 employees. Cytos Biotechnology Ltd is listed on the SIX Swiss Exchange (SIX:CYTN).

