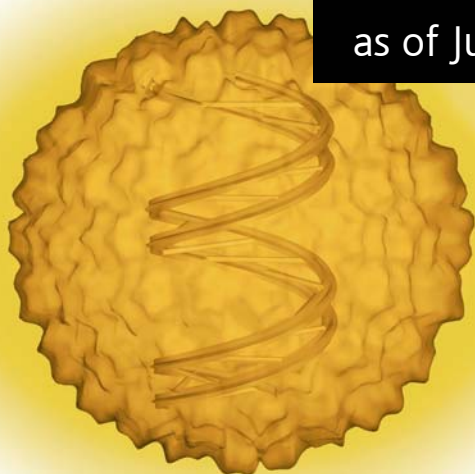


Second Quarter Report

as of June 30, 2006

July 27, 2006



Highlights Q2 2006

- 1) First promising results of monotherapy with the Immunodrug™ candidate CYT003-QbG10 in hay fever patients.
- 2) Initiation of three double-blind and placebo-controlled phase IIa studies with CYT003-QbG10 with a total of 116 patients suffering from house dust mite allergy, hay fever, and atopic dermatitis respectively.
- 3) Election of Othmar T. Vock to the board of directors of Cytos Biotechnology.
- 4) Fidelity International Ltd. acquired 5.08% of Cytos Biotechnology AG's share capital.
- 5) Financial summary:

		YTD 2006*	YTD 2005*	Q2 2006	Q2 2005
Net revenue	CHF mio	0.3	3.4	0.1	3.2
Net operating costs	CHF mio	17.8	16.8	9.0	7.9
Net loss	CHF mio	17.2	13.1	8.8	4.6

		June 30, 2006	December 31, 2005
Cash & cashable assets**	CHF mio	56.4	71.1
Full-time employees	number	129	124

* YTD = year to date January 1 - June 30.

** including cash and cash equivalents, short-term and long-term financial assets and real estate inventories

Promising results with CYT003-QbG10

1) First promising results with QbG10 monotherapy (designated as CYT003-QbG10) in hay fever patients.

In June 2006, Cytos Biotechnology reported first promising results with CYT003-QbG10, a potentially universal vaccine for the treatment of a broad range of allergic diseases. The Immunodrug™ candidate QbG10 has previously shown powerful and sustained efficacy in a phase IIa clinical trial with patients suffering from house dust mite allergy when it was applied in combination with an approved house dust mite allergen extract (see Press Release April 25, 2006). The achieved powerful efficacy raised the question whether the treatment effect observed was due to an enhanced allergen-specific desensitization process or whether the QbG10 component itself effectively modified the patients' allergic immune status in an allergen-independent manner.

First results from an ongoing phase IIa clinical trial now suggest that the strong efficacy previously observed is conferred by the QbG10 component alone and that addition of a specific allergen extract may not be required.

The present study assessed in an open-label setting the exploratory efficacy of QbG10 monotherapy (designated as CYT003-QbG10). 10 patients suffering from allergic rhinitis due to grass pollen allergy (hay fever) were treated with 6 weekly injections of CYT003-QbG10. Of these 10 patients, 5 could complete the study before onset of this year's grass pollen season. Treatment of these patients led to a marked improvement of allergy symptoms in the nasal provocation test ($p=0.03$), with an increase of the median allergen tolerance by a factor of 100. The remaining 5 patients cannot be tested during the current grass pollen season since environmental exposure to pollen interferes with the standardized test procedure applied.

This finding could clearly alter the profile of the vaccine candidate since QbG10 alone could be used as a disease-modifying and universal vaccine for the treatment of a broad range of allergic diseases. Consequently, Cytos Biotechnology has initiated three phase IIa clinical trials to further investigate this promising product candidate (see below).

Initiation of three phase IIa studies with CYT003-QbG10

2) Initiation of three placebo-controlled, double-blind phase IIa clinical trials with 116 patients suffering from house dust mite allergy, hay fever, and atopic dermatitis respectively.

In June 2006, Cytos Biotechnology announced the initiation of three phase IIa clinical trials with 116 patients suffering from house dust mite allergy, hay fever, and atopic dermatitis respectively. Two of the studies are placebo-controlled, randomized and double-blind phase IIa clinical trials designed to assess safety, tolerability and exploratory efficacy of different formulations of CYT003-QbG10 in allergy patients. One study will recruit 40 patients suffering from mild to moderate rhinitis due to house dust mite allergy, while the second will recruit 40 patients suffering from the same condition due to grass pollen allergy (hay fever). The third study is a placebo-controlled, randomized and double-blind phase IIa clinical trial that will assess safety, tolerability and exploratory efficacy of CYT003-QbG10 in 36 patients suffering from mild to moderate atopic dermatitis (eczema).



Othmar T. Vock joins board of directors

3) Shareholders elected Othmar T. Vock to Cytos Biotechnology's board of directors.

In April 2006, the shareholders elected Othmar T. Vock to Cytos Biotechnology's board of directors. Mr. Vock served as Chief Financial Officer (CFO) and member of the executive committee of Givaudan SA, Switzerland, from the year 2000 to the year 2004, when he retired. Before becoming CFO of Givaudan, he was employed in several finance positions at the Roche Group, Switzerland, where he held amongst others the position of internal auditor and was the Roche delegate and CFO for the fragrance / flavours business division. He also served in different positions at the Ciba Geigy Group in Brazil and Switzerland. His present board memberships include Swisscom AG, Berne, Switzerland, Ivoclar-Vivadent, Schaan, Liechtenstein, and Balda AG, Bad Oeynhausen, Germany.

On all boards mentioned above, Othmar T. Vock is chairman of the audit committee, a responsibility that he also assumed at Cytos Biotechnology. He is further a member of the admission board of the Swiss Stock Exchange (SWX). With his wealth of experience in healthcare, his financial expertise and his independency, Othmar T. Vock brings to Cytos Biotechnology's board of directors background and insight that will help to grow and develop the company.

Fidelity holds more than 5% of share capital

4) Fidelity International Ltd. holds 5.08% of Cytos Biotechnology AG's share capital.

On May 23, 2006, Cytos Biotechnology received from Fidelity International Limited, investment adviser, Hamilton, Bermuda, the information that the company owns through different funds 258,533 registered shares of Cytos Biotechnology AG. This represents 5.08% of the voting rights of the shares registered in the Commercial Register of the Canton of Zurich.

Financial results

5) Financial results

Cash and cashable assets amounted to CHF 56.4 million as of June 30, 2006, in comparison to CHF 71.1 million at the end of December 2005. This decrease is primarily attributable to cash used by operating activities in the first half year 2006.

Revenues decreased from CHF 3.2 million in the second quarter 2005 by CHF 3.1 million to CHF 0.1 million in the second quarter 2006. Revenues in the second quarter 2005 stemmed mainly from a development milestone payment by Novartis. Year to date revenues decreased from CHF 3.4 million in the first half year 2005 by CHF 3.1 million to CHF 0.3 million in the first half year 2006. 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 may occur sporadically.

Net operating costs increased from CHF 7.9 million in the second quarter 2005 by CHF 1.1 million to CHF 9.0 million in the second quarter 2006 predominantly due to non-cash share option compensation cost (+CHF 0.7 million) and extended clinical activities (+CHF 0.2 million). Year to date operating costs increased from CHF 16.8 million in the first half year 2005 by CHF 1.0 million to 17.8 million in the first half year 2006.

Net loss in the second quarter 2006 increased by CHF 4.2 million in comparison to the second quarter 2005 and amounted to CHF 8.8 million, as no milestone payment has been recorded in the second quarter 2006. Net loss in the first half year 2006 increased by CHF 4.1 million in comparison to the first half year 2005 and amounted to CHF 17.2 million, due to increased operating costs and lower revenues.

The gross cash burn for operating activities as calculated based on the Cash Flow Statement was CHF 2.5 million per month in the first half year 2006 (respectively CHF 2.7 million per month in the first half year 2005).

Glossary

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

Allergen extract: a mixture of allergenic components.

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 inflammation of the nasal mucous membranes.

Atopic dermatitis: a chronic skin disease; a certain type of eczema. "Atopic" refers to a group of diseases with an inherited tendency to develop other allergic conditions (e.g. asthma and hay fever). "Dermatitis" means inflammation of the skin.

Desensitization: a certain form of immune therapy applied to treat allergy.

Disease-modifying: in contrast to symptomatic treatment, a disease-modifying treatment aims at addressing the cause of disease and modifying the disease progression.

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.

Formulation: the method and process of selecting the components of a mixture and the product of such a process. For drugs the term usually describes the way the drug is prepared and applied.

Hay fever: seasonal allergic rhinitis.

Monotherapy: treatment with one drug as opposed to combination therapy. Here the term refers to treatment with QbG10 alone (designated as CYT003-QbG10) in contrast to an earlier treatment regimen where QbG10 was combined to allergen extract of house dust mites (designated as CYT005-AllQbG10).

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

Open-label: a set-up used in clinical trials where the doctor and the patient know what substance is administered.

Phase IIa: a clinical trial that examines a new drug candidate's safety, tolerability and exploratory efficacy in the targeted population and may involve 10-100 patients.

Placebo: dummy medical treatment.

QbG10: Cytos Biotechnology's Immunodrug™ carrier Qb filled with the immunostimulatory DNA sequence G10.

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

Balance Sheet

Cytos Biotechnology AG and subsidiaries

Consolidated Balance Sheet as of in TCHF	Note	June 30, 2006	December 31, 2005
Current assets:			
Cash and cash equivalents		15,052	11,469
Financial assets	7	24,000	34,998
Trade and other receivables		856	845
Derivative financial instruments		-	379
Real estate inventories		14,124	14,124
Prepaid expenses		1,131	1,931
Total current assets		55,162	63,746
Long-term assets:			
Property and equipment, net	8	13,457	13,591
Financial assets	7	0	5,000
Pension assets		25	25
Investment in associates		32	32
Total long-term assets		13,514	18,648
Total assets		68,677	82,394
Current liabilities:			
Trade accounts payable		1,023	1,139
Loans payable		128	125
Other current liabilities		602	409
Accrued expenses		2,826	3,005
Provisions		575	575
Total current liabilities		5,155	5,253
Long-term liabilities:			
Loans payable		1,154	1,219
Provisions		1,911	1,911
Total long-term liabilities		3,065	3,130
Shareholders' equity:			
Share capital	3	515	509
Legal reserves		136	136
Additional paid-in capital	3	195,131	191,506
Treasury shares		(261)	(298)
Accumulated deficit		(135,064)	(117,842)
Total shareholders' equity		60,457	74,011
Total liabilities and shareholders' equity		68,677	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	Six months ended June 30, 2006	Six months ended June 30, 2005	Three months ended June 30, 2006	Three months ended June 30, 2005
Research and collaboration revenues	4	276	3,432	113	3,201
Total revenues		276	3,432	113	3,201
Research and development		(15,698)	(14,398)	(7,914)	(6,570)
Sales and marketing		(460)	(605)	(238)	(385)
General and administrative		(1,846)	(1,971)	(944)	(1,017)
Other income / (expenses), net		197	152	48	82
Net operating costs		(17,807)	(16,822)	(9,048)	(7,890)
Operating loss		(17,531)	(13,390)	(8,935)	(4,689)
Financial income		352	330	151	146
Financial expense		(43)	(60)	(18)	(40)
Net loss		(17,222)	(13,120)	(8,802)	(4,583)
Basic and diluted net loss per share	5	(3.37)	(2.68)	(1.72)	(0.90)
Weighted average number of shares used in computing basic and diluted net loss per share		5,116,610	4,886,615	5,119,492	5,079,732

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

Cash Flows / Change in Shareholders' Equity

Cytos Biotechnology AG and subsidiaries

Condensed Consolidated Statement of Cash Flows in TCHF	Note	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash flow from operating activities:			
Net loss		(17,222)	(13,120)
Depreciation and amortization		1,389	1,243
Share option compensation cost	6	1,174	460
Other financial cash-flow items		(346)	(282)
Changes in assets and liabilities		288	(1,264)
Net cash (used in) provided by operating activities		(14,717)	(12,963)
Net cash (used in) provided by investing activities		15,623	(16,367)
Net cash (used in) provided by financing activities		2,677	21,335
Net effect of currency translation on cash		0	1
Net increase/(decrease) in cash and cash equivalents		3,583	(7,994)
Cash and cash equivalents, beginning of period		11,469	21,033
Cash and cash equivalents, end of period		15,052	13,039

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

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	-	-	-	-	-	-	1	1
Loss for the year	-	-	-	-	-	(13,120)	-	(13,120)
Total recognized loss								(13,119)
Issuance of share capital	460,000	46	-	21,586	-	-	-	21,632
Share issuance costs	-	-	-	(316)	-	-	-	(316)
Net movement of treasury shares	-	-	-	63	15	-	-	78
Share option compensation cost	-	-	-	460	-	-	-	460
June 30, 2005	5,083,329	508	136	190,892	(143)	(102,262)	(221)	88,910
January 1, 2006	5,086,993	509	136	191,506	(298)	(117,622)	(220)	74,011
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	0	0
Loss for the year	-	-	-	-	-	(17,222)	-	(17,222)
Total recognized loss								(17,222)
Issuance of share capital	58,428	6	-	2,667	-	-	-	2,673
Net movement of treasury shares	-	-	-	333	37	-	-	370
Share option compensation cost	-	-	-	625	-	-	-	625
June 30, 2006	5,145,421	515	136	195,131	(261)	(134,844)	(220)	60,457

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 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.

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 June 30, 2005, have been reclassified to conform with the presentation as per December 31, 2005, respectively June 30, 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 half year 2006 58,428 options have been exercised by employees and consultants which resulted in an additional capital increase as of June 30, 2006 by CHF 5,842.80 and by 58,428 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 half year of 2006 amounted to CHF 2.7 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 - June 30, 2006				Jan. 1 - June 30, 2005			
	CH	USA	Other	Total	CH	USA	Other	Total
Research and collaboration revenue	50	226	-	276	3,100	311	21	3,432
Segment result	50	226	-	276	3,100	311	21	3,432
Unallocated expenses				(17,807)				(16,822)
Operating loss				(17,531)				(13,390)
Financial income/(expenses), net				309				270
Net loss				(17,222)				(13,120)

<u>Other information</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Assets	68,677	96,250
Liabilities	(8,220)	(7,340)
	<u>Jan. 1 - June 30, 2006</u>	<u>Jan. 1 - June 30, 2005</u>
Capital expenditure	1,255	573
Depreciation	1,389	1,243

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. 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 share 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 share options granted the Group expensed TCHF 1,174 and TCHF 460 for the first six months of 2006 and 2005, respectively.

7) Financial assets

In the course of the first half year of 2006, the Group received repayments of fixed-term time deposits and a bond of CHF 16.5 million.

8) Property and equipment

In the course of the first half year of 2006, the Group invested TCHF 1,255 into property and equipment, predominantly for laboratory equipment.

9) Adjustment of the income statement for the first half year 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 half year of 2005:

in TCHF	
Applying IFRS2*: Difference to US-GAAP (FAS 123R and APB 25) for 2005	(376)
Applying IAS 19**: Difference to FAS 87 for 2005	(126)
Total impact to income statement	(502)

* 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 June 30, 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)	5,145,421
Conditional capital	CHF 159,791
Authorized capital	CHF 200,000
Free float	91%

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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 T cell responses that modulate chronic disease processes. Taking advantage of the high flexibility of its Immunodrug™ platform, Cytos Biotechnology has built a full pipeline of different Immunodrug™ candidates in various disease areas, of which 7 are currently in clinical development. The Immunodrug™ candidates are developed both in-house and together with Novartis Pharma 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 129 employees. Cytos Biotechnology AG has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.

