

Second Quarter Report

as of June 30, 2007

July 26, 2007



Highlights Q2 2007

- 1) Cytos Biotechnology entered exclusive license agreement with Novartis to develop, manufacture and commercialize novel vaccine for treatment of nicotine addiction.
- 2) Hypertension vaccine CYT006-AngQb achieved strong blood pressure reduction during important early morning period in phase IIa study.
- 3) Positive results for CYT003-QbG10 in placebo-controlled phase IIa study with patients suffering from house dust mite allergy.
- 4) CYT007-TNFQb for the treatment of psoriasis was safe and well tolerated in phase I/IIa study.
- 5) Phase IIa study in atopic dermatitis as a new indication showed no treatment effect of CYT003-QbG10 at the dose level tested.
- 6) Financial summary:

		YTD 2007*	YTD 2006*	Q2 2007	Q2 2006
Net revenue	CHF mio	0.4	0.3	0.2	0.1
Net operating costs	CHF mio	22.1	17.8	13.4	9.0
Net loss	CHF mio	19.5	17.2	13.8	8.8

		June 30, 2007	Dec 31, 2006
Cash & cashable assets**	CHF mio	88.6	44.5
Full-time employees	number	129	127

*YTD = year to date January 1 - June 30

**including cash and cash equivalents, short-term and long-term financial assets and real estate inventories, prior to the receipt of the upfront payment of CHF 35 million from Novartis

1) Cytos Biotechnology entered exclusive license agreement with Novartis to develop, manufacture and commercialize novel vaccine for treatment of nicotine addiction

In April 2007, Cytos Biotechnology entered into an exclusive global commercial license agreement with Novartis to develop, manufacture and commercialize NIC002 (formerly called CYT002-NicQb), a therapeutic vaccine in phase II clinical development for the treatment of nicotine addiction. Under the terms of the agreement, Novartis is granted world-wide exclusive rights for NIC002 and is responsible for late stage clinical development, manufacturing, and commercialization of the vaccine. In return, Cytos Biotechnology is eligible to receive up to CHF 600 million in upfront and potential development, regulatory approval and sales milestone payments based on the successful development and commercialization of NIC002. In addition, Cytos Biotechnology will receive royalty payments on net sales of products.

The agreement received clearance under the Hart-Scott-Rodino Antitrust Improvements Act and became effective as of June 15, 2007. The upfront payment of CHF 35 million was received from Novartis in July 2007.

Licensing this phase II product candidate to Novartis, a top-tier healthcare company with strong in-house vaccines' expertise, maximizes the opportunity to build NIC002 as a first-in-class product to treat nicotine addiction. Furthermore, this agreement is an important milestone for Cytos Biotechnology's most advanced product candidate and validates the company's business strategy to partner novel therapeutic vaccines after clinical proof-of-concept.

2) Hypertension vaccine CYT006-AngQb achieved strong blood pressure reduction during important early morning period when most adverse cardiovascular events occur

In June 2007, Cytos Biotechnology reported new clinical data on its hypertension vaccine CYT006-AngQb at the Seventeenth European Meeting on Hypertension in Milan, Italy. The vaccine candidate was tested in a placebo-controlled, double-blind phase IIa clinical trial in 72 patients with mild to moderate hypertension. In January 2007, Cytos Biotechnology reported top-line data from this study, which showed that the 300 µg dose of the vaccine was safe, very well tolerated and efficacious in lowering day-time ambulatory blood pressure.

The new data presented in June showed a particularly strong efficacy of the vaccine in early morning hours, a critical time period when serious cardiovascular events frequently occur. The graph below shows the mean ambulatory blood pressure during the 24-hour measurement period 14 weeks after the first injection of the vaccine or of placebo. The early morning rise of blood pressure starting at 5 am was significantly suppressed by the vaccine, leading at 8 am to a change from baseline of the blood pressure of -25 / -13 mm Hg compared to placebo (SBP / DBP, $p < 0.0001$ / $p = 0.0035$).

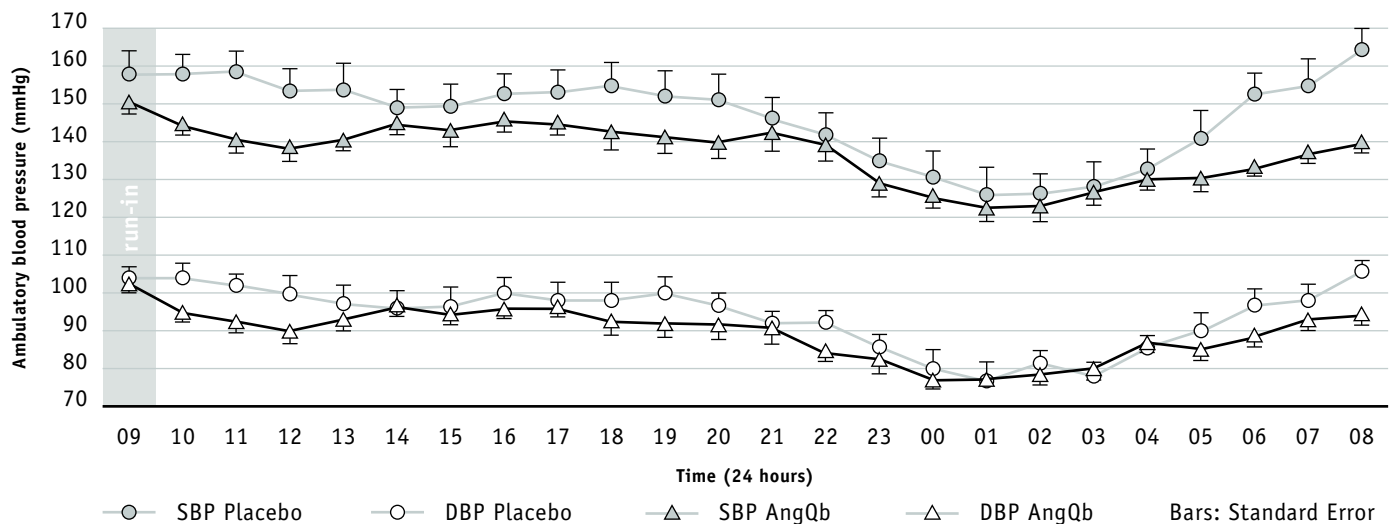


Figure: Mean (SEM) ambulatory blood pressure during the 24-hour measurement period. Shown are systolic (SBP) and diastolic (DBP) blood pressure values for the vaccine-treated (300µg AngQb) and the placebo group 14 weeks after the first injection. SEM = standard error of the mean.

These data highlight a very important new aspect of the vaccine CYT006-AngQb, namely its exceptionally good control of the early morning blood pressure. So far, inhibition of the renin-angiotensin system has been studied clinically only with small molecule inhibitors, which all produce a daily pattern of peaks and troughs in drug levels. Here, a trough in drug levels coincides with a natural rise of the blood pressure in early morning hours. The combination of these effects may lead to insufficient control of the early morning blood pressure surge. An intervention with a different pharmacokinetic profile like the vaccine approach, which induces a long-lasting antibody response and thus avoids daily peaks and troughs in drug levels, may therefore achieve a better protection from adverse cardiovascular events in early morning hours. This is crucial if one considers that myocardial infarction is three times more likely to begin in the morning than during night time and that morning hypertension has been identified as the strongest independent risk factor for stroke.

A further important finding of the study was the dependence of efficacy on both the dose of the vaccine and the levels of induced anti-angiotensin II antibodies. Two doses of the vaccine, 100 µg and 300 µg, were tested in the trial. The induced anti-angiotensin antibody levels were significantly higher at the 300 µg than at the 100 µg dose (p=0.0098). Accordingly, blood pressure reduction was much larger and only significant at the 300 µg dose (p=0.0498). Efficacy was thus driven by a long-lasting, although reversible antibody response.

A major remaining problem of current hypertension therapy is the lack of patient compliance. More than 50% of all patients who initiate oral drug therapy either completely discontinue treatment within the first 12 months or take their drugs only partially in-line with their doctor's guidance. A physician administered vaccine would no longer require daily self-medication by the patient. The observed half-life of the vaccine-induced antibodies of about 4 months suggests a treatment regimen with booster injections every 4 to 6 months. In between these periods of time, the patient is no longer burdened with daily drug therapy. These advantages should allow for a better overall control of hypertension, which is today the leading risk factor for mortality in the world.

3) Positive results for CYT003-QbG10 in placebo-controlled phase IIa study with patients suffering from house dust mite allergy

In May 2007, Cytos Biotechnology reported positive results from a multi-centre and placebo-controlled phase IIa study with different formulations of CYT003-QbG10, an immunotherapeutic product candidate for the treatment of allergic diseases. The study included 40 patients suffering from mild to moderate allergic rhinitis due to house dust mite allergy and assessed in a double-blind setting the safety, tolerability and exploratory efficacy of CYT003-QbG10 monotherapy, CYT003-QbG10 combined with a low dose of house dust mite allergen extract (designated CYT005-AllQbG10), allergen extract alone and placebo. Exploratory efficacy was determined by evaluating the allergic disease status of the patients before and after treatment by the conjunctival provocation test, a commonly applied allergy test.

Both formulations of CYT003-QbG10 tested were safe and well tolerated. The table below summarizes the results obtained two weeks after the last dose. A statistically significant increase in the median allergen tolerance against baseline was observed only in the two treatment arms which comprised QbG10 (i.e. CYT003-QbG10 monotherapy and CYT005-AllQbG10), whereas none of the intergroup comparisons achieved statistical significance.

	CYT003-QbG10 n = 10	CYT005-AllQbG10 n = 10	Placebo n = 10	Allergen n = 10
Increase of median allergen tolerance against baseline	factor of 10	factor of 10	factor of 1	factor of 10
p-value	< 0.05	< 0.05	n.s.	n.s.

n.s.: not significant

n: number of participants per group

When looking at the entire data set of the 80 allergic patients treated so far with QbG10 in the different studies, the following picture becomes apparent: QbG10 seems to be active as a monotherapy; however, combination with an allergen extract at a standard dose appears to enhance the therapeutic effect. The highest efficacy was achieved when QbG10 was combined with a dose of allergen extract usually applied in conventional desensitization therapy, i.e. a 10-times higher dose than the one tested in this present study. In a next clinical trial, higher doses of CYT003-QbG10 monotherapy will be tested and their safety and efficacy profile will be directly compared with the most promising product formulations of CYT005-AllQbG10 in order to select the best product candidate for further clinical development.

4) CYT007-TNFQb for the treatment of psoriasis was safe and well tolerated in phase I/IIa clinical trial

In May 2007, Cytos Biotechnology reported results from a placebo-controlled, double-blind combined phase I/IIa study with CYT007-TNFQb, a novel vaccine candidate for the treatment of psoriasis and other inflammatory conditions. The present study was a first-time-in-man clinical trial and included 48 patients suffering from moderate to severe plaque psoriasis. In a first part of the study, the safety and tolerability of ascending doses of CYT007-TNFQb were assessed in 24 patients. In the following second part of the study, the exploratory efficacy of the highest vaccine dose was compared to placebo in another 24 patients.

All doses of CYT007-TNFQb tested were safe and well tolerated. Thus, the primary objective of the study, namely to assess safety and tolerability, was clearly reached. Furthermore, all the patients who received the vaccine mounted an antibody response against TNF- α . Exploratory efficacy was assessed according to the Psoriasis Area and Severity Index (PASI), a commonly used measure to evaluate the disease severity in psoriatic patients. Based on this test, there was just a temporary improvement of the disease observed and a detailed analysis of a broad set of biochemical markers will be performed in order to determine whether this observed improvement of disease is indeed treatment related. This additional analytical and laboratory work will take several more months to be completed and should provide additional insight and guidance for further development of this novel vaccine candidate.

5) Phase IIa study in atopic dermatitis as a new indication showed no treatment effect of CYT003-QbG10 at the dose level tested

In early July 2007, Cytos Biotechnology reported results from a phase IIa study with CYT003-QbG10 in atopic dermatitis. CYT003-QbG10 is an immunotherapeutic product candidate currently in development for the treatment of allergic diseases. The present study aimed to assess safety, tolerability and exploratory efficacy of the product candidate in a new indication, namely atopic dermatitis. The study was designed as a placebo-controlled, double-blind trial in 36 patients suffering from mild to moderate atopic dermatitis. Exploratory efficacy was determined according to the Eczema Area and Severity Index (EASI), a commonly applied test to assess the extent and severity of atopic dermatitis.

Treatment with CYT003-QbG10 was safe and generally well tolerated. In both the placebo-treated and CYT003-QbG10-treated groups a similar reduction of the EASI scores was measured over the study period indicating no treatment effect for CYT003-QbG10 in atopic dermatitis at the dose level tested in this trial.

While CYT003-QbG10 has shown strong efficacy in conjunction with a specific allergen in patients with house dust mite allergy, Cytos Biotechnology is still in the process of identifying the best treatment parameters for CYT003-QbG10 in application as a monotherapy. This monotherapy has achieved first promising results in grass pollen and also house dust mite allergy (see Paragraph 3). For the latter indication, higher doses of the product candidate will be tested. Based on the outcome of these studies, the path forward in atopic dermatitis will be considered.

6) Financial Results

Cash and cashable assets amounted to CHF 88.6 million as of June 30, 2007 (prior to the receipt of the upfront payment of CHF 35 million from Novartis in July 2007), in comparison to CHF 44.5 million at the end of December 2006 and CHF 99.4 million at the end of March 31, 2007.

The upfront fee of CHF 35 million due under terms of the license agreement with Novartis has been recorded as deferred revenue. After completion of the know-how transfer related to the vaccine against nicotine addiction, expected in Q3 2007, the upfront fee will be recognized as revenue.

Revenues increased from CHF 0.1 million in the second quarter 2006 by CHF 0.1 million to CHF 0.2 million in the second quarter 2007. Year to date revenues increased from CHF 0.3 million in the first six months 2006 by CHF 0.1 million to CHF 0.4 million in the first six months 2007.

Net operating costs increased from CHF 9.0 million in the second quarter 2006 by CHF 4.4 million to CHF 13.4 million in the second quarter 2007. Year to date operating costs increased from CHF 17.8 million in the first six months 2006 by CHF 4.3 million to CHF 22.1 million in the first six months 2007 due to extended activities in product development, especially process development and development of large-scale GMP manufacturing (GMP = Good Manufacturing Practice) of the carriers Qb and QbG10, which are the basis for the further development of the Immunodrugs™.

Research and development costs increased by CHF 4.5 million in the first six months 2007 due to the the same reasons as above mentioned, while sales and marketing and general and administrative costs increased by CHF 0.8 million in total primarily due to additional costs related to the negotiation and signing of the license agreement with Novartis.

Net loss in the second quarter 2007 increased by CHF 5.0 million in comparison to the second quarter 2006 and amounted to CHF 13.8 million. Net loss in the first six months 2007 increased by CHF 2.3 million in comparison to the first six months 2006 and amounted to CHF 19.5 million.

The gross cash burn for operating activities as calculated based on the Cash Flow Statement was CHF 4.2 million per month in the first six months 2007. CHF 0.9 million per month are attributable to one-time expenses in the development of large-scale GMP manufacturing of the carriers Qb and QbG10, while CHF 3.3 million per month are attributable to ongoing operations. Due to these one-time expenses management expects to incur a monthly burn rate of CHF 3.6 million – CHF 4.0 million per month for the full year 2007.

Glossary

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

Allergen extract: a mixture of allergenic components such as from house dust mites or grass pollen.

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 cold. "Rhinitis" means inflammation of the nasal mucous membranes.

Ambulatory blood pressure: blood pressure measured continuously during a normally active day; takes numerous automatic readings over a 24-hour period or longer and applies non-invasive ambulatory blood pressure monitoring devices.

Angiotensin II: small peptide that is part of the renin-angiotensin system. Induces narrowing of blood vessels and other effects to raise blood pressure.

Antibody: class of blood proteins generated by the immune system to bind and neutralize foreign materials (e.g. bacteria or viruses). Can also be directed against the body's own disease-relevant molecules (e.g. angiotensin II).

Atopic dermatitis: a chronic skin disease; a certain type of eczema. Is accompanied by an inherited tendency to develop allergic diseases.

Booster injection: refers to a vaccination given after a previous vaccination. Helps to maintain or increase an immune response.

Cardiovascular events: refers to conditions affecting the cardiovascular system, which comprises the heart, the blood vessels, and the cells and plasma that make up the blood.

Compliance: a patient's adherence to a recommended course of treatment.

DBP = diastolic blood pressure: lowest pressure within the arterial blood stream occurring during each heart beat.

Desensitization: a certain form of immunotherapy applied to treat allergy.

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

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

Half-life: time required for half the amount of a certain substance (e.g. antibodies) to be removed from the organism.

Hypertension: high blood pressure.

Immunotherapeutic: a product aimed at activation of the immune system to interfere with and modify a certain disease process.

Median: a term used in the statistical analysis of a set of numbers; it relates to or constitutes the middle value in a distribution. 50% of the values are above and 50% below the median.

mm Hg: blood pressure values are universally stated in millimetres of mercury (mm Hg).

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 a treatment regimen where QbG10 was combined to an allergen extract of house dust mites (designated as CYT005-AllQbG10).

Myocardial infarction: commonly known as a heart attack; is a disease state that occurs when the blood supply to a part of the heart is interrupted.

Phase I: a clinical trial that examines a new drug candidate's safety profile and may involve 10-60 healthy volunteers.

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

Placebo: dummy medical treatment.

Psoriasis: a common skin disorder characterized by inflamed patches of skin topped with white scales.

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

Renin-angiotensin system: important regulatory system of blood pressure.

Run-in period: time period during which blood pressure monitoring devices are placed at the participants by specialized staff and first measurements begin. During this time, pressure values can be influenced by the general handling and the contact with the doctor (so called "white coat effect").

Small molecule drugs: low molecular weight chemical compounds. Many pharmaceutical drugs are small molecules.

SBP = systolic blood pressure: highest pressure within the arterial blood stream occurring during each heart beat.

Stroke: a sudden interruption in the blood supply of the brain.

Therapeutic vaccine: preparation of disease-relevant molecules (i.e. antigens) that is capable of activating the immune system against such antigens with the goal of modifying and interfering with a certain disease process.

TNF- α : tumor necrosis factor alpha; an inflammatory mediator (cytokine) produced by certain cells of the immune system.

Cytos Biotechnology AG and subsidiaries

Consolidated Balance Sheet as of in TCHF	Note	June 30, 2007	December 31, 2006
Current assets:			
Cash and cash equivalents		15,760	9,149
Financial assets	7	50,000	18,000
Trade and other receivables	11	38,268	845
Real estate inventories	9,12	12,844	14,124
Prepayments		3,692	2,378
Total current assets		120,564	44,496
Long-term assets:			
Property and equipment, net	8	11,880	12,575
Financial assets	7	10,000	0
Pension assets		310	310
Investment in associates		31	31
Total long-term assets		22,221	12,916
Total assets		142,785	57,412
Current liabilities:			
Trade accounts payable		864	3,008
Loans payable	7	-	132
Other current liabilities		2,366	664
Accrued expenses and deferred revenue	11	38,993	4,590
Provisions		149	157
Total current liabilities		42,372	8,551
Long-term liabilities:			
Loans payable	7	-	1,088
Convertible bond	10	57,937	-
Provisions		1,894	1,873
Total long-term liabilities		59,831	2,961
Shareholders' equity:			
Share capital	3	525	517
Legal reserves		136	136
Additional paid-in capital		203,391	197,684
Convertible bond - equity component	10	8,429	-
Treasury shares		(34)	(46)
Accumulated deficit		(171,865)	(152,391)
Total shareholders' equity		40,582	45,900
Total liabilities and shareholders' equity		142,785	57,412

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

Cytos Biotechnology AG and subsidiaries

Consolidated Income Statement		Six months ended	Six months ended	Three months ended	Three months ended
in TCHF (except for share information)	Note	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Research and collaboration revenues	4	395	276	198	113
Total revenues		395	276	198	113
Research and development		(20,153)	(15,698)	(11,485)	(7,914)
Sales and marketing		(906)	(460)	(691)	(238)
General and administrative		(2,154)	(1,846)	(1,210)	(944)
Other income/(expenses), net		1,091	197	22	48
Net operating costs		(22,122)	(17,807)	(13,364)	(9,048)
Operating loss		(21,727)	(17,531)	(13,166)	(8,935)
Financial income		809	352	491	151
Financial expense		(1,548)	(43)	(1,084)	(18)
Loss before tax		(22,466)	(17,222)	(13,759)	(8,802)
Deferred tax income convertible bond	10	2,992	-	-	-
Net loss		(19,474)	(17,222)	(13,759)	(8,802)
Basic and diluted net loss per share	5	(3.74)	(3.37)	(2.63)	(1.72)
Weighted average number of shares used in computing basic and diluted net loss per share		5,207,359	5,116,610	5,222,570	5,119,492

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

Cytos Biotechnology AG and subsidiaries

Consolidated Statement of Cash Flows		Six months ended	Six months ended
in TCHF	Note	June 30, 2007	June 30, 2006
Cash flow from operating activities:			
Loss before tax		(22,466)	(17,222)
Depreciation and amortization		1,421	1,389
Share option compensation cost	6	796	1,174
Outflow for cash settled options		(792)	-
Other financial cash-flow items		(344)	(346)
Changes in assets and liabilities		(3,144)	288
Net cash (used in)/provided by operating activities		(24,529)	(14,717)
Net cash (used in)/provided by investing activities		(40,057)	15,623
Net cash (used in)/provided by financing activities		71,190	2,677
Net effect of currency translation on cash		7	0
Net increase/(decrease) in cash and cash equivalents		6,611	3,583
Cash and cash equivalents, beginning of period		9,149	11,469
Cash and cash equivalents, end of period		15,760	15,052
<i>See accompanying notes which are an integral part of these consolidated condensed interim financial statements.</i>			

Consolidated Statement 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, 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
January 1, 2007	5,174,188	517	136	197,684	-	(46)	(152,174)	(217)	45,900
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	(19,474)	-	(19,474)
Total recognized loss									(19,474)
Issuance of share capital	82,050	8	-	4,512	-	-	-	-	4,520
Share issuance costs	-	-	-	(43)	-	-	-	-	(43)
Issuance of convertible bond - equity component	-	-	-	-	11,788	-	-	-	11,788
Transaction costs - convertible bond (allocation to equity)	-	-	-	-	(367)	-	-	-	(367)
Deferred tax - convertible bond	-	-	-	-	(2,992)	-	-	-	(2,992)
Net movement of treasury shares	-	-	-	99	-	12	-	-	111
Share option compensation cost	-	-	-	1,139	-	-	-	-	1,139
June 30, 2007	5,256,238	525	136	203,391	8,429	(34)	(171,648)	(217)	40,582

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 to modulate chronic 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, 2006.

These consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2006.

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 26, 2007, the board of directors registered an increase of the share capital of the Company by CHF 8,719.50 and by 87,195 shares up to CHF 517,418.80 and 5,174,188 shares with a nominal value of CHF 0.10 each at the Commercial Register in the Canton of Zurich. This increase is a consequence of the exercised options by employees in 2006.

In the course of the first six months 2007, 82,050 options have been exercised by employees and consultants, which resulted in an additional capital increase as of June 30, 2007 by CHF 8,205.00 and by 82,050 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 six months of 2007 amounted to CHF 3.7 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 revenues.

The Group's geographic information is as follows:

in TCHF	January 1 – June 30, 2007				January 1 – June 30, 2006			
	CH	USA	Other	Total	CH	USA	Other	Total
Research and collaboration revenue	375	20	–	395	50	226	–	276
Segment result	375	20	–	395	50	226	–	276
Unallocated expenses				(22,122)				(17,807)
Operating loss				(21,727)				(17,531)
Financial income/(expenses), net				(739)				309
Deferred tax income convertible bond				2,992				–
Net loss				(19,474)				(17,222)
Other information				June 30, 2007				June 30, 2006
Assets				142,785				68,677
Liabilities				(102,203)				(8,220)
				January 1 – June 30, 2007				January 1 – June 30, 2006
Capital expenditure				727				1,255
Depreciation				1,421				1,389

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. 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 regularly grants share options to employees. Usually the share options are equity-settled; one plan is cash-settled. For equity settled plans, the fair value of the options is determined at the grant date based on the market price using the Black-Scholes Model. For cash settled plans, the fair value of the options is determined each period.

In November 2006, the board of directors approved a new share option plan ("SOP 2007"), according to which a total of 83,217 options were granted on January 8, 2007. 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 vesting period of two years. In the case of a change of control the options become exercisable. The exercise price is CHF 117.83, corresponding to the average closing price of the shares during the first three trading days in the year 2007. 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.

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

Share option conditions and assumptions	SOP 2007
Nature of arrangement	Grant of share options
Grant date	08.01.2007
Number of options granted	83,217
Exercise price (CHF)	117.83
Share price at date of grant (CHF)	118.00
Contractual life (years)	5.0
Vesting period (years)	2.0
Settlement	Equity
Expected volatility (%)	39.5
Expected option life at grant date (years)	3.5
Risk-free interest rate p.a. (%)	2.7
Expected dividend	zero
Estimated fair value at grant date (CHF)	38.06
Expiry date	07.01.2012
Valuation model	Black-Scholes

For all share options granted the Group expensed TCHF 1,588 and TCHF 1,174 for the first six months of 2007 and 2006, respectively.

7) Financial assets and liabilities

In the first six months of 2007, fixed-term time deposits in the amount of total CHF 18 million were paid back to the Group and have been reinvested together with the proceeds of the convertible bond according to the Group's financial plan.

End of March 2007 the Company redeemed early its outstanding loan of CHF 1.1 million.

8) Property and equipment

In the first six months of 2007, the Group invested TCHF 727 into property and equipment.

9) Real estate inventories

Three prepurchase contracts for properties in Belp have been executed in the first quarter 2007. Net proceeds amounted to CHF 2.4 million and a profit of CHF 1.1 million was reported as "Other income".

10) Long-term liabilities

In February 2007 the Company issued a 2.875% p.a. convertible bond with a nominal value of CHF 70 million. The bond matures in 5 years 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 long-term 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		1,536
Interest paid		-
Liability component at June 30, 2007		57,937

Interest expense of TCHF 1,536 for the convertible bond has been recognized in financial expense for the first six months of 2007.

In conjunction with the issuance of the convertible bond, a deferred tax liability of CHF 3.0 million was recorded resulting from the initial recognition of the equity component of the convertible bond separately from the liability. This deferred tax liability was charged to equity. A deferred tax asset arising from net loss carryforwards was recorded in the same amount as the group had sufficient unused tax losses which could be utilized against those taxable temporary differences. As the deferred tax asset and liability relate to the same taxation authority and the same taxable entity, they were netted in the balance sheet. The recognition of the deferred tax asset has been recorded in "Deferred tax income" in the income statement.

11) Trade receivables and deferred revenue

After receiving clearance under the Hart-Scott-Rodino Antitrust Improvements Act for the agreement with Novartis, the Company invoiced an upfront fee of CHF 35 million which was recognized as a trade receivable. As the know-how transfer for the vaccine against nicotine addiction to Novartis is expected to be finalized during Q3 2007, the same amount has been recognized as deferred revenue. Following completion of the know-how transfer, the upfront payment of CHF 35 million will be recognized as revenue.

12) Subsequent event

Property in Belp sold

In the third quarter 2007, the Company entered into a contract of sale for certain of the property in Belp. In addition, the remaining parcels are in the last stages of being sold. Management believes the sales shall all close in the third quarter of 2007. The estimated sales proceeds, less costs of sale, support management's best estimate that the carrying value of the land shall be recovered fully.

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 listings at SWX Swiss Exchange

Registered shares: Swiss Security No.: 1 102 521, (SWX:CYTN)
Convertible bond 2012: Swiss Security No.: 2 906 073

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)	5,256,238
Conditional capital	CHF 168,709
Authorized capital	CHF 200,000
Free float	92%

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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 pipeline of different Immunodrug™ candidates in various disease areas, of which six are currently in clinical development. The Immunodrug™ candidates are developed both in-house and in collaboration with Novartis 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.