

July 24, 2008

Second Quarter Report

as of June 30, 2008

Highlights Q2 2008

- Cytos Biotechnology receives a compensation of CHF 5 million from the Alzheimer's disease collaboration with Novartis as development of the vaccine candidate CAD106 is advanced to phase IIa
- NIC002 development ongoing. Novartis to initiate phase II study with the vaccine candidate to treat nicotine addiction
- **Upcoming event**
Company presentation at the Sal. Oppenheim Healthcare Conference
- **Financial summary**

| | | YTD 2008* | YTD 2007* | Q2 2008 | Q2 2007 |
|-------------------------|---------|----------------------|--------------------------|---------|---------|
| Net revenue | CHF mio | 5.5 | 0.4 | 5.2 | 0.2 |
| Net operating costs | CHF mio | 20.5 | 22.1 | 10.1 | 13.4 |
| Net loss | CHF mio | 15.7 | 19.5 | 5.4 | 13.8 |
| | | June 30, 2008 | December 31, 2007 | | |
| Cash & financial assets | CHF mio | 86.8 | 109.0 | | |
| Full-time employees | number | 132 | 130 | | |

*YTD = year to date January 1 – June 30

Cytos Biotechnology receives a compensation of CHF 5 million from the Alzheimer's disease collaboration with Novartis as development of the vaccine candidate CAD106 is advanced to phase IIa

The vaccine candidate CAD106 for the treatment of Alzheimer's disease is advanced in clinical development by Novartis and a phase IIa study has been initiated. The study will be conducted in different European countries and in the US. A phase I study with CAD106 has been completed recently.

CAD106 is the subject of an exclusive licence agreement between Novartis and Cytos Biotechnology. Based on the clinical progress, Cytos Biotechnology will receive a compensation of CHF 5 million from Novartis. This compensation was accounted for as revenue in the second quarter 2008.

NIC002 development ongoing. Novartis to initiate phase II study with the vaccine candidate to treat nicotine addiction

Cytos Biotechnology has been informed by Novartis, the licensee of its vaccine candidate NIC002 for the treatment of nicotine addiction that a placebo-controlled phase II clinical trial is planned to begin shortly. The study performed by Novartis will evaluate the safety, tolerability and efficacy (i.e. abstinence from smoking) of a new NIC002 treatment regimen designed to yield high anti-nicotine antibody levels.

In a previous phase II clinical trial conducted by Cytos Biotechnology, an increase in long-term abstinence from smoking was observed in smokers who attained high antibody levels following vaccination. Subsequent clinical trials also performed by Cytos Biotechnology identified treatment regimens that yielded high antibody responses. In April 2007, Cytos Biotechnology entered into an exclusive global commercial license agreement with Novartis to develop, manufacture and commercialize NIC002. Under the terms of the agreement, Novartis is granted worldwide exclusive rights for NIC002 and is responsible for further clinical development, manufacturing and commercialization of the vaccine.

Upcoming event

Company presentation at the Sal. Oppenheim Healthcare Conference in Frankfurt am Main, Germany.

CEO Wolfgang A. Renner, PhD, will present the Company and its Immunodrug™ R & D programs at this conference taking place at the Hotel Rocco Forte Villa Kennedy in Frankfurt am Main, Germany, on September 2–3, 2008.

Financial results

Cash and financial assets decreased in the second quarter 2008 by CHF 9.7 million to CHF 86.8 million as of June 30, 2008. The money spent was financing the ongoing operations.

Revenue increased in the first six months from CHF 0.4 million in 2007 by CHF 5.1 million to CHF 5.5 million in 2008 based mostly on a compensation to be received by Novartis due to the progress made with the Alzheimer's vaccine candidate CAD106.

Net operating costs in the second quarter 2008 amounted to CHF 10.1 million and were thus CHF 3.3 million lower than in the second quarter 2007. Research and development costs fell in the same period by CHF 2.4 million due to high one-time development expenses in 2007, despite the increased activities in pre-clinical and clinical trials in 2008. General and administrative cost as well as sales and marketing expenses were lower in 2008 as there were additional costs related to the negotiation and signing of the license agreement with Novartis in 2007.

Net operating costs (exclusive "other income/(expenses), net") in the first six months 2008 were reduced by CHF 2.3 million for mainly the same reasons as mentioned above. The "other income/(expenses), net" in the first six months 2007 included a one-time gain of CHF 1 million due to the sale of property.

As a consequence of the issuance of the convertible bond in the first quarter 2007 and the fact that in 2008 the interest has to be accrued or paid for the whole period, year to date financial expenses increased by CHF 0.7 million to CHF 2.2 million compared to the first six months in 2007. Investments of the financial assets resulted in increased financial income by CHF 0.8 million due to on average higher positions of financial assets and slightly higher interest rates in 2008.

Net loss decreased from CHF 13.8 million in the second quarter 2007 by CHF 8.3 million to CHF 5.4 million in the second quarter 2008 due to the CHF 5 million revenue recognition and the lower operating costs.

Year to date net loss decreased from CHF 19.5 million in the first six months 2007 by CHF 3.8 million to CHF 15.7 million in 2008. Revenue of CHF 5 million due to the advancement of the vaccine candidate CAD106 and lower net operating costs of CHF 1.6 million in 2008 were partly compensated by a one time non-cash deferred tax income of the convertible bond in the amount of CHF 3 million in 2007.

As a consequence of the reduced cost, gross cash burn for operating activities as calculated based on the Cash Flow Statement was CHF 3.6 million per month in the first six months 2008, significantly lower than in the first six months in 2007, when the comparable figure was CHF 4.2 million per month.

Cytos Biotechnology Ltd and subsidiaries

| Consolidated Balance Sheets as of in TCHF | Note | June 30, 2008 | December 31, 2007 |
|---|------|----------------|-------------------|
| Current assets: | | | |
| Cash and cash equivalents | | 9,819 | 43,043 |
| Financial assets | 7 | 77,000 | 66,000 |
| Trade and other short-term receivables | 10 | 5,331 | 1,694 |
| Prepayments | | 3,060 | 1,888 |
| Total current assets | | 95,210 | 112,625 |
| Long-term assets: | | | |
| Property and equipment, net | 8 | 9,607 | 10,643 |
| Long-term receivables | 10 | 2,500 | - |
| Pension assets | | 254 | 254 |
| Investment in associates | | 37 | 37 |
| Total long-term assets | | 12,398 | 10,934 |
| Total assets | | 107,608 | 123,559 |
| Current liabilities: | | | |
| Trade accounts payable | | 1,172 | 1,159 |
| Other current liabilities | | 434 | 535 |
| Accrued expenses and deferred revenue | | 3,307 | 6,278 |
| Provisions | | 35 | 42 |
| Total current liabilities | | 4,948 | 8,014 |
| Long-term liabilities: | | | |
| Accrued expenses | | 819 | 863 |
| Convertible bond - liability component | 9 | 59,644 | 58,401 |
| Provisions | | 1,951 | 1,847 |
| Total long-term liabilities | | 62,414 | 61,111 |
| Shareholders' equity: | | | |
| Share capital | 3 | 527 | 526 |
| Legal reserves | | 136 | 136 |
| Additional paid-in capital | | 206,217 | 204,707 |
| Convertible bond - equity component | 9 | 8,430 | 8,430 |
| Treasury shares | | (104) | (101) |
| Accumulated deficit | | (174,960) | (159,264) |
| Total shareholders' equity | | 40,246 | 54,434 |
| Total liabilities and shareholders' equity | | 107,608 | 123,559 |

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

Cytos Biotechnology Ltd and subsidiaries

| Consolidated Income Statements in TCHF (except for share information) | Note | Six months ended June 30, 2008 | Six months ended June 30, 2007 | Three months ended June 30, 2008 | Three months ended June 30, 2007 |
|--|------|--|--|--|--|
| Research and collaboration revenues | 4 | 5,507 | 395 | 5,247 | 198 |
| Total revenues | | 5,507 | 395 | 5,247 | 198 |
| Research and development | | (18,462) | (20,153) | (9,043) | (11,485) |
| Sales and marketing | | (424) | (906) | (247) | (691) |
| General and administrative | | (1,984) | (2,154) | (1,104) | (1,210) |
| Other income/(expenses), net | | 352 | 1,091 | 341 | 22 |
| Net operating costs | | (20,518) | (22,122) | (10,053) | (13,364) |
| Operating income/(loss) | | (15,011) | (21,727) | (4,806) | (13,166) |
| Financial income | | 1,565 | 809 | 483 | 491 |
| Financial expense | | (2,246) | (1,548) | (1,124) | (1,084) |
| Income/(loss) before tax | | (15,692) | (22,466) | (5,447) | (13,759) |
| Deferred tax income convertible bond | | - | 2,992 | - | - |
| Net loss | | (15,692) | (19,474) | (5,447) | (13,759) |
| Basic and diluted net loss per share | 5 | (2.98) | (3.74) | (1.03) | (2.63) |
| Weighted average number of shares used in computing basic and diluted net loss per share | | 5,261,868 | 5,207,359 | 5,263,114 | 5,222,570 |

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

Cytos Biotechnology Ltd and subsidiaries

| Consolidated Statements of Cash Flows | | Six months ended | Six months ended |
|--|------|-------------------------|-------------------------|
| in TCHF | Note | June 30, 2008 | June 30, 2007 |
| Cash flow from operating activities: | | | |
| Income/(loss) before tax | | (15,692) | (22,466) |
| Depreciation and amortization | | 1,406 | 1,421 |
| Share option compensation cost | 6 | 1,252 | 796 |
| Outflow for cash settled options | | (27) | (792) |
| Other financial cash flow items | | 668 | (344) |
| Changes in assets and liabilities | | (9,359) | (3,144) |
| Net cash (used in)/provided by operating activities | | (21,751) | (24,529) |
| Net cash (used in)/provided by investing activities | | (9,830) | (40,057) |
| Net cash (used in)/provided by financing activities | | (1,753) | 71,190 |
| Net effect of currency translation on cash | | 110 | 7 |
| Net increase/(decrease) in cash and cash equivalents | | (33,224) | 6,611 |
| Cash and cash equivalents, beginning of period | | 43,043 | 9,149 |
| Cash and cash equivalents, end of period | | 9,819 | 15,760 |
| <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, 2007 | 5,174,188 | 517 | 136 | 197,684 | - | (46) | (152,174) | (217) | 45,900 |
| Net income/(expense) recognized directly in equity | - | - | - | - | - | - | - | - | - |
| Income/(loss) for the year | - | - | - | - | - | - | (19,474) | - | (19,474) |
| Total recognized income/(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 |
| January 1, 2008 | 5,261,375 | 526 | 136 | 204,707 | 8,430 | (101) | (159,049) | (215) | 54,434 |
| Net income/(expense) recognized directly in equity | - | - | - | - | - | - | - | (4) | (4) |
| Income/(loss) for the year | - | - | - | - | - | - | (15,692) | - | (15,692) |
| Total recognized income/(loss) | | | | | | | | | (15,696) |
| Issuance of share capital | 5,928 | 1 | - | 307 | - | - | - | - | 308 |
| Net movement of treasury shares | - | - | - | (22) | - | (3) | - | - | (25) |
| Share option compensation cost | - | - | - | 1,225 | - | - | - | - | 1,225 |
| June 30, 2008 | 5,267,303 | 527 | 136 | 206,217 | 8,430 | (104) | (174,741) | (219) | 40,246 |

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, 2007.

These consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2007.

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 February 7, 2008, the board of directors registered an increase of the share capital of the Company by CHF 8,718.70 and by 87,187 shares up to CHF 526,137.50 and 5,261,375 shares with a nominal value of CHF 0.10 each at the Commercial Register of the Canton of Zurich. This increase is a consequence of exercised options by employees and consultants in 2007.

In the course of the first six months of 2008, 5,928 options have been exercised by employees, which resulted in an additional capital increase as of June 30, 2008 by CHF 592.80 and by 5,928 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 2008 amounted to CHF 0.3 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, 2008 | | | | January 1 – June 30, 2007 | | | |
|--------------------------------------|---------------------------|----------|----------|----------------------------------|---------------------------|-----------|----------|----------------------------------|
| | CH | USA | Other | Total | CH | USA | Other | Total |
| Research and collaboration revenue | 5,499 | 8 | – | 5,507 | 375 | 20 | – | 395 |
| Segment result | 5,499 | 8 | – | 5,507 | 375 | 20 | – | 395 |
| Unallocated expenses | | | | (20,518) | | | | (22,122) |
| Operating income/(loss) | | | | (15,011) | | | | (21,727) |
| Financial income/(expenses), net | | | | (681) | | | | (739) |
| Deferred tax income convertible bond | | | | – | | | | 2,992 |
| Net income/(loss) | | | | (15,692) | | | | (19,474) |
| Other information | | | | June 30, 2008 | | | | June 30, 2007 |
| Assets | | | | 107,608 | | | | 142,785 |
| Liabilities | | | | (67,362) | | | | (102,203) |
| | | | | January 1 – June 30, 2008 | | | | January 1 – June 30, 2007 |
| Capital expenditure | | | | 370 | | | | 727 |
| Depreciation | | | | 1,406 | | | | 1,421 |

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 Company 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 2007, the board of directors approved a new share option plan (“SOP 2008”), according to which a total of 106,204 options were granted on January 8, 2008. 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 79.35, corresponding to the average closing price of the shares during the first three trading days in the year 2008. 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 2008 |
|--|------------------------|
| Nature of arrangement | Grant of share options |
| Grant date | 08.01.2008 |
| Number of options granted | 106,204 |
| Exercise price (CHF) | 79.35 |
| Share price at date of grant (CHF) | 76.00 |
| Contractual life (years) | 5.0 |
| Vesting period (years) | 2.0 |
| Settlement | Equity |
| Expected volatility (%) | 46.5 |
| Expected option life at grant date (years) | 3.5 |
| Risk-free interest rate p.a. (%) | 2.89 |
| Expected dividend | zero |
| Estimated fair value at grant date (CHF) | 21.45 |
| Expiry date | 07.01.2013 |
| Valuation model | Black-Scholes |

For all share options granted the Group expensed TCHF 1,115 and TCHF 1,588 for the first six months of 2008 and 2007, respectively.

7. Financial assets and liabilities

In the first six months of 2008, fixed-term time deposits in the amount of CHF 76 million were paid back to the Group. Thereof CHF 67 million have been reinvested according to the Group’s financial plan.

8. Property and equipment

In the first six months of 2008, the Group invested TCHF 370 into property and equipment.

9. 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 2007 | 3,727 |
| Interest expense 2008 | 2,246 |
| Interest paid | (2,013) |
| Liability component at June 30, 2008 | 60,361 |
| thereof short-term (included in “accrued expenses”) | 717 |

Interest expense of TCHF 2,246 for the convertible bond has been recognized as “Financial expense” for the first six months of 2008.

On February 20, 2008, the interest payment of the convertible bond was due and amounted to TCHF 2,013.

10. Revenue

Cytos Biotechnology is compensated with CHF 5 million by Novartis due to the progress made with the Alzheimer’s vaccine candidate CAD106. Two payments of each CHF 2.5 million are expected at the beginning of 2009 and 2010. Hence CHF 2.5 million are recorded under trade and other short-term receivables, CHF 2.5 million under long-term receivables.

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 SWX Swiss Exchange

Registered shares: Swiss Security No.: 1 102 521, SWX:CYTN
Convertible bond 2012: Swiss Security No.: 2 906 073, SWX: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) | 5,267,303 |
| Conditional capital | CHF 167,603 |
| Authorized capital | CHF 200,000 |
| Free float | 93% |

Contacts

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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 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 132 employees. Cytos Biotechnology Ltd has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.

