

Third Quarter Report

as of September 30, 2005

October 27, 2005



Highlights Q3

- 1) Cytos Biotechnology broadens allergy portfolio upon positive interim results in phase IIa house dust mite allergy study.
- 2) Dose optimization study with CYT002-NicQb to treat nicotine addiction has started in early October 2005.
- 3) Cytos Biotechnology's M2 influenza vaccine - a potential line of defense against pandemic flu.
- 4) US Patent for Immunodrugs™ to treat drug of abuse addiction awarded on August 23, 2005.
- 5) License payment received from Novartis Pharma for collaboration in Alzheimer's project.
- 6) Upcoming events include:
 - a) Oral presentation of preclinical and phase I results for CYT006-AngQb to treat high blood pressure at the American Heart Association Scientific Sessions 2005 in Dallas, Texas, USA on Monday, November 14, 2005, 2.45pm (EST).
 - b) The company's R&D day for investors, analysts and media representatives on Wednesday, December 14, 2005, 10 am.
 - c) The company's R&D day for shareholders on Saturday, December 17, 2005, 10 am.

At the R&D days, detailed phase IIa study results for house dust mite allergy will be presented for the first time. Additionally, the progress of other clinical and preclinical programs will be discussed.

7) Financial summary Q3:

		<u>9 mth 2005/ September 30, 2005</u>	<u>full year 2004/ December 31, 2004</u>
Net revenue	CHF mio	4.3	4.1
Net operating costs	CHF mio	24.9	29.3
Net loss	CHF mio	20.2	23.2
Cash & cashable assets*	CHF mio	78.1	76.4
Employees	Full time empl.	118	111

* including cash and cash equivalents, short-term and long-term financial investments plus properties for sale.

Positive phase IIa interim results for CYT005-AllQbG10 to treat allergy

1) Cytos Biotechnology broadens allergy portfolio upon positive interim results in phase IIa house dust mite allergy study

CYT005-AllQbG10 is a therapeutic vaccine in development for the treatment of allergy. As a first indication the vaccine is being tested in an ongoing open-label phase IIa study in 20 patients suffering from rhinoconjunctivitis and asthma due to house dust mite allergy. An interim analysis conducted on the first nine patients who completed treatment showed a statistically significant ($p < 0.01$) improvement of allergy symptoms upon conjunctival provocation with dust mite allergen. Post treatment, patients tolerated on average a greater than ten-fold allergen dose in this provocation test, which serves as primary clinical outcome parameter to assess efficacy in this indication. The primary efficacy endpoint of the study will be reached when the average tolerated allergen dose in the entire study group is increased ten-fold or more. CYT005-AllQbG10 was safe and well tolerated. Based on these positive interim results, Cytos Biotechnology decided to broaden its allergy portfolio and to cover additional important allergy indications.

As a next development step, CYT005-AllQbG10 will be tested in a double-blind, placebo-controlled phase II clinical trial in 36 patients suffering from grass pollen allergy. This trial is planned to start in the fourth quarter 2005 and first study results are expected in the first half 2006. Furthermore, Cytos Biotechnology plans for the development of CYT005-AllQbG10 in additional allergy indications.

Detailed phase IIa study results of CYT005-AllQbG10 in house dust mite allergy and next development steps for CYT005-AllQbG10 will be presented at the company's R&D day on December 14, 2005.

Allergy is a widespread disease that ranges from hay fever to seriously life threatening forms of asthma and anaphylaxis. According to the World Health Organization, more than 20% of the world population suffers from allergic diseases (WHO, 2002). Today, three general approaches are being pursued to relieve the symptoms of allergic diseases: avoidance of the allergen, prescription of medication that targets allergy symptoms, and specific immunotherapy, also known as desensitization, which is the only disease-modifying treatment available today and which reduces the allergy symptoms over a longer period of time. A typical desensitization therapy, however, can consist of up to 70 allergen shots over three years and is thus time-consuming, costly, and inconvenient for the patient. With CYT005-AllQbG10 only a few injections should be required over a short treatment period, which should be much more convenient for the patient and thus could have the potential to become a more widely used treatment alternative than conventional desensitization.

Immunodrug™ candidate to treat nicotine addiction - next development activities

2) Dose optimization study with CYT002-NicQb has started

The six-months results from the ongoing phase II clinical trial with CYT002-NicQb presented in May this year showed that vaccination with CYT002-NicQb promoted and sustained smoking cessation in those participants who achieved high antibody titers. In this phase II study, all participants have received five intramuscular injections of the vaccine at a dose of 100µg at monthly intervals. In order to achieve high antibody titers in the majority of vaccinated smokers, Cytos Biotechnology is now optimizing the dose, the dose regimen and the formulation of this vaccine candidate. The dose optimization study has started in early October. This study will evaluate safety, tolerability and immunogenicity of higher doses of the vaccine and explore different application routes. Conducted in Switzerland, the study will include 48 healthy volunteers. First results of the study are expected in the first half of 2006.



M2 influenza vaccine candidate could become a potential line of defense against pandemic flu

3) Cytos Biotechnology's M2 influenza vaccine – a potential line of defense against pandemic flu

Cytos Biotechnology has previously reported in the scientific literature that its broad spectrum influenza vaccine candidate based on the highly conserved, extracellular domain of the viral M2 protein can protect mice from lethal infection with influenza virus (J. Immunol. 2004, 172:5598 and Vaccine 2002, 20:3104*). Compared to conventional strain-specific vaccines, however, protection was less efficient and not sterilizing i.e. the virus still replicated but at a much reduced level. The broad spectrum M2-influenza vaccine is therefore not able to replace the annual strain-specific influenza vaccines, which protect from an initial infection and usually from disease.

In the face of a threatening flu pandemic, however, strain specific vaccination does not appear to be a viable option because the processes of vaccine isolation and mass production, which take several months to be completed, are too slow to stop a fast spreading pandemic. A broad spectrum vaccine that can be manufactured in sufficient quantities *before* a dangerous new strain has emerged and that reduces mortality (but probably not protecting from temporary disease) could represent one important line of defense.

Although the influenza virus is highly variable in general, causing the mentioned difficulties for annual strain specific vaccine generation, the extracellular domain of the viral M2 protein is almost identical in all influenza A strains isolated so far. Cytos Biotechnology has generated a prototype vaccine that could, compared to current egg based production, easily be produced in mass quantities needed for population wide vaccination *before* the pandemic strain emerges. It can reasonably be expected that the M2 domain will again be conserved in such a new strain. This was also the case in the strain that caused the Spanish flu of 1918 which killed 20 - 40 million people.

Cytos Biotechnology has been invited to an upcoming conference by the World Health Organization (WHO) to present and discuss these considerations and the latest experimental data (Second Meeting on Influenza Vaccines That Induce Broad Spectrum and Long Lasting Immune Responses, December 6-7, 2005, Geneva, Switzerland).

*Copies of the scientific publications are available upon request to info@cytos.com

US Patent covering CYT002-NicQb to treat nicotine addiction issued

4) Cytos Biotechnology awarded US Patent for Immunodrugs™ to treat drug of abuse addiction, which also covers the Immunodrug™ candidate CYT002-NicQb to treat nicotine addiction

On August 23, 2005, the US Patent and Trademark Office (USPTO) has issued US patent number 6,932,971, which relates to and covers Cytos Biotechnology's phase II Immunodrug™ candidate CYT002-NicQb to treat nicotine addiction. The granted claims cover hapten-carrier conjugates comprised of virus-like particles of RNA bacteriophages (including Qb) and 22 different drugs of abuse including nicotine, cocaine and heroin. It further relates to the use of such hapten-carrier conjugates for induction of an immune response (including the production of antibodies) against the specified drugs of abuse by immunization via different application routes. The patent term lasts until September 26, 2023.



License payment received for collaboration in Alzheimer's project

5) Financial results

Cash and cashable assets remained on a high level of CHF 78.1 million as of September 30, 2005, in comparison to CHF 76.4 million at the end of December 2004. This is primarily attributable to the capital increase executed in the first quarter 2005 whereby Cytos Biotechnology AG issued 460,000 shares, hence receiving CHF 21.3 million net proceeds. In order to get higher yields than on the money market, the Group invested some of these proceeds in high grade short- and long-term investments.

Revenues increased from CHF 0.5 million in the third quarter 2004 by CHF 0.4 million to CHF 0.9 million in the third quarter 2005. The revenue in the third quarter 2005 related mainly to a license fee payment from Novartis related to the Alzheimer's project. Year to date revenues increased from CHF 3.5 million in the first nine months 2004 by CHF 0.8 million to CHF 4.3 million in the first nine months 2005. 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 occur sporadically.

Operating costs increased from CHF 8.0 million in the third quarter 2004 by CHF 0.6 million to CHF 8.6 million in the third quarter 2005 predominantly due to more extensive activities pursued in clinical trials. For the same reason year to date operating costs increased from CHF 21.3 million in the first nine months 2004 by CHF 3.6 million to 24.9 million in the first nine months 2005.

Net loss in the third quarter 2005 increased by CHF 1.0 million in comparison to the third quarter 2004 and amounted to CHF 7.6 million, as a result of increasing operating costs. Net loss in the first nine months 2005 increased by CHF 3.4 million in comparison to the first nine months 2004 and amounted to CHF 20.2 million, predominantly due to higher costs related to clinical trials.

Cash burn for operating activities increased from CHF 2.2 million per month in the first nine months 2004 to CHF 2.5 million per month in the first nine months 2005 for the same reasons as the operating costs increased.

Stock option compensation costs have been recognized under the provisions of Statement of Financial Accounting Standards No. (FAS) 123 (revised 2004), "Share-based Payment". The Group applied this new standard as of July 1, 2005 (see note 2, page 9).

Upcoming events

6) Please note the dates of the upcoming events

a) American Heart Association Scientific Sessions 2005, November 13-16, 2005, Dallas, Texas, USA

First presentation of preclinical and clinical phase I data with CYT006-AngQb to treat high blood pressure to an international scientific audience at the American Heart Association Scientific Sessions. The oral presentation will take place on Monday, November 14, at 2.45pm (EST). Title: Preclinical antihypertensive efficacy and immunogenicity in humans of a vaccine against angiotensin II based on virus-like particles (VLPs). For more information visit <http://scientificsessions.americanheart.org>.

b) Cytos Biotechnology's R&D day for analysts, investors and media representatives on Wednesday, December 14, 2005, 10 am

c) Cytos Biotechnology's R&D day for shareholders on Saturday, December 17, 2005, 10 am

At the R&D days, presentations by the management will provide an overview of the current R&D pipeline, and discuss the progress in clinical and preclinical programs. In particular, detailed phase IIa study results for house dust mite allergy will be presented for the first time.

Glossary

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

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

Bacteriophage: a virus capable of infecting bacteria. For use as Immunodrug™ carrier, the non-infectious protein shell of the virus is used; also called virus-like particle.

Biologics: protein- or peptide-based therapeutics (i.e. vaccines, monoclonal antibodies).

Broad spectrum influenza vaccine: a vaccine that is effective not only against a certain strain of influenza but against many different strains.

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

Conserved: the stability of the genetic information for a certain protein over many generations of a species or also among different species.

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

Dose regimen: describes the dose and the schedule according to which a drug is administered.

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

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

Endpoint: an outcome measure in a clinical trial.

Extracellular domain: the part of a protein, which is localized at the outside of a cell/virus, usually attached to it via the cell/viral membrane.

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

Hapten: substance that cannot elicit an immune response by itself. Coupling haptens to carrier proteins typically enhances their immunogenicity.

Immunization: activation of the immune system with a specific substance (antigen).

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

Influenza A: a subfamily of influenza viruses, members of which are the most dangerous ones. Most epidemics and pandemics of influenza are caused by members of this subfamily.

M2 protein: a protein of the influenza virus, which is highly conserved among the different influenza strains.

Open-label: a set-up used in clinical trials where the doctor and the patient know whether the substance administered is placebo or the active drug substance.

Pandemic: an epidemic occurring over a very wide area, crossing international boundaries and usually affecting a large number of people.

Pathogenesis: pathogenesis is the mechanism by which a certain factor or certain factors cause/s disease (*pathos* = disease, *genesis* = development).

Placebo: Dummy medical treatment.

Protein: a molecule produced by cells or viruses that can have structural or catalytic roles.

Replicate: the process with which a virus does multiply in an organism.

Rhinoconjunctivitis: a combination of rhinitis (runny nose) and conjunctivitis (itchy eyes and swollen eyelids).

Therapeutic vaccine: a preparation of disease-related molecules (antigens) that is capable of inducing an immune response to such antigens with the goal to modulate the disease process.

Balance Sheets

Cytos Biotechnology AG and subsidiaries

Consolidated Balance Sheets as of In thousand Swiss Francs (except for share information)	September 30, 2005 unaudited	December 31, 2004 audited
Current assets:		
Cash and cash equivalents	16,740	21,033
Short-term investments	28,996	28,000
Trade accounts receivable	16	274
Notes receivable acquired	-	3,000
Prepaid expenses and other current assets	916	848
Total current assets	46,668	53,155
Long-term assets:		
Property and equipment, net	13,411	14,035
Net pension benefit	1,400	734
Long-term investments	15,000	6,992
Other long-term assets	14,152	14,159
Total long-term assets	43,963	35,920
Total assets	90,631	89,075
Current liabilities:		
Trade accounts payable	623	1,213
Accrued payroll and bonuses	915	1,026
Current portion of loan	123	118
Other current liabilities and accrued expenses	5,341	4,490
Total current liabilities	7,002	6,847
Long-term liabilities:		
Loan	1,251	1,344
Total long-term liabilities	1,251	1,344
Shareholders' equity:		
Common stock, CHF 0.10 par value, authorized 7,583,329 shares, issued 5,083,329 shares at September 30, 2005; authorized 6,583,329 shares, issued 4,623,329 shares at December 31, 2004	508	462
Legal Reserves	136	136
Additional paid-in capital	190,520	168,859
Treasury stock (3,853 shares at September 30, 2005, and 5,235 shares at December 31, 2004, at cost)	(149)	(158)
Accumulated deficit	(108,494)	(88,272)
Accumulated other comprehensive income (loss)	(142)	(143)
Total shareholders' equity	82,378	80,884
Total liabilities and shareholders' equity	90,631	89,075

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

Statements of Operations

Cytos Biotechnology AG and subsidiaries

Consolidated Statements of Operations	Nine months ended September 30, 2005 unaudited	Nine months ended September 30, 2004 unaudited	Three months ended September 30, 2005 unaudited	Three months ended September 30, 2004 unaudited
In thousand Swiss Francs (except for share information)				
Research and collaboration revenues	4,295	3,535	863	531
Total revenues	4,295	3,535	863	531
Research and development	(21,625)	(18,666)	(7,651)	(7,004)
Sales and marketing	(809)	(532)	(225)	(125)
General and administrative	(2,778)	(2,648)	(864)	(938)
Other operating income	643	1,089	236	342
Other operating costs	(294)	(524)	(81)	(234)
Net operating costs	(24,863)	(21,281)	(8,585)	(7,959)
Operating loss	(20,568)	(17,746)	(7,722)	(7,428)
Financial income	346	225	118	90
Net loss from continuing operations	(20,222)	(17,521)	(7,604)	(7,338)
Extraordinary gain from negative goodwill, net of tax	-	722	-	722
Net loss	(20,222)	(16,799)	(7,604)	(6,616)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	1	159	1	107
Total other comprehensive income (loss)	1	159	1	107
Comprehensive loss	(20,221)	(16,640)	(7,603)	(6,509)
Basic and diluted net loss per share	(4.08)	(3.85)	(1.50)	(1.43)
Weighted average number of shares used in computing basic and diluted net loss per share	4,950,805	4,358,323	5,079,183	4,619,180

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

Cash Flows

Cytos Biotechnology AG and subsidiaries

Consolidated Statements of Cash Flows	Nine months ended September 30, 2005 unaudited	Nine months ended September 30, 2004 unaudited	Three months ended September 30, 2005 unaudited	Three months ended September 30, 2004 unaudited
<i>In thousand Swiss Francs</i>				
Cash flow from operating activities:				
Net loss	(20,222)	(16,799)	(7,604)	(6,616)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,893	1,820	650	626
Extraordinary gain from negative goodwill	-	(722)	-	(722)
(Gain) loss on sale of property held for sale	-	(143)	-	-
(Gain) loss on sale of equipment	(10)	-	(7)	-
(Gain) loss on foreign exchange movements	13	2	(1)	7
Stock option compensation cost	560	43	476	12
Changes in assets and liabilities:				
Trade accounts receivable	254	778	(9)	302
Pension benefits	(666)	(662)	394	312
Prepaid expenses and other current assets	(68)	(334)	(189)	0
Trade accounts payable	(598)	(26)	(476)	64
Accrued payroll and bonuses	(111)	(208)	331	198
Other current liabilities and accrued expenses	606	130	844	700
Net cash (used in) provided by operating activities	(18,349)	(16,121)	(5,591)	(5,117)
Cash flows from investing activities:				
(Increase) decrease in short-term investments	2,004	(5,000)	9,999	-
(Increase) decrease in long-term investments	(8,008)	(6,990)	(0)	(1)
Purchase of property and equipment	(1,274)	(1,920)	(701)	(1,177)
Sale of property and equipment	22	-	19	-
Sale of property held for sale	-	2,555	-	-
Net cash (used in) provided by investing activities	(7,256)	(11,355)	9,317	(1,178)
Cash flows from financing activities:				
Proceeds from loan	-	1,500	-	1,500
Repayment of loan	(88)	(9)	(30)	(9)
Proceeds from issuance of common stock	21,632	33,610	-	-
Purchase of treasury shares	(807)	(89)	(547)	(27)
Sale of treasury shares	890	28	553	18
Stock issuance costs	(316)	(2,572)	-	-
Net cash (used in) provided by financing activities	21,311	32,468	(24)	1,482
Net effect of currency translation on cash	1	59	0	(17)
Net increase (decrease) in cash and cash equivalents	(4,293)	5,051	3,702	(4,830)
Cash and cash equivalents, beginning of period	21,033	37,839	13,038	47,720
Cash and cash equivalents, end of period	16,740	42,890	16,740	42,890

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

1) Organization and risk factors

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.

The Group is subject to risks common to companies in the biotechnology industry, including, but not limited to, uncertainties regarding the effectiveness and safety of new drugs, new and unproven technologies, clinical trials, regulatory approvals, long product development cycles and high failure rates, continuing capital requirements to fund research and development, commercial success and acceptance, patents and legally protected technologies, third party intellectual property rights, dependence on third parties, competition, concentration of operations, product liability insurance, history of operating losses and uncertainty of future profitability, dependence on important employees, environment, health, data protection and safety, lack of experience in marketing and sales, merger ("Merger") with Askliä Holding AG ("Askliä"), volatility of market value, as well as limited liquidity and shares eligible for future sale.

2) Basis of presentation

The accompanying unaudited condensed interim consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("US-GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US-GAAP have been condensed or omitted.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited financial statements and footnotes related thereto for the period ended December 31, 2004, included in the Group's Annual Report. The unaudited interim consolidated financial statements include, in the opinion of management, all adjustments necessary to present fairly the Group's consolidated financial position as of September 30, 2005, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the nine month period ended September 30, 2005. The consolidated results of such interim periods are not necessarily indicative of the results to be achieved for the period ended December 31, 2005.

The unaudited condensed interim consolidated financial statements include the accounts of Cytos Biotechnology AG and its wholly-owned subsidiaries, Mavena AG, Belp, Switzerland, Askliä Holding (Germany) GmbH in Liquidation, Ravensburg, Germany, and Proteome Therapeutics GmbH, Singen, Germany.

All significant intercompany balances and transactions have been eliminated in consolidation.

Certain amounts in the period ended September 30, 2004, financial statements have been reclassified to conform with the audited consolidated financial statements and footnotes related thereto for the year ended December 31, 2004, included in the Group's 2004 Annual Report. These reclassifications have no effect on previously reported net loss or shareholders' equity.

New accounting pronouncement

In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123 (revised 2004) "Share-Based Payment". FAS 123 (revised 2004) supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance and it requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award with limited exceptions. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Under the transition provisions of FAS 123 (revised 2004), the Group applies this new standard as from July 1, 2005. For the disclosures on the Group's stock option plans, see note 8.

3) Shareholders' equity

On March 10, 2005, the Board of Directors decided to increase the common stock of the Company by CHF 46,000 and by 460,000 shares with a nominal value of CHF 0.10 each. Effective March 14, 2005, an increase of CHF 46,000 and 460,000 shares with a nominal value of CHF 0.10 each was registered at the Commercial Register in the Canton of Zurich and subsequently the new shares were issued to new shareholders. The total net proceeds for the issuance of common stock amounted to CHF 21.3 million.

The new shares have been issued out of the authorized capital of Cytos Biotechnology AG which was approved by the shareholders at the Annual Shareholders' Meeting on April 27, 2004.

In connection with the increase in common stock, the Company incurred costs of approximately CHF 0.3 million. The costs have been recorded as a reduction to Additional Paid-in Capital.

4) Research and development collaborations

On May 18, 2005, the Company announced that its collaboration partner Novartis, a related party, has obtained approval from the Swedish health authority to initiate a phase I clinical trial with the Immunodrug™ candidate CAD106, an immunotherapeutic product for the treatment of Alzheimer's disease. The achievement of this milestone triggered a payment to the Company in the course of the second quarter 2005. Furthermore the Group received a license fee in connection with the same project during the third quarter 2005.

On January 6, 2005, the Company announced that Pfizer Inc. ("Pfizer") and the Company signed a research and commercial license option agreement for the testing of Immunodrugs™ for animal health applications. Pfizer gains exclusive access to test two Immunodrug™ candidates in its models and, if the option on the commercial license agreement is executed, exclusive development and commercial rights to these two animal health product candidates of the Company. In return, the Company received an up-front payment for the option and one-time delivery of the technical quality vaccines, and may earn milestones and additional fees on commercial license execution, on technology transfer for GMP manufacturing, on supply of drug substance, and on approval of Immunodrug™ candidates in major markets. After a successful launch of a product, the Company has a right to earn royalties based on Pfizer's net sales.

In the course of the first quarter 2005 the Company and Medarex Inc. ("Medarex") expanded the scope of their collaborative research, development and license agreement for new drug targets. The first agreement between the companies was announced in November 2002 and focused on drug targets for immunological diseases. This new agreement expands the collaboration scope

and will include drug targets discovered in other disease areas of interest.

Under the terms of this new agreement, Medarex will acquire the exclusive rights to develop and commercialize monoclonal antibody therapeutics against the collaboration targets. Medarex also receives a first right of negotiation for use of these targets in small molecule drug discovery and as protein therapeutics. In return, Cytos Biotechnology received an up-front payment, and has the opportunity to earn license fees, milestones, and royalties on net sales of products that are successfully brought to market. Cytos Biotechnology also retains rights to develop and commercialize the target proteins discovered for its own Immunodrugs™.

In the first quarter 2005 the Company entered into a non-exclusive research license agreement with a large pharmaceutical company for protein expression technology. Under the terms of this agreement the Company received an up-front fee and has the potential to earn annual license fees starting on the first anniversary of signing the agreement.

5) Segment and geographic information

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 and 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. Research and collaboration revenues are attributable to individual countries and are based on the location of the customer, while the long-term assets are based on the location of the Group.

The Group's geographic information is as follows:

In thousand Swiss Francs

September 30, 2005:	Switzerland	USA	Other	Total
Research and collaboration revenues	3,850	424	21	4,295
Long-term assets	43,963	-	-	43,963
September 30, 2004:	Switzerland	USA	Other	Total
Research and collaboration revenues	3,325	44	166	3,535
Long-term assets	39,322	-	-	39,322

6) Benefit plans

The Group maintains a retirement plan (the "Plan") covering all of its employees in Switzerland including its executive officers. In addition to retirement benefits, the Plan provides death or long-term disability benefit to its employees.

Benefits under the Plan are principally based on contributions, computed as a percentage of salary, adjusted for the age of the employee. In addition, the Plan provides a guaranteed minimum return. Under the agreement, both the Group and the employee share the costs, including contributions, 50%/50%. Due to the impact of changes in salary, the guaranteed

minimum return element and cost sharing arrangement, the Plan is accounted for as a defined benefit plan in accordance with FAS 87.

The component of net periodic benefit cost recognized in the unaudited interim consolidated statements of operations is as follows:

Net periodic benefit cost	Nine months ended	Nine months ended
in thousand Swiss Francs	September 30, 2005	September 30, 2004
Service cost	689	469
Interest cost	150	109
Expected return on the cash surrender value	(323)	(244)
Amortization of unrecognized net transition obligation	6	8
Net periodic benefit cost	522	342

In the nine month periods ended September 30, 2005, and 2004, the Group contributed against the annual costs TCHF 1,917 and TCHF 1,579, respectively, to the Plan at a ratio of 50%/50% for the cost sharing between the Group and employees. These contributions are recorded against the Net Pension Benefit in the Balance Sheet. The Group was repaid by its employees up to September 30, 2005, TCHF 666 and up to September 30, 2004, TCHF 595 for their 50% of the pro rata contribution. This is recorded as a reduction of the net pension benefit in the Balance Sheet.

7) Earnings (Loss) per share

Basic and diluted net loss per share have been computed based upon the weighted average number of common shares outstanding in conformity with Statement of Financial Accounting Standard No. 128. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities. All outstanding options to purchase shares of common stock were not included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

8) Stock option plans

The Group applies the provisions of FAS 123 (revised 2004) as of July 1, 2005 in accounting for its employee stock option plans. The estimated fair value of the options is amortized over the vesting period of the options as compensation expense.

On December 13, 2004, the board of directors approved a stock option plan ("SOP 2005"), whereas all employees (except the CEO) received options in January 2005. 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 44.26 corresponding to the average closing price of the share during the first five trading days in the year 2005. Management believes this represents the best estimate of the fair value of the underlying common stock. Under this program a total of 74,040 shares were granted on January 10, 2005.

On January 8, 2005, consultants were granted 500 options in exchange for services, which are exercisable after a two year cliff vesting period until January 7, 2010. The exercise price is CHF 44.26 for one option, corresponding to the average closing price of the share during the first five trading days in the year 2005.

On July 1, 2005, consultants were granted 4,441 options in exchange for services, which are exercisable after a two-year, cliff-vesting period until June 30, 2010. Each option entitles the holder to purchase one share of the Company. The exercise price of the option is CHF 39.85 for one share, the closing price as of June 30, 2005.

In July 2005, the board of directors approved a stock option plan ("SOP2005 5years"), whereas employees (except the CEO) having been employed for longer than five years on July 14, 2005 received options. Each option entitles the holder to purchase one share of the Company within three years after the grant date. The exercise price is CHF 39.58 for one share corresponding to the volume weighted average price of the share as of July 14, 2005. Management believes this represents the best estimate of the fair value of the underlying common stock. Under this program a total of 26,475 options were granted on July 15, 2005.

For all stock options granted the Group expensed TCHF 476 in the third quarter 2005 and TCHF 12 in the third quarter 2004. TCHF 560 and TCHF 43 have been expensed during the first nine months of 2005 and 2004, respectively. The impact of application of FAS 123 (revised 2004) for the third quarter amounted to TCHF 430.

Had compensation costs been determined based upon the provisions of FAS 123 (revised 2004) in accounting for its employee stock option plans for a all awards and all periods, the compensation costs from the granting of stock options to employees would be recognized on a straight line basis over the vesting period and the Group's net loss and basic and diluted net loss per share would have been as follows:

Stock-based compensation	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Three months ended September 30, 2005	Three months ended September 30, 2004
<i>In thousand Swiss Francs (except for share information)</i>				
Net loss as reported	(20,222)	(16,799)	(7,604)	(6,616)
Stock-based employee compensation costs included in the determination of net loss	528	9	464	3
Stock-based employee compensation costs that would have been included in the determination of net loss if the fair valued based method had been applied to all awards and all periods	(904)	(1,709)	(464)	(284)
Pro forma net loss as if the fair value based method had been applied to all awards and all periods	(20,598)	(18,499)	(7,604)	(6,897)
Basic and diluted loss per share	(4.08)	(3.85)	(1.50)	(1.43)
Pro forma basic and diluted loss per share as if the fair value based method had been applied to all awards and all periods	(4.16)	(4.24)	(1.50)	(1.49)

The following assumptions have been applied using the Black-Scholes option pricing model:

	2005	2004
Risk-free interest rate	1.1% - 3.2%	1.6% - 3.2%
Expected life (in years)	2.0 - 5.0	3.5 - 5.0
Volatility	41% - 51%	41% - 46%
Dividend	zero	zero

9) Short-term investments

In the course of the first quarter of 2005, the Group invested in a fixed-term time deposit amounting to CHF 10 million. It was paid back as of September 30, 2005.

Fixed-term time deposits of CHF 21 million which matured during the second quarter 2005 have been reinvested in fixed-term time deposits with maturity dates of October 24, 2005 and November 11, 2005.

A bond of CHF 2 million has been reclassified into short-term investments as the maturity date of May 12, 2006 causes it to be of a short-term nature.

10) Notes receivable acquired

As of March 31, 2005, the Group received CHF 3 million for the outstanding note receivable from Vétoquinol paid back by early redemption.

11) Long-term investments

CHF 16 million were invested in fixed-term time deposits in the course of the first quarter 2005 with maturity dates of June 30, 2006 and December 31, 2006. During the second quarter 2005, fixed-term time deposits of CHF 8 million matured and were paid to the Group.

12) Property and equipment

In the course of the first nine months of 2005, the Group invested TCHF 1,274 into property and equipment, primarily for laboratory equipment.

13) Contingencies and legal proceedings

The operations and earnings of the Group continue, from time to time and in varying degrees, to be effected by political, legislative, fiscal, regulatory developments and other various risks. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable.

Askia was involved in (i) various claims and lawsuits arising in the ordinary course of its business and (ii) claims regarding representations, warranties and covenants given by Askia when divesting its business. Some of these Askia claims and lawsuits (including claims regarding representations, warranties and covenants given by Askia when divesting its business) were settled. Other cases of legal disputes, involving subsidiaries of the Askia that were divested prior to the Merger, were transferred as part of the divested business. With regard to two such lawsuits, whereby the plaintiffs claimed CHF 1.3 million and CHF 0.6 million each, Askia agreed to indemnify the acquirer of the divested business for all costs the divested company or the acquirer will incur in connection with these proceedings.

As a consequence of the Merger these liabilities and lawsuits of Askia as well as the other pending and threatened lawsuits and claims of Askia were taken over by the Group. The Group believes that appropriate provisions were made to cover the risks associated with these various claims and lawsuits pending or threatened as well as any potential obligation for guarantees.

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 September 30, 2005, 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)	5,083,329
Conditional Capital	CHF 46,000
Authorized Capital	CHF 204,000
Free Float	91%

Contact

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

Wolfgang Renner, PhD, CEO
Phone: +41 44 733 47 03
E-mail: wolfgang.renner@cytos.com

Company Profile

Cytos Biotechnology AG is a public Swiss biotechnology company that specializes in the discovery, development and commercialization of a new class of biopharmaceutical products – the Immunodrugs™. Immunodrugs™ are intended for use in the treatment and prevention of common chronic diseases, which afflict millions of people worldwide. Immunodrugs™ are designed to instruct the patient's immune system to produce desired therapeutic antibody or cytotoxic T-cell responses that modulate chronic disease processes. Taking advantage of the high flexibility of its Immunodrug™ platform, Cytos Biotechnology has built a pipeline of 25 different Immunodrug™ candidates in various disease areas, of which seven are currently in clinical development. The Immunodrug™ candidates are developed both in-house (22) and together with Novartis (1) and Pfizer Animal Health (2). Founded in 1995 as a spin-off from the Swiss Federal Institute of Technology (ETH) in Zurich, the company is located in Schlieren (Zurich). Currently, the company has 118 employees. Cytos Biotechnology AG has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.

