

Third Quarter Report

as of September 30, 2006

October 26, 2006



Highlights Q3 2006

- 1) **CYT003-QbG10, a novel allergen-independent immunotherapy for allergic diseases, achieves significant efficacy in phase IIa pilot study with hay fever patients.**
- 2) **Excellent 12 months follow-up results confirm long-term efficacy achieved with CYT005-AllQbG10 immunotherapy in a phase IIa study with house dust mite allergy patients.**
- 3) **Cytos Biotechnology wins Swiss Equity Award 2006.**
- 4) **Financial summary:**

		YTD 2006*	YTD 2005*	Q3 2006	Q3 2005
Net revenue	CHF mio	0.5	4.3	0.2	0.9
Net operating costs	CHF mio	27.1	25.9	9.3	9.1
Net loss	CHF mio	26.2	21.2	9.0	8.1

		Sep 30, 2006	Dec 31, 2005
Cash & cashable assets**	CHF mio	52.4	71.1
Full-time employees	number	131	124

* YTD = year to date January 1 – September 30

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

1) CYT003-QbG10, a novel allergen-independent immunotherapy for allergic diseases achieves significant efficacy in phase IIa pilot study with hay fever patients

In September 2006, Cytos Biotechnology reported full results from its pilot phase IIa clinical trial with CYT003-QbG10, a potentially universal immunotherapy for the treatment of allergic diseases. The Immunodrug™ QbG10 has previously proven very efficacious in patients suffering from allergic asthma and rhinitis due to house dust mite allergy when applied in combination with an approved house dust mite allergen extract (see Paragraph 2 below). Recent scientific findings suggested that the efficacy observed may be mediated through an allergen-independent mechanism of action.

The present study therefore assessed in an open-label setting in 10 hay fever patients the safety, tolerability and efficacy of CYT003-QbG10, i.e. monotherapy with QbG10 alone without addition of a specific allergen extract. The 10 patients received 6 weekly injections of 300 µg CYT003-QbG10. The allergic status of the patients was determined at baseline (i.e. before treatment) and after treatment by the nasal provocation test, a standardized procedure that records defined allergic symptoms upon allergen exposure. The primary efficacy endpoint was defined as a 10-fold increase in allergen tolerance.

Treatment with CYT003-QbG10 led to a 100-fold increase in the median allergen tolerance upon allergen provocation ($p=0.016$). Thus, efficacy was comparable to what was observed previously when QbG10 was combined with an allergen extract of house dust mites, suggesting that QbG10 acts indeed through an allergen-independent mechanism of action. CYT003-QbG10 therapy was safe and well tolerated.

The finding strongly supports the great potential of this immunotherapeutic approach since QbG10 alone could be used as a disease-modifying and universal therapy for a broad range of allergic diseases. Additionally, allergen-induced allergic side effects, which are the main adverse events seen in conventional allergen-specific immunotherapy, could be avoided. This could render QbG10 monotherapy a more tolerable, safer and very attractive treatment. Consequently, Cytos Biotechnology currently conducts three phase IIa clinical trials with CYT003-QbG10 for house dust mite allergy, grass pollen allergy and atopic dermatitis to further investigate this promising product candidate.

2) Excellent 12 months follow-up results confirm long-term efficacy achieved with CYT005-AllQbG10 immunotherapy in phase IIa study with house dust mite allergy patients

In early October 2006, Cytos Biotechnology obtained 12 months follow-up results from its phase IIa study conducted in 20 patients with allergic rhinoconjunctivitis and asthma due to house dust mite allergy. The study assessed safety, tolerability and efficacy of CYT005-AllQbG10, which is comprised of the Immunodrug™ QbG10 combined to a specific house dust mite allergen extract. The company has previously reported about the powerful

and sustained efficacy of CYT005-AllQbG10 achieved 3 and 8 months after start of treatment (see Press Releases December 14, 2005 and April 25, 2006).

The results obtained 12 months after start of treatment confirm that the immunotherapy has a long-lasting therapeutic effect and offers significant benefit to allergic patients. At the follow-up visit, the allergic status of the patients was recorded by the conjunctival provocation test, a standardized procedure which records defined allergic symptoms upon allergen exposure. In this test, the median allergen tolerance remained still increased by a factor of 100 ($p < 0.0001$) and thus tallies the results obtained after 3 and 8 months.

Also allergic rhinitis and asthma in daily life remained significantly improved at 12 months. The table below summarizes on the median symptom scores of allergic rhinitis and asthma in daily life throughout the study. Also shown are the median scores for the consequences of allergic rhinitis and asthma, which describe restrictions due to the disease during work, leisure time, or sleep.

(median scores are shown)	before treatment	3 months	8 months	12 months
allergic rhinitis symptom score	10.5	1.5	3	2
p-value		$p < 0.0001$	$p < 0.0001$	$p < 0.0001$
consequences of allergic rhinitis	3	0	1	0
p-value		$p < 0.0001$	$p < 0.0001$	$p < 0.0001$
asthma symptom score	2	0	0	0
p-value		$p < 0.0001$	$p = 0.0007$	$p < 0.0001$
consequences of asthma	3	0	0	0
p-value		$p < 0.0001$	$p = 0.0001$	$p < 0.0001$

These excellent long-term results support the company's strong commitment to the development of a novel immunotherapy to treat allergic diseases. As outlined in Paragraph 1 above, Cytos Biotechnology has observed that the efficacy of QbG10 appears to be mediated through an allergen-independent mechanism of action. Consequently, Cytos Biotechnology is now further advancing CYT003-QbG10, i.e. QbG10 monotherapy, for treatment of different allergic diseases.

3) Cytos Biotechnology wins Swiss Equity Award 2006

In September 2006, Cytos Biotechnology was awarded the "Swiss Equity Award 2006". This price is devoted to the most successful Swiss Small- and MidCap Company with regards to its share performance within the last 52 weeks and its popularity with investors. The award ceremony took place during this year's independent Analyst and Investor Conference for Swiss Small- and MidCap Companies, the "Swiss Equity smday 2006" that has been organized for the fourth time by the Swiss Equity Media AG.

4) Financial results

Cash and cashable assets amounted to CHF 52.4 million as of September 30, 2006, in comparison to CHF 71.1 million at the end of December 2005. This decrease is primarily attributable to cash used by operating activities in the first nine months 2006.

Revenues decreased from CHF 0.9 million in the third quarter 2005 by CHF 0.7 million to CHF 0.2 million in the third quarter 2006. Year to date revenues decreased from CHF 4.3 million in the first nine months 2005 by CHF 3.8 million to CHF 0.5 million in the first nine months 2006. The fluctuation in revenues is not uncommon to biotech companies as the revenues are often linked to up-front fees, milestones and license payments as well as income for delivery of drug substance, which may occur sporadically.

Net operating costs in the third quarter 2006 were CHF 9.3 million which is stable compared to the third quarter 2005 with CHF 9.1 million. Year to date operating costs increased from CHF 25.9 million in the first nine months 2005 by CHF 1.2 million to 27.1 million in the first nine months 2006.

Research and development costs increased by CHF 1.7 million due to the extended activities in process development, while sales and marketing and general and administrative costs decreased by CHF 0.3 million in total.

Net loss in the third quarter 2006 increased by CHF 0.9 million in comparison to the third quarter 2005 and amounted to CHF 9.0 million. Net loss in the first nine months 2006 increased by CHF 5.0 million in comparison to the first nine months 2005 and amounted to CHF 26.2 million, due to lower revenues and increased operating costs as described above.

The gross cash burn for operating activities as calculated based on the Cash Flow Statement was CHF 2.3 million per month in the first nine months 2006, respectively CHF 2.5 million per month in the first nine months 2005.

Glossary

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

Allergen extract: a mixture of allergenic components.

Allergen tolerance: non-reactivity to a certain allergen or reactivity only up to the level of a predefined minimal symptom score.

Allergic rhinitis: a condition due to allergy that mimics a chronic cold. "Rhinitis" means inflammation of the nasal mucous membranes.

Asthma: a chronic inflammatory disorder of the airways leading to recurrent episodes of wheezing, breathlessness, chest tightness and cough in susceptible individuals.

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

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

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

Hay fever: seasonal allergic rhinitis.

Immunotherapy: a therapy aimed at activation of the immune system to modulate disease processes. Conventional immunotherapy for allergic diseases, also termed desensitization, is performed with allergen. Monotherapy with QbG10 appears to act differentially, namely through an allergen-independent mechanism of action in the absence of an added allergen.

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.

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 allergen extract of house dust mites (designated as CYT005-AllQbG10).

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

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

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

Balance Sheet

Cytos Biotechnology AG and subsidiaries

Consolidated Balance Sheet as of in TCHF	Note	September 30, 2006	December 31, 2005
Current assets:			
Cash and cash equivalents		16,986	11,469
Financial assets	7	18,000	34,998
Trade and other receivables		608	845
Derivative financial instruments		-	379
Real estate inventories		14,124	14,124
Prepaid expenses		607	1,931
Total current assets		50,325	63,746
Long-term assets:			
Property and equipment, net	8	13,130	13,591
Financial assets	7	0	5,000
Pension assets		25	25
Investment in associates		32	32
Total long-term assets		13,187	18,648
Total assets		63,512	82,394
Current liabilities:			
Trade accounts payable		1,077	1,139
Loans payable		130	125
Other current liabilities		733	409
Accrued expenses		4,891	3,005
Provisions		448	575
Total current liabilities		7,279	5,253
Long-term liabilities:			
Loans payable		1,121	1,219
Provisions		1,911	1,911
Total long-term liabilities		3,032	3,130
Shareholders' equity:			
Share capital	3	517	509
Legal reserves		136	136
Additional paid-in capital	3	196,656	191,506
Treasury shares		(52)	(298)
Accumulated deficit		(144,056)	(117,842)
Total shareholders' equity		53,201	74,011
Total liabilities and shareholders' equity		63,512	82,394

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

Income Statement
Cytos Biotechnology AG and subsidiaries

Consolidated Income Statement in TCHF (except for share information)	Note	Nine months ended Sep 30, 2006	Nine months ended Sep 30, 2005	Three months ended Sep 30, 2006	Three months ended Sep 30, 2005
Research and collaboration revenues	4	470	4,295	194	863
Total revenues		470	4,295	194	863
Research and development		(24,135)	(22,464)	(8,437)	(8,066)
Sales and marketing		(643)	(849)	(183)	(244)
General and administrative		(2,768)	(2,894)	(922)	(923)
Other income/(expenses), net		436	307	239	155
Net operating costs		(27,110)	(25,900)	(9,303)	(9,078)
Operating loss		(26,640)	(21,605)	(9,109)	(8,215)
Financial income		484	448	132	118
Financial expense		(60)	(60)	(17)	-
Net loss		(26,216)	(21,217)	(8,994)	(8,097)
Basic and diluted net loss per share	5	(5.10)	(4.29)	(1.74)	(1.59)
Weighted average number of shares used in computing basic and diluted net loss per share		5,135,931	4,950,805	5,154,801	5,079,183
<i>See accompanying notes which are an integral part of these consolidated condensed interim financial statements.</i>					

Cash Flows

Cytos Biotechnology AG and subsidiaries

Consolidated Statement of Cash Flows in TCHF	Note	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flow from operating activities:			
Net loss		(26,216)	(21,217)
Depreciation and amortization		2,089	1,893
Share option compensation cost	6	2,293	1,366
Other financial cash-flow items		(593)	(421)
Changes in assets and liabilities		2,627	(207)
Net cash (used in) provided by operating activities		(19,800)	(18,586)
Net cash (used in) provided by investing activities		21,377	(7,019)
Net cash (used in) provided by financing activities		3,939	21,311
Net effect of currency translation on cash		1	1
Net increase/(decrease) in cash and cash equivalents		5,517	(4,293)
Cash and cash equivalents, beginning of period		11,469	21,033
Cash and cash equivalents, end of period		16,986	16,740
<i>See accompanying notes which are an integral part of these consolidated condensed interim financial statements.</i>			

Change in Shareholders' Equity
Cytos Biotechnology AG and subsidiaries

Consolidated Statement of Change in Shareholders' Equity

in TCHF (except for share information)

	Numbers of shares	Share capital	Legal reserves	Additional paid-in capital	Treasury shares	Accumulated deficit	Cumulative translation adjustments	Total
January 1, 2005	4,623,329	462	136	169,099	(158)	(89,142)	(222)	80,175
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(21,217)	-	(21,217)
Total recognized loss								(21,217)
Issuance of share capital	460,000	46	-	21,586	-	-	-	21,632
Share issuance costs	-	-	-	(316)	-	-	-	(316)
Net movement of treasury shares	-	-	-	74	9	-	-	83
Share option compensation cost	-	-	-	1,123	-	-	-	1,123
September 30, 2005	5,083,329	508	136	191,566	(149)	(110,359)	(222)	81,480
January 1, 2006	5,086,993	509	136	191,506	(298)	(117,622)	(220)	74,011
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	2	2
Loss for the year	-	-	-	-	-	(26,216)	-	(26,216)
Total recognized loss								(26,214)
Issuance of share capital	78,868	8	-	3,814	-	-	-	3,822
Net movement of treasury shares	-	-	-	374	246	-	-	620
Share option compensation cost	-	-	-	962	-	-	-	962
September 30, 2006	5,165,861	517	136	196,656	(52)	(143,838)	(218)	53,201

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

1) Organization

Cytos Biotechnology AG (the "Company"), a public Swiss biotechnology company, and its subsidiaries (together the "Group") specialize in the discovery, development and commercialization of a new class of biopharmaceutical products – the Immunodrugs™. Immunodrugs™ are intended for use in the treatment and prevention of chronic diseases and aim at triggering the patient's immune system to induce specific antibody and targeted T cell responses, which modulate disease processes.

2) Basis of preparation

These consolidated condensed interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2005.

These consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2005.

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

Certain amounts presented in the comparative figures of the consolidated financial statements as per September 30, 2005, have been reclassified to conform with the presentation as per December 31, 2005, respectively September 30, 2006, with no effect on previously reported net loss or shareholders' equity.

3) Shareholders' equity

On March 24, 2006, the board of directors registered an increase of the share capital of the Company by CHF 366.40 and by 3,664 shares up to CHF 508,699.30 and 5,086,993 shares with a nominal value of CHF 0.10 each at the Commercial Register in the Canton of Zurich. This increase is due to exercised options by employees in 2005.

In the course of the first nine months 2006, 78,868 options have been exercised by employees and consultants, which resulted in an additional capital increase as of September 30, 2006 by CHF 7,886.80 and by 78,868 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 nine months of 2006 amounted to CHF 3.4 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 – September 30, 2006				January 1 – September 30, 2005			
	CH	USA	Other	Total	CH	USA	Other	Total
Research and collaboration revenue	131	339	-	470	3,850	424	21	4,295
Segment result	131	339	-	470	3,850	424	21	4,295
Unallocated expenses				(27,110)				(25,900)
Operating loss				(26,640)				(21,605)
Financial income/(expenses), net				424				388
Net loss				(26,216)				(21,217)
Other information				September 30, 2006				September 30, 2005
Assets				63,512				89,733
Liabilities				(10,311)				(8,253)
				January 1 – September 30, 2006				January 1 – September 30, 2005
Capital expenditure				1,628				1,274
Depreciation				2,089				1,893

5) Earnings/(Loss) per share

Basic and diluted net loss per share have been computed based upon the weighted average number of common shares outstanding. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities. Outstanding options to purchase shares of common stock were not included in the computation of the dilutive net loss per share as the effect would have been anti-dilutive.

6) Share option plans

The Group regularly granted share options to employees. Usually the share options are equity-settled; one plan is cash-settled. The fair value of the options is determined at the grant date based on the market price using the Black-Scholes Model.

On December 1, 2005, the board of directors approved a new share option plan ("SOP 2006") according to which all employees received options. Each option entitles the holder to purchase one share of the Company within five years after the grant date. Options can only be exercised after a cliff vesting period of two years. The exercise price is CHF 53.29 corresponding to the average closing price of the share during the first four trading days in the year 2006. Management believes this represents the best estimate of the fair value of the underlying common stock. Under this program a total of 80,320 shares were granted on January 9, 2006. Furthermore, one member of the board of directors received 1,604 options with the same characteristics as the ones of the SOP 2006.

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

Share option conditions and assumptions	SOP 2006
Nature of arrangement	Grant of share options
Grant date	09.01.2006
Number of options granted	80,320
Exercise price (CHF)	53.29
Share price at date of grant (CHF)	56.40
Contractual life (years)	5.0
Vesting period (years)	2.0
Settlement	Equity
Expected volatility (%)	49.5
Expected option life at grant date (years)	3.5
Risk-free interest rate (%)	2.1
Expected dividend	zero
Estimated fair value at grant date (CHF)	22.44
Expiry date	08.01.2011
Valuation model	Black-Scholes

For all share options granted the Group expensed TCHF 2,293 and TCHF 1,366 for the first nine months of 2006 and 2005, respectively.

7) Financial assets

In the course of the first nine months of 2006, the Group received repayments of fixed-term time deposits and a bond of CHF 22 million.

8) Property and equipment

In the course of the first nine months of 2006, the Group invested TCHF 1,628 into property and equipment, predominantly for laboratory equipment.

9) Adjustment of the income statement for the first nine months of 2005

Due to the adoption of IFRS as of January 1, 2005, the following amounts have been adjusted in the income statement for the first nine months of 2005:

in TCHF	
Applying IFRS2*: Difference to US-GAAP (FAS 123R and APB 25) for 2005	(806)
Applying IAS19**: Difference to FAS 87 for 2005	(189)
Total impact to income statement	(995)

* IFRS 2: Share-based payment
** IAS 19: Employee benefits

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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, 2006, the registered shares of Cytos Biotechnology AG were listed at the SWX Swiss Exchange (SWX:CYTN).

Swiss Security No.: 1 102 521

Share register

Aktienregister Cytos Biotechnology AG

c/o Nimbus AG

Postfach, CH-8866 Ziegelbrücke

Capital structure

Number of registered shares (nominal value CHF 0.10)	5,165,861
Conditional capital	CHF 157,747
Authorized capital	CHF 200,000
Free float	91%

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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 full pipeline of different Immunodrug™ candidates in various disease areas, of which 7 are currently in clinical development. The Immunodrug™ candidates are developed both in-house and together with Novartis Pharma and Pfizer Animal Health. Founded in 1995 as a spin-off from the Swiss Federal Institute of Technology (ETH) in Zurich, the company is located in Schlieren (Zurich). Currently, the company has 131 employees. Cytos Biotechnology AG has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.