

October 23, 2008

# Third Quarter Report

as of September 30, 2008

## Highlights Q3 2008

- Cytos Biotechnology and Pfizer entered into a research, option and license agreement for certain novel vaccines for a defined number of human diseases.
- CYT003-QbG10 monotherapy for the treatment of allergic diseases shown to be safe and efficacious in placebo-controlled phase II study.
- Excellent long-term safety profile for the hypertension vaccine CYT006-AngQb confirmed: no safety-relevant observations reported in up to three year follow-up period.
- **Upcoming event**  
Presentation of phase II study results for the CYT003-QbG10 monotherapy at the American College of Allergy, Asthma & Immunology Annual Scientific Meeting, November 9, 2008, Seattle, USA
- **Financial summary**

		YTD 2008*	YTD 2007*	Q3 2008	Q3 2007
Net revenue	CHF million	5.9	35.6	0.4	35.2
Net operating costs	CHF million	(30.8)	(33.9)	(10.3)	(11.8)
Net income/(loss)	CHF million	(26.6)	3.5	(10.9)	22.9

  

		Sept 30, 2008	December 31, 2007
Cash & financial assets	CHF million	84.0	109.0
Full-time employees	number	132	130

\*YTD = year to date January 1 – September 30

### **Cytos Biotechnology and Pfizer entered into a research, option and license agreement for certain novel vaccines for a defined number of human diseases**

In August 2008, Cytos Biotechnology and Pfizer Vaccines LLC (Pfizer) entered into an exclusive global research, option and license agreement to research, develop, manufacture and commercialize novel vaccines for a defined number of human diseases.

After completion of the research programs and exercise of its options, Pfizer will acquire world-wide exclusive rights to commercialize certain vaccines, which are based on Cytos Biotechnology's Immunodrug™ technology and that will incorporate specific disease targets, which are outside the scope of Cytos Biotechnology's own programs. Cytos Biotechnology retains its rights to develop, manufacture and commercialize vaccines against different disease targets in the same human diseases. Preclinical and clinical development, manufacturing and commercialization of the vaccines will be the responsibility of Pfizer. In return, Cytos Biotechnology receives an upfront payment of CHF 10 million from Pfizer, of which a first installment of CHF 5 million has been received in the third quarter of 2008; the remaining CHF 5 million will be paid by Pfizer in the first quarter of 2009. Cytos Biotechnology is further eligible to receive up to CHF 140 million in pre-commercial milestone payments and manufacturing technology transfer fees. It will also receive research funding and royalty payments, which may reach a double digit percentage depending upon levels of annual net sales of products.

This collaboration with Pfizer further establishes Cytos Biotechnology's Immunodrugs™ as the vaccines of choice for top-tier pharmaceutical companies and complements the ongoing collaboration with Pfizer Animal Health.

### **CYT003-QbG10 monotherapy for the treatment of allergic diseases shown to be safe and efficacious in placebo-controlled phase II study**

In July 2008, Cytos Biotechnology announced results from two randomized, double-blind, placebo-controlled, multicentre phase II studies with CYT003-QbG10 monotherapy for the treatment of house dust mite and cat allergy, and with CYT005-AllQbG10 combination therapy for the treatment of house dust mite allergy. The studies were conducted in order to determine whether the immunotherapeutic QbG10 acts through an allergen-independent or allergen-dependent mechanism of action and to define the strategy for late-stage development of this product candidate.

Study 08 with CYT003-QbG10 monotherapy included 80 patients suffering from house dust mite and/or cat allergy and investigated the safety, tolerability and efficacy of six injections of ascending doses of CYT003-QbG10 (300-900µg) or placebo. Treatment with CYT003-QbG10 monotherapy was safe, very well tolerated and significantly reduced rhinoconjunctivitis symptoms in daily life compared to placebo. The CYT003-QbG10 treatment group mean total rhinoconjunctivitis symptom score had fallen from 9.3 points pre-treatment to 3.6 points post-treatment (-61%), whereas for the placebo group a reduction from 9.2 points pre-treatment to 6.3 points post-treatment (-32%) was observed. Also, the allergen tolerance as measured in the conjunctival provocation test was improved after CYT003-QbG10 treatment compared to placebo.

The second study 04 compared CYT005-AllQbG10 (i.e. the combination of 300µg QbG10 with an approved allergen extract) and the allergen extract alone in 93 patients suffering from house dust mite allergy. The reductions obtained for the mean total rhinoconjunctivitis symptom score were -54% for CYT005-AllQbG10 and -51% for the allergen extract and not significant. The conjunctival provocation test showed a trend in favour of CYT005-AllQbG10. Attributed mainly to the presence of allergen extract in this study 04, there was a quite high total number of suspected adverse events in both treatment arms (CYT005-AllQbG10: 219 events; approved allergen extract alone: 209 events). In contrast to this, CYT003-QbG10 monotherapy in study 08 was much better tolerated with a total number of suspected adverse events of only 20 (placebo: 10).

### **Summary & outlook for the CYT003-QbG10 monotherapy**

The two studies clearly answered the primary question about the mechanism of action of QbG10. Satisfactorily, it turned out that QbG10 is active as a monotherapy and that addition of an allergen extract is not necessary. On the contrary, avoidance of allergen extract dramatically improves the tolerability. Such an allergen-independent product will thus have major advantages over conventional immunotherapy approaches, which are all based on allergen components: i) allergen-induced severe side effects that may lead to potentially life-threatening conditions like anaphylaxis can be avoided; ii) treatment may be simplified since a single agent could be used for the treatment of multiple allergies; and iii) application by general practitioners may become feasible instead of specially trained physicians (allergists) as it is the case with conventional immunotherapy today. These advantages should allow the use of this product candidate in much larger patient populations with potential to rejuvenate the mature allergic diseases market.

CYT003-QbG10 monotherapy will now be advanced in development as a first-in-class, disease-modifying product candidate and a next phase IIb study with 300 patients suffering from perennial allergy is planned to begin in the forth quarter 2008.

## **Excellent long-term safety profile for the hypertension vaccine CYT006-AngQb confirmed: no safety-relevant observations reported in up to three year follow-up period**

In early October 2008, long-term follow-up results were obtained from a phase IIa study with CYT006-AngQb in hypertensive patients. In this study, patients received three injections of 100µg or 300µg of the vaccine or placebo at weeks 0, 4 and 12. Positive safety, tolerability and efficacy results of this study were published in March 2008 in the renowned medical journal *The Lancet* (*The Lancet*, 2008, 371:821). The last follow-up visits of the study for which 76% of the participants were still available were performed two to three years after the last vaccine dose. There were no safety-relevant observations reported during this follow-up period. This confirms the excellent long-term safety profile of CYT006-AngQb and underscores its potential for chronic disease management.

## **Upcoming event**

### **Presentation of phase II study results for the CYT003-QbG10 monotherapy at the American College of Allergy, Asthma & Immunology (ACAAI) Annual Scientific Meeting, November 9, 2008, Seattle, USA**

Prof. Audra Blažiene, University Hospital Vilnius, Lithuania, principal investigator of the study will present: "CYT003-QbG10, a novel allergen-independent immunotherapy, shown to be safe and efficacious in placebo-controlled phase II study" on Sunday, November 9, 2008 at 1.30 pm.

The ACAAI is an important professional medical association of allergists and immunologists and its Annual Meetings bring together up to 4000 health professionals.

## **Financial results**

### **Three months period July 1 - September 30, 2008**

On September 30, 2008, cash and financial assets amounted to CHF 84.0 million, only CHF 2.8 million less than on June 30, 2008. This modest decrease is the consequence of a payment of CHF 5.0 million by Pfizer and relatively low operating costs in the 3rd quarter 2008. The money spent was financing the ongoing operations.

Revenue in the 3rd quarter 2008 was CHF 0.4 million and stems from a development cooperation. In the same quarter of the year 2007, revenue was CHF 35.2 million resulting from the licensing agreement for the smoking cessation vaccine NIC002 with Novartis.

Net operating costs in the 3rd quarter 2008 amounted to CHF 10.3 million and were thus CHF 1.4 million lower than in the 3rd quarter 2007. Research and development costs fell in the 3rd quarter 2008 by CHF 1.0 million to CHF 9.7 million due to lower cost in sourcing and despite increased activities in pre-clinical and clinical trials. General and administrative costs as well as sales and marketing expenses of CHF 0.9 million were lower by CHF 0.4 million compared to the corresponding quarter in 2007. In 2007, one-time costs related to the negotiation and signing of the license agreement with Novartis incurred.

Financial income decreased in the 3rd quarter 2008 by CHF 0.4 million to CHF 0.3 million, as less financial assets were invested in the money market in 2008 compared to 2007. Financial expense in the 3rd quarter 2008 was CHF 1.3 million and immaterially different from the one in the 3rd quarter 2007.

Net loss in the 3rd quarter 2008 was CHF 10.9 million compared to a net income of CHF 22.9 million in the same period in 2007. This net income was achieved due to an up-front payment of CHF 35.0 million by Novartis.

As a consequence of the reduced costs, gross cash burn from operating activities as calculated based on the Cash Flow Statement was CHF 2.7 million per month in the 3rd quarter 2008 (CHF 3.2 million per month in the previous year).

#### **Nine months period January 1 - September 30, 2008**

In the first nine months in 2008, revenue was CHF 5.9 million. The revenue is composed of a CHF 5.0 million compensation from the Alzheimer's disease collaboration with Novartis and license income from a development collaboration. In the comparable period in 2007, revenue was CHF 35.6 million, of which CHF 35.0 million came from the licensing agreement for NIC002 with Novartis.

Net operating costs in the first nine months 2008 were CHF 30.8 million, a reduction of CHF 3.0 million compared to 2007. The reasons for the reduction were lower costs in sourcing in the 3rd quarter 2008, and in 2007 one-time costs that incurred related to the negotiation and signing of the license agreement with Novartis and expenses for the development of large-scale GMP manufacturing of the carriers Qb and QbG10. In "other income/(expenses), net", a gain of CHF 1.0 million due to the sale of property in the first nine months 2007 is included.

During the first nine months 2008, the average amount of cash and financial assets invested were higher than in the same period 2007 and therefore resulted in a financial income of CHF 1.9 million, an increase of CHF 0.4 million compared to the same period in 2007. Due to the issuance of the convertible bond in February 2007 and the fact that in 2008 interest has to be accrued or paid for the full period of nine months, year to date financial expenses increased in 2008 by CHF 0.8 million to CHF 3.6 million.

Year to date net loss amounts to CHF 26.6 million in 2008, compared to a net income of CHF 3.5 million in the first nine months 2007. The result in 2007 was strongly influenced by one-time events such as the up-front payment by Novartis in the amount of CHF 35.0 million and the non-cash deferred tax income of the convertible bond in the amount of CHF 3.0 million.

As a consequence of the reduced costs, gross cash burn for operating activities as calculated based on the Cash Flow Statement was CHF 3.3 million per month in the first nine months 2008, below the guidance of CHF 3.6 – 4.0 million per month given by management at the beginning of the year and also lower than the comparable figure in 2007, which was CHF 3.8 million per month.

## Cytos Biotechnology Ltd and subsidiaries

Consolidated Balance Sheets as of in TCHF	Note	September 30, 2008	December 31, 2007
Current assets:			
Cash and cash equivalents		11,036	43,043
Financial assets	7	73,000	66,000
Trade and other short-term receivables	10	10,705	1,694
Prepayments		2,579	1,888
<b>Total current assets</b>		<b>97,320</b>	<b>112,625</b>
Long-term assets:			
Property and equipment, net	8	8,973	10,643
Long-term receivables	10	2,500	-
Pension assets		254	254
Investment in associates		37	37
<b>Total long-term assets</b>		<b>11,764</b>	<b>10,934</b>
<b>Total assets</b>		<b>109,084</b>	<b>123,559</b>
Current liabilities:			
Trade accounts payable		666	1,159
Other current liabilities		427	535
Accrued expenses and deferred revenue	10	14,906	6,278
Provisions		35	42
<b>Total current liabilities</b>		<b>16,034</b>	<b>8,014</b>
Long-term liabilities:			
Accrued expenses		772	863
Convertible bond – liability component	9	60,265	58,401
Provisions		1,965	1,847
<b>Total long-term liabilities</b>		<b>63,002</b>	<b>61,111</b>
Shareholders' equity:			
Share capital	3	527	526
Legal reserves		136	136
Additional paid-in capital		206,947	204,707
Convertible bond – equity component	9	8,430	8,430
Treasury shares		(92)	(101)
Accumulated deficit		(185,900)	(159,264)
<b>Total shareholders' equity</b>		<b>30,048</b>	<b>54,434</b>
<b>Total liabilities and shareholders' equity</b>		<b>109,084</b>	<b>123,559</b>

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

## Cytos Biotechnology Ltd and subsidiaries

<b>Consolidated Income Statements</b> in TCHF (except for share information)	Note	Nine months ended <b>Sept 30, 2008</b>	Nine months ended <b>Sept 30, 2007</b>	Three months ended <b>Sept 30, 2008</b>	Three months ended <b>Sept 30, 2007</b>
Research and collaboration revenues	4	5,902	35,619	395	35,224
<b>Total revenues</b>		<b>5,902</b>	<b>35,619</b>	<b>395</b>	<b>35,224</b>
Research and development		(28,177)	(30,869)	(9,715)	(10,716)
Sales and marketing		(711)	(1,162)	(287)	(256)
General and administrative		(2,562)	(3,205)	(578)	(1,051)
Other income/(expenses), net		607	1,344	255	253
<b>Net operating costs</b>		<b>(30,843)</b>	<b>(33,892)</b>	<b>(10,325)</b>	<b>(11,770)</b>
<b>Operating income/(loss)</b>		<b>(24,941)</b>	<b>1,727</b>	<b>(9,930)</b>	<b>23,454</b>
Financial income		1,864	1,482	299	673
Financial expense		(3,555)	(2,743)	(1,309)	(1,195)
<b>Income/(loss) before tax</b>		<b>(26,632)</b>	<b>466</b>	<b>(10,940)</b>	<b>22,932</b>
Deferred tax income convertible bond		-	2,992	-	-
<b>Net income/(loss)</b>		<b>(26,632)</b>	<b>3,458</b>	<b>(10,940)</b>	<b>22,932</b>
Basic net earnings/(loss) per share	5	(5.06)	0.66	(2.08)	4.36
Diluted net earnings/(loss) per share	5	(5.06)	0.64	(2.08)	4.15
Weighted average number of shares used in computing basic net earnings/(loss) per share		5,263,792	5,222,734	5,267,562	5,257,963
Weighted average number of shares used in computing diluted net earnings/(loss) per share		5,263,792	5,395,656	5,267,562	5,796,568

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

## Cytos Biotechnology Ltd and subsidiaries

<b>Consolidated Statements of Cash Flows</b>		<b>Nine months ended</b>	<b>Nine months ended</b>
in TCHF	Note	<b>Sept 30, 2008</b>	<b>Sept 30, 2007</b>
Cash flow from operating activities:			
Income/(loss) before tax		(26,632)	466
Depreciation and amortization		2,086	2,143
Share option compensation cost	6	1,885	1,085
Outflow for cash settled options		(47)	(792)
Other financial cash flow items		1,664	118
Changes in assets and liabilities		(3,674)	(2,028)
<b>Net cash (used in)/provided by operating activities</b>		<b>(24,718)</b>	<b>992</b>
<b>Net cash (used in)/provided by investing activities</b>		<b>(5,771)</b>	<b>(44,900)</b>
<b>Net cash (used in)/provided by financing activities</b>		<b>(1,655)</b>	<b>71,244</b>
Net effect of currency translation on cash		137	22
Net increase/(decrease) in cash and cash equivalents		(32,007)	27,358
Cash and cash equivalents, beginning of period		43,043	9,149
<b>Cash and cash equivalents, end of period</b>		<b>11,036</b>	<b>36,507</b>
<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
<b>January 1, 2007</b>	<b>5,174,188</b>	<b>517</b>	<b>136</b>	<b>197,684</b>	-	<b>(46)</b>	<b>(152,174)</b>	<b>(217)</b>	<b>45,900</b>
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	-	-	-
Income/(loss) for the year	-	-	-	-	-	-	3,458	-	3,458
Total recognized income/(loss)									3,458
Issuance of share capital	87,076	9	-	4,722	-	-	-	-	4,731
Share issuance costs	-	-	-	(44)	-	-	-	-	(44)
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	-	-	-	42	-	(88)	-	-	(46)
Share option compensation cost	-	-	-	1,702	-	-	-	-	1,702
<b>September 30, 2007</b>	<b>5,261,264</b>	<b>526</b>	<b>136</b>	<b>204,106</b>	<b>8,429</b>	<b>(134)</b>	<b>(148,716)</b>	<b>(217)</b>	<b>64,130</b>
<b>January 1, 2008</b>	<b>5,261,375</b>	<b>526</b>	<b>136</b>	<b>204,707</b>	<b>8,430</b>	<b>(101)</b>	<b>(159,049)</b>	<b>(215)</b>	<b>54,434</b>
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	-	(4)	(4)
Income/(loss) for the year	-	-	-	-	-	-	(26,632)	-	(26,632)
Total recognized income/(loss)									(26,636)
Issuance of share capital	8,681	1	-	439	-	-	-	-	440
Net movement of treasury shares	-	-	-	(36)	-	9	-	-	(27)
Share option compensation cost	-	-	-	1,837	-	-	-	-	1,837
<b>September 30, 2008</b>	<b>5,270,056</b>	<b>527</b>	<b>136</b>	<b>206,947</b>	<b>8,430</b>	<b>(92)</b>	<b>(185,681)</b>	<b>(219)</b>	<b>30,048</b>

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 nine months of 2008, 8,681 options have been exercised by employees, which resulted in an additional capital increase as of September 30, 2008 by CHF 868.10 and by 8,681 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 2008 amounted to CHF 0.4 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, 2008				January 1 – September 30, 2007			
	CH	USA	Other	Total	CH	USA	Other	Total
Research and collaboration revenue	5,749	153	–	5,902	35,590	29	–	35,619
<b>Segment result</b>	<b>5,749</b>	<b>153</b>	<b>–</b>	<b>5,902</b>	<b>35,590</b>	<b>29</b>	<b>–</b>	<b>35,619</b>
Unallocated expenses				(30,843)				(33,892)
<b>Operating income/(loss)</b>				<b>(24,941)</b>				<b>1,727</b>
Financial income/(expenses), net				(1,691)				(1,261)
Deferred tax income convertible bond				–				2,992
<b>Net income/(loss)</b>				<b>(26,632)</b>				<b>3,458</b>
<b>Other information</b>				<b>September 30, 2008</b>				<b>September 30, 2007</b>
Assets				109,084				132,194
Liabilities				(79,036)				(68,064)
				<b>January 1 – September 30, 2008</b>				<b>January 1 – September 30, 2007</b>
Capital expenditure				417				876
Depreciation				2,086				2,143

### 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 1,701 and TCHF 1,876 for the first nine months of 2008 and 2007, respectively.

## 7. Financial assets and liabilities

In the first nine months of 2008, fixed-term time deposits in the amount of CHF 113 million were paid back to the Group. Thereof CHF 100 million have been reinvested according to the Group's financial plan.

## 8. Property and equipment

In the first nine months of 2008, the Group invested TCHF 417 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.

<b>The convertible bond recognized in the balance sheet is calculated as follows:</b>	
	<b>TCHF</b>
Nominal value of convertible bond issued in February 2007	70,000
Equity component	(11,788)
Transaction costs allocated to liability component	(1,811)
<b>Liability component on initial recognition</b>	<b>56,401</b>
Interest expense 2007	3,727
Interest expense 2008	3,375
Interest paid	(2,013)
<b>Liability component at September 30, 2008</b>	<b>61,490</b>
thereof short-term (included in "accrued expenses")	1,225

Interest expense of TCHF 3,375 for the convertible bond has been recognized as "Financial expense" for the first nine 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.

In August 2008, Cytos Biotechnology and Pfizer entered into a research, option and license agreement for certain novel vaccines for a defined number of human diseases. Under that agreement, Cytos Biotechnology is amongst other entitled to CHF 150 million, which are composed of CHF 10 million upfront and CHF 140 million potential milestone payments. This upfront payment will be accounted for on a percentage of completion bases. End of September 2008, this entire payment is deferred.

<b>Allergen</b>	a normally harmless substance that elicits a misdirected immune response.
<b>Allergen extract</b>	a mixture of allergenic components from e.g. house dust mites.
<b>Allergen tolerance</b>	non-reactivity to a certain allergen or reactivity only up to the level of a predefined symptom score.
<b>Anaphylaxis</b>	an acute and potentially life-threatening reaction of the immune system to specific stimuli. If untreated, it can result in shock, respiratory and cardiac failure, and death.
<b>Conjunctival provocation test</b>	a commonly used allergy test to monitor the allergic disease status of an individual.
<b>Combination therapy</b>	see under monotherapy.
<b>Disease-modifying</b>	in contrast to symptomatic treatment, a disease-modifying treatment aims at addressing the cause of disease and modifying the disease progression.
<b>Double-blind</b>	a set-up often used in clinical trials where neither the doctor nor the patients know if placebo or the active drug is applied.
<b>Immunotherapy / immunotherapeutic</b>	a therapy / a medication aimed at activation of the immune system to modulate a certain disease process.
<b>Monotherapy</b>	treatment with one drug as opposed to combination therapy. Here the term refers to treatment with QbG10 alone (i.e. CYT003-QbG10) in contrast to the regimen where QbG10 is combined to allergen extract (i.e. CYT005-AllQbG10).
<b>Phase IIa / II / IIb</b>	clinical trial that examines a new drug candidate's safety, tolerability and efficacy in patients. Phase IIa trials usually include small patient numbers, whereas phase IIb studies are conducted in larger patient cohorts.
<b>Placebo</b>	dummy medical treatment.
<b>Perennial</b>	throughout the whole year.
<b>Target</b>	describes in this context a molecule involved in a certain disease process and specifically addressed by a drug or therapy with the goal to modulate or inhibit its action.
<b>QbG10</b>	Cytos Biotechnology's Immunodrug™ Qb filled with the immunostimulatory DNA sequence G10.
<b>Rhinoconjunctivitis</b>	combination of rhinitis (inflammation of the nasal mucosa) and conjunctivitis (inflammation of the eye).

## **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)	5,270,056
Conditional capital	CHF 167,327
Authorized capital	CHF 200,000
Free float	93%

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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, Pfizer 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.

