Maturing Pipeline – Sustainable Values

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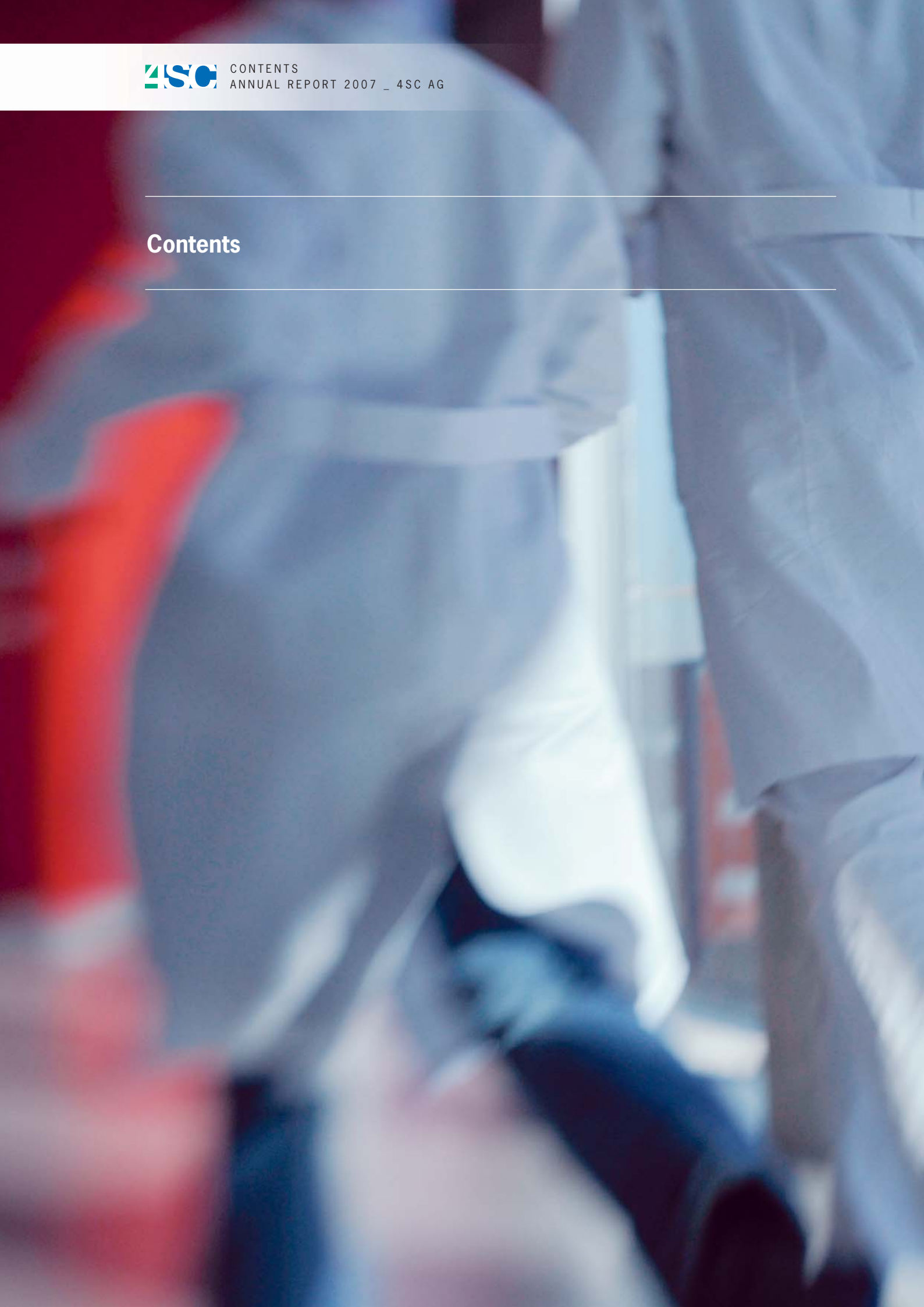

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Milestones in 2007

US patent granted for drug candidate SC12267

In the first quarter of 2007, the US Patent and Trademark Office granted 4SC AG a patent for the protection of its DHODH inhibitor. With this patent, 4SC AG has expanded its portfolio of patents by a central element thereby creating the ideal conditions for a potential licensing partnership for the substance SC12267 for the treatment of rheumatoid arthritis (RA).

Proof of concept for substance for treating influenza viral infections

In collaboration with the Institute for Molecular Virology at the University of Munster, the researchers at 4SC AG succeeded in May of 2007 in proving that 4SC's drug candidate SC75741 can be used to efficaciously treat mice infected with highly pathogenic avian flu viruses.

Proof of efficacy for drug candidate for the treatment of inflammatory bowel diseases

During the first six months of the year, 4SC AG succeeded in providing proof of concept for the drug candidate SC12267. The successfully concluded pre-clinical study proved the efficacy of the substance in the treatment of chronic inflammatory bowel diseases, such as Colitis Ulcerosa and Crohn's disease, and its potential as a possible long-term treatment.

Successful capital increases secure financing

Within the scope of two capital increases in May and September 2007, 4SC AG was able to secure funds in excess of 20 million Euros. With the second capital measure in September in particular, the company responded to the substantial demand of a strategic investor, Santo Holding, which thus rose to the position of 4SC AG's principal shareholder. With the additional funds, 4SC AG is now in a position to press ahead towards clinical development with the currently four pre-clinical candidates.

Clinical study for RA project successfully completed

The clinical phase IIa study for 4SC's leading project (SC12267) for the treatment of rheumatoid arthritis was completed on schedule in the fourth quarter of 2007. The available study findings prove the excellent tolerability and safety of SC12267 as well as clear efficacy trends with patients who have already undergone prior treatment.

Development of important key figures

in KEUR	2007	2006	2005	2004	2003
Net sales	1,376	3,664	2,068	3,023	1,017
Result from operating activities	- 8,303	- 5,530	- 6,337	- 5,458	- 9,182
Period result	- 8,130	- 5,540	- 6,277	- 5,821	- 9,508
Earnings per share (undiluted and diluted) (EUR)[1]	- 0.57	- 0.50	- 0.77	- 0.89	- 1.78
Shares in circulation (annual average; in thousands)	14,225	11,125	8,188	6,574	5,337
Equity	19,616	7,854	9,159	- 49	4,495
Equity ratio	88.9%	78.8%	81.5%	- 0.7%	49.6%
Balance sheet total	22,063	9,973	11,244	6,730	9,066
Cash flows from operating and investing activities	- 11,762	- 8,476	- 5,833	- 4,474	- 7,827
Cash flows from financing activities	19,575	4,120	10,653	3,352	7,396
Net change in cash and cash equivalents	7,813	- 4,356	4,820	- 1,122	- 431
Cash and cash equivalents[2]	10,335	2,522	6,878	2,058	3,180
Number of employees (incl. Management Board; annual average)	64	55	52	61	72

1: Data for 2003 has been made comparable and is therefore not in accordance with data published in the respective financial statement
2: This position does not include securities with a original maturity of more than three months, since they are included in cash flows from investing activities (see cash flow statement).

General information

Security code number 575381
ISIN DE0005753818
SE code VSC

Management Board Dr Ulrich Dauer, CEO
Dr Gerhard Keilhauer, CDO
Dipl.-Kfm. Enno Spillner, CFO
Dr Daniel Vitt, CSO

Principal Office 4SC AG
Am Klopferspitz 19a
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Dear shareholders,

In the financial year 2007, 4SC AG focussed solely on expanding its project pipeline – in line with our conviction that a comprehensive pipeline with attractive drug candidates is a major lever for enhancing enterprise value. We have made substantial progress in this regard: Four drug candidates are on the threshold of clinical development, and our lead compound for treating rheumatoid arthritis has cleared a significant milestone in the successful completion of the phase IIa study. In 2007 we have therefore paved the way for substantial revenue potential for the following years.

In the past year, we primarily focused on the clinical phase IIa study for our drug candidate SC12267 for treating rheumatoid arthritis, which we completed as planned in the fourth quarter of 2007. The results not only show good substance tolerability and safety; above all, there was clear treatment success for patients who had received prior treatment with other medicines. SC12267 could, therefore, constitute a veritable treatment opportunity, for the patient group that represents the largest patient population in the western industrialised countries.

It is well known that we are seeking a partner with whom we can jointly make progress with regard to further development for this drug candidate. There is huge interest in SC12267: At present, several pharmaceutical companies are reviewing the compound potential as part of a scientific due diligence. We are already conducting detailed discussions with a number of interested parties. We are benefiting not least from the fact that our lead compound also has proven potential regarding other indications such a multiple sclerosis and chronic inflammatory bowel diseases.

Irrespective of the ongoing discussions, our development team is already planning the details for the next clinical development phase. The production process for the necessary clinical material is already being implemented in tandem. We do not want to lose any time, but where applicable, want to be able to make progress on our own with the further development of the compound.

Four candidates for clinical development

Last year also saw significant progress among our four preclinical development candidates. They all have the potential to progress to the clinical phase before the end of 2008. Drug candidate SC68896 for example, designed for the treatment of hematopoietic and solid tumours, is in advanced pre-clinical studies, thus nearing readiness for clinical trials. The same applies to substance SC71492 for the treatment of chronic inflammatory bowel diseases. The substance showed a high level of efficacy, and very good tolerability, in pre-clinical studies. These are basic prerequisites for use in long-term therapy.

In the case of our drug candidate SC75741 for the treatment of virus infections, we have proven, in conjunction with the Institute for Molecular Virology, that mice infected with the highly pathogenic avian flu virus can be healed with the help of SC75741. At present, we are carrying out detailed pre-clinical experiences to review efficacy. Parallel to this, preparations are already underway on the production of clinical material. Last but not least, comprehensive pre-clinical studies are currently being carried out for the protein kinase blocker SC71710 from the 4iP project, together with our Freiburg partner ProQinase, for the treatment of acute myeloid leukaemia.

In accordance with our self-conception as source of innovative drug candidates for the pharmaceutical industry, all compounds originate from our own research and development. We are consequently already conducting discussions with potential partners regarding all projects. It is still unclear which of the four candidates will be chosen as the first to pass the approval procedures required for the clinical development. We are therefore pushing all projects in parallel. The decision will be taken as soon as the necessary compound quantities have been produced in accordance with the requirements, and the formal safety studies have been successfully completed. However, our company will probably have two further compounds in the clinical development by the end of 2008 in any case – a huge leap forwards.

Dr Ulrich Dauer
Chairman of the
Management Board

Successful capital increase secures swift project progress

The capital increase completed at the beginning of September creates a solid basis for the swift expansion of our pipeline. During the course of this measure, Santo Holding, the holding company of Hexal founders Dr Thomas and Dr Andreas Strüngmann, became 4SC AG's largest shareholder. In view of the fact that merely a few shareholders accepted the mandatory offer to purchase shares submitted at the beginning of December, Santo Holding currently holds about 32,71% in our company. As strategic investors with long-term perspectives, they bring comprehensive sector expertise and an appropriate network to our company.

New opportunities through partnerships with other companies are also opening up for us from the Santo portfolio. One example is the recently-announced research cooperation with the Wuppertal company AiCuris, a spin-off of Bayer AG: In the first step, 4SC AG will provide the company specialising in the development of new drugs for viral and bacterial infections with medical chemistry in return for research funding, with long-term plans for closer collaboration on anti-infective drug candidates.

The cooperation with the US-american QuoNova, which started at the end of last year, for which we made available a substantial quantity of research capacities for the further development of quorum sensing blockers, is also worthy of mention here. We have already made relevant progress in this respect: For example the first *in vitro*-data show a high level of efficacy for selected QSB compounds against the formation of biofilms by antibiotic-resistant bacteria strains. In view of this, the 10-percent holding in QuoNova provides additional potential added value for our company.

I would like to sincerely thank our shareholders for the trust they have placed in 4SC AG. Not least thanks to your support, we were and are able to sustainably push our projects forward, and systematically increase the value of 4SC AG. I would also like to mention our employees. The leap in development of our pipeline would not have been possible without their great commitment.

Yours truly,
Dr Ulrich Dauer
Chairman of the Management Board

4SC at the stock exchange

Irrespective of the deflated sentiment worldwide due to the US mortgage crisis, 2007 was, overall, a positive trading year with the DAX increasing by 22% and TexDAX by almost 30%. By contrast, the representative biotechnology indices saw comparatively weak development. Negative company reports gave rise to significant mid-year weaknesses in the primary German biotechnology index, Prime IG Biotechnology Performance Index, which closed 5.6% down on the start of the year.

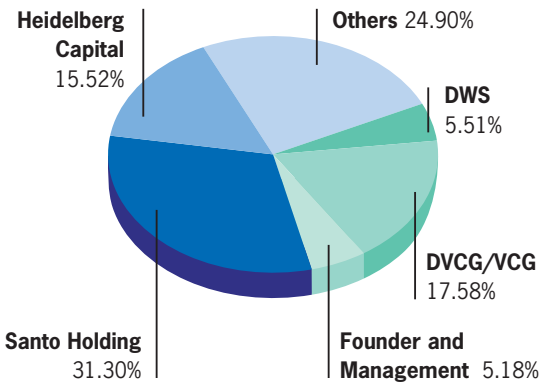
4SC shares started the trading year at a price of 3.50 Euros, and until the end of March, largely followed the sideways trend of the sector index. However, at the beginning of April a downward trend set in due to the notification of loss in excess of half of the share capital, and was not stemmed irrespective of news of the scheduled development of the clinical study on the lead compound SC12267. The price only increased in the course of the successful completion of the first capital increase at the end of May. However, at the end of July the Martinsried-based GPC Biotech AG, published disappointing news about Satraplatin, a product it had pinned its hopes on. This dampened sentiments in the entire sector. The Prime IG Biotechnology Performance Index fell significantly, and the 4SC share was unable to escape this trend. On 3 August 2007, the share reached its lowest point in the year under review, 2.55 Euros.

However, at the start of September, news of 4SC AG's successful second capital increase in the year under review gave rise to a clear trend reversal. The company managed to generate issuing proceeds clearly in excess of 16 million Euros. In addition, the substantial participation of a renowned strategic investor (Santo Holding) bolstered faith in the share. In mid-October, Santo Holding (Deutschland) GmbH disclosed that its holding in 4SC AG exceeded the 30% threshold, and that it would therefore offer the shareholders a mandatory take over offer. During the course of this disclosure, the price of the 4SC share reached its preliminary high of the financial year at 4.00 Euros on 30 October 2007. Following the announcement at the beginning of December of Santo Holding's offer of 3.25 Euros per share, the price fell further and up until the end of the year developed in line with the sector index. At the end of the year, the price was 3.43 Euros (status: 28 December 07). This amounted to a market capitalisation of about 65 million Euros.

THE SHARE	
Security code number	575381
ISIN	DE0005753818
SE code	VSC
Class	Bearer shares
Total shares issued	19,001,826
Segment	Prime Standard
Stock Exchange	Xetra and all German exchanges
Designated Sponsors	Close Brothers Seydler AG
1st trading day	15 December 2005

SHAREHOLDERS' STRUCTURE

Share property in percent (as of 27 December 2007)



Capital measures in May and September

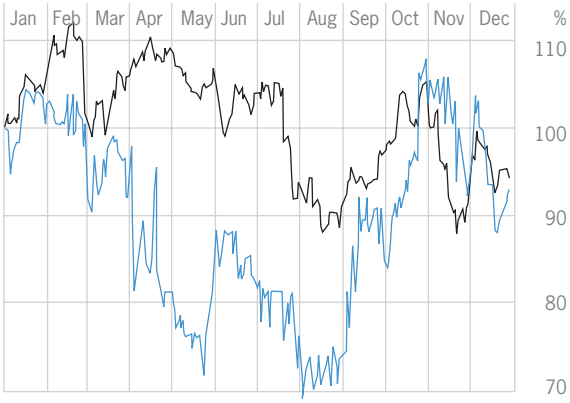
As part of the capital increase on 21 May 2007, the company's share capital increased to more than 12.6. million Euros. The second capital increase on 7 September 2007 ultimately gave rise to a further increase in 4SC AG's share capital to more than 19 million Euros. Overall, in the course of these measures the company's gross injections totalled 20.16 million Euros.

Mandatory offer in accordance with German Securities Acquisition and Takeover Act

Following the second capital increase in September 2007, Santo Holding reported a holding of 29.44%. This subsequently increased due to the purchase of shares in the market such that on 23 October 2007 Santo Holding reported a

SHARE PRICE

The 4SC AG share price reached its annual high of EUR 4.00 in October of the reporting year. The lowest value stood at EUR 2.50 in August 2007.



4SC share Prime IG Biotechnology Performance index

shareholding of approximately 31.55%, which, in accordance with the German Securities Acquisition and Takeover Act (WpÜG), prompted a mandatory take over offer to the 4SC AG shareholders. The offer was formally published on 3 December 2007. On 17 December 2007, the company's Management and Supervisory Board issued a joint statement in which they expressly welcomed Santo Holding's commitment, but could not, however, recommend that the other shareholders accept the offer. Following expiry of the acceptance period on 8 January 2008, Santo Holding stated that the mandatory offer had been accepted for a total of 271,636 shares or 1.43%.

Free float

A total of 19,001,826 shares had been issued as of 31 December 2007. The Management and founders of 4SC AG held almost 5.18% thereof. Holdings that required registration, which were therefore more than 5% of the subscribed capital, were held in addition to HeidelbergCapital Private Equity Fund I GmbH & Co. KG at about 15.52%, by Santo Holding (Deutschland) GmbH at about 31.30%, VCG Venture Capital Gesellschaft mbH at 17.58% and DWS at 5.51%. The free float using the Deutsche Börse calculation rules came to more than 30.08%. Average daily trading volume in 2007 was 8,025 shares (Xetra). In December alone the figure increased to 11,927 shares.

Close Brothers Seydler AG was the designated sponsor of 4SC AG. Since going public, two analysts have initiated coverage of 4SC shares, publishing regular update reports. Dr Stefan Schröder of SES Research and Thomas Schießle of Midas Research. Their outlook for the company remained positive throughout 2007, continuing to rate the 4SC share as "buy".

Ongoing communication with the financial market participants

In addition to the reporting requirements associated with Prime Standard listing, company management insists on timely, comprehensive and reliable communication with all financial market participants. The Management Board and Investor Relations Manager maintain an ongoing dialogue with institutional and private investors, analysts, the media and the general public. 4SC AG posts relevant information on its website in the interest of prompt communications with all parties. 4SC AG also makes use of other communication channels such as e-mail news and one-on-ones as well as presentations at several industry and investor conferences. Regular road shows keep both existing and prospective investors informed about business developments at 4SC AG and the outlook for the company.

1 According to these rules, shareholdings of a single shareholder which, cumulatively, make up at least five percent of the registered share capital in a class of share are considered as block ownership.

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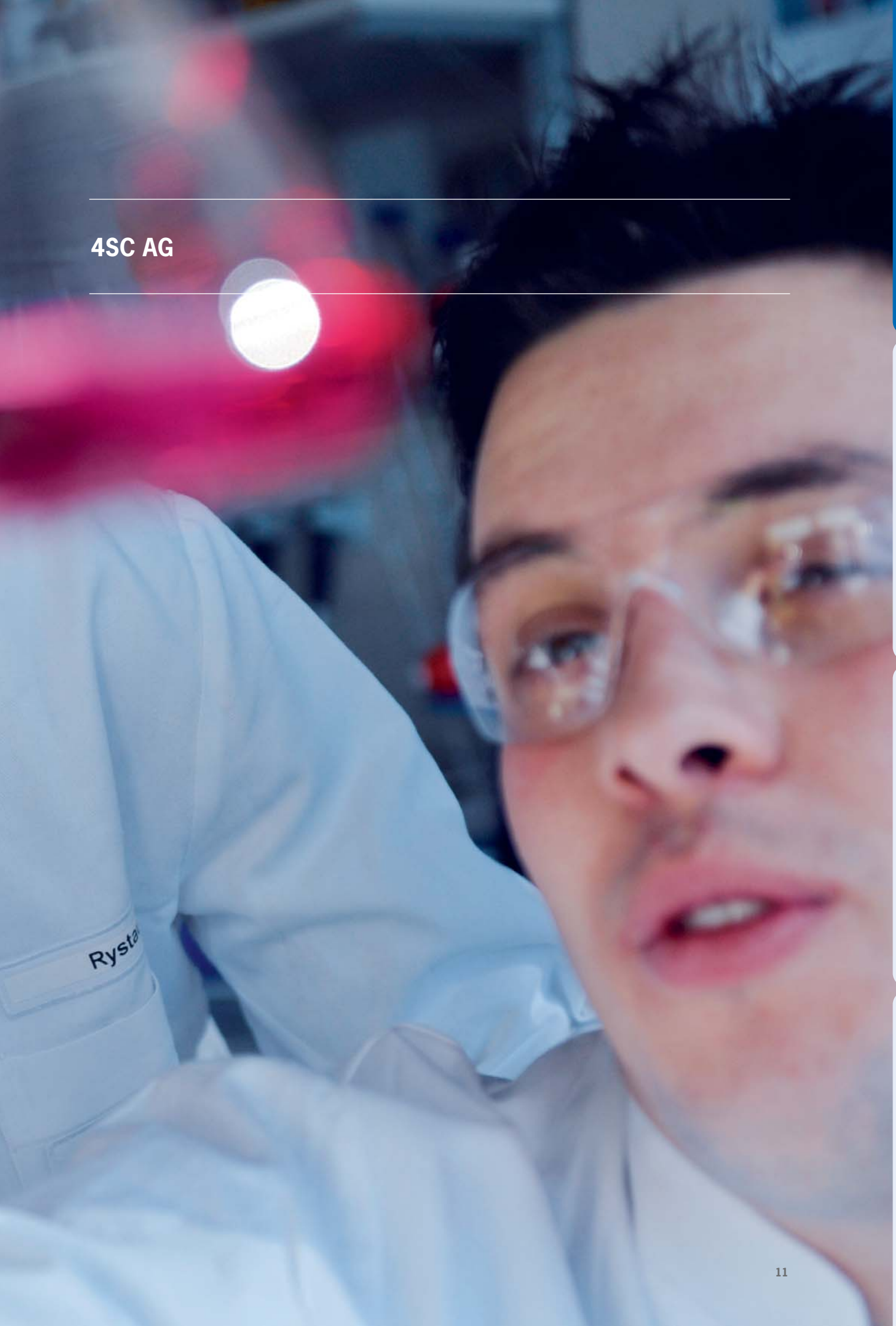
4SC AG sees itself as a source of innovative drug candidates for the pharmaceutical industry. 4SC AG's unique technological platform enables the company to steadily generate new project candidates for further research and development.

4SC AG



Increasingly mature pipeline of drug candidates

Innovative drug candidates for the pharmaceutical industry

4SC AG sees itself first and foremost as a source of innovative drug candidates for the pharmaceutical industry. After successful proof of concept in the clinical phase IIa trial, a drug candidate is normally developed further together with a partner in the pharmaceutical industry that specialises in the further development and marketing of this active agent. License partnerships at this stage allow 4SC AG to pursue multiple projects simultaneously, thereby better distributing the risks inherent with pharmaceutical development. The projects of 4SC AG focus exclusively on markets exhibiting high medical need and corresponding sales potential which are of special interest to the pharmaceutical industry. In building up its pharmacological expertise the company has focused on the development of drug candidates for the treatment of inflammatory diseases, cancer and infectious diseases – all these indications are of extreme importance from both a medical and business standpoint. These diseases are characterised by misregulated cell growth and by manageable study expenses until proof of concept.

"It is part of 4SC's business model to avoid putting all eggs in one basket. Our pipeline is deliberately diversified. This enables us to steadily present new drug candidates from our research and development pipeline to the pharmaceutical industry."

DR ULRICH DAUER,
CHAIRMAN OF THE MANAGEMENT BOARD OF 4SC AG

The focus of 4SC AG's business model is therefore on its own pipeline of drug candidates, first and foremost the clinical project SC12267 for treating rheumatoid arthritis (RA) as well as four other projects that are expected to reach readiness for clinical trials during the current financial year. In addition to this, there is a research project for the treatment of multiple sclerosis funded by the Federal Ministry of Education and Research. All these substances originated from inhouse research and development conducted by 4SC AG and have undergone continuous further development over the past years. It remains to be seen which of the four pre-clinical drug candidates will be the first to clear the approval hurdles required for the clinical development, which is why the company is currently pressing ahead with all candidates in parallel. At any rate, 4SC AG is likely to have a total of three active agents in the clinical development stage by the end of 2008 – to date this was only the case for the RA project.

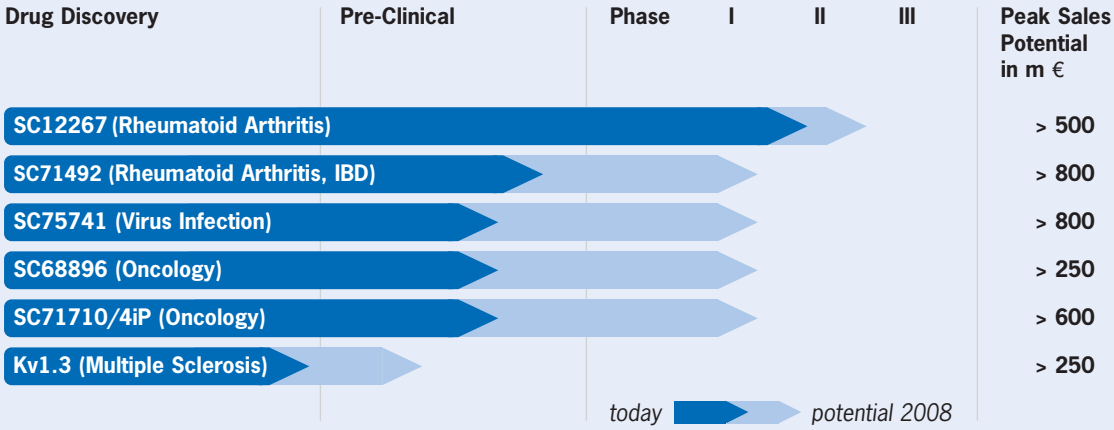
Continuous supply with new ideas

4SC AG's unique technological platform enables the company to steadily generate new project candidates for further research and development. The technology platform allows computer-aided and therefore accelerated identification of potential drug candidates, comprising the entire spectrum of essential R&D competencies ranging from pharmaceutical chemistry and cellular biology to pre-clinical and clinical expertise. This can shorten the development process from the identification of a disease-relevant target molecule to the start of clinical development by as much as two and a half years. 4SC AG's special expertise is documented not least by the many well-known collaboration partners, to whom the company is making its technology platform available within the scope of research partnerships.

Thanks to the constant supply of new ideas, the company has, in addition to the current pipeline, a number of further projects in early research stage that offer further growth potential in the medium to long term. The projects in the so-called "ideas' pool" include a project for the treatment of Malaria, which 4SC AG is researching with funding from the European commission. The second project from the ideas' pool is a further drug candidate in the field of NFκB inhibitors, with regard to which the company already has extensive experience, meaning that synergies with current pipeline projects can be expected. This candidate is a potential active agent for the treatment of autoimmune diseases, such as for example rheumatoid arthritis and could soon be upgraded to a formal pipeline project. Finally, the third project could become the company's next drug

4SC PIPELINE

Six projects are already in different stages of development; each bar represents the current study phase. Behind them is the sales potential of a corresponding drug according to projections by 4SC AG.



Malaria

Autoimmune Diseases

Oncology (solid tumours)

IDEAS' POOL

4SC AG's proprietary technological platform enables the company to steadily generate new project ideas and enlarge its development pipeline to include interesting new projects independently of any outside parties.

candidate for the oncology pipeline. It aims to control transcription in cancer cells. Overall, the company plans to advance up to five substances to the biochemical screening stage in the course of the 2008 financial year, in order to add the best and most promising projects to the pipeline.

Meanwhile, the main focus of attention at present is on drug candidates in the current pipeline that are already undergoing or on the verge of clinical development. They make up the company's actual value and constitute its growth potential, which is why they will be presented in detail in the following.

Lead project for the treatment of rheumatoid arthritis

The world's most common joint disease

To date inadequate treatment options

Clinical study phase IIa successfully completed

The most advanced project in the 4SC AG pipeline is the substance SC12267. It focuses on the treatment of rheumatoid arthritis (RA), a disease involving painful inflammation of the joints, potentially leading to their complete degeneration. Approximately 1% of the world's population is affected. In Germany alone, some 800,000 people suffer from this chronic disease, with women three times more likely to be affected than men. RA most commonly breaks out in those aged between 30 and 50, often surprising patients completely unexpected with symptoms occurring spasmodically in the form of painful finger and toe joints.

As yet, RA is incurable and existing treatment options, which are merely able to slow the progression of the disease, are inadequate. Besides regular pain medication, available treatment options include chemical therapeutic agents such as Methotrexat or Leflunomid, the latter better known as the drug Arava® by Sanofi-Aventis. The therapeutic effect of Arava® is essentially founded on the blocking of an enzyme that plays a central role in the rapid increase of immune cells that is relevant in RA. Positive results are offset by significant gastrointestinal side effects, leading over a quarter of patients to abandon treatment within a short time.

Clinical proof of concept reached

SC12267 functions similarly to Arava® using the same already clinically validated mechanism, which greatly increases its prospects of success. However, the drug candidate of 4SC AG exhibits far fewer side effects, opening up potential for use in combination with established therapies as well as on its own.

Last year, the clinical phase IIa was successfully concluded for the drug candidate. The randomised, double blind and placebo-controlled study included a total of 121 patients. Two groups of patients were administered different dosages (20 mg and 35 mg) of the active agent orally every day for a period of three months. A further group of patients was administered a placebo over the same period of time. The results of the study verified high tolerance and safety for SC12267 and furnished evidence of efficacy.

Efficacious especially in patients who have previously undergone treatment

The previously defined criteria for testing the efficacy included the so-called DAS28 score for measuring the disease activity as well as the internationally customary ACR response criteria for analysing treatment success (decrease in symptoms). In the assessment of the treatment success all patients displayed dosage-dependent efficacy trends. Nearly half (47%) of all patients treated with the 35-mg dose displayed a 20% reduction in symptoms, compared with 20% in the case of those patients treated with the placebo.

In the assessment of the development of the disease activity, all three groups of patients displayed a reduction in the value at the end of the 12-week course of treatment; however, owing to a high response rate in the case of patients treated with the placebo, the difference compared with patients treated with SC12267 was less meaningful.

However, the results in the case of patients who had already been treated with other Disease Modifying Antirheumatic Drugs (so-called DMARDs) prior to the study, and who had now been administered a 35-mg dose of SC12267 were very convincing: Here a clear effect was evident for all clinical parameters compared to the patient group treated with the placebo. This is the specific success of the study, since long-term sufferers who have undergone prior treatment respectively are the most relevant target group for subsequent treatment with SC12267.

4SC AG is currently negotiating with potential partners in the biopharmaceuticals industry regarding possible partnerships and/or the joint further development of the substance.

Prof Dr Bernhard Manger,
Department of Rheumatology
and Clinical Imunology, Medical Clinic III,
University of Erlangen-Nuremberg

Interview with Prof Dr Bernhard Manger about project SC12267

Prof Manger, rheumatoid arthritis is an unpleasant and widespread disease: What treatment options have been available to date?

There are of course numerous symptomatic treatment options for instance using painkillers or anti-inflammatory drugs.

However, only the so-called DMARDs, disease modifying antirheumatic drugs, are able to influence disease activity. These include Methotrexat, the most commonly used drug, but also Arava® as well as new protein-based drugs that specifically target certain molecular disease mechanisms.

Why is a new basic drug needed?

A genuine treatment and hence significantly improvement of the symptoms is only possible using the aforementioned disease modifying antirheumatic drugs. Unfortunately, the DMARDs existing to date cause serious side effects, in addition to which, a large number of patients does not respond adequately to treatment with Methotrexat. On the other hand, the new protein-based drugs are very expensive to manufacture, which restricts their use considerably. Furthermore, only around two thirds of all patients respond to these treatments.

How does SC12267 differ from the drug Arava® already marketed by Sanofi-Aventis?

Treatment with Arava® proves successful in many cases, but owing to its molecular structure, often causes serious side effects. The most common side effects of the treatment include diarrhoea, high blood pressure and an increased liver enzyme count.

Despite a fundamentally different molecular structure, SC12267 has the same mechanism as Arava®. This is mainly why the current phase IIa study was carried out in order to assess to what extent SC12267 can improve on the previously available treatment options in terms of efficacy and tolerability.

What, in your opinion, are the most important findings of the current study?

The completed study revealed on the one hand a good tolerability of SC12267, while on the other hand there are clear trends as regards efficacy. The trends are most evident in patient groups for whom subsequent treatment is of relevance, in other words patients who have already undergone treatment with other disease modifying antirheumatic drugs. These results are a highly promising basis for the further development of the rheumatoid arthritis drug.

How can one explain the relatively high placebo effect seen during the current study?

We know from experience, that studies of the indication of rheumatoid arthritis show a relatively high placebo effect, since the analysis of the disease activity includes some highly subjective parameters. In addition, the current study included a comparatively large number of patients who had not received any prior treatment, who have especially high expectations of the administered drug, which enhances the placebo effect. In addition, the study commenced in winter and continued well into the summer. Experience has shown that this also gives rise to seasonal improvements of the symptoms.

What future application possibilities do you see for SC12267?

Based on the current level of knowledge, both a use as single therapy as well as in combination with established therapies would appear to make sense. In the case of use on its own, the focus would be on those patients who do not respond to or do not tolerate other courses of treatment. It would also appear conceivable to use the drug as a basic therapy. Alternatively, SC12267 could be used in combination with other drugs. Combination, for example with Methotrexat as the most commonly used drug could offer prospects of excellent therapeutic effects despite the more costly development.

Immunomodulator for the treatment of inflammatory diseases

New class of active agents for the treatment of infections
Area of use ranging from inflammatory bowel disorders to rheumatoid arthritis
Long-term treatments required

The drug candidate SC71492 is designed for the treatment of inflammatory diseases, in particular chronic inflammatory bowel disorders such as, for example, Crohn's disease. This disorder usually begins insidiously and without apparent cause. It is characterised by inflammation of parts of or the entire digestive tract and is as yet incurable. Roughly 4 million people worldwide, particularly in industrialised Western countries, suffer from the different symptoms which include abdominal pain, intestinal bleeding, diarrhoea and vomiting. The disease most commonly breaks out in those aged between 20 and 40. Chronic inflammatory bowel disorders significantly impair quality of life and can also result in serious complications requiring immediate surgery.

"SC71492 has demonstrated highly promising efficacy in pre-clinical models for chronic inflammatory bowel disorders. Available data from initial toxicity examinations indicate a good therapeutic window for the substance, meaning that we can expect high efficacy and at the same time good tolerability."

PROF MARTIN FLECK (MD),
HEAD OF DIVISION RHEUMATOLOGY AT REGENSBURG UNIVERSITY CLINIC

Individual therapeutic approaches required

Current treatment options are limited mostly to the use of anti-inflammatory drugs and surgical intervention. Since the illness can manifest itself in a wide variety of ways, individually adapted therapies must be found, which often proves very difficult. In addition, these diseases mostly occur episodically, which implies that all forms of treatment have to be adapted to the respective phases of the disease. Examples of highly efficacious compounds include anti-inflammatory steroids that can be administered systemically or locally. A further therapeutic option includes the administration of drugs that directly affect the immune system. However, such existing therapies involve serious side effects. Recently, treatments have also been available using so-called biologics (protein-based drugs). These are, however, very expensive and are therefore only a viable option for a very small number of patients.

Excellent efficacy and tolerability of SC71492

The medical need for the 4SC AG drug candidate is therefore considerable. The substance is part of an entirely new class of active agents identified by the company that block the NFκB signal pathway, a key mechanism in inflammatory processes. These inhibitors are able to regulate the activation of the body's immune cells. SC71492 therefore belongs to the class of immunomodulators. The originally nominated active agent SC71570 also proved exceptionally efficacious in a pre-clinical RA animal study, however, due to its better bioavailability, the company will now be pressing ahead with the substance SC71492, towards clinical study.

In the pre-clinical studies conducted to date for SC71492, statistically significant differences have been identified between treated and untreated mice. Available data from initial toxicity examinations also demonstrate the substance's good tolerability, which is of high importance considering the drug's use for possible long-term treatment. At the end of 2007, 4SC AG established a GMP-compliant process for the manufacturing of further pre-clinical material and has meanwhile commissioned GMP-production. With this new material, 4SC AG would be able to conduct a clinical trial, which could commence as early as this year.

A dual mechanism for combating influenza viruses

Considerable medical need

Imminent pandemics

Increasing resistance to traditional flu remedies

The drug candidate SC75741 is designed for the treatment of viral infections, particularly Hepatitis C and acute influenza. The Hepatitis C virus causes severe liver damage and is responsible for a high rate of chronic diseases, which in the worst case can lead to liver cancer. The virus is transmitted via the bloodstream. Worldwide some 170 million people are infected with the Hepatitis C virus – Germany alone has an estimated 500,000 sufferers.

The medical need is extremely high, however especially during the annual flu epidemics. In addition, the highly pathogenic H5N1 influenza viruses, which belong to a group of what are referred to as avian flu viruses, have affected several hundred people; in the event of a pandemic this number could even run into the millions. Last century, influenza pandemics occurred at 10 to 30 year intervals. So the outbreak of a new pandemic is currently "statistically overdue". Against this background, the incidence of H5N1 viruses in humans – connected with a mortality rate of approximately 50% – is a clear warning sign. Even if these viruses cannot yet spread from one human to the next, this could happen at any time.

Standard medication leads to resistance

The only anti-influenza drugs currently approved in Germany are Relenza® and Tamiflu®. In addition, it is possible to treat the virus with Amantadin, which is however only efficacious against influenza virus subtype A. However, these drugs all have the disadvantage that they only marginally shorten the duration of the disease and in many cases involve severe side effects. Above all, they directly target viral factors, meaning that resistant virus strains can develop rapidly. In the case of avian flu, this is aggravated by the fact that drugs like Tamiflu® are only efficacious if taken within 48 hours following the outbreak of the disease.

SC75741 opens up totally new possibilities in this field. As an NFκB pathway inhibitor, the substance works in two ways. On the one hand it inhibits the multiplication of the virus, thus preventing the infection of new cells, while also suppressing the often deadly overreaction of patients' immune system.

Against the background of this mechanism, laboratory experiments have shown that formation of resistance does not occur.

"A major advantage of SC75741 is the new approach of targeting cellular factors, which are essential for virus replication, rather than viral factors. Experiments have proven that this does not lead to resistant strains forming."

PROF STEPHAN LUDWIG, DIRECTOR OF THE INSTITUTE FOR MOLECULAR VIROLOGY AT THE UNIVERSITY OF MUNSTER

Partnership with the renowned Institute for Molecular Virology

For the research and development of this project, 4SC AG partnered with Prof Dr Ludwig, one of the leading researchers in the field of influenza viruses back in 2006. In the course of this cooperation, it has been possible to prove that mice infected with highly pathogenic avian viruses can be cured with the aid of SC75741.

In the further progress of the cooperation, SC75741 and other related substances will be developed contemporary. The aim is to market a highly efficacious emergency drug for treating highly pathogenic influenza virus infections. 4SC AG is currently conducting advanced pre-clinical experiments to assess efficacy. Moreover, preparations are already underway to manufacture clinical material, meaning that this substance, too, could be ready for clinical trials as early as 2008.

Proteasome inhibitor for treating brain tumours

High medical need

Scarcely any chances of survival for sufferers

SC68896 relies on new mechanism

The proteasome inhibitor SC68896 is a drug candidate for the treatment of cancer, including for example multiple myeloma and brain tumours. The deadly multiple myeloma tumour suppresses the cells responsible for normal blood formation. This results in debility and dizziness, progressive bone degeneration and improper kidney functioning. Multiple myeloma primarily affects the elderly – those diagnosed with this disease are on average 66 years of age, men being affected slightly more often than women. The causes are largely unknown. Some 74,000 people are affected worldwide, with only inadequate treatments available, only capable of extending the lifespan by a few years at best.

"Only around half of those treated using the standard medication Temozolomid® benefit, and even these inevitably suffer relapses. From the patients' perspective, the development of new and above all tumour-specific chemotherapeutic substances is absolutely essential."

PROF MICHAEL WELLER (MD), DIRECTOR,
NEUROLOGY AT THE UNIVERSITY HOSPITAL ZURICH

However, considerable medical need does not just exist for the treatment of multiple myeloma, but also for brain tumours: In total, some 10,000 primary brain tumours are diagnosed in Germany alone each year; the number of secondary brain tumours (Metastases of other types of tumours) is even considerably higher. Those affected are predominantly children up to the age of 10 and adults aged between 50 and 70. Some 3,000 Germans fall ill with the most malignant form of this tumour, the glioblastoma each year, with an average survival time of less then one year.

Standard medication is inadequate

While the most common treatment for multiple myeloma is the proteasome inhibitor Velcade® of Millenium, the most important treatment option in the case of glioblastoma is still surgery followed by radiotherapy. Standard medication administered in combination with radiotherapy commonly includes chemotherapeutic substances with the active agent Temozolomid®, a substance developed by Schering-Plough. However, these drugs which are used almost exclusively in first-line therapy are only efficacious in a portion of the cases treated. Moreover, even following successful treatment, the relapse rate is extremely high.

New therapeutic approach for brain tumours confirmed in animal model

SC68896 relies on a completely new mechanism for the treatment of brain tumours: The substance blocks the proteasome enzyme complex, thereby causing specifically fast-growing cancer cells to die off. SC68896 aims at the same clinically validated target as Millenium's proteasome inhibitor Velcade®.

During the course of 2007, 4SC AG tested this drug candidate for efficacy and tolerability in particular in the treatment of brain tumours. Pharmacological experiments on mice with brain tumours revealed a statistically significant extension of the survival time through treatment with SC68896 compared to an untreated control group. To ensure that the substance reaches the target location reliably, further trials are currently underway to determine the optimum form of administration. These are expected to be completed in the first half of 2008, meaning that the substance could be ready for clinical trials in the near future.

Protein kinase blockers for treating leukaemia

AML: an especially aggressive form of cancer

High relapse rate following first-line therapy

SC71710: a potent growth inhibitor

Acute myeloid leukaemia (AML) is a malignant disease affecting part of the haemopoietic system. It is a rather rare disease affecting approximately three out of every 100,000 people each year. Nevertheless, this type of tumour is one of the most aggressive forms of cancer that involves a dramatic reduction in the quality of life. AML predominantly affects the elderly – those diagnosed with this disease are on average 60 years of age.

Huge demand for alternative cancer therapies

While existing first-line therapies are in many cases initially efficacious, the relapse rate is very high. The treatment options ere extremely limited. The medical need for new cancer therapies for follow-up treatment is correspondingly vast.

Growth inhibitors of so-called protein kinases, central control molecules responsible for cell division in the human body, are among the most promising therapeutic approaches. In the course of the human genome project, genes for a total of 520 different protein kinases were identified. In recent years it has been demonstrated that at least 30 members of this family of enzymes are modified in cancer cells and are directly connected to the development of cancer. This makes protein kinases ideal target molecules for the development of new cancer drugs.

Most advanced substance from the 4iP programme with ProQinase

Substance SC71710 is just one of the kinase inhibitors. To date, this active agent is the most advanced project in the 4iP programme, which 4SC AG is jointly developing with Freiburg-based kinase specialist ProQinase. In a trial conducted on mice, SC71710 proved highly efficacious and selective in combating AML tumour cells. Like other substances from the 4iP project, SC71710 attacks several relevant kinases at the same time ("multiple target approach"), for example simultaneously suppressing the reproduction of cancer cells and inhibiting angiogenesis (blood vessel formation by means of which cancer cells obtain nutrients) required for this.

"The protein kinase blocker SC71710 is highly active in combating AML cells while displaying a distinct selectivity vis-à-vis other cells. In tumour models, the substance displays an excelled dosage-dependent anti-tumour efficacy. SC71710 is therefore a highly interesting compound for the development of a new treatment for patients with AML."

DR CHRISTOPH SCHÄCHTELE,
CEO OF PROQINASE GMBH, FREIBURG

Extensive pre-clinical studies are currently underway for SC71710, a substance which was only recently nominated as a development candidate from the 4iP programme, which comprises several substances. Various treatment models are currently being tested, in order to lay the foundations for toxicological animal studies and subsequent dosages for patients. This project also has the potential to enter the clinical trial stage in 2008.

Management Report

2007 was a positive financial year for 4SC AG. For the lead project, the safety, tolerability and efficacy were proven in a clinical phase IIa study. Four other projects have the potential to enter the clinical development stage in the near future.

1. Presentation of the course of business

1.1 Economic development and development of stock exchange segments

The year 2007 was also one which saw the global economy on course for growth. According to current estimates from the International Monetary Fund (IMF), global gross domestic product (GDP) grew by some 4.9% and was thus slightly below the level of 5.1% for the previous year. The main growth drivers here were the emerging markets of China and India.

The second half of 2007, however, was overshadowed by the subprime mortgage crisis in the USA, which had a massive impact on banks and financial markets, and which is now threatening to impact on other sectors of the economy. The US Federal Reserve reacted with several interest rate cuts, the last of these being in January 2008. The European Central Bank, on the other hand, raised interest rates in June 2007 to 4.0% and has maintained this position since then.

The Euro continued to rise against the US dollar, with the end-of-year exchange rate being 1.47185. At the same time, oil prices continued to rise in 2007 by an aggregate of 58.0%. Shortly after the end of the reporting year 2007, on 2 January 2008, a barrel of crude oil first breached the USD 100 mark.

Despite these challenges, the Eurozone was able to achieve positive growth rates for 2007 – 2.6% according to the latest estimates of the IMF. The economy finds itself in a robust state, even if the immediate future is likely to bring slightly weaker growth.

The representative biotechnology indices experienced broadly positive growth over the course of the whole year, although this proved to be below average when compared with the stock market as a whole.

The feared dampening effect of the rise in value added tax in Germany at the start of 2007 did not have such a significant impact as was originally anticipated. While the growth fore-casts at the end of 2006 for gross domestic product (GDP) in 2007 were estimated at between 1.0% and 1.8%, the Deutsche Bundesbank is currently predicting effective GDP growth of around 2.5%. Admittedly, consumer prices in Germany, as well as in many other countries in Europe, rose more strongly than for many years in the wake of high energy and food costs. The Federal Office of Statistics is calculating an annual average inflation rate of 2.2% for 2007.

The essentially positive growth trends in the German economy were also reflected in the most important German stock indices, namely the DAX and TecDax. At the end of 2007, the DAX closed at 8,067.32 points, up by 22% from its starting position in January 2007. Developments on the TecDAX were even better, which racked up gains of 29.9% compared to the start of the year, closing at 974.19 points. On the other hand, due to the subprime crisis, the US stock market only managed to achieve modest gains over the past year, namely 3.5% for the S&P 500 or 6.5% for the DOW Jones Industrial Average Index, closing on 31 December 2007 at 1,468.36 and 13,264.82 points respectively.

The representative biotechnology indices experienced broadly positive growth over the course of the whole year, although this proved to be below average when compared with the stock market as a whole. The NASDAQ Biotechnology Index closed at 834.96 points, thereby demonstrating an annual growth performance of 4.0%. The AMEX Biotechnology Index closed with a comparable increase of 4.3%, at 786.50 points. The impact on the German Prime IG Biotechnology Performance Index by negative news being reported in this sector was not quite as good. While trends were predominantly sideways until the middle of August, the second half of the year saw things generally go downhill from there. The Index closed at 190.95 points and thus at 5.6% less than at the start of the year.

1.2 Developments in the biotechnology industry

The biotechnology and pharmaceutical industry in Europe, and thus in Germany as well, continued to be noticeably active in 2007. In this context, there were numerous reports concerning registered patents, research and development cooperations, the launch of clinical studies, milestones achieved and applications for marketing approval.

In addition, reports on a small number of major venture capital financing projects, such as the Tübingen-based immatics biotechnologies GmbH, worth more than Euro 40 million, underlined the trend, already established in the previous years, towards more selective, albeit significant, rounds of financing. Another large German investor has entered the scene in the form of Santo Holding, investing substantial amounts over the course of the year in several biotech companies, including 4SC AG. In addition to this, M&A activities also demonstrated further consolidation in

the sector and the formation of large-scale economic units, as when the US firm Medimmune was taken over by the British company AstaZeneca.

The year 2007 was able to close with positive news from the German biotechnology industry. In December 2007 Morphosys AG, Martinsried, announced an agreement with Novartis on a broadly focused strategic alliance to identify and develop biopharmaceutical medicines. Also in December 2007, MediGene AG, Martinsried, managed to achieve market entry in the US for its second compound, Veregen™ (Polyphenon® E ointment). This is the first time that a German biotech company has managed to obtain market access for a wholly self-developed drug.

On the other hand, the industry as a whole was also forced to come to terms with clinical and regulatory setbacks in 2007. For instance, the Aachen-based firm Paion AG released disappointing phase III test results from its Desmoteplase study. Even GPC Biotech AG, based in Martinsried, was forced to report bad news, first in July 2007, with a negative decision regarding admission in the US for Satraplatin, and then again in October 2007, with negative test data from phase III of the SPARC (Satraplatin and Prednisone Against Refractory Cancer) admissions study.

Not least in light of these circumstances, it remained difficult in 2007 also for young biotechnology companies to attract the attention of public capital markets and, where necessary, to acquire capital. Nor does the near future show signs of this trend being reversed. The Federal Government is furthermore sending mixed signals as to its support of the German biotech industry. Whilst on the one hand the industry is to be increasingly networked with academic institutions through new support programmes in order to strengthen the industry's position, the government has made the tax situation considerably more complicated and less attractive with the company tax reform and the MoRaKG (Law for the Modernization of the Basic Conditions for Private Equity Participation). Long-term, negative consequences from this are not to be excluded.

1.3 Development of the company

1.3.1 Technology

As in previous years, 4SC AG again proved successful in consolidating its position as the technology leader in computer-aided drug discovery in the reporting year 2007. At the centre of attention in this context was the optimisation of computer simulations of bonding between new drug candidates and their target proteins. With the newly-developed methods it is now possible to make precise predictions particularly in the process of lead optimisation, which leads to less effort during downstream synthesis in medicinal chemistry.

As in previous years, 4SC AG again proved successful in consolidating its position as the technology leader in computer-aided drug discovery in the reporting year 2007.

Another focal point is the analysis of biological signal pathways, which have been addressed by 4SC's drug candidates. In addition to this, capacities in *in vitro* pharmacology have been expanded, in terms of both quality and personnel.

1.3.2 Research and Development (Drug Discovery & Development)

With the completion of the entire proof of concept study, 4SC AG succeeded in advancing its main project SC12267 in 2007. In addition hereto, significant progress was made towards clinical trials during the reporting period in the context of formal development of the two oncological projects SC68896 and SC71710, as well as for the project SC71492 in the field of inflammatory diseases. Furthermore, SC75741, a substance with promising effects against influenza viruses, has made such enormous strides that here as well, formal development may be started.

SC12267 (autoimmune diseases)

During the reporting period, the company carried out a randomised, double-blind and placebo-controlled phase IIa clinical trial for the drug candidate SC12267 at a total of 13 clinical study centres throughout Germany, Poland and Serbia. Patients with active rheumatoid arthritis were treated orally with either one of two doses of SC12267 (20mg or 35mg) or a placebo, on a daily basis over the course of 12 weeks. In total, the study included 121 male and female patients. The last patient was released from the study at the start of October so that, following a careful evaluation of the test results, the final report was available, as planned, at the end of 2007. The objective of the study was to asses the efficacy, safety and pharmacokinetics of the drug candidate.

The study results submitted show good levels of tolerability and safety for SC12267. Its efficacy was shown to be dependent upon the specific clinical endpoints, as well as on the medication previously taken by the patient.

In order to prove efficacy, the so-called DAS28 score for measuring disease activity and the international established ACR response criteria for assessing treatment success were defined as clinical endpoints. Here, those patients treated with SC12267 showed significant improvements in their clinical picture, particularly those patients who had previously been treated with established anti-rheumatic drugs, so-called DMARDs. Nevertheless, given the unexpectedly high placebo rate for the aggregate population, it was not possible to demonstrate any significant advantages of the SC12267 treatment as against the placebo.

With its demonstrated efficacy, SC12267 has shown that it has the potential to become a new basic therapy for treating rheumatoid arthritis.

The success is noticeable when the side effects are considered: with Arava®, the only drug currently on the market, which works in a similar way to SC12267, diarrhoea-related complaints often result in the treatment being suspended. However, no diarrhoea-related complications were noticed during treatment with SC12267.

With its demonstrated efficacy, SC12267 has shown that it has the potential to become a new basic therapy for treating rheumatoid arthritis. At present, more than 50% of patients suffering from rheumatoid arthritis are being treated with the generic DMARD drugs Methotrexat and Sulfasalazin. By supplementing one of these treatments with SC12267, the efficacy could possibly be significantly improved, subject to good tolerability in the scope of the treatment as a whole. In addition to this, up to 50% of RA patients are forced to abandon treatment with DMARDs within 2 to 5 years due to the treatment's failure or in the face of their lack of tolerability for the treatment. As the recently completed phase IIa trials of SC12267 have shown, it is predictably these patients in particular, previously treated using DMARDs (some 3 million people in industrialised countries) who would be especially likely to benefit from a treatment with SC12267.

SC68896 (cancer)

In 1998, the substance Velcade® (Millennium), a so-called proteasome inhibitor, was approved in the US as a third-line therapy for treating recurrent multiple myeloma (recurrences after healing completely). Sales of Velcade® quickly reached nearly USD 300 million, and today the drug remains the preferred choice for second and third-line treatment of this form of cancer. The clinical potential of such proteasome inhibitors is much greater, according to recent studies, but is limited by Velcade®'s toxicity.

SC68896 is a new kind of small molecule proteasome inhibitor, which 4SC AG has developed over the past few years. Unlike Velcade®, SC68896 does not contain chemically reactive groups, thus offering the potential of substantially better tolerability. In addition, the effects of SC68896 differ from Velcade® because it inhibits an additional protease, involved in the formation of tumours, namely the so-called Cathepsin S.

Because of its strong *in vitro* activity on tumour cells, its high tolerance factor and good pharmacokinetic properties, SC68896 and a number of similar compounds were studied in suitable pre-clinical models.

In 2007, 4SC AG continued with the pre-clinical characterisation of SC68896 with regard to its efficacy and tolerability. In this context, pharmacological experiments conducted on mice with brain tumour (glioblastoma) showed highly significant increase in the length of survival periods when treated with SC68896 in comparison with a control group which was not treated with the substance. Given that treatments used against this highly aggressive brain tumour in humans have only produced very unsatisfactory results up to now, and that there is thus a strong medical need, these results for SC68896 open the door, in addition to treating patients with multiple myeloma, to a second and very interesting option. Use against these types of tumours requires tailor-made packaging in the form of formulations which safely guarantee that the place to be treated is reached. Corresponding trials were launched in 2007 and should presumably be concluded in the first quarter of 2008.

SC71492, previously SC71570 (inflammatory diseases and cancer)

The research conducted by 4SC AG in the field of protein transcription factors culminated in the selection of SC71570 as developmental candidate for the treatment of autoimmune and inflammatory diseases. Research showed that SC71570 evidenced impressive activity in an animal model for rheumatoid diseases, in addition to having a major impact on immune cells.

In the reporting year, however, pharmacokinetic studies showed that only suboptimal plasma levels could be achieved with SC71570. In light of these circumstances, a similar compound was identified from the back-up programme, with significantly improved properties, and was subsequently developed as a new development candidate. 4SC AG triggered the establishment of a new production process for the new compound, named SC71492, and manufactured more than 2 kg of the compound in the quality required for regulatory safety trials. Chronic inflammatory bowel diseases were defined as the main indication in 2007, since in a relevant model involving a mouse SC71492 demonstrated a high degree of efficacy in comparison to a placebo and standard treatment. At the end of 2007, 4SC AG established a GMP-compliant process for the manufacture of additional pre-clinical material, and has, in the meantime, commissioned GMP production as a precondition for clinical studies.

SC71710 / 4iP Project (cancer)

The approval of Sutent®, a kinase inhibitor by Pfizer, in 2006, provided a stimulus to further research efforts on innovative kinase blockers. Kinases play a particularly important biological role in the treatment of cancer, as these proteins are key for the transmission of cellular signals. Efforts to develop new kinase inhibitors have thus far focused on blocking a specific kinase connected with a particular tumour, thereby producing a therapeutic effect. This selectivity, however, has limited the therapeutic potential of drugs such as Gleevec® (Roche) and Gefinitib® (Astra Zeneca), which also involve a risk of acquired resistance. The 4iP-project conducted jointly by 4SC AG and ProQinase GmbH, headquartered in Freiburg, is aimed at the identification and development of multi-specific kinase inhibitors. In this way, tumours are to be attacked from multiple sides simultaneously.

In the reporting period, the substance SC71710 was identified, which, in light of its profile and its molecular attack point, appears to be particularly well suited to the treatment of acute myeloid leukaemia. The substance has been manufactured in the required amounts and has been pharmacologically characterised in animal models by the collaboration partner ProQinase. Different treatment schemes are currently being tested in order to create the basis for toxicological studies, and for the first use on humans.

In collaboration with the working group of Prof Ludwig at the University of Munster, 4SC AG was able to show that the substance SC75741 demonstrated an extraordinarily strong effect against the reproduction of influenza viruses.

SC75741 (virus infections)

From the work carried out in the area of inhibitors of the NFκB signal pathways, another interesting drug candidate has resulted. In collaboration with the working group of Prof Ludwig at the University of Munster, 4SC AG was able to show that the substance SC75741 demonstrated an extraordinarily strong effect against the reproduction of influenza viruses. In addition, effects against avian flu viruses and the highly pathogenic H5N1 strain in specific were also demonstrated. Researchers at 4SC AG and scientists at the University of Munster were thus able to show that mice which were infected with the highly pathogenic avian flu virus could be cured when treated with 4SC's drug candidate SC75741. Of particular interest in this context is that treatment with SC75741 only began four days after actual infection. As is well known, normally dispensed influenza medication such as Tamiflu® only work, if at all, when taken within the first 48 hours of the disease's outbreak.

Compared to the established and completely inadequate treatments currently available, SC75741 has, among other things, advantages with regard to its efficacy, not merely under a preventive, but also under a curative treatment scheme. In addition, no acquired resistance appears *in vitro* and there is no dependency on the virus strain. The

compound's efficacy against other types of virus could also be repeatedly demonstrated, which makes its application in other indications conceivable, such as e.g. in the context of HCV infections.

In order to make sure enough new projects are in the pipeline in future, the company has initiated a number of promising projects during the reporting period.

Kv1.3 (multiple sclerosis)
Kv1.3 is a tension-related ion channel which regulates the inward and outward flow of potassium in cells. This channel is primarily found in those immune cells that are of prime importance to the progression of multiple sclerosis (MS). Blocking the ion stream through the channel prevents multiplication of this subtype of immune cells and thus may be expected to have a positive impact on the course of the disease.

The project for the identification of new drugs to combat MS, initiated in the context of support from the Federal Ministry of Education and Research (BMBF), was pushed forward by 4SC AG during the reporting period. The active Kv1.3 blockers identified by 4SC researchers during the reporting period were further developed, so as to now be able to show strong selectivity with regard to other channels, whose blockage might lead to undesirable side effects.

Other projects
In order to make sure enough new projects are in the pipeline in future, the company has initiated a number of promising projects during the reporting period. Of these, three projects which appear to be particularly promising have been selected. As an example, 4SC AG has found new compound molecules which show particularly strong effects against malaria-causing organisms. These molecules are now to be developed, in the context of a support scheme by the European Commission, to the status of a clinical drug candidate, which can subsequently be licensed to a partner. Another project is aimed at the development of cancer treatments for solid tumours. The third project addresses the identification of new compounds for treating autoimmune diseases on the basis of a kinase target.

1.3.3 Research collaborations (Collaborative Business)
In the "Collaborative Business" segment, the emphasis was on collaboration with QuoNova LLC., Melbourne, Florida, USA. Thanks to the latter's rapid progress in the context of the cooperation launched in December 2006, it was already possible to attain substantial revenues here in the reporting period. Through its 10% stake in QuoNova LLC., 4SC AG will also have the possibility, in future, to benefit from any successful developments in QuoNova's product line.

Towards the end of the year, 4SC AG also initiated a promising collaboration with AiCuris GmbH & Co. KG, based in Wuppertal, for conducting research in the area of anti-infective drugs. This collaboration between the two companies was officially announced at the beginning of February 2008 in the context of expanded collaboration. The company AiCuris is a spin-off of Leverkusen-based Bayer HealthCare AG's anti-infection research. In addition to the R&D collaboration in the context of ongoing projects of AiCuris, both partners are currently evaluating the possible expansion of the collaboration to include new targets.

1.4 Development of sales and orders

Net sales for the past financial year amounted to KEUR 1,376 and were thus some KEUR 2,288 below the amount generated during the previous year of KEUR 3,664. In light of the fact that 4SC AG did not enter into any licensing agreements in 2007, but rather chose to concentrate on increasing the value of its pipeline projects, no sales were generated in the "Drug Discovery and Development" segment.

As a result, net sales were generated exclusively in the "Collaborative Business" segment in the financial year 2007 and resulted primarily from the cooperation agreement with QuoNova LLC., as well as the collaboration initiated at the end of the reporting year with Wuppertal-based AiCuris GmbH & Co. KG. At KEUR 1,376, the "Collaborative Business" segment fell below the previous year's sales of KEUR 1,981 by 30.5%. In 2006, this segment benefited from the successfully concluded cooperation agreement with the Japanese company Sanwa Kagaku Kenkyusho Co., Ltd., as well as research cooperation undertaken with Monheim-based Schwarz Pharma AG.

1.5 Procurement

Purchasing, logistics and warehousing processes at 4SC AG are organised and handled by a central purchasing department. The processes have been defined and established on a standing basis. Close coordination between Purchasing and Accounting ensures smooth processes, from order inquiry through to payment of invoices.

In the interest of maintaining both autonomy and flexibility, 4SC AG is careful to avoid dependence on individual suppliers. As a rule, suppliers are selected according to pricing, availability and quality criteria. More favourable delivery terms were again negotiated and partially improved during the reporting year 2007. In addition, 4SC AG was actively involved in the Biotech Region Munich purchasing association in an effort to further optimise delivery terms.

1.6 Investments

In the financial year 2007 4SC AG was again able to benefit from the substantial investments made in 2002 in fixed assets. In the reporting period, replacements and new investments in fixed and intangible assets were made in the amount of KEUR 200 (2006: KEUR 377). These primarily involved investments in technical laboratory equipment (KEUR 128) and IT hardware (KEUR 50). Because depreciation, at KEUR 368 (previous year: KEUR 625) again exceeded the amount invested, the book value for fixed and intangible assets was reduced from KEUR 3,105 in the previous year, to KEUR 2,937 for the reporting year.

4SC AG continues to hold an equity interest of 48.8% in quattro research GmbH, Planegg-Martinsried, as a financial asset, as well as a 10.0% stake in QuoNova LLC., Melbourne, Florida, USA. There were no investments in these or other equity holdings in the financial year 2007.

1.7 Goodwill

As was the case in previous years, the balance sheet shows goodwill, which resulted from the merger of 4SC GmbH into 4SC AG in the year 2000. As in the past years, this goodwill amounts to KEUR 1,786 and has been accounted for since 2005 in accordance with the provisions contained in IFRS 3. In accordance with IFRS 3.55 and IAS 36.90, no scheduled depreciation is performed, but instead a goodwill impairment test is accomplished at least once annually. The impairment test conducted at the end of the reporting year did not indicate a need for adjustment of the 31 December 2007 value.

Net sales were generated exclusively in the "Collaborative Business" segment and resulted primarily from the cooperation agreement with QuoNova LLC., as well as the collaboration initiated at the end of the reporting year with Wuppertal-based AiCuris GmbH & Co. KG.

1.8 Financing measures

During the reporting year 4SC AG carried out two capital increases for cash in order to strengthen the company's financial situation.

On 21 May 2007, 1,206,519 new shares were placed on the market at the price of EUR 2.80 each. This step resulted in an increase in the company's share capital to KEUR 12,668. The capital increase of 7 September 2007 saw the shares placed on the market at a price of EUR 2.65 each. The share capital of 4SC AG was thus increased by KEUR 6,334 to a total of KEUR 19,002. The number of

shares grew accordingly, reaching a total of 19,001,826 common bearer shares in September 2007. In total, both these transactions led to 4SC AG receiving cash totalling gross KEUR 20,163.

1.9 Personnel and social security

As of 31 December 2007 4SC AG employed a total of 69 employees (including four Management Board members). In comparison to the previous year, this represents an increase of nine employees when compared to the figure of 60 as of 31 December 2006. On average, 4SC AG employed 64 employees over the year as a whole, compared to 55 employees in the same reporting period of the previous year. From this average figure of 64 employees, (including four Management Board members) 46 were in Research and Development, 16 in Administration and two employees in Information Technology.

At the end of 2007, 4SC AG had ten registered patents and

129 patent applications world-wide.

Personnel costs rose in comparison to the previous year to KEUR 4,157 (2006: KEUR 3,693). The reason for this increase, in addition to moderate raise of salaries, is primarily personnel expenses in connection with stock options, which do not, however, have any effect on liquidity, as well as the hiring of new personnel, such as in the context of a newly-created position of Quality Assurance in January 2007, as well as a number of positions created throughout the year in Research and Development.

Because the company will continue to rely in future on motivated employees, 4SC AG continued to maintain the existing stock option schemes, in addition to issuing a limited number of the stock options to new employees under the "ESOP 2006" programme set up in 2006. No options were exercised in 2007.

1.10 Occupational safety and environmental protection

4SC AG feels itself under obligation to safeguard and protect its employees and the environment to the greatest extent possible, and has therefore adopted the corresponding measures.

Compliance with statutory requirements is ensured by a centralised body, the so-called Commission for Occupational Safety, which is composed of a chemical safety officer, a biological safety officer (who is also the same person responsible for radiation protection), an officer responsible for biological security (BBS), a project manager S1/S2, an occupational safety expert, a company medical officer and a security officer. During the reporting period, no events transpired which were subject to notification requirements, nor were there any accidents which had to be reported to the chemical employer's liability insurance association.

All chemicals are documented in a hazardous substance register in accordance with applicable hazardous substance regulations, and all lab personnel are trained in the handling of hazardous substances to ensure maximum workplace safety and minimise environmental impacts. The waste disposal concept of 4SC AG is implemented with the assistance of the company Wittmann, based in Gräfelfing near Munich, which ensures compliance with all limits and regulations.

Inventories of hazardous materials are kept as low as possible to save on resources and reduce laboratory hazards. The company inspected and serviced all of its safety-related systems and equipment in the year 2007 in compliance with regulations. In addition, the mandatory risk assessment report was also produced, the recommendations of which were implemented in accordance with their priority rankings.

Permits are on file for the security level 1 and 2 laboratories and the radionuclide lab maintained, which are subject to constant regulatory monitoring. A radiation safety officer and two assistant officers were appointed to ensure the safe operation of the radionuclide lab. Operation of the animal trial lab is subject to monitoring by an external animal protection officer who advises 4SC AG on animal experimentation and protection issues. All animal experimentations have, without exception, been conducted as part of officially-approved trials.

1.11 Measures for the protection of intellectual property

At the end of 2007, 4SC AG had ten registered patents and 129 patent applications world-wide. For the most important DHODH-Inhibitor technology, eight patents have been issued up to now, including the decisive composition of matter patent in the USA. These patents and patent applications encompass 30 patent families originally stemming from the same priority-establishing invention.

In addition to patents, 4SC AG owns a number of text and image trademarks. The company monitors usage of these trademarks, pursuing legal remedies for any violations as appropriate. The trademark "4SC" is protected in the European Union, Canada, Australia, Japan, China, Norway, and Turkey. The word mark "4SCan" is protected in the European Union. In addition, 4SC AG has trademark rights over a picture mark in Germany.

1.12 Competitive environment

4SC AG operates in a multi-layered competitive environment. On the one hand, the company competes against service-provision firms offering methods and technologies for the acceleration of research and development processes for small molecular drugs. This competitive category includes companies whose core competencies are in the area of structure-based drug designs or traditional high throughput screening. In this connection, the company competes, for instance, with companies such as the Galapagos NV from Belgium or Evotec AG from Germany.

Given that 4SC's main growth potential lies in the proprietary drug candidates from the Drug Discovery & Development segment, the competitive situation in the research and development environment for specific therapeutic indications is of decisive importance. The company thus conducts regular market research in order to asses the specific competitive situation with regard to each and every therapeutic project. This includes in particular looking at pharmaceutical and biotechnology firms with proprietary project pipelines in the indicative areas of oncology and autoimmune diseases, as well as, more recently, in the area of antiviral infectious diseases. The company competes in particular with companies that employ integrated technology platforms in order to build up therapeutic pipelines and like 4SC AG intend to pursue licensing partnerships with pharmaceutical companies for such projects to be concluded no later than clinical proof of concept. This category includes such companies as Astex Pharmaceuticals from the UK and the US firms Biocryst Pharmaceuticals and Plexxicon. In 2007, it was Rigel Pharmaceuticals Inc. from the USA, with positive test results for its phase II clinical trials in the field of rheumatoid arthritis which particularly caught our attention. Previous competitors of 4SC AG with similar business models were bought out by their pharmaceutical partners following successful cooperations.

2. Presentation of the situation

2.1 Course of business

On the whole, business proceeded positively during the year under review. For the leading project SC12267, the phase IIa clinical trials were concluded as planned in the fourth quarter of 2007, with the trial results showing good tolerability and safety for SC12267. Its efficacy was demonstrated dependently of the individual clinical end points and any previous medication taken by the patient. In particular with regard to patients previously subject to corresponding treatment, the effects were readily apparent.

The company was also able to advance rapidly with the other pre-clinical development candidates in the direction of clinical development. In addition to these projects, additional backup candidates could also be identified.

In the "Collaborative Business" segment, and in the framework of the cooperation agreement concluded at the end of 2006 with QuoNova LLC., Melbourne, Florida, USA, 4SC AG made substantial research capacity available for the further development of quorum sensing modulators. In this connection, a number of value-adding development steps were achieved. In the fourth quarter of 2007 4SC AG also found a new cooperation partner with long-term potential in the form of the Wuppertal-based AiCuris GmbH & Co. KG.

The company's financial situation also developed very positively. In the context of the two capital increases carried out, 4SC AG was able to raise another KEUR 20,163. In the form of Santo Holding (Deutschland) GmbH, a new strategic investor was found with long-term perspectives, who took a significant stake in 4SC AG. With a 32.71% participation in 4SC AG (as of January 2008), Santo Holding (Deutschland) GmbH has moved to become the largest single shareholder in the company. HeidelbergCapital Private Equity Fund I GmbH & Co.KG, Munich became another, strategic investor in the company in 2007. At the same time, the share of venture capital investors has been significantly reduced and the shareholder structure thus continued to be adjusted to public capital markets.

For the leading project SC12267, the phase IIa clinical trials were concluded as planned in the fourth quarter of 2007, with the trial results showing good tolerability and safety for SC12267.

The loss of more than half of the share capital was notified at the start of April 2007 pursuant to section 92, para. 1 of the Stock Corporation Act (AktG) in due form and time, including in the context of an extraordinary general meeting on 31 May 2007. Since then, these losses have been successfully redressed.

The mandatory takeover offer received by 4SC AG shareholders from Santo Holding (Deutschland) GmbH pursuant to section 35 of the Securities Acquisition and Corporate Takeover Act (WpÜG) was seen as further proof of faith in the company, as well as being interpreted as a strategic move so as to be able to continue to support the company in the future. The majority of the shareholders followed the recommendation of the management and the Supervisory Board not to accept the offer, which resulted in a relatively modest number of shares being transferred to Santo Holding.

2.2 Earnings position

Revenues during the reporting period amounted to KEUR 1,376 and fell short of the revenues achieved for the same period in 2006 (KEUR 3,664) by 62.4%. Background: In the previous year, the "Drug Discovery and Development" segment contributed almost 50% of overall revenues with KEUR 1,683 as a result of the successful sale of the worldwide exclusive rights over QSB substances to the US firm QuoNova LLC. In 2007 4SC AG did not conclude any further licensing agreements but chose instead to focus on adding value to its pipeline projects, particularly the clinical project SC12267.

As a result, revenues in 2007 were generated exclusively in the "Collaborative Business" segment, where these were below the value of those achieved for the previous year by 30.5% (KEUR 1,376 after KEUR 1,981). In 2006, this segment benefited from a one-off payment from the successful completion of a cooperation agreement with the Japanese firm Sanwa Kagaku Kenkyusho Co., Ltd. In 2007, revenues resulted primarily from the collaboration with the US firm QuoNova LLC. In addition to this, in the fourth quarter of 2007, 4SC AG also found a new cooperation partner with long-term potential, in the form of the Wuppertal-based AiCuris GmbH & Co. KG.

The result from operating activities was KEUR - 8,303 after KEUR - 5.530 for the previous year. The reason for this is, in addition to lower revenues, an increase in research and development costs amounting to KEUR 6,240 (2006: KEUR 5,715) as well as the increase in administrative costs

amounting to KEUR 2,822 (2006: KEUR 2,355). The higher research and development costs resulted above all from increased external services in the context of further developing the project pipeline. Administrative costs rose primarily in the context of higher personnel expenses resulting from stock options.

The financial results for the reporting period amounted to KEUR 173 (2006: KEUR - 10). In this context, the share of the period results of QuoNova LLC., imputable to 4SC AG, is shown as a loss under "Financial assets accounted for by the equity method". The value entered amounts to KEUR - 51, following KEUR - 47 for the previous year. The financial income amounting to KEUR 519 (2006: KEUR 235) resulted from the interest-bearing investment of liquid funds, from the income statement related valuation of securities and from application of the effective interest method for long-term accounts receivables from associated companies. Financial expenses of KEUR 295 (2006: KEUR 198) were principally the result of exchange rate losses due to the value of the US dollar on the balance sheet date, from losses generated by the sale of securities, from applying the effective interest method to long-term loans, and from interest payments to former silent partners.

The period result for the reporting year amounted to KEUR - 8,130, as opposed to KEUR - 5,540 for the corresponding period in the previous year. Undiluted and diluted earnings per share amounted to EUR - 0,57, whereas the corresponding figure for 2006 was EUR - 0,50.

2.3 Net assets position

The positive development in the financial position of 4SC AG is the result of the capital increases for cash, with subscription rights carried out on 21 May 2007 and 7 September 2007. The company's share capital was increased in the wake of the first capital increase from KEUR 11,461, initially to KEUR 12,668, before finally being increased again to KEUR 19,002. The number of common bearer shares correspondingly rose from 11,461,365 to 12,667,884 in May, before increasing again to 19,001,826 in September 2007. The shares from the capital increase carried out in May were placed on the market at EUR 2.80 per share, whereas those from the capital increase of September were offered at the price of EUR 2.65 per share. Both these transactions brought 4SC AG KEUR 20.163 (gross).

On 4 April 2007 the company posted a notification of loss in accordance with section 92, para. 1, AktG, given that on the basis of the figures pursuant to the Commercial Code (HGB), losses had been incurred up to 31 March 2007 in excess of more than half of the share capital. Thanks to the capital increase of 7 September 2007 this equity bisection could be successfully redressed.

The non-current assets increased in comparison to the corresponding figure from 31 December 2006, of KEUR 4,334 to KEUR 5,689 by the end of the reporting period. The reason is non-current financial assets in the amount of KEUR 1,972 (2006: KEUR 0), which resulted from the interest-bearing investment of funds received in the course of the capital increase, with a remaining maturity period which expires beyond 31 December 2008. On the other hand, there was a reduction of the non-current trade accounts receivables from associated companies, the expected lower valuation of the financial assets accounted for by the equity method (QuoNova LLC.), as well as the scheduled depreciation on fixed assets.

Positive development in the financial position of 4SC AG is the result of the capital increases for cash carried out on 21 May 2007 and 7 September 2007, with subscription rights.

Current assets rose from KEUR 5,639 from the end of the previous year to KEUR 16,374 by 31 December 2007. The main factor in this was an increase in cash and cash equivalents from KEUR 2,522 to KEUR 10,335 as well as in other financial assets, from KEUR 1,949 to KEUR 4,886 in the wake of the capital measures. Furthermore, other current assets rose from KEUR 499 to KEUR 627. On the other hand, current accounts receivables from associated companies fell from KEUR 518 on 31 December 2006 to KEUR 376 by 31 December 2007. Almost unchanged from the previous year were inventories and trade accounts receivables.

The development of the equity also reflected the influence from the capital increases. In this way, the total of subscribed capital and agio increased from KEUR 27,822 on 31 December 2006 to KEUR 47,397 on 31 December 2007. The transaction costs which arose in connection with the capital measures, amounting to KEUR 588, were directly offset against the agio. Because of the negative revaluation reserves of KEUR 20 which resulted from the valuation at fair value of the financial instruments belonging to the "available for sale" category, and in the wake of the

negative results for the period of KEUR 8,130, equity at the end of the reporting period amounted to KEUR 19,616 (KEUR 7,854 at the end of the reporting period of the previous year). By 31 December 2007, the equity ratio had risen by 10.1% to 88.9%, after having reached 78.8% on 31 December 2006.

The loans provided by the former silent partners, which had been accounted for in the previous year's balance sheet as part of long-term financial liabilities, is due for repayment on 31 December 2008 and has therefore been attributed to current liabilities since 31 December 2007. At KEUR 53, other long-term liabilities remained virtually unchanged with regard to last year's figure of KEUR 47. In total, non-current liabilities were reduced from KEUR 877 to KEUR 53.

The reclassification of the loan as current is one reason for the rise in current liabilities on 31 December 2007 by KEUR 1,152 to KEUR 2,394. At the same time, accounts payable to associated companies had also risen by the end of the reporting period, from KEUR 29 on 31 December 2006, to KEUR 103, as we all other liabilities, which rose from KEUR 714 to KEUR 951, this last increase primarily taking place in the context of existing liabilities from external service contracts.

The balance sheet total increased due to the described effects to KEUR 22,063 on 31 December 2007 after reaching KEUR 9,973 on 31 December 2006.

2.4 Financial position

The balance of cash and cash equivalents at the end of the reporting period amounts to KEUR 10,335. Other monies in the amount of KEUR 4,886 are held in short-term fixed and variable interest-bearing securities and fixed deposits. In addition, KEUR 1,972 are held in financial instruments with a maturity period of more than one year, so that a total cash balance to the amount of EUR 17,193 remains (31 December 2006: KEUR 4,471).

Cash outflows from operating activities during the reporting period amounted to KEUR 6,634. Despite losses for the period which were KEUR 2,590 higher than in the previous year, cash flows exceeded those of the previous year in the amount of KEUR 6,150 by KEUR 484 and thus by 7.9%. The main reason is the reduction in accounts receivables from associated companies by KEUR 540 (2006: increase of KEUR 1,356).

Cash outflows from investing activities during the reporting year amounted to KEUR 5,128 (2006: KEUR 2,326) and was decisively influenced by the acquisitions and disposals of financial instruments with a maturity of more than three months. From the funds raised in the context of the two capital increases, the company invested KEUR 6,832 during the reporting year in fixed and variable interest-bearing securities from highly credit-worthy sources, as well as in fixed term deposits (2006: KEUR 1,949). At the same time, payments resulted from the sale of financial investments in the amount of KEUR 1,904 (2006: KEUR 0). In addition, investments were made in fixed and intangible assets in the total amount of KEUR 200 (2006: KEUR 377).

Cash inflows from financing activities during the reporting period amounted to KEUR 19,575 and were wholly the result of the capital increases from 21 May 2007 and 7 September 2007. In the previous year, in the context of a capital increase dated 11 May 2006, cash inflows in the amount of KEUR 4,120 were generated.

2.5 Statement on the economic situation as a whole

While the results of operating activities and the company's results for the period suffered in comparison to the previous year, due to falling revenues and simultaneously rising costs, the company's net assets and financial situation nevertheless significantly improved, due to the two capital increases which were carried out. The equity ratio improved by 10.1% to 88.9%. The balance of cash and cash equivalents, as well as issued securities amounted, on 31 December 2007, to KEUR 17,193 (KEUR 4,471 in the previous year).

Until the completion of this financial statement, the development of the company, both in financial and scientific terms, was progressing according to plan for the 2008 financial year as well.

3. Risk and chance report

3.1 Risk management and internal control system

As a biotech company, 4SC AG operates in a technological environment that harbours specific business risks of a non-general nature, pertaining particularly to research and development, intellectual property, collaborations and financing issues. Individually or in combination, these risks can have a negative impact on 4SC's net assets, finances and earnings situation.

4SC AG implemented a comprehensive computer-aided risk management and controlling system in 2002 in order to promptly identify potential risks and avoid negative impact to the firm. Since then, the system has been continually updated in accordance with the company's development.

This risk management system is an integral component of the corporate management and monitoring measures. Risk reports generated by the system provide the Management with extensive quarterly information at a project and corporation level and serve as a tool for the management and controlling of internal research and development projects. Accordingly, the risk officers of the various company divisions regularly employ predefined risk management processes to identify, analyse and evaluate risks as to the probability of their occurrence, the scope of potential losses and possible avoidance measures. These risks are reported by the risk management officer to the Management Board, so as to provide a basis for strategic decision-making concerning adequate response to any residual risks.

In order to supplement the risk management system and in addition to the established ERP system for the Financing and Controlling division, there are additional components to the internal monitoring system. These consist of such individual elements as crisis planning, mandatory review procedures and signature authorisation procedures. In this way, residual risks are effectively minimised.

The material individual risks outlined below are to certain extent interrelated, having a potentially ameliorating or aggravating effect.

3.2 Industry-specific risks

The industry in which 4SC AG operates is characterised by short technology cycles and a high level of innovation. Other technologies could come on the market in the future which would permit cheaper and/or more rapid development of new drug candidates. 4SC AG's business operations are subject to extensive regulatory constraints and controls. The ability to develop and market new drug candidates can be impaired by administrative proceedings over which 4SC AG only have limited influence.

3.3 Risks with regard to business activities

Achieving profitability

As a company specialising in research and development, 4SC AG has to generate substantial net sales from milestone payments, licensing income and royalties from licensing agreements with pharmaceutical and biotech partners and service collaborations to achieve profitability. 4SC AG's net sales have not thus far allowed the company to finance itself and generate profits. In light of these realities, and considering also the future need to make significant research and development expenses, the company will continue to post negative operating results for the time being. In order to achieve profitability in the medium term, 4SC AG is obliged to enter into more significant agreements within the pharmaceutical industry and with large biotechnology companies. In order to do this, the company is in regular contact with a large number of pharmaceutical and biotech companies.

4SC AG implemented a comprehensive computer-aided risk management and controlling system in 2002 in order to promptly identify potential risks and avoid negative impact to the firm.

Additional financing

In 2007, two capital measures were carried out, by which short-term financing for the company was achieved, and which succeeded in laying a strong foundation for the attainment of the company and developmental objectives, which are being maintained. 4SC AG will, however, continue to require capital to realise its company goals over the medium term. This will depend on various factors, especially on whether it is possible to generate sufficient regular income from licensing or collaborative efforts. Product development costs could exceed such income, requiring additional equity and debt financing. 4SC AG cannot offer any assurance that such financing will be obtainable at the time

required, in the amount required, on economically feasible terms, or under any circumstances. In the event that adequate financing should be unavailable or only available on unacceptable terms, 4SC AG could be forced to limit its research and product development expenditures, having a potentially negative impact on 4SC AG's net assets, finances and earnings situation. In the event that the company should seek additional capital through the issuance of new shares, this could see shareholders having to suffer a significant dilution of their shares.

A cornerstone of the strategy to protect the company's proprietary technologies and development is the generation of intellectual property rights and broad patent and licensing strategies.

Service collaborations

4SC AG generates a significant part of its revenues from cooperation agreements with QuoNova LLC., Melbourne, Florida, USA and AiCuris GmbH & Co. KG in Wuppertal. These collaborative efforts produced 95.56% of overall revenues in 2007. Were a partner to terminate such an agreement, this would have a negative impact on revenues and, accordingly, also on the future financial and earnings situation. In light of this reality, 4SC AG is working on identifying new collaboration partners, as well as initiating new projects with existing partners.

Industrial property rights for the protection of drug candidates

A cornerstone of the strategy to protect the company's proprietary technologies and development is the generation of intellectual property rights and broad patent and licensing strategies. Even where patents are issued, it cannot be ruled out that third parties may challenge the validity of patents in part or as a whole, or even the patent application as such. The mere assertion by third parties that 4SC AG patents or patent applications may be contestable can have a negative effect on net sales, thereby affecting company finances and earnings. Furthermore, it cannot be ruled out that 4SC AG may become embroiled in patent litigation with third parties. It may become necessary that 4SC AG itself begin contesting patents to defend proprietary intellectual property or to preempt third-party patents and patent applications which could potentially compromise 4SC AG's future development. Such proceedings are, as a rule, protracted and costly. To avoid such conflicts, 4SC AG employs a strategy of careful monitoring of competitor patents and involving an application strategy designed to clearly formulate patent-protected claims and to allow the registration of intellectual property rights at an early stage.

Product development risks

As a product-oriented biotechnology firm, 4SC AG is subject to developmental risks typical of the industry resulting from the long development times associated with drug discovery. One product candidate has concluded phase IIa clinical trials, while four projects are currently at the pre-clinical stage with another in the research phase. The risks are that individual drug candidates may not prove efficacious, may involve excessive side effects and thus may not be successfully developed or be temporarily or permanently denied mandatory regulator approval.

4SC AG's strategy is to reduce these risks as much as possible through a broadly diversified, risk-balanced portfolio of research and development projects. 4SC AG thus regularly evaluates all of its projects in order to reduce intrinsic portfolio risks.

Licensing for marketing

A key part of 4SC's strategy is to enter cooperation partnerships or licensing agreements with experienced industry partners for the advanced clinical development and subsequent marketing of both existing and future drug candidates in the near future. This applies in particular with regard to the conclusion of phase IIa clinical trials of the drug candidate SC12267. If 4SC AG does not succeed in concluding such partnership or licensing agreements, either at all or on commercially acceptable terms, the development and marketing of drug candidates could be delayed and development and marketing costs could rise. In addition, 4SC AG could potentially not receive milestone payments or licensing fees in the event a cooperation or licensing partner should fail to successfully develop or market a 4SC AG drug candidate, negatively impacting finances and earnings accordingly.

In light of this reality, the company regularly presents its projects to market participants at an early stage. Numerous talks are underway with a range of potential partners in the pharmaceuticals industry and indicate a high level of interest in 4SC AG drug candidates.

Key personnel and holders of know-how

The success of 4SC AG depends to a large extent on its key managers and scientific and technical personnel. Many of these employees have extensive experience at the firm and would be hard to replace effectively. Competition for highly-skilled personnel is intense in the biotechnology industry and is increasing. However, 4SC AG has thus far always succeeded in filling the relevant positions with suitable individuals on reasonable employment terms. Losing certain key managerial, scientific or technical personnel could have a negative impact on 4SC AG's competitiveness. In addition to paying competitive salaries, 4SC AG employs such tools as employee stock option programmes and active personnel and leadership work in order to actively support retention of staff. The company deliberately implements clear managerial structures and actively utilises an extensive range of management instruments.

3.4 Other risks faced by the company

Equity bisection through increasing losses carried forward

4SC AG is a company which has yet to achieve profitability and has generated negative operating results over the past financial years. On the basis of its extremely high research and development costs, these losses accumulated over time into a large loss carried forward. This is offset against existing equity and it cannot be ruled out that it could come to another equity bisection, requiring mandatory notification. Pursuant to section 92, para. 1, AktG, this would require the immediate convocation of an extraordinary general meeting. To do so would involve organisational and financial expenditure for 4SC AG, while on the other hand it may also have a negative impact on the share price.

Risks in connection with the acknowledgement of tax losses carried forward

The losses carried forward until 31 December 2004, amounting to KEUR 28,052 for corporate tax and of KEUR 27,694 in connection with the trade loss, were denied by the responsible tax authorities through the tax assessments of 31 December 2005. At the same time, prorated losses carried forward for the financial year 2005 as well, amounting to KEUR 1,352 for corporate tax and trade tax, were denied.

In accordance therewith, 4SC AG owes, as per 31 December 2006, the date of the last provisional tax appraisal (pursuant to the tax opinion of the same date), deferred corporate income tax in the amount of KEUR 9,912 and deferred trade tax in the amount of KEUR 9,781. In the time since 31 December 2006, which has not been subject to a tax appraisal, further substantial losses have been incurred.

The success of 4SC AG depends to a large extent on its key managers and scientific and technical personnel.

In light of the legal uncertainty which continues to prevail when interpreting the factual elements in this context, 4SC AG has chosen to file an appeal against the tax opinion. The proceedings are currently pending. Nevertheless, it is possible that the opinion could be definitively upheld, and that losses carried forward may no longer be able, in future, to be offset against profits. The moment the company reaches profitability this could have a significantly negative impact on its results after tax over the coming years and produce additional cash outflows.

In addition, it must be assumed that the tax authorities, in application of similar arguments, will also question or deny, in part or in whole, the losses carried forward for the years 2005 until 2007.

With effect on equity transfers after 1 January 2008, the provision contained in section 8, para. 4 of the Corporate Income Tax Law (KStG) is to be replaced, in application of the Act on Corporate Tax Reform by section 8c, KStG: In this context, any transfer of between 25% and 50% of the subscribed capital allows for partial, whereas any transfer of more than 50% of the subscribed capital allows for total elimination of tax losses carried forward. Contrary to previously-existing regulations, the acquisition of predominantly new operating assets is no longer relevant. This could have a negative impact, particularly in the context of further capital measures, on future deferred tax results and 4SC AG's equity.

Risks in the context of investing liquid reserves

4SC AG has liquid reserves at its disposal, which, for as long as they are not to be used in the foreseeable future, are invested in order to generate better interest returns. The funds are overwhelmingly tied up in fixed deposits, money market funds, bonds, bearer bonds, variable interest securities and real estate investment trusts. In doing so, investment products are scrutinised with regard to their high credit ratings and are managed conservatively. Nevertheless, it could transpire that one or more securities suffer from devaluations or the issuing entity no longer disposes of sufficient liquidity to honour its repayment obligations. This may damage 4SC AG's liquidity and have a negative impact on earnings. However, 4SC AG endeavours to invest only in diversified and low-risk investment products so as to minimise to the greatest extent possible, exchange rate and credit risks.

With numerous patents expiring drug companies are in general looking to conclude collaboration and licensing deals for new discovery projects earlier in the development process.

Currency risks

4SC AG conducts transactions with various international partners, with whom the contractually-agreed payment terms are in a currency other than the Euro (EUR). This subjects 4SC AG to the risk of potential exchange rate fluctuation relative to the Euro during the period between invoicing and due date. 4SC AG may also need to conclude agreements requiring payments to or by 4SC AG in non-Euro currencies, involving exchange rate risks that may not be hedged against on reasonable terms.

Possible bad debts

4SC AG has current and non-current receivables on its books, some of which may be collected with some delayor not at all. This would lead to valuation allowances being made on such receivables and would thus have a negative impact on the company's net assets, financial and earnings situation.

3.5 Opportunities for the company

Value enhancement through external partnerships and licensing

4SC AG conducts intensive and regular discussions with potential partners in the pharmaceuticals industry. With numerous patents protecting existing products expiring and new drug failures in the development of projects affecting the pharmaceutical industry, drug companies are in general looking to conclude collaboration and licensing deals for new discovery projects earlier in the development process. The terms of such partnerships between pharmaceutical and biotechnology companies are becoming increasingly favourable for biotech companies. In the face of this continuing trend, 4SC AG may also benefit from its project portfolio. In addition, such collaborative projects serve to further validate 4SC AG's projects and – dependant on the contract – also serve to strengthen the company's financial, earnings and net assets position.

With the conclusion of the phase IIa clinical trials in 2007, the drug candidate SC12267 has passed the important proof of concept phase and is now available as a licensing candidate. In this context, the outward licensing or collaboration with a partner in the pharmaceutical industry could be afoot in the short term.

Value enhancement through project advancement

According to the planning, different drug candidates of 4SC AG should, in the short to medium term, achieve further important development milestones. This should have a positive effect on the valuation of the individual projects and thus on the value of the company as a whole. This would be the case in particular upon project candidates entering clinical development or successfully concluding study phases.

Takeover prospects

While interest in drug candidates in early development phases is increasing, in recent years large pharmaceutical and biotechnology companies have been increasingly opting for direct takeovers to obtain attractive technologies. The premiums paid above market price are usually considerable; 4SC shareholders could benefit accordingly.

One candidate – multiple projects

4SC's research and development efforts have often illustrated in the past how a development candidate can function as a platform upon which a variety of different projects involving different drug candidates for varying applications

can be built. In the short term, this could give rise to an expansion of the project pipeline, thus further diversifying risk and potentially enhancing value.

Acute medical need creating demand

During the past years, the threat of a flu epidemic has shown the immediate positive impact current events can have on the value of ongoing 4SC AG projects.

With its NFκB project, 4SC has a promising development candidate for combating influenza viruses that is undergoing systematic development. As protective measures against the threat of flu epidemics continue to be an issue of widespread concern, this project holds considerable potential.

Licensing income from patents

4SC AG's broad and well-positioned patent portfolio has the potential for generating additional licensing income, as other developers may be forced to use such patent rights in order to advance their own projects. The granting of these patent rights would improve the company's financial, earnings and assets position.

Investments with appreciation potential

4SC AG holds equity stakes in the companies quattro research GmbH, headquartered in Planegg-Martinsried, and QuoNova LLC., Melbourne, Florida, USA. The shares held by 4SC AG could appreciate in value if these companies perform well. The investment in QuoNova LLC., which bought the rights to 4SC AG's QSB substances in late 2006 holds particular potential. The company's largest shareholder, the US-american XL TechGroup, has a track record of building up similar start-ups which have gone public within only a few years. This holding thus offers value enhancement potential for 4SC AG over the medium term.

4. Information pursuant to section 289, para. 4 of the commercial code (HGB)

Composition of the subscribed capital
The company's share capital currently consists of a single class of 19,001,826 (individual) zero par value common bearer shares without other rights or preferred status. The Management Board has not been authorised by the annual general meeting to issue new shares from approved capital or to buy back shares.

Restrictions affecting voting rights or the transfer of shares
Transfer of shares was restricted through a lock-up agreement with Conrad Hinrich Donner Bank, Hamburg, in connection with 4SC AG's public listing in December 2005. This arrangement become redundant in stages up to 15 December 2007, so that by 31 December 2007, none of the company's shares continued to be subject to this arrangement.

Equity holdings which exceed 10% of the voting rights
Important shareholders holding equity stakes in excess of 10% are, according to information currently available to the company:

- Santo Holding (Deutschland) GmbH, Stuttgart, with 32.71%;
- HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, with 15.52%;
- VCG Venture Capital GmbH & Co. Fonds III KG, Munich, with 14.89%.

Shares with special voting rights which assign controlling rights
There are no shares with special voting rights which assign controlling rights.

Voting rights when employees are shareholders and do not directly exercise their control rights
Employees, who hold equity in the company via direct acquisition of shares or employee stock option programmes, are not subject to voting rights.

Statutory rules and provisions in the Articles of Association concerning the appointment and dismissal of Management Board Members and changes to said articles
The appointment and dismissal of Board Members is governed by sections 84 and 85, AktG.

Pursuant to section 7, para. 1 of the Articles of Association of 4SC AG, in the version dated 10 September 2007, the Supervisory Board appoints the members of the Management Board for a maximum of five years. The reappointment or extension of the term of office, for a maximum of another five years, is permitted and requires another resolution by the Supervisory Board, which can only be taken at the earliest one year before expiry of the current term of office. Only where an appointment has been for less than five years can an extension of the term of office take place without a new resolution by the Supervisory Board, insofar as the overall term of office does not exceed five years. Pursuant to section 7, para. 3 of the Articles of Association, the Supervisory Board is responsible for the conclusion, amendment or termination of the employment agreement with the Management Board member in question as well as any withdrawal of his or her appointment.

As a rule, any change in the Articles of Association requires a corresponding resolution on the part of the annual general meeting, pursuant to section 179, AktG. The Supervisory Board is, moreover, pursuant to section 13 of the Articles of Association of 4SC AG, authorised to decide upon amendments and addenda thereto, which only affect that particular version thereof.

Powers of the Management Board to issue and buy back shares
The Management Board is currently not empowered to issue and buy back shares.

Significant arrangements in place in the event of a change of control pursuant to a takeover offer
The company has no other significant compensation or other provisions in place in the event of a change of control pursuant to a takeover offer. The only exception is preemptive purchasing rights enjoyed by QuoNova LLC. or the other shareholder, XL TechGroup LLC, for 4SC AG's shareholdings in QuoNova LLC. in the event of a change of ownership.

Compensation arrangements of the company in the event of a takeover offer which affects Management Board Members or employees
For the Management Board members Dr Ulrich Dauer, Dr Daniel Vitt and Enno Spillner, an agreement was concluded, in the context of a rearrangement of the Management Board Members' contractual arrangements, that in the event of a takeover by a third party and when the Management Board is to be dissolved as a result, their salaries would be fully paid out for their remaining contract terms, but for a minimum period of 15 months.

5. Basic principles of the remuneration scheme

Management Board member annual remuneration consists of a non-performance-based payment and a performance-based bonus in addition to a long-term incentive in the form of stock options (ESOP = Employee Stock Option Programme).

Total remuneration to 4SC AG Management Board members came to KEURO 893 during the past financial year, of which 62.1% represented fixed salary and 37.9% was made up of variable components. The Supervisory Board sets bonus levels at its own prudent discretion on the basis of company business results and the degree of obtainment of predefined individual and general organisational objectives. The Supervisory Board reviews the appropriateness of the Management Board's remuneration annually.

4SC AG Management Board Members held a total of 290,700 stock options and 830,579 shares as of 31 December 2007. On aggregate, they thus held 4.4% of the company's shares.

The annual general meeting decides as to the remuneration due the Supervisory Board. On 28 June 2006, the annual general meeting adopted a resolution to pay each member of the Supervisory Board a basic salary in the amount of KEUR 10 per financial year, whereby the chairman is to receive double and his deputy 150% thereof. Membership in commissions is remunerated by the company at the price of KEUR 5 per commission. Overall, total compensation per Supervisory Board member may not exceed a cap of KEUR 20.

Total remuneration for the Supervisory Board in the reporting year amounted to KEUR 90 (2006: KEUR 90). Other costs such as travel expenses are only reimbursed in the demonstrated amount.

On 31 December 2007, members of the Supervisory Board of 4SC AG held a total of 92,000 shares and thus 0.5% of the company.

A breakdown of individual Management Board member remuneration and detailed information on the stock option programme is provided in the notes to the 2007 IFRS financial statements.

6. Events after the end of the financial year

At midnight 8 January 2008, the deadline for 4SC AG shareholders to accept the takeover offer made by Santo Holding (Deutschland) GmbH pursuant to section 35, WpÜG expired. In its notification on 11 January 2008, Santo Holding declared that in connection with the aforesaid offer, it had been able to acquire 271,636 shares or 1.43% and that Santo Holding now holds a total of 32.71% of the shares.

On 5 February 2008 4SC AG publicly announced its research cooperation, ongoing since the end of 2007, with AiCuris GmbH & Co KG, based in Wuppertal. The long-term goal of this collaboration is to set-up a joint product pipeline with innovative, anti-infective pharmaceutical active agents. In the context of this cooperation 4SC AG shall, over the course of one year make medicinal chemicals from its extensive resources available to AiCuris, for research purposes.

7. Business outlook

7.1 Overall economic outlook

In 2008, the global economy will continue to be on a growth course according to experts, although growth will slacken somewhat. The main drivers of economic growth in the global economy will remain oil and raw material producing countries, as well as the emerging markets of China and India, which could at least partially offset the downturn in the US.

The International Monetary Fund is thus predicting growth in global production of about 4.1%. While particularly emerging markets and countries in Asia are set to achieve average growth rates of 6.9%, with China in particular at 10.0%, the Eurozone is set to grow by only 1.6%. For the US, the IMF predicts that events will be overshadowed by the subprime mortgage crisis and is warning of a possible recession. Nevertheless, experts are still predicting that the US economy will grow by 1.5% in 2008. This will be supported by the unusually sharp interest rate cuts already initiated in January 2008 by the US Federal Reserve.

The upsurge in the German economy is also set to lose some of its momentum in 2008 according to forecasts by leading German economic institutes. On a yearly average and with seasonal adjustments, the Deutsche Bundesbank is forecasting GDP growth in the vicinity of 1.6%. According to estimates by the German Institut für Wirtschaftsforschung (DIW), the economy is set to grow by 2.1%. Forecasts for the German labour market are also positive. The German employment agency, the Bundesagentur für Arbeit (BA) in Nuremberg, is predicting that unemployment numbers in Germany will fall to the 3.5 million mark. At the same time real wages are anticipated to experience real increases for the first time in five years, which will be important for purchasing power and consumer spending.

In terms of negative factors, the experts at the Institut der deutschen Wirtschaft (IW) in Cologne mention, in addition to political crisis, primarily the turbulence being experienced in the US financial and real estate markets. These will affect not only the US economy but will also have ripple effects on world trade. Other negative factors are the high prices for energy and raw materials which are set to continue in 2008 and which will lead to a bump in consumer prices. At the same time, the European economy is being affected by the Euro's rise against the US dollar, which, on the one hand makes it cheaper for European companies to buy goods traded in US dollars, but which also creates difficulties for German exporters on world markets.

7.2 Biotechnology outlook

As a rule, prospects for the industry remain positive, not least in light of the structural challenges being faced by the pharmaceutical industry. With regard to the approval of new products, the biotech industry has occupied a solid position and it is to be expected that the number of admitted biotech therapeutics as a share of the total number of admitted drugs will only increase.

In order to more quickly close gaps in their own pipelines, pharmaceutical companies will need to pursue acquisition and licensing strategies in parallel. As a result, numerous reports about development cooperation initiatives, licensing arrangements and M&A activity in the industry are to be expected in 2008 as well. In addition, more and more products from biotech companies are reaching more mature development stages, and are thus generating additional value and greater potential.

The social, economic and political framework conditions continue to pose challenges. Finding sufficient capital for up-and-coming companies in the face of reticent capital markets and a small number of highly-selective venture capital companies will thus continue to be a central issue.

With regard to the approval of new products, the biotech industry has occupied a solid position and it is to be expected that the number of admitted biotech therapeutics as a share of the total number of admitted drugs will only increase.

7.3 Company outlook

7.3.1 Research, development & collaborations

Following the conclusion of phase IIa clinical trials for the leading project SC12267 against rheumatoid arthritis, 4SC AG is seeking a licensing partner amongst pharmaceutical companies in order to further develop the substance. Working together, it is hoped that the drug candidate can be developed to a stage where it is ready for market and subsequently marketed. The company is currently engaged in intensive discussions with various market participants.

A total of four projects are currently in pre-clinical development. According to current planning, at least two projects should move into clinical studies in the course of this year, as soon as sufficient quantities of the substances can be produced and the formal studies regarding their safety can be concluded.

Also with regard to these projects, 4SC AG is involved in regular discussions with potential partners, with the aim of generating early net sales through co-development and licensing partnerships and so as to more quickly unlock the candidate's potential. 4SC AG will continue to systematically implement its strategy of generating a majority of income through the Drug Discovery & Development segment in 2008, with a medium-range time horizon.

A total of four projects are currently in pre-clinical development.

According to current planning, at least two projects

should move into clinical studies in the course of this year.

In the "Collaborative Business" segment 4SC AG will continue with its ongoing projects with existing partners. In addition hereto, new projects and new clients are to be acquired. This segment is to operate profitably – as it has in the past – on the basis of its own net sales. A sizeable contribution to this goal should be made by the research and development cooperation with QuoNova LLC., Melbourne, Florida, USA, and AiCuris GmbH & Co. KG in Wuppertal. In both cases, 4SC AG is making available capacity for development to be achieved.

7.3.2 Employees

On the whole, 4SC AG has adequate staffing levels to implement its ongoing developmental efforts and projects. However, so as to be able to simultaneously bring four project candidates into formal development and thereby on the way to clinical testing, 4SC AG will need to expand its personnel capacity in the area of clinical development. In the chemical segment as well, the team is to be strengthened, so as to make additional capacity available for research.

7.3.3 Financial goals

With the increasing maturity of the project pipeline, additional value is being created thereby generating additional outward licensing and earnings potential. This inevitably involves growing development costs, in particular in order to move the current four pre-clinical development candidates quickly in the direction of clinical studies. In parallel a further potential decline in public grants can be expected for the financial year 2008. Because support as part of the BMBF programme expired on 31 December 2007, no further income is to be recorded for this project (2007: income of KEUR 434). However, 4SC AG is endeavouring to acquire new sources of development funds, in order to at least compensate for the discontinuation of those programme funds.

Against this background, the company expects negative period results for the financial year 2008 and possibly also with extended losses. Nevertheless, the management expects, given the current projects and ongoing discussions, to generate relevant net sales from collaboration in the "Collaborative Business" segment. In the "Drug Discovery and Development" segment, 4SC AG is counting in particular on a licensing partnership for its most developed drug candidate SC12267 and expects in this context a substantial share in net sales. It nevertheless remains difficult to predict the extent to which earnings from licensing will be in a position to offset rising development costs.

In any event, the capital inflows secured in the course of 2007 and the expected earnings will ensure the continued financing of the company beyond the next twelve months. Until then, the management assumes that collaboration and licensing will generate additional cash inflows and net sales. Any capital requirements in excess of this could be covered by taking on additional equity or third-party capital in order to secure the medium and long-term survival of the company.

Management Board of 4SC AG
(from left to right):
Dipl.-Kfm. Enno Spillner,
Dr Daniel Vitt, Dr Ulrich Dauer
and Dr Gerhard Keilhauer

On the whole, 4SC AG sees itself as well-positioned to achieve its strategic, commercial and scientific objectives. According to estimates by the Management, the company has enough room to manoeuvre and sufficient options so as to continue negotiations concerning licensing agreements or technological collaboration, without being subject to time pressures and will be able, in the meantime, to continue increasing the value of the company.

Planegg-Martinsried, 10 March 2008

Dr Ulrich Dauer, CEO

Dr Gerhard Keilhauer, CDO

Dipl.-Kfm. Enno Spillner, CFO

Dr Daniel Vitt, CSO

Financial Statements of 4SC AG (IFRS)

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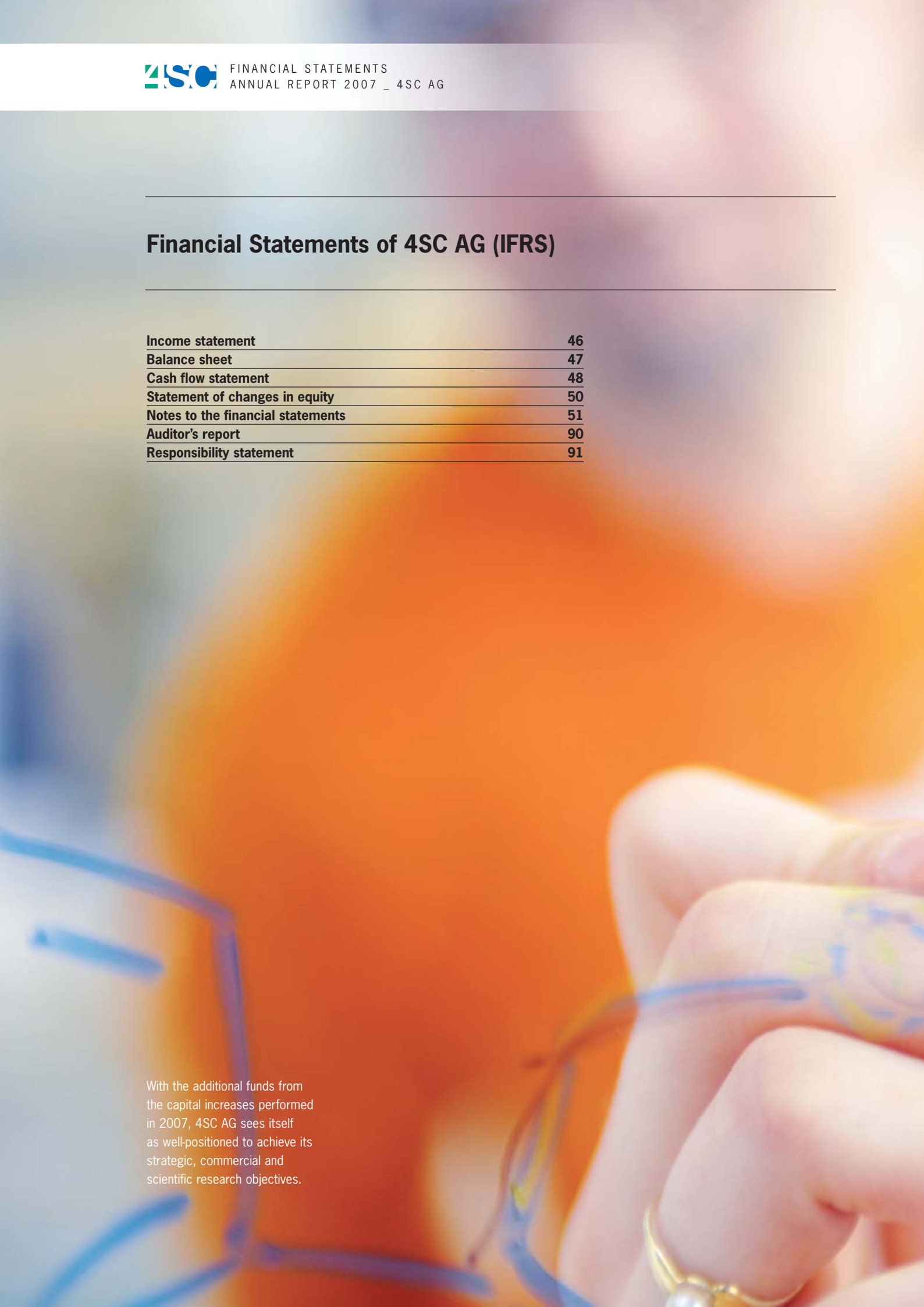


With the additional funds from the capital increases performed in 2007, 4SC AG sees itself as well-positioned to achieve its strategic, commercial and scientific research objectives.

Income statement for the financial year from 1 January to 31 December 2007

in KEUR	2007	2006[1]	Notes
Net sales	1,376	3,664	4.1
Cost of sales	- 396	- 637	4.3
Gross profit	**980**	**3,027**	
Distribution costs	- 334	- 518	4.4
Research and development costs	- 6,240	- 5,715	4.5
Administrative costs	- 2,822	- 2,355	4.6
Other operating income	113	31	4.7
Result from operating activities	**- 8,303**	**- 5,530**	
Financial result			4.9
Result from an associate accounted for by the equity method	- 51	- 47	
Finance income	519	235	
Finance expenses	- 295	- 198	
Financial result	**173**	**- 10**	
Period result	**- 8,130**	**- 5,540**	
Earnings per share (undiluted and diluted; EUR)	- 0.57	- 0.50	6.

1: The other operating expenses, reported separately in previous financial statements, were assigned to the individual areas of activity. The comparative amounts were reorganised in accordance with IAS 1.38. Applicable notes are to be found among the explanations for the respective items in the income statement.

See accompanying notes to the financial statements.

Balance sheet for the financial year ended 31 December 2007

in KEUR	2007-12-31	2006-12-31[1]	Notes
ASSETS			
Non-current assets			
Intangible assets	1,865	1,875	7.1
Fixed assets	1,072	1,230	7.2
Investments accounted for by the equity method	0	51	7.3
Other financial assets	1,972	0	7.4
Accounts receivables from associated companies	623	1,021	7.5
Other non-current assets	157	157	7.10
Total non-current assets	**5,689**	**4,334**	
Current assets			
Inventories	19	17	7.6
Trade accounts receivables	131	134	7.7
Accounts receivables from associated companies	376	518	7.5
Other financial assets	4,886	1,949	7.8
Cash and cash equivalents	10,335	2,522	7.9
Other current assets	627	499	7.10
Total current assets	**16,374**	**5,639**	
Total assets	**22,063**	**9,973**	
EQUITY AND LIABILITIES			
Equity			7.11
Subscribed capital	19,002	11,461	
Agio	28,395	16,361	
Reserves	630	313	
Balance sheet loss	- 28,411	- 20,281	
Total equity	**19,616**	**7,854**	
Non-current liabilities			
Financial liabilities	0	830	7.14
Other liabilities	53	47	7.15
Total non-current liabilities	**53**	**877**	
Current liabilities			
Trade accounts payable	480	499	7.12
Accounts payable to associated companies	103	29	7.13
Financial liabilities	860	0	7.14
Other liabilities	951	714	7.15
Total current liabilities	**2,394**	**1,242**	
Total equity and liabilities	**22,063**	**9,973**	

1: The presentation of individual balance sheet items was changed compared to the previous year. The comparative amounts were reorganised in accordance with IAS 1.38. Applicable notes can be found among the explanations for the respective balance sheet items.

See accompanying notes to the financial statements.

Cash flow statement for the financial year from 1 January to 31 December 2007

in KEUR	2007	2006	Notes
Cash flows from operating activities			8.1
Period result before taxes	- 8,130	- 5,540	
Corrections for:			
Depreciation on fixed assets and intangible assets	368	625	
Financial result	- 173	10	
Non-cash affecting expenses ESOP[1]	337	115	
Non-cash affecting expenses and income	14	- 134	
Interest received	274	192	
Interest paid	- 35	- 35	
Decrease of trade accounts receivables	3	71	
Decrease/Increase of accounts receivables from associated companies	540	- 1,356	
Increase of inventories	- 2	- 3	
Increase of other current assets	- 128	- 46	
Decrease/Increase of trade accounts payable	- 19	228	
Increase of accounts payable to associated companies	74	0	
Increase/Decrease of other liabilities	243	- 277	
Cash flows from operating activities	**- 6,634**	**- 6,150**	
Cash flows from investing activities			8.2
Payments for investment in intangible assets	- 8	- 78	
Payments for investment in fixed assets	- 192	- 299	
Purchase of financial assets that are no cash equivalents	- 6,832	- 1,949	
Sales of financial assets that are no cash equivalents	1,904	0	
Cash flows from investing activities	**- 5,128**	**- 2,326**	

1: ESOP = Employee stock option programme for employees and Management Board

in KEUR	2007	2006	Notes
Cash flows from financing activities			8.3
Payments to subscribed capital	7,541	931	
Payments to agio	12,034	3,189	
Cash flows from financing activities	**19,575**	**4,120**	
Net change in cash and cash equivalents	**7,813**	**- 4,356**	
+ Cash and cash equivalents at the beginning of the period	2,522	6,878	
= Cash and cash equivalents at the end of the period	**10,335**	**2,522**	

The cash flow statement was prepared in accordance with the provisions of IAS 7.

See accompanying notes to the financial statements.

Statement of changes in equity for the financial year from 1 January to 31 December 2007

in KEUR	Subscribed capital	Agio	Reserves ESOP[1,2]	Retained earnings	Revaluation reserve	Balance sheet loss	Total
			Reserves				
Balance on 2006-01-01	**10,530**	**13,172**	**131**	**67**	**0**	**- 14,741**	**9,159**
Issued options (ESOP 2001 / 2003)			18				18
Issued options (ESOP 2004 / 2004)			20				20
Issued options (ESOP 2004 / 2005)			15				15
Capital increase of 11 May 2006	931	3,189					4,120
Issued options (ESOP 2004 / 2006/1)			3				3
Issued options (ESOP 2006 / 2006/2)			36				36
Issued options (ERSATZ-ESOP 2001 / 2006/3)			23				23
Overall result 2006						- 5,540	- 5,540
Period result 2006						*- 5,540*	*- 5,540*
Balance on 2006-12-31	**11,461**	**16,361**	**246**	**67**	**0**	**- 20,281**	**7,854**
Balance on 2007-01-01	**11,461**	**16,361**	**246**	**67**	**0**	**- 20,281**	**7,854**
Issued options (ESOP 2001 / 2003)			- 60				- 60
Issued options (ESOP 2004 / 2004)			17				17
Issued options (ESOP 2004 / 2005)			18				18
Issued options (ESOP 2004 / 2006/1)			6				6
Issued options (ESOP 2006 / 2006/2)			208				208
Issued options (ERSATZ-ESOP 2001 / 2006/3)			147				147
Capital increase of 21 May 2007	1,207	1,793					3,000
Capital increase of 7 September 2007	6,334	10,241					16,575
Issued options (ESOP 2006 / 2007)			1				1
Overall result 2007					- 20	- 8,130	- 8,150
Valuation of financial instruments					*- 20*		*- 20*
Period result 2007						*- 8,130*	*- 8,130*
Balance on 2007-12-31	**19,002**	**28,395**	**583**	**67**	**- 20**	**- 28,411**	**19,616**

1: ESOP = Employee stock option programme for employees and Management Board
2: Reclassification of the prior year item Additional paid-in capital convertible bonds to reserves ESOP

Additional explanations concerning the components and changes in equity can be found in the notes in “7.11 Equity“.

See accompanying notes to the financial statements.

Notes to the financial statements for the financial year ended 31 December 2007

1. General information and information about the company

4SC AG, headquartered at Am Klopferspitz 19a, 82152 Planegg-Martinsried, is registered in the Commercial Register of the Munich Municipal Court under HRB no. 132917. A Commercial Register excerpt of 9 January 2008, with the most recent entry dated 24 September 2007, has been received. The version of the Articles of Association dated 10 September 2007, is in effect.
The shares of 4SC AG are listed under the stock exchange abbreviation VSC, securities identification number 575381 and ISIN DE0005753818, on the Regulated Market in the Prime Standard Segment of the Frankfurt Stock Exchange.
The purpose of the enterprise is the identification, research and optimisation of active agents and the development, use and marketing of chemical, biotechnological and computer processes.
The company is authorised to engage in all transactions that are expedient to and foster the achievement of the corporate purpose. For this purpose it is also permitted to found, acquire, obtain equity interests in and assume the management of other enterprises domestically and abroad, lease companies or business operations, conclude intercompany agreements, particularly profit transfer and control contracts, and establish branch offices and field offices domestically and abroad.
The Management Board approved the annual financial statements for release on 10 March 2008. The Supervisory Board is authorised to revise the annual financial statements after approval by the Management Board.

2. Summary of significant accounting and valuation policies

2.1 Basis of preparation

These annual financial statements were created entirely in accordance with the accounting principles of the International Financial Reporting Standard (IFRS) in accordance with the requirements of the International Accounting Standards Board (IASB). The recommendations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) have been taken into account. All of the IFRS and IFRIC adopted by the European Commission have been taken into account, not adopted IFRS and IFRIC have not been taken into account. New standards issued by the IASB are applied without exception starting in the financial year in which their application becomes mandatory.
In the financial statements all essential information is included, so that the financial statements meet the requirements of section 325, para. 2a of the German Commercial Code (HGB).
The financial year is the calendar year. The financial statements are presented in Euros. The degree of precision used in the presentation is thousand Euros (KEUR).
The balance sheet is broken down into current and non-current assets and liabilities. The classification of income and expenses in the income statement is based on their function within the entity. Where items on the balance sheet and in the income statement are summarised in the interests of clarity, this is explained in the notes.
4SC AG classifies assets and liabilities as current that are expected to be liquidated or redeemed within the twelve months following the balance sheet date, are held primarily for trading purposes or constitute cash and cash equivalents.
These are the individual annual financial statements for 4SC AG with registered office in Germany, including the companies quattro research GmbH, Planegg-Martinsried, and QuoNova LLC., Melbourne, Florida, USA, associated with 4SC AG.

2.2 Effects of the application of new standards

The following standards, amendments to standards and interpretations are required to be applied for the first time for financial years starting on or after 1 January 2007.

- IFRS 7: Financial Instruments: Disclosures
- Amendment to IAS 1: Capital Disclosure Amendment
- IFRIC 7: Applying the Restatement Approach under IAS 29
- IFRIC 8: Scope of IFRS 2
- IFRIC 9: Reassessment of Embedded Derivates
- IFRIC 10: Interim Financial Reporting and Impairment

Relevant for the 4SC AG are IFRS 7 and the amendment to IAS 1. For the company the initial application of those announcings resulted in additional disclosures in the notes but did not have material impact on the net asset, financial and earning situation.
The interpretation IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10 will likely never be applicable to the company.
In the financial year the following standards, interpretations and amendments to existing standards – issued by IASB and IFRIC respectively – were adopted by the EU:

- IFRIC 11: IFRS 2 – Group and Treasury Share Transaction;
  effective for financial years starting on or after 1 March 2007
- IFRS 8: Operating segments; effective for financial years starting on or after 1 January 2009

Since the application was not compulsory for the present annual financial statements, the 4SC AG refrained from early application of those standards.
The interpretation IFRIC 11 will likely never be applicable to the company. IFRS 8 results in additional disclosures in the notes of the 4SC AG, but does not have material impact on the company's net asset, financial and earning situation.

2.3 Significant accounting and valuation policies

The following accounting and valuation policies were material in producing the annual financial statements. 4SC AG applied these accounting and valuation methods uniformly for similar transactions, other events and contingencies.

Foreign currency transactions

Foreign currency transactions are initially valued at the spot price for the respective transaction date (IAS 21.21). Foreign currency positions are valued in the reporting currency on each balance sheet date in accordance with IAS 21.23.

Intangible assets

Intangible assets acquired are recognised in accordance with IAS 38. They are initially recognised at historical costs, if the requirements for capitalisation according to IAS 38.18 are met. Thereafter, intangible assets are carried at historical cost less cumulative, linear amortisation. According to IAS 38.57 research costs are reported as an expense in the period incurred. Development costs are capitalised if certain criteria are met. Uncertainties regarding the commercialisation of products inherent in the development of 4SC AG's new key products preclude the capitalisation of development costs under IAS 38. Therefore, also development costs are reported as an expense in the period incurred.

Goodwill

Goodwill reported in the balance sheet under intangible assets derives from merging 4SC GmbH into 4SC AG in the year 2000. Goodwill was recognised at historical cost and amortised via the straight-line method over a useful life of 10 years until the end of financial year 2004. IFRS 3 rules have been adopted for financial years after 1 January 2005. IFRS 3.79 is the applicable transitional rule. Goodwill amortisation was ceased in financial year 2005, upon which the carrying value of the cumulative amortised goodwill was computed and goodwill reviewed at least annually for impairment in accordance with IAS 36. An impairment of goodwill is reportable when the recoverable amount is less than the carrying value of the asset. The recoverable amount of an asset is the higher market value less transaction costs and value in use. As goodwill does not generate independent cash flows, the recoverable amount for the cash generating unit relevant to such goodwill or to which it can be most appropriately attributed is determined. 4SC AG allocates this goodwill to the project SC12267 as the cash generating unit for the purpose of impairment testing. In impairment testing, the value in use of the project SC12267 is compared against the carrying value of goodwill. A risk adjusted cash flow projection is employed to determine value in use covering the future period until 2022. The cash flows determined are discounted applying a risk-adjusted discount rate in line with market conditions. The discount rate, probability of market entry and projected market share are key factors for projecting cash flow and thus for determining value in use.

Abandoning the practise of amortisation has improved the period result since financial year 2005 by KEUR 357 per annum – before taking into account contingent amortisation due to – impairment testing.

Changes in intangible assets are shown under item "7.1 Intangible Assets" in the asset schedule in accordance with IAS 38.118.

Fixed Assets

Fixed assets are recognised at historical cost less cumulative, linear depreciation. The book values of fixed assets are tested for impairment whenever there are indications that asset book value may exceed recoverable value. The useful lives of and depreciation methods applied to fixed assets are reviewed and adjusted as necessary at the end of each financial year.

Maintenance and repairs are expensed as incurred while replacements and improvements, if the item qualifies for recognition as an asset are capitalised. Gains or losses resulting from the sale or retirement of assets are reflected in other operating income or expenses.

Changes in fixed assets are shown under item "7.2 Fixed Assets" in the asset schedule in accordance with IAS 16.73.

Investments accounted for by the equity method
The company quattro research GmbH of Planegg-Martinsried, in which 4SC AG holds a 48.8% stake, was founded in January 2004. As 4SC AG only appoints one of the three Advisory Board members of quattro research GmbH, it does not exercise a controlling influence on the company's business. The share held in this associated company is thus reported in accordance with IAS 28 applying the equity method. The balance sheet date and accounting and valuation methods employed for similar business transactions and events are the same for 4SC AG and this associate.
4SC AG sold its exclusive global rights to its QSB substances to QuoNova LLC. on 28 December 2006. In addition to the sale proceeds 4SC AG also received shares in QuoNova LLC. amounting to a 10% direct holding. Because 4SC AG exerts a significant influence on QuoNova LLC. on the basis of occupying executive committee positions and material business transactions with QuoNova LLC., shares in the company as an associate are reported using the equity method in accordance with IAS 28. The balance sheet date of 4SC AG and this associate correspond.

Inventories
Inventories of raw, supply and operational materials are recognised at the lower of historical or production cost and net sale proceeds in accordance with IAS 2.9. The FIFO method is applied for inventories in accordance with IAS 2.27.

Accounts receivables from associated companies
Accounts receivables from associated companies are recognised at historical cost as of the date consideration was rendered. Accounts receivables from associated companies are reduced by the amounts repaid in accordance with prearranged repayment schedules. Repayment schedule payments are shown as either current or non-current assets. Non-current assets representing receivables from QuoNova LLC. are recognised at amortised historical cost applying the effective interest method, as they are non-interest-bearing. The effective interest method is not applied to receivables from quattro research GmbH as interest is charged on these at market rates.

Trade accounts receivables
Trade accounts receivables are recognised at the original invoiced amount less allowances for bad debts. Allowances for bad debts are performed based on Management's assessment of the collectibility of specific customer accounts and are made, when there are objective evidences that not the full amounts due can be collected according the originally agreed terms of the invoice.

Other financial assets
Other financial assets are financial instruments as defined by IAS 39. Depending on the individual case, these are classified either as financial assets at fair value through profit or loss or as available for sale. The classification of financial assets into valuation categories occurs on initial recognition.
Financial instruments shown on the balance sheet at fair value include securities that are assigned to the category "held for trading" and financial assets that – due to a joint portfolio management – are designated on initial recognition as financial assets at fair value through profit or loss. Profits and losses from the subsequent measurement are recognised in profit or loss in accordance with IAS 39.55a.
Financial instruments that are categorised as available for sale are valued at fair value. The resulting profits and losses from the valuation at fair value – with the exception of valuation allowances in accordance with IAS 39.67 ff – are recorded as not affecting net income (revaluation reserve) as per IAS 39.55b until the financial asset is derecognised. At that point in time, the cumulative profit or loss previously recorded in equity will be reflected in the result. On the other hand, the interest calculated by means of the effective interest method will be recorded directly in the income statement.

An impairment test is carried out for financial assets if objective indications of long-term or significant impairment are discernible. An impairment loss is recorded immediately as affecting net income.
In accordance with IAS 1.51, the financial instruments will be classified as non-current or current assets, depending on the remaining term as of the balance sheet date. Financial instruments with a remaining term of more than one year as of the balance sheet date are designated as other financial assets among the non-current assets. Financial instruments with a remaining term on the balance sheet date of less than one year are designated as other financial assets among the current assets, insofar as they do not meet the recognition criteria as defined by IAS 7.7.
Analogous to the financial instruments as defined by IAS 39, fixed term deposits that have an original term of more than three months are reported as other financial assets.
Insofar as the other financial assets meet the recognition criteria as defined by IAS 7.7, they will be reported as cash equivalents.

Cash and cash equivalents
Cash are comprised of cash on hand, bank account credit balances and short-term deposits. Cash equivalents are comprised of other short term, extremely liquid financial investments with a primary maturity of three month or less and are balanced at par.

Financial liabilities
Financial liabilities are initially recognised at the applicable market value, discounting the repayable amount at a risk-adjusted market interest rate commensurate with the respective maturities. After initial recognition, they are likewise carried at the applicable market value applying the effective interest method.

Trade accounts payable and accounts payable to associated companies
Trade accounts payable as well as accounts payable to associated companies are current liabilities in accordance with IAS 1.60, which consequently are carried at the repayment amount. They are derecognised when the underlying debt obligation has been discharged or expires.

Provisions and deferred liabilities
Provisions and deferred liabilities are created in accordance with IAS 37.14 whenever current legal or factual obligations exist arising from a historical event, an outflow of resources is probable and a dependable estimate of the obligation amount is possible. According IAS 37.11 provisions can be distinguished from deferred liabilities because there is uncertainty about the timing or amount of the future expenditure required in settlement.
Deferred liabilities are reported according to IAS 37.11 as part of other liabilities, whereas provisions are reported separately. Provisions and deferred liabilities created are reported on the income statement as expenses.
As of 31 December 2007 4SC AG has no commitments that fulfil the qualifications to be classified as provisions, but liabilities that are reported as deferred liabilities within the position other liabilities.

Revenue recognition

4SC AG generates net sales in the form of one-time payments, milestone payments, royalties and licensing fees in connection with research and cooperation agreements concluded by the company.

Research services performed under research and cooperation agreements are generally billed as a flat fee per individual research staff member (FTEs) per service type. The number of FTEs is agreed upon in advance in the cooperation agreements. Amounts received prior to the rendering of services are recognised as down payments received before being written back and recognised as income as of the period reporting date in accordance with the current progress of services rendered as per project management.

Upfront payments are received at the start of cooperations, representing advance payment following contract signing without specific services having been performed. Net sales from down payments are recognised as deferred revenue liabilities and recognised as income proportionately over the contract duration.

Milestone payments are received based on the obtainment of contractually predetermined targets. Obtainment of these milestones depends largely on meeting specific requirements, so that the resulting net sales are only booked as such once contractual milestones have been fully achieved and confirmed by the business partner.

Royalties are income from the sale of products and product candidates in connection with research performed pursuant to cooperation agreements. Royalties are recognised as net sales as of the date upon which the cooperation partner generates external sales generating royalties.

Income from licenses granted for specific, contractually defined periods is treated as a deferred item and recognised accordingly as net sales over the duration of the license. Licenses irrevocably sold are posted as net sales in the full amount as of the date of transfer of usage rights.

Services provided in the "Collaborative Business" segment are recognised as net sales on an ongoing basis in proportion to the progress of services rendered. Deferred licensing fees from the "Drug Discovery & Development" segment are recognised upon transfer of usage rights to the licensee and progressively recognised as net sales over the duration of the license.

Cost of sales

Personnel, materials and other costs incurred directly attributable to generation of net sales constitute cost of sales.

Distribution, research and development and administrative costs

The following costs are classified as distribution, research and development and administrative costs:

- Direct personnel and material costs
- Depreciation
- Other direct costs
- Prorated overheads

Research costs are defined as costs of planned research performed to gain new scientific knowledge. They are expensed in accordance with IAS 38.54 as incurred.

Development costs are defined as costs incurred to achieve technical and commercial feasibility. They are capitalised if certain criteria are met. Uncertainties regarding the commercialisation of products inherent in the development of 4SC AG's new key products preclude the capitalisation of development costs under IAS 38. Therefore, also development costs are reported as an expense in the period incurred.

Government grants
Government grants are recognised as income according to schedule, in accordance with IAS 20.12 in the period during which funded expenditures are incurred. As funding represents reimbursement of research expenditures, such amounts offset research and development costs for the relevant periods; specific explanations are provided in the Notes.

Other operating income
Other operating income includes all income from usual business activity, insofar as it is not reported as financial income or insofar as it doesn't concern reimbursement of research expenditures. For the most part, 4SC AG generates income from the subleasing of unneeded lab and office spaces, as well as from the reimbursement of expenses.
Income from subleasing is recorded corresponding to the period. Insofar as amounts are collected for future periods, they are only recorded on a pro rata temporis basis. Therefore, deferred income is generated, which is accordingly liquidated over the following months. Provided they involve refunds, reimbursement of expenses are realised at the time of receipt of payment or, if the expenses are still carried, at the time of billing.

Others
The German "Bundesrat" decided on 6 July 2007 in his sitting about the corporation tax reform 2008. As part of the regulations being effective as of 1 January 2008 the corporation tax rate will be reduced from 25% to 15% with a moderate rise in the effective trade income tax rate. On the refinancing measures is a limit with regard to the deductibility of the business expenses.

2.4 Use of estimates

In producing these annual financial statements it was necessary for Management to make estimates and assumptions impacting the disclosed value of assets and liabilities, the disclosure of uncertain assets and contingent liabilities as of the balance sheet date as well as expenses and income within the reporting period. Actual values may vary from such estimated values.
At the balance sheet date management mainly has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty:

Impairments
The impairment test for goodwill requires the estimation of the value in use on the basis of anticipated future cash flows of the cash-generating unit and estimation of the appropriate discount rate. Factors such as lower than expected sales and subsequent lower net payment flows, as well as changes in the discount rate percentages, could have considerable consequences for the determination of the fair value and, ultimately, the amount of goodwill depreciation.
When testing the impairment of receivables, the Management Board must assess collectibility on the basis of the customer's solvency. Changing solvencies could lead to a valuation allowance for receivables.

Investments accounted for by the equity method

Management has to assess whether it exercises control with regard to the companies quattro research GmbH, Planegg-Martinsried, and QuoNova LLC., Melbourne, Florida, USA, thus being subject to consolidated reporting in accordance with IAS 27. Management has determined that the conditions have not been fulfilled constituting control of quattro research GmbH and QuoNova LLC. Nor have the conditions been met in Management's view for a consolidation of quattro research GmbH and QuoNova LLC. as special purpose entity in accordance with SIC-12.

Reserves ESOP/Expenditure from stock options

The accounting of stock options granted to employees and the Management Board is handled according to the guidelines of IFRS2. In doing so, the Management Board must carry out estimates of the number of equity instruments that are expected to be exercisable. Deviations from these estimates influence the amount of reserves for stock options reported as equity, as well as the expenses booked during the financial year.

3. Segment report

The following segment reporting has been prepared in accordance with the principles of IAS 14. The primary segment report format is the business segments in which 4SC AG is active. According to IAS 14.26, the secondary report format is geographical segments.
4SC AG operates in the two business segments of "Drug Discovery & Development" and "Collaborative Business." In the "Drug Discovery & Development" segment, 4SC AG is the holder of proprietary and patent rights and takes the decision on the progress of projects. In contrast, the cooperation partner in the "Collaborative Business" segment is the holder of proprietary and patent rights and takes decision on the progress of projects.

Segment report according to business segments:

in KEUR	Drug Discovery & Development		Collaborative Business		Not assigned		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Net sales	0	1,683	1,376	1,981	0	0	1,376	3,664
Personnel costs	- 2,050	- 1,861	- 474	- 473	- 1,633	- 1,359	- 4,157	- 3,693
Depreciation	- 228	- 356	- 72	- 161	- 68	- 108	- 368	- 625
Other operating income and expenses	- 3,420	- 2,878	- 315	- 594	- 1,419	- 1,404	- 5,154	- 4,876
Segment result/Result from operating activities	**- 5,698**	**- 3,412**	**515**	**753**	**- 3,120**	**- 2,871**	**- 8,303**	**- 5,530**
Financial result							173	- 10
Period result							**- 8,130**	**- 5,540**
Other information:								
Segment assets	1,751	704	362	359	19,950	8,910	22,063	9,973
Segment liabilities	1	37	74	0	2,372	2,082	2,447	2,119
Investments	94	223	51	59	55	95	200	377

In particular, administrative costs are not assigned. Net sales are realised and shown both with external customers and with the associated company QuoNova LLC., Melbourne, Florida, USA.

Net sales according to headquarters of the performance recipient:

in KEUR	USA		Germany		Japan		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Net sales	1,238	1,786	138	1,037	0	841	1,376	3,664

Germany is the geographical location of the overall segment assets and the segment investments.

4. Notes to the income statement

4.1 Net sales

in KEUR	2007	2006	Change
Drug Discovery & Development	0	1,683	- 100.0%
Collaborative Business	1,376	1,981	- 30.5%
Net sales	**1,376**	**3,664**	**- 62.4%**

The decline in net sales from KEUR 3,664 in 2006 to KEUR 1,376 in 2007 is a result of the Drug Discovery & Development segment, as well as the Collaborative Business segment.
While net sales in the Drug Discovery & Development segment in 2006 were achieved exclusively from the sale of worldwide exclusive rights for QSB substances to QuoNova LLC., 4SC AG did not finalise any new licensing agreements in the financial year 2007.
In the Collaborative Business segment, sales declined from the previous year by KEUR 605 to KEUR 1,376 (2006: KEUR 1,981). After successful conclusion of the cooperation with Japan-based Sanwa Kagaku Kenkyusho at the end of 2006, net sales in 2007 resulted for the most part from the successful cooperation with QuoNova LLC., to whom substantial research and development capacities were made available. Furthermore, net sales were generated with AiCuris GmbH & Co. KG, Wuppertal, and Schwarz Pharma AG, Monheim.

4.2 Personnel costs

in KEUR	2007	2006	Change
Salaries	3,271	3,027	8.1%
Social security charges	549	551	- 0.4%
ESOP[1]	337	115	193.0%
Personnel costs	**4,157**	**3,693**	**12.6%**
Number of employees (incl. Management Board, annual average)	64	55	16.4%

1: ESOP = Employee stock option programme for employees and Management Board

Salaries rose by 8.1% during the reporting year, which was at a slower percentage rate than the number of employees. The reason was that the increases in staff primarily involved research assistance and part-time employment.
In spite of an increased number of employees and higher total salaries, contributions for social benefits remained nearly unchanged, due to the federal government's lowering of contribution rates at the beginning of 2007.
During the reporting year, funds accruing through salary waiver were appropriated for direct insurance for the benefit of company staff and the Management Board. These contributions are classified as defined contribution plan contributions and are recognised and valued in accordance with IAS 19.44. Total expenditures in connection with defined contribution plans came to KEUR 67 for the reporting year (2006: KEUR 66). Of this amount, KEUR 19 (2006: KEUR 21) went to Management Board members.
In addition options granted to staff and Management Board members during the reporting year were reported as personnel costs in accordance with IFRS 2. Total personnel costs resulting from options granted amounted to KEUR 337 (2006: KEUR 115). Of this amount, KEUR 194 (2006: KEUR 39) went to Management Board members.

The reason for the distinct increase in personnel costs from share options compared to the previous year, for both employees and Management Board members is that the three tranches issued in the financial year 2006 were taken into account last year only on a pro rata basis, whereas in the reporting year they were fully considered. Another reason has to do with changed appraisal assumptions with regard to the number of exercisable options.
Personnel expenses are recognised in the income statement according to their functional affiliations under "Cost of sales", "Distribution costs", "Research and development costs" and "Administrative costs".

4.3 Cost of sales

in KEUR	2007	2006[1]	Change
Personnel	304	302	0.7%
Material	65	103	- 36.9%
Patent costs	21	0	n/a
Commissions	0	118	- 100.0%
Allowance for bad debts	0	65	- 100.0%
Miscellaneous	6	49	- 87.8%
Cost of sales	**396**	**637**	**- 37.8%**

1: The individual allowance for bad debts reported in the previous year as other operating expenses was reclassified as cost of sales. In the reporting year, no valuation allowances as per IAS 39.63 f. were made for trade accounts receivables.

As already in the financial year 2006, cost of sales was largely in proportion to the development of net sales in the "Collaborative Business" segment.

4.4 Distribution costs

in KEUR	2007	2006	Change
Personnel	188	287	- 34.5%
Travel and meetings	46	40	15.0%
Legal consulting and miscellaneous consulting	32	109	- 70.6%
Marketing costs	31	26	19.2%
Rent and ancillary costs	16	41	- 61.0%
Miscellaneous	21	15	40.0%
Distribution costs	**334**	**518**	**- 35.5%**

The decline in distribution costs is mainly the result of the increased legal consulting and miscellaneous consulting costs in the financial year 2006, which accrued in connection with the founding of QuoNova LLC. and the sale of the worldwide exclusive rights for 4SC AG's QSB substances. Personnel costs declined compared to the previous year because only two employees were assigned to the distribution department in the reporting year, compared with three employees in 2006.

4.5 Research and development costs

in KEUR	2007	2006[1]	Change
External services	2,597	2,238	16.0%
Personnel	2,220	2,032	9.3%
Rent and ancillary costs	525	549	- 4.4%
Patents	416	240	73.3%
Material	364	331	10.0%
Depreciation	301	517	- 41.8%
Software licences	124	117	6.0%
Miscellaneous	201	277	- 27.4%
Government grants (EU and BMBF)	- 508	- 586	- 13.3%
Research and development costs	**6,240**	**5,715**	**9.2%**

1: Several items that were reported as other operating expenses during the previous year were reclassified as research and development costs in line with their area of activity.

The increased costs for research and development resulted for the most part from higher outside services in connection with ongoing pre-clinical and clinical studies for 4SC AG's various development substances. The increase in personnel costs correlates with the number of employees in the research and development department. Because a higher number of patents entered national phases during the reporting year, a clear increase in patent costs was also recorded. Income from development funds was in decline during the reporting year, because only one research project was still being funded by the European Union compared with two projects the previous year. The development income obtained as part of the German Federal Ministry for Education and Research (BMBF) programme "BioChancePlus"remained unchanged for the most part. On the whole, research and development costs increased by KEUR 525, or 9.2%.

A further potential decline in public grants can be expected for the financial year 2008. Because support as part of the BMBF programme expired on 31 December 2007, no further income is to be recorded for this project (2007: income of KEUR 434). However, 4SC AG is endeavouring to acquire new sources of development funds, in order to at least compensate for the discontinuation of those programme funds.

4.6 Administrative costs

in KEUR	2007	2006[1,2]	Change
Personnel	1,445	1,072	34.8%
Legal consulting and miscellaneous consulting	335	246	26.2%
Rent and ancillary costs	274	245	11.8%
Marketing costs (PR & IR)	221	217	1.8%
Supervisory Board	105	95	10.5%
Insurance and contributions	105	103	1.9%
Depreciation	68	103	- 34.0%
External services	67	75	- 10.7%
Travel and meetings	55	62	- 11.3%
Miscellaneous	147	137	7.3%
Administrative costs	**2,822**	**2,355**	**19.8%**

1: Several items that were reported as other operating expenses during the previous year (including Supervisory Board remuneration) were reclassified as administrative costs in line with their area of activity.
2: The costs of public listing that were reported separately in the previous year were classified in this reporting year according to their character, such as part of advertising costs, consulting costs and fees. The amounts for the previous year were adjusted accordingly.

Administrative costs increased in comparison to the previous year by KEUR 467, or 19.8%. The essential driver of costs in the reporting year were personnel costs in this area, caused in particular by increased Management Board compensation amounting to KEUR 231, which was primarily attributable to significantly higher personnel costs due to stock options. Furthermore, personnel costs increased in line with the number of employees in the administrative department.

4.7 Other operating income

in KEUR	2007	2006	Change
Sublease Kinaxo GmbH	47	6	683.3%
Sublease quattro research GmbH	16	16	0.0%
Miscellaneous	50	9	455.6%
Other operating income	**113**	**31**	**264.5%**

Currently, unneeded lab and office spaces are being subleased to Kinaxo GmbH, Planegg-Martinsried, and quattro research GmbH, Planegg-Martinsried. The growth in income results from an increased need for space by Kinaxo GmbH, as well as from increased other income.
The lease with Kinaxo GmbH expires on 31 March 2008 without requiring a termination notice. The rental period for the sublease with quattro research GmbH is determined by the term of 4SC AG's primary lease, which for the time being runs until 31 December 2011. If the primary lease is terminated – for whatever reason – the sublease will also be terminated without any exception. Moreover, 4SC AG and quattro research GmbH may terminate the sublease with a notice of three months.

4.8 Depreciation

in KEUR	2007	2006	Change
Depreciation	368	625	- 41.1%

The volume of investment during the reporting year was less than the amount necessary to offset the depreciation of fixed assets having reached the end of their useful life.
Depreciation is shown on the income statement under the "Research and development costs" and "Administrative costs".

4.9 Financial result

in KEUR	2007	2006	Change
Result from investments accounted for by the equity method	- 51	- 47	8.5%
Finance income	519	235	120.9%
Finance expenses	- 295	- 198	49.0%
Financial result	**173**	**- 10**	**n/a**

The result from investments accounted for by the equity method amounts to KEUR - 51 (2006: KEUR - 47). Further explanation can be found under item "7.3. Financial assets accounted for by the equity method".

Finance income amounting to KEUR 354 (2006: KEUR 190) results from the interest-bearing investment of liquid funds, and, particularly in this case, proceeds from capital increases. Furthermore, income was generated from the net income-affecting assessment of securities in accordance with IAS, amounting to KEUR 56 (2006: KEUR 37) and income from the application of the effective interest method for non-current receivables from associated companies, amounting to KEUR 109 (2006: KEUR 8). On the whole, finance income increased from KEUR 235 in the previous year to KEUR 519 in the reporting year.
Finance expenses amounting to KEUR 149 (2006: KEUR 17) result from exchange losses due to the closing rate of the US dollar, and a further KEUR 80 (2006: KEUR 64) from losses due to the disposal of securities. Moreover, expenses tied to the application of the effective interest method for long-term credits amounting to KEUR 31 (2006: KEUR 82) and the interest payments to former silent partners amounting to KEUR 35 (2006: KEUR 34) were recorded. On the whole, finance expenses increased from KEUR 198 in the previous year to KEUR 295 in the reporting year.

5. Income tax and deferred taxes

So far the company has not incurred expenses due to income taxes, having operated at a net loss since founding as it is still in an early phase of growth. The company anticipates further net losses for the next several years in accordance with its business model, profitability being a medium-term objective.
Deferred taxes claims have not been recognised thus far, the company has a history of losses and unused tax losses can only be offset against taxable income, requiring at least substantial indications that such income will be generated in corresponding amounts in the future (IAS 12.34).
The value of unused tax losses unrecognised as deferred tax asset in the balance sheet, but reportable per IAS 12.81(e) is as follows as of the balance sheet date:

in KEUR	2007	2006
Taxable losses carried forward	47,425	39,317
Effective tax rate	26.33%	35.98%
Value of taxable losses carried forward	12,487	14,146

This calculation is based on the assumption that the tax rates applicable 2008 will still apply at the time such losses are used to offset income.
Losses may be carried forward in unlimited amount to offset future income, although some restrictions apply to offsetting.
The losses carried forward until 31 December 2004, amounting to KEUR 28,052 for corporate tax and of KEUR 27,694 in connection with the trade loss, were denied by the responsible tax authorities through the tax assessments of 31 December 2005. At the same time, prorated losses carried forward for the financial year 2005 as well, amounting to KEUR 1,352 for corporate tax and trade tax, were denied. Due to the legal uncertainty that persists regarding the interpretation of the facts of this case, 4SC AG has lodged an appeal with the tax assessment. The proceedings are currently pending. With regard to the above calculation, 4SC AG assumes that the final decision will come down in favour of the company. Nevertheless, it is possible that the assessment will be declared final and the losses carried forward will no longer be available in future to be offset against profits.

The determination of the effective tax rate is based on the following assumptions: In Germany, taxes on revenues and income are made up of the corporate tax, the solidarity surcharge and trade tax. As a result of the Business Tax Reform Act 2008 (Unternehmenssteuerreformgesetz 2008) the corporate tax rate in Germany as of 1 January 2008 is 15% (previous year: 25%). To calculate deferred taxes, an effective tax rate of 15.83% (previous year: 26.38%) was applied for corporate tax, including the solidarity surcharge, and a rate of 10.5% (previous year: 9.60%) was applied for trade tax. The total tax rate as of 1 January 2008 is therefore 26.33% (previous year: 35.98%)

Deferred tax asset and liability items shown are as follows:

in KEUR	Deferred tax assets		Deferred tax liabilities	
	2007-12-31	2006-12-31	2007-12-31	2006-12-31
Fixed assets	0	0	0	4
Non-current and current financial assets	0	0	5	0
Cash and cash equivalents	0	0	7	14
Financial liabilities	0	0	16	32
Other liabilities	0	0	8	1
Other assets	0	6	0	0
Investments accounted for by the equity method	29	4	0	0
Accounts receivables from associated companies	7	41	0	0
Losses carried forward	0	0	0	0
	36	51	36	51
Balancing	- 36	- 51	- 36	- 51
	0	**0**	**0**	**0**

The deferred tax liabilities for both non-current and current financial assets, as well as for cash and cash equivalents, results from the market valuation according to IFRS. In terms of the financial liabilities, the deferred tax liabilities result from differing interest rates when determining the cash value of the particular balance sheet recognition of the credits. The deferred tax assets for the financial assets accounted for by the equity method are the result of the depreciation of shares carried out in accordance with IFRS; in terms of the receivables from associated companies, they result from differing interest rates when discounting.
The reconciliation between the profits tax yield and the product from the balance sheet period results and the applicable interest rate for the 4SC AG is made up as follows:

in KEUR	2007	2006
Result before tax	- 8,130	- 5,540
Expected profit tax yield at a tax rate of 35.98% (2006: 35.98%)	- 2,925	- 1,993
Less the tax effected on deferred tax assets and losses carried forward for which no deferred taxes were included in the past periods	3,009	1,913
Non-deductible expenses	17	16
Other differences	- 101	64
Profit tax yield accounted for in the income statement	**0**	**0**

6. Earnings per share

The undiluted earnings per share is calculated in accordance with IAS 33.9 et sqq from the division of the period results to which the shareholders are entitled (numerator) by the weighted average number of the shares which were in circulation in the reporting period (denominator). This is based on a period result amounting to KEUR - 8,130 (Prior year: KEUR - 5,540) and a share count of 14,225,376 for the reporting year (Prior year: 11,125,067).
Because the options issued are not diluted by 4SC AG's loss situation, and because the share price has currently dropped below the exercise price of the options, i.e. the options are currently "out of money", the diluted conforms to the undiluted earnings per share.

in EUR	2007	2006
Earnings per share (undiluted and diluted)	- 0.57	- 0.50

The company's annual general meetings on 1 March 2001, 28 July 2004, 28 June 2006 and 29 June 2007 decided to increase the company's share capital conditionally. As a result of the associated possible granting of option rights to members of the Management Board and employees of the company or the granting of shares to the owners or creditors of not-yet-issued convertible bonds and/or warrants, the undiluted earnings per share could potentially be diluted in future. Details about the conditional capital can be found under items "7.11 Equity" and "9. Stock option programme".

7. Notes to the balance sheet

7.1 Intangible assets

Development of intangible assets is presented in the asset schedule in accordance with IAS 38.118.

in KEUR	Useful life up to – years	Status on 2007-01-01	Additions 2007	Retirements 2007	Status on 2007-12-31	Status on 2007-01-01	Additions 2007	Retirements 2007	Status on 2007-12-31	Status on 2007-12-31	Status on 2006-12-31
		Acquisition costs				Depreciation				Book values	
Intangible assets											
Software and patents	3 - 15	538	8	0	546	449	18	0	467	79	89
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**2,324**	**8**	**0**	**2,332**	**449**	**18**	**0**	**467**	**1,865**	**1,875**

Changes in intangible assets during the previous year are presented in the following asset schedule:

in KEUR	Useful life up to – years	Status on 2006-01-01	Additions 2006	Retirements 2006	Status on 2006-12-31	Status on 2006-01-01	Additions 2006	Retirements 2006	Status on 2006-12-31	Status on 2006-12-31	Status on 2005-12-31
		Acquisition costs				Depreciation				Book values	
Intangible assets											
Software and patents	3 - 15	470	78	10	538	405	54	10	449	89	65
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**2,256**	**78**	**10**	**2,324**	**405**	**54**	**10**	**449**	**1,875**	**1,851**

There are no intangible assets with useful lives of assumed unlimited duration or internally generated intangible assets.

Amortisation of intangible assets is shown on the income statement under the"Research and development costs"and "Administrative costs".

Goodwill

in KEUR	2007-12-31	2006-12-31	Change
Goodwill	1,786	1,786	0.0%

The goodwill results from the merger of 4SC GmbH into 4SC AG in the year 2000, applying a fair value of KEUR 3,572. This goodwill was amortised until financial year 2004 in accordance with IAS 22.44. The IFRS 3 and IAS 36 rules apply since financial year 2005, according to which goodwill is not amortised, but rather subject to an annual impairment test, in accordance with IFRS 3.55 and IAS 36.88 ff.
The yearend impairment test conducted indicated no need for an adjustment of the value on 31 December 2007. For the impairment test, value in use of the project SC12267 was compared with the carrying value of goodwill.
The value in use is determined essentially by means of the following influencing variables: The discount factor is 14% and determines at which interest rate future cash flows will be discounted. The probability of a market entry, assumed to be 44%, depends on the development phase that the project is in. The potential market share is based on an estimate of the number of future patients. For classic DMARDs, a market share of 25%, and for protein-based medications a market share of 3% were taken as a basis. The cash flows to be expected were calculated for a period of 14.5 years, i.e. until the end of 2022. The decision was made to forgo conducting a sensitivity test as the value in use determined was far higher than the carrying value of goodwill.

7.2 Fixed assets

Development of fixed assets is presented in the asset schedule in accordance with IAS 16.73.
Fixed assets include office equipment, laboratory equipment, miscellaneous equipment, IT-equipment and installations in third-party real property.

in KEUR	Useful life up to – years	Status on 2007-01-01	Additions 2007	Retirements 2007	Status on 2007-12-31	Status on 2007-01-01	Additions 2007	Retirements 2007	Status on 2007-12-31	Status on 2007-12-31	Status on 2006-12-31
		Acquisition costs				Depreciation				Book values	
Fixed assets											
Office equipment	8 - 14	137	0	0	137	57	11	0	68	69	80
Laboratory equipment	3 - 14	2,269	128	0	2,397	2,023	121	0	2,144	253	246
Low-value assets	n/a	0	10	10	0	0	10	10	0	0	0
Installation in third-party real property	5 - 14	946	0	0	946	338	66	0	404	542	608
Miscellaneous equipment	3 - 13	171	4	0	175	69	15	0	84	91	102
IT-equipment	3 - 7	1,505	50	52	1,503	1,311	127	52	1,386	117	194
Fixed assets		**5,028**	**192**	**62**	**5,158**	**3,798**	**350**	**62**	**4,086**	**1,072**	**1,230**

Development of fixed assets during the previous year is presented in the following asset schedule:

in KEUR	Useful life up to – years	Status on 2006-01-01	Additions 2006	Retirements 2006	Status on 2006-12-31	Status on 2006-01-01	Additions 2006	Retirements 2006	Status on 2006-12-31	Status on 2006-12-31	Status on 2005-12-31
		Acquisition costs				Depreciation				Book values	
Fixed assets											
Office equipment	8 - 14	132	5	0	137	46	11	0	57	80	86
Laboratory equipment	3 - 13	2,188	110	29	2,269	1,798	254	29	2,023	246	390
Low-value assets	n/a	0	21	21	0	0	21	21	0	0	0
Installation in third-party real property	5 - 14	946	0	0	946	262	76	0	338	608	684
Miscellaneous equipment	3 - 13	118	53	0	171	52	17	0	69	102	66
IT-equipment	3 - 7	1,429	110	34	1,505	1,152	192	33	1,311	194	277
Fixed assets		**4,813**	**299**	**84**	**5,028**	**3,310**	**571**	**83**	**3,798**	**1,230**	**1,503**

The additions in the reporting year essentially concern an investment in technical lab equipment (KEUR 128), such as a cell sorting and analysis instrument (KEUR 39), enhancements for an existing HPLC system (KEUR 15) and an upgrade for an existing spectrometer (KEUR 11). An additional KEUR 50 was invested in IT hardware. In addition to replacement and enhancement investments in workstation computers, notebooks and printers, it also involves investments in independent bulk storage systems (KEUR 27). The majority of funds invested went for replacement purposes, since the company is technologically well equipped at this time.
Depreciation of fixed assets is shown on the income statement under the "Research and development costs" and "Administrative costs".

7.3 Investments accounted for by the equity method

Shares held in QuoNova LLC. and quattro research GmbH are recognised as financial assets.
For the reporting year, QuoNova LLC. generated net sales of KEUR 0 (2006: KEUR 0) and a period result of KEUR - 2,778 (2006: KEUR - 469). With a balance sheet total of KEUR 158 (2006: KEUR 3,679) equity amounted to KEUR - 1,952 (2006: KEUR 2,058) and liabilities to KEUR 2,110 (2006: KEUR 1,621). The share of the period result attributed to 4SC AG in 2007 is KEUR - 278 (2006: KEUR - 47). However, because the balance sheet recognition from the investment on 31 December 2006 was only KEUR 51, the financial result for the reporting year will only show a result made up of financial assets accounted for by the equity method amounting to KEUR - 51.
The investment will be shown on 31 December 2007 as a non-current asset amounting to KEUR 0 (2006: KEUR 51). The remaining attributable losses of KEUR 227 will be carried forward into the next calendar year.
In the reporting period, quattro research GmbH generated net sales of KEUR 582 (2006: KEUR 522) and a period result of KEUR 28 (2006: KEUR 51). With a balance sheet total of KEUR 229 (2006: KEUR 268) equity amounted to KEUR 108 (2006: KEUR 80) and liabilities to KEUR 121 (2006: KEUR 188).
The carrying value of this investment was not adjusted for the amount of period result attributable to 4SC AG of KEUR 14 because of KEUR 99 in offsetting interim profits pursuant to IAS 28.22 from financial year 2004 from the sale of a software package to quattro research GmbH. According to IAS 28.22, profit from downstream transactions with associates is only to be adjusted by amounts attributable to third parties. As third-party share in quattro research GmbH totals 51.2%, only KEUR 220 of the sales proceeds would have been reportable as income. Because offsetting the full amount of these interim profits would have implied a negative asset value, the remaining interim profits of KEUR 69 from this transaction were carried forward to the reporting year. This leaves a remaining KEUR 55 in interim profits to be offset after adjustment for the period result of quattro research GmbH of KEUR 14.
As a result of the above, the equity stake in quattro research GmbH is reportable as a long-term asset valued at KEUR 0 (2006: KEUR 0).

7.4 Other financial assets

This balance sheet item reflects financial instruments, which have a maturity of more than one year, calculated from balance sheet date.

in KEUR	2007-12-31	2006-12-31	Change
Financial instruments with a maturity of more than one year	1,972	0	n/a

7.5 Accounts receivables from associated companies

This balance sheet item reflects receivables from QuoNova LLC. and quattro research GmbH.

in KEUR	Total receivables		thereof non-current		thereof current	
	2007	2006	2007	2006	2007	2006
Accounts receivables from QuoNova LLC. from sale of exclusive global rights for QSB substances	921	1,304	582	923	339	381
Accounts receivables from QuoNova LLC. from scientific services	0	103	0	0	0	103
Accounts receivables from quattro research GmbH	78	132	41	98	37	34
Accounts receivables from associated companies	**999**	**1,539**	**623**	**1,021**	**376**	**518**

Accounts receivables from QuoNova LLC. are shown in connection with the sale of exclusive global rights for 4SC AG's QSB substances. This amount, originally valued at KUSD 2,000, is being remitted in annual instalments in accordance with a repayment schedule. Interest is not being charged on this amount, which is recognised at present value. The risk-adjusted discounting rate is 11.0%. The current and non-current portion of these receivables are shown separately.

The invoicing of external research services by 4SC AG for QuoNova LLC. was shown as an additional component of current receivables in financial year 2006.

The sales price for a software package is recorded as receivable against quattro research GmbH. This receivable is subject to an interest rate of 6.0% p.a. Interest payments are to be paid annually. Repayment of the sales price will be effected according to an amortisation schedule: As quattro research GmbH had amortised an amount in the reporting year in excess of the agreed amount, it was possible to create a new amortisation schedule and the remaining term of the receivable was reduced by one year. The final instalment is due in December 2009. The current and non-current portion of the receivable will be shown separately on the balance sheet.

7.6 Inventories

in KEUR	2007-12-31	2006-12-31	Change
Consumable materials	16	14	14.3%
Solvents	3	3	0.0%
Inventories	**19**	**17**	**11.8%**

The growth in inventories compared to the previous year is the result of increased research and development activities linked to a larger number of employees.
Material costs amounting to KEUR 433 (2006: KEUR 430) were recorded as an expense during the reporting year. In part, these were shown as inventories during the financial year; however, the other part was used directly for the respective projects and therefore recorded directly as expenses.

7.7 Trade accounts receivables

in KEUR	2007-12-31	2006-12-31	Change
Domestic	131	134	- 2.2%
Third countries	0	0	0.0%
Trade accounts receivables	**131**	**134**	**- 2.2%**

On 31 December 2007, as on the balance sheet date of the previous year, there were no valuation allowances for trade receivables in accordance with IAS 39.63 f.
One invoice of KEUR 14 was due on balance sheet date; payment was received at the beginning of January 2008. The remaining invoices were not due on balance sheet date, payments were received in January and February 2008.

7.8 Other financial assets

This balance sheet item reflects financial instruments in the term of IAS 39 and fixed term deposits, with a maturity of less than one year, calculated from balance sheet date, that are not included in cash equivalents.

in KEUR	2007-12-31	2006-12-31	Change
Financial instruments with a maturity of less than one year	1,886	1,949	- 3.2%
Fixed term deposits with a maturity of less than one year but more than three months	3,000	0	n/a
Other financial assets	**4,886**	**1,949**	**150.7%**

7.9 Cash and cash equivalents

in KEUR	2007-12-31	2006-12-31	Change
Financial instruments with an original maturity of less than three months	3,009	2,058	46.2%
Fixed term deposits with an original maturity of less than three months	6,640	0	n/a
Bank balances	685	463	47.9%
Cash	1	1	0.0%
Cash and cash equivalents	**10,335**	**2,522**	**309.8%**

The balance sheet items "Other financial assets" and "Cash and cash equivalents" were reorganised in the reporting year. The conformity of cash and cash equivalents between the cash flow statement and the balance sheet stipulated by IFRS was carried out in 2006 by means of a separate offsetting and reconciliation; in this report, however, it was already shown on the balance sheet. The previous year's amounts were rendered comparable in accordance with IAS 1.38 and therefore deviate from the figures in the respective report.
The "cash" shown in the previous year totalling KEUR 464 is represented as "Cash and cash equivalents" totalling KEUR 2,522, along with financial instruments with an original maturity of less than three months (KEUR 2,058), which was shown in 2006 as part of securities. The remaining amount of the previous year's item "Securities" totalling KEUR 1,949 is shown in this report as "financial instruments with a remaining maturity of less than one year" and thus as "Other financial assets".

7.10 Other assets

in KEUR	2007-12-31	2006-12-31[1]	Change
Tax refund claims	277	177	56.5%
Accrued items	117	106	10.4%
Rent security deposit IZB West	157	157	0.0%
Anticipated interest	89	6	1,383.3%
BMBF grants	86	115	- 25.2%
EU grants	24	91	- 73.6%
Prepaid expenses	20	0	n/a
Miscellaneous	14	4	250.0%
Other assets	**784**	**656**	**19.5%**

1: The balance sheet items "Other assets" (KEUR 550) and "Prepaid expenses and accrued income" (KEUR 106), reported separately in the previous year, are reported jointly as "Other assets" starting with the reporting year. At the same time, the IZB West security deposit included in "Other current assets" in the previous year was reclassified as a non-current asset, because the lease expires on 31 December 2011.

Other assets are presented in the balance sheet according IAS 1.51 as separate classifications.

in KEUR	Total receivables		thereof non-current		thereof current	
	2007	2006	2007	2006	2007	2006
Tax refund claims	277	177	0	0	277	177
Accrued items	117	106	0	0	117	106
Rent security deposit IZB West	157	157	157	157	0	0
Anticipated interest	89	6	0	0	89	6
BMBF grants	86	115	0	0	86	115
EU grants	24	91	0	0	24	91
Prepaid expenses	20	0	0	0	20	0
Miscellaneous	14	4	0	0	14	4
Other assets	**784**	**656**	**157**	**157**	**627**	**499**

There are currently no known circumstances giving rise to concerns regarding remittance of grant funding. Rent security deposit amounts are deposited to the security deposit account. Accrued income totalling KEUR 117 (2006: KEUR 106) primarily consists of pre-paid invoices for maintenance contracts, licenses, air travel and subscription for magazines and online research.

7.11 Equity

Share capital and shares

4SC AG share capital currently totals EUR 19,001,826, consisting of 19,001,826 individual zero par common bearer shares. Each share represents EUR 1.00 of 4SC AG share capital, entailing one vote at the annual general meeting. Share capital is fully paid-in at this time.

4SC AG shares are securitised under six global non-coupon certificates held in custody by Clearstream Banking AG, Frankfurt am Main, a central securities depository. Shareholder right to issuance of individual certificates are excluded pursuant to section 6, para. 3 of the Articles of Association.

Changes in share capital during the reporting year were as follows, impacted by the 21 May 2007 and 7 September 2007 capital increases.

At the start of the financial year, company share capital totalled EUR 11,461,365.

On 2 May 2007, the Management Board of 4SC AG, with the consent of the Supervisory Board, approved an increase in the company's share capital of up to EUR 17,192,047 with the issuance of up to 5,730,682 to the owners of zero par value common bearer shares from approved capital. The subscription right of the shareholders was 2:1. As part of this increase in share capital 1,206,519 new shares at a price of EUR 2.80 were placed, with the corresponding announcement being made on 21 May 2007. The increase in share capital was entered in the Commercial Register on 24 May 2007. The new shares are provided with an entitlement to a share in profits as of 1 January 2007. As a result of this, the share capital of 4SC AG increased by EUR 1,206,519 to EUR 12,667,884.

On 20 August 2007, the Management Board of 4SC AG, with the consent of the Supervisory Board, approved an increase in the company's share capital to up to EUR 19,001,826 with the issuance of up to 6,333,942 to the owners of zero par value common bearer shares from approved capital. The subscription right of the shareholders was 2:1. This increase in share capital was fully placed at a price of EUR 2.65, with the corresponding announcement being made on 7 September 2007. The increase in share capital was entered in the Commercial Register on 12 September 2007.

The new shares are provided with an entitlement to a share in profits as of 1 January 2007. As a result of this further increase, the share capital of 4SC AG increased by EUR 6,333,942 to EUR 19,001,826.

Conditional capital

Company shareholders voted on 1 March 2001, 28 July 2004, 28 June 2006 and 29 June 2007 to approve increases in company share capital on a contingent basis as follows:

Conditional capital	Amount (KEUR)	Shareholder resolution date	Purpose
I	53	2001-03-01/ 2007-06-29	Exercise of "ESOP 2001" options held by company employees and Management Board members
II	166	2006-06-28/ 2007-06-29	Granting of options to company employees and Management Board members expiring in ten years or less ("ERSATZ- ESOP 2001")
III	106	2004-07-28/ 2006-06-28	Exercise of "ESOP 2004" options held by company employees and Management Board members
IV	340	2006-06-28	Granting of options to company employees and Management Board members expiring in ten years or less ("ESOP 2006")
V	4,000	2006-06-28	Providing shares to subscribers of convertible bonds and/or warrants to be issued

Approved capital

At the 29 June 2007 annual general meeting, the Management Board was authorised to increase company share capital through one or more share offerings until 28 June 2012, subject to Supervisory Board approval, up to a total EUR 6,333,942.00 in return for cash or noncash consideration for a maximum 6,333,942 new individual bearer shares (Approved Capital I). New shares issued are to be placed with banks and other firms per section 186, para. 5, sentence 1 of the German Stock Corporation Act (AktG) with the obligation to offer them for shareholder subscription. The Management Board is authorised however to exclude certain limited amounts from shareholder subscription, subject to Supervisory Board approval. The Management Board is furthermore authorised, subject to Supervisory Board approval, to exclude shareholder subscription rights for a maximum 1,266,788 new shares offerable versus cash to be priced shortly before placement not substantially lower than the market price of company shares already trading on the secondary market. This amount is to include shares obtained through the exercise of convertible bonds and warrants issued after granting of this authorisation on the basis of authorisation granted simultaneous with this or a substitute authorisation as per section 186 para. 3, sentence 4, AktG, excluding subscription rights. The Management Board is furthermore authorised to exclude shareholder subscription rights for the issuance of new shares for the purpose of acquiring (directly or indirectly) companies, company divisions, shares in other companies or assets of other companies in return for company shares, subject to Supervisory Board approval. The Management Board is authorised to determine further specifics concerning shares issued from Approved Capital I, subject to Supervisory Board approval. The Supervisory Board is authorised to amend the company Articles of Association following the issuance of shares from Approved Capital I and to adjust equity capital issuance limits pursuant to Approved Capital I upon expiration of the authorisation period.

As a result of the increase in share capital on 7 September 2007, the approved capital raised on 29 June 2007 was completely consumed.

Agio

The agio consists of premiums that were deposited by shareholders at the time of implementation of capital increases within the framework of financing rounds.

Transaction costs in connection with the issuance of equity are to be subtracted from shareholder's equity reduced by the amount of any applicable income tax benefits pursuant to IAS 32.35. Transaction costs of KEUR 378 accrued in connection with the 21 May 2007 capital increase. Transaction costs of KEUR 210 accrued in connection with the 7 September 2007 capital increase. In the previous year transaction costs of KEUR 210 accrued in connection with the 11 May 2006 capital increase. These costs were charged against the agio.

Reserves

Compared to the previous year, the items "Capital reserves from convertible bonds" (31 December 2006: KEUR 11), "Capital reserves ESOP" (31 December 2006: KEUR 235) and "Retained earnings" (31 December 2006: KEUR 67) were reclassified. Moreover, the revaluation reserve has been part of this item since the reporting year 2007.

The amount of the stock options distributed to employees and members of the Management Board during this reporting year and the previous years in accordance with the regulations of IFRS 2 has a total – after reclassification of the capital reserves from convertible bonds – of KEUR 583 (31 December 2006: KEUR 246) as of the balance sheet date. The determination is explained under item "9. Stock option programme".

The revaluation reserve totalling KEUR - 20 (previous year: KEUR 0) results from the valuation of financial instruments that are added to the category available for sale. The profits and losses resulting from the valuation are recorded in equity as not affecting net income until the financial asset is booked out.

The retained earnings of KEUR 67 remained unchanged on 31 December 2007 in comparison to 31 December 2006.

Appropriation of results

The balance sheet loss of KEUR 28,411 was carried forward to the new statement.

Information in accordance with IAS 1.124A and B

Because the company generated a negative period result, the primary objectives of capital management are to retain a sufficiently high amount of liquid reserves so as to enable the future further development of the product pipeline and technology without considerable limitations, as well as to maintain or strengthen equity so that balance sheet challenges, such as a equity bisection, can be avoided. Accordingly, an increase in the balance sheet loss and thus a dissipation of equity must be kept as low as possible, without compromising project progress. A very restrictive handling of financial reserves is a prerequisite for the achievement of these goals. Furthermore, the acquisition of additional liquid funds is also one of the main options in terms of realising these objectives. Due to the development stage, as well as the company's risk profile, the raising of equity is the principal action that can be taken in this regard. Of course, the company's goal continues to be to generate sales in both segments, in order to reach the break-even point and reduce the losses carried forward.

Like capital as a whole, equity is managed inclusive of losses carried forward. Due, on the one hand, to the positive effect of the two increases in share capital carried out in the reporting year, as well as the opposing negative result for the period on the other, equity has improved by KEUR 11,762 to KEUR 19,616 in the reporting year (end of 2006: KEUR 7,854).

No changes were made in the strategy or objectives with regard to capital management during the reporting year.

7.12 Trade accounts payable

in KEUR	2007-12-31	2006-12-31	Change
Domestic	438	439	- 0.2%
EU	14	45	- 68.9%
Third countries	28	15	86.7%
Trade accounts payable	**480**	**499**	**- 3.8%**

The trade accounts payable remain virtually unchanged as against the previous year. They result primarily from scientific outside services and patent services, as well from legal and consulting services invoiced at the end of the year.

7.13 Accounts payable to associated companies

On the balance sheet date there were liabilities to associated companies for quattro research GmbH, as well as QuoNova LLC.
Two agreements were signed with quattro research GmbH, Planegg-Martinsried, on the development, servicing and maintenance of software and servicing and maintenance of 4SC AG IT infrastructure and databases. The amount of KEUR 29 owed quattro research GmbH pursuant to annual invoicing is shown (2006: KEUR 29).
Within the research and development cooperation with QuoNova LLC. billing takes place at the middle of each current quarter. The difference between the billed and actual hours for the fourth quarter of 2007, which resulted from this billing method and totals KEUR 74 (2006: KEUR 0), is shown as advanced payments and thus reported as accounts payable to associated companies.

7.14 Financial liabilities

In the year 2005, a KEUR 690 silent partner participation held by Technologie Beteiligungs-fonds Bayern GmbH & Co. KG, Munich, ("Technofonds Bayern"), was converted into a 5.0% non-current loan, interest charged quarterly, due 31 December 2008, with an early repayment option for 4SC AG. The present value repayable amount shown was determined by applying a market interest rate of 11.0% p.a., as the actual interest rate it is not in line with current market rates.
The KEUR 230 end remuneration claim due to Technofonds Bayern was converted into an interest-free loan in deferral through 31 December 2008. The present value repayable amount shown was determined by applying a market interest rate of 11.0% p.a., as the actual interest rate it is not in line with current market rates either.
Because both the loan and the final payment are due on 31 December 2008, and the remaining term is thus less than one year, these amounts are shown on the balance sheet date as current financial liabilities. Their identification as non-current liabilities occurred in calendar year 2006, due to the then-remaining term of more than one year.

7.15 Other liabilities

in KEUR	2007-12-31	2006-12-31[1]	Change
Accruals	919	645	42.5%
Social security charges	76	70	8.6%
Down payments received	1	37	- 97.3%
Miscellaneous	8	9	- 11.1%
Other liabilities	**1,004**	**761**	**31.9%**

1: The balance sheet items "Provisions and deferred liabilities" (KEUR 564), "Down payments received" (KEUR 37) and "Other liabilities" (KEUR 160), which were shown separately in the previous year, are shown together as "Other liabilities" starting with the reporting year. At the same time, the renovation costs from the current rental lease included in the previous year in "Provisions and deferred liabilities" were reclassified as non-current liabilities.

Other liabilities are presented in the balance sheet according IAS 1.51 as separate classifications.

in KEUR	Total liabilities		thereof non-current		thereof current	
	2007	2006	2007	2006	2007	2006
Accruals	919	645	53	47	866	598
Social security charges	76	70	0	0	76	70
Down payments received	1	37	0	0	1	37
Miscellaneous	8	9	0	0	8	9
Other liabilities	**1,004**	**761**	**53**	**47**	**951**	**714**

Thereof accruals are on the balance sheet date as follows:

in KEUR	2007-12-31	2006-12-31	Change
Outstanding invoices	454	230	97.4%
Bonus to the Management Board	144	119	21.0%
Supervisory Board remuneration	90	90	0.0%
Personnel liabilities	78	81	- 3.7%
Financial statement and audit costs	67	46	45.7%
Renovation IZB West	53	47	12.8%
Professional association dues	20	23	- 13.0%
Miscellaneous	13	9	44.4%
Accruals	**919**	**645**	**42.5%**

The non-current accruals result from the renovation costs for the lease that run until the end of 2011. They are assessed at the present value of the payment obligation. All other accruals are of a short-term nature. Insecurity about the amount of the actual utilisation exists only to a limited degree. There are no claims for reimbursement against third parties.

7.16 Other information about the financial instruments

Carrying values and present fair values according to valuation categories

in KEUR	Valuation category according to IAS 39	Valuation on 2007-12-31		Valuation on 2006-12-31	
		Carrying value	Fair Value	Carrying value	Fair Value
Trade accounts receivables	LaR	131	131	134	134
Accounts receivables from associated companies	LaR	999	999	1,539	1,539
Other assets	LaR	784	784	656	656
Financial assets at fair value through profit or loss					
held for trading	AFVPL / Tr.	3,009	3,009	2,058	2,058
designated as at fair value through profit or loss	AFVPL / Des.	400	400	1,949	1,949
Financial assets available for sale	AfS	3,459	3,459	0	0
Trade accounts payable	LaR	- 480	- 480	- 499	- 499
Accounts payable to associated companies	LaR	- 103	- 103	- 29	- 29
Financial liabilities	LaR	- 860	- 860	- 830	- 830
Other liabilities	LaR	- 1,004	- 1,004	- 761	- 761
Total		**6,335**	**6,335**	**4,217**	**4,217**
Of this, total according to valuation categories in accordance with IAS 39					
Financial assets at fair value through profit or loss					
held for trading	AFVPL / Tr.	3,009	3,009	2,058	2,058
designated as at fair value through profit or loss	AFVPL / Des.	400	400	1,949	1,949
Financial investments held to maturity	Htm	0	0	0	0
Loans and receivables	LaR	- 533	- 533	210	210
Financial assets available for sale	AfS	3,459	3,459	0	0

Trade accounts receivables and other assets predominantly have short remaining terms; the values shown on the balance sheet represent the approximate current fair value. Non-current other assets are interest-bearing; therefore carrying value and fair value correspond to one another.

The accounts receivables from the associated company QuoNova LLC. are valued at ongoing historical cost using the effective interest method, as they are not interest-bearing. The accounts receivables from quattro research GmbH are interest-bearing at current market conditions. For both receivables the carrying value corresponds with the fair value.

The original financial instruments are classified either as financial assets at fair value through profit or loss, or as financial assets available for sale. Financial instruments that are shown on the balance sheet at fair value through profit or loss include securities that are assigned to the held for trading category and financial assets that – due to a joint portfolio management – are designated on initial recognition as financial assets at fair value through profit or loss. For financial instruments that are recorded on the balance sheet at fair value through profit and loss from the subsequent valuation are recorded as affecting net income. The financial instruments that are categorised as available for sale are also valued at fair value. The profits and losses resulting from the valuation are recorded in equity as not affecting net income until the financial asset is booked out. Fair value is identified via bank statements and bank confirmations at the end of the reporting year.
Trade accounts payable, accounts payable to associated companies and other liabilities predominantly have short remaining terms; their carrying value on the reporting date therefore corresponds approximately to the fair value. Because the non-current liabilities are discounted, the carrying value and the fair value also correspond in this item as well.
The financial liabilities are valued at fair value using the effective interest method; therefore the carrying value on the balance sheet date corresponds to the fair value.

Net results according to valuation categories
The net result of the financial instruments in the reporting year, in accordance with IAS 39, is composed of the following:

in KEUR	Interest result	Subsequent valuation			Disposed of	Net result 2007
		at Fair Value	Currency con-version	Valuation allow-ance		
Financial assets at fair value through profit or loss						
held for trading	119	36	0	0	- 59	96
designated as at fair value through profit or loss	31	- 2	0	0	0	29
Financial investments held to maturity	0	0	0	0	0	0
Loans and receivables	44	0	- 100	0	0	- 56
Financial assets available for sale	33	0	0	0	0	33
Total	**227**	**34**	**- 100**	**0**	**- 59**	**102**

In the previous year, the net result of financial instruments, in accordance with IAS 39, was composed of the following:

in KEUR	Interest result	Subsequent valuation			Disposed of	Net result 2007
		at Fair Value	Currency conversion	Valuation allowance		
Financial assets at fair value through profit or loss						
held for trading	113	42	0	0	- 61	94
designated as at fair value through profit or loss	51	- 5	0	0	- 3	43
Financial investments held to maturity	0	0	0	0	0	0
Loans and receivables	- 109	0	- 9	- 65	0	- 183
Financial assets available for sale	0	0	0	0	0	0
Total	**55**	**37**	**- 9**	**- 65**	**- 64**	**- 46**

Interest from financial instruments in terms of IAS 39 is shown in the financial result, as are the other components of the net result, with the exception of those valuation allowances classified under Loans and Receivables. These result from allowances from bad debts for trade accounts receivables and are shown in cost of sales.
There were no securities in the "held to maturity" category for either the previous year or the reporting year at 4SC AG.
The interest result of the Loans and Receivables category results from opposing effects. On the one hand, interest income from the application of the effective interest method for non-current receivables from associated companies, amounting to KEUR 109 (2006: KEUR 8) was booked, while expenses tied to the application of the effective interest method for non-current loans amounting to KEUR 31 (2006: KEUR 82) and the interest payments to former silent partners amounting to KEUR 35 (2006: KEUR 34) were recorded. The currency losses in this category result essentially from the exchange rate losses due to the balance sheet valuation of the US dollar as applied to the receivables from QuoNova LLC.
The changes in value of the financial instruments that are classified as available for sale are not shown in the net result. They are recorded in equity in the revaluation reserve as not affecting net income until the financial asset is booked out. In 2007, losses totalling KEUR 20 (2006: KEUR 0) were recorded for this item. No financial assets of this category were booked out, which means that no result was transferred to the income statement.

Risks from financial instruments

4SC AG has liquid funds that are predominantly invested for better return in fixed deposits, money market funds, bonds, bearer bonds, variable interest-bearing securities and real estate funds. In doing so, the investment products are handled conservatively and attention is paid to a high rating. Nevertheless, 4SC AG is subject to the usual investment risk. One or several securities could suffer losses or the issuer could no longer have sufficient funds for repayment, which could have a negative impact on the liquidity of 4SC AG.
4SC AG's interest risk results from the variable interest-bearing securities. However, its share on the balance sheet date measured only 17.5% of the total of financial assets and liquid funds. A change in the general interest rate level could lead to an increase or decrease in the market value of these securities. Due to the short terms of the variable interest-bearing securities, a change in the interest rate level would not have any significant effect on the fair values.

4SC AG is furthermore subject to currency risk in terms of Loans and Receivables. The company has concluded transactions in which the payment conditions are in a currency other than the Euro. Therefore, 4SC AG is subject to the risk of a relative slump or increase in the rate of the Euro compared to those currencies for the period until the agreed payment dates or collection of the receivables. On the balance sheet date, this applied in particular to accounts receivables from associated companies, which had a nominal total of KUSD 1,500 (31 December 2006: KUSD 2,000) from QuoNova LLC. 4SC AG does not hedge, but attempts instead to pay its own liabilities in USD as well, in order to keep the risk of currency fluctuations low.
In addition to the US dollar receivables from QuoNova LLC., 4SC AG has US dollar bank accounts on the balance sheet date. A rise in the Euro compared to the US dollar by 10% on 31 December 2007 would have diminished the result of 4SC AG by KEUR 110. A fall in the Euro compared to the USD by 10% would have improved the result of the company by KEUR 135. If Euro and US dollar exchange rates had remained constant in comparison with the rate on 31 December 2006, the 4SC AG result would have been improved by KEUR 149.
In addition, 4SC AG is subject to the risk of a possible loss due to bad debt in terms of the Loans and Receivables. 4SC AG has current and non-current receivables which could be fulfilled entirely, delayed in part or not at all. This would lead to valuation allowances for receivables, thus negatively influencing the net assets, financial and earnings position. On the balance sheet date, 4SC AG had no overdue receivables.

7.17 Other financial obligations

Other financial obligations for the years subsequent to the balance sheet date include facilities and office space leased by 4SC AG. The lease contract, expiring 31 December 2011, has been renewed with effect from 1 April 2007. As far as 4SC AG meets the criteria given by the landlord after expiration, a new extension of the lease contract may be possible. Purchase options don't exist. The release contract contains terms for price adjustment: rent per month for office and laboratory space including common and functional space remains unchanged for the years 2007 to 2009, subsequently increasing by EUR 0.75/qm per year.
Further financial obligations mainly result from services agreements.

Future payments due pursuant to these agreements break down as follows:

in KEUR	
2008	1,063
2009	669
2010	699
2011	730
As from 2012	0
Total	**3,161**

Expenses reportable on the income statement in connection with the lease agreement totalled KEUR 697 for the reporting year (2006: KEUR 744). This decline resulted mainly from reduced rental fees.

8. Notes to the cash flow statement

8.1 Cash flows from operating activities

Cash flows from operating activities in the reporting year amounted to KEUR 6,634 and is therefore KEUR 484, or 7.9% higher than in the previous year (2006: KEUR 6,150). This increase is substantially the effect of the period result that is KEUR 2,590 below that of the same period in 2006. However, the decline in accounts receivables from associated companies by KEUR 540 (2006: increase of KEUR 1,356) has a counter effect, because the first tranche of the sale of worldwide exclusive rights for QSB substances to QuoNova LLC. in 2006 was cash affecting during the reporting year.

8.2 Cash flows from investing activities

Cash flows from investing activities in the reporting year amounted to KEUR 5,128 (2006: KEUR 2,326). Investments were made in intangible assets totalling KEUR 8 (2006: KEUR 78) and in fixed assets totalled KEUR 192 (2006: KEUR 299). However, a major factor, as in the previous year, is the acquisition of financial assets with an original maturity of more than three months, which must be shown according to IFRS in cash flows from investing activities. Of the funds acquired through the two increases in share capital in the reporting year, KEUR 6,832 were invested in fixed and variable interest-bearing securities from issuers with a high credit rating, as well as in fixed deposits (2006: KEUR 1,949). At the same time, payment was effected for the sale of financial assets totalling KEUR 1,904 (2006: KEUR 0), which means that on the whole a cash flow of KEUR 4,928 was recorded for financial assets.

8.3 Cash flows from financing activities

Cash flows from financing activities in the reporting year amounted to KEUR 19,575 compared to KEUR 4,120 for the previous year's period. Cash flows resulted entirely from the two increases in share capital carried out in 2007. With the increase in share capital on 21 May 2007, 1,206,519 new shares at a price of EUR 2.80 were placed, and with the increase in share capital on 7 September 2007, 6,333,942 new shares at a price of EUR 2.65 were placed. The transaction costs of KEUR 378 and KEUR 210, which were attributed directly to the increases in share capital, were offset with the resulting gross cash flows of KEUR 3,378 and KEUR 16,785.

9. Stock option programme

The table below provides an overview of stock option programmes and tranches and exercise terms thus far issued:

ESOP	Tranche	Expenditure	Exercising price	Subscription ratio[1]	issued	outstanding 2007-01-01	forfeited 2007	exercised 2007	outstanding 2007-12-31	exercisable 2007-12-31	max. number of subscribe-able shares 2007-12-31	present value	cum. PC[2]	PC 2007[3]
Unit			**EUR**		**K**	**K**	**K**	**K**	**K**	**K**	**K**	**EUR**	**EUR**	**EUR**
ESOP 2001	2001/1	01-03-31	9.60	2:1	74	17	0	0	17	17	9	n/a	0	0
ESOP 2001	2001/2	01-10-10	9.60	2:1	110	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2002	02-06-30	12.00	2:1	120	18	1	0	17	17	9	n/a	0	0
ESOP 2001	2003	03-09-30	5.08	2:1	318	71	10	0	61	46	31	0.74	52	- 60
ESOP 2004	2004	04-09-30	4.24	2:1	122	91	0	0	91	45	45	0.72	64	17
ESOP 2004	2005	05-09-30	4.24	2:1	93	87	0	0	87	0	43	0.71	58	18
ESOP 2004	2006/1	06-05-30	4.53	2:1	26	26	0	0	26	0	13	0.74	19	6
ESOP 2006	2006/2	06-08-25	3.80	1:1	296	295	9	0	286	0	286	1.71	452	208
ERSATZ-ESOP 2001	2006/3	06-08-25	3.80	1:1	166	166	0	0	166	0	166	1.54	255	147
ESOP 2006	2007	06-11-26	3.65	1:1	9	0	0	0	9	0	9	1.49	11	0
Total					**1,334**	**771**	**20**	**0**	**760**	**125**	**611**		**911**	**337**

1: For the tranches affected by the capital reduction in December 2004, the subscription ratio 2:1
2: Cum. PC = The cumulative personnel costs are calculated through the end of the vesting period
3: PC 2007 = Personnel costs 2007

All option tranches issued are exercisable only in return for shares. Approved capital provisions I through IV were adopted to fulfill the exercise of options issued.
Tranches issued between 2001 and 30 May 2006 have a term of seven years. Half of these options may be exercised a minimum three years after the issue date. Another 25% are exercisable one year thereafter, and the remaining 25% in another year's time thereafter. Once eligible, options may only be exercised if the share price exceeds the issue price by a minimum 20%.
Tranches issued since 25 August 2006 have a term of ten years. Half of the '2006/2' tranche and of the '2007' tranche of options may be exercised a minimum two years after the issue date. Another 25% are exercisable one year thereafter, and the remaining 25% in another year's time thereafter. 100% of the '2006/3' options tranche is exercisable after two years.
The weighted average remaining duration of all tranches issued is 6.70 years. The exercising prices of option tranches range from EUR 3.65 to EUR 12.00.

Below is provided a view of weighted average exercise prices:

Exercising prices (weighted; EUR)	
Outstanding options as of 2007-01-01	4.21
In 2007 new issued options	3.65
In 2007 forfeited options	4.84
Outstanding options as of 2007-12-31	4.19
Exercisable options as of 2007-12-31	6.33

All tranches issued after 30 September 2003 are valued in accordance with IFRS 2 rules. Certain assumptions must be made in determining the market value of these options. 4SC AG employs the "Black-Scholes option pricing model". The following assumed parameters were applied to new options issued during the reporting year:

Tranche	Market value (EUR)	Volatility	Risk-free interest rate
2007	3.53	52.46%	3.79%

The market price given is the closing price of 4SC shares in Xetra trading on the Frankfurt Stock Exchange. Volatility represents the 250-day volatility of 4SC shares, the assumption being that this metric reflects actual share price fluctuation better than measures of market volatility. The risk-free interest rate is that for Bundesanleihen (German treasury bonds) of comparable duration. There are no anticipated dividend payments. All assumptions applied were valid as of the respective option issue dates.

Because 4SC AG now has a share price history of more than one year, volatility is determined on the basis of the 250-day volatility of the 4SC share after the 'ESOP 2007' tranche was issued in the reporting year. On the other hand, the share's 90-day volatility was still used as the basis for the tranches of the previous years, due to the lack of a history.

Market values were not determined for tranches issued prior to 7 November 2002, as these were not subject to IFRS 2 rules. Accordingly, no personnel expenses have been computed for these tranches.

10. Management Board and Supervisory Board remuneration

Total Management Board remuneration for the reporting year came to KEUR 893 (2006: KEUR 662). Of this amount, KEUR 19 (2006: KEUR 21) represents contributions to defined contribution plans according to IAS 19.7. Prorated personnel costs attributable to options included in overall remuneration totalled KEUR 194 for the reporting year (2006: KEUR 39), which have however no cash effect.
Individual Management Board member remuneration for the reporting year broke down as follows:

in KEUR	Fixed		Variable		Personnel expenses from options		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Dr Ulrich Dauer (speaker)	151	132	41	34	26	6	218	172
Dr Daniel Vitt	141	115	41	34	26	6	208	155
Dr Gerhard Keilhauer	136	134	31	26	54	11	221	171
Dipl.-Kfm. Enno Spillner	127	122	31	26	88	16	246	164
Management Board remuneration	**555**	**503**	**144**	**120**	**194**	**39**	**893**	**662**

Broken down by individual members of the Management Board, the share and options property of 4SC AG on the balance sheet date are stated as follows:

Shares quantity	Shares 2007-01-01	Addition	Sales	Shares 2007-12-31
Dr Ulrich Dauer	399,792	10,847	0	410,639
Dr Daniel Vitt	393,503	3,300	0	396,803
Dr Gerhard Keilhauer	9,025	4,512	0	13,537
Dipl.-Kfm. Enno Spillner	6,666	2,934	0	9,600
Share property	**808,986**	**21,593**	**0**	**830,579**

Options quantity	Options 2007-01-01	Additions	Forfeitures	Exercised	Options 2007-12-31	Max.number of subscribed shares
Dr Ulrich Dauer	40,600	0	0	0	40,600	35,800
Dr Daniel Vitt	40,600	0	0	0	40,600	35,800
Dr Gerhard Keilhauer	71,500	0	0	0	71,500	66,700
Dipl.-Kfm. Enno Spillner	138,000	0	0	0	138,000	124,800
Options property	**290,700**	**0**	**0**	**0**	**290,700**	**263,100**

With the exception of fixed remuneration, of which a percentage is paid out at the end of each month, there are no current benefits that are owed to Management.
An agreement was reached with Management Board members Dr Ulrich Dauer, Dr Daniel Vitt and Enno Spillner as part of the rearrangement of the Management Board contracts, which states that in the event of a takeover by a third party and a related settlement for the remaining term of the contract, earnings will be paid in full, at least for a calculated remaining term of 15 months. Apart from this, there are no benefits owed to the Management Board members after conclusion of the contractual relationship or by reason of concluding the contractual relationship.

As of balance sheet date, Management Board member sat on the following external Management/Supervisory Boards:

- Dr Ulrich Dauer has been member of the Board of Directors for QuoNova LLC., Melbourne, Florida, USA, since March 2007
- Dr Daniel Vitt has been Advisory Board member for quattro research GmbH, Planegg-Martinsried, since January 2004
- Dipl.-Kfm. Enno Spillner has been Vice Chairman of the Supervisory Board of Concentro AG (formerly Fairvest AG), Nuremberg, since May 2002

Total Supervisory Board remuneration for the reporting year came to KEUR 90 (2006: KEUR 90). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

in KEUR	Profession	Remuneration	
		2007	2006
Dr Jörg Neermann (Chairman)	Investment Manager/Partner	20	20
Dr Robert B. O'Connell (Vice-Chairman)	Consultant	20	20
Dr Brian Morgan	Consultant	18	20
Dr Manfred Rüdiger	Managing Director	15	15
Dr Clemens Doppler	Investment Director/Partner	0	0
Günter Frankenne (as from 2007-06-29)	Managing proprietor/Consultant	10	0
Stefan Meißner (until 2007-06-29)	Executive Director	7	15
Supervisory Board remuneration		**90**	**90**

Supervisory Board member Dr Clemens Doppler has waived remuneration of KEUR 15 accruing to him for financial year 2007, as well as for the prior year. Broken down by individual members of the Supervisory Board, the share property of 4SC AG on 31 December 2007 and 31 December 2006 are stated as follows:

Shares quantity	Shares 2007-01-01	Addition	Sales	Shares 2007-12-31
Dr Jörg Neermann (Chairman)	1,500	75,500	0	77,000
Dr Robert B. O'Connell (Vice-Chairman)	0	10,000	0	10,000
Dr Manfred Rüdiger	0	5,000	0	5,000
Share property	**1,500**	**90,500**	**0**	**92,000**

As of the balance sheet date, Supervisory Board members sat on the following external Management/Supervisory Boards:

Dr Jörg Neermann:

- Supervisory Board Vice-Chairman, KeyNeurotek AG, Magdeburg
- Director and shareholder, Kaneas Capital GmbH, Munich
- Non-Executive Board Member, NextGen Science Ltd, Cambridgeshire, Great Britain

Dr Robert B. O'Connell:

- Non-Executive Chairman, Scottish Prudential Investment Association Ltd., Great Britain
- Non-Executive Chairman, Forelle Estates Holdings Ltd., Great Britain

Dr Brian Morgan:

- Supervisory Board Vice-Chairman, Protaffin AG, Graz, Austria

Dr Clemens Doppler:

- Supervisory Board Vice-Chairman, Sensovation AG, Stockach
- Supervisory Board member, Combinature AG, Berlin
- Supervisory Board member, Merlion Pharmaceuticals Inc., Singapore
- Advisory Board member, Accovion GmbH, Eschborn

Günter Frankenne:

- Supervisory Board Chairman, Concentro AG, Nuremberg
- Supervisory Board Chairman, KeyNeurotek Pharmaceuticals AG, Magdeburg
- Supervisory Board Chairman, November AG, Erlangen
- Supervisory Board member, LCG LifeScience Consulting Group International AG, Leimen
- Supervisory Board member Verbena AG, Berg bei Neumarkt
- Supervisory Board member, Epigenomics AG, Berlin
- Advisory Board Chairman, Virologik GmbH, Erlangen
- Advisory Board Vice-Chairman, iMTM GmbH, Madgeburg
- Advisory Board member, SIRION GmbH, Planegg-Martinsried

11. Related party disclosure

For the period 1 January 2007 to 31 December 2007 4SC AG transacted the following business with related parties:
4SC AG maintains legal relations with quattro research GmbH, Planegg-Martinsried, in which it holds a 48.8% stake of the share capital since its founding at the beginning of 2004. In particular, there is a software service contract for further development, support and database maintenance, related to software created by 4SC AG for the support of research activities. For the period January to December 2007 this contract had a net volume of KEUR 277 (2006: KEUR 277). Moreover, there is an IT service contract, on the basis of which quattro research GmbH provides upkeep and maintenance services for 4SC AG's infrastructure. In 2007, 4SC AG accrued net costs of KEUR 21 (2006: KEUR 21) as a result of this contract. A further KEUR 5 (2006: KEUR 2) in computer equipment was supplied to 4SC AG by quattro research GmbH. As of the balance sheet date, liabilities toward quattro research GmbH resulting from the named contracts amount to KEUR 29 (31 December 2006: KEUR 29).
Commensurate with an amortisation schedule agreed to in connection with the sales contract of 7 January 2004 regarding the sale and transfer of software rights, quattro research GmbH pays annual instalments of the sales price. In 2007, 4SC AG recorded a payment of KEUR 60 (2006: KEUR 60). That amount includes interest payments of KEUR 6 (2006: KEUR 6). Because the instalments exceeded the initially agreed amount of KEUR 41 by KEUR 19, it was possible to draw up a new amortisation schedule. Accordingly, the final instalment is due in December 2009. The accounts receivables from quattro research GmbH as of 31 December 2007 totalled KEUR 78 (31 December 2006: KEUR 132).
In addition, a sublease for spaces and parking spaces in the offices of 4SC AG exists between 4SC AG as the main tenant and quattro research GmbH as the subtenant. Likewise, the lessor's office equipment, telephone and internet connections are subleased through this lease contract. In the reporting year, income from subleasing amounted to KEUR 16 (2006: KEUR 16) was collected.
4SC AG also maintains legal relations with QuoNova LLC, Melbourne, Florida, USA, which was founded at the end of 2006, together with XL TechGroup, Melbourne, Florida, USA, and of which 4SC AG owns a 10% stake. As of 28 December 2006 4SC AG has sold its worldwide exclusive rights for its QSB substances to QuoNova LLC. As agreed, 4SC AG received the first instalment of its total sales proceeds of USD 2 million in January 2007. On 31 December 2007, the receivables from QuoNova LLC., related to the sales proceeds, totalled KEUR 921 (31 December 2006: KEUR 1,304).
As part of the cooperation agreement for the further development of QSB substances signed between 4SC AG and

QuoNova LLC at the end of 2006, 4SC AG provided research services and in return in 2007 received FTE payments of KEUR 1,238 (2006: KEUR 103). On the balance sheet date, liabilities toward QuoNova LLC resulting from this co-operation totalled KEUR 74 (31 December 2006: receivables of KEUR 103).
On 30 April 2007 and on 20 August 2007 4SC AG concluded contracts with Conrad Hinrich Donner Bank, Hamburg, (CHD) for the realisation of capital increases for 4SC AG in May 2007 and September 2007. One of Conrad Hinrich Donner Bank's Management Board members, Marcus Vitt, is a brother of 4SC AG's CSO, Dr. Daniel Vitt. In the reporting year, 4SC AG accrued expenses related to these two share capital increases with CHD of KEUR 325 (2006: from the share capital increase of 11 May 2006: KEUR 195), which as transaction costs diminish equity. At the same time, as part of the 2007 capital increases, 4SC AG was able to recharge CHD with accrued expenses totalling KEUR 9 (2006: KEUR 0). As of the balance sheet date, this receivable of KEUR 11 gross was still outstanding.
Subject to the December 2005 contract, CHD has also assumed the function of payment and deposit facility for 4SC AG, for which an annual expense of KEUR 3 will accrue.

12. Corporate Governance

On 8 May 2007, the company's Management Board and Supervisory Board declared in accordance with section 161, AktG that they are in almost complete compliance, with a few exceptions, with the recommendations of the "Government Commission on a German Corporate Governance Code" announced by the Federal Ministry of Justice. The compliance declaration was made permanently available to shareholders on the same day on the website www.4SC.com.

13. Auditor's fee – section 285, para. 1, sentence 17, German Commercial Code (HGB)

The 29 June 2007 annual general meeting resolved to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Ganghofer Straße 29, 80339 Munich, as auditor for the financial year 2007.
The auditor's fee for the financial year 2007 was EUR 64,000.00 (2006: EUR EUR 64,000.00). Other verification and valuation services generated EUR 9,164.70 in expenses during the reporting year for two analytical reviews as well as a review performed for quarterly reporting.
The issue of the comfort letter in the context of the 21 May 2007 and 7 September 2007 capital increases generated another EUR 54,568.20 in expenses (previous year: EUR 0). These expenses will be balanced as transaction costs in connection with the individual reserves subtracted from shareholder's equity.

14. Events after the balance sheet date

At midnight 8 January 2008, the deadline for 4SC AG shareholders to accept the takeover offer made by Santo Holding (Deutschland) GmbH pursuant to § 35 WpÜG expired. In its notification on 11 January 2008, Santo Holding declared that in connection with the aforesaid offer, it had been able to acquire 271,636 shares or 1.43% and that Santo Holding now holds a total of 32.71% of the shares.
On 5 February 2008 4SC AG publicly announced its research cooperation, ongoing since the end of 2007, with AiCuris GmbH & Co KG, based in Wuppertal. The long-term goal of this collaboration is to set-up a joint product pipeline with innovative, anti-infective pharmaceutical active agents. In the context of this collaborative effort 4SC AG shall, over the course of one year make medicinal chemistry from its extensive resources available to AiCuris, for research purposes.
Furthermore there were no events occurring after the balance sheet date fort he financial year having a material impact on net assets, financial or earnings situation of 4SC AG.

Auditor's report

We have audited the individual IFRS financial statements, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the 4SC AG, Planegg, District of Munich, for the business year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the individual financial statements and management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 325 (2a) HGB (German Commercial Code) are the responsibility of the Company's management. Our responsibility is to express an opinion on the individual IFRS financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the individual IFRS financial statements in accordance with Article 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the individual IFRS financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the individual IFRS financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the individual IFRS financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the individual IFRS financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 325 (2a) HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements. The management report is consistent with the individual IFRS financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion we refer to the discussion in sections 3.3 and 7.3.3 in the management report. Therein it is disclosed that the Company's ability to continue as a going concern in the mid and long term depends on the contribution of cash or liquid assets in the form of equity capital or debt, if the Company is unable to generate sufficient cash flows from cooperations and outlicensing.

Munich, March 10, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wolfs	Rahn
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement

„To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company."

Planegg-Martinsried, 10 March 2008

Dr Ulrich Dauer, CEO | Dr Gerhard Keilhauer, CDO | Dipl.-Kfm. Enno Spillner, CFO | Dr Daniel Vitt, CSO

Other Information

In addition to the reporting requirements associated with Prime Standard listing, 4SC AG attaches great importance to timely, comprehensive and reliable communication with all financial market participants.

Report of the Supervisory Board

The Supervisory Board advises and monitors the Management Board

The Supervisory Board has performed its task of advising the Management Board, and monitoring its management, in accordance with legal requirements and the Articles of Association. In respect of management, the financial year 2007 was characterised by various scientific, strategic, structural and financial decisions that were discussed and coordinated in detail with the Supervisory Board. The issues the Supervisory Board devoted particular attention to during the financial year past include:

- Realisation of phase IIa for drug candidate SC12267
- Further development of the existing project pipeline and organising development strategies
- Creating new product candidates in conjunction with reducing risks and the sustainable further development of the project pipeline
- Evaluation of strategic growth options and opportunities for expanding the project pipeline
- Potential partnering/licensing of projects with/to industry partners
- New election of the Supervisory Board members
- Securing financing and capital increases, also with a view to correct the situation of halving of share capital within the meaning of section 92, AktG
- Further development of the shareholder structure (in particular the stake of Santo Holding (Deutschland) GmbH)
- Statement on the mandatory offer of Santo Holding (Deutschland) GmbH
- Mandating KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

All decisions relevant for 4SC AG were discussed at length with the Management Board. The Management Board kept the Supervisory Board comprehensively informed in a timely manner and on an ongoing basis regarding significant changes. Urgent decisions were discussed via teleconference as needed in conjunction with the resolutions by circulation. The Supervisory Board was thus involved in all major decisions relevant to the company at all times. Deviations from plans and targets were explained by the Management Board to the Supervisory Board and reviewed in the following. Where applicable legal transactions that required approval were submitted to the Supervisory Board as part of the Supervisory Board meetings. At every meeting the Supervisory Board reviewed management performance on the basis of reporting by the Management Board, discussing strategic business opportunities and specific topics with Management Board members. There was no occasion for conducting any additional investigation such as checking company documentation or appointing an independent expert.

Committee chairs regularly reported in Supervisory Board meetings on committee work if the specific work involved was not directly dealt with by the Supervisory Board anyways.

Five physical meetings and four teleconferences were held in the financial year 2007. The entire Management Board attended most meetings. No Supervisory Board member attended less than half of all Supervisory Board meetings during the period under review. There were no conflicts of interest in the Supervisory Board either in the period under review. Issues discussed in depth at every physical meeting included progress and further development of the project pipeline, collaborative business, finances and administration, strategic options, the risk situation and staffing concerns.
Additional resolutions were passed by circulation outside the meetings.

Details of individual meetings and adopted resolutions:

8 March 2007 (physical meeting):
The annual financial statements were adopted and approved for release following detailed discussion with the auditor at the 8 March 2007 financial statement meeting. Additional advance discussions took place between the auditor, the Audit Committee and the Supervisory Board Chairman in advance.

The Supervisory Board also discussed the ongoing clinical phase IIa study for drug candidate SC12267, the current risk

report and pending required financing measures, among other things to create liquidity and reinforce the equity base. Additionally, the Supervisory Board Report, the Corporate Governance Report and Declaration of Conformity for financial year 2006 were adopted.

2 May 2007 (resolution in circular):
The Supervisory Board gave its approval, by way of circulation, to the Management Board's resolution on utilising the authorised capital for a cash capital increase.

10 May 2007 (teleconference/resolution in circular):
Further to a brief teleconference relating to the envisaged capital increase, the Supervisory Board approved, by way of circulation, the Management Board's resolution on specifying the subscription and offer price at EUR 2.80 per share.

21 May 2007 (resolution in circular):
The Supervisory Board gave, by way of circulation, its approval to the Management Board's resolution on implementing the capital increase and the appertaining adjustment of the share capital in the Articles of Association. Additionally, by way of circulation, the Supervisory Board approved the content and publication of the invitation to and agenda for the ordinary annual general meeting and within this framework adopted the corresponding proposals for resolution by the Supervisory Board.

28 June 2007 (physical meeting):
The Supervisory Board meeting of 28 June 2007 focussed, above all, on the preparation for the ordinary annual general meeting, including the new election of the Supervisory Board members. Additionally, in-depth discussions were held on potential licensing partners for the most advanced development project, the subsequent preparation of the capital increase of May 2007 and strategic options. Furthermore, the Management Board contracts of Dr Ulrich Dauer, Dr Daniel Vitt and Enno Spillner were extended by three years.

29 June 2007 (physical meeting):
Annual general meeting matters were further addressed in the Supervisory Board meeting directly after the ordinary annual general meeting. Above all, it was a constituent meeting of the Supervisory Board in which the Chairman and Deputy Chairman, and committee members, were elected. Furthermore, the Supervisory Board approved the appointment of the auditing company KPMG to audit the annual financial statements and the Management Reports of 4SC AG for the financial year 2007 and to review the interim report and the interim management report as of 30 June 2007 in accordance with the resolution adopted at the annual general meeting.

20 August 2007 (teleconference):
In the meeting of 20 August 2007, held by way of a teleconference, the Supervisory Board discussed a possible capital increase with subscription rights, and approved a basic resolution of the Management Board on a capital increase by way of utilising authorised capital.

7 September 2007 (teleconference):
A teleconference held on 7 September 2007 addressed adopting a resolution on implementing a capital increase by way of authorised capital with subscription rights based on the corresponding Management Board resolutions.

27 September 2007 (physical meeting):
Issues discussed in the Supervisory Board meeting of 27 September 2007 included the subsequent preparation of the last capital increase, and the new shareholder structure. Furthermore, discussions were held on the licensing options, and the status of the clinical phase IIa study. Furthermore, Dr Ulrich Dauer was appointed Chairman of the Management Board.

26 November 2007 (resolution in circular):
The Supervisory Board adopted a resolution, by way of circulation, to approve the issue of stock options to company employees based on the corresponding Management Board resolutions.

5 December 2007 (physical meeting):
Issues discussed at the Supervisory Board meeting on 5 December 2007 included the definition and setting of the company objectives for 2008, the planning and adoption of the 2008 budget and the future development of the 4SC AG project pipeline in general. The Supervisory Board discussed, in particular, results of the clinical phase IIa study too, and the take over offer of Santo Holding.

14 December 2007 (teleconference):
During a teleconference, the Management and Supervisory Boards voted on the joint statement and recommendations regarding the mandatory offer of Santo Holding (Deutschland) GmbH. It was decided to publish the statement and the Fairness Opinion on 17 December 2007, to expressly welcome Santo Holding's commitment, but not to recommend that the shareholders accept the offer.

As a general rule, Supervisory Board members and the Supervisory Board Chairman in particular engaged in extensive discussions with the Management Board on relevant issues, including via telephone and e-mail. The Management Board also kept the Supervisory Board members regularly updated on the status quo between meetings by providing monthly financial reports.

Supervisory Board committees work efficiently

The Supervisory Board has formed three committees: the Personnel Committee, the Audit Committee and the Business Development Committee.

The Personnel Committee did not meet during the past financial year due to a lack of urgent or time-critical staffing issues to be addressed. The extension of the Management Board employment contracts was discussed and voted on during Board meetings.

The Audit Committee held two teleconferences on 31 January 2007 and 28 February 2007 with the pertinent auditor KPMG to address, in particular, the status of the annual financial statements and the auditing process, and to obtain information from the auditor about the progress of the audit, the audit focuses and the status of the risk management. Additional coordination followed at Supervisory Board meetings and by telephone.

The Business Development Committee met three times in the financial year 2007 (20 July 2007, 8 August 2007 and 31 October 2007) in teleconferences to discuss the marketing strategy for the drug candidate SC12267 and further research collaborations and the planning for 2008.

Changes in Management and Supervisory Board membership

In the 2007 financial year there were no personnel changes in the Management Board. The Management Board contracts of Dr Ulrich Dauer, Dr Daniel Vitt and Enno Spillner were extended by three years. The tenures of all Supervisory Board members, i.e. of Dr Jörg Neermann, Dr Robert B. O'Connell, Dr Clemens Doppler, Dr Brian Morgan, Dr Manfred Rüdiger and Stefan Meißner ended upon expiry of the ordinary annual general meeting of 29 June 2007. The ordinary annual general meeting of 29 June 2007, in accordance with the Supervisory Board proposal, appointed Dr Jörg Neermann, Dr Robert B. O'Connell, Dr Clemens Doppler, Dr Brian Morgan, Dr Manfred Rüdiger and Günter Frankenne as the new Supervisory Board members. The appointment was for the period up until the end of the ordinary annual general meeting of 2010, which shall adopt resolutions on formally approving the Supervisory Board's acts for the financial year 2009. Dr Jörg Neermann was appointed Chairman by the Supervisory Board in the constituting meeting following the annual general meeting of 29 June 2007, and Dr Robert B. O'Connell was appointed Deputy Chairman of the Supervisory Board.

Review of annual financial statements and Dependency Report

The auditor appointed by the annual general meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Ganghofer Straße 29, 80339 Munich, Germany, audited the annual financial statements including the Management Report for financial year 2007 on the basis of German Commercial Code (HGB) and International Financial Reporting Standards (IFRS), providing a certified auditor's opinion without noting any exceptions.

The Management Board submitted to the Supervisory Board in good time the above-mentioned statements and Management Reports, and the two audit reports of the auditor (IFRS and HGB), before the meeting on 13 March 2008. The audit committee extensively discussed and reviewed these documents in a teleconference on 22 February 2008 with the auditor, and informed the Supervisory Board. The Supervisory Board took note of the statements and Management Reports in the Supervisory Board meeting of 13 March 2008 and extensively discussed and reviewed these with due regard to the report of the audit committee and the auditor's two audit reports. The estimates made by the Management Board in the Management Reports tallied with the previous Management Board reports to the Supervisory Board, and the estimates of the Supervisory Board. The auditors reported to the audit committee and Supervisory Board respectively on the key results of the audit, and answered questions and provided supplementary information.

Following the final outcome of its audit, and the appropriate recommendation of the audit committee, the Supervisory Board did not object to the statements or Management Reports. The Supervisory Board reached the conclusion that the reports meet the legal requirements and supported the outcome of the balance sheet auditors' final audit. It approved the statements prepared by the Management Board. The annual financial statement is therefore approved.

Supervisory Board efficiency reviewed

The efficiency review of Supervisory Board activity recommended by the German Corporate Governance Code was performed using a specially prepared questionnaire completed by all Supervisory Board members immediately following the 5 December 2007 Supervisory Board meeting. The evaluation of the questionnaire was further discussed at the Supervisory Board meeting of 13 March 2008 resulting in the conclusion that no changes are required and that the Supervisory Board's works efficiently.

4SC AG conformance with Corporate Governance Code

The Management and Supervisory Boards declared the company to be in conformance with the German Corporate Governance Code, 14 June 2007 version, in the latest Declaration of Conformity, also adopted on 13 March 2008, with the exceptions noted therein. For further information, reference is made to pages 98 to 103 of the "Corporate Governance Report" in the Annual Report. The Declaration of Conformity is also reproduced therein.

On behalf of my colleagues on the Supervisory Board, I would like to thank the Management Board and the entire staff for their dedication and successful efforts in the financial year 2007.

Planegg-Martinsried, March 2008

Dr Jörg Neermann,
Supervisory Board Chairman

Corporate Governance Report and Remuneration Report

Great importance has always been attached to responsible and value-oriented company management at 4SC AG. In view of this, the company undertakes to adhere to the German Corporate Governance Code with regard to all its goals, values and processes. 4SC AG actively lives the norms and regulations specified in the Code. This is underlined, among other things, in the close collaboration between all the company's executive bodies, the transparent communication and the performance-oriented remuneration structure of the young and innovative company. In respect of preparing the annual financial statements, 4SC AG's Management Board and Supervisory Board once again set themselves the task of meeting the requirements of the Code as given in the latest version, dated 14 June 2007.

4SC AG continues to comply with the Code's recommendations to the greatest extent. The exceptions largely concern recommendations clearly geared towards major Groups, and therefore apply less to companies such as 4SC AG.

Structure of 4SC AG executive bodies (status: 13 March 2008)

SUPERVISORY BOARD

Dr Jörg Neermann, Chairman
Partner, Life Science Partners, Munich

Dr Robert B. O'Connell, Vice Chairman
Former Managing Director, Merck KGaA, UK

Dr Clemens Doppler
Partner & Managing Director, HeidelbergCapital, Munich

Dr Manfred Rüdiger
CEO, t2cure GmbH, Frankfurt am Main

Dr Brian Morgan
Former Vice President Licensing, SmithKlineBeacham

Stefan Meißner (until 29 June 2007)
Executive Director, Capital Markets

Günter Frankenne (as from 29 June 2007)
Managing Director, STRATCON, Berg

MANAGEMENT BOARD

Dr Ulrich Dauer (43)
Chief Executive Officer

Dr Gerhard Keilhauer (52)
Chief Development Officer

Dipl.-Kfm. Enno Spillner (38)
Chief Financial Officer

Dr Daniel Vitt (39)
Chief Scientific Officer

Shareholders and annual general meeting

The annual general meeting is a central body of the company. The Management Board presents the annual financial statements to the general meeting. The general meeting makes decisions on all matters assigned to it – in particular electing the auditor, formal approval of the Management Board's and the Supervisory Board's actions, appointment of Supervisory Board members; amendments to the Articles of Association, or measures modifying the company's capital. The annual general meeting gives 4SC AG's shareholders the opportunity to discuss recent developments and decisions with the company's Management Board members. At 4SC AG it is a matter of course to make it easier for shareholders to personally exercise their rights. The company will therefore make representatives available for the annual general meeting of 5 June 2008, who will be bound by instructions, exercise voting rights on behalf of shareholders and also be available during the general assembly.

Close collaboration between Management Board and Supervisory Board

4SC AG's Management Board and Supervisory Board collaborate closely for the purpose of sustainably increasing the company's value. The Management Board harmonises the company's strategic alignment with the Supervisory Board, and discusses strategic implementation with the Supervisory Board. To this end, the Management Board informs the Supervisory Board regularly, in good time and comprehensively about all company-relevant matters involving planning, business development, finances, risk situation, risk management and compliance.

In the case of business transactions that are particularly important to 4SC AG, or are urgent, the Chairman of the Management Board also informs the Chairman of the Supervisory Board between meetings. Where necessary, he also holds telephone conferences with the respective committees or the entire Supervisory Board. The Management Board's bylaws define the veto rights that the Supervisory Board may exercise with respect to significant business transactions. In addition, the Supervisory Board may also define business transactions as subject to a right of veto in individual cases.

Management team at the Management Board level

The four members of 4SC AG's Management Board manage operations under their own responsibility with a view to achieving stable development and a sustainable increase of the company's value. The Management Board members complement each other very well in regards of their skills and experience, and manage the company as a team. There is extremely close collaboration between individual divisions, which is supported and documented through regular Management Board meetings.

Management Board remuneration

Management Board member annual remuneration consists of a non-performance-based component, a success related bonus and a long-term performance based compensation in the form of stock options

In the financial year 2007, 4SC AG's Management Board earnings totalled KEUR 894: thereof 62.1% were attributable to fixed and 37.9% to variable emoluments.

The Supervisory Board sets bonus levels at its own prudent discretion on the basis of company business results and the degree of obtainment of predefined individual and general corporate objectives.

Individual Management Board member remuneration for the reporting year breaks down as follows:

Remuneration 2007 in KEUR	Fixed	Variable	Personnel expenses from options	Total
Dr Ulrich Dauer (speaker)	151	41	26	218
Dr Daniel Vitt	141	41	26	208
Dr Gerhard Keilhauer	136	31	54	221
Dipl.-Kfm. Enno Spillner	127	31	88	246
Management Board remuneration	**555**	**144**	**194**	**893**

In addition, the company utilises ESOPs (Employee Stock Option Programmes) in the form of remuneration components with long-term incentives, in which the Management Board and all employees participate. These share options entitle the employees and the Management Board to purchase shares in the company. 4SC AG believes these ESOPs are ideally geared towards the company. 4SC AG therefore deliberately waives the limitation for extraordinary and unforeseeable developments recommended in the Code, and referring ESOPs to reference parameters (section 4.2.3 of the Code). However, positive development of the share price and exceeding defined positive share price limits are prerequisite conditions for the right to exercise share options. Page 84 of the notes to the 2007 IFRS financial statements contains detailed information in this respect.

The Supervisory Board annually reviews the appropriateness of the Management Board's remuneration. A breakdown of individual Management Board member remuneration and detailed information on the stock option programme are provided on page 86 in the notes to the 2007 IFRS financial statements.

As part of the D&O insurance, the deductible for cases of damage in the USA has only been specified at USD 50,000 at most. As a general rule it is not common in the majority of international cases to agree on a deductible in the cases of D&O insurance. This is why the Management has decided to merely define a deductible for US American cases (section 3.8 of the Code).

Competent controls and consulting by the Supervisory Board

The Supervisory Board is made up of six members elected at the annual general meeting. The Chairman of the Supervisory Board is Dr Jörg Neermann, the Deputy Chairman is Dr Robert B. O'Connell, additional members include Dr Clemens Doppler, Günter Frankenne, Dr Brian Morgan and Dr Manfred Rüdiger. Stefan Meißner retired as Supervisory Board member upon expiry of the ordinary annual general meeting on 29 June 2007.

All the members of 4SC AG's Supervisory Board possess long-standing experience in the pharmaceutical and biotechnology industry, and/or wide-ranging expertise in the commercial and financial aspects of listed companies. The Supervisory Board has created three committees to increase the efficiency of the Supervisory Board work (Audit Committee, Personnel Committee and Business Development Committee); all committees report to the plenary assembly regarding their activities.

The Supervisory Board is composed of six members who are all elected at the annual general meeting. According to the Supervisory Board, the additional use of a Nomination Committee (section 5.3.3 of the Code) does not give rise to an additional increase in the efficiency of the Supervisory Board's work. This is why the Supervisory Board has decided against implementing a Nomination Committee.

C = Chairman M = Member	Supervisory Board	Audit Committee	Staffing Committee	Business Development Committee
Dr Jörg Neermann	**C**	**M**	**C**	
Dr Robert B. O'Connell	**Vice C**		**M**	**C**
Dr Clemens Doppler	**M**	**M**		
Dr Brian Morgan	**M**		**M** (until 2007-06-29)	**M**
Dr Manfred Rüdiger	**M**			**M**
Stefan Meißner (until 2007-06-29)	**M**	**C**		
Günter Frankenne (as from 2007-06-29)	**M**	**C**	**M**	

Supervisory Board remuneration

In the financial year 2007, the Supervisory Board's remuneration totalled KEUR 90. The basic remuneration for each Supervisory Board member was KEUR 10 for a full year, whereby the Chairman of the Supervisory Board received double the remuneration, and his deputy 1.5 times the remuneration. The company pays each committee member KEUR 5, whereby a distinction is not made between chairmanship and membership. Together, the total remuneration per Supervisory Board member may not exceed the cap of KEUR 20. Contrary to the Code recommendations, 4SC AG waives paying the Supervisory Board members performance-related remuneration (section 5.4.7 of the Code). 4SC AG is a research-intensive start-up company. This is why the recommendation of performance-related remuneration for Supervisory Board members (section 5.4.7, subsection 2, of the Code) is not appropriate at present. The Supervisory Board remuneration does not, therefore, contain any performance-related remuneration components.

The list of the individual remuneration of individual Supervisory Board members is given on page 87 of the notes to the 2007 IFRS financial statements. Dr Clemens Doppler waived his Supervisory Board remuneration for 2007.

Supervisory Board efficiency review

On 7 December 2007, the Supervisory Board of 4SC AG again reviewed its efficiency (last review December 2006). All Supervisory Board members took part in the review by means of a detailed questionnaire.

The Supervisory Board unanimously came to the conclusion that the collaboration is very efficient and reliable. The collaboration within the Supervisory Board and with the Management Board received a very positive assessment. Individual proposals for improvement were discussed, and will be implemented.

Transparent communication

To guarantee timely and uniform provision of information to shareholders and investors, 4SC AG publishes all the relevant information, in addition to the channels specified by law, on its own website (www.4SC.com). All reports are published within the periods specified by the Corporate Governance Code and the stock exchange regulations. This guarantees the provision of timely and uniform information to all shareholders.

Third-party companies

A schedule of the third-party companies is stated on page 70 of the notes to the 2007 IFRS financial statements.

Shareholdings of the Management and Supervisory Board members

4SC Management Board members held a total of 290,700 stock options and 830,579 shares as of 31 December 2007. Together, current Management Board members hold 4.37 % of company shares.
Together, 4SC AG's current Supervisory Board members held 92,000 shares, as of 31 December 2007. Together, current Supervisory Board members hold 0.4% of company shares (section 6.6, sentence 2).

Directors' dealings (securities dealings subject to reporting)

Date	Name	Function*	Type of transaction	Stock exchange	Preis in EUR	Number of shares	Transaction volume in EUR
2007-04-04	Dr Ulrich Dauer	MB	Purchase	XETRA	3.03	3,300	9,999.00
2007-04-04	Dr Daniel Vitt	MB	Purchase	XETRA	3.03	3,300	9,999.00
2007-04-04	Dr Jörg Neermann	SB	Purchase	XETRA	3.03	6,000	18,180.00
2007-05-16	Dr Jörg Neermann	SB	Exercise of subscription rights	off-exchange	2.80	3,750	10,500.00
2007-06-04	Dr Jörg Neermann	SB	Purchase and exercise of subscription rights	off-exchange	2.80	3,500	9,800.00
2007-06-05	Dr Manfred Rüdiger	SB	Purchase	Frankfurt	3.15	5,000	15,750.00
2007-08-27	Dr Gerhard Keilhauer	MB	Exercise of subscription rights	off-exchange	2.65	4,512	11,956.80
2007-09-03	Dr Jörg Neermann	SB	Exercise of subscription rights	off-exchange	2.65	7,375	19,543.75
2007-09-04	Dr Ulrich Dauer	MB	Exercise of subscription rights	off-exchange	2.65	7,547	19,999.55
2007-09-07	Dr Jörg Neermann	SB	Exercise of subscription rights	off-exchange	2.65	54,875	145,418.75
2007-09-07	Enno Spillner	MB	Exercise of subscription rights	off-exchange	2.65	2,184	5,787.60
2007-09-07	Enno Spillner	MB	Subscription of shares for dependant child	off-exchange	2.65	250	662.50
2007-09-07	Enno Spillner	MB	Subscription of shares for dependant child	off-exchange	2.65	250	662.50
2007-09-07	Enno Spillner	MB	Subscription of shares for dependant child	off-exchange	2.65	250	662.50
2007-09-28	Dr Robert B. O'Connell	SB	Purchase	London	3.32	8,900	29,548.00
2007-10-01	Dr Robert B. O'Connell	SB	Purchase	London	3.32	1,100	3,652.00

*MB = Management Board / SB = Supervisory Board

Management & Supervisory Board Declaration of Conformity

4SC AG attaches great importance to good corporate governance, and considers transparency and value-oriented corporate management a matter of course. The company therefore implements the recommendations of the German Corporate Governance Code, with the few exceptions stated below, in all company matters and lives them in the day-to-day operations.

Declaration in accordance with section 161 Stock Corporation Act (AktG) on the German Corporate Governance Code, as given in the version dated 14 June 2007 at 4SC AG

The Management Board and Supervisory Board last issued a declaration in accordance with section 161, AktG on 8 March 2007. This declaration was based on the version of the German Corporate Governance Code dated 12 June 2006. The German Corporate Governance Code was amended in 2007. The currently valid version is dated 14 June 2007.

The Management Board and Supervisory Board of 4SC AG state, in accordance with section 161, AktG, that 4SC AG complies with the recommendations of the Government Commission "German Corporate Governance Code" (as given in the version dated 14 June 2007), with the exceptions stated below, and, given these exceptions, has satisfied the recommendations since the last Declaration of Compliance dated 8 March 2007.

1) Sec. 3.8, para. 2 of the Code: The company's current D&O insurance policy only specifies a deductible for cases of damage in the USA in the maximum amount of USD 50,000 per case.

2) Sec. 4.2.3, para. 3 of the Code: The current Employee Stock Option Programmes are based on binding Annual General Meeting resolutions. The opportunity to exercise these options is conditional on an increase in the share price. However, exercising the options is not associated with additional reference parameters (e.g. share indices).

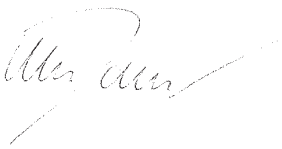
3) Sec. 4.2.3, para. 3 of the Code: The option programmes for the Management Board members do not provide for any caps for extraordinary and unforeseeable developments.

4) Sec. 5.3.3 of the Code: The Supervisory Board has decided against establishing a nomination committee.

5) Sec. 5.4.7, para. 2 of the Code: At present, performance-oriented remuneration is not in place for the Supervisory Board members.

The Management Board and Supervisory Board of 4SC AG intend to comply with the recommendations of the government commission "German Corporate Governance Code" also in future with the aforementioned exceptions.

Planegg-Martinsried, 13 March 2008



For the Management Board
Dr Ulrich Dauer

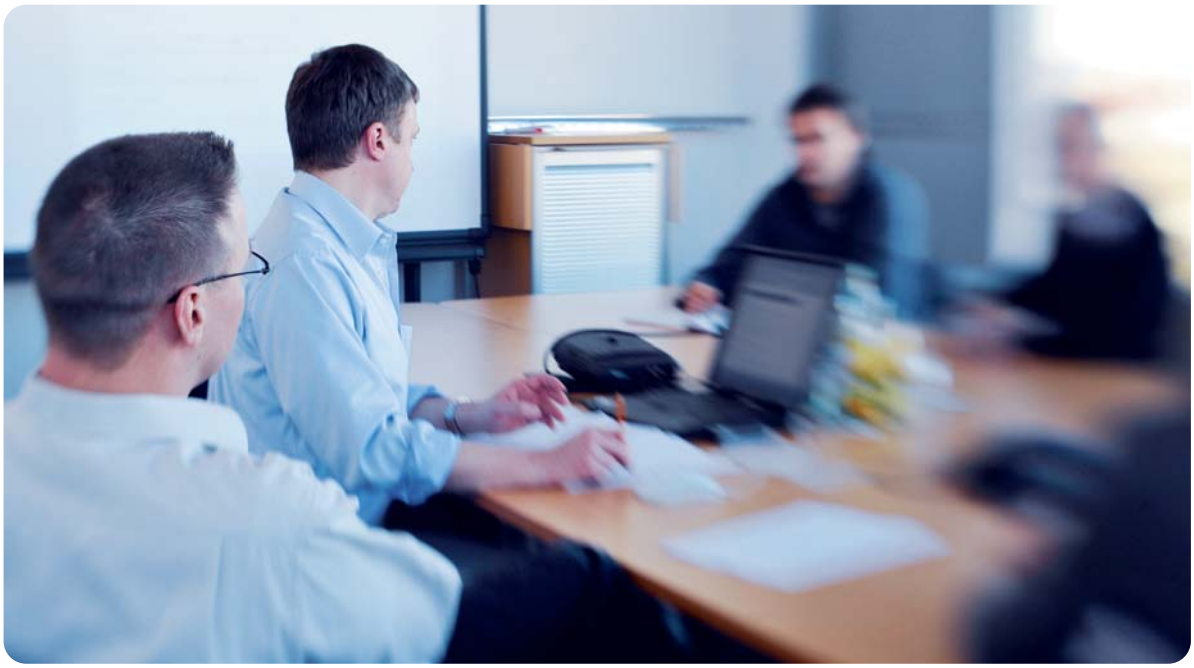
For the Supervisory Board
Dr Jörg Neermann

Glossary

4iP	Synonym for the collaboration project between 4SC and ProQinase
4SCan®	Computer-based, high throughput screening technology developed by 4SC AG
ACR criteria	Criteria of the American College of Rheumatology or assessing treatment success on rheumatoid arthritis
Acute myeloid leukaemia	Malignant form of cancer affecting part of the haemopoietic system
AML	Abbreviation for Acute Myeloid Leukaemia
Angiogenesis	The formation of tiny blood cells to provide nutrients to cancer cells
Autoimmune disease	An illness, the cause of which is a defence reaction within the immune system against the body's own tissue
Backup substance	A follow-up drug candidate with a slightly altered effective profile
BMBF	German Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung)
Clinical studies	Research trials for drug discovery (phases I through III) conducted upon human subjects and patients
DAS28-Score	Instrument for measuring disease activity of rheumatoid arthritis on the basis of 28 defined joints
DHODH	Dihydroorotate dehydrogenase; an enzyme with an important role to play in the construction of DNA in the cell
DMARD	Disease modifying antirheumatic drugs; agents that alter the course and progression of rheumatoid arthritis
Double-blind study	A study in which neither doctor nor patient knows whether it is the active agent or a placebo being administered
Enzyme	A protein, which makes possible or accelerates chemical reactions in the cells by acting as a catalyst
ESOP	Employee Stock Option Programme
Ethics committee	Committee commissioned with assessing ethical and legal aspects of medical research involving human subjects. Approval from the ethics committee is required prior to commencing clinical studies
FTE	Abbreviation for full-time equivalent; a unit of measure denoting an amount of work deployment equal to that for one full-time employee
GMP	Abbreviation for good manufacturing practice; guidelines for quality assurance of production workflows and environments during the production of drugs, active agents and medical products
H5N1 virus	Scientific designation for the avian influenza or 'bird flu' virus
IAS	Abbreviation for International Accounting Standards
IASB	Abbreviation for International Accounting Standards Board
IBD	Abbreviation for Inflammatory Bowel Disease; involves recurrent or chronic inflammation in the intestinal tract
IFRS	Abbreviation for International Financial Reporting Standards
Impairment test	Annual measurement of the value of capitalised goodwill
In silico	With the help of computers
In vitro	In the test-tube
In vivo	In the living organism
Inhibitor	A substance inhibiting a specific enzyme reaction
Ion channel	A protein which makes it possible for ions to flow through the cell membrane
Kinasis	A protein which controls cellular signal transfer
Kv1.3	A tension-dependent ion channel

Licensing out	Granting a right of use to third parties in respect of one or a number of protected rights
Morbus Crohn	Autoimmune disease of the intestine resulting in chronic inflammation of the intestine
MS	Abbreviation for multiple sclerosis
Multiple myeloma	B-cell blood tumour
Multiple sclerosis	Autoimmune disease of the central nervous system which results in degeneration of the nerve sheath
NFκB	Abbreviation for "Nuclear Factor κB": a protein family, which controls various processes by activating specific genes, provoking an inflammatory reaction, for example
Pathogen	Causing diseases
Pharmacokinetics	Distribution of active agents throughout the various tissues of the organism in terms of space and time
Phase I	Clinical trialling of an active agent on a small number of healthy participants carried out under strict control. Used to investigate compatibility, pharmacokinetics, form of administration and safe dosage of the active agent
Phase II	Clinical study of a small number of ill patients carried out under strict control to identify side effects and risks for an active agent appearing in the short-term. Determination of the efficacy of the active agent and any potential side effects
Phase III	A study carried out on a large number of ill patients (a few hundred to a few thousand) to establish the safety, efficacy and optimum dosage for an active agent, under real therapeutic conditions
Placebo	A medical preparation containing no active agent
Pre-clinical study	A laboratory experiment carried out with a new drug candidate on animals, organs or cell cultures, carried out to provide evidence that a clinical study is justified and that the drug candidate can be classified as safe
Prime Standard	Listing segment of the German Stock Exchange with clearly-defined transparency requirements
Proof of concept	A milestone at which the feasibility of a project in principle is proven
Proteasome	Multi-protein complex for the decomposition of used cellular products
Protein	A large, complex molecule composed of amino acids. Proteins are essential for the structure, regulation and function of all organisms. Typical proteins are enzymes and antibodies
QSB	Abbreviation for Quorum Sensing Blocker; substances that influence the formation of bacterial biofilms
RA	Abbreviation for rheumatoid arthritis
Rheumatoid arthritis	Autoimmune disease of the connecting tissues, principally the joints
Royalties	Payments for the use of protected intellectual property. Royalty amounts are generally calculated as a certain percentage of sales generated through use of non-proprietary intellectual property
Subject	Voluntary participants in clinical studies, generally healthy
Target	Specific biological molecule, for example an enzyme or a receptor, which plays an important role in the origination or development of a disease. Active agents/drugs bind onto target molecules, thus triggering their therapeutic activity
Toxicology	Field of medicine dealing with the effects of substances that are or can be poisonous
Toxicity	Undesirable side effects of a substance, dependent on the dose

Financial calendar 2008



2008-03-27	Annual Report 2007
2008-05-08	Three Months' Report 2008 (Q1/2008)
2008-06-05	Annual General Shareholders' Meeting 2008
2008-08-07	Six Months' Report 2008
2008-11-06	Nine Months' Report 2008 (Q3/2008)
2008-11-10 - 2008-11-12	Analyst Meeting: Deutsches Eigenkapitalforum, Congress Center Messe Frankfurt

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