ANNUAL REPORT 2008

MORE VALUE DRIVERS – INCREASED SUSTAINABILITY

DEVELOPMENT OF IMPORTANT KEY FIGURES

in k €	**2008**	**2007**	**2006**	**2005**	**2004**
Net sales	2,969	1,376	3,664	2,068	3,023
Result from operating activities	- 12,695	- 8,303	- 5,530	- 6,337	- 5,458
Annual result	- 11,854	- 8,130	- 5,540	- 6,277	- 5,821
Equity	37,158	19,616	7,854	9,159	- 49
Equity ratio	90.4%	88.9%	78.8%	81.5%	- 0.7%
Balance sheet total	41,094	22,063	9,973	11,244	6,730
Cash flows from operating and investing activities	- 32,196	- 11,762	- 8,476	- 5,833	- 4,474
Cash flows from financing activities	29,207	19,575	4,120	10,653	3,352
Net change in cash and cash equivalents	- 2,989	7,813	- 4,356	4,820	- 1,122
Cash and cash equivalents	7,346	10,335	2,522	6,878	2,058
Funds	21,846	17,193	4,471	6,878	2,058
Employees					
Number of employees incl. Management Board (annual average)	80	64	55	52	61
The 4SC share					
Earnings per share (undiluted and diluted) (€)	- 0.51	- 0.57	- 0.50	- 0.77	- 0.89
Shares in circulation (annual average, in thousands)	23,436	14,225	11,125	8,188	6,574
Percentage of freely tradeable shares	100%	100%	64%	25%	0%
Annual high (Xetra) (€)	3.80	3.98	5.44	4.41	n/a[1]
Annual low (Xetra) (€)	2.50	2.53	3.35	4.24	n/a[1]
Close at the balance sheet date (Xetra) (€)	3.09	3.43	3.69	4.35	n/a[1]
Market capitalisation at the balance sheet date (k €)	88,073	65,176	42,292	45,806	29,493
Average daily turnover (Xetra, Units)	5,041	11,867	6,898	11,914	n/a[1]

1: Not yet publicly traded

MORE VALUE DRIVERS – INCREASED SUSTAINABILITY

During the past financial year, we have made full use of our strengths. Four candidates were developed, with which we will be able to start clinical tests in 2009.
For our leading project 4SC-101, we are planning to start clinical phase-II studies in at least two indications. Likewise, two studies are planned for our project 4SC-201. This is one of the eight oncology projects that we acquired from Nycomed for 14 million €.
The result of this acquisition is a wide-ranging pipeline and broad diversification of risks, as well as a significantly enhanced potential in terms of value drivers.
We have safeguarded ourselves financially during this difficult period by means of a 29.5 million € capital increase.

GENERAL INFORMATION

Security code number	575381
ISIN	DE0005753818
SE code	VSC
Management Board	Dr Ulrich Dauer, CEO Dr Gerhard Keilhauer, CDO (until 2008-06-30) Dr Bernd Hentsch, CDO (as from 2008-07-01) Dipl.-Kfm. Enno Spillner, CFO Dr Daniel Vitt, CSO
Principal office	4SC AG Am Klopferspitz 19a 82152 Planegg-Martinsried Germany
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DEAR SHAREHOLDERS,

2008 was a pivotal year in the company history of 4SC AG to date. On the road to becoming a developer of innovative drugs for the pharmaceutical industry, the company has attained further value-enhancing intermediate targets. The capital base was sustainably reinforced, and the project pipeline significantly expanded by means of a substantial acquisition. Thanks to a capital increase in July 2008, we were able to raise funds totalling 29.45 million €. This gives the company a solid footing for financing significantly broader development activities in future. Against the backdrop of the deepening global economic crisis, the successful conclusion of both transactions is all the more remarkable.

Through the acquisition of the Nycomed oncology projects for 14 million €, we have strengthened the product portfolio in commercially-attractive indication fields and development phases close to value. This has further improved the risk-opportunity profile of the product portfolio. In terms of their indication and mechanism, the Nycomed products fit into our portfolio excellently, and expand the cancer research activities of 4SC AG by further innovative candidates. Three of the total eight projects were immediately integrated into 4SC's preclinical and clinical pipeline. This expansion of the pipeline prompted us to rename all drug candidates, in order to provide greater clarity and transparency.

Progress in the clinical pipeline

In the financial year just ended, our business strategy continued to focus on achieving significant, value-adding results in our drug research activities. At the same time, we remained committed to keeping costs and clinical expenditure for all programmes within reasonable limits.

In the case of our projects in the area of autoimmune diseases, all preparations have been made for two further phase II clinical trials for our lead compound 4SC-101. In the indication rheumatoid arthritis, our primarily goal is to prove the efficacy of the substance in combination with the standard drug Methotrexat. This combination takes clinical practice into account, according to which new anti-rheumatism drugs are initially administered after prior treatment with Methotrexat. In order to further exploit the potential for sales, we began a phase IIa trial in a second indication in March 2009: The chronic inflammatory bowel disorder Crohn's disease is a further autoimmune disease for which huge medical demand exists. Parallel to the forthcoming studies, we are continuing negotiations with prospective partners from the pharmaceutical industry, who are to assume the costs in the advanced stages of the clinical development and a subsequent marketing of the substance in both indications.

We have also made considerable progress in our oncology portfolio: Towards the end of 2008, 4SC-201, a drug candidate acquired from Nycomed generated promising phase I data in terms of both safety and tolerability, as well as with regard to efficacy against a variety of different types of tumours. The active agent belongs to the new class of HDAC inhibitors, which directly and precisely target the cell division process in tumours without the patient suffering any severe side effects. Following the appointment of Bernd Hentsch as the new Chief Development Officer, 4SC AG has been able to expand its development team by an experienced oncology expert. In the case of 4SC-201, we expect the phase II trials to begin in the near future. Up to three further candidates from the preclinical oncology pipeline will shortly fulfil all requirements for commencing phase I clinical trials.

New technologies and drugs through partnerships

We were able to secure ourselves further potential value drivers through additional research partnerships. The collaboration with the Bayer Healthcare spin-off AiCuris, which we announced at the beginning of 2008, foresees both companies jointly researching the treatment of bacterial and viral infections. In May, an agreement was concluded with ViroLogik GmbH that authorises the company from Erlangen to develop the active agent 4SC-206 for treating viral infections. In exchange, 4SC AG received an up-front payment that may be followed by milestone payments of up to 56.5 million €, subject to corresponding development and marketing successes, in addition to subsequent royalties. In May 2008, 4SC AG acquired a stake of nearly 4% in the Bonn-based firm Nexigen GmbH, and thus invested in

Dr Ulrich Dauer, Chairman of the Management Board

promising medical research technologies. This company specialises in research into protein interactions as the cause of illnesses. Here, 4SC AG has the option to completely acquire Nexigen until August 2009.

Consolidated shareholder structure and high share price

Following a turbulent year on the stock exchanges, the 4SC AG share closed with a year-on-year drop of just under 10%.

However, the successful capital increase reflects our investors' confidence in our business model. This is especially true for Santo Holding, our major shareholder that now holds 48.7% of the 4SC stock according to our actual state of knowledge and like the other major shareholders also views the 4SC assets as a long-term investment in the company's growth. In addition to the invested capital, the holding company of Dr Thomas Strüngmann and Dr Andreas Strüngmann also created long-term value through their technical expertise and network of contacts in the industry. At the same time, 4SC AG stepped up its presence in the international capital markets by increasing its attendance of investor conferences and roadshows as well as a variety of press activities. We aim to intensify these activities in 2009 both at home and abroad. Thanks to the capital increase in the summer of 2008, the 4SC share has gained critical mass, in addition to which the increased market value will enhance the company's ability to gain the attention of institutional investors outside of Germany.

I would like to sincerely thank you, our shareholders, for the trust you have placed in 4SC AG. It is largely thanks to your support that we were able to advance one more step in the development of our company in 2008. We would also like to thank our staff and cooperation partners, without whose considerable commitment the spectacular progress would not have been possible. We are confident that in 2009 we will be able to further enhance the positive news from our operational business.

Yours truly

Dr Ulrich Dauer
Chairman of the Management Board

4SC AT THE STOCK EXCHANGE

Acceptable performance during a difficult trading year

The transition from a financial crisis affecting banks to a global recession cast a long shadow on the trading year 2008. By the end of the year, the DAX had fallen by a massive 40.2% to 4,810.20 points while the TecDAX plummeted by 47.8% to 508.31 points. Seen in the context of the bankruptcy of the US investment bank Lehman Brothers, the financial crisis, which deepened drastically in September, triggered a sharp fall in prices, which resulted in the DAX falling to an annual low of 4,127.41 points in November.

Against this backdrop, securities in the health sector performed comparatively well. The DAX Subsector Biotechnology Performance Index kicked off the trading year 2008 at 190.02 points, starting a downturn that continued until July. The subsequent interim recovery resulted in the sector index's 195.09-point annual high of 2 September 2008. Parallel to the overall market, prices fell sharply at the end of year reaching an annual low of 144.12 points on 28 October 2008, only to recover moderately.

This comparatively stronger price development is attributable on the one hand to the fact that the biotech and pharmaceuticals sectors are considered to be industries that are not prone to cyclical fluctuation. On the other hand, the German biotech industry in particular was spared any severely negative headlines in 2008. In response, takeovers fuelled speculations concerning further transactions. The acquisition of Jerini by UK pharmaceuticals giant Shire for 6.25 € per share, which represented a 199% mark-up compared to the average share price during the previous three months, was among the most spectacular deals. The takeover of private biotech enterprise U3 by the Japanese pharmaceuticals group Daiichi Sankyo for 150 million € then followed. Meanwhile pharmaceuticals giant Bayer, reinforced its biologics research through the acquisition of biotech enterprise Direvo for 210 million €. Hamburg-based Evotec AG also embarked on a shopping spree, purchasing US enterprise Renovis for 34,970,268 new Evotec shares and thus a second Nasdaq listing.

Against this backdrop, the 4SC share fared well. Although the share fell significantly at the beginning of the year from 3.43 € (Xetra) to its annual low of 2.50 € on 21 January 2008, it went on to gain steadily reaching an annual high of 3.80 € on 8 September 2008. In this context, the positive flow of news reported by 4SC AG during the summer months had a beneficial effect. First and foremost, this was attributable to the successful takeover of a majority share in the oncology pipeline of Nycomed towards the end of July 2008 that was combined with a successful capital increase despite a problematic market environment. However, share value fell sharply in the face of the October's turbulence on the stock markets. The positive results of the clinical phase I with drug candidate 4SC-201 were only able to buck this trend briefly. As of 31 December 2008, the share price stood at 3.09 €. On balance, this equates to a 9.6% year-on-year drop in share price. At the end of 2008, 4SC's market capitalisation ran to some 88 million €.

Capital increase meets with a positive reception on the market

In total, 9,500,913 new shares were placed within the scope of the capital increase in July 2008 at a subscription price of 3.10 € per share. This resulted in gross issuing proceeds totalling 29.45 million €. The bigger part of shares was subscribed by Santo Holding. The remaining share certificates were offered at subscription price almost exclusively within the scope of a private placement. Following the listing of these new shares on 16 December 2008, a total of 28,502,739 4SC shares are now in free float.

Against this backdrop, 4SC AG has a sound financial basis for the coming years.

The share price responded to the capital measure with gains. The fact that this measure coincided with a spate of good news, primarily the conclusion of the purchase of the crucial elements in Nycomed's oncology pipeline, which was announced on 31 July 2008, had a positive impact. During the turbulent months on the stock markets in the second half of the year, this consolidated shareholder structure stabilised the share price and helped the 4SC share to perform well in comparison to the majority of European biotech shares.

Sound investor base and extended analyst coverage

The largest single shareholder is Santo Holding with 48.7%, followed by Deutsche Bank with 11.6% and Heidelberg Capital with 10.4%. According to the Deutsche Börse definition, the free float currently amounts to 29.4%.

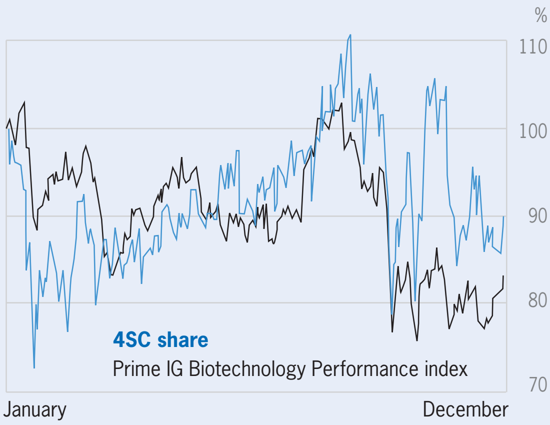
Close Brothers Seydler AG continues to be the designated sponsor of 4SC AG. 4SC AG is covered by three analysts: In 2008, Tim Kruse of SES Research, Thomas Schießle

THE SHARE

Security code number	575381
ISIN	DE0005753818
SE code	VSC
Class	Bearer shares
Total shares issued	28,502,739
Segment	Prime Standard
Stock exchange	Xetra and all German exchanges
Designated Sponsors	Close Brothers Seydler AG
1st trading day	15 December 2005

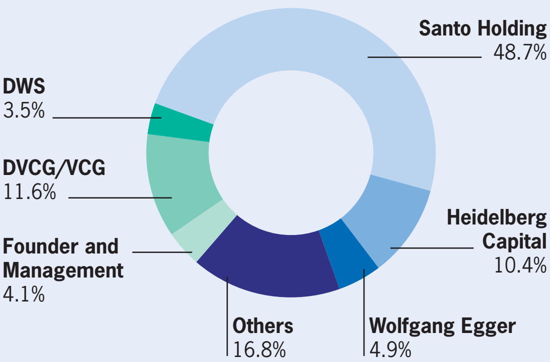
SHARE PRICE

The 4SC AG share price reached its annual high of 3.80 € in September of the reporting year. The lowest value stood at 2.50 € in January 2008.



SHAREHOLDERS' STRUCTURE

Share property in percent
(based on state of knowledge on 2008-12-31)



of Midas Research and since November also Hilmar Platz of Kayenburg all published updated studies on 4SC AG. In future, the company will seek to extend coverage and to address a broader international investor basis.

International PR and IR activities stepped up

4SC AG attaches great importance to timely, comprehensive and reliable communication with all investors, the press and the general public. The company plans to further expand its PR and IR activities, especially with a view to improving share liquidity. In this way, the company hopes to intensify the continuous dialogue with prospective and existing investors. In financial year 2008, the Management and the Investor Relations Manager already stepped up the ongoing dialogue with institutional and private investors, analysts and the media. The positive news flow during the summer months gave good cause for roadshows and visits to editorial offices. Coinciding with the semi-annual figures published in August, 4SC AG initiated a telephone conference on a regular basis, at which management will provide information on quarterly and annual reports, the course of business and future goals. In addition, the company intends to step up its attendance at international industry and investor conferences and increase the number of own roadshows in both Germany and other European countries.

IR CONTACT

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2008 – A DECISIVE STEP FORWARD

The financial year 2008 saw 4SC AG make considerable progress towards becoming a drug developer with a consistently growing added value. After reaching several key milestones, the company now disposes of a wide-ranging pipeline for commercially-attractive indications and a sound financial basis for the advancement of the individual projects.

LAUNCH OF THE COLLABORATION WITH AICURIS

At the beginning of the year, 4SC AG announces the launch of long-term collaboration with the Wuppertal-based company AiCuris GmbH & Co. KG. The goal of the research work is to establish a joint product pipeline with innovative, anti-infective agents. 4SC AG will thus make extensive resources available to AiCuris in exchange for research funding.

LICENSING AND COOPERATION AGREEMENT CONCLUDED WITH VIROLOGIK

Thanks to an agreement concluded in the second quarter, ViroLogik GmbH acquires a world-wide, exclusive license from 4SC AG for the development, manufacture and marketing of 4SC-206 in the indication of viral infections. In exchange, 4SC AG receives an up-front payment of 750 k € that may be followed by milestone payments of up to 56.5 million € subject to corresponding development and marketing successes as well as royalties.

4SC ACQUIRES A STAKE IN AND TAKEOVER OPTION FOR NEXIGEN

In May 2008, 4SC AG acquires a stake of just less than four percent in Bonn-based Nexigen GmbH. With this share, the company received a take-over option which gives it the exclusive right to take over Nexigen completely within 15 months.

SUCCESSFUL CAPITAL INCREASE SECURES LONG-TERM RESEARCH

The capital increase, which was successfully concluded in July 2008, provides 4SC AG with an injection of fresh capital amounting to 29.5 million €. The sound financial basis will ensure the rapid advancement of all projects from the 4SC pipeline, despite a difficult capital market environment.

NYCOMED PROJECTS COMPLEMENT THE 4SC PIPELINE

Mid-year, 4SC AG announces the successful acquisition of a total of eight oncology projects from Nycomed, at a price of 14 million €. Thus, the company uses a unique opportunity to expand its own pipeline while continuing to diversify development risk. The three most promising projects are to be directly integrated into the development pipeline of 4SC AG.

SUCCESSFUL COMPLETION OF THE CLINICAL PHASE I FOR 4SC-201

During the fourth quarter, 4SC AG reports on positive data from the clinical phase I study with cancer drug 4SC-201. The results prove that the orally administered compound is safe to use, boasts excellent tolerability and demonstrates an especially favourable pharmacological profile.
At the same time, the available data will make it possible to determine a dosage for the planned phase II studies.

A BROAD PORTFOLIO OF DRUG CANDIDATES

A valuable supply base for innovative products

4SC AG's drug development activities are centred on commercially lucrative indications, in which innovative treatments could generate potential sales in excess of 500 million €. The pharmacological expertise of 4SC AG focuses on drug research into autoimmune diseases and cancer.

Taking risk-related factors into consideration, the projects are selected in such a way that the financial and clinical expenditure for clinical trials are kept manageable up until the assessment of the efficacy.

Upon completion of this so-called proof of concept, the aim is to licence the projects to a partner from the pharmaceutical industry for the significantly more cost intensive advanced clinical development phase as well as the future marketing of the products. Within the framework of licensing agreements of this kind, 4SC AG receives advance payments from its partners in addition to further payments tied to the attainment of clinical milestones. Furthermore, 4SC receives royalties following the successful market approval of the products. The goal of this model is to render the company profitable in the long run.

The 4SC AG project pipeline

In July 2008, 4SC AG was given the unique opportunity to acquire several oncology agents from Nycomed and to thus expand its own pipeline.

Three of these projects were integrated into the company's development pipeline. As a result, eight 4SC AG projects are currently undergoing preclinical and clinical development.

4SC-101 – Lead project in two lucrative indications

An in-depth phase II trial is scheduled to begin in coming months for the most advanced project 4SC-101 for the treatment of rheumatoid arthritis (RA). In addition, a phase IIa clinical trial for patients suffering from Crohn's disease was started in March 2009. In so far as they are brought to a successful conclusion, this series of clinical trials will form the basis for licensing this substance to the pharmaceutical industry in both indications.

4SC-101 in RA

The conventional methods for treating RA can be subdivided into two drug categories. The first group – antibody-based biologicals such as Enbrel®, Humira® and Remicade® – is used primarily in the acute treatment of rheumatic attacks, due to the fact that they are fast-acting. These drugs generate annual sales in the billions. However, due to their high treatment costs of between 10 k € and 25 k € per patient per year, they put considerable financial strain on public health care systems and are thus less suitable as a basic therapy. The second group in question are small molecular substances that to date merely slow the progression of the disease. Arava® and Methotrexate are the most frequently used substances in this class. Arava® is an immunomodulator that is designed to attack only those cells that are involved in the acute increase in immune cells and in so doing send out inflammatory signals. Due to severe side effects, such as diarrhoea, one-quarter of the patients treated abandon the treatment.

This is where 4SC-101 comes into its own. The active component works according to the same clinically-validated mechanism as Arava®, yet with considerably fewer side effects. In the course of a successfully concluded phase IIa clinical trial, 4SC-101 demonstrated not only excellent tolerability and safety, but also a proof of efficacy. The results in the case of patients who had already been previously treated with other disease modifying anti-rheumatic drugs, so-called DMARDs were very convincing. This means that long-term sufferers who have undergone prior treatment will be the primary test group for future clinical trials with 4SC-101.

In the phase II trial scheduled for 2009, 4SC-101 will be tested in combination with Methotrexate. Preparations, including a preclinical evaluation of toxicological tolerability, have largely been completed and evaluated.

4SC-101 for treating Crohn's disease

Crohn's disease is a chronic inflammation of the intestinal mucosa that occurs episodically, affecting 150 out of every 100,000 people in the Western industrialised world. This autoimmune disease is as yet incurable. Acute conditions are essentially treated using steroids, which bring the disease under control. 4SC AG aims to administer 4SC-101 to those patients who suffer a recurrence of the same symptoms after they stop taking the traditional substances.

To this end, 4SC AG started a phase IIa clinical trial in March 2009. It is designed so that a daily dosage of 4SC-101 will be orally administered over a period of three months in combination with steroids, the dosage of which will be reduced gradually week by week. The clinical endpoint of this open-ended, non-randomised phase II trial will examine the number of patients whose steroid dosage can be successfully reduced without renewed exacerbation, i.e. in whom the disease can be brought under control therapeutically by 4SC-101.

4SC-201 – one cancer drug, several fields of application

The most advanced candidate from the oncology portfolio of 4SC AG is 4SC-201, an active agent from the class of histone-deacetylase (HDAC) inhibitors.

HDAC inhibitors are designed to inhibit cell division in tumour cells and to bring about their programmed cell death. The antitumoral effect of HDAC inhibitors has already been established in professional circles. The active agent Vorinostat for treating cutaneous T-cell lymphoma is the first product in this class to obtain approval for use as a drug. The advantage of HDAC inhibitors is that they do not attack all cells indiscriminately, but mainly tumour cells and inhibit their growth, even triggering their programmed cell death (apoptosis). Owing to the generally tolerable side effect profile, HDAC inhibitors can also be administered in larger dosages, and are suitable for lengthier periods of treatment.

In the course of the phase I trial involving 18 patients, which was completed at the end of 2008, 4SC-201 demonstrated excellent tolerability and efficacy against a variety of different types of tumours. On the one hand, the aim of the trial was to assess safety, tolerability and pharmacokinetics while simultaneously determining the maximum tolerable dosage and the dosage-limiting toxicity. On the other hand, the pharmacodynamic and therapeutic effects of 4SC-201 were examined.

4SC-201 was safe to use and demonstrated good tolerability when administered orally, and moreover showed an especially favourable pharmacological profile. Given a substance serum half-life of approximately three to four hours, the measured serum concentrations of 4SC-201 were significantly above those observed with comparable HDAC-inhibiting preparations. It is therefore expected that this active agent has a significantly improved, therapeutically effective window. In the advanced stages of the trial, a stabilisation of the disease was observed in several patients with a variety of tumour types.

4SC AG anticipates that it will be possible to use the preparation against up to four different types of cancer in proof of concept studies. The 4SC AG team aims to start phase II clinical trials in up to two different indications in 2009.

4SC-206 – first clinical trials against brain tumours planned

4SC AG expects that the protease inhibitor 4SC-206 will generally be effective in treating a whole range of tumours, thus, for example, the multiple myeloma, which is treated using the only approved proteasome inhibitor to date, Velcade®. In addition to preclinical indications of the efficacy of 4SC-206 in the treatment of multiple myeloma, it has also been possible to demonstrate the substance's efficacy in model systems of malignant brain tumours (glioblastomas).

The compound inhibits the proteasome enzyme complex, thus specifically causing the death of rapidly growing tumour cells. Preclinical studies have revealed good tolerability, as well as statistically-significant extension of survival times.

Multiple myeloma is a highly aggressive form of blood cell cancer that leads to the overproduction of antibodies, which suppresses the normal formation of blood. The traditional treatment involves conventional chemotherapy. Here, 4SC AG is still in the preclinical research phase, in which possible designs for clinical trials are being examined.

The tests against glioblastoma are more advanced. In this case, 4SC AG intends to prepare a clinical trial in 2009 in order to ascertain initial efficacy data in addition to determining the toxicity and safety profile of this substance. In order to achieve the best possible efficacy, the active agent can even be clinically applied intracranially into the immediate vicinity of the tumour.

The medical need is huge: In Germany alone, some 3,000 people fall ill with glioblastoma each year, with an average survival time of one year. The most common form of treatment is surgery followed by radiotherapy. However, the therapeutics used to date are only efficacious in a fraction of the cases treated. Moreover, even following treatment, the relapse rate is extremely high.

INTERVIEW

INTERVIEW WITH DR JOHANN DE BONO, ROYAL MARSDEN HOSPITAL IN SUTTON/UK

Senior Lecturer and Consultant, Section of Medicine
Institute of Cancer Research, Royal Marsden Hospital, Drug Development Unit

Dr de Bono, you and your team at the Drug Development Unit of the Royal Marsden Hospital in Sutton are very experienced clinical investigators of new oncological compounds and in particular leading experts in the clinical development of Histone-Deacetylase inhibitors, in short HDAC inhibitors.

Cancer is one of the most widespread diseases still often with a fatal outcome and thus with a high unmet medical need. Dr de Bono, from your point of view, how do you think will the treatment of cancer develop in the next years in general?

I believe that initially combinations of currently approved cytotoxics with novel targeted agents, such as HDAC inhibitors, will become standard treatments.
In the long-term it is my conviction that these novel agents will completely supersede currently established cytotoxics. These novel compounds will be key not only for advanced cancer patient treatment but also in neoadjuvant and adjuvant settings.

The clinical phase I study with the HDAC inhibitor 4SC-201 has been completed recently. Could you outline the most important findings of this First-in-Man trial?

This agent has been well tolerated with no significant safety concerns, and has very impressive pharmacokinetic-pharmacodynamic properties. It is probably one of the best in its class to date. 4SC-201 has also demonstrated antitumour activity in this phase I study.

How do you judge the clinical benefit of this new therapy, particularly for those patients that received a continued treatment after the initial four treatment cycles planned in the main phase of the study?

Clinical benefit can mean disease stabilisation as well as response. This is very important for targeted drugs such as Bevacizumab (Avastin). The HDAC inhibitor 4SC-201 has demonstrated the ability to induce disease stabilisation.

Judging from the results in this clinical phase I study, how do you see the safety and pharmacokinetics data, and the pharmacodynamics and therapeutic efficacy profile of 4SC-201 in comparison to other HDAC inhibitors?

It is my conviction, having worked with a number of HDAC inhibitors that this compound has a very favourable profile, with very impressive pharmacological properties. The substance merits further evaluation and has the potential to become a class leader.

What are your future expectations for the medical benefits that could be achieved by the class of HDAC inhibitors in general?

I believe HDAC inhibitors have considerable promise for the treatment of prostate cancer, ovarian cancer, acute myeloid leukaemia and myelodysplasia. HDAC inhibitors should also be evaluated in several tumour types including bladder cancer in combination with cytotoxic chemotherapy.

4SC-203 – targeted treatment of leukaemia cells

Acute myeloid leukaemia (AML) is yet another aggressive form of blood cancer. It affects the haematopoetic system and is predominantly contracted by those over the age of 60. Existing first-line therapies are subject to rising relapse rates in the case of extended treatment. In addition, the cytostatic substances (cell toxins) also attack healthy cells.

4SC-203 is to be used here as a protein kinase inhibitor. Protein kinases are among the principal transmitters triggering uncontrolled cell division in tumours. In the case of at least 30 members of this family of enzymes, it has been possible to establish that they mutate in cancer cells and are directly linked to the development of tumours.

In preclinical tests, the active agent displayed an extremely potent effect in selected AML cell types. Furthermore, it inhibited the growth of new blood vessels in tumours, consequentially cutting off their supply of nutrients; i.e. 4SC-203 thus also demonstrated what is referred to as an anti-angiogenic effect. The final toxicological preclinical studies are on the verge of completion. It is also conceivable that 4SC-203 could receive a so-called orphan drug status for certain patient groups, which would entail certain marketing advantages.

4SC-202 is designed to inhibit cancer cell division

Like 4SC-201, 4SC-202 is also an HDAC inhibitor that can be administered orally. The as yet pending preclinical development stages that are required in order to apply for an initial clinical trial are currently in the process of being finalised.

Unlike 4SC-201, this molecule demonstrates an additional specific antimitotic effect. This characteristic makes this candidate especially suitable for treating types of cancer characterised by the rapid proliferation of tumour cells.

4SC-205 – a highly potent cancer drug

4SC-205 is a so-called Eg5 kinesin inhibitor, whose target is only present in actively dividing cells. Compared to other candidates of its class, this compound can be orally administered and inhibits the mitotic spindle apparatus, which is responsible for the correct distribution of chromosomes to the daughter cells during cell division. This allows the cell cycle to be inhibited, causing the tumour cells to die.

The fact that 4SC-205 is both highly potent and at the same time highly selective, i.e. it does not attack normal neighbouring cells, could turn out to be a unique selling point. 4SC-205 acts by inhibiting the cell division apparatus – in a similar way to the chemotherapeutic class of taxols. However, while taxols do so by attacking the cellular tubulin structures, the cytocidal effect of 4SC-205 is transmitted by the specific Eg5 target protein, which only exists in actively dividing cells, meaning that logically only dividing cells are attacked. The typical side effects that occur when using taxols, including for example peripheral neuropathies attributable to the inhibition of the tubulin structures, are therefore not expected to occur with 4SC-205.

The drug candidate is currently undergoing final preclinical tests. Unlike other compounds that also attack the spindle apparatus and generally have to be administered intravenously, 4SC-205 also offers the option to be developed into an orally-administered drug.

Further candidates

The immunomodulator 4SC-102 is designed to regulate the activation of human immune cells. Thanks to the excellent progress with 4SC-101 in the indication for Crohn's disease, the development of this candidate currently has lower priority, meaning that efforts are focusing on the further optimisation of the substance profile. To this end, the 4SC AG research team is currently working on a new molecular design.

4SC-301 targets infections such as hepatitis C and influenza. Instead of viral factors, the new approach is designed to attack cellular factors, which play a crucial role in virus replication. At the same time, 4SC AG is adopting a two-pronged research approach that hinders virus replication on the one hand, and on the other suppresses inflammatory overreactions, which often result in the patients' death.

AUTHORITIES – PLAYERS – CAPACITIES

The growing number of clinical projects calls for extensive expertise. At least four clinical studies in the areas of autoimmune diseases and cancer are planned to start in 2009 alone. Against this background, 4SC AG brought on board Dr Bernd Hentsch, a recognised oncology expert, at just the right time in the summer of 2008, as shortly beforehand, the company had announced the purchase of eight oncology projects from Nycomed.

4SC's new Chief Development Officer was founding member and board member of G2M Cancer Drugs AG, as well as Chief Development Officer at TopoTarget, a company engaged in cancer research and one of the world's leading developers of so-called HDAC inhibitors. Bernd Hentsch holds a PhD in molecular immunology and oncology and was the Deputy Head of Preclinical Oncology at Merck KGaA.

"We are delighted to have Bernd Hentsch, an experienced expert in the industry, join our Management Board. With his expertise, we are confident that we will be able to achieve our ambitious goals for 2009!"

DR ULRICH DAUER, CEO OF 4SC AG

4SC AG's clinical development team also grew in 2008, and is now composed of five staff members. In April 2008, Dr Bruno Dietrich started work as Director Clinical Trials and has since been assisting Dr Charlotte Herrlinger, who has been running this division of 4SC AG as Vice President Medicine since the beginning of 2003. Following the acquisition of the oncology projects, the company was also able to convince two former employees of Nycomed, Dr Anna Mais and Dr Bernhard Hauns, to join 4SC AG at the start of 2009. In future, they will continue to actively support the 4SC-201 project in which they had previously been involved. The team will be assisted by Dr Susanne Mirold-Mei as Clinical Research Associate.

Dr Charlotte Herrlinger
Vice President Medicine

Before joining 4SC AG, Dr Charlotte Herrlinger was head of division at Nets Healthcare AG in Munich. Before this, she headed the functional area Clinical Development at the Dr Margarete Fischer-Bosch Institute for Clinical Pharmacology in Stuttgart. Between 1998 and 1999, Dr Herrlinger headed the research clinic and the clinical laboratories at AAI Germany in Neu-Ulm in her capacity as Vice President Clinical Pharmacology Europe. Furthermore, in her previous posts as Medical Director Germany or Director Clinical Research International in the pharmaceutical industry (Synthelabo, Puchheim and Searle, former Heumann-Pharma, Nuremberg), she was responsible for the planning, conducting and evaluating national and international clinical studies in phases I to IV. Dr Herrlinger studied medicine and psychology and is a medical consultant for anaesthesia and intensive care as well as for clinical pharmacology. She holds a diploma from the professional association DGPharMed, and is a fellow of the Faculty of Pharmaceutical Medicine of the Royal Colleges of Physicians of the United Kingdom (FFPM). She continues to be acting Vice President of the DGPharMed Executive Training Committee, as well being a member of the DGPharMed board of examiners.

Number of clinical studies conducted to date: about 120 national and international clinical studies in phases I to IV, approx. 50 clinical observations

Dr Bruno Dietrich
Director Clinical Trials

Dr Bruno Dietrich is able to look back on 20 years in the field of clinical research. Before joining 4SC AG, Dr Dietrich was responsible for setting up two research stations for phase I and II clinical studies in his capacity as Medical Director at Berlin-based contract research organisation Quintiles. Prior to this, he assisted in setting up research stations for phase I and II clinical studies at two locations in Berlin in his capacity as Medical Director at 3Clinical Research AG, another contract research organisation. As a research associate at the University of Gießen (Department of Psychology), he ob-

Dr Susanne Mirold-Mei, Dr Bernd Hentsch, Dr Anna Mais, Dr Bernhard Hauns, Dr Charlotte Herrlinger and Dr Bruno Dietrich

tained fundamental methodical knowledge concerning conducting clinical studies.

Number of clinical studies conducted to date: more than 200 national and international clinical studies in phases I to III

Dr Bernhard Hauns
Medical Director Oncology

As Translational Medicine Leader and Clinical Development Leader Oncology, Dr Bernhard Hauns was responsible for the early clinical development of the oncology projects at ALTANA Pharma AG (subsequently Nycomed). Prior to this, the board certified clinical pharmacologist worked as clinical investigator and research associate at the Tumor Biology Center of the University of Freiburg i. Br. After switching to the pharmaceutical industry, he gained extensive drug development experience during a career spanning more than ten years. Dr Hauns is a member of numerous professional associations and organisations for clinical research or clinical pharmacology in addition to being a member of the scientific advisory board of CESAR (Central European Society for Anticancer Research).

Number of clinical studies conducted to date: more than 100 national and international clinical studies in phases I to III

Dr Anna Mais
International Clinical Study Manager

Until the end of 2008, Dr Anna Mais had spent more than seven years with ALTANA Pharma AG (subsequently Nycomed). In her position as International Clinical Project Manager, she was responsible for planning and conducting of phase II to IV clinical studies in the indication of gastroenterology. In the past two years, she was primarily responsible for the clinical development of the oncology candidates of ALTANA Pharma and subsequently Nycomed. Dr Anna Mais studied molecular biology in Krakow/Poland and was awarded a PhD from the "Biomedical Drug Research" graduate college of the University of Constance.

Number of clinical studies conducted to date: 10 international clinical studies in phases I to IV

A total of four project managers are responsible for the interdepartmental coordination of the clinical development projects at 4SC AG. They are the first point of contact both internally and externally, and thus ensure consistent communication. With this team of scientists, 4SC AG believes that it is perfectly prepared to face the challenges presented in the fields of clinical development over the coming years.

MANAGEMENT REPORT FOR THE 2008 FINANCIAL YEAR

During the past financial year, we have made full use of our strengths. Four candidates were developed, with which we will be able to start clinical tests in 2009.

1. PRESENTATION OF THE COURSE OF BUSINESS

1.1 Current developments in the biotech industry

In 2008, the sharpening financial crisis impeded the already-problematic refinancing of operative business for the biotechnology industry. This applied both to public financing measures on the capital market and to capital inflows from venture capital and private equity. Yet biotech companies provided a great deal of positive news in 2008. The most noteworthy included substantial growth in profit for the established industry heavyweights, a growing number of research and development collaborations between pharmaceutical groups and biotech companies, and further takeovers. Pharmaceutical groups hoping to pick up new growth drivers and innovative technologies through acquisitions remain the dominant players on the acquisition scene. Biggest transaction in 2008 was the takeover of Millennium Pharmaceuticals Inc. by the Japanese pharmaceutical group Takeda Pharmaceutical Co. Ltd. for approximately 9 billion US-$. In Germany, the biotech companies Jerini AG, Direvo Biotech AG, Amaxa AG and U3 Pharma GmbH were acquired. The takeover of Jerini represented a mark-up of almost 200% compared with the average share price during the three preceding months. The Japanese pharmaceuticals group, Daiichi Sankyo Co., Ltd. paid 150 million € for U3, despite the fact that the products of the antibody specialist are still in the pre-clinical development stage.

The takeover of a total of eight oncology projects from the pharmaceutical company, Nycomed, at the end of July 2008 was the primary focus of attention.

For investors, these takeovers represent an important value driver – particularly since, in view of the current investment climate, alternatives such as initial public offerings do not promise fast increases in value. The motives behind the acquisitions are obvious. The majority of pharmaceuticals groups do not have any promising developments in their own research which could compensate for the impending falls in turnover resulting from expiring patents. This takeover frenzy is fuelled by clinical advances and possible product licences. The profitable Swiss company Actelion Pharmaceuticals Ltd., with good sales figures and a high turnover, and the Austrian vaccination developer Intercell AG, which is awaiting approval to market its first product, are setting positive courses in Europe. Of the listed German biotech companies, Qiagen AG and MorphoSys AG stood out due to their excellent operative business and, compared with the market overall, showed a very fine share price performance.

In fact, the biotech industry indexes fared significantly better than the market as a whole. While the Nasdaq slid 42% and the Dow Jones 34%, the Nasdaq Biotechnology and AMEX Biotechnology indexes recorded a drop of 13% and 18% respectively. Some of the industry heavyweights, such as Amgen and Genentech, which found favour with investors due to their strong growth in sales and profit, weighed in to positive effect here and pushed share prices up by over 20%. In the case of Genentech, the takeover bid from Roche may also have been a reason for the share price increase.

So-called microcaps, that means biotech companies with a stock exchange value of less than 200 million US-$, presented an entirely different picture: their value slumped by over 65% in 2008. This was primarily due to the high borrowing requirements, together with an even higher risk premium rating for products which have yet to prove their efficacy in clinical trials, coupled with the increased difficulty of finding refinancing opportunities on the capital market.

1.2 Development of the company

1.2.1 General development

For 4SC AG, the 2008 financial year was, nevertheless, mainly characterised by positive events.

The takeover of a total of eight oncology projects from the pharmaceutical company, Nycomed, at the end of July 2008 was the primary focus of attention. Nycomed transferred all rights in connection with these projects to 4SC AG in a 14 million € cash transaction. This expanded the company's development pipeline considerably.

Prior to the conclusion and in order to finance the transaction, 4SC AG carried out a capital increase from authorised capital whilst maintaining the subscription rights of existing shareholders. The unsubscribed shares were issued in full in the context of a private placement at the subscription price. This corporate action was assisted by Santo Holding (Deutschland) GmbH, the largest single shareholder of 4SC AG. The gross proceeds from the capital increase amounted to approximately 29.45 million €.

For one of the projects taken over, 4SC AG was already reporting the first development successes at the end of the year. The drug candidate 4SC-201, an HDAC inhibitor for treating cancer, passed its phase I clinical trial successfully. The preliminary results of this trial were presented as early as the end of October 2008 at two conferences in Geneva and Boston.

However, there were also other activities which underlined the sustainability of 4SC AG's business model in the course of the reporting year. For instance, in the second quarter, the company acquired a stake of just less than four percent in the Bonn-based Nexigen GmbH. This company, which was founded in 2007, specialises in research into protein-protein interactions and their targeted interruption. With this stake, 4SC AG secured access to its technological expertise and, at the same time, acquired a takeover option, which includes the exclusive right to take over Nexigen completely within 15 months, i.e. by August 2009.

Also in the second quarter, 4SC AG reported that it had succeeded in concluding a licensing and cooperation agreement for the drug candidate 4SC-206 with the Erlangen-based biotech company ViroLogik GmbH. ViroLogik is developing the substance in the field of viral diseases, while 4SC AG is carrying out further research into this preparation as a cancer drug. In addition to an up-front payment of 750 k € already received, depending on the success of clinical development and marketing, the financial milestone potential resulting from this cooperation for 4SC AG can attain up to 56.5 million €. Furthermore, in the case of a successful approval, 4SC AG shall receive royalties.

1.2.2 Research and Development (Drug Discovery & Development)

Following the integration of the Nycomed projects, the development pipeline currently comprises eight projects in pre-clinical and clinical development. In addition to those, many research projects are in the early stages of development.

The drug candidate 4SC-101 for treating rheumatoid arthritis and other autoimmune diseases is the most advanced project. After successfully completing its phase IIa clinical trial at the end of 2007, in the 2008 financial year, the development team at 4SC AG put a great deal of effort into preparations for a further phase II clinical trial in combination with Methotrexate in patients with rheumatoid arthritis. The company is planning to request approval for this trial in the coming months. In parallel, the company has stepped up discussions with potential licensees from the pharmaceutical industry during the reporting period.

In order to be able to further tap the potential of this drug candidate and thus make the project even more attractive to prospective licensing partners, in 2008 4SC AG also prepared a phase IIa clinical trial in the indication Crohn's disease. This multicentre, exploratory openlabel trial designed to prove the efficacy of 4SC-101 in treating Crohn's disease was started in March 2009.

The drug candidate 4SC-101 for treating rheumatoid arthritis and other autoimmune diseases is the most advanced project.

The development of the cancer drug candidate 4SC-201 also made great strides in the reporting year. A phase I clinical trial has now been successfully completed. This clinical trial was designed as a dose-escalation study, with at least three patients treated per dose level in each. If the medication was tolerated well by the patients, more patients were included in the trial at the next dose level. In this manner, different doses of 4SC-201 were administered orally to at least three patients once a day for five days (100 mg, 200 mg, 400 mg, 600 mg and 800 mg). After a subsequent nine-day break in the treatment, the medication was administered for a further five days. The resulting 14-day treatment cycle was repeated up to four times in accordance with the trial plan. If there was evidence of any therapeutic benefit, the patient was then offered the option of continuing with the 4SC-201 treatment. In December 2008, the last of a total of 18 patients was included in this trial and consequently received the four planned treatment cycles, which were well tolerated. On this basis, the dose was set for future phase II trials with this drug candidate. It was particularly gratifying to discover that it was possible to stabilise the respective cancers in several patients with different types of tumours. For two patients in particular, a total treatment duration of ten months and an associated stabilisation of the cancer have been achieved through an optional treatment with 4SC-201 in addition to the basic treatment. The development team at 4SC AG is currently focusing on preparations for a phase II clinical trial in the area of solid tumours.

Significant progress has also been made with other projects in the reporting year. For instance, the company has pressed ahead with preparations for putting four further projects from the 4SC pipeline into clinical development.

4SC-203, for example, is a drug candidate for treating acute myeloid leukaemia and results from a research collaboration with ProQinase GmbH in Freiburg. In the 2008 financial year, 4SC AG developed a clinical dosage schedule for this substance for treating patients with acute myeloid leukaemia. In addition, a comprehensive toxicity study was carried out on this multikinase inhibitor. The selection process for clinical contract research organisations is complete and a design is currently being prepared for the first clinical trial. The findings of the toxicity programme are currently being assessed and the trial test plan accordingly finalised. Afterwards, there are plans to apply for approval for the first series of clinical tests on patients with acute myeloid leukaemia.

The company has pressed ahead with preparations for putting four further projects from the 4SC pipeline into clinical development.

Another highly promising drug candidate from the oncology portfolio is the drug 4SC-205. This Eg5 kinesin inhibitor is currently in the final stages of pre-clinical tests. In the reporting year, the toxicity tests started by Nycomed were completed and evaluated. At the end of the reporting period, the preparations of a GMP production for the manufacture of medication were begun as a prerequisite for entry into the clinical development stage.

4SC-202, another HDAC inhibitor from the Nycomed oncology portfolio that can be administered orally, likewise has the potential for an application for approval of a clinical trial in 2009. All the necessary toxicity studies have also been completed and evaluated in 2008 for this preparation. The development team at 4SC AG is currently involved in formulation work for an appropriate oral form of administration.

The drug candidate 4SC-206 from our own research is a small molecule proteasome inhibitor which could be used, for example, for treating malignant brain tumours (glioblastomas). For this project, the company pressed ahead with the development of two different forms of administration in the reporting period. One form would allow the local (intracranial) treatment of brain tumours. The second option would be a systemic (intravenous) form of treatment for a wide range of tumour diseases. The different treatment methods are now being monitored in pre-clinical tests, in order to then more concretely define the clinical development plans for the substance.

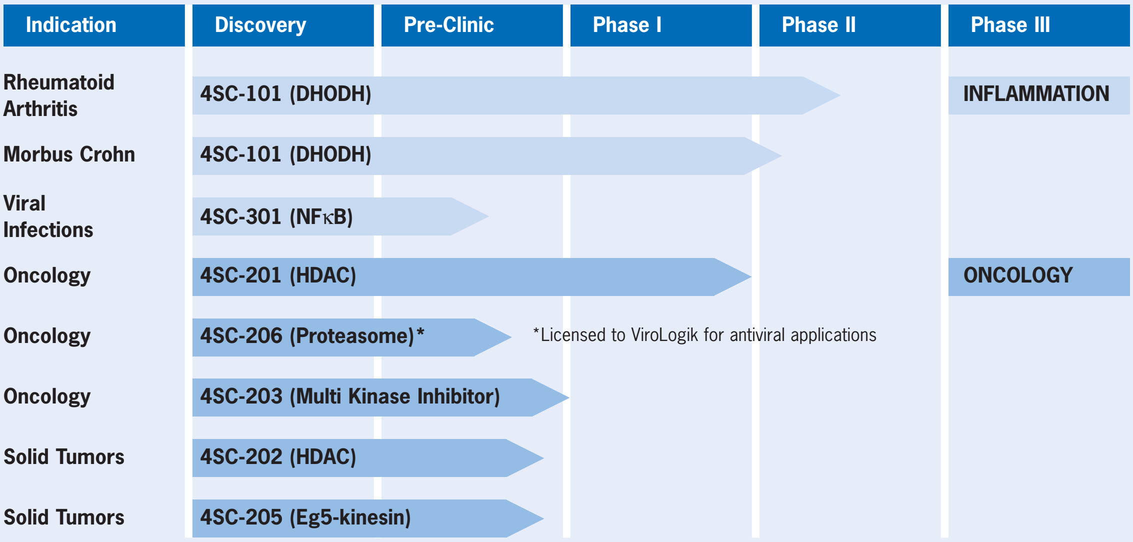
The other projects from the 4SC pipeline are still in the early stages of development, including for the drug candidate 4SC-301. This NFκB pathway inhibitor has already proved to be extraordinarily efficacious in stopping the replication of influenza viruses. However, it has so far only been possible to administer the substance intravenously. Various studies have nevertheless shown that an oral form of administration appears better suited for clinical testing purposes. In the reporting period, another focus of research work in this project was on carrying out the relevant pre-clinical tests in order to examine the structure-activity relations of different substances of this class.

Another drug candidate, 4SC-102, had in the past demonstrated a good activity in the animal model of chronic inflammatory bowel diseases. In the 2008 financial year, the relevant pre-clinical trials were expanded. From these it emerged that, from 4SC AG's point of view, the substance did not meet all of the criteria critical for clinical development. The company is therefore currently engaged in identifying a new substance from this class of active agents offering optimum conditions for clinical testing. The project will be listed in the company's research pipeline until a development candidate is nominated.

In addition, there are other highly promising drug candidates in 4SC AG's research pipeline with the potential to be included in the development pipeline in the 2009 financial year. For instance, in 2008, the company was able to successfully conduct a proof-of-concept study on the animal model of inflammatory diseases for the "KV 1.3" project, to give just one example. In the long term, there are plans to develop this substance as a preparation for the treatment of multiple sclerosis, for example.

4SC PIPELINE

Eight projects are in different stages of development; each bar represents the current study phase.



For a new project, "CCB" – a series of cell cycle blockers for use in the treatment of cancer – also acquired from Nycomed, the company was able to demonstrate in the reporting period that selected substances have a particular effect on cells which have become resistant to the chemotherapy drug Taxol. There is therefore the possibility that 4SC AG will press ahead with this development project as well in the near future.

1.2.3 Research Collaborations (Collaborative Business)

The "Collaborative Business" segment was again dominated by the collaboration with the Wuppertal-based AiCuris GmbH & Co. KG with a view to researching anti-infective drugs and the collaboration with the US firm QuoNova LLC. in the 2008 financial year. The scope of the latter collaboration was, however, reduced in the second half year of the reporting period, according to the planned course of the project. Moreover, owing to the currently uncertain economic situation at QuoNova LLC., 4SC AG is currently avoiding making any advance payments within the framework of the collaboration.

Overall, the "Collaborative Business" segment, which primarily consists of collaborations of a service nature, is becoming less and less important to 4SC AG. Available resources are now increasingly being deployed into the company's own development projects or put into collaborations which will allow the company to continue to benefit from the potential of joint projects in the long term. This focus will guarantee that 4SC AG invests in sustainable growth potential. The company has therefore decided to discontinue segment reporting from the 2009 financial year onwards.

1.3 Development of sales and orders

Net sales in the 2008 financial year more than doubled year-on-year and, as in 2007, originated mainly from the "Collaborative Business" segment. The cooperation agreement with the Wuppertal-based AiCuris GmbH & Co. KG was continued in the agreed scope and generated significant net sales. Conversely, the scope of the collaboration with QuoNova LLC. – due also to the financial difficulties of the contractual partner – was reduced in comparison with 2007 and was almost completely closed down as of the end of the year.

Instead, in the "Drug Discovery & Development" segment, a licensing and cooperation agreement was concluded with ViroLogik GmbH in Erlangen in the second quarter of 2008. In addition to an up-front payment of 750 k € already received, 4SC AG is entitled to performance-based milestone payments of up to 56.5 million € as well as royalties.

1.4 Procurement

As in previous years, 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, on the one hand, and the Research and Development departments on the other, ensures smooth processes, from the order inquiry through to the payment of invoices.

In the interest of maintaining both autonomy and flexibility, 4SC AG makes a point of avoiding dependence on individual suppliers. As a rule, suppliers are selected according to pricing, availability and quality criteria. In view of the overall rise in purchasing volumes, delivery terms were again negotiated at length and some further improved in the 2008 reporting year. In other areas, 4SC AG only managed to escape some significant market-wide price increases within certain product groups. In addition, 4SC AG again played an active role in the Biotech Region Munich Purchasing Association in 2008, in an effort to optimise delivery terms further.

The cooperation agreement with the Wuppertal-based AiCuris GmbH & Co. KG was continued in the agreed scope and generated significant net sales.

In research and development, the company works in cooperation with a number of service providers, including in the areas of pharmacology, toxicology, metabolism, analytics, production, clinical development and statistics. Each partner is selected in accordance with the requirements of the individual project. Experience in the respective areas and the necessary regulatory requirements are key criteria in the selection of partners.

1.5 Investments

The purchase of rights in a total of eight oncology projects from Nycomed at a price of 14 million € had a major impact on the sums invested in the reporting year. Moreover, for the first time since the 2002 financial year, significant investments were made in fixed assets. This included, in particular, investments in technical lab equipment and IT hardware. Since new investments and investment in expansions exceeded depreciation in the reporting period, there is also a considerable overall increase in the book value for intangible assets and fixed assets to be reported.

In addition, there were changes to the investment structure in the reporting year. In May 2008, 4SC AG acquired a 3.7% stake in Nexigen GmbH headquartered in Bonn and, at the same time, secured a takeover option, which gives it the exclusive right to take over Nexigen completely within 15 months, means by August 2009. 4SC AG continues to hold stakes of 48.8% in quattro research GmbH, Planegg-Martinsried and 10.0% in QuoNova LLC., Melbourne, Florida, USA as financial investments.

1.6 Financing Measures

In order to strengthen its financial position, 4SC AG carried out a non-public cash capital increase with subscription rights in the reporting year. On 14 July 2008, 9,500,913 shares were placed at a price of 3.10 € per share, as a result of which the company raised 29.45 million € gross. This increased 4SC AG's share capital from 19,002 k € to 28,503 k €. Similarly, the number of shares rose from 19,001,826 to 28,502,739.

1.7 Personnel and social security

Number of employees

As of 31 December 2008, 4SC AG had 81 employees (including two trainees) and four Management Board members, an increase of almost 25% in total number of employees compared with the end of the previous year (31 December 2007: 65 employees and four Management Board members). Most of the additions to the team were made on the scientific side, in order to make additional capacity available for research and development and allow for the increased number of development projects. On average, the company employed 76 employees in 2008, compared with 60 employees in the same reporting period of the previous year, and four Management Board members as in 2007.

Of the 81 employees and four Management Board members, 61 were employed in Research and Development, 21 in Sales and Administration and three in Information Technology. In the previous year, out of a total of 65 employees and four Management Board members, 49 were in Research and Development, 18 in Sales and Administration and two in Information Technology.

In order to be better able to meet the growing need for specialists from the own ranks, 4SC AG has been taking on trainees since the 2008 financial year. As of 31 December 2008, one trainee was employed in Research and one in Information Technology (31 December 2007: 0).

Personnel costs
Personnel costs rose year-on-year to 4,937 k € (2007: 4,157 k €), mainly due to the increase in the number of employees.

Changes to the Management Board
In the second quarter of 2008, the company announced that Dr Gerhard Keilhauer had declared his intention to resign from the Management Board for personal reasons. With expiry of June 2008, Dr Keilhauer left the Management Board of 4SC AG. At its meeting of 5 June 2008, the Supervisory Board appointed Dr Bernd Hentsch as the new Chief Development Officer with effect from 1 July 2008. In this function, Dr Bernd Hentsch is responsible for all of 4SC AG's development activities, particularly clinical development.

Changes in the Supervisory Board
At the end of the ordinary annual general meeting on 5 June 2008, the Supervisory Board members Dr Robert B. O'Connell and Dr Brian Morgan resigned from office. Dr Thomas Strüngmann, Chief Executive Officer of ATHOS Service GmbH, and Helmut Jeggle, Head of Business Planning & Analysis at ATHOS Service GmbH, were appointed as their successors in the Supervisory Board for the period up to the end of the annual general meeting, which decides on the discharge of the Supervisory Board for the 2009 financial year.

ESOP
As the company will continue to rely on motivated employees in future, 4SC AG continued to maintain the existing stock option plans, in addition to issuing a small tranche of stock options to new employees as well as to the new Management Board member, Dr Bernd Hentsch, under the "ESOP 2006" plan set up in 2006. In the 2008 financial year, options were not exercised from any of the existing plans.

1.8 Occupational safety and environmental protection
4SC AG feels obliged to offer both its employees and the environment maximum safety and protection, and has therefore taken the relevant measures to protect employees and avoid damaging the environment.

The Commission for Occupational Safety is the centralised body. In accordance with the German Occupational Safety Act, it consists of a chemical safety officer, a biological safety officer (the same person who is also the S1/S2 project manager), an officer responsible for biological security, an occupational safety expert, a company medical officer and a health and safety officer. In the reporting period, the Commission also ensured that the applicable statutory requirements were observed in all 4SC AG work areas. There were no accidents requiring the notification of the German Chemical Employer's Liability Insurance Association or other authorities. The last inspections conducted by the German Chemical Employer's Liability Insurance Association and the government of Upper Bavaria did not result in any complaints.

At its meeting of 5 June 2008, the Supervisory Board appointed Dr Bernd Hentsch as the new Chief Development Officer with effect from 1 July 2008.

The risk assessment to be drawn up pursuant to section 5 of the German Occupational Health and Safety Act is carried out by the company GLS (Gesellschaft für Laborsicherheit mbH, Karlsfeld). In accordance with applicable hazardous substance regulations, all employees working in the lab must be given training in the handling of hazardous substances every year. The chemicals used are listed in a register of hazardous substances and stored in purpose-built cabinets for hazardous substances. Inventories of chemicals and their use are kept to a minimum to save on resources and reduce laboratory hazards. In addition to supplying staff with protective gear, all safety equipment is inspected and serviced by external experts in compliance with regulations. The authorised running of biological labs of security levels 1 and 2, as well as work in the radionuclide lab are subject to constant regulatory monitoring.

Animal experiments carried out in 2008 were conducted, without exception, as part of officially approved experimental progresses, and are under the constant supervision of an external animal protection officer. 4SC AG's waste disposal concept, which is implemented in cooperation with Wittmann GmbH based in Gräfelfing, ensures compliance with all limits and regulations when disposing waste and therefore helps to protect the environment.

1.9 Measures for the protection of intellectual property

At the end of 2008, 4SC AG had 22 registered patents and 391 patent applications world-wide. For the most important DHODH inhibitor technology, 13 patents have now been filed, including the crucial composition of matter patent in the USA. Altogether these patents and patent applications make up 60 patent families, each originally stemming from the same establishment of priority of invention.

In addition to patents, 4SC AG owns a number of text and image trademarks. The company monitors usage of these brands, taking legal action in the event of any breaches of trademarks as appropriate.

1.10 Competitive environment

4SC AG operates in a multi-layered competitive environment. The company is thus competing with firms such as the Belgian Galapagos NV, which also has technology platforms that can be used commercially for drug identification.

At the end of 2008, 4SC AG had 22 registered patents and 391 patent applications world-wide.

Given that the company's main growth potential lies in its own drug candidates in the "Drug Discovery & Development" segment, the competitive situation in the area of research and development for specific therapeutic indications is of critical importance. 4SC AG therefore regularly carries out market research in order to assess the specific competitive situation for each and every therapeutic project. This research focuses not only on pharmaceutical companies, but also on biotech firms with their own project pipelines in the indication areas of oncology and autoimmune diseases. The company is particularly in competition with companies that use their own technology platforms to build up therapeutic pipelines and, like 4SC AG, intend to realise such projects in licensing partnerships with pharmaceutical companies, at the latest following the clinical proof of concept.

2. PRESENTATION OF THE SITUATION

2.1 Earnings position

Net sales

Net sales in the last financial year totalled 2,969 k € compared with 1,376 k € in 2007. This increase is due to both the "Drug Discovery & Development" and "Collaborative Business" segments. While no licensing agreements were closed in 2007, an up-front payment of 750 k € arising from the licensing and cooperation agreement signed with ViroLogik GmbH in Erlangen in the second quarter of 2008 was received. In the "Collaborative Business" segment, sales rose to 2,219 k € (previous year: 1,376 k €) and resulted from collaborations with AiCuris GmbH & Co. KG and QuoNova LLC.

Operating expenses

The increase in costs of sales from 396 k € in 2007 to 1,426 k € in 2008 resulted primarily in value adjustments. Due to the increased uncertainty about QuoNova LLC.'s liquidity position, 4SC AG has in the past financial year decided to make a full valuation allowance for all outstanding receivables resulting from both the purchase of exclusive global rights to QSB substances and the collaboration with QuoNova worth 700 k €.

The accompanying significant rise in research and development costs from 6,240 k € in 2007 to 11,498 k € in the reporting year was chiefly due to the integration of the projects acquired from Nycomed into the company's own pipeline and the further development of existing 4SC projects in parallel. Consequently, while external services for projects rose considerably, patent costs virtually trebled and material costs increased. In addition, there were higher personnel costs due to the expansion of the research and development team and a marked increase in scheduled depreciation, due to the activation of patents acquired from Nycomed.

The increase in administrative costs to 2,960 k €, which turned out to be relatively moderate at 4.9%, was due to a slight rise in personnel costs and a marginal increase in other expenses in this area.

Result from operating activities

4SC AG's operating loss consequently rose in the last financial year. It stood at 12,695 k € compared with 8,303 k € in the previous year.

Financial result

There was a favourable development to report in terms of financial result. It rose from 173 k € in the 2007 financial year to 891 k € in the 2008 reporting year. Several effects came into play here. The interest-bearing investment of cash and cash equivalents and income statement related valuation of securities brought in financial income of 1,032 k € – and therefore represented a doubling compared with the previous year's value of 519 k €. At the same time, financial expenses were reduced from 295 k € in 2007 to 174 k € in 2008. The main reason for this was lower expenses resulting from exchange rate differences due to the value of the US dollar on the balance sheet date – they came to 25 k € in 2008 compared to 149 k € in 2007. Moreover, a positive result from investments accounting for using the equity method totalling 33 k € was reported after a loss of 51 k € had been recorded in the previous year. This result reflects 4SC AG's share in the success of its stake in quattro research GmbH (previous year: share in the loss of QuoNova LLC.).

The positive development shows that the global financial crisis in the past financial year has not had a major impact on 4SC AG's financial result.

The positive development shows that the global financial crisis in the past financial year has not had a major impact on 4SC AG's financial result. The funds raised in the context of the capital increase in July 2008 were invested, without exception, in fixed deposits and money market funds with a capital value guarantee. It was already clear from the securities acquired in 2007 that even then, 4SC AG had been quite conservative in its handling of them and took care to ensure a high credit rating – it was able to sell the securities at the end of the maturity period or even mid term without sustaining losses.

Income taxes

Tax expenses in 2008 stood at 50 k €, and resulted from deferred tax liabilities (previous year: 0 k €).

Annual result

As a result of the described circumstances, the net result for 2008 totalled - 11,854 k € compared to - 8,130 k € in the same period of the previous year.

Earnings per share (EPS)

Due to the higher number of shares outstanding (an average of 23.4 million in 2008 compared with an average of 14.2 million in 2007), the diluted and undiluted earnings per share rose to - 0.51 €, after a loss of 0.57 € per share was reported in the same period of the previous year.

2.2 Net assets position

Non-current assets

As of 31 December 2008, non-current assets had risen to 17,499 k €, compared with 5,689 k € on 31 December 2007. This was principally due to the acquisition of rights in the Nycomed projects for 14 million €, which was reflected in the increase in intangible assets. Unchanged from the previous year goodwill was reported in the item intangible assets at 1,786 k €.

Investments in fixed assets exceeded depreciation in the reporting period, so there was likewise an increase to report in this balance sheet position. The value of investments accounted for using the equity method at the end of the reporting year totalled 33 k € and results from an increase in the carrying amounts of 4SC AG's shares in quattro research GmbH, due to the positive result of the associated company. A decline from 1,972 k € as of 31 December 2007 to 154 k € as of 31 December 2008 was, however, reported in other financial assets. Two contrary effects came into play here. On the one hand, there was a reduction due to sales and shifting of financial assets in the current segment. On the other hand, the stake acquired in Nexigen GmbH in the reporting year was reported in this item for the first time.

There were two reasons for the decline in non-current receivables from associated companies from 623 k € as of 31 December 2007 to 0 k € as of 31 December 2008. Quattro research GmbH had repaid all of its non-current and current debts in advance at the beginning of September. At the same time the management of 4SC AG decided to make a full valuation allowance for all outstanding receivables from QuoNova LLC. Therefore no receivables from associated companies were recorded as of 31 December 2008.

Current assets

Current assets increased from 16,374 k € to 23,595 k € between 31 December 2007 and 31 December 2008. As a result of the circumstances described above and a payment of the second instalment of the purchase price of 500 k US-$ from QuoNova LLC. in 2008, current receivables from associated companies fell from 376 k € to 0 k €. At the same time, as per the balance sheet date, trade receivables nevertheless climbed from 131 k € to 580 k €, current tax assets from 74 k € to 254 k € and other assets from 553 k € to 889 k € in the period. The reduction in cash and cash equivalents as of 31 December 2008 from 10,335 k € on 31 December 2007 to 7,346 k € on 31 December 2008 has been more than compensated by a rise in other financial assets from 4,886 k € to 14,500 k €. The investment of funds from the capital increase, which is classified under different balance sheet items depending on the original maturity period, is shown in both of these balance sheet items.

Equity

The development of equity reflects the impact of the capital increase carried out in July 2008. The issue of 9,500,913 new shares, at a price of 3.10 €, increased 4SC AG's share capital from 19,002 k € as of 31 December 2007 to 28,503 k € as of 31 December 2008. At the same time, the agio rose from 28,395 k € to 48,101 k €. However, the negative annual result of 11,854 k € had a counter effect, as evidenced by the increase in the balance sheet loss to 40,265 k € (31 December 2007: 28,411 k €).

Overall, 4SC AG's equity climbed to 37,158 k € as of 31 December 2008, compared to 19,616 k € on the balance sheet date of the previous year. The equity ratio increased by 1.5 percentage points to 90.4% (31 December 2007: 88.9%).

Current and non-current liabilities

Non-current liabilities mainly increased due to the reported deferred tax liabilities of 50 k € (previous year: 0 k €) and totalled 109 k € compared with 53 k € in 2007. At the same time, current liabilities rose from 2,394 k € as of 31 December 2007 to 3,827 k € as of 31 December 2008. This increase was, above all, the result of higher trade payables and increases in other liabilities, mainly contingent on further development of the project pipeline and increased utilisation of scientific external services. Conversely, accounts payable to associated companies saw a decline.

Balance sheet total

Due to the effects described above, the balance sheet total practically doubled. It rose from 22,063 k € as of 31 December 2007 to 41,094 k € as of 31 December 2008.

2.3 Financial position

Cash flows from operating activities

Cash flows from operating activities came to - 9,385 k € in the 2008 reporting period. The change compared with the net loss for the year before taxes reported at - 11,804 k € resulted primarily from non-cash expenses within the operating result and from interest received, as well as from the development of working capital – and here mainly due to the increase in trade payables and other liabilities. In the previous year, cash outflows from operating activities stood at 6,634 k € with a net loss for the year of 8,130 k €.

Cash flows from investment activities

Cash flows from investment activities stood at - 22,811 k € compared to - 5,128 k € in the same period of the previous year. This is primarily due to the acquisition of the rights in eight oncology projects from Nycomed at a price of 14 million €. At the same time, the company invested 816 k € in fixed assets and 154 k € in long-term equity investments. The purchase of financial instruments with an original maturity period of more than three months stood at 14,000 k € in the 2008 financial year. The sale of financial instruments generated cash and cash equivalents of over 6,332 k €.

In the same period of 2007, the cash outflows from the purchase and sale of financial instruments balanced to 4,928 k €, with a simultaneous investment volume in intangible assets and fixed assets of 200 k €.

Cash flows from financing activities

Cash flows from financing activities in the reporting year amounted to 29,207 k € net and resulted from the capital increase on 14 July 2008. In the same period of the previous year, 4SC AG raised 19,575 k € net as a consequence of the capital increases carried out in 2007.

Liquid funds

Cash and cash equivalents amounted to 7,346 k € at the end of the reporting period. Other funds worth 14,500 k € were invested in current fixed and variable, interest-bearing securities and fixed deposits. On the balance sheet date of 31 December 2008, this resulted in funds amounting to 21,846 k € (31 December 2007: 17,193 k €).

2.4 General statement as to the economic situation

The integration of the projects acquired from Nycomed into the own pipeline and, at the same time, the further development of existing 4SC projects have led to a noticeable rise in expenses in the 2008 financial year which could not be compensated for, even by the increased net sales. Consequently, for 2008, there was a considerably larger reported loss compared with 2007. Once again, the company's net assets and financial situation developed nicely. There was sufficient liquidity at all times and at no point was the financing of projects at risk. Due to the capital increase in July 2008 and the acquisition of rights in eight oncology projects from Nycomed, on 31 December 2008 not only the balance sheet total and equity, but also the total cash balance were all considerably over their respective values as of the 2007 balance sheet date.

Up until the preparation of this financial statement, the commercial development of the company was also proceeding according to plan in the 2009 financial year.

3. RISK AND CHANCE REPORT

3.1 Risk management system and internal controlling system

As a biotechnology company, 4SC AG operates in a technological environment that entails risks in addition to the usual business risks. This particularly applies to the areas of research and development, intellectual property, collaborations and financing. Individually or in combination, these risks could have a negative impact on 4SC's net assets, financial and earnings position.

In order to promptly identify potential risks and avoid negative repercussions for the firm, 4SC AG implemented a comprehensive computer-aided risk management and controlling system in compliance with KonTraG (German Act on Control and Transparency in Business) as early as 2002. This system is an integral part of corporate management and monitoring measures. The principles and rules it is based on are summarised in a handbook on risk management. Risks are identified, analysed and assessed for the probability of their occurring, the scope of potential losses and planned countermeasures by the risk officers of the various company divisions in accordance with a defined process. These risk officers report to 4SC AG's risk management officer every quarter, who in turn informs the company's management of the risks. On this basis, the Management and Supervisory Boards can take executive decisions on how to respond to residual risks.

Supplementing the risk management system, and in addition to an established ERP system updated in 2008, there are additional key components to the internal control system. These consist of individual components such as signature authorisation procedures, standard operating procedures (SOPs), work instructions, the two-pairs-of-eyes principle, staff training and crisis planning. In this way, existing residual risks are minimised.

The material individual risks outlined below are to some extent interrelated and can have a positive or negative effect on each other.

3.2 Industry-specific risks

New technologies

The biotech industry is characterised by short technology cycles and a high level of innovation. The main risk arising from this for 4SC AG is that other technologies could come on the market which would allow new drug candidates to be developed more cheaply and/or more quickly.

Impairment by administrative procedures

4SC AG's business operations are subject to diverse and extensive regulatory constraints and controls. The ability to develop and market new drug candidates can be hampered by administrative proceedings over which 4SC AG has only limited control.

For instance, 4SC AG requires approval from the authorities to carry out clinical trials, as well as permits to operate its own systems for research work. The loss, expiry or withdrawal of such approval or permits could lead to delays in the development of 4SC AG's research projects.

3.3 Risks with regard to business activities

Achieving profitability

As a company specialising in drug discovery 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 as well as from 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 also considering 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 significant agreements with the pharmaceutical industry and with large biotechnology companies. To this end, the company is in regular contact with a large number of pharmaceutical and biotechnology firms. The risk for 4SC AG is that, depending on the market climate, conditions for entering into such agreements might not correspond fully to the requirements which 4SC AG had set as its goal at the beginning of negotiations in terms of finance and contents.

Industrial property rights for the protection of drug candidates

The generation of property rights and comprehensive patent and licensing strategies is a corner-stone of the strategy to protect the company's own technologies and developments. Even where patents are granted, it cannot be ruled out that third parties may challenge the validity of them in part or full, or even the patent application as such. It can also not be ruled out that 4SC AG may become embroiled in patent disputes with third parties. As a direct consequence of this, it may become necessary for 4SC AG itself to institute legal proceedings to defend its own intellectual property or to appeal against third-party patents and patent applications which could potentially hamper 4SC AG's future development. Such proceedings are, as a rule, lengthy and costly. To avoid such disputes, 4SC AG relies on the careful monitoring of rival patents and on an application strategy aiming at a clear formulation of patent claims and prompt filing of property rights.

Product development risks

4SC AG depends on the success of its research and development projects. As a product-oriented biotech firm, the company is nonetheless exposed to typical development risks, which are particularly pronounced in the industry as a result of the long development times associated with drug discovery. The risks are that individual drug candidates may not prove efficacious or may have side effects and thus may not be successfully developed or be temporarily or permanently denied mandatory regulatory approval.

The company currently has two agents, 4SC-101 and 4SC-201, which are under clinical development. Although the trial results available to date have shown that both drug candidates are safe to use and well-tolerated, 4SC AG cannot rule out that in pending trials they may turn out not to be sufficiently efficacious in treating patients, or side effects may emerge which are classed as relevant to safety. This could result in clinical development being delayed or discontinued, which could have a negative impact on the company's net assets, financial and earnings situation as well as its share price.

4SC AG's strategy is to reduce the risks arising from product development as far as possible through a broadly diversified, risk-balanced portfolio of research and development projects. All projects are regularly evaluated with the aim of reducing this portfolio risk.

The acquisition of clinical and pre-clinical development candidates from Nycomed in July 2008 considerably diversified 4SC AG's development pipeline. This strategic measure served primarily to diversify risk and broaden the clinical pipeline. At the same time, however, the potential for projects being delayed, discontinued or failing increased. Furthermore, if the necessary additional development costs cannot be compensated for by rising sales or additional licensing revenue, this could increase 4SC AG's negative operating result.

From licensing to marketing

4SC AG enters into development and licensing partnerships with pharmaceutical or biotech companies for advanced clinical development, licensing and marketing. 4SC AG may not succeed at all in finding such partners for individual projects, or only on financially unfavourable terms or after a delay. This could delay the development of the drug candidates in question or result in lower revenues. Should a cooperation or licensing partner fail to develop a 4SC AG drug candidate further or market it, 4SC AG could potentially not receive milestone payments or licensing fees in future, with the resulting negative repercussions for its financial and earnings situation.

4SC AG's strategy is to reduce the risks arising from product development as far as possible through a broadly diversified, risk-balanced portfolio of research and development projects.

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

Service collaboration

4SC AG generates a substantial portion of its sales from contracts with a small number of collaboration partners. Were such an agreement to be terminated by a partner or as a result of a partner defaulting on payments, this would have a negative impact on revenues and hence on the future financial and earnings position. In the light of this, 4SC AG is endeavouring to find more collaboration partners, as well as to generate new projects with existing partners. Nevertheless, 4SC AG is planning in future only to enter into such cooperation agreements that will allow the company to benefit from the continued potential offered by joint projects in the long term.

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. Competition for highly-skilled personnel in the biotech industry is intense and is continuing to intensify. However, 4SC AG has so far always succeeded in filling the relevant positions with suitable staff on reasonable employment terms. Losing certain key managerial, scientific or technical personnel could be detrimental to 4SC AG's competitiveness. In addition to paying competitive salaries, 4SC AG tries to boost its staff's loyalty to the firm further through employee stock option plans and active personnel and leadership work, for example. To this end, the company has clear managerial structures and an extensive range of management instruments in place, which it uses actively.

3.4 Capital market risks and risks from capital measures

Additional financing

4SC AG will continue to need a large amount of capital in the medium- to long term if it is to realise its company and development goals. This will depend on various factors, especially on whether it succeeds in generating sufficient revenues from licensing or collaborations. Product development costs could exceed such income, which would necessitate additional equity or borrowing. 4SC AG cannot offer any assurance that such financing will be available at the time required, in the amount required, on economically feasible terms, or at all. In the event that sufficient financing should be unavailable or only available on unacceptable terms, 4SC AG could be forced to rein in its research and product development expenditures, which could have a detrimental effect on 4SC AG's net assets, financial and earnings position. If the company should seek additional capital by issuing new shares, existing shareholders could potentially see a not-insignificant dilution of their shares.

4SC AG is planning in future only to enter into such cooperation agreements that will allow the company to benefit from the continued potential offered by joint projects in the long term.

A few principal shareholders could exercise a controlling influence

On the basis of section 21 of the German Securities Trading Act (WpHG) in conjunction with section 25 of WpHG, 4SC AG currently has five principal registered shareholders which have exceeded notification thresholds. Together, these shareholders hold over 79% of share capital and thus of voting rights. They could therefore be in the position to exercise a controlling influence on resolutions of the annual general meeting and could have a significant influence on all of the major decisions affecting future business at 4SC AG regardless of the votes of the other shareholders.

3.5 Other risks faced by the company

Crisis in the financial market

The mounting crisis on the financial markets is presenting the biotech industry as a whole with growing problems with regard to the financing of operations. The greatest specific risk posed by this financial crisis is that the probability of the existing risks flagged up in this report occurring and the scope of resulting potential losses could increase significantly. However, the situation on the capital markets has not had a significant impact to date on the company's financial result, thanks to its favourable cash position. Nevertheless, it is more difficult to say to what extent the financial crisis is affecting or has affected the economic situation of QuoNova LLC. or its main investor, XLTechGroup. It cannot be ruled out that the current situation at QuoNova LLC. has been aggravated by the financial crisis, though nor can it be said for certain that it has come about as a result of the crisis.

For 4SC AG itself, the situation could change however, if, for example, due to further progress on projects, an increased need for capital required further refinancing from the capital market. In addition, the financial market crisis could be detrimental not only to the value of liquid funds invested, to exchange rate fluctuations and to the successful formation of collaborations, but also to the recovery of outstanding receivables. The financial result will probably turn out to be lower due to the significant drop in interest rates. Moreover, a further reduction in the liquidity of 4SC stock or a further drop in its share price would be conceivable if important investors were to withdraw. For 4SC AG, the consequence of this could be that stock might drop off institutional investors' radars because it lacks critical mass in terms of stock exchange value, particularly at international level.

The so-called "credit crunch" will not affect 4SC AG, however, as in the past as well virtually no loan capital was issued to the company due to its business model, which is typical for the industry.

Risks from the takeover of assets and patents from Nycomed

In July 2008, 4SC AG took over all rights in eight oncology projects from Nycomed. It cannot be ruled out that during clinical trials for the 4SC-201 project and the ensuing preclinical projects, in spite of careful checking of takeover projects, unexpected safety or activity-related incidents may arise which could delay development or even jeopardise the successful completion of relevant trials.

In is connection, increased depreciation risks of significant volume in fixed assets could arise from the activation of patents in the event of discontinuation of particular or all projects taken over being discontinued, which could have an adverse effect on the balance sheet and income statement.

In addition, 4SC AG's negative operating result might increase if the necessary additional development costs cannot be compensated for by increasing sales or additional licensing revenue.

Bisection of share capital through increasing losses carried forward

4SC AG is a company which has yet to achieve profitability and has generated a negative operating result in each of the past financial years. Due to its distinctive research and development costs, these losses have accumulated over time into a sizeable loss carried forward. Since these are offset against existing equity, it cannot be ruled out that it could culminate in a bisection of share capital requiring notification. Pursuant to section 92, paragraph 1 of the German Stock Corporation Act (AktG), this requires an extraordinary general meeting to be called immediately, which would mean organisational and financial expenses for 4SC AG. In addition, it could have a negative impact on the share price.

Risks connected with the recognition of tax losses carried forward

On 31 December 2007, the date of the last tax assessment, 4SC AG had corporate tax losses carried forward totalling 47,695 k € (according to the tax assessment notice of 31 December 2007) and business tax losses carried forward amounting to 47,187 k €. In the period which has not so far been assessed for tax purposes, further substantial losses have been incurred, mainly in Germany.

The application of section 8 , paragraph 4 of the German Corporate Income Tax Act (KStG), relating to the receipt of cumulative losses carried forward, which was already problematic for the industry, has been further complicated by section 8 c of KStG introduced on 1 January 2008 in the context of the German Business Tax Reform Act. In the case of this paragraph, the transfer of shares is the only criterion. In this context, any transfer between 25% and 50% of the subscribed capital within a five year period results in a partial, whereas any transfer of more than 50% of the subscribed capital results in a complete elimination of tax losses carried forward. The acquisition of predominantly new operating assets is no longer relevant. The tax authority takes account of a five year period when reviewing the change of control.

In recent years, there have been various changes of control, capital increases and investments from new shareholders at 4SC AG. This cannot be ruled out for the future either. At the same time, new operating assets of significant scope have been acquired. Both paragraphs, section 8, paragraph 4 of KStG and section 8 c of KStG, apply in parallel for a transitional period up to the end of 2012 and could have negative repercussions for 4SC AG's future result after tax and equity, either individually or in combination.

In the light of the legal uncertainty which prevails when it comes to interpreting the relevant facts in this context and the attitude taken by the competent tax authorities, 4SC AG believes that it is possible that it will no longer be permitted to offset tax loss carryforwards existing now against profits. The moment the company reaches the profitability threshold this could have a very negative effect on 4SC AG's result after tax and, in addition, be a drain on liquidity.

Risks from investing liquid reserves

4SC AG has liquid reserves at its disposal, which, as long as they are not to be used in the foreseeable future, are invested in order to generate better interest returns. The money is primarily invested in fixed deposits, money market funds and bonds. Care is taken to ensure that investment products have a high credit rating and are managed conservatively. Nevertheless, it could transpire that one or several securities see devaluations, can no longer be redeemed on the market, or the issuing entity no longer has sufficient liquidity to honour its repayment obligations. This might 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 rule out exchange rate and credit risks as far as possible.

Potential currency risks
4SC AG does business with various international partners, with whom the contractually agreed terms of payment are in a currency other than the Euro. 4SC AG is thus exposed to the risk of exchange rate fluctuations between the Euro and these other currencies in the period up to the due or payment date. The company may also be relying on entering into agreements requiring payments to or from 4SC AG in currencies other than the Euro, and hence be exposed to currency risks that cannot be hedged against on reasonable terms.

Economic situation of QuoNova LLC.
There is an increased risk in connection with the stake in QuoNova LLC. Since the possibility of its main investor, the US-american XLTechGroup, continuing to finance itself was difficult to estimate during the year, this left QuoNova LLC.'s situation unclear with regard to the continued necessary safe-guarding of its liquidity. For this reason, the management decided as early as in the third quarter of 2008 to make a full valuation allowance for all outstanding receivables arising from the sale of QSB substances and the cooperation agreement. In addition, 4SC AG is avoiding making any advance payments within the framework of the collaboration for the present. It cannot be ruled out that the value of the stake will also become void and might not contribute any more to the future appreciation value of 4SC AG.

Inversely, in the event of the financial situation of QuoNova LLC. itself and/or XLTechGroup being clarified for the better, there may be the possibility of a partial or full write-up and recovery of outstanding receivables. 4SC AG will do its utmost to recover the existing receivables.

3.6 Opportunities for the company

Value enhancement through external partnerships and licensing
4SC AG is involved in intensive and regular discussions with potential partners in the pharmaceutical industry. With numerous patents protecting existing products expiring and some failures in the development of projects, pharmaceutical companies are tending to enter into collaboration and licensing deals for new projects at an ever earlier stage in the development process. The terms of such partnerships between pharmaceutical and biotech companies are increasingly in favour of the biotech industry. 4SC AG might also stand to gain from this continuing trend with its project portfolio. Moreover, these types of partnerships would further validate 4SC AG's development candidates and – depending on the contract terms – also strengthen the company's financial, earnings and net assets position.

Value enhancement through project advancement
If all goes according to plan, various 4SC AG drug candidates should, in the short to medium term, reach further important development milestones. This may have a positive effect on the assessment of specific projects and hence on the company's overall value – particularly if project candidates enter into clinical development or successfully complete a trial phase.

Takeover prospects
While interest in drug candidates at an early stage of development is growing, in recent years increasing numbers of large pharmaceutical and biotech companies have been opting to directly acquire companies with attractive technologies. The premiums paid by acquirers are usually considerable compared with the current market value, and 4SC shareholders stand to gain from this.

One candidate – multiple projects
4SC AG's previous research and development work has repeatedly illustrated how a development candidate can act as a platform upon which various projects involving a wide range of drug candidates for different indication fields can be built. In the short term, this could lead to an expansion of the project pipeline, thus further diversifying risk and enhancing potential and value. The 4SC-101 project is a current example of this. This drug candidate is being further de-

veloped in both indications of rheumatoid arthritis and Crohn's disease in parallel.

Licensing revenues from patents

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

According to plan, various 4SC AG drug candidates should,

in the short to medium term,

reach further important development milestones.

Investments with appreciation potential

4SC AG has invested in several companies. The shares held by 4SC AG in these firms could appreciate in value if the companies perform well. This is particularly true in the case of the stake acquired in Nexigen GmbH, Bonn, in May 2008, whereby 4SC AG at the same time acquired the option of taking over the company completely within 15 months. The company has been specialising in research into protein-protein interaction processes and their targeted interruption. It has been making good progress in this area so, by acquiring a stake in the firm, 4SC AG has gained access to its technological expertise.

Multiplication of strategic options

The current market situation means that increasing numbers of individual development candidates, whole development portfolios or entire companies are being offered for takeover on highly attractive terms. This could open up attractive strategic options for 4SC AG allowing it to gather additional critical mass, generate further development potential and diversify risks.

4. DATA PURSUANT TO SECTION 289 PARAGRAPH 4 GERMAN COMMERCIAL CODE (HGB)

Composition of subscribed capital

The company's registered share capital currently comprises one class of share, 28,502,739 (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

There are no restrictions affecting voting rights or the transfer of shares.

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 48.7%
- Deutsche Bank Aktiengesellschaft, Frankfurt am Main, with 11.6%
- HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, with 10.4%

Shares with special voting rights which assign controlling rights

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

Nature of 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 binding 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 Management Board members is governed by sections 84 and 85, AktG.

Pursuant to section 7, paragraph 1 of the Articles of Association of 4SC AG, in the version dated 14 July 2008, the Supervisory Board appoints the members of the Management Board for a maximum of five years. Appointment for more than one period of office or an extension thereof, for a maximum of five years in each case, is permissible. It is subject to a further resolution by the Supervisory Board, which cannot be passed earlier than one year prior to the expiry of the period of office concerned. 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, paragraph 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. The latter can transfer the activities concerned to a personnel committee.

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 the 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 a pre-emptive purchasing right enjoyed by QuoNova LLC. or the other shareholder, XLTechGroup LLC., for 4SC AG's shareholdings in QuoNova LLC. in the event of a change of ownership at 4SC AG.

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, which should however be no less than 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 as well as 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 843 k € during the past financial year, of which 74.4% represented fixed salary and 25.6% 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 conducts an annual review of the appropriateness of the Management Board's remuneration.

4SC AG Management Board members held a total of 255,420 stock options and 890,979 shares as of 31 December 2008. On aggregate, they thus held 3.1% of the company's shares.

The annual general meeting of 4SC AG decides as to the remuneration of the Supervisory Board. On 5 June 2008, the annual general meeting adopted a resolution to pay each member of the Supervisory Board a basic salary of 13 k € per financial year, whereby the chairman is to receive double and his deputy 150% thereof. Membership in commissions was remunerated by the company at the price of 5 k € per commission. There was no cap on Supervisory Board remuneration.

Total remuneration for the Supervisory Board in the reporting year amounted to 139 k € (2007: 90 k €). Other costs, such as travel expenses, were only reimbursed in the attested amount.

On 31 December 2008, members of the Supervisory Board of 4SC AG held a total of 130,000 shares and thus 0.5% of the company.

A breakdown of individual Management Board and Supervisory Board member remuneration and detailed information on the stock option programme are provided in the notes to the 2008 IFRS financial statements.

6. EVENTS AFTER THE END OF THE FINANCIAL YEAR

In March 2009, 4SC AG began a further clinical phase IIa study for the drug candidate 4SC-101. The aim of the study is to produce evidence of the drug's efficacy in the treatment of patients suffering from Crohn's disease. 4SC AG has been granted the regulatory approval required from the German Federal Institute for Drugs and Medical Devices (BfArM), as well as having received the positive ethical opinion of the State Medical Council of Baden-Württemberg. Thus, this clinical study is currently open for patient recruitment. The results of the study are expected at the end of 2009.

7. BUSINESS OUTLOOK

7.1 Overall economic outlook

The global economy as a whole was sucked into a downward spiral by the turbulences on the real estate and financial markets. The economic experts are still in disagreement as to when the global recession might bottom out. Despite the initiation of liquidity measures for the financial sector and comprehensive stimulus packages for the national economies, it can be assumed that most economies will experience declining growth or recession in 2009. The persistently tense situation on the capital markets will result in the continued highly restrictive handling of corporate funding via external capital or equity. Venture capital companies and private equity funds will only be investing in a very selective manner too due to the lack of fresh capital.

7.2 Biotechnology outlook

In contrast, the perspectives for the life science sector in general and biotechnology in particular remain fundamentally positive, despite the crisis on the financial markets. A growing number of companies are becoming profitable and more than 60% of all medicines, which are currently undergoing approval procedures, are biotech drugs – and this tendency will increase further.

However, in 2009, experts in this sector are anticipating fewer spectacular launches of newly-licensed medicines such as the osteoporosis drug Denusomab from Amgen. The biotechnology sector will continue to gain in attractiveness for investors as the number of products ready for market increases, and the sector as a whole is perceived as one whose development is largely unaffected by economic cycles. Moreover, biotech companies will in the coming years continue to benefit from the fact that the pharmaceuticals industry risks suffering a collapse in sales in the near future – according to a survey carried out by the investment bank Morgan Stanley, the income generated by the major pharmaceuticals concerns is set to fall sharply by around 42% in the period 2011 to 2015 due to the expiry of patents. This applies for instance to Lipitor, the cholesterol-reducing drug from Pfizer, which generated sales of 12.4 billion US-$ in 2008 and is thus the world's best-selling medicine.

As a result, the pharmaceuticals industry is under increasing pressure to conclude development cooperation, product licensing deals and corporate takeovers. In contrast, the fact that venture capital donors are only undertaking selective funding at the moment will lead to a growing number of biotech companies being unable to finance their promising research projects over the coming years either at all or to the extent originally planned. The takeover offers currently pending from Roche for Genentech and from Pfizer for Wyeth only mark the start of new wave of take-overs that could also affect smaller biotech companies worth less than 100 million.

7.3 Company outlook

It remains 4SC AG's declared aim to develop into a leading partner of the pharmaceuticals industry, with innovative drug candidates in the fields of autoimmune diseases, cancer and associated indications. To this end, individual projects will be developed up until proof of concept of clinical efficacy in order to license them to the pharmaceuticals industry.

In order to reach this goal, the company has significantly expanded its project portfolio by including a number of additional interesting and advanced projects. At the same time, ongoing discussions with the pharmaceuticals industry concerning a variety of projects have been intensified. The activities planned for the next 24 months are primarily intended to focus on rapid and the most wide-ranging project advancement.

7.3.1 Research, development & collaborations

For the substance 4SC-101, a clinical phase IIa study was already started in March 2009 with the aim of proving its efficacy for patients with Crohn's disease.

4SC AG is furthermore planning to launch an enhanced clinical phase II study in rheumatoid arthritis for this drug candidate in coming months. Through implementation of both studies, the company would like to further expand the potential of the project concerned and reinforce the pharmaceuticals industry' interest in the DHODH inhibitor in order to be able to negotiate the best possible terms for the company when it comes to the licensing agreement it aims to conclude.

The drug candidate 4SC-201 successfully underwent a phase I study in 2008. A dosage for the planned phase II studies was already set on the basis of the available data at the end of 2008. If everything goes according to plan, 4SC AG will launch at least two phase II studies into different types of cancer in 2009.

As far as the other projects are concerned, the plans are to move at least two further drug candidates on to clinical phase I trials. The projects which will be chosen for this will become clear in the course of further development activities. Furthermore, the aim is to nominate two additional development candidates from the ongoing research projects, the further development of which is then to be pushed ahead with towards the clinical trial stage. Other projects are then likely to be ready for clinical study in 2010.

As far as the collaborative business is concerned, the company's cooperation with above all AiCuris GmbH & Co. KG in Wuppertal is proving to be very successful. 2009 will again see 4SC AG making appropriate capacity available for research work arising from this partnership. However, segment reporting for the "Collaborative Business" segment is to be discontinued as of the 2009 financial year, due to the ever-decreasing significance for 4SC AG's business model in this area.

7.3.2 Operating facilities

4SC AG will continue to have its head office in Planegg-Martinsried near Munich. Moreover, the company opened a new establishment in Überlingen-Bonndorf on Lake Constance at the beginning of 2009. The staff members based there focus primarily on the clinical further development of the oncology projects acquired from Nycomed. Two of the scientists onsite previously worked at Nycomed and are thus able to input relevant project know-how.

7.3.3 Employees

Overall, 4SC AG considers itself to have adequate staffing levels to meet its corporate and development goals. With the exception of a further increase in its workforce in the development division, the company only anticipates a moderate rise in staff numbers over the course of the next 24 months.

7.3.4 Financial goals

The acquisition of projects from Nycomed has seen a significant expansion in 4SC AG's project pipeline. Thanks to its enhanced project pipeline, as well as the progressive maturity of individual projects, the company is creating added value and reinforcing its licensing and revenue potential. At the same time, however, project progress and an enhanced pipeline result in rising development costs, due on the one hand to the preparation of preclinical development candidates for clinical trials, and on the other to an expansion in clinical study activities.

Administration costs are also likely to increase in the 2009 financial year. This is attributable to the planned moderate increase in staff numbers, as well as to the intended intensification of activities in the Investor Relations division. At the same time, the company is expecting a decline in net sales in 2009. Due to the sharp decrease in the scope of the partnership with QuoNova LLC., net sales will be generated almost exclusively via the cooperation with AiCuris over the coming months. Against this backdrop, 4SC AG is in 2009 again anticipating a negative annual result and an increase in losses.

On the basis of a solid cash balance and taking account of the further development in value due to project pipeline progress, 4SC AG starts the new financial year with good prospects of success.

According to our planning, the capital inflows secured via the capital increase undertaken in July 2008 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. Should this not succeed to the extent required, it is essential that additional equity or borrowed capital is made available in order to ensure continuity in the short and medium term and the successful development of the company.

On the basis of a solid cash balance amounting to 21,846 k € and taking account of the further development in value due to project pipeline progress, 4SC AG starts the new financial year with good prospects of success.

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

Planegg-Martinsried, 9 March 2009

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

FINANCIAL STATEMENTS OF 4SC AG (IFRS)

On the basis of a solid cash balance and taking account of the further development in value due to project pipeline progress, 4SC AG starts the new financial year with good prospects of success.

INCOME STATEMENT

for the financial year from 1 January to 31 December 2008

in k €	**2008**	**2007**	**Notes**
Net sales	2,969	1,376	4.1
Cost of sales	- 1,426	- 396	4.3
Gross profit	**1,543**	**980**	
Distribution costs	- 393	- 334	4.4
Research and development costs	- 11,498	- 6,240	4.5
Administrative costs	- 2,960	- 2,822	4.6
Other operating income	613	113	4.7
Result from operating activities	**- 12,695**	**- 8,303**	
Financial result			4.9
Result from an associate accounted for using the equity method	33	- 51	
Finance income	1,032	519	
Finance expenses	- 174	- 295	
Financial result	**891**	**173**	
Result before taxes	**- 11,804**	**- 8,130**	
Income taxes	- 50	0	5.
Annual result	**- 11,854**	**- 8,130**	
Earnings per share (undiluted and diluted) [€]	- 0.51	- 0.57	6.

See accompanying notes to the financial statements.

BALANCE SHEET

for the financial year ended 31 December 2008

in k €	2008-12-31	2007-12-31[1]	Notes
ASSETS			
Non-current assets			
Intangible assets	15,608	1,865	7.1
Fixed assets	1,547	1,072	7.2
Investments accounted for using the equity method	33	0	7.3
Other financial assets	154	1,972	7.4
Accounts receivables from associated companies	0	623	7.5
Other non-current assets	157	157	7.11
Non-current assets	**17,499**	**5,689**	
Current assets			
Inventories	26	19	7.6
Trade accounts receivables	580	131	7.7
Accounts receivables from associated companies	0	376	7.5
Other financial assets	14,500	4,886	7.8
Cash and cash equivalents	7,346	10,335	7.9
Current tax assets	254	74	7.10
Other current assets	889	553	7.11
Current assets	**23,595**	**16,374**	
Total assets	**41,094**	**22,063**	
EQUITY AND LIABILITIES			
Equity			7.12
Subscribed capital	28,503	19,002	
Agio	48,101	28,395	
Reserves	819	630	
Balance sheet loss	- 40,265	- 28,411	
Equity	**37,158**	**19,616**	
Non-current liabilities			
Other liabilities	59	53	7.16
Deferred tax liabilities	50	0	5
Non-current liabilities	**109**	**53**	
Current liabilities			
Trade accounts payable	1,370	480	7.13
Accounts payable to associated companies	32	103	7.14
Financial liabilities	902	860	7.15
Other liabilities	1,523	951	7.16
Current liabilities	**3,827**	**2,394**	
Total equity and liabilities	**41,094**	**22,063**	

See accompanying notes to the financial statements.

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 in the notes to the financial statements.

CASH FLOW STATEMENT

for the financial year from 1 January to 31 December 2008

in k €	2008	2007	Notes
Cash flows from operating activities			8
Annual result before taxes	- 11,804	- 8,130	
Corrections for:			
Depreciation on fixed assets and intangible assets	774	368	
Financial result	- 891	- 173	
Non-cash affecting ESOP[1]	172	337	
Non-cash affecting expenses and income	932	14	
Interest received	583	274	
Interest paid	- 35	- 35	
Increase/Decrease of trade accounts receivables	- 449	3	
Decrease of accounts receivables from associated companies	459	540	
Increase of inventories	- 7	- 2	
Increase of current tax assets	- 180	- 8	
Increase of other current assets	- 336	- 120	
Increase / Decrease of trade accounts payable	890	- 19	
Decrease / Increase of accounts payable to associated companies	- 71	74	
Increase of other liabilities	578	243	
Cash flows from operating activities	**- 9,385**	**- 6,634**	
Cash flows from investing activities			8
Payments for investment in intangible assets	- 14,177	- 8	
Payments for investment in fixed assets	- 816	- 192	
Income from sale of fixed assets	4	0	
Payments for investments	- 154	0	
Purchase of financial assets that are no cash equivalents	- 14,000	- 6,832	
Sales of financial assets that are no cash equivalents	6,332	1,904	
Cash flows from investing activities	**- 22,811**	**- 5,128**	

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

in k €	2008	2007	Notes
Cash flows from financing activities			8
Payments to subscribed capital	9,501	7,541	
Payments to agio	19,706	12,034	
Cash flows from financing activities	**29,207**	**19,575**	
Net change in cash and cash equivalents	**- 2,989**	**7,813**	
+ Cash and cash equivalents at the beginning of the period	10,335	2,522	
= Cash and cash equivalents at the end of the period	**7,346**	**10,335**	

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 2008

in k €	Sub-scribed capital	Agio	Reserves: Reserves ESOP	Reserves: Retained earnings	Reserves: Revaluation reserve	Balance sheet loss	Total
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*
Annual result 2007						*- 8,130*	*- 8,130*
Balance on 2007-12-31	**19,002**	**28,395**	**583**	**67**	**- 20**	**- 28,411**	**19,616**
Balance on 2008-01-01	**19,002**	**28,395**	**583**	**67**	**- 20**	**- 28,411**	**19,616**
Issued options (ESOP 2001/2003)			2				2
Issued options (ESOP 2004/2004)			5				5
Issued options (ESOP 2004/2005)			11				11
Issued options (ESOP 2004/2006/1)			5				5
Issued options (ESOP 2006/2006/2)			124				124
Issued options (ERSATZ-ESOP 2001/2006/3)			13				13
Issued options (ESOP 2006/2007)			5				5
Capital increase of 14 July 2008	9,501	19,706					29,207
Issued options (ESOP 2006/2008)			7				7
Overall result 2008					17	- 11,854	- 11,837
Valuation of financial instruments					*17*		*17*
Annual result 2008						*- 11,854*	*- 11,854*
Balance on 2008-12-31	**28,503**	**48,101**	**755**	**67**	**- 3**	**- 40,265**	**37,158**

Additional eplanations concerning the components and changes in equity can be found in the notes in “7.12 Equity”.

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENT

for the financial year ended 31 December 2008

1. General information and information about the company

4SC AG, headquartered at 82152 Planegg-Martinsried, Am Klopferspitz 19a, is registered in the Commercial Register of the Munich Municipal Court under HRB no. 132917. A Commercial Register excerpt of 22 January 2009, with the most recent entry dated 21 July 2008, has been received. The version of the Articles of Association dated 14 July 2008 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 drugs 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 or 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 other outlets domestically and abroad.

The Management Board approved the annual financial statements for release on 9 March 2009. 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) – as adopted by the EU – 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 yet adopted IFRS and IFRIC have not yet been taken into account. New standards issued by the IASB and adopted by the European Commission 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, paragraph 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 in thousands of Euros (k €).

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, if they are held primarily for trading purposes or constitute cash and cash equivalents.

These financial statements constitute the individual annual financial statements of 4SC AG with its registered office in Germany, including the companies quattro research GmbH, Planegg-Martinsried, and QuoNova LLC., Melbourne, Florida, USA, associated with 4SC AG, as well as the stake in Nexigen GmbH, Bonn valued in accordance with IAS 39.

2.2 Effects of the application of new standards

Initial mandatory application

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 2008.

On 13 October 2008, due to the financial crisis, the IASB approved amendments to IAS 39 Financial Instruments: Recognition and Valuation as well as to IFRS 7 Financial Instruments: Disclosure. The amendments allow certain financial instruments under exceptional circumstances to be reallocated from the category "held for trading" to another category. The EU adopted this amendment on 15 October 2008, and approved its retrospective application as of 1 July 2008.

As far as 4SC AG is concerned, the amendments to IAS 39 and IFRS 7 had no effect in the financial year. For subsequent years, however, the company cannot rule out that financial instruments will have to be reallocated under exceptional circumstances. The extent of the implications any necessary reallocations could have on the company's net asset, financial and earnings position cannot be reliably estimated.

Application of the following new interpretation also became mandatory for the first time in the financial year:

- IFRIC 11: IFRS 2 – Group and treasury share transactions

This interpretation had no impact on these financial statements and, according to information currently available to us, IFRIC 11 is also not anticipated to have an effect on 4SC AG's future financial statements.

Accounting regulations not applied prematurely

The following standards and interpretations already adopted by the European Commission in previous years were not applied in the reporting year, as their application was not yet mandatory:

- IFRS 8: Operating Segments

IFRS 8 requires companies to report financial and descriptive information with regard to their segments subject to mandatory reporting. In this connection, segments subject to mandatory reporting constitute areas of a company responsible for business activity, areas that bring in a return and for which expenditure may arise, and for which separate financial information is available. In addition, operating results are checked regularly by the main decision-makers in order that decisions can be made as to how resources should be distributed and earning power should be assessed. In general, financial information must be reported on the basis of internal controlling activities. Since the "Collaborative Business" segment in its original form is becoming less important for 4SC AG, contracts are becoming increasingly similar to those from the segment "Drug Discovery & Development" and no allocation of resources for individual areas is carried out, the company will not in future provide clearly separate financial information for this area. As such, segment reporting will be discontinued. IFRS 8 thus has no impact on the company's asset, financial and income position.

Accounting regulations recently approved

Moreover, in the financial year the following standards, interpretations and amendments to existing standards – issued by IASB and IFRIC respectively - were adopted by the European Commission:

- Amendments to IAS 23: Borrowing costs; to be applied to financial years beginning after 31 December 2008
- IFRIC 13: Customer loyalty programmes; to be applied to financial years beginning after 31 December 2008
- IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction; to be applied to financial years beginning after 31 December 2008
- Amendments to IAS 1: Presentation of financial statements; to be applied to financial years beginning after 31 December 2008
- Amendments to IFRS 2: Share-based payment; to be applied to financial years beginning after 31 December 2008
- Amendments to IAS 32: Financial instruments: Presentation and amendments to IAS 1: Presentation of financial statements; to be applied to financial years beginning after 31 December 2008

Since application is not mandatory for the present annual financial statements, 4SC AG refrained from voluntary application of those standards.
On the basis of the information currently available to us, it is not anticipated that the amendments to IAS 23, IAS 32 und IFRS 2 and the interpretations IFRIC 13 and IFRIC 14 will impact on the company's future financial statements. The amendments to IAS 1 result in no significant change to the presentation of 4SC AG's financial statements.

2.3 Significant accounting and valuation policies

The following accounting and valuation policies were of significance 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). On each balance sheet date, monetary items in a foreign currency are converted at the rate prevailing on the balance sheet date concerned in accordance with IAS 21.23. In contrast, non-monetary items that were valued at their historic cost of purchase in a foreign currency are converted at the rate prevailing on the date of the given business transaction.
Conversion differences attributable to the fact that monetary items are converted at a rate different to that at which they were converted when initially recorded are included in the result of the given reporting period in accordance with IAS 21.28. They are shown under the financial result.

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 38.54 research costs are reported as an expense in the period incurred. Development costs are capitalised if certain criteria in accordance with IAS 38.57 are met.
At 4SC AG, the risks involved up until the commercialisation of its products mean the requirements for the capitalisation of intangible assets created by the company itself in accordance with IAS 38 are not met in full. Therefore, the development costs are also reported as an expense in the period in which they are 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 straightline method over a useful life of ten 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. Accordingly, depreciation of goodwill was discontinued as of the 2005 financial year. The book value of the given cumulative depreciation amounts are offset against the corresponding reduction in goodwill, and goodwill reviewed for impairment at least once a year in accordance with IAS 36. A goodwill impairment expense is reported if the recoverable amount is less than the book value of the asset. The recoverable amount of an asset is either the market value less transaction costs or the value in use, whichever is the higher. As goodwill does not generate independent cash flows, the recoverable amount is determined for the cash generating unit relevant to such goodwill, or to which it can be most appropriately attributed.

4SC AG allocates this goodwill to the project 4SC-101 as the cash generating unit for the purpose of impairment testing. For impairment test purposes, the value in use of the project 4SC-101 is compared with the book value of goodwill. A risk-adjusted cash flow forecast is drawn up for the duration of the patent term, and that of the supplementary protection certificates up until 2034, in order to determine the value in use. 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 potential market share are key factors for projecting cash flow and thus for determining value in use.

The development of intangible assets is 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 an asset's book value may exceed its 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 under the area of activity concerned.

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

Participating interests

As of the balance sheet date, 4SC AG has stakes in three companies, which are recognised as associated companies in accordance with IAS 28 or as financial assets in accordance with IAS 39 depending on the degree of influence 4SC AG has on the given participating interest in each case.

The company quattro research GmbH, Planegg-Martinsried, in which 4SC AG holds a 48.8% stake, was founded as an autonomous entity at the beginning of January 2004. 4SC AG has a significant but not controlling influence on the company's business policy as it only appoints one of the three Advisory Board members. The stake held in the firm is thus reported as one held in an associated company 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., Melbourne, Florida, USA at the end of December 2006. In addition to the sale proceeds 4SC AG also received shares in QuoNova LLC. equating to a 10% direct holding. Because 4SC AG exerts a significant influence on QuoNova LLC. on the basis of occupying executive committee positions and key business transactions with QuoNova LLC., the stake in the firm is reported as one held in an associated company using the equity method in accordance with IAS 28. The associated company and 4SC AG both have the same balance sheet date.

4SC AG has had a 3.7% stake in Bonn-based Nexigen GmbH since May 2008. With this stake, 4SC AG received a takeover option which gives it the exclusive right to take over Nexigen completely within 15 months (i.e. by August 2009). 4SC AG cannot exert any significant influence on this company in which it holds a participating interest. Its stake in the company falls significantly short of the 20% limit. Moreover, it also has no key business transactions with Nexigen

GmbH and only provides one of the three Advisory Board members. According to IAS 28.8, potential voting rights that can currently be exercised or converted also have to be taken into consideration when assessing whether the influence it can exert is significant. The option of acquiring Nexigen that could have been exercised for the first time with effect of 1 January 2009 was postponed during the course of 2008 and cannot now be exercised before 13 July 2009 at the earliest. As such, no influence of any significance can be derived from this as of the balance sheet date. Consequently, the stake involves securities which are to be categorised as "available-for-sale" according to IAS 39. They are valued pursuant to IAS 39.43 at the fair value that corresponds to the transaction price as of the balance sheet date.

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 allocation purposes in accordance with IAS 2.27.

Trade receivables

Trade receivables are recognised at the original invoiced amount less allowances for bad debts. As in the case of accounts receivable from associated companies, allowances for bad debts are based on the Management's assessment of the recoverability of the receivables and are made insofar as there are objective indications that the amounts due will not be paid in full in accordance with the terms originally agreed.

Accounts receivable from associated companies

Accounts receivable from associated companies are reported at cost of purchase less an allowance for bad debts. As such, the cost of purchase equates to the value of the consideration provided as of the date concerned. Insofar as the receivables are not subject to interest at market rates, the effective interest method is applied. Accounts receivable from associated companies are reduced by the amounts repaid in accordance with prearranged repayment schedules. Repayment schedule payments are shown separately in the balance sheet as either current or non-current assets.
Allowances for bad debts are based on the management's assessment of the recoverability of specific accounts receivable and are made insofar as there are objective indications that the amounts due will not be paid in full in accordance with the terms originally agreed.

Other investments / Other financial assets

Other financial investments and other financial asstes 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 accounted for at fair value through profit or loss include securities which are allocated to the category "held for trading". Profits and losses from subsequent valuation 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 (position 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.
In the case of the participating interest in Nexigen, which is also to be categorised as "available-for-sale" in accordance with IAS 39, valuation is made pursuant to IAS 39.43 at fair value, which equates to the transaction price as of the balance sheet date.

Assets are checked on a regular basis but at least as of the balance sheet date in order to find out, whether an active market exists and if objective indications (like considerable financial problems of the debtor) indicate a depreciation. A significant or long-term impairment is an objective indication for a possible depreciation with regard to equity instruments.
An impairment loss is recorded immediately as affecting net income.
In accordance with IAS 1.51, financial instruments are classified as non-current or current assets, depending on their term to maturity as of the balance sheet date. Financial instruments with a term to maturity 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 term to maturity 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.

Other assets

Other assets encompass all such receivables as are not reported as balance sheet items in their own right. They are valued at an amount equivalent to the anticipated level of reimbursement.

Cash & cash equivalents

Cash consists of cash on hand, bank account credit balances and short-term time deposits. Cash equivalents comprise other short term, extremely liquid financial investments with an original term to maturity of three month, which at the same time are only subject to insignificant value fluctuations. They are reported at their nominal values.

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 and are accordingly carried at the repayment amount. They are derecognised when the underlying debt obligation has been discharged or expires.

Financial liabilities

Financial liabilities are initially recognised at fair 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 fair value applying the effective interest method.

Provisions and accruals

Provisions and accruals 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 reliable estimate of the obligation amount is possible. According IAS 37.11 provisions can be distinguished from accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.
Accruals are reported according to IAS 37.11 as part of other liabilities, whereas provisions are reported separately. Expenses for creating provisions and accruals are reported in the income statement.
As of 31 December 2008 4SC AG had no commitments that fulfil the qualifications to be classified as provisions. The company did however have liabilities that were reported as accruals under the item other liabilities.

Other liabilities
In addition to accruals, other liabilities also encompass all such payment obligations of the company as are not reported as balance sheet items in their own right. They are carried at their repayment amounts.

Income taxes
The actual tax liabilities arising from income taxes for the current and previous periods are to be reported as liabilities pursuant to IAS 12.12 for the amounts as yet unpaid. In the event that the amount incurred and already paid for the current or previous periods exceeds that owed for the periods concerned, the difference is to be carried as an asset (current tax assets). As such, the refund claims or liabilities are valued at the amount equating to the level of refund from the tax authorities or payment to the tax authorities expected. The given amount is calculated on the basis of the tax rates and laws applying as of the balance sheet date.
Deferred taxes are accounted for in the balance sheet in accordance with IAS 12. They are formed on the basis of temporary differences between the IFRS and tax balance sheet recognition of assets and liabilities. To this end, those tax rates are used which apply on the balance sheet date or such future tax rates as have already been agreed by law. Deferred tax assets on as yet unused tax losses are carried as assets pursuant to IAS 12.34 only to the extent to which it is likely that future taxable earnings will be available in order to realise the claim concerned. In accordance with IAS 1.70 deferred tax claims and liabilities are not reported as current assets and liabilities.

Revenue recognition
4SC AG generates net sales in the form of one-off payments, milestone payments, royalties and licensing fees in connection with research and cooperation agreements concluded by the company.
Sales from research and cooperation agreements are accounted for under research services rendered in connection with the cooperation contracts concerned. The given amounts are in general calculated in line with their service character on the basis of one-off amounts per scientist accounted for ("FTE"). 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.
Up-front payments are due at the start of a given cooperation. They represent advance payment following signature of the contract without specific services having been provided. Net sales from up-front payments are recognised as deferred revenue liabilities and carried as income proportionately over the term of contract.
Milestone payments are received based on the attainment of contractually predetermined targets. The attainment 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 licences granted for specific, contractually-defined periods is treated as a deferred item and recognised accordingly as net sales over the duration of the license.
Irrevocably sold licenses are posted as net sales for the full amount as of the date of transfer of usage rights. As 4SC AG has no further obligations arising from the licence and cooperation agreement with ViroLogik GmbH, Erlangen, signed in the second quarter of 2008 and ViroLogik GmbH can exercise its rights freely in the case of a single indication, the company was able to report the sales earned in the 2008 financial year amounting to 750 k € as such to their full amount.

Services provided in the "Collaborative Business" segment are recognised as net sales on an ongoing basis in proportion to the progress of services rendered. 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 licence.
IAS 11 does not apply in this case as the service provision concerned does not constitute the long-term, customer-specific production foreseen by IAS 11.3 and IAS 11.5.

Cost of sales
Personnel, materials and other costs incurred directly attributable to the generation of net sales constitute the 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 such costs as are incurred in connection with the 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 put research results into technical and commercial practice. They are capitalised if certain criteria pursuant to IAS 38.57 are met. At 4SC AG, the risks involved up until the commercialisation of its products mean the requirements for the capitalisation of development costs as intangible assets in accordance with IAS 38 are not met in full. Therefore, the development costs are also reported as an expense in the period in which they are 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 the reimbursement of research expenditures, such amounts offset research and development costs for the relevant period; specific explanations are provided in the notes.

Other income
Other income includes all income from usual business activity insofar as it is not reported as financial income, or insofar as it does not represent the reimbursement of research expenditures. For the most part, 4SC AG generates income from the subleasing of unneeded lab and office space, as well as from the reimbursement of other expenses. Income from subleasing is recorded as accrued. Insofar as amounts are collected for future periods, they are only recorded on a pro rata temporis basis. As such, a deferred income item is created, which is accordingly liquidated over the following months. Provided they involve refunds, the reimbursement of expenses is realised at the time of receipt of payment or, if the expenses are still carried, at the time of invoicing.

2.4 Use of estimates

In producing these annual financial statements, it was necessary for the Management Board to make estimates and assumptions which influence 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.
As of the balance sheet date, the Management Board has essentially made the following 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 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 fair value and, ultimately, the level of goodwill depreciation.
When testing the impairment of receivables, the Management Board must assess their recoverability on the basis of the customer's solvency. Changing solvencies could lead to a valuation allowance for receivables.

Valuation of participating interests
The Management Board had to assess whether it exercises control with regard to the companies quattro research GmbH and QuoNova LLC., in which case consolidated reporting in accordance with IAS 27 would apply. The Management Board determined that the conditions which would constitute control of quattro research GmbH and QuoNova LLC. do not exist. Nor have the conditions been met in the Management Board's view for a consolidation of the companies as special purpose entities in accordance with SIC-12.
In the case of Nexigen GmbH too, the degree of influence exerted by 4SC AG had to be estimated. Here, the Management Board arrived at the decision that the company has neither a controlling nor a significant influence and, as such, neither consolidation nor valuation as an "investment accounted for using the equity method" comes into question.

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 IFRS 2. In doing so, the Management Board must carry out estimates of the number of equity instruments 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 constitutes the business segments in which 4SC AG is active. According to IAS 14.26, the secondary report format constitutes geographical segments.

4SC AG operates in the two business segments "Drug Discovery & Development" and "Collaborative Business". In the "Drug Discovery & Development" segment, 4SC AG is the holder of proprietary and patent rights and decides on the progress of projects. In contrast, the cooperation partner in the "Collaborative Business" segment is the holder of proprietary and patent rights and decides on the progress of projects.

Segment report according to business segments:

in k €	Drug Discovery & Development		Collaborative Business		Not assigned		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Net sales	750	0	2,219	1,376	0	0	2,969	1,376
Personnel costs	- 2,395	- 2,050	- 854	- 474	- 1,688	- 1,633	- 4,937	- 4,157
Depreciation	- 600	- 228	- 62	- 72	- 112	- 68	- 774	- 368
Other expenses and income	- 7,314	- 3,420	- 1,110	- 315	- 1,529	- 1,419	- 9,953	- 5,154
Segment result/ Result from operating activities	**- 9,559**	**- 5,698**	**193**	**515**	**- 3,329**	**- 3,120**	**- 12,695**	**- 8,303**
Financial result							891	173
Result before taxes							**- 11,804**	**- 8,130**
Income taxes							- 50	0
Annual result							**- 11,854**	**- 8,130**
Other information:								
Segment assets	14,804	1,751	930	362	25,360	19,950	41,094	22,063
Segment liabilities	203	1	0	74	3,683	2,372	3,886	2,447
Investments	14,583	94	181	51	229	55	14,993	200

In particular, administrative costs are not assigned. Net sales are realised and shown both from external customers and from the associated company QuoNova LLC., Melbourne, Florida, USA. In the case of segment assets, cash and cash equivalents in particular were not assigned to segments; in the case of segment liabilities, the accruals.
Significant non-cash affecting expenses arise from value adjustment of the accounts receivables from QuoNova LLC. This is reported in the segment “Collaborative Business”.

Net sales according to headquarters of the performance recipient:

in k €	Germany		USA		Total	
	2008	2007	2008	2007	2008	2007
Net sales	2,446	138	523	1,238	2,969	1,376

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 k €	2008	2007	Change
Drug Discovery & Development	750	0	n/a
Collaborative Business	2,219	1,376	61.3%
Net sales	**2,969**	**1,376**	**115.8%**

The increase in net sales from 1,376 k € in 2007 to 2,969 k € in 2008 is attributable to both the segment "Drug Discovery & Development" and the segment "Collaborative Business".
The sales generated in the segment "Drug Discovery & Development" in the amount of 750 k € are attributable to the licence and cooperation agreement with ViroLogik GmbH in Erlangen signed in the second quarter of 2008. In contrast, 4SC AG concluded no licence agreements in the previous year.
With sales of 2,219 k €, the segment "Collaborative Business" recorded growth of 843 k € as compared with the previous year (1,376 k €). This was attributable in the main to the cooperation agreement with AiCuris GmbH & Co. KG in Wuppertal, by means of which 4SC AG generated significant net earnings. By contrast, the scope of the cooperation with QuoNova LLC. declined as compared with 2007 – due also to the financial difficulties of the contracting party – and had virtually been completely discontinued as of the end of the year.

4.2 Personnel costs

in k €	2008	2007	Change
Salaries	4,096	3,271	25.2%
Social security charges	669	549	21.9%
ESOP[1]	172	337	- 49.0%
Personnel costs	**4,937**	**4,157**	**18.8%**
Employees and Management Board (annual average)	80	64	25.0%

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

Salaries rose in the reporting year by 25.2% to 4,096 k € (previous year: 3,271 k €). At the same time, the average number of staff and Management Board members increased by 25.0%, from 64 in 2007 to 80 in 2008. The team was principally reinforced in the scientific sectors to enable it to provide additional capacities for research, on the one hand, and press ahead with the increased number of development projects, on the other. Social security charges also increased correspondingly. They rose by 21.9% to 669 k €.
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 ones for defined contribution plan and are recognised and valued in accordance with IAS 19.44. Total expenditures in connection with defined contribution plans came to 77 k € for the reporting year (2007: 67 k €). Of this amount, 19 k € (2007: 19 k €) went to Management Board members. In addition, sums amounting to 556 k € (2007: 450 k €) were paid to state pension insurance authorities.
In addition, options granted to staff and Management Board members during the reporting year were recorded as personnel costs in accordance with IFRS 2. Total personnel costs resulting from options granted in the 2008 financial year amounted to 172 k € (2007: 337 k €). Of this amount, 41 k € (2007: 194 k €) went to Management Board members.

The background to the significant reduction in personnel costs arising from stock options as compared with the previous year is that the estimated assumptions with regard to the number of exercisable options was changed in 2007 resulting in a corresponding increase in personnel expenses.
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 k €	2008	2007	Change
Allowance for bad debts	700	0	n/a
Personnel	574	304	88.8%
Material	130	65	100.0%
Comissions	15	0	n/a
Patent costs	0	21	- 100.0%
Miscellaneous	7	6	16.7%
Cost of sales	**1,426**	**396**	**260.1%**

Due to the increased uncertainty concerning the liquidity position of QuoNova LLC., 4SC AG made full allowance for bad debts in the 2008 financial year in the form of the still outstanding accounts receivables attributable to the purchase price for the exclusive worldwide rights to QSB substances as well as to the cooperation amounting to 700 k €. As such, this allowance for bad debts is also the main reason for the significant rise in the cost of sales from 396 k € in 2007 to 1,426 k € in 2008.
The increase in personnel costs of 88.8% as compared with 2007 and the doubling of the cost of materials from 65 k € to 130 k € are reflected in the increase in sales in the segment "Collaborative Business". Provisions result from the sales booked under the segment "Drug Discovery & Development" in the 2008 financial year.

4.4 Distribution costs

in k €	2008	2007	Change
Personnel	197	188	4.8%
Legal consulting and miscellaneous consulting	93	32	190.6%
Travel and meetings	52	46	13.0%
Marketing costs	18	31	- 41.9%
Rent and ancillary costs	13	16	- 18.8%
Miscellaneous	20	21	- 4.8%
Distribution costs	**393**	**334**	**17.7%**

The increase in distribution costs from 334 k € in 2007 to 393 k € in 2008 can be attributed in the main to the rise in legal and consultancy costs due to the appointment of an external consultant for business development.

4.5 Research and development costs

in k €	2008	2007	Change
External services	5,541	2,597	113.4%
Personnel	2,676	2,220	20.5%
Patents	1,138	416	173.6%
Depreciation	662	301	119.9%
Material	595	364	63.5%
Rent and ancillary costs	521	525	- 0.8%
Software licences	134	124	8.1%
Miscellaneous	373	201	85.6%
Government grants (EU and BMBF)	- 142	- 508	- 72.0%
Research and development costs	**11,498**	**6,240**	**84.3%**

Research and development costs increased to 11,498 k € in the 2008 financial year (2007: 6,240 k €). This increase is attributable to a number of factors: Due to the further development of ongoing 4SC projects and the acquisition of eight Nycomed projects, the cost of external services rose to 5,541 k €, more than twice the level reported in 2007 (2,597 k €). At the same time, the above resulted in an increase in both patent costs to 1,138 k € (2007: 416 k €) and the cost of materials to 595 k € (2007: 364 k €).
In addition to this, personnel costs rose due to the strengthening of the research and development team, and there was a significant rise in the level of scheduled depreciation due to the capitalisation of the patents acquired from Nycomed.
As a result of the expiry of the government support provided through the German Ministry of Education and Research's "BioChancePlus" scheme as of 31 December 2007, there was moreover a decline in government grants to 142 k € in 2008 (previous year: 508 k €). However, 4SC AG aims to obtain new sponsorship in order to be able to generate additional income in subsequent years.

4.6 Administrative costs

in k €	2008	2007	Change
Personnel	1,490	1,445	3.1%
Legal consulting and miscellaneous consulting	274	335	- 18.2%
Rent and ancillary costs	260	274	- 5.1%
Marketing costs (PR & IR)	253	221	14.5%
Supervisory Board	146	105	39.0%
Depreciation	113	68	66.2%
Insurance and contributions	108	105	2.9%
Travel and meetings	78	55	41.8%
External services	51	67	- 23.9%
Miscellaneous	187	147	27.2%
Administrative costs	**2,960**	**2,822**	**4.9%**

Administrative costs increased in comparison to the previous year by 138 k € or 4.9% to 2,960 k €. Personnel costs thus underwent a slight increase. At the same time, other expenses in this area rose as well, although individual cost items such as legal and consultancy costs declined as compared with 2007.

4.7 Other income

in k €	2008	2007	Change
Onward charging ViroLogik GmbH	488	0	n/a
Other onward charging	28	10	180.0%
Sublease quattro research GmbH	23	16	43.8%
Sublease Kinaxo Biotechnologies GmbH	9	47	- 80.9%
Miscellaneous	65	40	62.5%
Other income	**613**	**113**	**442.5%**

The income generated via ViroLogik GmbH is attributable to the pro rata onward charging of external services. The other onward charging income is generated via the pro rata or complete passing on of expenses to diverse business partners.

Unneeded lab and office space has been sublet to quattro research GmbH and Kinaxo Biotechnologies GmbH, both companies having their registered offices in Planegg-Martinsried. While the contract with Kinaxo Biotechnologies GmbH was terminated as agreed with effect as of 31 March 2008, the space required by quattro research GmbH increased.

The rental term of the sublease contract with quattro research GmbH is determined by the duration of 4SC AG's primary lease agreement. This has been concluded initially 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 k €	2008	2007	Change
Depreciation of intangible assets	434	18	2,311.1%
Depreciation of fixed assets	340	350	- 2.9%
Depreciation	**774**	**368**	**110.3%**

Total depreciation underwent a significant increase from 368 k € in 2007 to 774 k € in 2008. Whereas the depreciation of fixed assets was more or less unchanged, the increase is attributable to the capitalisation of rights acquired from Nycomed and the corresponding scheduled depreciation thereof over the anticipated term.

Depreciation is shown in the income statement almost exclusively under "Research and development costs" and "Administrative costs".

4.9 Financial result

The financial result constitutes the result derived from the accounting of the stakes held in associated companies using the equity method.
Further explanation can be found under item “7.3. Investments accounted for using the equity method”.

in k €	2008	2007	Change
Share in result of quattro research GmbH	33	0	n/a
Share in result of QuoNova LLC.	0	- 51	- 100.0%
Result from associates accounted for using the equity method	**33**	**- 51**	**n/a**

The income reported under financial result comprises the following:

in k €	2008	2007	Change
Investment of liquid funds subject to interest	746	354	110.7%
Net income-affecting assessment of securities	193	56	244.6%
Income generated via effective interest method	65	109	- 40.4%
Income from exchange rate differences	28	0	n/a
Finance income	**1,032**	**519**	**98.8%**

The expenses reported under financial result comprise the following:

in k €	2008	2007	Change
Expenses from exchange rate differences	25	149	- 83.2%
Losses from the disposal of securities	54	80	- 32.5%
Expenses generated via the effective interest method	60	31	93.5%
Interest payments to former silent partners	35	35	0.0%
Financial expenses	**174**	**295**	**- 41.0%**

5. Income tax and deferred taxes

4SC AG has thus far not incurred expenses due to current income taxes. The company is still in an early phase of its corporate development and has operated at a net loss since it began its business activity. The company anticipates further net losses for the next few years in accordance with its business model, with profitability being a medium-term objective.

The income taxes recorded in the income statement are made up as follows:

in k €	2008	2007	Change
Current tax expenditure	0	0	n/a
Deferred tax expenditure	50	0	n/a
Total income taxes	**50**	**0**	**n/a**

The determination of the effective tax rate for the purpose of calculating deferred taxes 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%. To calculate deferred taxes, an effective tax rate of 15.83% was applied for corporate tax (including the solidarity surcharge), and a rate of 10.5% was applied for trade tax. As was the case for the previous year, the total tax rate as of 1 January 2009 is therefore 26.33%.

Deferred tax asset and liability items up to 31 December 2008 and up to 31 December 2007 are shown as follows:

in k €	2008	2007	Change
Deferred tax assets			
Investments accounted for using the equity method	0	29	- 100.0%
Accounts receivable from associated companies	0	7	- 100.0%
Total deferred tax assets	**0**	**36**	**- 100.0%**
Deferred tax liabilities			
Financial assets	1	5	- 80.0%
Cash and cash equivalents	40	7	471.4%
Financial liabilities	0	16	- 100.0%
Other liabilities	9	8	12.5%
Total deferred tax liabilities	**50**	**36**	**38.9%**
Deferred tax expenditure	**50**	**0**	**n/a**

During the reporting year, there are no deferred tax assets. The deferred tax liabilities for both current financial assets, as well as for cash and cash equivalents, result from the market valuation according to IFRS. In the case of the other liabilities, they are the result of specific differences in benchmark criteria for deferred liabilities according to IFRS and the Commercial Code (HGB) / tax laws.

As was the case for the previous year, deferred taxes claims on losses carried forward have not been recognised during the 2008 year, since the company has a history of losses, and given that deferred taxes claims from unused tax losses can only be offset against taxable income, requiring at least substantial indications that in future sufficient taxable profits will be generated against which the unused tax losses can be used (IAS 12.34).

The value of 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 k €	2008	2007
Taxable losses carried forward	59,341	47,425
Effective tax rate	26.33%	26.33%
Value of taxable losses carried forward	**15,624**	**12,487**

This calculation is based on the assumption that the tax rates applicable after 01 January 2009 will still be valid in the future upon achieving the value of the taxable losses carried forward, and that the 4SC AG's losses carried forward will still be able to be credited.

In general, losses may be carried forward without limitations and in order to offset future profits, although some restrictions apply with regard to the use of losses carried forward in relation to sections 8 paragraph 4 and 8c of the Act on Corporation Taxes (KStG).
Over the last years, 4SC AG has experienced various changes in shareholding structures, capital increases and an influx of additional shareholders, while a significant amount of working capital has been acquired at the same time. Because of the legal uncertainty which currently prevails, which has arisen in connection with the interpretation to be attributed to the constituent elements in this context, and the attitude adopted by the competent revenue authorities, 4SC AG considers it a possibility that the current losses carried forward will, in future, no longer be available for the purpose of offsetting against profits. 4SC AG will, however continue to petition for the admissibility of its losses carried forward.
A positive development occurred during the 2008 financial year in connection with the non-recognition of taxable losses carried forward. As reported in the annual report for the year ended 31 December 2007, the losses brought forward up to 31 December 2004 amounting to 28,052 k € with respect to corporation tax and amounting to 27,694 k € in connection with the trading loss were initially disallowed by the responsible tax office with the tax assessment as of 31 December 2005. Pro rata losses brought forward were also disallowed for the financial year 2005. 4SC AG lodged an appeal against the tax assessments. On 27 May 2008 the amended assessments for the financial year 2005 were issued by the tax office. The restrictions exercised against deductions for losses in the case of corporate and trade taxes were comprehensively revoked and the corresponding subsequent assessment for the year 2006 was adjusted accordingly in terms of the carried forward amounts. Also with regard to the tax declarations made for the 2007 financial year, the tax office followed the view of the company and comprehensively carried forward corporate tax losses carried forward in the full amount of 47,695 k € and trade tax losses carried forward to the amount of 47,187 k €.

The reconciliation between the product from the balance sheet period results and the applicable tax rate for the 4SC AG is made up as follows:

in k €	**2008**	**2007**
Result before tax	- 11,804	- 8,130
Expected profit tax yield at a tax rate of 26.33% (2007: 35.98%)	3,108	2,925
Profit tax yield accounted for in the income statement (+)/expenses (–)	- 50	0
Difference to be declared	**3,158**	**2,925**
minus tax effects to deferred tax assets and losses carried forward for which in the current period no deferred taxes were recorded	3,133	3,009
Non-deductible expenses	86	17
Other differences	- 61	- 101
Total reconciliations	**3,158**	**2,925**
Difference post reconciliation	**0**	**0**

6. Earnings per share

The undiluted earnings per share is calculated in accordance with IAS 33.9 et seq. 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 an annual result amounting to - 11,854 k € (prior year: - 8,130 k €) and a number of shares of 23,435,585 for the reporting year (prior year: 14,225,376).
As the options issued are not dilutive 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 €	2008	2007
Earnings per share (undiluted and diluted)	**- 0.51**	**- 0.57**

The company's annual general meetings on 1 March 2001, 28 July 2004, 28 June 2006, 29 June 2007 and on 5 July 2008 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, participation rights and/or warrants, the undiluted earnings per share could potentially be diluted in future. Details about the conditional capital can be found under items "7.12 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 k €	Useful life up to – years	Status on 2008-01-01	Additions 2008	Retirements 2008	Status on 2008-12-31	Status on 02008-01-01	Additions 2008	Retirements 2008	Status on 2008-12-31	Status on 2008-12-31	Status on 2007-12-31
		Acquisition costs				Depreciation				Book values	
Intangible assets											
Software and patents	2 - 20	546	14,177	77	14,646	467	434	77	824	13,822	79
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**2,332**	**14,177**	**77**	**16,432**	**467**	**434**	**77**	**824**	**15,608**	**1,865**

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

in k €	Useful life up to – years	Status on 2007-01-01	Additions 2007	Retirements 2007	Status on 2007-12-31	Status on 02007-01-01	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**

With the exception of the goodwill recorded on the balance sheet, there were no intangible assets with useful lives of assumed unlimited duration. There were no self-created intangible assets.
Additions during the reporting year primarily concern the acquisition of comprehensive rights over eight oncology projects from Nycomed, for 14 million €. The useful life of these patents is between 16 and 20 years.
Amortisation of intangible assets is largely shown on the income statement under "Research and development costs" and "Administrative costs".

in k €	2008	2007	Change
Distribution costs	2	0	n/a
Research and development costs	417	16	2,506.3%
Administrative costs	15	2	650.0%
Depreciation of intangible assets	**434**	**18**	**2,311.1%**

Goodwill

in k €	2008-12-31	2007-12-31	Change
Goodwill	**1,786**	**1,786**	**0.0%**

The goodwill results from the merger of 4SC GmbH into 4SC AG in the year 2000. At the time, a fair value in the amount of 3,572 k € was determined. This goodwill was amortised until financial year 2004 in accordance with IAS 22.44. Since the 2005 financial year, the provisions found in IFRS 3 und IAS 36 are applicable. In accordance therewith, pursuant to IFRS 3.55 and IAS 36.88 et seq, goodwill is not amortised, but rather subject to an impairment test for goodwill, at least once annually.

Because of the abandonment of the practise of scheduled amortisation the period result since financial year 2005 has improved by 357 k € per annum – before taking contingent amortisation due to impairment testing into account.

The impairment test conducted at the end of the reporting year did not indicate a need for adjustment of the 31 December 2008 value. For the impairment test, the value in use of the project 4SC-101 for the indicators rheumatoid arthritis and Crohn's disease 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 13% (prior year: 14%) and determines at which interest rate future cash flows will be discounted. The probability of a market entry, assumed to be 16% (prior year: 16%), depends on the development phase that the project is in. The maximum anticipated sales are based on an estimate by 4SC AG, and depend primarily on expected market shares, future patent numbers and anticipated revenue per patient figures. The expected cash flows have been calculated for the period up to 2034, on the basis of correspondingly lengthy patent terms in addition to taking a commercialisation phase following the expiration of patent protection into account.

The sensitivity analysis carried out revealed that a relative increase or decrease in the parameters of 10% each would change the value of the project in terms of its indicators as follows:

in k €	Rheumatoid arthritis		Crohn's disease	
	Decrease in parameters	Increase in parameters	Decrease in parameters	Increase in parameters
Discount rate	- 14.9%	17.7%	- 19.1%	22.9%
Maximum anticipated sales	- 11.4%	11.4%	- 15.1%	15.1%
Probability of market entry	- 10.6%	10.7%	- 12.2%	12.3%
Period for the expected cash flows	- 8.5%	9.2%	- 9.9%	10.3%

There would not be a need for value adjustments to 4SC AG's goodwill in any of the contingencies set out above.

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 (hardware) and installations in third-party real property.

in k €	Useful life up to – years	Status on 2008-01-01	Additions 2008	Retirements 2008	Status on 2008-12-31	Status on 2008-01-01	Additions 2008	Retirements 2008	Status on 2008-12-31	Status on 2008-12-31	Status on 2007-12-31
		Acquisition costs				Depreciation				Book values	
Fixed assets											
Office equipment	8-14	137	1	0	138	68	11	0	79	59	69
Laboratory equipment	3-14	2,397	459	64	2,792	2,144	126	64	2,206	586	253
Low-value assets	n/a	0	17	17	0	0	17	17	0	0	0
Collective item	5	0	80	0	80	0	16	0	16	64	0
Installation in third-party real property	3.5-14	946	87	0	1,033	404	73	0	477	556	542
Miscellaneous equipment	3-13	175	10	3	182	84	17	3	98	84	91
IT-equipment	3-13	1,503	162	308	1,357	1,386	80	307	1,159	198	117
Fixed assets		**5,158**	**816**	**392**	**5,582**	**4,086**	**340**	**391**	**4,035**	**1,547**	**1,072**

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

in k €	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**

Additions in the reporting period primarily concern investments in technical laboratory equipment worth 459 k € (prior year: 128 k €) such as an automatic patch-clamp system (139 k €), two HPLC systems (126 k €) and a mass spectrometer (52 k €). An additional 162 k € (prior year: 50 k €) was invested in IT hardware. These were investments in the replacement and expansion of the computer cluster (47 k €), in the expansion of the storage system and in several servers, as well as in replacement and expansion investments in workstation PCs, notebooks and printers. For installations in third-party real property, i.e. for renovations made to several laboratories and offices in rented premises, 87 k € (prior year: 0 k €) was invested.
Depreciation of fixed assets is primarily shown on the income statement under the "Research and development costs" and "Administrative costs".

in k €	2008	2007	Change
Cost of sales	1	0	n/a
Research and development costs	242	284	- 14.8%
Administrative costs	97	66	47.0%
Depreciation of fixed assets	**340**	**350**	**- 2.9%**

7.3 Investments accounted for using the equity method

As investments accounted for using the equity method shares held in QuoNova LLC. and quattro research GmbH are qualified.
In the reporting year, quattro research GmbH generated net sales of 844 k € (2007: 582 k €) and an annual result of 96 k € (2007: 28 k €). With a balance sheet total of 356 k € (31 December 2007: 229 k €), the equity capital amounts to 204 k € (31 December 2007: 108 k €) and liabilities amounting to 152 k € (31 December 2007: 121 k €).
After an interim profit, still to be offset, was posted for this investment in the previous balance sheets, which arose from the sale of a software package to quattro research GmbH in the 2004 financial year, it was possible to eliminate this during the course of the reporting year. Due to the positive results of quattro research GmbH, the carrying value of the shares held by 4SC AG will be accordingly increased, amounting to 33 k € as of the balance sheet date (31 December 2007: 0 k €).
QuoNova LLC. generated net sales of 0 k US-$ (2007: 0 k US-$) in the reporting year, and a period result of - 3,825 k US-$ (2007: - 4,089 k US-$). With a balance sheet total of 47 k US-$ (31 December 2007: 232 k US-$), the equity capital amounts to 6,654 k US-$ (31 December 2007: 2,874 k US-$) with liabilities amounting to 6,701 k US-$ (31 December 2007: 3,106 k US-$).
As the investment in QuoNova LLC had already been posted at the amount of 0 k US-$ as of 31 December 2007, the prorated loss was not recorded on the balance sheet for the reporting year. The remaining attributable losses of 500 k € (previous year 227 k €) will be carried forward into the next calendar year.

7.4 Other financial assets

This balance sheet item reflects financial instruments within the meaning of IAS 39 and fixed term deposits, with a maturity of more than one year, calculated from balance sheet date. In addition, since the reporting year, investment in Nexigen GmbH is accounted for under this item.

in k €	2008-12-31	2007-12-31	Change
Securities "available for sale" with a duration of more than one year	0	1,972	- 100.0%
Investment in Nexigen	154	0	n/a
Other financial assets	**154**	**1,972**	**- 92.2%**

The decline in securities of the category "available for sale" was the result of sales and transfer of financial assets to the short-term category. Shareholdings in Nexigen GmbH were originally entered into in May 2008. 4SC AG has a 3.7% stake in this company.

7.5 Accounts receivables from associated companies

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

in k €	Total receivables		thereof non-current		thereof current	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Accounts receivables from QuoNova LLC. from sale of exclusive global rights for QSB substances	0*	921	0*	582	0*	339
Accounts receivables from QuoNova LLC. from scientific services	0*	0	0	0	0*	0
Accounts receivables from quattro research GmbH	0	78	0	41	0	37
Accounts receivables from associated companies	**0**	**999**	**0**	**623**	**0**	**376**

* These items are subject to the influence of individual value adjustments.

The decrease in non-current and current accounts receivables from associated companies from 999 k € on 31 December 2007 to 0 k € by 31 December 2008 was due to three causes:

First, at the beginning of September 2008, quattro research GmbH settled all non-current and current accounts payable. Second, in 2008, a payment for the second instalment in the amount of 500 k US-$ was recorded, as agreed, from QuoNova LLC. Third, the management of 4SC AG decided, in light of the heightened insecurity of QuoNova LLC's liquidity situation, which resulted over the course of the business year, to submit any and all outstanding long-term and current accounts receivable at the end of the 3rd quarter 2008 against QuoNova LLC , resulting from the remaining purchase price payment for the QSB substances and from the cooperation agreement, to a value adjustment in the total amount of 700 k €.

7.6 Inventories

in k €	2008-12-31	2007-12-31	Change
Consumable materials	22	16	37.5%
Solvents	4	3	33.3%
Inventories	**26**	**19**	**36.8%**

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 731 k € (2007: 433 k €) 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 k €	2008-12-31	2007-12-31	Change
Domestic	580	131	342.7%
Third countries	0	0	0.0%
Trade accounts receivables	**580**	**131**	**342.7%**

On 31 December 2008, as on the balance sheet date of the previous year, there were no valuation allowances for trade accounts receivables in accordance with IAS 39.63 f.
Trade accounts receivables in excess of 580 k € result exclusively from the cooperation agreement with AiCuris GmbH & Co. KG. As per the balance sheet date, they were not yet due and were paid, in accordance with their contract terms, at the beginning of February 2009.

7.8 Other financial assets

This balance sheet item reflects financial instruments within the meaning 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 k €	2008-12-31	2007-12-31	Change
Financial instruments with a maturity of less than one year	500	1,886	- 73.5%
Fixed term deposits with a maturity of less than one year but more than three months	14,000	3,000	366.7%
Other financial assets	**14,500**	**4,886**	**196.8%**

7.9 Cash and cash equivalents

This balance sheet item comprises cash on hand and bank account credit balances. In addition, this item comprises financial instruments within the meaning of IAS 39 and fixed term deposits which serve the purpose of making it possible to meet short-term payment obligations. They have an original maturity of no longer than three months and are only subject to insignificant variations in value.

in k €	2008-12-31	2007-12-31	Change
Financial instruments with an original maturity of less than three months	4,886	3,009	62.4%
Fixed term deposits with an original maturity of less than three months	1,200	6,640	- 81.9%
Bank balances	1,260	685	83.9%
Cash	0	1	- 100.0%
Cash and cash equivalents	**7,346**	**10,335**	**- 28.9%**

7.10 Current tax assets

4SC AG receives interest from its fixed term deposits, money market funds and securities. Financial institutions are required to pay capital gains taxes on these interest payments and to retain the solidarity surcharge. Because the company achieved negative annual results for the 2008 and 2007 financial years, it has a tax refund claim with regard to the taxes it has paid.

in k €	2008-12-31	2007-12-31[1]	Change
Current tax assets	**254**	**74**	**243.2%**

1: In the previous year, this item was accounted for under “other assets”.

The rise in current tax assets results in this case from an increase in interest income.

7.11 Other assets

in k €	2008-12-31	2007-12-31[1]	Change
Tax refund claims	336	203	65.5%
Anticipated interest	269	89	202.2%
Rent security deposit IZB West	157	157	0.0%
Accrued items	136	117	16.2%
Prepaid expenses	32	20	60.0%
EU grants	24	24	0.0%
BMBF grants	0	86	- 100.0%
Miscellaneous	92	14	557.1%
Other assets	**1,046**	**710**	**47.3%**

1: The tax refund claim from income tax which was accounted for separately in the present report (see 7.10) was recorded under this item in the previous year.

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

in k €	Total receivables		Therof non-current		Therof current	
	2008	2007	2008	2007	2008	2007
Tax refund claims	336	203	0	0	336	203
Anticipated interest	269	89	0	0	269	89
Rent security deposit IZB West	157	157	157	157	0	0
Accrued items	136	117	0	0	136	117
Prepaid expenses	32	20	0	0	32	20
EU grants	24	24	0	0	24	24
BMBF grants	0	86	0	0	0	86
Miscellaneous	92	14	0	0	92	14
Other assets	**1,046**	**710**	**157**	**157**	**889**	**553**

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 136 k € (2007: 117 k €) primarily consists of pre-paid invoices for maintenance contracts, licenses, air travel and subscription for magazines and online research.

7.12 Equity

Share capital and shares

4SC AG share capital currently totals 28,502,739.00 €, consisting of 28,502,739 individual zero par common bearer shares (par value shares). Each share represents 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 ten global non-coupon certificates held in custody by Clearstream Banking AG, Frankfurt am Main, a central securities depository. The shareholder's right to issuance of individual certificates is excluded pursuant to section 6, paragraph 3 of the Articles of Association.
Changes in share capital during the reporting year were as follows, impacted by the 14 July 2008 capital increase.
At the start of the reporting year, company share capital totalled 19,001,826 €.
On 20 June 2008, 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 28,502,739 € by the issuance of up to 9,500,913 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 3.10 €, with the corresponding announcement being made on 14 July 2008. The increase in share capital was entered in the Commercial Register on 14 July 2008. The new shares are provided with an entitlement to a share in profits as of 1 January 2008. As a result, the share capital of 4SC AG increased by 9,500,913.00 € to 28,502,739.00 €.

Conditional capital

The company's annual general meetings on 1 March 2001, 28 July 2004, 28 June 2006, 29 June 2007 and on 5 June 2008 decided to increase the company's share capital conditionally as follows:

Conditional capital	Amount (k €)	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 members of the Management Board and company employees with a maturity of up to ten years (“ERSATZ-ESOP 2001”)
III	106	2004-07-28/ 2006-06-28	Exercise of “ESOP 2004” options held by company Management Board members and employees
IV	340	2006-06-28	Granting of options to members of the Management Board and company employees with a maturity of up to ten years (“ESOP 2006”)
V	4,000	2006-06-28	Granting of shares to owners and/or creditors of still to be issued convertible bonds and/or warrants
2008	3,500	2008-06-05	Granting of shares to owners and/or creditors of still to be issued convertible bonds and/or warrants, income debentures and /or participation rights (or a combination of these instruments)

Approved capital

At the 5 June 2008 annual general meeting, the Management Board was authorised to increase company share capital through one or more share offerings up until 4 June 2013, subject to Supervisory Board approval, up to a total of 9,500,913.00 €, in return for cash or non-cash consideration for a maximum of 9,500,913 new individual bearer shares (Approved Capital 2008/I). New shares issued are to be placed with banks and other firms per section 186, paragraph 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 1,900,182 new shares which can be offered against cash, to be priced not substantially lower than the market price of company shares already trading on the secondary market shortly before placement.

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 paragraph 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 capital increase on 14 July 2008, the approved capital raised on 5 June 2008 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 246 k € accrued in connection with the 14 July 2008 capital increase. In the previous year transaction costs of 378 k € accrued in connection with the 21 May 2007 capital increase and transaction costs of 210 k € accrued in connection with the capital increase of 7 September 2007. These costs were charged against the agio.

Reserves
The balance sheet item reserves is constituted by the following individual items:
The ESOP reserve amounting to of 755 k € (previous year: 583 k €) corresponds to the amount of the share options granted during the reporting year and the previous years to employees and the Management Board, which have been valued in accordance with the provisions contained in IFRS 2. The determination is explained under item "9. Stock option programme".
On 31 December 2008, the retained earnings of 67 k € remained unchanged in comparison to 31 December 2007.
The revaluation reserve totalling - 3 k € (previous year: - 20 k €) results from the valuation of financial instruments that are added to the category at fair value for the purpose of being made 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 derecognised.

Appropriation of results
The balance sheet loss of 40,265 k € (previous year: 28,411 k €) was carried forward to the new statement.

Information on capital management
Because the company generates 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 project 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 generate sales, in order to reach break-even and reduce the losses carried forward. As for capital as a whole, equity is managed inclusive losses carried forward. Due to the positive effect of the capital increases carried in the reporting year on the one hand, as well as the countercyclical negative annual results on the other hand, the share capital rose from 19,616 k € at the end of 2007, by 17,542 k €, to a total of 37,158 k €during the reporting year
No changes were made in the strategy or objectives with regard to capital management during the reporting year.

7.13 Trade accounts payable

in k €	2008-12-31	2007-12-31	Change
Domestic	1,073	438	145.0%
EU	271	14	1,835.7%
Third countries	26	28	- 7.1%
Trade accounts payable	**1,370**	**480**	**185.4%**

Corresponding to the progress made in the project pipeline the liabilities from trade accounts payable also increased significantly compared to the previous year. They primarily result from outsourced scientific services and patent services, but also from legal and consulting services invoiced at the end of the year, as well as from software licenses.

7.14 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 29 k € owed to quattro research GmbH is shown pursuant to annual invoicing (31 December 2007: 29 k €).
In the context of research and development cooperation with QuoNova LLC, 4SC AG avoids making significant advance outlays. Instead, outlays are only made when the corresponding payment entry has been accounted for in advance. At the end of December 2008, QuoNova LLC made payment for the services provided in January 2009 to the amount of 3 k €. This amount was accounted for under liabilities as down payments received and thus reported as accounts payable to associated companies.

7.15 Financial liabilities

In 2005, a 690 k € silent partner participation held by Technologie Beteiligungsfonds Bayern GmbH & Co. KG, Munich ("Technofonds Bayern") was converted into a long-term loan. This loan bears interest on a quarterly basis at the rate of 5.0%, and was due for repayment on 31 December 2008. On the same day, a zero-interest deferred loan in the amount of 230 k € was due, which resulted from the final compensation claim of the Technofonds Bayern. Because the Technofonds Bayern only deducted both the final compensation as well as the loan (with interest) from 4SC AG's account at the start of January 2009, this repayment obligation was still on the books as of 31 December 2008.

On the balance sheet date, 4SC AG owed Technofonds Bayern sales tax on the final compensation totalling 44 k € in addition to the loan and the final compensation. In addition to this, there is the amount of 10 k €, resulting from the interest on the loan for the 4th quarter 2008, including sales tax.
However, as 4SC AG pays the capital gains tax and the solidarity surcharge on the final compensation amounting to 72 k € directly to the tax office, this amount has been accounted for under "other liabilities". As of 31 December 2008, there was thus a financial liability in the amount of 902 k €.

7.16 Other liabilities

in k €	2008-12-31	2007-12-31	Change
Accruals	1,158	919	26.0%
Down payments received	203	1	20,200.0%
Liabilities in the context of social security	95	76	25.0%
Liabilities to the finance ministry	72	0	n/a
Miscellaneous	54	8	575.0%
Other liabilities	**1,582**	**1,004**	**57.6%**

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

in k €	Total liabilities		Thereof non-current		Thereof current	
	2008	2007	2008	2007	2008	2007
Accruals	1,158	919	59	53	1,099	866
Down payments received	203	1	0	0	203	1
Liabilities in the context of social security	95	76	0	0	95	76
Liabilities to the finance ministry	72	0	0	0	72	0
Miscellaneous	54	8	0	0	54	8
Other liabilities	**1,582**	**1,004**	**59**	**53**	**1,523**	**951**

Accruals thereof were as follows, as of the balance sheet date:

in k €	2008-12-31	2007-12-31	Change
Outstanding invoices	608	454	33.9%
Bonus to the Management Board	140	144	- 2.8%
Supervisory Board remuneration	139	90	54.4%
Personnel liabilities	106	78	35.9%
Financial statement and audit costs	68	67	1.5%
Renovation IZB West	59	53	11.3%
Professional association dues	21	20	5.0%
Miscellaneous	17	13	30.8%
Accruals	**1,158**	**919**	**26.0%**

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.

7.17 Other information about the financial instruments

Carrying values and present fair values according to valuation categories

in k €	Valuation category according to IAS 39	Valuation on 2008-12-31		Valuation on 2007-12-31	
		Carrying value	Fair Value	Carrying value	Fair Value
Trade accounts receivables	LaR	580	580	131	131
Accounts receivables from associated companies	LaR	0	0	999	999
Current tax assets	LaR	254	254	74	74
Other non-current assets	LaR	157	157	157	157
Other current assets	LaR	889	889	553	553
Financial assets at fair value through profit or loss					
held for trading	AFVPL / Tr.	4,885	4,885	3,009	3,009
initially designated as at fair value through profit or loss	AFVPL / Des.	0	0	400	400
Financial assets available for sale (investment in Nexigen)	AfS	154	154	0	0
Financial assets available for sale (securities)	AfS	400	400	3.459	3.459
Trade accounts payable	LaR	- 1,370	- 1,370	- 480	- 480
Accounts payable to associated companies	LaR	- 32	- 32	- 103	- 103
Financial liabilities	LaR	- 902	- 902	- 860	- 860
Other non-current liabilities	LaR	- 59	- 59	- 53	- 53
Other current liabilities	LaR	- 1,523	- 1,523	- 951	- 951
Total		**3,433**	**3,433**	**6,335**	**6,335**
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.	4,885	4,885	3,009	3,009
initially designated as at fair value through profit or loss	AFVPL / Des.	0	0	400	400
Financial investments held to maturity	Htm	0	0	0	0
Loans and receivables	LaR	- 2,006	- 2,006	- 533	- 533
Financial assets available for sale	AfS	554	554	3,459	3,459

Trade accounts receivable and other assets mainly 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. These are guarantee deposits (deposit) lodged with the landlord.
The original financial instruments are classified either as financial assets at fair value through profit or loss, or as financial assets available for sale depending on the individual case. Financial instruments that are shown on the balance sheet at fair value include securities that are assigned to the held for trading category and in the previous year also financial assets that – due to a joint portfolio management – are designated on initial recognition as financial assets at fair value. For financial instruments that are recorded on the balance sheet at fair value, profit and loss from the subsequent valuation is 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.
The investment in Nexigen GmbH involves securities which can be categorised as available-for-sale according to IAS 39. None of the prices are listed on an active market. As there are no indications of a change in value since the time of the purchase, one can assume that the fair value on the balance sheet date corresponds to the transaction price.
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. As the non-current liabilities are discounted, the carrying value and the fair value also correspond in this item as well.

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 k €		Subsequent valuation				
	Interest result	at Fair Value	Currency con-version	Valuation allow-ance	Disposed of	Net result 2008
Financial assets at fair value through profit or loss						
held for trading	69	187	28	0	- 28	256
categorised as affecting net income at fair value on first recognition	1	0	0	0	0	1
Financial investments held to maturity	0	0	0	0	0	0
Loans and receivables	- 29	0	- 6	- 700	0	- 735
Financial assets available for sale	72	0	0	0	- 20	52
Total	**113**	**187**	**22**	**- 700**	**- 48**	**- 426**

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

in k €		Subsequent valuation				
	Interest result	at Fair Value	Currency con-version	Valuation allow-ance	Disposed of	Net result 2007
Financial assets at fair value through profit or loss						
held for trading	119	36	0	0	- 59	96
categorised as affecting net income at fair value on first recognition	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**

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 in the reporting period 2008 from specific provisions for bad debts from associated companies 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 contradictory effects. On the one hand, interest income from the application of the effective interest method for non-current receivables from associated companies, amounting to 65 k € (2007: 109 k €) was booked, while expenses tied to the application of the effective interest method for non-current loans amounting to 60 k € (2007: 31 k €) and the interest payments to former silent partners amounting to 35 k € (2007: 35 k €) were recorded. The currency losses in this category mainly result from the exchange losses of the British pound in the period between when the individual invoices were booked and the receivables were settled.

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 2008, losses totalling 1 k € (2007: 20 k €) were recorded for this item. In addition, financial assets of this category were booked out, which means that a loss of 18 k € was transferred to the income statement (2007: 0 k €).

Risks from financial instruments

4SC AG has liquid reserves at its disposal, which, for as long as they are not to be used in the fore-seeable future, are invested in order to generate better interest returns. The funds are overwhelmingly tied up in fixed deposits, money market funds and bonds. In doing so, investment products are scrutinised with regard to their high credit ratings and are managed conservatively. 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.

The interest risk for 4SC AG results from the variable interest-bearing securities. However, its share on the balance sheet date measured only 22.4% 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. This subjects 4SC AG to the risk of potential exchange rate fluctuation relative to the euro during the period between invoicing and due date.

The amount owed by QuoNova LLC., which amounted to 1,000 k US-$, was written down in full, so that as of 31 December 2008 no foreign currency receivables are posted (previous year: receivables amounting to 1,500 k US-$)

4SC AG does not hedge, but attempts instead to pay its own liabilities in foreign currencies as well, in order to keep the risk of currency fluctuations low. For this reason the inventory of the US-$ account could also be reduced in the course of 2008, and amounted only to 1 k € on the balance sheet date. The only foreign currency debts which existed as of 31 December 2008 were the equivalent of 15 k € in US-$, and the equivalent of 21 k € in British pounds (GBP). Owing to the small amount of assets and debts in foreign currencies, 10% gains or falls in the euro versus the US-Dollar would only have changed the result for 4SC AG by 1 k €, and 10% gains or falls in the Euro versus the British pound would only have change the result by 2 k €. If euro and foreign currency exchange rates had remained constant in comparison with the rate on 31 December 2007, the 4SC AG result would have fallen by 4 k € (previous year: improved by 149 k €).

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 receivables on its books, all or some of which may be settled with a delay or may not be settled 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.

The existing long and short-term receivables from QuoNova LLC were subjected to a full valuation adjustment of 700 k € in the reporting period due to the uncertainty regarding the company's liquidity. Thus, on the balance sheet date, 4SC AG had no overdue receivables.

7.18 Other financial obligations

Other financial obligations for the years subsequent to the balance sheet date include facilities and office space leased by 4SC AG. This lease contract was renewed in 2007 and runs out on 31 December 2011. 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 do not exist. The release contract contains terms for price adjustment: rent per month for office and laboratory space including common and functional space remains unchanged until the end of 2009, subsequently increasing by 0.75 €/ m^2 per year.

In the reporting year a lease contract running until the end of 2013 was concluded for the Überlingen-Bonndorf site leased from January 2009, resulting in rent amounting to 22 k € per year. No terms for price adjustment or purchase options exist. If the lease contract is not terminated six months before it expires, it is renewed for a further five years.

Further financial obligations mainly result from services agreements.
Future payments due pursuant to these agreements break down as follows:

in k €	
2009	1,760
2010	1,142
2011	961
2012	22
As from 2013	22
Total	**3,907**

Expenses reportable on the income statement in connection with the lease agreement totalled 681 k € for the reporting year (2007: 697 k €). This decline resulted mainly from reduced rental fees in the second quarter of 2007.

8. Notes to the cash flow statement

The changes in cash and cash equivalents is represented in the following table:

in k €	2008-12-31	2007-12-31	Change
Cash flow from operating activities	- 9,385	- 6,634	41.5%
Cash flow from investing activities	- 22,811	- 5,128	344.8%
Cash flow from financing activities	29,207	19,575	49.2%
Net change in cash and cash equivalents	**- 2,989**	**7,813**	**n/a**
+ Cash and cash equivalents at the beginning of the period	10,335	2,522	309.8%
= Cash and cash equivalents at the end of the period	**7,346**	**10,335**	**- 28.9%**

In addition to cash and cash equivalents, 4SC AG has liquid funds that are predominantly invested for better return in fixed deposits, money market funds and variable interest-bearing securities. The reconciliation between the cash flow statement and the total cash balance is shown in the following table:

in k €	2008-12-31	2007-12-31	Change
Cash and cash equivalents at the end of the period	7,346	10,335	- 28.9%
Non-current financial assets (securities)	0	1,972	- 100.0%
Other financial assets	14,500	4,886	196.8%
Cash balance	**21,846**	**17,193**	**27.1%**

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 2008-01-01	Forfeited 2008	Exercised 2008	Outstanding 2008-12-31	Exercisable 2008-12-31	Max. number of subscibeable shares 2008-12-31	Present value	Cum. personnel costs[2]	Personnel costs 2008
Unit			**€**		**k**	**k**	**k**	**k**	**k**	**k**	**k**	**€**	**€**	**€**
ESOP 2001	2001/1	01-03-31	9.60	2:1	74	17	17	0	0	0	0	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	17	0	0	17	17	9	n/a	0	0
ESOP 2001	2003	03-09-30	5.08	2:1	318	61	0	0	61	56	31	0.74	52	2
ESOP 2004	2004	04-09-30	4.24	2:1	122	91	8	0	83	51	41	0.72	63	5
ESOP 2004	2005	05-09-30	4.24	2:1	93	87	9	0	78	31	39	0.71	54	11
ESOP 2004	2006/1	06-05-30	4.53	2:1	26	26	0	0	26	0	13	0.74	19	5
ESOP 2006	2006/2	06-08-25	3.80	1:1	296	286	24	0	262	123	261	1.71	434	124
ERSATZ-ESOP 2001	2006/3	06-08-25	3.80	1:1	166	166	47	0	119	93	119	1.54	183	13
ESOP 2006	2007	07-11-26	3.65	1:1	9	9	0	0	9	0	9	1.49	13	5
ESOP 2006	2008	08-08-22	3.45	1:1	43	0	0	0	43	0	43	1.50	54	7
Total					**1,377**	**760**	**105**	**0**	**698**	**371**	**565**		**872**	**172**

1: For the tranches affected by the capital reduction in December 2004, the subscription ratio 2:1
2: The cumulative personnel costs are calculated through the end of the vesting period

On 22 August 2008, 4SC AG issued a tranche of 43,070 options from its"ESOP 2006". Besides options for employees who have joined the company since the last issue or who are entitled to a larger number, 36,220 options were issued to Management Board member Dr. Bernd Hentsch.

All option tranches issued are exercisable only in return for shares. Approved capital provisions I through IV were adopted to fulfil 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 of 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 the '2007' and"2008" tranche of options may be exercised a minimum of 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 5.96 years. The exercising prices of option tranches range from 3.45 € to 12.00 €.

An overview of weighted average exercise prices is given below:

Exercising prices (weighted; €)	2008	2007
Outstanding options as of 2008-01-01	4.19	4.21
New issued options in the reporting year	3.45	3.65
Forfeited options in the reporting year	4.55	4.84
Outstanding options as of 2008-12-31	4.10	4.19
Exercisable options as of 2008-12-31	4.25	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" for valuing options. The following assumed parameters were applied to new options issued during the reporting year and in the previous year:

Tranche	Expected term	Market value (€)	Volatility	Risk-free interest rate
2008	3.75 years	3.50	51.07%	3.97%
2007	3.75 years	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.
As 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 determined for these tranches.

10. Management Board and Supervisory Board remuneration

Management Board

Total management remuneration for the reporting year came to 843 k € (2007: 893 k €). Of this total amount 19 k € (2007: 19 k €) represents contributions to specific pension plans according to IAS 19.7. Prorated personnel costs attributable to options included in overall remuneration totalled 41 k € for the reporting year (2007: 194 k €). However, these have no cash effect.

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

in k €	Fixed		Variable		Personnel expenses from options		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Dr Ulrich Dauer	166	151	43	41	18	26	227	218
Dr Daniel Vitt	156	141	43	41	18	26	217	208
Dr Bernd Hentsch	79	0	37	0	6	0	122	0
Dr Gerhard Keilhauer	79	136	18	31	- 65[1]	54	32	221
Dipl.-Kfm. Enno Spillner	147	127	34	31	64	88	245	246
Management Board remuneration	**627**	**555**	**175**	**144**	**41**	**194**	**843**	**893**

1: As the options of Dr Gerhard Keilhauer have become invalid due to him leaving the company, the assumptions regarding the number of exercisable options according to IFRS 2.20 had to be corrected. For this reason, negative personal expenses from share options were incurred in his case.

The share ownership of the Management Board members was composed as follows on the balance sheet date:

Shares quantity	Shares 2008-01-01	Addition	Sales	Sales 2008-12-31
Dr Ulrich Dauer	410,639	0	0	410,639
Dr Daniel Vitt	396,803	0	0	396,803
Dr Bernd Hentsch	0	0	0	0
Dr Gerhard Keilhauer[1]	13,537	0	0	13,537
Dipl.-Kfm. Enno Spillner	9,600	60,400	0	70,000
Share property	**830,579**	**60,400**	**0**	**890,979**

1: Share portfolio according to the last official announcement; the Management Board retired as of the end of June 2008

Options quantity	Options 2008-01-01	Additions	Forfeitures	Exercised	Options 2008-12-31	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 Bernd Hentsch	0	36,220	0	0	36,220	36,220
Dr Gerhard Keilhauer[1]	71,500	0	71,500	0	0	0
Dipl.-Kfm. Enno Spillner	138,000	0	0	0	138,000	124,800
Options property	**290,700**	**36,220**	**71,500**	**0**	**255,420**	**232,620**

1: Share portfolio according to the last official announcement; the Management Board retired as of the end of June 2008

The 36,220 share options issued to Dr Bernd Hentsch in the financial year had a market value of 55 k € when they were granted.

With the exception of fixed remuneration, of which a percentage is paid out at the end of each month, there are no current benefits owed to Management.

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

Dr Ulrich Dauer
- Member of the Board of Directors for QuoNova LLC., Melbourne, Florida, USA (since March 2007, resigned mandate on 2 February 2009)

Dr Daniel Vitt
- Advisory Board member for quattro research GmbH, Planegg-Martinsried (since January 2004)
- Deputy Chairman of the Supervisory Board of Weltoffen-Germering Weltladen eG (since June 2008)
- Chairman of the Advisory Board of Nexigen GmbH, Bonn (since July 2008)

Dipl.-Kfm. Enno Spillner
- Vice Chairman of the Supervisory Board of Concentro Management AG (formerly Fairvest AG), Nuremberg (since May 2002)

Dr Bernd Hentsch did not hold any functions in other external Management/Supervisory Boards as of the balance sheet date.

Supervisory Board

Total supervisory board remuneration for the reporting year came to 139 k € (2007: 90 k €). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

in k €	Profession	Remuneration	
		2008	2007
Dr Jörg Neermann (Chairman)	Investment Manager/Partner	35	20
Dr Robert O'Connell (Vice-Chairman until 2008-06-05)	Consultant	12	20
Günter Frankenne (Vice-Chairman since 2008-06-05)	Managing proprietor/Consultant	23	10
Helmut Jeggle (since 2008-06-05)	Head of Business Planning & Analyzing	13	0
Dr Brian Morgan (until 2008-06-05)	Consultant	7	18
Dr Thomas Strüngmann (since 2008-06-05)	Chief Executive Officer (CEO)	7	0
Dr Manfred Rüdiger	Managing Director	21	15
Dr Clemens Doppler	Partner / Managing Director	21	0[1]
Supervisory Board remuneration		**139**	**90**

1: Supervisory Board member Dr Clemens Doppler has waived remuneration of 15 k € accruing to him for the financial year 2007.

The share ownership of the members of the Supervisory Board on 31 December 2008 and 31 December 2007 is composed as follows:

Shares quantity	Shares 2008-01-01	Addition	Sales	Shares 2008-12-31
Dr Jörg Neermann	77,000	20,500	0	97,500
Dr Robert O'Connell[1]	10,000	0	0	10,000
Dr Manfred Rüdiger	5,000	10,000	0	15,000
Dr Clemens Doppler	0	7,500	0	7,500
Share property	**92,000**	**38,000**	**0**	**130,000**

1: According to last official report, resigned mandate on 5 June 2008

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

Dr Jörg Neermann:
- Affimed AG, Heidelberg, member of the Supervisory Board
- Vivendy Therapeutics Ltd., Basel, member of the Management Board
- KeyNeurotek Pharmaceuticals AG, Magdeburg, Vice Chairman of the Supervisory Board
- Kaneas Capital GmbH i.L., Munich, liquidator
- NextGen Science Ltd., Cambridgeshire, GB, Non-Executive Board Member (resigned mandate on 29 January 2009)

Günter Frankenne:
- Concentro Management AG, Nuremberg, Chairman of Supervisory Board
- KeyNeurotek Pharmaceuticals AG, Magdeburg, Chairman of Supervisory Board
- November AG, Munich, Chairman of Supervisory Board
- Verbena AG, Berg in Neumarkt, Member of the Supervisory Board
- Epigenomics AG, Berlin, Member of the Supervisory Board
- ViroLogik GmbH, Erlangen, Chairman of the Advisory Board
- iMTM GmbH, Magdeburg, Deputy Chairman of the Advisory Board
- Curadis GmbH, Erlangen, Member of the Advisory Board

Dr Clemens Doppler:
- Accovion GmbH, Eschborn, Member of the Advisory Board
- Merlion Pharmaceuticals Inc., Singapore, Member of the Supervisory Board
- Nanogate AG, Quierschied-Göttelborn, Member of the Supervisory Board
- Sensovation AG, Stockach, Deputy Chairman of the Supervisory Board
- Vasopharm GmbH, Würzburg, Member of the Advisory Board

Dr Thomas Strüngmann
- Südwestbank AG, Stuttgart, Member of the Supervisory Board
- Wacker Chemie AG, Munich, Member of the Supervisory Board
- MediGene AG, Planegg-Martinsried, Member of the Supervisory Board (resigned mandate on 1 January 2009)

Helmut Jeggle

- Ganymed Pharmaceuticals AG, Mainz, Member of the Supervisory Board
- BionTech AG, Mainz, Chairman of the Supervisory Board
- Sidroga AG, Zoffingen/Switzerland, President of the Management Board

Dr Manfred Rüdiger did not hold any functions in other external Management/Supervisory Boards as of the balance sheet date.

11. Related party disclosure

4SC AG transacted the following business with related parties in the period 1 January 2008 to 31 December 2008:

quattro research GmbH, Planegg-Martinsried

4SC AG maintains legal relations with quattro research GmbH, in which it has held a 48.8% stake of the share capital since its founding at the beginning of 2004. In particular, a software service contract exists between the companies, on the basis of which quattro research GmbH renders services for improvement, further development, user support, further training and database maintenance with respect to software created by 4SC AG for supporting research activities. For the period January to December 2008 this contract had a net volume of 277 k € (2007: 277 k €). In addition, 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 2008, 4SC AG accrued net costs of 21 k € (2007: 21 k €) as a result of this contract. A further 19 k € (2007: 5 k €) 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 29 k € (31 December 2007: 29 k €). Commensurate with an amortisation schedule agreed to in connection with the sales contract of 07 January 2004 regarding the sale and transfer of software rights, quattro research GmbH pays annual instalments of the sales price. In 2008 4SC AG posted cash receipts of 81 k € (2007: 60 k €). That amount includes interest payments of 3 k € (2007: 6 k €). On the basis of these coming payments, received ahead of schedule in the reporting year and the preceding years, the last instalment was able to be repaid on 1 September 2008 through payments received by 4SG AG. Therefore, as of 31 December 2008 no receivables from quattro research GmbH existed as a result of this contract (31 December 2007: 78 k €).
In addition, a sublease, including office equipment, telephone and internet connection, exists between 4SC AG as the main tenant and quattro research GmbH as the subtenant, at the offices of 4SC AG. The rent payable by quattro research GmbH is based on the terms of the main tenancy agreement of 4SC AG. In the reporting year, income from subleasing amounting to 23 k € was received. The increase compared to the previous year's figure (2007: 16 k €) is due to an expansion of the rented space during the fiscal year. As of the balance sheet date, 4SC AG owed quattro research GmbH less than 1 k € (31 December 2007: 0 k €) for the utilities statement.

QuoNova LLC., Melbourne, Florida, USA

4SC AG also maintains legal relations with QuoNova LLC, which was founded at the end of 2006, together with XLTechGroup, Melbourne, Florida, USA, of which 4SC AG owns a 10% stake. On 28 December 2006, 4SC AG sold its worldwide exclusive rights for its QSB substances to QuoNova LLC. 4SC AG received the first two instalments in 2007 and 2008 from the sale proceeds of 2 million US-$ in accordance with the agreement.
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 2008 received FTE payments of 523 k € (2007: 1,238 k €).

However, due to the increased uncertainty regarding the liquidity of QuoNova LLC., there is no guarantee that the outstanding debts will ever be settled. For this reason, the management of 4SC AG decided to write down the still outstanding debts from both the sale price for the worldwide exclusive rights to the QSB substances and the cooperation totalling 700 k € in full. Additionally, since then, 4SC AG has only been rendering services for the cooperation partner against corresponding advance payment. At the end of December 2008, QuoNova LLC. effected payments for January 2009 amounting to 3 k €. This amount is shown as debt to associated companies in these financial statements. As of 31 December 2007, receivables from QuoNova LLC. from the sale proceeds amounted to 921 k €. At the same time, debts from the cooperation amounting to 74 k € existed with respect to QuoNova LLC.

Conrad Hinrich Donner Bank, Hamburg, (CHD)

On 23 June 2008 4SC AG concluded a contract with Conrad Hinrich Donner Bank (CHD) for the realisation of capital increases for 4SC AG in June/July 2008. 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 118 k € (from the share capital increases of May and September 2007: 325 k €), which diminish equity as transaction costs.

Simultaneously, as part of the 2008 capital increases, 4SC AG was able to recharge CHD with accrued expenses totalling 3 k € (2007: 9 k €). As of the balance sheet date, this receivable of 3 k € gross (31 December 2007: 11 k €) was still outstanding.

On the basis of the December 2005 contract, CHD has also assumed the function of payment and deposit facility for 4SC AG, for which an annual expense of 3 k € will accrue.

In addition, CHD has advised 4SC AG since October 2008 in connection with optimising relations with private and institutional investors. In the reporting year 4SC AG accrued expenses of 6 k € (2007: 0 k €); as of December 2008, no debts existed herefrom.

Santo Holding (Deutschland) GmbH, Pöcking

At the same time as 4SC AG acquired the stake of just under 4% in Nexigen GmbH, Bonn, in spring 2008, Santo Holding (Deutschland) GmbH also obtained a shareholding in Nexigen GmbH as a main investor during this financing round.

Miscellaneous related party disclosure

On 27 June 2008, an academic consultancy agreement was concluded with Morgan Consulting, Dr Brian Morgan. The agreement begins on 1 July 2008, and will run until 31 December 2009, with a monthly volume of 1 k €. At the end of the ordinary general meeting on 5 June 2008, Dr Brian Morgan retired from the Supervisory Board. As of the balance sheet date no debts existed from this contract.

On 27 June 2008, an academic consultancy agreement was also concluded with Catalyst Consulting, Dr Robert B. O'Connell. The agreement begins on 1 July 2008, and will run until 30 December 2010, with a monthly volume of 2 k €. At the end of the ordinary general meeting on 5 June 2008, Dr Robert B. O'Connell stepped down as Vice Chairman of the Supervisory Board. As of the balance sheet date no debts existed from this contract.

12. Corporate Governance

On 13 March 2008 and on 17 February 2009, 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" issued by the Federal Ministry of Justice. The compliance declarations were made permanently available to shareholders on the same day on the website www.4SC.com.

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

The annual general meeting held on 5 June 2008 resolved to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft (since 1 October 2008 KPMG AG Wirtschaftsprüfungsgesellschaft), Ganghoferstraße 29, 80339 Munich, as auditor for the financial year 2008.

in k €	2008	2007
Audit of financial statements	66	66
Other verification and valuation services	46	64
Other services	1	0
Auditor's fee	**113**	**130**

Other verification and valuation services, which created 9 k € in expenses during the reporting year, involved two analytical reviews, as well as a review performed for quarterly reporting (2007: 9 t e). The issue of the comfort letter in the context of the capital increase of 14 July 2008 generated another 20 k € in expenses (previous year: 55 k €). These expenses will be balanced as transaction costs subtracted from shareholder's equity.
For the inspection of the system implementation, i.e. the conversion of the ERP system from Navision Financials 2.60 to Microsoft Dynamics NAV 5.0, a sum of 10 k € was charged (2007: 0 k €).
Costs of 7 k € were accrued for the means test in connection with the project"Antimal" funded by the European Commission and the preparation of the corresponding"audit certificates" (2007: 0 €). As the costs can be passed on to the European Union in full according to the funding terms, the expense is equivalent to the income. These are offset against the research and development costs for the relevant periods according to IFRS; specific explanations are provided in the Notes.
Other services rendered by KPMG AG Wirtschaftsprüfungsgesellschaft in the reporting year were the execution of a client seminar in which 4SC AG participated. The costs for this came to less than 1 k € (2007: 0 €).

14. Events after the end of the financial year

On 4 March 2009 4SC AG announced that it had started a further clinical phase IIa trial with the drug candidate 4SC-101. The aim of the trial is to prove the efficacy of the drug for treating patients suffering from Crohn's disease. 4SC AG was granted the necessary official approval of the Federal Institute for Pharmaceuticals and Medical Products (BfArM) and the positive ethics approval of the State Chamber of Physicians of Baden-Württemberg. Thus, this clinical study is currently open for patient recruitment. The results of the trial are expected by the end of 2009.
There were no other events occurring after the end of the financial year which had a significant impact on the 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, 2008. 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 the section 7.3.4 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, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(renamed 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, 9 March 2009

Dr Ulrich Dauer, CEO	Dr Bernd Hentsch, CDO	Dipl.-Kfm. Enno Spillner, CFO	Dr Daniel Vitt, CSO

OTHER INFORMATION

4SC AG attaches great importance to timely, comprehensive and reliable communication with all investors, the press and the general public.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board advises and monitors the Management Board

The Supervisory Board of 4SC AG comprises Chairman Dr Jörg Neermann, Deputy Chairman Günter Frankenne (economist) and the members Dr Clemens Doppler, Helmut Jeggle (MBA), Dr Manfred Rüdiger, and Dr Thomas Strüngmann. The Supervisory Board has performed its task of advising the Management Board, and monitoring its managerial activities in accordance with legal requirements and the Articles of Association. In terms of management, the financial year 2008 was dominated by various scientific, strategic, structural and financial decisions which were discussed and coordinated in detail with the Supervisory Board. The issues the Supervisory Board devoted particular attention to during the past financial year include:

- Further development of the existing project pipeline and organising development strategies
- The acquisition of the oncology projects of Nycomed
- Securing funding in particular with regard to the acquisition of the Nycomed projects and the advancement of the project pipeline as a whole
- Investment in Nexigen, including the exclusive right to take over the company
- Possible licensing agreement for individual development projects
- The future of collaboration with QuoNova
- New election of the Supervisory Board members
- Appointment of a new Chief Development Officer
- Appointment of auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft (renamed KPMG AG Wirtschaftsprüfungsgesellschaft since 1 October 2008)

The Management Board kept the Supervisory Board comprehensively informed in a timely manner and on an ongoing basis regarding significant changes. Short term decisions were discussed via teleconference or during individual telephone conversations 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 subsequently reviewed. Where necessary, legal transactions requiring approval were submitted to the Supervisory Board as part of the Supervisory Board meetings. The Supervisory Board reviewed management performance at every meeting on the basis of reporting by the Management Board, discussing strategic business opportunities and specific topics with Management Board members. There was no reason 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 anyway by the Supervisory Board as a whole.

Four physical meetings and two teleconferences were held in financial year 2008. The entire Management Board attended most meetings. There were no conflicts of interest in the Supervisory Board.

Issues dealt with and discussed in depth at every physical meeting included the progress and further development of the project pipeline, collaborative business, finances and administration, strategic options, the risk situation and staffing concerns. Moreover, both the Audit Committee and the Business Development Committee held teleconferences.

Additional resolutions were passed by circulation outside the meetings.

Dr Jörg Neermann,
Chairman of the
Supervisory Board

Details of individual meetings and resolutions adopted:

30 January 2008 (teleconference of the Audit Committee):
During this teleconference, the members of the Audit Committee discussed with the auditor KPMG and Enno Spillner, representing the Management Board of 4SC AG, the procedure, scheduling and key topics for the main audit of the 2007 annual financial statements, as well as the results of the preparation of the annual financial statements.

22 February 2008 (teleconference of the Audit Committee):
During this teleconference, the management, represented by Enno Spillner, and the auditor KPMG gave the members of the Audit Committee an update on the status of the audit of the annual financial statements. In addition, discussion centred on the audit focuses and as yet unresolved topics and topics still under discussion, as well as the further schedule. In the absence of Enno Spillner, the auditor consulted the Audit Committee concerning management.

13 March 2008 (physical meeting):
The annual financial statements were adopted and approved for release following detailed discussion with the auditor at the financial statement meeting on 13 March 2008. In addition, the Risk and Chance Report, the Report of the Supervisory Board, the Corporate Governance Report and Declaration of Conformity for financial year 2007 were adopted. The Supervisory Board also discussed the progress of the individual projects, in particular the lead compound 4SC-101 with the focus on development options and ongoing negotiations with potential licensing partners. The meeting ended with a presentation of the plans to invest in Nexigen GmbH, as well as the option of 4SC AG taking over the oncology projects of Nycomed and a brief discussion of the required financing measures.

27 March 2008 (teleconference):
During this teleconference the progress of the negotiations regarding an exclusive right to take over and invest in Nexigen were discussed. In this context, the particular focus was on the strategic benefits as well as valuation-relevant issues. Furthermore, the Supervisory Board was informed about the status of the possible take over of the oncology projects of Nycomed.

16 April 2008 (teleconference):
This teleconference dealt exclusively with the prospective Nycomed transaction and saw the management reporting on the results of the due diligence test and the relevant development candidates. In addition, the valuation and the financing strategy were discussed.

5 June 2008 (physical meeting):
The Supervisory Board meeting on 5 June 2008 was held directly after 4SC AG's annual general meeting, and included the necessary follow-up thereto. It was above all a constituent meeting of the Supervisory Board, in which Günter Frankenne (economist) was appointed Deputy Chairman, and committee members were elected. The Supervisory Board also welcomed Dr Thomas Strüngmann and Helmut Jeggle as new members. In addition, Dr Bernd Hentsch was appointed new Chief Development Officer with effect from 1 July 2008, following the retirement of Dr Gerhard Keilhauer for personal reasons and his withdrawal from office on 30 June 2008. 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 financial year 2008 and to review the interim report and the interim management report as of 30 June 2008 in accordance with the resolution adopted at the annual general meeting. In addition, the Nycomed agreement and the next steps required for the conclusion of the transaction were discussed. The meeting closed with a discussion of the current project development status and licensing opportunities.

23 September 2008 (physical meeting):
During the Supervisory Board meeting of 23 September 2008, the Nycomed transaction was followed up and the strategy for integrating the Nycomed assets into the existing 4SC pipeline presented. In addition, the former capital increase, the resulting new shareholder structure as well as the new company prospectus that had yet to be drafted were discussed. Furthermore, the development status of the individual pipeline projects was considered and further strategies for the further development, with a particular focus on the pending clinical trials and potential licensing agreements, discussed. Further topics under discussion included the situation of QuoNova and its financial implications for 4SC AG.

3 December 2008 (physical meeting):
Issues discussed at the Supervisory Board meeting on 3 December 2008 included in particular the setting of company objectives for financial year 2009, the planning and adoption of the 2009 budget as well as the planned future development of individual development projects and next steps required in order to enhance their value. Other topics discussed included the current and future business development and investor relations activities. In this context, it was decided to discontinue segment reporting in financial year 2009, due in particular to the fact that the "Collaborative Business" segment plays an increasingly minor role in the business model of 4SC AG.

As a general rule, Supervisory Board members and the Supervisory Board Chairman in particular undertook extensive discussions with the Management Board on relevant issues, including via telephone and e-mail. The Management Board also regularly kept the Supervisory Board members up-to-date as to the situation between meetings, for example by providing monthly financial reports.

Supervisory Board committees work efficiently

The Supervisory Board has created three committees (an Audit Committee, a Personnel Committee and a Business Development Committee) to increase the efficiency of the Supervisory Board's work. The Supervisory Board has the opinion that the additional use of a Nomination Committee (as recommended by the German Corporate Governance Code) will not render the Supervisory Board's work more efficient, which is why the Supervisory Board has decided against using such a Nomination Committee.

Since the relevant staffing issues were merely prepared by the Personnel Committee in individual telephone conversations and e-mails during the past financial year, yet were dealt with and decided in the course of the scheduled Supervisory Board meetings, the Personnel Committee only met in order to discuss the remuneration of the Management Board during the reporting period. The appointment of Dr Bernd Hentsch as new Chief Development Officer and the withdrawal of Dr Gerhard Keilhauer were therefore discussed and approved during the Board meeting on 5 June 2008. The committee meeting on Management Board remuneration took place on 3 December 2008.

The Audit Committee held two teleconferences (on 30 January 2008 and 22 February 2008) 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, its focuses and the state of the risk management. Additional coordination took place during Advisory Board meetings and by telephone.

In addition to teleconferences, the 2009 budget was also discussed at considerable length with the chairman of the Audit Committee.

The Business Development Committee held two teleconferences during financial year 2008 (on 6 March 2008 and 21 November 2008) in order to discuss, in particular, possible marketing strategies for the drug candidates 4SC-101 and 4SC-201. In addition, the committee also addressed possible licensing agreements for other projects from the 4SC portfolio.

Changes in Management and Supervisory Board membership

In the financial year 2008 there were a personnel change in the Management Board. Board member Dr Gerhard Keilhauer handed in his resignation with effect from 30 July 2008 for personal reasons. The Supervisory Board therefore appointed Dr Bernd Hentsch as new Chief Development Officer with effect from 1 July 2008.

In addition, at the end of the annual general meeting on 5 June 2008, Dr Robert B. O'Connell and Dr Brian Morgan retired from the Supervisory Board of 4SC AG at their own request. Dr Thomas Strüngmann and Helmut Jeggle (MBA), both representatives of Santo Holding (Deutschland) GmbH, were appointed as new members of the Board.

Günter Frankenne was appointed Deputy Chairman by the Supervisory Board in the constituent meeting following the annual general meeting. In addition, the composition of the committees was in part changed.

Review of annual financial statements and dependency report

The auditor appointed by the annual general meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghofer Straße 29, 80339 Munich, Germany, audited the annual financial statements including the Management Report for financial year 2008 on the basis of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS), providing a certified auditor's opinion without noting any exceptions.

The Management Board submitted the above-mentioned statements and Management Reports, and the auditor's two audit reports (IFRS and HGB), to the Supervisory Board in good time, before the meeting on 13 March 2009. The Audit Committee extensively discussed and reviewed these documents in a teleconference with the auditor on 20 February 2009, and informed the Supervisory Board. The Supervisory Board extensively discussed and reviewed the financial statements and Management Reports during the Supervisory Board meeting of 13 March 2009 in full knowledge of and with due regard to the report of the Audit Committee and the auditor's two audit reports. The estimates of 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 both the Audit Committee and Supervisory Board on the key findings of the audit, and answered questions and provided supplementary information.

According to the conclusive findings of its audit, and the corresponding recommendation of the Audit Committee, the Supervisory Board did not raise any objections to the financial statements or Management Reports. The Supervisory Board came to the conclusion that the reports satisfy legal requirements and endorsed the findings of the auditors' final audit. It approved the financial statements prepared by the Management Board. The annual financial statements have thereby been adopted.

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 3 December 2008 Supervisory Board meeting. The evaluation of the questionnaire was further discussed at the Supervisory Board meeting of 13 March 2009 resulting in the conclusion that no changes are required and that the Supervisory Board works efficiently.

4SC AG largely complies with the German Corporate Governance Code

In the most recent Declaration of Conformity, adopted on 17 February 2009, the Management and Supervisory Boards state that the company has complied with and shall continue to comply with the recommendations of the German Corporate Governance Code (as amended on 6 June 2008), with the exceptions noted in the Declaration of Conformity of 17 February 2009. For further information, please refer to the "Corporate Governance Report and Remuneration Report" on pages 103 to 107 of 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 work in financial year 2008.

Planegg-Martinsried, March 2009

Dr Jörg Neermann
Chairman of the Supervisory Board

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 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 management remuneration structure of the young and innovative company. In respect of preparing the 2008 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 specified in the latest version dated 6 June 2008.
4SC AG continues to comply with the Code's recommendations to a large extent. After careful consideration 4SC AG has opted to deviate from the Code with respect to only a few points. These exceptions largely concern recommendations clearly geared towards large corporations, and therefore apply to a lesser extent to companies such as 4SC AG. The individual points are listed on page 107 of this report in the Management and Supervisory Board declaration of conformity.

The management of 4SC AG is structured as follows:

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 selection of 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 also make representatives available for the annual general meeting of 15 June 2009, who will be bound by instructions, exercise voting rights on behalf of shareholders and also be available during the annual general meeting.

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 coordinates the company's strategic alignment with the Supervisory Board in addition to discussing the strategic implementation with it. To this end, the Management Board informs the Supervisory Board regularly, in good time and comprehensively about all company-relevant matters relating to planning, strategy, business development, finances, risk situation, risk management and compliance.
In the case of projects and proposals of particular importance to 4SC AG, or which are urgent, the Chairman of the Management Board provides the Chairman of the Supervisory Board with detailed information, including between regular meetings. Where necessary, the Management Board 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 the goal of attaining stable development and a sustainable increase in the company's value. The Management Board members complement each other very well with regard to 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.

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 Günter Frankenne. Additional Board members include Dr Clemens Doppler, Dr Manfred Rüdiger, Dr Thomas Strüngmann and Helmut Jeggle. At the end of the ordinary general meeting on 5 June 2008, Dr Robert B. O'Connell and Dr Brian Morgan retired from the Supervisory Board.
All members of 4SC AG's Supervisory Board possess long-standing experience in the pharmaceutical and biotechnology industry, and/or comprehensive expertise in the commercial and financial aspects of listed and private companies.
The Supervisory Board has created three committees to increase the efficiency of the Supervisory Board's work (Audit Committee, Personnel Committee and Business Development Committee); all committees report to the plenary assembly regarding their activities. The Supervisory Board is of the opinion that nominations by means of a Nomination Committee (section 5.3.3 of the Code) would not render the Supervisory Board's work more efficient, and the Supervisory Board has therefore decided against such a Nomination Committee.

C = Chairman M = Member	Supervisory Board	Audit Committee	Personnel Committee	Business Development Committee
Dr Jörg Neermann	**C**	**M**	**C**	
Günter Frankenne	**Vice C** (as from 08-06-05)	**C** (until 08-06-05)	**M**	
Dr Clemens Doppler	**M**	**M**		**M** (as from 08-06-05)
Dr Manfred Rüdiger	**M**		**M** (as from 08-06-05)	**M** (until 08-06-05) **C** (as from 08-06-05)
Dr Thomas Strüngmann	**M** (as from 08-06-05)			
Helmut Jeggle	**M** (as from 08-06-05)	**C** (as from 08-06-05)		**M** (as from 08-06-05)
Dr Robert O'Connell	**Vice C** (until 08-06-05)		**M** (until 08-06-05)	**C** (until 08-06-05)
Dr Brian Morgan	**M** (until 08-06-05)			**M** (until 08-06-05)

Supervisory Board efficiency review

On 3 December 2008, the Supervisory Board of 4SC AG again reviewed its efficiency (last review December 2007). All Supervisory Board members took part in the review by means of a detailed questionnaire, which was finalised after the Supervisory Board meeting on 3 December 2008.
The Supervisory Board came to the unanimous conclusion that collaboration is extremely efficient and reliable. 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.

Management Board remuneration

Management Board members' annual remuneration consists of non-performance-based and performance-based components, in addition to long-term performance-based compensation in the form of stock options

In financial year 2008, 4SC AG's Management Board earnings totalled 843 k €, of which 74.4% was attributable to fixed, and 20.8% to variable emoluments.

A breakdown of Management Board member salaries is provided on page 88 in the notes to the 2008 IFRS financial statements.

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.

The company also uses the ESOP (Employee Stock Option Programme) as a remuneration component with a long-term incentive effect, in which the Management Board and all employees participate. These stock options entitle the employees and the Management Board to purchase shares in the company. 4SC AG believes these ESOPs are ideally tailored to the company. 4SC AG therefore deliberately foregoes the limitation for extraordinary and unforeseeable developments recommended in the Code, and referring stock options 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 86 of the notes to the 2008 IFRS financial statements contains detailed information in this respect.

The Supervisory Board annually reviews the appropriateness of the Management Board's remuneration.

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

Supervisory Board remuneration

In the financial year 2008, the Supervisory Board remuneration totalled 139 k €. According to a resolution passed at the annual general meeting of 5 June 2008, the basic remuneration for each Supervisory Board member was 13 k € 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 paid each committee member 5 k €, in which no distinction was made between chairmanship and membership. There is no cap on Supervisory Board remuneration. Since 4SC AG is a research-intensive start-up company, the recommendation of performance-related remuneration for Supervisory Board members pursuant to section 5.4.6, paragraph 2, of the Code does not appear appropriate at present. The Supervisory Board remuneration at 4SC AG does not, therefore, contain any performance-related remuneration components.

A breakdown of the remuneration of individual Supervisory Board members is provided on page 89 in the notes to the 2008 IFRS financial statements.

Shareholdings of the Management and Supervisory Board members

4SC Management Board members held a total of 255,420 stock options and 890,979 shares as of 31 December 2008. Together, current Management Board members hold 3.1% of company shares.

In total, 4SC AG's current Supervisory Board members held 130,000 shares as of 31 December 2008. Together, current Supervisory Board members hold 0.5% of company shares (section 6.6 sentence 2).

In 2008, the members of the Management Board and Supervisory Board continued to show a considerable financial commitment to the company, as is shown in the following table on directors' dealings.

Directors' dealings (securities transactions subject to reporting)

Date	Name	Function	Type of transaction	Stock Exchange	Price in €	Number of shares	Transaction volume in €
2008-04-09	Dr Manfred Rüdiger	Supervisory Board	Purchase	Düsseldorf	2.95	5,000	14,750.00
2008-07-01	Dr Jörg Neermann	Supervisory Board	Purchase	Xetra	3.07	7,000	21,462.00
2008-07-09	Dr Clemens Doppler	Supervisory Board	Purchase	Xetra	3.10	2,625	8,137.50
2008-07-10	Maja Vitt	Wife of Managem. Board member Dr Daniel Vitt	Exercise of subscription rights	Off-exchange	3.10	64,516	199,999.60
2008-07-10	Susanne Riedel-Dauer	Wife of Managem. Board member Dr Ulrich Dauer	Exercise of subscription rights	Off-exchange	3.10	67,742	210,000.20
2008-07-10	Enno Spillner	Management Board	Exercise of subscription rights	Off-exchange	3.10	60,400	187,240.00
200807-10	Dr Jörg Neermann	Supervisory Board	Exercise of subscription rights	Off-exchange	3.10	11,000	34,100.00
2008-07-10	Dr Clemens Doppler	Supervisory Board	Purchase	Frankfurt	3.10	1,125	3,487.50
2008-10-07	Dr Manfred Rüdiger	Supervisory Board	Exercise of subscription rights	Off-exchange	3.10	5,000	15,500.00
2008-11-27	Dr Jörg Neermann	Supervisory Board	Purchase	Xetra	2.90	1,900	5,510.00
2008-11-27	Dr Jörg Neermann	Supervisory Board	Purchase	Xetra	2.90	600	1,740.00
2008-12-22	Dr Clemens Doppler	Supervisory Board	Purchase	Xetra	2.90	3,750	10,875.00

Third-party companies

A list of the third-party companies can be found on pages 52 and 53 of the notes to the 2008 IFRS financial statements.

Accounting and auditing

The financial statements of 4SC AG have been prepared according to IFRS guidelines since financial year 2003 with reference values from the year 2002. The financial statements are drawn up by the Management Board, audited by an auditor and approved by the Supervisory Board. Following approval, the financial statements are published within a period of 90 days.

During the reporting year, only the 2007 financial statements were checked and approved by the Supervisory Board prior to publication. 4SC AG has yet to comply with the recommendations of the German Corporate Governance Code, to also have the Supervisory Board or its auditing board discuss future semi-annual and quarterly financial reports with Management Board prior to publication (Section 7.1.2). Corresponding planning processes and the necessary scheduling have led to 4SC AG deciding to take these recommendations into consideration for the first time for the 2009 financial reporting, i.e. for the report on the first quarter of 2009.

Communication with the public

To guarantee timely and transparent provision of information to shareholders and investors, 4SC AG publishes all relevant information on its own website (www.4SC.com), in addition to the channels specified by law. All reports are published in German and English within the periods specified by the German Corporate Governance Code and the stock exchange regulations. Moreover, the company publishes all press releases and ad hoc announcements, the latest financial calendar as well as any notices subject to reporting requirements on its website under the headings "News" and "Investors". This guarantees the provision of timely and uniform information to all shareholders.

8. MANAGEMENT AND SUPERVISORY BOARD DECLARATION

Management and Supervisory Board declaration of compliance in accordance with Section 161 German Stock Corporation Act (AktG)

The Management Board and Supervisory Board last issued a declaration in accordance with section 161 AktG on 13 March 2008. This declaration was based on the version of the German Corporate Governance Code dated 14 June 2007. The German Corporate Governance Code was revised in 2008. The currently valid version is dated 6 June 2008.

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 amended on 6 June 2008), with the exceptions stated below, and, given these exceptions, has complied with the recommendations since the last Declaration of Compliance dated 13 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 50 t US-$ per case. 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 specify a deductible for US American cases (section 3.8 of the Code).

2) Sec. 4.2.3, para 3 of the Code: The current Stock Option Programmes for the Management Board and employees are based on binding resolutions of the annual general meeting. The opportunity to exercise these options is conditional on an increase in the share price. 4SC AG believes that these ESOPs are ideally tailored to the company. 4SC AG therefore deliberately foregoes the limitation for extraordinary and unforeseeable developments recommended in the Code (Cap), and referring stock option to reference parameters (e.g. share indices).

3) Sec. 5.3.3 of the Code: The Supervisory Board has decided against establishing a Nomination Committee. The Supervisory Board is of the opinion that the additional use of such a Nomination Committee will not render the Supervisory Board's work more efficient. This is why this function shall remain with the group Supervisory Board.

4) Sec. 5.4.6, para. 2 of the Code: At present, performance-oriented remuneration is not in place for the Supervisory Board members. Since 4SC AG is a research-intensive start-up company, this recommendation of the Code does not appear appropriate at the present.

5) Sec. 7.1.2 of the Code: The Supervisory Board or its auditing board did not discuss the 2008 semi-annual report as well as the quarterly financial report for the third quarter of 2008 with Management Board prior to publication. Corresponding planning processes and the necessary scheduling have led to 4SC AG deciding to take these recommendations into consideration for the first time for the 2009 financial reporting.

Planegg-Martinsried, 17 February 2009

For the Management Board	For the Supervisory Board
Dr Ulrich Dauer	Dr Jörg Neermann

GLOSSARY

Acute myeloid leukaemia	Malignant form of cancer affecting part of the haemopoietic system
AML	Abbreviation for Acute Myeloid Leukaemia
Apoptosis	Programmed cell death
Autoimmune disease	An illness, the cause of which is a defence reaction within the immune system against the body's own tissue
BMBF	German Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung)
CHD	Conrad Hinrich Donner
Clinical studies	Research trials for drug discovery (phases I through III) conducted upon human subjects and patients
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
Eg5	Kinesin spindle protein, which has a function in the distribution of chromosomes to the daughter cells during cell division
Enzyme	A protein, which makes possible or accelerates chemical reactions in the cells by acting as a catalyst
ESOP	Employee Stock Option Programme
Ethics votum	Judgement of ethics and legal aspects of the medicinal research in man. The so-called ethics committee has to approve the start of clinical trials
Glioblastoma	Malignant brain tumours
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
HDAC	Abbreviation for histone deacetylase
HDAC inhibitor	Histone deacetylase inhibitor, which prevents the cell division process of tumours directly and in a targeted way
IAS	Abbreviation for International Accounting Standards
IASB	Abbreviation for International Accounting Standards Board
IFRS	Abbreviation for International Financial Reporting Standards
Impairment test	Annual measurement of the value of capitalised goodwill
Inhibitor	A substance inhibiting a specific enzyme reaction
Intracranial	Inside the cranial cavity
Kinase	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
Neuropathy	Collective term for many diseases of the central nervous system
NFκB	Abbreviation for "Nuclear Factor κB": a protein family, which controls various processes by activating specific genes, provoking an inflammatory reaction, for example

Pharmacodynamics	Study of the efficacy of drugs on a living organism
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
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
Steroid	Hormone-like class of substances, e.g. cholesterol
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
Taxol	Drug that attacks the spindle apparatus during cell division
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
Tubulin structure	Cell components, which have a significant function in cell division, among others

FINANCIAL CALENDAR 2009

2009-03-27	Annual Report 2008
2009-05-15	Three Months' Report 2009 (Q1/2009)
2009-06-15	Annual General Shareholders' Meeting 2009
2009-08-07	Six Months' Report 2009
2009-11-06	Nine Months' Report 2009 (Q3/2009)
2009-11-09 - 2009-11-11	Analyst Meeting: Deutsches Eigenkapitalforum, Congress Center Messe Frankfurt

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