BY PEOPLE. WITH PEOPLE. FOR PEOPLE.

Annual Report :: 2009

Vidofludimus (4SC-101) and resminostat (4SC-201) are the two most advanced products in our pipeline. Read more about this on p. 17.

:: 01 4SC PRODUCT PIPELINE "AUTOIMMUNE DISEASES"

Product	Research	Preclinical	Phase I	Phase II	Phase III	Indication
4SC-101				DHODH/IL17 "COMPONENT"		Rheumatoid Arthritis (RA)
4SC-101				DHODH/IL17 "ENTRANCE"		Inflammatory Bowel Disease (IBD)

:: 02 4SC PRODUCT PIPELINE "ONCOLOGY"

Product	Research	Preclinical	Phase I	Phase II	Phase III	Indication
4SC-201				HDAC "SHELTER"		Hepatocellular Carcinoma (HCC)
4SC-201				HDAC "SAPHIRE"		Hodgkin's Lymphoma (HL)
4SC-203			Kinase Inhibitor			Acute Myeloid Leukaemia (AML)
4SC-205			Eg5 Inhibitor "AEGIS"			Solid Tumours
4SC-202			HDAC			Haematologic and Solid Tumours
4SC-207			CCB			Solid Tumours

:: Table 01 KEY FINANCIAL FIGURES

in €000's	2009	2008	Change in %
Revenue	1,861	2,969	- 37
Operating profit/loss	- 16,437	- 12,695	- 29
Profit/loss for the year	- 16,107	- 11,854	- 36
Equity	50,909	37,158	37
Equity ratio	94.4%	90.4%	4%P
Total assets	53,903	41,094	31
Cash flows from operating and investing activities	- 658	- 32,196	98
Cash flows from financing activities	28,833	29,207	- 1
Net change in cash and cash equivalents	28,175	- 2,989	n/a
Cash and cash equivalents	35,521	7,346	384
Cash balance/funds	35,621	21,846	63
EMPLOYEES			
Number of employees and Management Board members (annual average)	91	80	14

:: Table 02 ACHIEVEMENTS

4SC Goals	2009 Highlights
WE AIM TO BECOME A LEADING PARTNER TO THE PHARMACEUTICAL INDUSTRY FOR THERAPEUTICS IN AUTOIMMUNE AND ONCOLOGY INDICATIONS.	
Commencement of the Phase IIa "ENTRANCE" study for vidofludimus in IBD, for which initial results are expected at the end of the first half of 2010.	✓
Commencement of the Phase II "SHELTER" study for resminostat on HCC, for which results are expected in the first half of 2011.	✓
Commencement of the Phase IIb "COMPONENT" study of vidofludimus in RA, for which preliminary results are expected at the end of 2010.	✓
Phase II study centres initiated for resminostat in the "SAPHIRE" study in HL, for which preliminary results are expected at the end of 2011.	✓
Phase I study centres initiated for 4SC-203 in patients; study protocol accepted for the "AEGIS" study with 4SC-205.	✓
CAPITAL INCREASE OF €30 MILLION SECURES CASH POSITION.	
Four clinical milestones are secured: two Phase II results with vidofludimus and two Phase II results with resminostat.	✓
Ongoing development of the current product pipeline.	✓
Future Goals	
DELIVERY OF FURTHER VALUE-ENHANCING CLINICAL PROOFS-OF-CONCEPT FOR OUR PRODUCT CANDIDATES IN ORDER TO MEET THE REQUIREMENTS FOR PARTNERSHIP DEALS.	

4SC – DEVELOPING PHARMACEUTICAL SUCCESS

4SC is a publicly listed biotechnology company.

The Company has a balanced and broad product pipeline of novel drugs in various stages of development for autoimmune diseases and oncology. There is a large unmet medical need for innovative drugs in these disease areas.

4SC conducts focused research on compounds and develops them to the proof-of-concept stage. In doing so, the people at 4SC aim to provide new therapies and hope to people suffering from severe illnesses.

BY PEOPLE. WITH PEOPLE. FOR PEOPLE.

:: LETTER TO THE SHAREHOLDERS

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

DEAR SHAREHOLDERS,
DEAR FRIENDS AND PARTNERS,

In recent years, we have successfully repositioned 4SC from a mostly research-based biotechnology company to one with a broad pipeline of clinical product candidates. Our goal is to use every successful milestone we achieve in the development process to maximise the share's potential for our shareholders and offer patients innovative, efficacious and well tolerated treatment options. To that end, we have specialised in attractive growth markets in the area of autoimmune diseases and cancer, in order to expand and focus our expertise. This strategic step has been rewarded by our shareholders, partners and the capital market, as evidenced by the completion of our capital increase during a difficult economic environment. We placed ten million shares, raising €30 million. This has paved the way for us to deliver on our stated objectives by the end of 2011, particularly with respect to the clinical Phase II results for our autoimmune modulator, vidofludimus (4SC-101), and the oral pan histone deacetylase (HDAC) inhibitor, resminostat (4SC-201), in oncology indications. In addition, we will be able to move earlier-stage projects into the clinical pipeline to the next value inflection point.

The latter spreads the development risk inherent to individual projects across several products and mechanism of actions, whilst enhancing the potential of our product pipeline.

At this time, a total of four clinical products are in six clinical studies. Two of the Phase II studies are already expected to report results this year.

In the field of autoimmune diseases, we commenced the Phase IIb "COMPONENT" study with the compound 4SC-101 – which has now been granted the INN name vidofludimus – in rheumatoid arthritis (RA). This study aims to position vidofludimus as a once-a-day medication in tablet form against the backdrop of the standard RA medication, methotrexate. With the exploratory Phase IIa "ENTRANCE" study in inflammatory bowel disease (IBD) the potential of the compound is being investigated to assess its application in a broader range of autoimmune diseases, thereby enhancing its attractiveness for licensing partners.

In oncology, the Phase I results that we recently obtained for resminostat (4SC-201), an orally-administered pan histone deacetylase (HDAC) inhibitor, demonstrate the highly promising potential of this compound in several indications. Hepatocellular carcinoma (HCC) is the most common form of liver cancer. In our Phase II development programme, the "SHELTER" is aimed at establishing resminostat as a second-line treatment in this indication with high unmet medical need. In addition, we prepared the "SAPHIRE"

Left: Our product vidofludimus is a unique autoimmune modulator that was discovered and developed by 4SC. It is the Company's most advanced drug candidate.

study for patients suffering from Hodgkin's lymphoma (HL) and initiated study centres. This indication – for which HDAC inhibitors have already delivered proof of efficacy – is meant to result in an early proof-of-concept for resminostat as a monotherapy. The first patients for this study were recruited at the start of 2010. A further planned study aims to combine resminostat with standard cancer chemotherapeutic agents for solid tumours. The development strategy in three indications should broaden the market potential whilst concurrently ensuring a moderate use of resources for clinical development.

In addition to the clinical compounds, vidofludimus and resminostat, the Company's earlier-stage oncological products, 4SC-203 and 4SC-205, advanced into clinical development in order to assess their treatment of a multitude of cancers.

In the medium term, we aim to complete licensing partnerships with global biotech and pharmaceutical companies in order to establish a sustainable, value generation platform for the Company.

Biotech companies that focus on highly promising drug classes such as oral therapeutic agents for rheumatoid arthritis or HDAC inhibitors against cancer have increasingly attracted the interest of both the capital market and potential partners in both the biotech and the pharmaceutical industry, especially in the past 12 months. Examples of this development include the successful second approval in the US of an HDAC inhibitor, Gloucester Pharmaceuticals' Istodax, in November 2009 for the treatment of cutaneous T-cell lymphoma. Or Phase II results for individual companies such as Rigel, which announced positive results with its oral RA compound R788. These successes have focused capital market participants and pharmaceutical companies on innovative biotech companies.

The increasing attention by potential partners in the biotech and pharmaceutical industry has led to several licensing deals and acquisitions during the period. Incyte and Eli-Lilly entered into a global agreement for the oral RA compound INCB28050 in Phase II, valued at up to $755 million. Rigel followed suit early this year and entered into an alliance with AstraZeneca for R788, potentially valued at more than $1.2 billion. In Europe, the US biotech company, Celgene, acquired Gloucester Pharma for $340 million

in cash in addition to $300 million in performance-based milestones. Shortly after, the Danish company, Topotarget, reported that it had completed a licensing deal with the US biotech company, Spectrum, for the US rights to its HDAC pipeline for the potential deal aggregate value of $350 million, plus milestone payments. These deals clearly demonstrate pharmaceutical and biotech companies' increasing need for new and innovative products in this space.

In the light of these alliances between biotech and pharmaceutical companies, 4SC believes that it is better positioned than ever, thanks to its maturing product pipeline, its solid finances and the sustained support of its major shareholders. 2009 was a good year – a year that advanced our products and Company.

Dear shareholders, in the last 12 months we have focused, day in day out, on advancing 4SC. The progress we have achieved strengthens our position as a partner for pharmaceutical and biotech alliances. We would like to thank you, our shareholders, for your trust, your loyalty and the constructive support you have provided to us in recent months!

In particular, we would also like to thank our employees, as it is their commitment, their motivation and their enthusiasm that underpins our excellence. The theme of our annual report is the vision that guides us: By people. With people. For people.

Sincerely, from Martinsried

DR ULRICH DAUER, CEO

THE GOAL

To offer successful therapies for
AUTOIMMUNE DISEASES.

SUSANNE SCHWARZ

»I need a drug that will stop my rheumatoid arthritis from progressing and damaging my joints, so that I can live pain-free and remain mobile.
Hopefully, at some point in future there will be a drug without side effects that can be taken as a tablet and would help me to maintain quality of life.«

SUSANNE SCHWARZ (70) has had RA for ten years.

DR ALDO AMMENDOLA

»The side effect profiles of current drugs place
an additional burden on patients,
frequently causing them to stop treatment.
This is where we focus our research:
vidofludimus offers two mechanisms of action
and is designed to produce fewer side effects.
The drug is orally administered and
can be applied in other autoimmune diseases too.«

DR ALDO AMMENDOLA, MBA (40), Director Development, has more than ten years of experience in drug development.

:: DISEASE PROFILE OF "RHEUMATOID ARTHRITIS"

Rheumatoid arthritis (RA) is a chronic inflammatory disease of the joints that causes irreversible damage in joint cartilage and bones. Both genetic and autoimmune factors are the underlying cause.

:: 03 RA PATIENTS WORLDWIDE

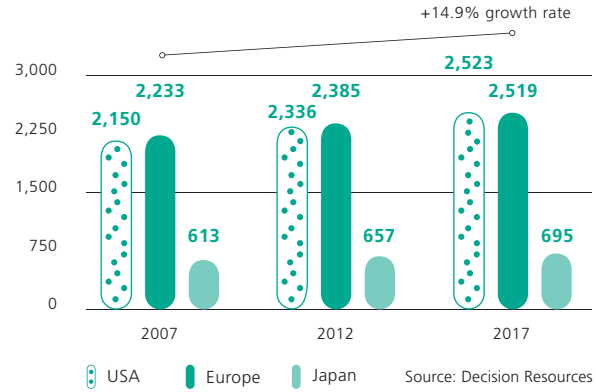
0.5–1%

of the global population

Worldwide, 0.5% to 1% of all people suffer from RA; women are three times more likely to be affected by the disease than men. It affects between 0.17% and 1% of the population in the seven most important markets. According to the World Health Organisation (WHO), the number of patients suffering from RA will increase in coming years due to the rising percentage of elderly people in the population.

Source: WHO Population Data

:: 04 EXPECTED DEVELOPMENT OF RA PATIENT FIGURES :: IN 000'S



TREATMENT :: Besides anti-inflammatory drugs and pain relievers, so-called disease-modifying anti-rheumatic drugs (DMARDs) are used to treat rheumatoid arthritis. DMARDs can be either synthetic small-molecule drugs or biological drugs (e.g. antibodies). In contrast to other drugs, they are able to stop the progression of or reduce joint cartilage and bone damage caused by chronic inflammation, giving patients greater mobility. A single treatment is not enough as patients undergo a combination of different therapies during the course of their illness.

DRUGS BEING DEVELOPED :: VIDOFLUDIMUS (4SC-101) is our most advanced drug candidate for autoimmune diseases. It is an orally administered, small-molecule drug candidate that is being developed in Phase II for treating RA and IBD. Ongoing preclinical studies have shown that vidofludimus may also be suitable for treating other autoimmune diseases such as lupus, psoriasis and multiple sclerosis. In the field of RA, this drug belongs to the class of synthetic DMARDs.

:: 05 PIPELINE "VIDOFLUDIMUS"

Product	Research	Preclinical	Phase I	Phase II	Phase III	Indication
4SC-101	DHODH/IL17 "COMPONENT"					Rheumatoid Arthritis (RA)
4SC-101	DHODH/IL17 "ENTRANCE"					Inflammatory Bowel Disease (IBD)

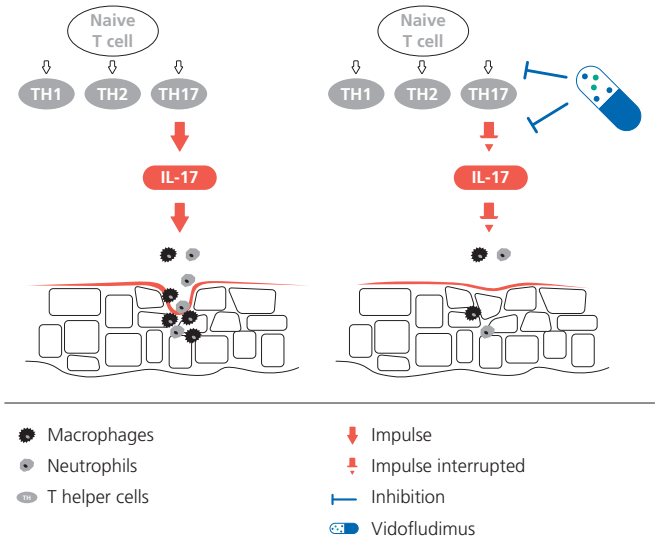
THE PHASE IIB "COMPONENT" STUDY IN RA WAS COMMENCED IN NOVEMBER 2009

:: Randomised, two-arm, double-blind, placebo-controlled, international and multi-centre
:: 244 patients, 12 weeks
:: Treatment background of methotrexate (the current standard therapy)
:: Primary endpoint: ACR20
:: Secondary endpoints: ACR50, ACR70, DAS28, safety parameters and pharmacokinetics
:: Initial study results are expected at the end of 2010

THE EXPLORATORY PHASE IIA "ENTRANCE" STUDY EVALUATES THE TREATMENT OF INFLAMMATORY BOWEL DISEASES

:: Open-label, one-arm, multi-centre
:: 24 patients, 12 weeks
:: Serves to investigate whether vidofludimus can replace or reduce the use of steroids
:: Initial study results are expected at the end of the first half of 2010

:: 06 DUAL MODE OF ACTION OF VIDOFLUDIMUS (4SC-101)



Mode of action of vidofludimus on T-cell mediated inflammation (efficacy on B cells not shown)

THE THERAPEUTIC EFFECT IS BASED ON A DUAL MECHANISM :: For one it inhibits the dihydroorotate dehydrogenase enzyme (DHODH) which is required for the division of rapidly proliferating cells. This inhibits the division of activated T and B cells, of which levels are elevated in inflammatory processes. For another, preclinical studies have shown that VIDOFLUDIMUS suppresses the development of a key cytokine, Interleukin-17. Interleukin-17 is a signalling cytokine of the Th17 cell type that is involved in controlling and transmitting inflammatory processes in the body and is linked to numerous autoimmune diseases. The combination of two mechanisms of action provides an innovative therapeutic approach with broad clinical potential in various autoimmune diseases :: 06.

RESEARCH AND DEVELOPMENT STRATEGY

4SC is specialised in the research and development of novel small-molecule drugs, with a focus on autoimmune diseases and cancer. There is a large unmet medical need in both of these indications. All of the different drug candidates in our broad product pipeline are intended to significantly improve the treatment of patients. Due to this, 4SC is well positioned to become an interesting partner for pharmaceutical and global biotech companies. We have already succeeded in advancing two drug candidates into several Phase II studies.

BY PEOPLE.

- We are proud to have assembled a team of experts.
- Our employees conduct focused research for products for which there is a market need.
- Only the most promising compounds found during the research process will be moved into clinical development.

FOCUS ON TWO HIGH-GROWTH INDICATIONS

BIOTECHNOLOGY: INNOVATION DRIVER – INDUSTRY WITH ROBUST GROWTH PROSPECTS :: The healthcare sector expects stable growth despite the economic and financial crisis. Contributing factors are the demographic change of higher life expectancy and the continued lack of sufficient treatment options for many diseases. Concurrently, demand for effective medical care with an optimised cost/benefit ratio is growing. Due to rising research and development costs, both efficiency and capital allocation are deciding factors in the success of our business.

Experts predict that within the healthcare sector growth rates will be highest in the biotechnology industry. It is scientific and technological progress that will enable the development of new drugs for diseases that cannot currently be adequately treated – including those with blockbuster potential. Medium-term growth rates in the biotechnology industry are expected to be in the double digits.

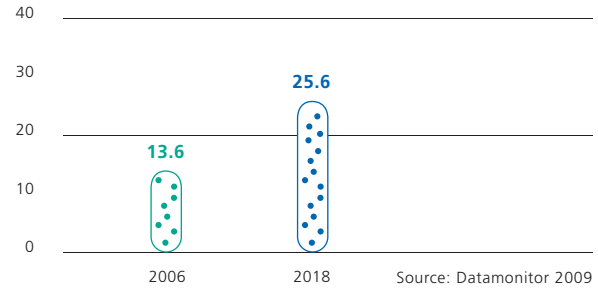
The capital market has also taken note of these forecasts. This past year, biotech companies raised a total of $24.3 billion worldwide (2008: $13.6 billion), the economic crisis notwithstanding. Despite the fact that the current economic climate hampered the refinancing of biotech companies' operating business, the refinancing volume averaged $32.6 million in 2009 (2008: $23.2 million).

In addition, the trend of acquisitions and cooperation deals in the biotechnology industry continues unabated as major pharmaceutical companies are forced to fill their pipelines in order to remain competitive despite expiring patents. This is supported by the fact that M&A transaction volumes in 2009 were the largest in the whole decade,

with the number of cooperation deals and alliances continuing to rise as well. In the US alone, a total of 52 transactions and cooperation deals related to products and technologies were executed in 2009, up from 43 in 2008.

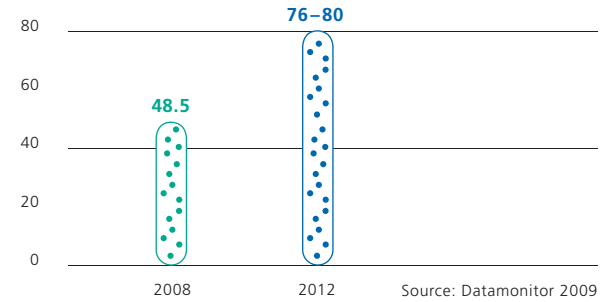
STRONG INCREASE IN AUTOIMMUNE DISEASES :: The market for autoimmune disease therapies continues to grow unabated at an average annual rate of 6.5%. A key growth driver is demographic development, i.e. the rapid ageing of society.

:: 07 EXPECTED DEVELOPMENT OF REVENUE FROM AUTOIMMUNE DISEASES WORLDWIDE :: IN $BN



ABOVE-AVERAGE GROWTH FOR ONCOLOGY DRUGS :: Current figures indicate that in the coming years a growth rate that is double that of the pharmaceutical market is expected for oncology drugs in the coming years. In August 2009, approximately 2,000 oncology drugs were in clinical development, of which 160 were in Phase III and 32 were in the pre-registration phase. Roughly 25 to 30 new cancer drugs are expected to enter the market by 2012.

:: 08 EXPECTED DEVELOPMENT OF REVENUE FROM ONCOLOGICAL DRUGS WORLDWIDE :: IN $BN



THE GOAL: RISK MINIMISATION AND INCREASED OPPORTUNITY THROUGH A SUSTAINABLE AND DIVERSIFIED PIPELINE :: How can 4SC successfully position itself vis-à-vis its competitors in this environment? The goal is to establish a sustainable and diversified pipeline of own drug candidates that will be developed until the first proof-of-concept. The research and development strategy is focused on markets with high unmet medical need – indications such as autoimmune diseases and cancer. 4SC will prioritise its development of drug candidates that offer high revenue potential. This is what makes its products particularly attractive to pharmaceutical and global biotech companies and brings the Company a big step closer to its goal of becoming a profitable company in the medium term. In turn this will benefit patients and physicians as well as the partners and investors of 4SC.

The Company has set a clear focus by concentrating on two indications with a broad product portfolio. It conducts research within its areas of focus and develops drugs with different modes of action across different development stages. Focusing the expertise in two disease areas allows 4SC to apply the development experience it gains to further development projects. The large number of innovative drug compounds across various molecular mechanisms increases the likelihood of bringing a successful and value-creating drug to market.

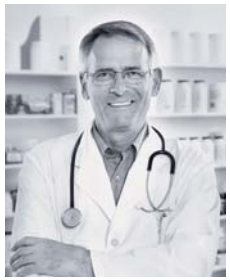
CAPITAL ALLOCATION AND EFFICIENCY IN DRUG DEVELOPMENT :: 4SC uses clear criteria when selecting suitable development candidates. Projects are selected according to whether they can be executed at a manageable financial and clinical cost, whether they offer sufficient market potential and innovation, and whether they are sufficiently competitive and technically feasible.

The strength of the Company's research department ensures a continuous stream of product candidates. 4SC continuously uses innovative approaches to develop drug candidates for its pipeline. Part of this research is facilitated by the patented 4SCan® technology, which replicates the principle of high throughput screening on the computer (in silico) in order to generate new molecules for biology and chemistry research.

SIX PROMISING CANDIDATES IN THE PIPELINE :: The drug development pipeline currently comprises four clinical and two preclinical product candidates. What these compounds share is the ability to inhibit the growth of disease-causing cells and thus stabilise the progression of autoimmune diseases and cancer. Unlike antibody-based drugs, small-molecule drugs are mostly orally administered, less expensive to produce and more convenient for patients.

At present, two clinical trials in autoimmune diseases are in progress for the oral drug candidate, vidofludimus (4SC-101). A Phase IIa study in inflammatory bowel disease (IBD) is expected to report results in the first half of the year. Preliminary results are expected for a Phase IIb study in rheumatoid arthritis (RA) by the end of 2010.

Currently, five cancer drug candidates are in our pipeline. All of them aim to inhibit cell division and cell proliferation with different modes of action. Resminostat (4SC-201), the most advanced of these products, is currently in two Phase II studies in the indications hepatocellular carcinoma (liver cancer – HCC) and Hodgkin's lymphoma (lymphatic cancer – HL). Two of the other four products in the product pipeline are in Phase I and two are at the preclinical stage.



WITH PEOPLE.

- We have an experienced development team and an excellent clinical network.
- We develop innovative products with large sales potential for our partners.

LICENSING AND COOPERATION PARTNERS

4SC develops products with large market potential up to the proof-of-concept stage. The Company intends to realise the value of its therapeutics by entering into licensing deals with pharmaceutical and global biotech companies for the completion of later-stage clinical studies and the commercial launch of the drugs. The resulting income will be invested in further research projects. Relationships with potential partners are established at an early stage. Discussions at this point allow 4SC to sharpen its understanding of the requirements for later stage development and potential market entry.

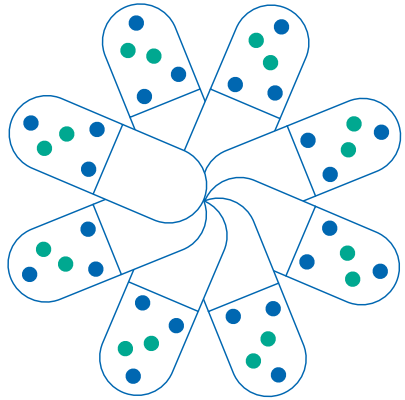
Additional income is also generated in the earlier stages of drug development, for instance through licensing deals for drug candidates in indications outside of 4SC's areas of specialisation or by making its proprietary technology platform (4SCan®) available to cooperation partners. This enhances partners' ability to discover, research and develop drugs more efficiently. In return, 4SC receives payments that it can use to further the development of its product pipeline.

Whilst 4SC funds its operations through revenues from licence deals from research and cooperations with partner companies. Financially sound and strategic investors accompany and support the Company's development in the medium term.

DEVELOPMENT

- Focus on two disease areas: autoimmune and oncology
- Ensure clinical success by diversifying risk across a broad and diversified product pipeline with numerous drug candidates
- Establish outstanding clinical development

1997–2009



BREAKTHROUGH

- Potential proof-of-concept for vidofludimus – Phase IIb results in RA and Phase IIa results on IBD
- Develop new therapeutics with high commercial potential across a variety of mechanisms of action for which there is market demand
- Efficient capital allocation to R&D programmes

2010

SUSTAINED GROWTH

- Potential proof-of-concept for resminostat – Phase II results in both HCC and HL
- Attractive partner to pharmaceutical and global biotech companies in autoimmune diseases and oncology
- Further funding of 4SC through clinical milestones and licensing fees

2011+

THE DRUG CANDIDATES

4SC's product pipeline currently comprises six drug candidates in different development stages. Of these, two are in several Phase II studies, two are in Phase I and two are at the preclinical stage.

VIDOFLUDIMUS :: 4SC-101 :: Vidofludimus is 4SC's most advanced drug candidate in the field of autoimmune diseases. It is a small-molecule drug that can be orally administered and is currently being developed for the treatment of patients suffering from RA and IBD. In the field of RA, this drug belongs to the class of synthetic disease-modifying anti-rheumatic drugs (DMARDs) that can slow down or inhibit the progression of the disease in order to prevent further damage to the joints. Ongoing preclinical studies have shown that vidofludimus may also be suitable for treating other autoimmune diseases such as lupus, psoriasis and multiple sclerosis.

Its mode of action is based on a dual mechanism. For one, it inhibits the dihydroorotate dehydrogenase enzyme (DHODH) which, in its capacity as a key pyrimidine biosynthesis enzyme, supplies rapidly proliferating cells with essential DNA building blocks. The inhibition of DHODH reduces the division of activated T and B cells, which is much higher in inflamed tissue. For another, preclinical studies have shown that vidofludimus suppresses the development of a central cytokine, Interleukin-17 (IL-17). As a signalling molecule IL-17 is involved in controlling and regulating inflammatory processes and is linked to numerous autoimmune diseases. The combination of these two modes of action provides an innovative therapeutic approach with a broad potential for clinical application in a variety of autoimmune diseases.

FOR PEOPLE.

- We want to give new hope to people suffering from illnesses.
- Our drugs should be efficacious and easy to use.

RESMINOSTAT :: 4SC-201 :: This drug is an orally administered pan histone deacetylase (HDAC) inhibitor. HDAC inhibitors work according to an epigenetic principle by which they influence the density at which chromatin is packed and thus the DNA structure and the resulting gene activity patterns. Due to this prinicple, they trigger the expression of tumour suppressor genes that can lead to apoptosis (programmed cell death). This means that HDAC inhibitors possess a mechanism of action that can stop tumour progression, induce tumour regression and may therefore enable the long-term control of cancer.

4SC-203 :: 4SC-203 is a novel multi-target kinase inhibitor. In preclinical testing, the compound has shown unique and strong selectivity against a set of kinases including FLT3, FLT3 mutants and VEGF receptors. This target activity profile is considered particularly promising since FLT3 is regarded as a specifically important cancer target for treating certain types of acute myeloid leukaemia (AML). In healthy people, FLT3 is involved in the growth and maturation of normal blood cells. However, in AML patients this kinase frequently is overexpressed or activated by mutation, causing uncontrolled cell growth and thereby contributing to the development or progression of cancer. With the additional inhibition of VEGF receptor tyrosine kinases, 4SC-203 may also inhibit angiogenic processes – i.e. the formation of vascular structures that provide nutrition for tumours enabling them to grow rapidly – and could therefore also be applicable in solid cancer types.

4SC-205 :: 4SC-205 is a small-molecule inhibitor of the human kinesin spindle protein Eg5, which is of crucial importance for proper cell division (mitosis). Eg5 interacts with microtubules, a component of the mitosis mechanism, and mediates the segregation of the two spindle poles resulting in the correct distribution of the chromosomes to the daughter cells. Inhibition of Eg5 leads to cell cycle arrest in mitosis und subsequent apoptosis. Mitosis is the fundamental process required for cell division and tissue

:: 10 THE DRUG DEVELOPMENT PROCESS

- The discovery processes starts with the search for a new compound that can attach itself to a target. Once a target has been identified, relevant databases and molecular libraries are screened for a suitable molecule. Once a new compound has been found, it is assessed in initial preclinical testing for both efficacy and safety. If the 'green light' is given, first clinical tests are started in man.

- In **PHASE I**, the drug is evaluated in a few people, usually in healthy volunteers. In oncology however, it is frequently tested directly in cancer patients. Primarily this provides the first evaluation of the body's reaction to the drug. This includes data on safety and pharmacokinetics, which measures the drug's absorption, its distribution in the body, its biochemical metabolisation as well as its excretion.

- In **PHASE II**, the drug is evaluated in a selected, still relatively small number of patients. The aim is to obtain the first medical proof-of-concept and determine the effective and safe dose parameters.

- This is followed by **PHASE III**, the last phase prior to the filing of an application for approval of the drug. It is at this point that the drug's effect is tested in a pivotal study using a larger, statistically significant number of patients. These studies vary, depending on the indications, the regulatory agencies' requirements and competitors' studies. This phase is designed to provide the determining proof-of-concept data, with the risk/benefit analyses, the drug's safety and its interaction with other drugs being furhter points of interest.

- The application for **APPROVAL** of the drug cannot be filed until successful completion of all three phases. Phase IV studies are used to explore rare side effects that can only be detected in larger patient populations. Frequently, they are also used for marketing purposes.

proliferation. The mitotic spindle apparatus has for decades been a primary target for the development of anti-mitotic agents such as taxanes and vinca alkaloids, which are broadly used in cancer therapies as single chemotherapeutic agents or in combination. In preclinical tests, 4SC-205 has proven to be a particularly effective inhibitor of tumour cell proliferation of various cancer origins, both in vitro and in vivo.

4SC-202 :: This candidate is an orally administered selective HDAC inhibitor. HDAC inhibitors work according to an epigenetic principle by which they influence the packing density of chromatin and thus the DNA structure and, as a result, gene activity patterns. In the process, they trigger the expression of tumour suppressor genes that can lead to apoptosis. This means that HDAC inhibitors possess a mode of action that can stop tumour progression, induce tumour regression and may therefore enable the long-term control of cancer.

In contrast to resminostat, this inhibitor selectively affects class I HDACs. In addition, this drug has a strong, specific anti-mitotic effect, which inhibits cell division, possibly making this candidate particularly suitable for the treatment of cancer types that exhibit high rates of cell division.

4SC-207 :: 4SC-207 is a novel, orally available cell-cycle blocker (CCB). This anti-mitotic compound inhibits the cell division of actively proliferating tumour cells. In preclinical testing, apoptosis was observed in dividing cancer cells only, rather than in non-proliferating cells. In addition, 4SC-207 has been demonstrated to affect cancer cells that have built up resistance to taxanes, a class of frequently used chemotherapeutic agents.

COMPETENT EMPLOYEES AND A BROAD NETWORK OF RENOWNED SCIENTISTS :: By people. With people. For people. That is what 4SC stands for. Our expertise in development, research and technology is but one aspect of our competence. It is our employees that drive us, propel us to excellence and make our progress possible in the first place. It is their commitment, motivation and know-how that is responsible for the success of the Company and its products. At 4SC, physicians, biologists, chemists, pharmacologists and bioinformatics specialists – supported by additional staff – work hand in glove with the goal of developing drugs that help people whilst at the same time generating commerical success for the Company. As of 31 December, 2009, of a total of 91 employees, 68 work in research & development – 75% of the entire staff. This too clearly reflects our strong focus on drugs that provide relief and healing to people suffering from diseases.

4SC also relies on a large external network of renowned scientists and clinicians from various fields of research in order to be able to carry out the relevant clinical trials with the most up-to-date scientific approach. This helps the Company to ensure that its studies' structures are optimal and that patients have adequate access to both the studies and the results.

PRECLINICAL

- Drug discovery
- In vitro and in vivo testing

PHASE I

- First evaluation in humans
- Tests on safety and tolerability

Probability of a market launch:
< 10%

PHASE II

- Determining the dose
- Evaluating efficacy

Probability of a market launch:
< 30%

PHASE III

- Statistical proof-of-concept
- Evaluating interactions with other therapeutics

Probability of a market launch:
< 70%

APPROVAL

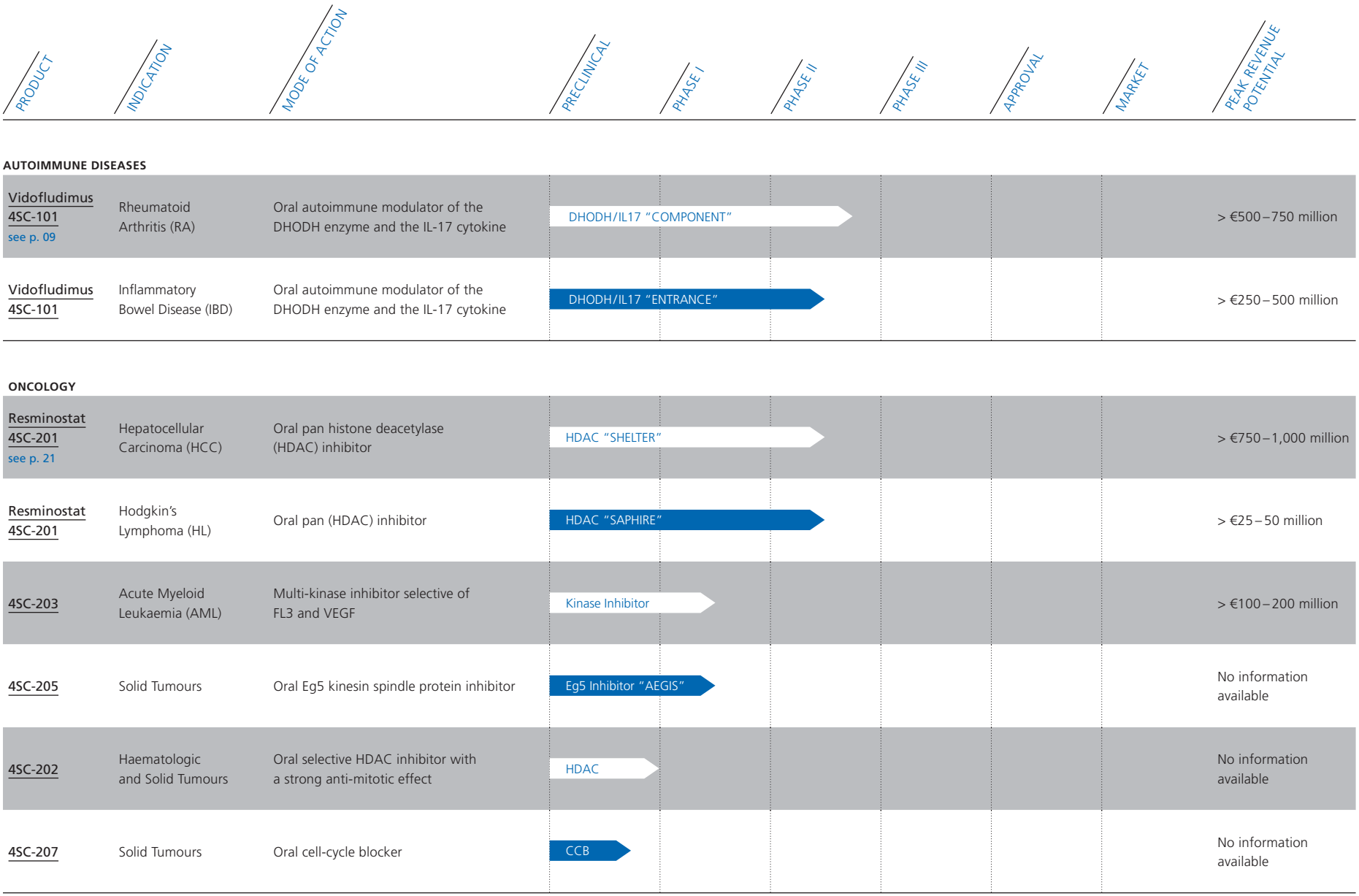
- Filing the application
- Evaluation and approval by regulatory authorities

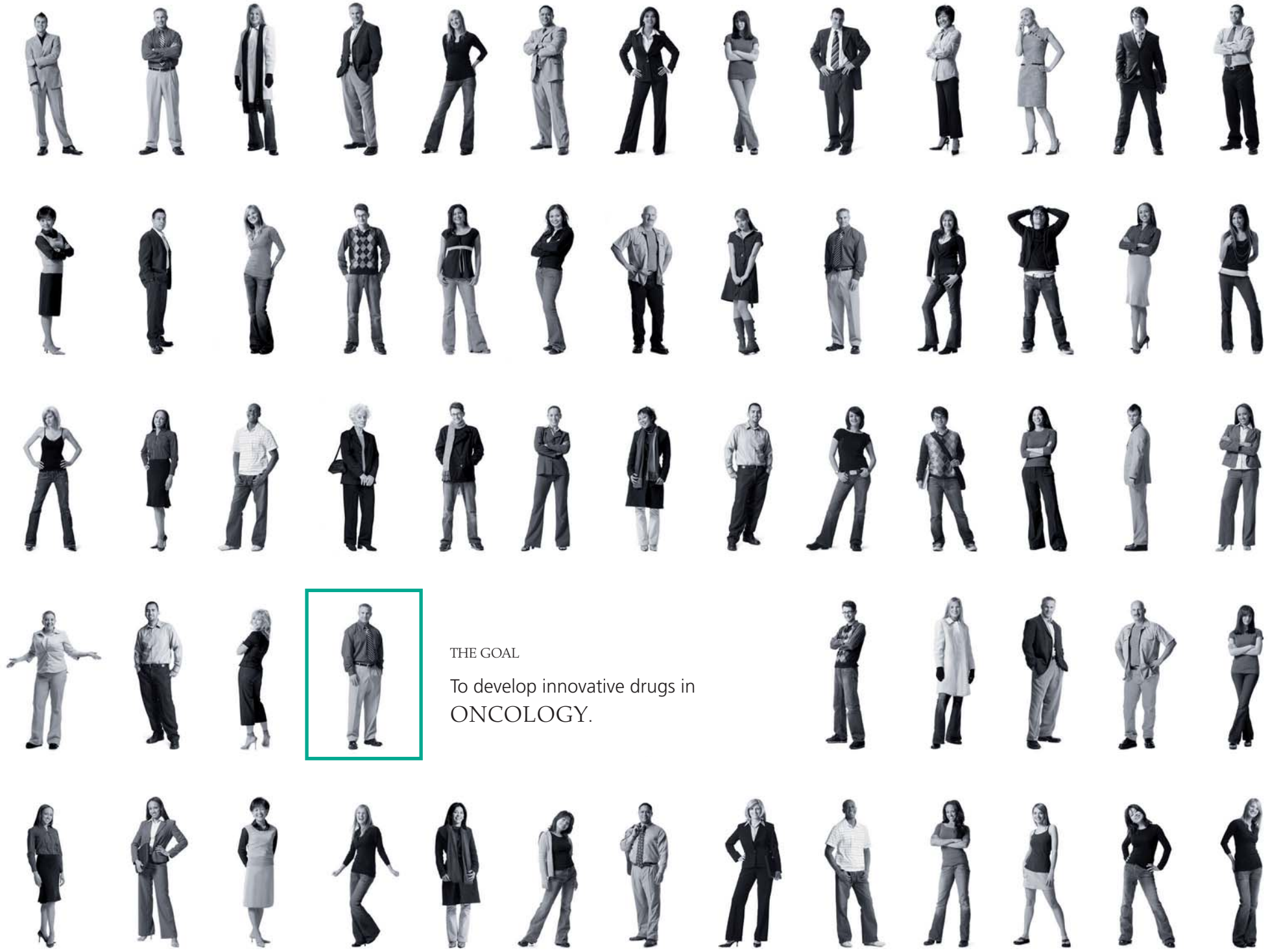
Probability of a market launch:
< 90%

MARKET

- Phase IV trials
- Further evaluation for side effects

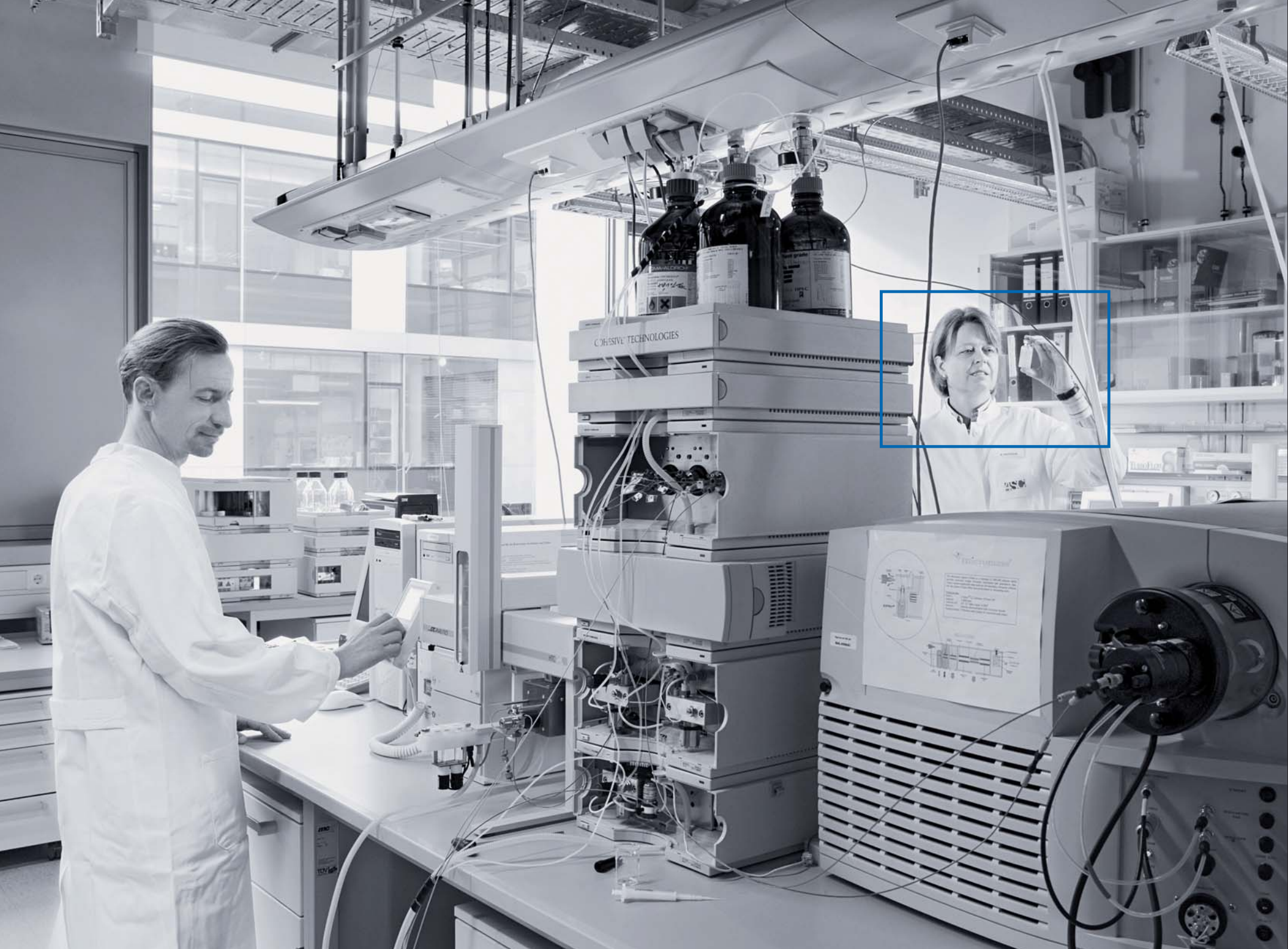
Time until market launch:
10 – 15 years


PRODUCT
INDICATION
MODE OF ACTION
PRECLINICAL
PHASE I
PHASE II
PHASE III
APPROVAL
MARKET
PEAK REVENUE POTENTIAL
AUTOIMMUNE DISEASES
Vidofludimus 4SC-101
see p. 09
Rheumatoid Arthritis (RA)
Oral autoimmune modulator of the DHODH enzyme and the IL-17 cytokine
DHODH/IL17 "COMPONENT"
> €500–750 million
Vidofludimus 4SC-101
Inflammatory Bowel Disease (IBD)
Oral autoimmune modulator of the DHODH enzyme and the IL-17 cytokine
DHODH/IL17 "ENTRANCE"
> €250–500 million
ONCOLOGY
Resminostat 4SC-201
see p. 21
Hepatocellular Carcinoma (HCC)
Oral pan histone deacetylase (HDAC) inhibitor
HDAC "SHELTER"
> €750–1,000 million
Resminostat 4SC-201
Hodgkin's Lymphoma (HL)
Oral pan (HDAC) inhibitor
HDAC "SAPHIRE"
> €25–50 million
4SC-203
Acute Myeloid Leukaemia (AML)
Multi-kinase inhibitor selective of FL3 and VEGF
Kinase Inhibitor
> €100–200 million
4SC-205
Solid Tumours
Oral Eg5 kinesin spindle protein inhibitor
Eg5 Inhibitor "AEGIS"
No information available
4SC-202
Haematologic and Solid Tumours
Oral selective HDAC inhibitor with a strong anti-mitotic effect
HDAC
No information available
4SC-207
Solid Tumours
Oral cell-cycle blocker
CCB
No information available



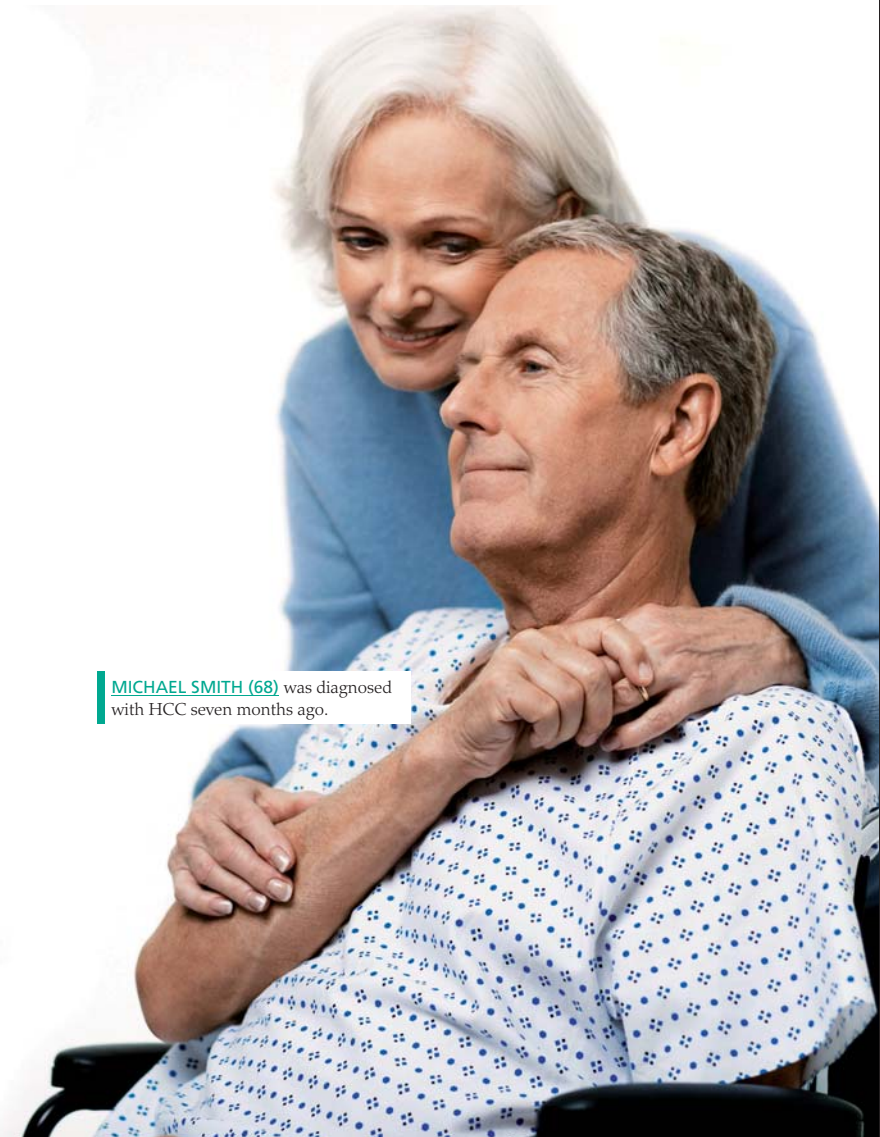
THE GOAL

To develop innovative drugs in
ONCOLOGY.



MICHAEL SMITH

»Liver cancer only shows symptoms during its advanced stage. That's why I was diagnosed late. With the exception of a single drug, the only treatment options available are transplants, operations and chemotherapy or radiation therapy. A new drug that really helps would offer an alternative treatment regimen.«



MICHAEL SMITH (68) was diagnosed with HCC seven months ago.

DR JULIA DIEDERICHS (45), Director Drug Supply, is responsible for making 4SC drugs available for clinical studies.

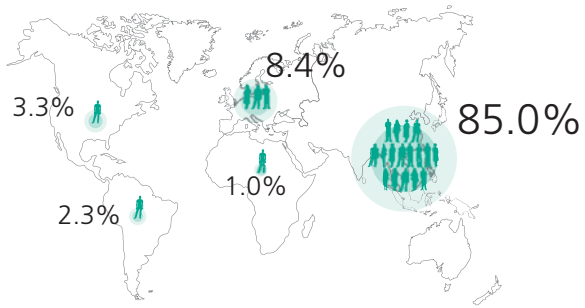
DR JULIA DIEDERICHS

»Resminostat has an advantage in that it directly targets the DNA of tumour cells, sparing a greater number of healthy cells. In hepatocellular cancer, this would be a real breakthrough as there is only one drug on the market to date. An additional advantage of resminostat is its oral delivery. We see great potential in developing this compound for the treatment of other cancers.«

:: DISEASE PROFILE OF "LIVER CANCER"

Hepatocellular carcinoma (HCC) is the most common form of liver cancer. Liver cancer is the fifth most prevalent type of cancer worldwide. About 700,000 people are afflicted with this disease at present. Almost all of those diagnosed with liver cancer die within a year.

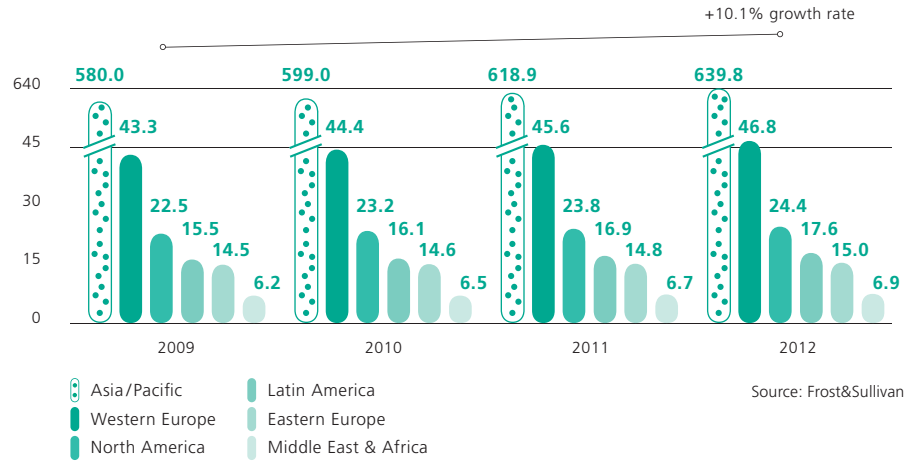
:: 12 DISTRIBUTION OF HCC PATIENTS WORLDWIDE



Source: Frost&Sullivan

85% of people with liver cancer live in the Asia/Pacific region. The number of people with liver cancer is likely to rise to about 750,000 worldwide by 2012.

:: 13 EXPECTED DEVELOPMENT OF PATIENT FIGURES OF HCC :: IN 000'S



Source: Frost&Sullivan

CAUSES :: Symptoms only occur at an advanced stage in liver cancer (HCC), therefore it is often only diagnosed at late stage. Incidence is higher where hepatitis B virus infection is prevalent, as it causes liver cells to become cancerous.

Historically, North America and Western Europe have seen fewer incidences, although the numbers are rising. In the United States HCC figures have tripled between 1975 and 2005. Researchers believe that this is linked to an increase in chronic hepatitis C infections. Other factors that may contribute to the increase include: heavy alcohol consumption, fatty liver disease, obesity, diabetes mellitus and iron storage diseases.

DRUGS IN DEVELOPMENT :: RESMINOSTAT (4SC-201) is the most advanced oral compound in the oncology portfolio. Phase II trials are focused on HCC and HL. In addition, we are aiming for a further indication in which resminostat will be developed in combination with a standard chemotherapy in order to target an even broader market segment.

:: 14 PIPELINE "RESMINOSTAT"

Product	Research	Preclinical	Phase I	Phase II	Phase III	Indication
4SC-201	HDAC "SHELTER"					Hepatocellular Carcinoma (HCC)
4SC-201	HDAC "SAPHIRE"					Hodgkin's Lymphoma (HL)

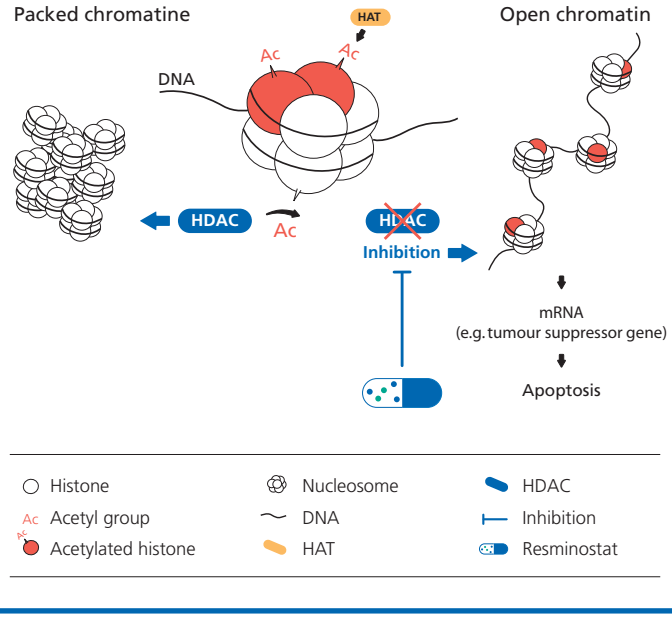
PHASE II STUDY: "SHELTER" IN HCC

:: Investigation of the drug as a second-line therapy, alone and in conjunction with the only approved first-line therapy
:: Open-label, two-arm, multi-centre
:: Up to 50 patients, 12 weeks
:: Primary endpoint: Determination of the progression-free survival rate (PFSR) after 12 weeks, optional open-ended continuation of treatment
:: Secondary endpoints: Time to progression (TTP), the progression-free survival rate (PFSR) after six weeks and overall survival (OS), safety parameters and pharmacokinetics as well as examination of biomarkers
:: Results are expected in the first half of 2011

PHASE II STUDY: "SAPHIRE" IN HL

:: Open-label, one-arm, multi-centre, international
:: 33 patients
:: Primary endpoint: Objective overall response rate (ORR)
:: Secondary endpoints: Assessment of progression-free survival (PFS), time to progression (TTP), duration of response (DOR) and overall survival (OS) as well as safety parameters and pharmacokinetic factors
:: Results are expected at the end of 2011

:: 15 EPIGENETIC MODE OF ACTION OF RESMINOSTAT



RESMINOSTAT IS AN ORALLY ADMINISTERED PAN HISTONE DEACETYLASE (HDAC) INHIBITOR :: HDAC inhibitors work on an an epigenetic principle which alters the chromatin structure and the resulting gene activity patterns. One of the most prominent epigenetic principles is that of histone acetyltransferases (HATs) catalysing the acetylation of histones, leading to a looser chromatic structure which results in an increase of transcription factors. In contrast, HDAC's counter the activity of HATs and catalyse the deacetylation of histones, leading to a closed chromatin structure and reduced gene activity. Inhibiting HDAC activity through HDAC inhibitors such as RESMINOSTAT leads to cell differentiation in tumour cells and finally to apoptosis (programmed cell death). This helps to stop tumour progression or even induce tumour regression and may control cancer in the long term :: 15.

:: 4SC SHARE PRICE PERFORMANCE

The share price at year's end was €2.96. As a result of the capital increase, the market capitalisation rose 29.4% year on year, to around €114 million.

EQUITY MARKETS IN 2009: BETTER THAN EXPECTED

At the beginning of 2009, equity markets remained entirely in the grip of the international financial and economic crisis. Share prices in Germany continued to drop across the board in the first quarter of 2009 after the DAX had already plunged about 40% in 2008. By 6 March 2009, the DAX had fallen by another 1,000 points to 3,666 points. But the economic outlook of the G20 countries began to improve in March due to the comprehensive economic stimulus packages that had been put in place. This was supported by the first positive financial results issued by the financial sector, which caused the leading stock market index DAX to recover. Sector indices such as the TecDax, the NASDAQ Biotechnology Index and the DAXsubsector All Biotechnology Index also fell until March, but recovered in line with the broader market.

Later in the year, the market's reaction to negative events such as the bankruptcy of CIT Group, the largest US specialist lender to SMEs, or reports on the problems of the state-owned holding company, Dubai World, resulted in short periods of intensive trading and retreating share prices. Yet neither of these events managed to stop market participants' ever-increasing optimism. The global Stock markets ended the year with a rally. The DAX closed the year at 5,957.43 points, a gain of 23.9%; the TecDAX closed at 817.58 points, a year-on-year gain of 62.1%; and the NASDAQ Biotechnology Index closed at 843.57 points, a gain of 15.6%. The DAXsubsector All Biotechnology Index closed 2009 at 113.72 points, gaining 17.3% over the year.

4SC'S SHARE PRICE PERFORMANCE FOLLOWS THE MARKET

4SC's share price performance was unable to extricate itself from the negative effects of overall market sentiment at the start of the year. Moving down with the overall market, the shares closed at €2.60 on 23 March 2009, the low for the year, and subsequently followed a sideways trend. The DAXsubsector All Biotechnology Index reached its low for the year of 88.1 points on 20 March 2009.

The results published on 27 March 2009 for the 2008 financial year marked the end of the 4SC's share price sideways trend. The capital market rewarded both the cash reserves generated through the 2008 capital increase and the strengthened shareholder base. In addition, the positive clinical developments supported the Company's promising outlook for the 2009 financial year. The share price rose to a new interim high of €3.10 within a month. The first quarter results published in May 2009 confirmed the Company's operational results, but failed to have a major impact on the share price development. During this period, performance remained mostly flat and returned some modest gains.

:: Table 03 KEY FIGURES OF THE 4SC SHARE

German SIN	575381
ISIN	DE0005753818
Share price symbol	VSC
Type of shares	Bearer shares
Number of shares	38.502.739
Market segment	Prime Standard
Stock exchange	XETRA, all German Stock Exchanges
Designated sponsor	Close Brothers Seydler AG, equinet AG
First day of trading	15 December 2005
Earnings per share (diluted/basic) (in €)	- 0.54
Number of shares issued (annual average, in 000's)	29,753
Free float	19.0%
Annual high (Xetra) (in €)	3.50
Annual low (Xetra) (in €)	2.60
Closing price on balance sheet date (Xetra) (in €)	2.96
Trading volume (annual average)	7,274

SUBSTANTIALLY IMPROVED TRADING VOLUME AND LIQUIDITY

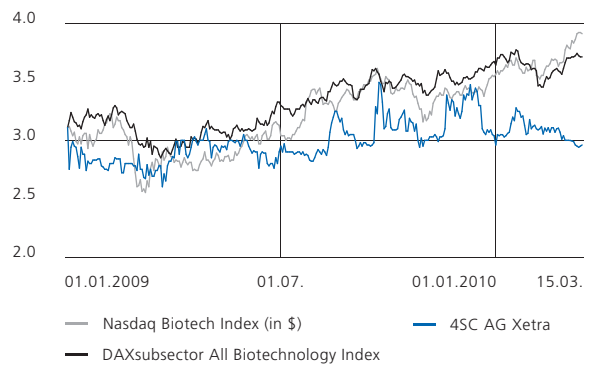
:: Following the publication of the Company's results for the first half of the year, the share price climbed to €3.50 on 22 September 2009, its high for the year. However, in the run-up to the new capital increase, which was successfully completed on 16 November 2009, the shares returned some gains. The average trading volume rose substantially in the second half of the year, after hovering at a fairly low level in the first six months of 2009. More than 80,000 shares changed hands on peak trading days. The rising trading volume further accelerated this trend, especially in the light of reports on the progress of the Company's development programmes. But the overall market was also gaining ground during this phase. The German DAXsubsector All Biotechnology Index outperformed 4SC's shares towards the end of the year.

For 4SC's share, the 2009 stock market year ended at €2.96. The intra-year share price high of €3.50 represented a temporary gain of 13.3% for the shareholders compared to the start of the year.

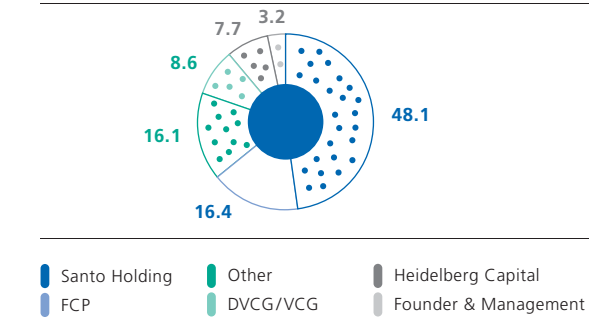
CAPITAL INCREASE: TEN MILLION SHARES SUCCESSFULLY PLACED

:: In October 2009, 4SC announced a capital increase and successfully placed ten million new shares. Existing shareholders were able to subscribe to new shares at a price of €3.00 per share. The Company's subscribed capital rose to €38,502,739 as a result. The shares were listed on the Frankfurt Stock Exchange in December 2009. This capital increase has secured the financing of 4SC's operating business and the ongoing development of its product pipeline. The shareholder structure has changed slightly due to the new share issuance. At 48.1% (2008: 48.7%), Santo Holding remains the Company's largest shareholder, followed by FCP with 16.4% (2008: 4.9%), DVCG/VCG with 8.6% (2008: 11.6%) and Heidelberg Capital with 7.7% (2008: 10.4%). According to Deutsche Bank, the free float is 19.0%, compared to 29.4% the previous year.

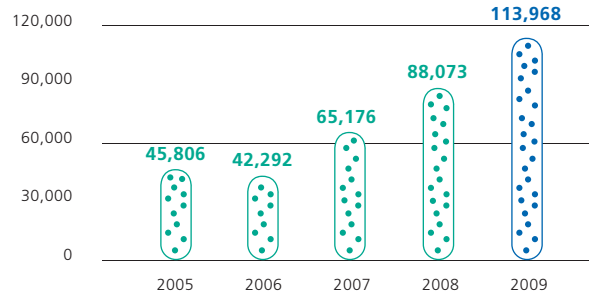
:: 16 SHARE PRICE :: IN €, INDEXED ON 4SC



:: 17 SHAREHOLDINGS :: IN % BASED ON INFORMATION AVAILABLE ON 31.12.2009



:: 18 MARKET CAPITALISATION AS AT 31.12. :: IN €000'S



EXPANSION OF INTERNATIONAL INVESTOR RELATIONS ACTIVITIES

:: During the reporting period, 4SC further intensified its investor relations activities, both nationally and internationally. The stated goal is to maintain continuous and transparent communications with both the capital market and all other stakeholders in order to increase interest in 4SC shares and therewith their liquidity. To this end, 4SC used company news to generate media interviews and meetings as well as road-shows – in locations such as San Francisco, New York, London, Frankfurt/Main, Geneva and Zurich. In addition, the Company intensified its presence at international investor conferences. 4SC presented itself at the following conferences in the past year:

:: BIO-CEO Conference, February, New York
:: BioEquity, May, Munich
:: DVFA Life Science Conference, June, Frankfurt
:: 7th SCC Small Cap Conference, September, Frankfurt
:: Sal Oppenheim, September, Frankfurt
:: Sachs Associates 9th Annual Biotech in Europe Investor Forum, September, Zurich
:: DZ Bank German Healthcare Conference, September, Zurich
:: Rodman & Renshaw Annual Healthcare Conference, September, New York
:: Equity Forum, November, Frankfurt

These measures were supplemented by regular conference calls. These activities have already generated results as the Company has been able to gain visibility relative to its international competitors. The response to these activities is reflected in greater interest from investors for meetings and the shares which, in turn, has been shown by the successful capital increase and the increase in liquidity. In 2009, the Company also succeeded in expanding analyst coverage. In November, Frankfurt-based equinet published its first research report on 4SC. Other research companies that cover 4SC regularly include Midas Research (Mannheim), SES Research and Alster Research (both Hamburg). 4SC aims to continue expanding this coverage – internationally as well.

:: REPORT OF THE SUPERVISORY BOARD

Dr Jörg Neermann :: Chairman of the Supervisory Board

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

2009 was yet another successful financial year for 4SC, one marked by further progress and new challenges. This included successes in product development as well as strategic decisions of an economic, structural and financial nature. The capital increase completed on 16 November 2009 secured the Company's financial position and the further development of its clinical development programmes.

In our capacity as the Supervisory Board, we monitored and advised the Management Board in the pursuit of its executive responsibilities and worked closely with it to support the Company's development – as we are required to do both under law and the Company's Articles of Association. In 2009, we continued to maintain a dialogue of trust and cooperation in order to discuss and negotiate relevant issues and pending decisions.

Besides myself in my capacity as Chairman, the Supervisory Board also comprised Günter Frankenne, Diplom-Volkswirt (Master of Economics); Dr Clemens Doppler; Helmut Jeggle, Diplom-Betriebswirt (Master in Business Administration); and Dr Manfred Rüdiger. Dr Thomas Werner, who has many years of experience in the pharmaceutical industry given his former position as Managing Director of GlaxoSmithKline Germany, joined as a new member of the Supervisory Board. He was elected by the Company's Annual General Meeting on 15 June 2009 to succeed Dr Thomas Strüngmann, following his decision to step down from the Supervisory Board. However, Dr Strüngmann will continue to contribute his industry expertise to 4SC in an advisory capacity. I thank Dr Strüngmann in the name of the entire Supervisory Board for his dedicated commitment and contribution.

Our meetings dealt mainly with the ongoing development of our product pipeline, the financing of 4SC as well as the pursuit of potential strategic options. For example, this included defining our development strategy and discussing the progress of the product candidates in clinical development. Further topics were the funding of our projects by means of a capital increase as well as potential licence agreements for individual candidates.

The Management Board informed us in a regular, timely and comprehensive manner of important changes and developments; we were thus involved at all times in all material decisions relevant to the Company. The Management Board also used reports (e.g. monthly financial reports), phone calls and e-mails on a regular basis to keep us informed in between Supervisory Board meetings – also in regards to decisions required on short notice. When necessary, we adopted our resolutions by circular memorandum i.e. in writing, without meeting face to face.

At every meeting, the Management Board reported to us on the Company's performance and explained deviations from plans and targets. We conducted exhaustive reviews of these reports and discussed strategic development opportunities as well as other relevant key topics with the Management Board in detail. Legal transactions requiring our approval were submitted to us at the Supervisory Board meetings.

:: Table 04 COMMITTEES

	Audit Committee	Compensation Committee	Business Development Committee
Dr Jörg Neermann	Member	Chairman	
Dipl.-Vw. Günter Frankenne		Member	
Dr Clemens Doppler	Member		Member
Dipl.-Bw. Helmut Jeggle	Chairman		Member (until 15 June 2009)
Dr Manfred Rüdiger		Member	Chairman
Dr Thomas Werner			Member (from 15 June 2009)

There was no reason for conducting additional examinations, such as inspecting the Company's documentation or commissioning experts. No conflicts of interest arose in the Supervisory Board.

In the 2009 financial year, we attended four required meetings: on 13 March, 15 June, 1 October and 3 December 2009. All members of the Management Board participated in these meetings. The individuals present at the given meeting engaged in detailed discussions of the topics relevant to the Company such as the progress and ongoing development of our product pipeline, cooperation deals, finance and administration, strategic options as well as our exposure to risk and personnel issues, which also include the adequacy of the Management Board's compensation. Please see page 26 for the specific agenda :: Table 05.

Three committees – an Audit Committee, a Human Resources Committee and a Business Development Committee – supplemented the full Supervisory Board in order to increase the efficiency of each Supervisory Board member's work :: Table 04. In our view, the Nomination Committee, which is recommended under the German Corporate Governance Code, does not further enhance our efficiency, which is why we decided not to establish it. The chairmen of the respective committees regularly reported to the Supervisory Board at its meetings on matters that had been discussed only in the committees.

The Human Resources Committee met three times during the reporting year, mainly to discuss compensation issues and bonuses.

The Audit Committee met five times via conference call, in part in the presence of KPMG AG, the auditor. The committee members also discussed the respective interim financial statements during the reporting year. As a result, 4SC has also complied with the recommendations of the German Corporate Governance Code on this point. The Audit Committee's only meeting requiring the personal attendance of all members took place on 18 November 2009. All those present at this meeting discussed the 2010 budget, for the first time not just with the Chairman but with the entire Audit Committee. One of the members of the Audit Committee is an independent member with expertise in accounting or financial statements auditing as required by section 100(5) and section 107(4) of the German Stock Corporation Act (Aktiengesetz – AktG).

In 2009, the Business Development Committee conducted four meetings via telephone or e-mail and convened one meeting that required all members to be present. In the main, these meetings entailed aligning further business activities and analysing the early preclinical pipeline.

The table on page 26 provides a detailed overview of each Committee's agenda items :: Table 06.

The Company's Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, to serve as the auditor of the 2009 financial statements. KPMG audited the annual financial statements in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the International Financial Reporting Standards (IFRS) as well as the respective management reports for the 2009 financial year, issuing an unqualified Auditors' report in each case. The Management Board made these annual financial statements and management reports as well as the two audit reports available to us ahead of our meeting on 22 March 2010. The Audit Committee discussed and examined information on the current annual financial statements with the auditor and the Company's management in two conference calls prior to the aforementioned meeting and subsequently reported its deliberations to us. The Supervisory Board discussed and examined the financial statements and the management reports at its meeting on 22 March 2010. The assessments made by the Management Board in the management reports were consistent both with those previously communicated in its reports to the Supervisory Board and our own assessments. The auditors reported to the Audit Committee and the Supervisory Board on the key findings of their audit and were available to answer further questions.

After this thorough examination and based on the recommendation of the Audit Committee, the Supervisory Board did not raise any objections to the financial statements and the management reports. Based on our assessment, all of these documents were in compliance with statutory requirements as well. We agreed with the auditor's findings on the audit of the annual financial statements and approved the annual financial statements as drawn up by the Management Board. The financial statements are therefore adopted.

Finally, allow me address the German Corporate Governance Code one more time. 4SC takes its recommendations very seriously and mostly complies with them. In its most recent Declaration of Compliance dated 25 February 2010, the Management Board and the Supervisory Board stated that they were and are in compliance with the recommendations of the German Corporate Governance Code as amended on 18 June 2009 and intend to be in compliance in the future – with the exceptions mentioned in the Declaration of Compliance dated 25 February 2010. For more information, please see the "Statement on Corporate Governance" on pages 40 to 42 of this annual report. These pages also contain the Declaration of Compliance.

The efficiency review of the Supervisory Board members' work recommended by the German Corporate Governance Code was conducted on the basis of a questionnaire that was developed expressly for this purpose and had to be completed by all Supervisory Board members. It was processed in a follow up to the Supervisory Board meeting on 3 December 2009. The Supervisory Board discussed the results yet again on 22 March 2010, its first meeting in the current financial year requiring personal attendance. This led to the confirmation that the Supervisory Board works efficiently.

An intensive financial year that was very rewarding is behind us, and we look forward to the next exciting challenges.

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.

Planegg-Martinsried, March 2010

DR JÖRG NEERMANN
Chairman of the Supervisory Board

:: Table 05 SUPERVISORY BOARD MEETINGS

The following table enumerates specific issues that were addressed at individual Supervisory Board meetings in addition to standard topics, such as for instance reports on research & development, business development and finance & administration.

13 MARCH 2009:
FIRST MEETING REQUIRING PERSONAL ATTENDANCE

:: Financials meeting: Adoption of the 2008 annual financial statements
:: Adoption of the report of the Supervisory Board for 2008
:: Follow-up on the efficiency review conducted at the meeting in December 2008
:: Explanation and adoption of the Declaration of Compliance as well as the Reports on Corporate Governance and Executive Compensation
:: Presentation of the agenda items for the Annual General Meeting on 15 June 2009
:: Presentation of the planned new Employee Stock Option Programme (ESOP), ESOP 2009
:: Final determination of the Management Board's compensation and the management milestones for 2009
:: Discussion of the status and progress of the Company's development projects as well as necessary financing measures

15 JUNE 2009:
SECOND MEETING REQUIRING PERSONAL ATTENDANCE

:: Follow-up to the Annual General Meeting held on the same day
:: Acceptance by Dr Thomas Werner of his appointment to the Supervisory Board
:: Personnel changes in the committees
:: Commissioning of KPMG to audit both the 2009 annual financial statements and the 2009 half-yearly report
:: Discussion of additional funding options
:: Discussion of strategic development options for the Company
:: Report on the new MedSys grant project

1 OCTOBER 2009:
THIRD MEETING REQUIRING PERSONAL ATTENDANCE

:: Presentation of a concept regarding the planned capital increase
:: Discussion of various statutory and formal issues, e.g. German Act on the Adequacy of Compensation for Management Boards (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) and German Corporate Governance Code as well as their impact on the Company

3 DECEMBER 2009:
FOURTH MEETING REQUIRING PERSONAL ATTENDANCE

:: Discussion of the 2010 budget and the three-year budget
:: Follow-up discussion of the capital increase as well as discussion of the new shareholder structure
:: Discussion of the questionnaire regarding the Supervisory Board's efficiency review
:: Amendment of the rules of procedure for the Management Board and the Supervisory Board
:: Achievement of target in 2009
:: Determination of the corporate goals for 2010
:: Review of the Management Board's compensation for 2010 and discussion of the adjustment to the German Act on the Adequacy of Compensation for Management Boards (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG)

:: Table 06 COMMITTEE MEETINGS

MEETINGS OF THE AUDIT COMMITTEE (MEETINGS REQUIRING PERSONAL ATTENDANCE AND CONFERENCE CALLS):

29 JANUARY 2009: Discussion of and planning for the 2008 annual financial statements
20 FEBRUARY 2009: Interim status report on the 2008 annual financial statements audit
6 MAY 2009: Discussion of the Q1 / 2009 quarterly report
29 JULY 2009: Discussion of the Q2 / 2009 quarterly report
27 OCTOBER 2009: Discussion of the Q3 / 2009 quarterly report
18 NOVEMBER 2009: Discussion of the 2010 budget and the three-year budget

MEETINGS OF THE HUMAN RESOURCES COMMITTEE (MEETINGS REQUIRING PERSONAL ATTENDANCE AND CONFERENCE CALLS):

13 MARCH 2009: Discussion of the compensation structure as well as the management milestones for 2009
18 NOVEMBER 2009: Discussion of the director's contracts, the compensation of the Management Board as well as bonuses
3 DECEMBER 2009: Discussion of bonus payments and the management milestones for 2010

MEETINGS OF THE BUSINESS DEVELOPMENT COMMITTEE (MEETINGS REQUIRING PERSONAL ATTENDANCE AND CONFERENCE CALLS):

23 APRIL 2009: Discussion of the proposals regarding the alignment of the Company's activities
21 JULY 2009: Discussion of the "early, non-clinical pipeline"
23 JULY 2009: Discussion of the assessment of the early, non-clinical pipeline
16 SEPTEMBER 2009: Discussion of the approach to evaluating the options for developing the anti-infectives projects using external resources

MANAGEMENT REPORT

:: MANAGEMENT REPORT

MANAGEMENT REPORT

1. THE COMPANY 4SC

1.1 BUSINESS ACTIVITIES

4SC is an international biotechnology company specialised in the research and development of novel drugs for the treatment of serious autoimmune diseases and cancer. The Company's goal is to build a sustainable and broadly diversified product pipeline. To that end, small-molecule drug candidates are developed until the early clinical phases and turned into attractive products for licensing deals with pharmaceutical and global biotech companies once the proof-of-concept has been obtained. These partners will then complete the products' further development and marketing.

4SC aims to use such partnerships to generate licence fees, milestone payments and royalties in order to achieve substantial growth for the Company. 4SC also generates income from research cooperations with pharmaceutical and biotech companies.

1.2 LEGAL STRUCTURE AND ORGANISATION

4SC is a publicly listed company under German law that was founded on 3 August 2000 under the name 4SC Drug Discovery AG. The Company's shares have been traded throughout Germany via the Prime Standard since 15 December 2005. The Company is domiciled in Planegg-Martinsried near Munich. It opened a branch office in Überlingen-Bonndorf on Lake Constance in early 2009.

1.3 THE INDICATIONS AT A GLANCE

The therapeutic focus of 4SC is on autoimmune diseases and cancer. The treatment options for these indications are insufficient to date and thus offer major market potential.

Autoimmune diseases are illnesses that cause the body's immune system to attack itself. 4SC is developing therapeutics for two indications – rheumatoid arthritis (RA) and inflammatory bowel disease. The most advanced product candidate is 4SC-101, which was given the international non-proprietary name (INN) vidofludimus in January 2010.

Cancers are diseases that trigger uncontrolled growth of the body's cells, displacing and destroying healthy tissue in the process. In oncology, 4SC is currently focused on two indications – hepatocellular carcinoma (HCC) and Hodgkin's lymphoma (HL) – for which it is developing the drug candidate, resminostat (4SC-201). Resminostat is being evaluated Phase II studies in these indications and a study in a third indication is in the planning stage. We are also conducting a Phase I study of 4SC-203 in healthy volunteers with the aim of developing this product candidate for the treatment of acute myeloid leukaemia. A third oncology candidate, 4SC-205, entered clinical trials at the beginning of 2010. In this Phase I study, it is being evaluated in patients with advanced solid tumours and malignant lymphomas.

1.4 MARKETS

4SC intends to licence the drug candidates that it has developed to pharmaceutical and biotechnology companies with established drug marketing capabilities. In doing so, the Company is focused on the key pharmaceutical markets – the EU, North America and Japan – as well as other markets where intellectual property rights are adequately protected by means of patents or marketing licences.

1.5 CORPORATE STRATEGY AND GOALS

4SC wants to develop into a profitable company by discovering and developing drug candidates suitable for treating diseases with high medical needs; subsequently, it will exploit the major growth and sales potential that they offer by licensing them to partners. The Company intends to use licensing revenue to become a profitable company.

2. ECONOMIC ENVIRONMENT

2.1 GLOBAL ECONOMY: THE SHARP DOWNTURN GIVES WAY TO SLOW RECOVERY

Following the dramatic downturn of the global economy during autumn 2008, most countries recovered slowly during the course of 2009. The effects of monetary and fiscal stimulus packages were realised in industrialised countries, and the economic climate in the emerging Asian countries that had been hit particularly hard by the global economic crisis also stabilised. Germany also benefited from the economic turnaround in the second half of the year. Yet these positive developments are fragile, especially as financing opportunities continue to remain difficult for companies. Banks remained reluctant to extend loans so that companies continued to struggle to obtain the capital for investment needs. Raising equity capital also remained difficult as potential investors remained very cautious.

2.2 CURRENT DEVELOPMENTS IN THE PHARMA AND BIOTECH INDUSTRY

The year 2009 was shaped by a number of major mergers and acquisitions. Pfizer, the world's largest pharmaceutical group, acquired Wyeth for $68 billion in a bid to remain competitive due to the imminent expiration of its patents, particularly the patent for the cholesterol blocker Lipitor, which expires in 2010. Merck & Co.'s takeover of Schering-Plough for $41 billion created the world's second largest pharmaceutical group after Pfizer in 2009. Roche completed its acquisition of the biotech giant, Genentech, during the reporting year which it had already commenced in 2008.

The global financial crisis and the tightening of the credit and equity markets that it triggered reduced available financing, putting pressure on the biotech industry, which is sensitive to developments of the capital market. This made it much more difficult to raise venture capital and private equity to refinance companies' operating business, while companies' valuations were lowered at the same time. This was one of the drivers intensifying the trend toward industry consolidation. In the United States, M&A transactions were worth $34.5 billion (2008: $26.7 billion), a new record; Sanofi-Aventis and Abbott Laboratories led the list with 15 deals and a total M&A volume of $21 billion. Another factor for the accelerating consolidation trend was the pharmaceutical companies' need to supplement and secure their own drug pipelines by acquiring both products and product candidates due to expiring patents. This need for innovative drug candidates triggered a sharp increase in acquisitions and cooperation deals among biotech companies in the US, rising to 52 in 2009 (2008: 43).

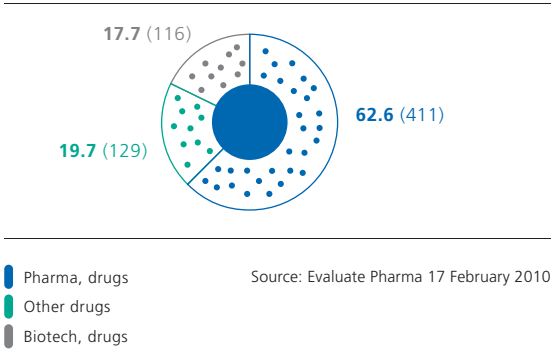
This development has not yet reached Germany despite the healthcare sector exhibiting the same trends. On the one hand, total sales and employment have risen moderately, and there has been a slight increase in the number of projects in clinical development. On the other hand, the number of announced mergers and acquisitions has dropped substantially from 32 to 13. The number of equity financing deals also fell, from 24 to 19, due to the tight finance markets.

2.3 OVERVIEW OF CLINICAL DEVELOPMENTS – POSITIVE RESULTS STIMULATE THE MARKET

In 2009, the industry was able to report numerous successes in the development of new drugs and therapies. Positive clinical data improve the market climate. In April for instance, Intercell, the Austrian company that develops vaccines, obtained the approval from both the US and the EU for Ixiaro, a vaccine against Japanese encephalitis. Amgen, the world's largest biotech company, reported positive news in oncology. Its drug Denosumab delivered highly convincing Phase III data for the treatment of bone metastases. The company is expected to reap peak sales in excess of $3 billion annually if the drug is approved.

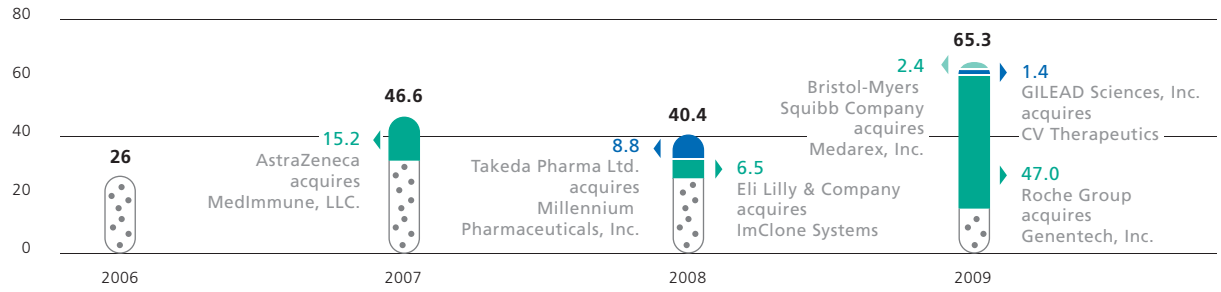
In particular, in the indication of autoimmune disease numerous clinical announcements related mostly to small-molecule drug candidates, but also to antibodies, were reported in the second half. In June, Pfizer reported positive interim data on two open-label Phase II studies for the orally administered JAK-3 inhibitor CP-690,550 in RA at one of the world's largest conferences on rheumatism, the European League Against Rheumatism (EULAR). In July, the Danish company, Genmab, along with GlaxoSmith-Kline, reported positive Phase III data for their antibody Ofatumumab in patients whose response to the treatment with methotrexate had been inadequate. In early July, US-based Rigel Pharma announced positive Phase IIb data for its small-molecule drug candidate R788 against rheumatoid arthritis in RA patients on the background of methotrexate. Also in July, the share price of US-based Human Genome Sciences skyrocketed by more than 200% after the company published positive results in a Phase III study in lupus. These positive results allowed Human Genome Sciences to complete a capital increase of $356.7 million – the largest in the biotechnology sector since 2006.

:: 19 DISTRIBUTION OF REVENUE IN THE GLOBAL HEALTHCARE SECTOR IN 2009 :: IN % ($BN)



Source: Evaluate Pharma 17 February 2010

:: 20 M&A BIOTECH TRANSACTIONS WORLDWIDE :: IN $BN



Source: BioCentury 4 January 2010, Evaluate Pharma 2010, company press releases

But there were also setbacks in connection with rheumatoid arthritis. In July, Rigel reported that it was unable to reach the primary endpoint in its second Phase IIb study with the small-molecule compound R788 due to high placebo rates. In contrast to the preceding study, this second study was carried out in patients whose illness had progressed to a more advanced stage and who had not responded to antibody-based therapies. Array Biopharma also had to end a programme in September because the preliminary data for its small-molecule MEK inhibitor ARRY-162 failed to achieve the primary endpoint in the Phase II study. The group of patients that was examined did not respond to methotrexate; in addition, the placebo rates were higher than expected and exhibited regional differences.

But in December it was shown that small-molecule drugs are in demand for autoimmune diseases. Incyte announced that it had closed an exclusive worldwide licensing and cooperation agreement with Eli Lilly on the development and marketing of Incyte's orally administered JAK1 / JAK2 Incyte inhibitor INCB28050. Incyte will receive a first payment of $90 million for the worldwide development and marketing rights as well as potential additional payments of up to $665 million that are contingent on milestones. A major alliance between a pharmaceutical and a biotech company was also announced in German-speaking territories at the end of December. Intercell AG und GlaxoSmithKline Biologicals SA (GSK) announced that they had entered into a strategic alliance with the aim of rapidly developing and marketing needle-free vaccines in the form of skin patches. Under the terms of the deal, GSK will pay an upfront of about €34 million ($49.4 million) as well as incrementally acquire an additional equity stake of up to €84 million ($123.5 million) in the company.

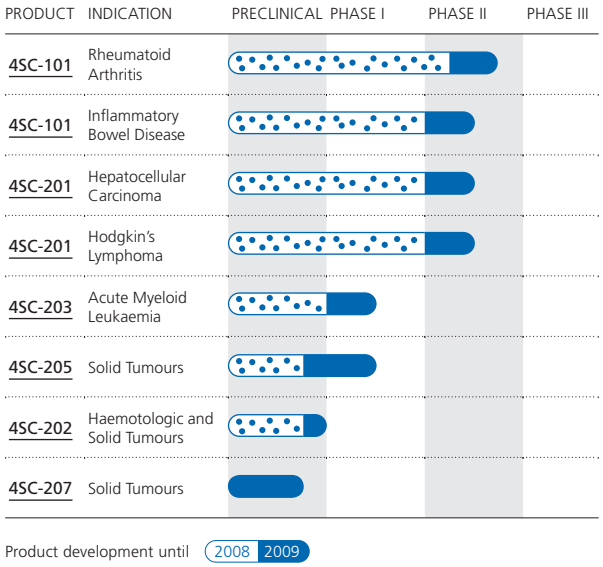
Also in December, US pharmaceutical company Celgene, which is specialised in oncology, acquired the biotech company Gloucester for $340 million in cash plus additional performance-based milestone payments of up to $300 million. With the HDAC inhibitor Istodax (Romidepsin), Celgene receives a drug that has already been approved for cutaneous T-cell lymphoma (CTCL) and is also in a Phase III study for peripheral T-cell lymphoma (PTCL). The acquisition netted Gloucester's investors, who had invested merely $100 million to date, a high return on equity.

3. BUSINESS PERFORMANCE

3.1 KEY EVENTS IN 2009

4SC made major progress with respect to its drug pipeline in the 2009 financial year. A number of drug candidates were advanced into the clinical development stage, which allowed the Company to establish a broad portfolio in the process. Three Phase II studies were launched in 2009 as well as a fourth one in January 2010, i.e. shortly after the close of the reporting period. A capital increase was successfully executed and secures the ongoing development of the product pipeline.

:: 21 DEVELOPMENT OF THE PRODUCT PIPELINE



POSITIVE DEVELOPMENT IN CLINICAL STUDIES :: In 2009, 4SC reported on a large number of positive clinical study developments and results. The Company's two most advanced drug candidates – vidofludimus und resminostat – entered four new Phase II studies in the course of 2009 and at the start of 2010. Upon completion of this phase, these compounds should enter into partnering deals to ensure further development and marketing. The sustainability of the pipeline is secured through research activities and the entry of oncology candidates 4SC-203 and 4SC-205 into Phase I.

EUROPEAN PATENT GRANTED FOR SMALL-MOLECULE COMPOUND :: In 2009, European patent EP1392642 was granted for the small-molecule compound vidofludimus for the treatment of autoimmune diseases such as RA. With this, 4SC received the necessary protection of exclusivity to continue developing the compound into a profitable product. The patent, entitled "novel compounds as anti-inflammatory, immunomodulatory and anti-proliferatory agents", protects the manufacturing, composition of matter and use in diseases of a novel group of compounds which inhibit DHODH, including vidofludimus. 4SC had already obtained a patent for vidofludimus from the United States Patent and Trademark office back in 2006. The Company also owns patents in Canada, Russia, New Zealand, South Africa and Mexico.

4SC AWARDED RESEARCH GRANTS FROM BOTH THE BAVARIAN STATE AND THE GERMAN GOVERNMENT :: As part of a consortium, 4SC received a grant from the Bavarian Research Foundation (Bayerische Forschungsstiftung) to conduct research on protein kinase inhibitors in connection with the treatment of herpes viruses. The three-year project will be funded with a total amount of approximately €700 thousand. In addition, 4SC is being funded as part of a consortium for a period of three years by the Federal Ministry of Education and Research under a programme entitled "Biotechnologie – Chancen nutzen und gestalten" (Tap Into and Shape Opportunities in Biotechnology) that aims to work on medically relevant issues in systems biology with a broad potential of applications. The total grant is €1.7 million.

The following table shows the most important product development milestones in 2009:

:: Table 07 THE MOST IMPORTANT PRODUCT DEVELOPMENT MILESTONES IN 2009

Date	Product	Indication/patient population	Event	Study information	Endpoint
22.12.	4SC-201	Hodgkin's lymphoma	Initiated study centres Phase II study, "SAPHIRE"	33 patients One-arm Open-label Multi-centre/ international	Primary: ORR Secondary: OS/PFS/TTP/DOR Safety/pharmaco- kinetics/biomarkers
22.12.	4SC-203	Healthy subjects	Initiated study centres Phase I study	Up to 50 patients Randomised Double-blind Placebo-controlled	Primary: Safety/ pharmacokinetics
22.12.	4SC-205	Solid tumours/ malignant lymphomas	BfArM accepts study protocol Phase I study, "AEGIS"	Up to 30 patients One-arm Open-label Multi-centre	Primary: Safety/ pharmacokinetics
09.11.	4SC-101	Rheumatoid arthritis	First patient Phase IIb study, "COMPONENT"	244 Patients Two-arm Randomised Double-blind Placebo-controlled Multi-centre/ international	Primary: ACR20 Secondary: ACR50/70, DAS28 Safety/pharmaco- kinetics/biomarkers
17.09.	4SC-201	Cancer and hepato- cellular carcinoma	ECCO-ESMO Conference – presentation	Phase I and preclinical HCC data (in vitro/in vivo)	
18.08.	4SC-201	Hepatocellular carcinoma	First patient Phase II study, "SHELTER"	50 Patients Two-arm Open-label Multi-centre/ international	Primary: PFSR Secondary: TTP/OS Safety/pharmaco- kinetics/biomarkers
28.05.	4SC-101	Inflammatory bowel disease	DDW Conference – presentation	Preclinical data on IL-17 inhibition in TNBS model	
26.05.	4SC-201	Cancer	ASCO – presentation	Phase I data	
04.03.	4SC-101	Inflammatory bowel disease (Crohn's disease and ulcerative colitis)	First patient Phase IIa study "ENTRANCE"	24 Patients One-arm Open-label Multi-centre	Primary: steroid fully replaced Secondary: reduced steroid dose CDAI (MC)/CAI (CU) Safety/pharmaco- kinetics/biomarkers

CAPITAL INCREASE: TEN MILLION SHARES SUCCESSFULLY PLACED :: On 23 October 2009, the Company's Management Board resolved with the Supervisory Board's approval to complete a capital increase. A total of 10 million new shares were placed by 16 November 2009, generating gross cash proceeds of €30 million for the Company. The proceeds from this issue were at the upper end of the anticipated range. As a result, 4SC's subscribed capital rose from €28,502,739 to €38,502,739. The shares were listed on the Frankfurt/Main Stock Exchange on 15 December 2009. These proceeds ensure the further development of the current product pipeline until at least the end of 2011.

3.2 DESCRIPTION OF THE PRODUCT PIPELINE

4SC has a broad pipeline of drug candidates focused on treating autoimmune diseases and oncology. At present, the following four products are in the clinical pipeline, with a total of two clinical programmes (studies) in autoimmune diseases and four in oncology. Furthermore, two preclinical oncology candidates are being evaluated and prepared for entry into Phase I.

VIDOFLUDIMUS – 4SC-101 (DHODH- AND INTERLEUKIN-17 INHIBITOR) :: SUPPRESS INFLAMMATORY PROCESSES :: Vidofludimus is the most advanced oral drug candidate which is being developed for the treatment of RA and inflammatory bowel disease (IBD). In addition, it is also well positioned in other autoimmune diseases such as lupus, psoriasis and multiple sclerosis. In the field of RA, this drug belongs to the class of synthetic disease-modifying anti-rheumatic drugs (DMARDS) that can slow disease progression in order to prevent further damage to the joints.

Its therapeutic effect is based on a dual mechanism. For one, it inhibits the dihydroorotate dehydrogenase enzyme (DHODH), which is required for the division of rapidly proliferating cells. This inhibits the division of activated

T and B cells, which is much higher during inflammation. For another, preclinical studies in animal models have shown that vidofludimus suppresses the development of a key cytokine, Interluken-17 (IL-17). IL-17 is a signalling cytokine of the Th17 cell type that is involved in controlling and regulating inflammatory processes and is linked to numerous autoimmune diseases.

Vidofludimus is currently in two Phase II studies. The "COMPONENT" study in the indication RA was commenced in November 2009. It is a randomised, two-arm, double-blind, placebo-controlled international multi-centre Phase IIb study evaluating vidofludimus in 244 patients on the background of methotrexate, the current standard of care for patients suffering from this disease. The primary endpoint of the study is ACR20. ACR50, ACR70, DAS28, safety parameters and pharmacokinetics will also be evaluated as secondary endpoints. This study's initial results are expected by the end of 2010.

In addition, already in March 2009, the Phase IIa "ENTRANCE" study for the treatment of inflammatory bowel diseases, which includes Crohn's disease and ulcerative colitis, was commenced. This exploratory, open-label, one-arm, multi-centre study is being carried out in 24 patients to evaluate whether steroid treatment can be replaced or reduced with vidofludimus. Initial results of this study are expected at the end of the first half of 2010.

RESMINOSTAT / 4SC-201 (CLASS I + II PAN-HDAC INHIBITOR) :: STABILISE AND REGRESS TUMOUR CELL PROGRESSION :: Resminostat is the most advanced orally administered candidate in the oncology portfolio. It is focused on the indications HCC (the most common form of liver cancer) and HL (a disease of the body's haematopoietic system). In addition, it is being evaluated for a further cancer indication where resminostat can be developed in conjunction with a standard chemotherapy in order to address an even broader market segment.

This drug is an orally administered pan histone deacetylase (HDAC) inhibitor. HDAC inhibitors modify the DNA structure of tumour cells, triggering cell differentiation and programmed cell death (apoptosis). This means that HDAC inhibitors possess a mechanism of action that can stop tumour progression, induce tumour regression and may therefore enable the long term control of cancer. In a Phase I study, at a daily dose between 100 mg and 800 mg resminostat was well tolerated and showed a favourable side effect profile – even when administered over longer periods. A stabilisation of the cancer was observed in 11 of the 18 patients treated in the Phase I study based on the international RECIST criteria.

Resminostat is currently in two Phase II studies. The "SHELTER" study in HCC, which commenced in August 2009, is evaluating the proof-of-concept of the drug candidate as a second-line therapy. In this two-arm study, resminostat is being evaluated as a monotherapy and as a combination treatment with sorafenib, the only approved first-line therapy for advanced stages of the disease. The primary endpoint of this open-label, two-arm, multi-centre study involving up to 50 patients is to determine the progression-free survival rate (PFSR 12) after twelve weeks of study treatment. The secondary endpoints include the analysis of time to progression (TTP), the progression-free survival rate after six weeks (PFSR 6), PFSR beyond 12 weeks and overall survival. The drug's safety, tolerability and pharmacokinetics will also be investigated, as will biomarkers. Results are expected for the first half of 2011.

The clinical centres for a second Phase II study in patients with HL were initiated in December 2009. The first patient out of a targeted total of 33 patients was recruited for the "SAPHIRE" study, an open-label, one-arm, multi-centre and international study, at the start of 2010. The objective overall response rate (ORR) of refractory or relapsed patients in standard therapies to resminostat constitutes the study's primary endpoint. The secondary endpoints include assessment of progression-free survival (PFSR), time to progression (TTP), duration of response (DOR) and overall survival (OS) as well as safety, tolerance and pharmacokinetics. The results are expected in the first half of 2011.

4SC-203 (PROTEIN KINASES) :: INHIBIT UNCONTROLLED CELL PROLIFERATION :: Preparations for this first-in-man Phase I study of the multi-target kinase inhibitor, including opening study centres for recruitment, were completed in December. This molecule, which inhibits FLT3, FLT3 mutants and VEGF receptors and is particularly suitable for treating acute myeloid leukaemia, was developed in cooperation with ProQinase GmbH, a company based in Freiburg, Germany. In early January 2010, 4SC launched the randomised, double-blind, placebo-controlled Phase I study in the first healthy subject in order to investigate the safety, tolerability and pharmacokinetics of 4SC-203 under intravenous administration. The results are expected at the end of 2010.

4SC-205 (EG5 KINESIN INHIBITOR) :: STOP CELL DIVISION :: In December 2009, the German regulatory agency BfArM approved the study protocol for a Phase I study of 4SC-205, an Eg5 kinesin inhibitor. At the beginning of 2010, the first patient for this open-label Phase I study named "AEGIS" was recruited. The study will investigate the safety, tolerability, pharmacokinetics and pharmacodynamics of 4SC-205 after oral administration. The results of the study are expected in 2011.

3.3 PRECLINICAL STAGE – SUPPLY BASE FOR PHASE I

4SC-202 (CLASS I HDAC INHIBITOR) :: 4SC-202 is a selective HDAC inhibitor that exhibits a different mechanism of action to resminostat. This drug in our oncology pipeline is currently being transitioned from the preclinical phase to clinical Phase I.

4SC-207 (CELL CYCLE BLOCKER) :: 4SC-207 is a cell cycle blocker (CCB) that is currently being evaluated in the preclinical stage in order to assess whether it should be advanced to the clinical development stage. 4SC-207 is characterised by a high level of activity against cancer cells that have become resistant to standard chemotherapies such as taxane und vinca alkaloids.

3.4 COMMENTS ON ACHIEVEMENT OF GOALS

DEVELOPMENT PROGRESS ACHIEVED :: It is the stated aim of 4SC to develop into a leading partner of pharmaceutical companies in the field of autoimmune diseases and oncology. To this end, the Company is developing discrete drug candidates up to the proof-of-concept. Subsequently, these drug candidates will be licensed to pharmaceutical companies so that they can be further developed and marketed.

The Company came a big step closer to this goal in the reporting year. For instance, vidofludimus entered Phase II of the clinical development stage for the two indications, RA and IBD. The expectation that both studies will yield findings in 2010 creates the basis for potential partnership agreements.

Major progress in establishing an oncology pipeline during the reporting year was also made. Two Phase II studies were launched for resminostat. There is a large medical need in HCC; in the indication HL the aim is to achieve proof-of-concept. The two oncological product candidates, 4SC-203 and 4SC-205, were advanced into Phase I in order to ensure the sustainability of the pipeline through our own research.

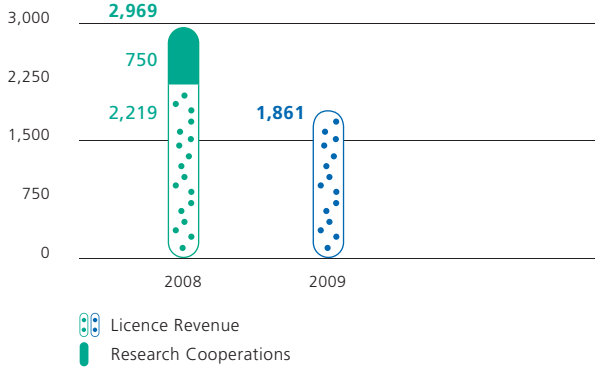
The capital proceeds generated through the 2009 capital increase will secure the ongoing development of 4SC's current product pipeline and the achievement of the next four clinical milestones – the Phase II results for vidofludimus in both RA and IBD as well as for resminostat in HCC and HL. Obtaining the proof-of-concept with our most advanced drug candidates will bring us a step closer to our goal of generating sufficient liquidity through co-operation and licensing deals in order to avoid further capital increases or borrowings.

4. FINANCIAL POSITION, CASH FLOWS AND FINANCIAL PERFORMANCE

4.1 FINANCIAL PERFORMANCE

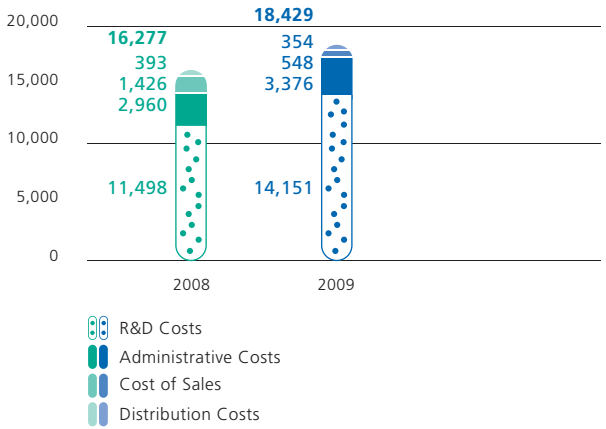
REVENUE :: Revenue in 2009 declined from €2,969 thousand to €1,861 thousand year-on-year, whilst revenue of €750 thousand in the 2008 financial year was generated from the licensing agreement with Erlangen-based ViroLogik GmbH, revenue in the current financial year stems from research cooperation agreements alone.

:: 22 REVENUE :: IN €000'S



OPERATING EXPENSES :: Operating expenses comprise the cost of sales, distribution costs, research and development costs and administrative costs.

:: 23 OPERATING EXPENSES :: IN €000'S



The cost of sales fell from €1,426 thousand in 2008 to €548 thousand in 2009 in line with the decline in revenue. A total of €700 thousand in appropriations to allowances related to Quiescence Technologies LLC. also had an effect in 2008.

The decline in distribution costs from €393 thousand to €354 thousand in 2009 was due to the absence of legal and consultancy costs that had been incurred in the previous year in connection with revenues from licensing agreements.

Research and development costs rose as expected year-on-year, from €11,498 thousand by just above 23% to €14,151 thousand. For one, this was due to the increase in staff costs because the development team was expanded. For another, the ongoing development of 4SC's maturing product pipeline resulted in higher external costs for both services and materials as well as increased scheduled amortisation.

Administrative costs rose from €2,960 thousand to €3,376 thousand compared to the previous year. Aside from higher staff costs, this is mainly due to the costs for investor relations activities as a result of 4SC's enhanced presence at international industry and investor conferences.

OTHER INCOME :: Other income dropped from €613 thousand to €131 thousand mainly due to the substantial year-on-year decrease in cost allocations related to external services.

OPERATING PROFIT / LOSS :: As expected, the Company's operating loss rose year-on-year from €12,695 thousand by just under 30% to €16,437 thousand during the reporting year. Both lower revenue and higher costs – particularly research and development costs – in connection with the ongoing development of 4SC's maturing product pipeline led to a higher loss.

NET FINANCE INCOME / LOSS :: The net finance income dropped from €891 thousand to €319 thousand in 2009. 4SC's investment income from its equity interest in quattro research GmbH declined slightly to €29 thousand from €33 thousand the previous year. However, finance income from both interest-bearing investments of the Company's funds and the measurement of securities through profit or loss fell from €1,032 thousand to €404 thousand. This reflects the substantial downturn in interest rates as well and the decline in the average volume of funds. At the same time, finance costs fell by more than one-third, mainly as a result of lower expenses from exchange rate differences.

INCOME TAXES :: In 2009, tax income was €11 thousand (2008: tax expense of €50 thousand) due to the decline in deferred tax liabilities resulting from the different measurements under IFRS and the German Commercial Code (Handelsgesetzbuch – HGB) / German tax law and from different recognition criteria.

PROFIT / LOSS FOR THE YEAR :: The loss for 2009 was €16,107 thousand, up from €11,854 thousand in the previous year.

EARNINGS PER SHARE :: While the loss for the year rose by 36%, both diluted and basic earnings per share fell by only 6% to - €0.54 (2008: - €0.51) because the total volume of shares outstanding on average in 2009 (29.8 million shares) was higher than in 2008 (23.4 million).

4.2 FINANCIAL POSITION

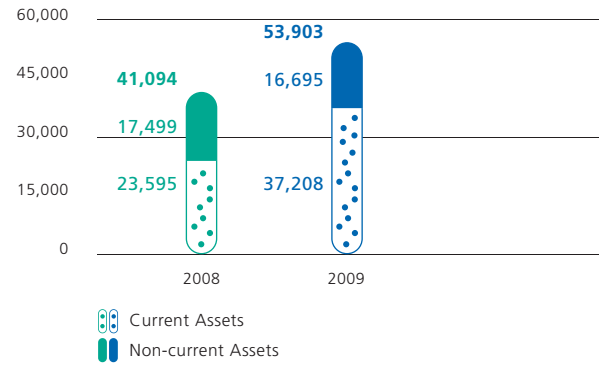
INVESTMENTS :: In the 2009 financial year, 4SC both replaced and purchased new property, plant and equipment as well as intangible assets at a total cost of €456 thousand (2008: €14,993 thousand). The previous year's investment amount was dominated by the acquisition of the rights to Nycomed's eight oncology projects for €14 million.

Besides software, the investments in intangible assets concerned subsequent costs related to the acquisition of the rights to Nycomed's oncology projects in 2008, specifically the cost of transferring the patents to 4SC. The additions to property, plant and equipment mainly concern technical laboratory equipment as well as IT systems.

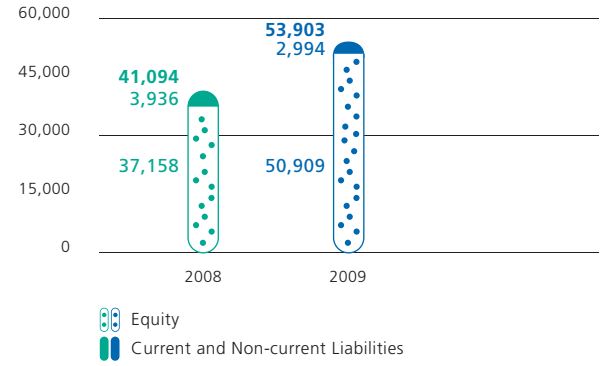
4SC continues to hold stakes of 48.8% in quattro research GmbH, Planegg-Martinsried, 10.0% in Quiescence Technologies LLC. (operating under the name QuoNova LLC. until early 2009), Melbourne, Florida, USA, as well as 3.7% in Nexigen GmbH, Bonn, as investments. There were no other equity investments in the 2009 financial year.

STRUCTURE OF THE BALANCE SHEET ::

:: 24 ASSETS :: IN €000'S



:: 25 EQUITY AND LIABILITIES :: IN €000'S



NON-CURRENT ASSETS :: Non-current assets fell to €16,695 thousand as at the reporting date, down from €17,499 thousand in 2008. This was substantially due to the decline in intangible assets from €15,608 thousand to €14,837 thousand resulting from amortisation of patents acquired in the previous year. Their useful life is between 16 and 20 years. Since depreciation of property, plant and equipment also exceeded investments, it fell from €1,547 thousand to €1,485 thousand.

In contrast, the investments accounted for using the equity method rose from €33 thousand to €62 thousand in the reporting year because quattro research GmbH posted a profit. The other financial assets remained unchanged at €154 thousand, as did the other non-current assets at €157 thousand.

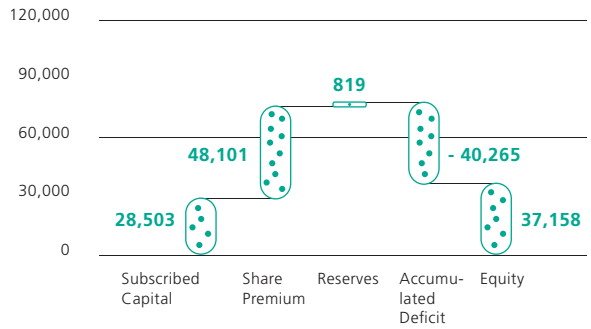
CURRENT ASSETS :: Relative to 31 December 2008, current assets rose from €23,595 thousand to €37,208 thousand. The substantial increase in cash and cash equivalents from €7,346 thousand to €35,521 thousand more than made up for the drop in other financial assets from €14,500 thousand to €100 thousand during the same period. Both items contain proceeds from the capital increase contingent on initial maturity.

EQUITY :: The development of equity reflects the capital increase carried out in the fourth quarter of 2009. Issuing 10,000,000 new shares at a price of €3.00 each increased 4SC's share capital from €28,503 thousand to €38,503 thousand year-on-year. At the same time, the share premium rose from €48,101 thousand to €67,836 thousand.

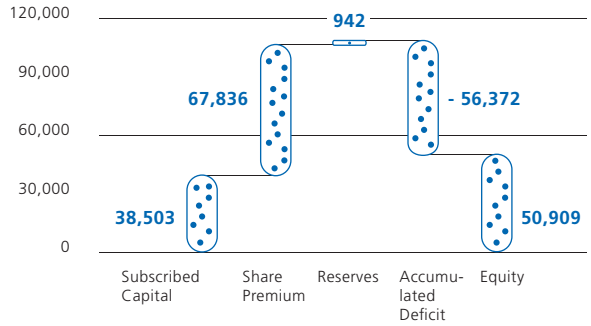
This was partially offset by the loss for the year amounting to €16,107 thousand, which raised the accumulated deficit from €40,265 thousand to €56,372 thousand.

Overall, the equity of 4SC rose to €50,909 thousand as at 31 December 2009, compared to €37,158 thousand on the balance sheet date of the previous year. The equity ratio increased by 4.0 percentage points to 94.4% (31 December 2008: 90.4%).

:: 26 COMPOSITION OF EQUITY IN 2008 :: IN €000'S



:: 27 COMPOSITION OF EQUITY IN 2009 :: IN €000'S



NON-CURRENT LIABILITIES :: Non-current liabilities as at 31 December 2009 were €104 thousand and hence almost unchanged from the previous year (31 December 2008: €109 thousand).

CURRENT LIABILITIES :: Current liabilities fell substantially from €3,827 thousand by just under 25% to €2,890 thousand owing to the repayment in full of €902 thousand in financial liabilities. These loans were repaid in early January 2009 to the lender, Technologie Beteiligungsfonds Bayern GmbH & Co. KG, Munich. At the same time, trade accounts payable fell from €1,370 thousand to €913 thousand. In contrast, other liabilities rose, largely as a result of the intensified use of external services.

TOTAL ASSETS/TOTAL EQUITY AND LIABILITIES :: As a result of the effects described above, total assets and total equity and liabilities were €53,903 thousand as at 31 December 2009. This is an increase of more than 30% over the previous year (31 December 2008: €41,094 thousand), surpassing the threshold of €50 million for the first time.

4.3 CASH FLOWS

FINANCING MEASURES :: 4SC executed a non-public cash capital increase subject to shareholders' subscription right during the reporting year in order to strengthen the Company's cash flows and ensure its ongoing development. A total of 10,000,000 shares were floated on 16 November 2009 at a price of €3.00 per share, generating gross proceeds of €30.0 million for the Company. As a result, 4SC's share capital rose by €28,503 thousand to €38,503 thousand, and the number of shares outstanding rose from 28,502,739 to 38,502,739. Share premium rose by €19,735 thousands from €48.101 thousands to €67,836 thousands.

CASH FLOWS FROM OPERATING ACTIVITIES :: A total of €14,601 thousand was used for operating activities during the reporting year. Non-cash expenses that are part of the operating result – mainly depreciation and amortisation on property, plant and equipment as well as intangible assets – and interest received account primarily for the difference to the net loss before taxes in the amount of €16,118 thousand. In the previous year a total of €9,385 thousand was used for operating activities, at a net loss for the period of €11,804 thousand.

CASH FLOWS FROM INVESTING ACTIVITIES :: The Company generated €13,943 thousand in cash inflows from investing activities in 2009. It also invested €85 thousand in intangible assets and €371 thousand in property, plant and equipment. Whilst a total of €100 thousand was expended to purchase financial instruments with original maturities of more than three months, the disposal of financial instruments generated €14,499 thousand in cash and cash equivalents.

In 2008, a total of €22,811 thousand had been used in connection with investing activities. For one, this amount arose from the acquisition of the rights to Nycomed's eight oncology projects for €14 million. For another, the Company invested €816 thousand in property, plant and equipment and recognised €154 thousand for equity investments. The purchase and sale of financial instruments with an original maturity period of more than three months resulted in a net outflow of €7,668 thousand in the 2008 financial year.

CASH FLOWS FROM FINANCING ACTIVITIES :: The cash flows from financing activities in the reporting year were €28,833 thousand as a result of two countervailing effects. The capital increase generated a net cash inflow of €29,735 thousand for 4SC. At the same time, the Company repaid €902 thousand in non-current loans in January 2009. In the previous year, 4SC had received net €29,207 thousand from the 2008 capital increase.

FUNDS :: Cash and cash equivalents at the end of the reporting period amounted to €35,521 thousand. Additional funds of €100 thousand were invested in short-term fixed deposits. As at the 31 December 2009 reporting date, total funds thus amounted to €35,621 thousand (31 December 2008: €21,846 thousand).

4.4 GENERAL STATEMENT REGARDING THE COMPANY'S ECONOMIC SITUATION

As expected, the progress achieved with projects and the Company's expanded pipeline resulted in higher costs in 2009. With revenue declining at the same time, the net loss in 2009 increased further. Once again, the Company's financial position and cash flows showed a positive development. There was sufficient liquidity at all times and at no point was the financing of products at risk. Both total assets and total equity and liabilities as well as funds increased significantly year-on-year as at 31 December 2009 due to the capital increase executed in the fourth quarter of 2009.

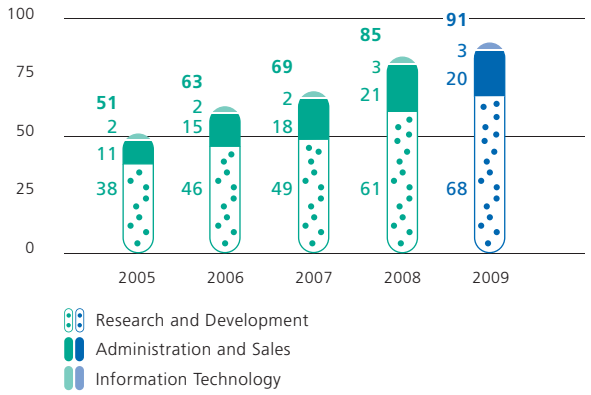
Up until the preparation of these financial statements, the Company's economic development in the 2010 financial year proceeded according to plan.

5. NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators such as employees, procurement, industrial property rights and corporate governance are instrumental to the success of 4SC.

5.1 STAFF AND MANAGEMENT BOARD

:: 28 NUMBER OF EMPLOYEES AS AT 31.12.

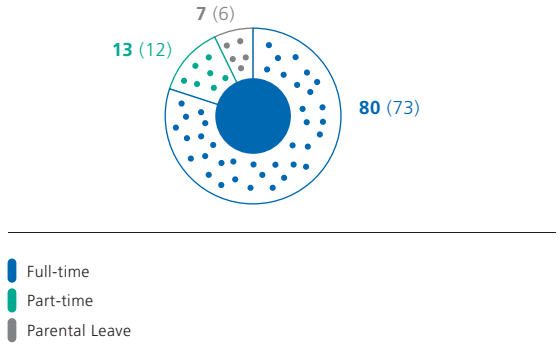


4SC continued to strengthen the team during the reporting year. As at 31 December 2009, the Company had 87 employees and four Management Board members, i.e. 7% more than at the close of 2008 (31 December 2008: 81 employees and four Management Board members). The team was expanded in the development department in particular in order to be able to handle the increase in the number of programmes.

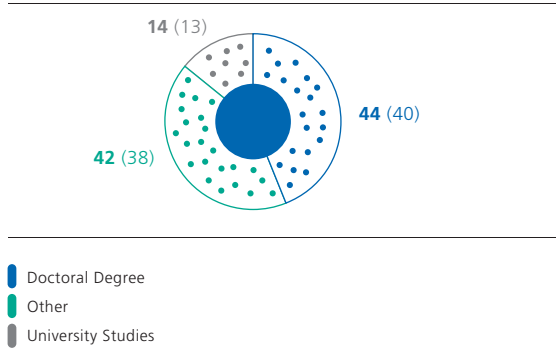
:: Table 08	31.12.2009	31.12.2008	Change in %
Research and development	68	61	12
Administration and sales	20	21	- 5
Information technology	3	3	0
TOTAL	91	85	7

Since 4SC is a biotechnology company, most of its employees work in research and development. As at 31 December 2009, they accounted for close to three quarters of total personnel, a year-on-year increase of three percentage points (31 December 2008: just under 72%).

:: 29 PERCENTAGE AND NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT AS AT 31.12.2009 :: IN % (NUMBER)



:: 30 PERCENTAGE AND NUMBER OF EMPLOYEES BY LEVEL OF EDUCATION AS AT 31.12.2009 :: IN % (NUMBER)



INCREASE IN STAFF COSTS :: Compared to the previous year, the staff costs of 4SC rose by 18% to €5,822 thousand (2008: €4,937 thousand). This is due to the hiring of additional employees in 2009 and to the fact that employees who had been hired in 2008 were paid a full annual salary for the first time. Of these staff costs, €120 thousand (2008: €172 thousand) arose from non-cash expenses for the stock option programme.

NEW STOCK OPTION PROGRAMME ESTABLISHED :: Our employees' base pay is determined by four factors: qualification, professional experience, performance and position. All base pay is reviewed annually by the Management Board members responsible for the respective operating units, supervisors and the human resources department.

Since the Company will need highly motivated employees in future as well, during the reporting year 4SC established a new stock option programme for employees in addition to the existing stock option programmes. The ESOP 2009 was adopted by the Annual General Meeting on 15 June 2009 based on customary standards regarding maturities, holding periods and performance criteria. Both the employees and Management Board members were issued options under this ESOP in November 2009. No options were exercised during the reporting year under any of the Company's existing stock option programmes.

5.2 PROCUREMENT

PROCUREMENT – CENTRALISED, INDEPENDENT AND FLEXIBLE :: As in previous years, procurement, logistics and warehousing processes at 4SC are organised and handled by a central procurement department. These processes are defined and fixed. Close coordination between purchasing on the one hand and both bookkeeping and the research & development department on the other hand ensures that all processes – from obtaining an order to paying the invoice – run smoothly.

4SC places great value on maintaining a network of suppliers in order to ensure that it is not dependent on any one supplier, which could cause it to be inflexible. Suppliers are generally selected based on three criteria: quality, pricing and availability. Given the overall increase in the purchasing volume, delivery terms again were renegotiated at length and improved further in the 2009 reporting year. Yet 4SC managed to avoid only some of the market-wide price increases in regards to certain product groups such as solvents for instance. In 2009 4SC once again played an active role in the purchasing association for the Munich biotech region in order to secure favourable delivery terms.

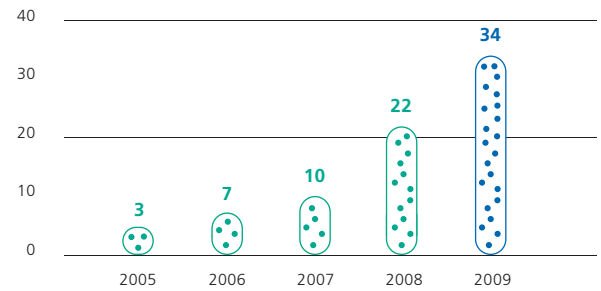
In research and development, the Company works with many service providers in areas such as pharmacology, toxicology, metabolism, analytics, production, clinical development, pharmacovigilance and statistics. The selection of partners is contingent on the requirements of the given project, as well as their experience in the respective field and applicable regulatory parameters.

5.3 INDUSTRIAL PROPERTY RIGHTS AND INNS

As at the close of 2009, 4SC held 34 given patents and had filed 422 patent applications worldwide. A total of 15 patents have been granted for the DHODH inhibitor technology, including the crucial composition of matter patent in both the United States and Europe. Taken together, these patents and patent applications make up 62 patent families, each originally rooted in an invention that established priority. Under the Paris Convention for the Protection of Industrial Property (PCPIP) therefore, once an initial patent application has been filed in any one member state, the so-called priority right thereunder may be used in any other member state within a period of one year (Article 4 PCPIP). This corresponds to a retroactive dating of the application. The requirement is that both applications must concern the same invention. Besides its patents, 4SC also owns a variety of rights to picture and word marks.

NUMBER OF PATENTS AND PATENT APPLICATIONS CONTINUES TO GROW ::

:: 31 PATENTS GRANTED AS AT 31.12.



INN PROPOSED :: For the Company's two most advanced products, 4SC-101 and 4SC-201, the World Health Organisation (WHO) recently proposed so-called INNs, which are vidofludimus for 4SC-101 and resminostat for 4SC-201. These INNs will play a material role in the development and positioning of these drugs in the medical community. Until the patents for 4SC-101 and 4SC-201 expire, 4SC will be the only company entitled to offer these drugs using these names.

5.4 CORPORATE RESPONSIBILITY / SUSTAINABILITY

SAFETY OF OUR EMPLOYEES AND ENVIRONMENTAL PROTECTION :: Issues of corporate responsibility are taken very seriously: 4SC offers its employees the greatest possible degree of safety and protects the environment to the best of its ability. All steps critical to the protection of the employees and the environment are implemented on an ongoing basis in all processes. The Company's workplace safety committee is tasked with ensuring that this will be the case in future as well. It has the following members pursuant to German workplace safety laws: one chemical safety officer; one biology safety officer, who also serves as the project director of gene technology under section 15(4) sentence 1 of the German Ordinance on Genetic Engineering; an officer responsible for biological safety; an occupational safety expert; a company medical officer and a health and safety officer. The committee also ensured in the 2009 reporting year that all of 4SC's staff implement and comply with applicable statutory requirements in all areas.

External controls are also in place. The company Gesellschaft für Laborsicherheit mbH, Karlsfeld, (GLS) carried out a risk assessment in accordance with section 5 of the German Occupational Health and Safety Act (Arbeitsschutzgesetz). It conducts annual training sessions for all lab employees with respect to the handling of hazardous substances in accordance with applicable hazardous substance regulations. In addition, all chemicals used are documented in a register of hazardous substances and stored in hazardous materials cabinets. To reduce the risks arising from the operation of the laboratory, the inventory of chemicals is kept as small as possible and all chemicals are used with great caution and in the smallest possible quantities. Personal protective gear is also made available to each employee.

All safety equipment is inspected and serviced by external experts in compliance with applicable regulations. The authorised operation of biological labs of security levels 1 and 2, as well as work in the radionuclide lab are subject to constant regulatory monitoring.

4SC relies on data derived from animal testing in order to identify and develop new drugs. This serves both to achieve the requisite goals in scientific terms and satisfy statutory requirements. We are committed to reducing tests involving animals to the minimum and replace them to the extent possible with alternatives. The few essential tests that 4SC performed on animals in 2009 were all subject to monitoring by an external animal protection officer and required governmental permits.

And finally, the waste disposal concept also helps to protect the environment. 4SC complies with all limits and guidelines.

SOCIAL RESPONSIBILITY :: 4SC is committed to social responsibility and thus leads by example in the biotech industry. In March 2009 for instance, close to one half of 4SC's employees had themselves typed for the German Bone Marrow Donor Database (Deutsche Knochenmarkspenderdatei GmbH – DKMS). In doing so, they support people who suffer from leukaemia and are urgently waiting for a stem cell donation. The Company paid the cost of €2,000 for determining the tissue characteristics. The idea for this Company-wide typing arose in connection with the development of our drug 4SC-203 against acute myeloid leukaemia.

In April 2009, 4SC once again participated in the Girls' Day at the Innovation Centre for Biotechnology (Innovations- und Gründerzentrum Biotechnologie – IZB). At this event, experts introduce teenage girls aged 14 to 18 to biotechnology, life sciences and professional opportunities in these fields.

In August 2009, 4SC participated in the Open Day at the IZB that was organised by the Biotechnology Cluster (a national biotech network) in cooperation with companies and institutes. Various guided tours of the participating companies gave interested visitors insight into both the Munich biotech scene and 4SC.

6. CORPORATE GOVERNANCE REPORT

Responsible, value-oriented company management with a focus on the interests of all stakeholders is highly important to 4SC. The Company is therefore committed to the German Corporate Governance Code with respect to its goals, values and processes. 4SC actively implements the majority of the Code's norms and regulations. This is illustrated by the close and trusting cooperation between the Company's corporate bodies, its transparent communication and the performance-based compensation of the Management. In preparing the 2009 financial statements, 4SC's Management Board and Supervisory Board again considered the recommendations of the Code's most recent version from 18 June 2009.

4SC complies with the majority of the Code's recommendations. Only in a few cases did 4SC decide after careful deliberation not to adhere to the Code. These exceptions apply predominantly to recommendations which are intended for large corporations or are based on legislation which has yet to be implemented by the Company. We will outline and justify the specific deviations from the Code in the following declaration of compliance by the Management Board and Supervisory Board.

The Company's Corporate Governance Report describes the fundamental principles of its management and control structure, its corporate management and the rights of 4SC's shareholders. The report follows the recommendations of the German Corporate Governance Code and contains the required information and explanations pursuant to sections 289(4) and 289a of the German Commercial Code (Handelsgesetzbuch – HGB) as well as the declaration of compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz – AktG).

6.1 STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE

DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT :: The Management Board and Supervisory Board last issued a Declaration of Compliance in accordance with section 161 AktG on 17 February, 2009. This declaration was based on the version of the German Corporate Governance Code dated 6 June, 2008. The German Corporate Governance Code was revised in 2009. The currently valid version is dated 18 June, 2009.

The Management Board and Supervisory Board of 4SC state, in accordance with Section 161 AktG, that 4SC complies and will comply with the recommendations of the Government Commission "German Corporate Governance Code" (based on the 18 June 2009 version), with the exceptions stated below, and, given these exceptions, has complied with the recommendations since the last Declaration of Compliance dated 17 February 2009.

:: 1) Item 3.8(2) of the Code: The Company's current D&O insurance policy relates to the Management Board and Supervisory Board and specifies a deductible for the Management Board and Supervisory Board in the maximum amount of $50 thousand per case. This only relates to cases of damage in the USA. In this context 4SC diverges from the most recent regulations stipulated by the Code. Currently, however, the D&O insurance policies relating to the Management Board and Supervisory Board are being revised. These will be completed no later than 1 July 2010, in order to be in line with the deductibles required by law.

:: 2) Item 4.2.3(1) of the Code: The remuneration for the Management Board contains fixed as well as variable remuneration components. The current Management Board contracts do not contain performance-orientated assessments relating to these variable remuneration components with exception of the Stock Option Programme. Currently old contracts are still in place which were issued prior to the June 2009 revision of the Code and the VorstAG coming into effect. The amended versions of the contracts will consider and implement the June 2009 revision of the Code and the VorstAG.

:: 3) Item 4.2.3(2) of the Code: The current variable remuneration components for the Management Board are based on a success based bonus as well as long-term remuneration in the form of stock options. 4SC has until now deliberately foregone the limitation for extraordinary and unforeseeable developments recommended in the Code (Cap), and referring stock option to reference parameters (e.g. share indices), as the current Management Board contracts have not been extended or concluded since the implementation of the VorstAG, and 4SC believes that these programmes are ideally tailored to the Company. With regard to the stock options for the Management Board, however, the right to exercise these options has until now also been conditional on the positive development of the share price as well as the achievement of defined, positive share-price targets. The amended versions of the contracts will implement the revised requirements of the VorstAG.

:: 4) Item 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 Supervisory Board.

:: 5) Item 5.4.6(1) of the Code: At present, there is no differentiation between the remuneration for Supervisory Board committee members and chairpersons. In practise it has been shown that all committee members assume work and organisation in equal measures.

:: 6) Item 5.4.6(2) of the Code: At present, performance-oriented remuneration is not in place for the Supervisory Board members. Since 4SC is a research-intensive, technology company, this recommendation of the Code does not appear appropriate at present and would create a disproportional administrative expense.

Planegg-Martinsried, 25 February 2010

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

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES :: The practices of 4SC in terms of corporate governance are based on statutory requirements. Furthermore, they are also characterised by principles of fair and respectful conduct. Additional corporate governance practices are not required, given the Company's manageable size, sole main office and flat hierarchies as well as cordial relationships between the staff and the partners. The conduct of both the Company and its employees is rooted in moral and ethical values that ensure fair and respectful relationships in compliance with statutory requirements.

The Company is managed and supervised in accordance with German law, social standards and most of the guidelines of the German Corporate Governance Code.

PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD :: The Management Board and the Supervisory Board of 4SC collaborate closely to enhance the value of the Company in a sustainable manner. The Management Board coordinates the Company's strategic alignment with the Supervisory Board and discusses its implementation with the Supervisory Board. In doing so, the Management Board informs the Supervisory Board in a regular, timely and comprehensive manner of all issues relevant to the Company's planning, strategy, performance, finances, exposure to risk and risk management as well as its internal control system. If required, the Management Board provides reports between meetings, for instance by telephone or e-mail. Urgent decisions may be discussed by way of conference calls and resolutions may be adopted by circular memorandum if required.

The Management Board's rules of procedure define the veto rights that the Supervisory Board may exercise with respect to significant business transactions. In addition, the Supervisory Board may also subject business transactions to a veto right in individual cases.

MANAGEMENT BOARD :: The Management Board of 4SC is comprised of four members, who are solely responsible for leading the Company with the goal of ensuring stable development and a sustainable increase in the Company's value. The members of the Management Board complement each other's skills and experience and manage the Company as a team. The divisions of the Company work in close collaboration, which is facilitated by regular meetings of the Management Board.

SUPERVISORY BOARD :: The Supervisory Board consists of six members, who are elected at the Annual General Meeting. Chairman is Dr Jörg Neermann, Deputy Chairman Günter Frankenne. Other members are Dr Clemens Doppler, Helmut Jeggle, Dr Manfred Rüdiger, and Dr Thomas Werner. Dr Thomas Strüngmann resigned from the Supervisory Board on his own accord at the end of the Annual General Meeting on 15 June 2009.

All members of the Supervisory Board have many years of experience in the pharmaceuticals and biotech industries and / or in-depth skills in business and finance with publicly listed and private companies. Furthermore, Mr Jeggle, who is on the Audit Committee, is an experienced, independent financial expert.

The Supervisory Board was involved at all times in all material decisions relevant to the Company. The Management Board informed the Supervisory Board of deviations from plans and objectives. The Supervisory Board then evaluated them. Legal transactions requiring the Supervisory Board's approval were submitted to it at the Supervisory Board meetings.

In financial year 2009, four meetings were held, which were attended by all members of the Management Board. At every meeting, the Supervisory Board evaluated the Management Board's management of the Company, discussing important items, developments, and decisions. There was no reason for conducting additional examinations, such as inspecting the Company's documentation or commissioning experts. No conflicts of interest arose in the Supervisory Board.

:: Table 09 COMMITTEES

	Supervisory Board	Audit Committee	Human Resources Committee	Business Development Committee
Dr Jörg Neermann	C	M	C	
Günter Frankenne	Dept. C		M	
Dr Clemens Doppler	M	M		M
Dr Manfred Rüdiger	M		M	C
Dr Thomas Werner	M (from 15.06.09)			M (from 15.06.09)
Helmut Jeggle	M	C		M (until 15.06.09)
Dr Thomas Strüngmann	M (until 15.06.09)			

C = Chairman, M = Member

COMMITTEES :: In order to improve its efficiency, the Supervisory Board set up three committees: the Audit Committee, the Human Resources Committee and the Business Development Committee. All committees report to the full Supervisory Board on their work :: Table 09.

In the period under review, the Audit Committee held five telephone conferences and one session requiring personal attendance. The Business Development Committee met once and held three telephone conferences; the Human Resources Committee met three times in person.

SUPERVISORY BOARD'S EFFICIENCY REVIEW :: The Supervisory Board of 4SC put its efficiency to the test on 3 December 2009 as a follow-up to the previous review in December 2008. After the meeting, all members of the Supervisory Board completed a detailed questionnaire, the results of which were then evaluated.

The Supervisory Board came to the unanimous conclusion that collaboration is efficient and based on trust. Collaboration within the Supervisory Board and with the Management Board received a positive assessment. Individual proposals for improvement were discussed and will now be implemented.

6.2 DIRECTORS' DEALINGS, SHAREHOLDERS, DISCLOSURE AND COMMUNICATION

SHAREHOLDERS AND ANNUAL GENERAL MEETING :: The Annual General Meeting is a central body of the Company; it adopts resolutions on key issues. It is responsible for decisions such as selecting the financial auditors, formal approval of the Management and Supervisory Boards' actions, election of Supervisory Board members, amendments to the Articles of Association, and measures to change the Company's capital. Moreover, the Management Board presents the annual financial statements to the Annual General Meeting.

The Annual General Meeting provides shareholders of 4SC with the opportunity to discuss the latest developments and decisions with members of the Management Board, to exercise their voting right, and to inform themselves about the Company in general. 4SC naturally wants to make it as easy as possible for all shareholders to exercise their rights. The Company will therefore provide authorised representatives to vote by proxy in accordance with the shareholder's instructions at the Annual General Meeting on 21 June 2010. The representatives can be contacted during the Annual General Meeting as well.

EQUITY INVESTMENTS (THIRD-PARTY COMPANIES) :: A list of equity investments can be found in the notes to the 2009 IFRS financial statements.

ACCOUNTING AND AUDIT OF FINANCIAL STATEMENTS :: Since financial year 2003, the separate IFRS financial statements of 4SC have been prepared in accordance with IFRS guidelines as adopted by the EU. They are prepared by the Management Board, audited by auditors and formally adopted by the Supervisory Board. The financial statements are released to the public within 90 days of the end of the financial year.

In the reporting period, the 2009 annual financial statements pursuant to the German Commercial Code and the 2009 separate IFRS financial statements were reviewed and approved by the Supervisory Board before being published. In addition, the Audit Committee discussed the quarterly and half-yearly financial reports prior to publication in the reporting period. Thus, 4SC followed the recommendations of the German Corporate Governance Code (item 7.1.2) in this regard as well.

COMMUNICATING WITH THE PUBLIC :: In order to inform its shareholders in good time, simultaneously and comprehensively, 4SC also publishes all relevant information on its website at www.4sc.de. All reports are published in German and English within the period recommended by the German Corporate Governance Code and the stock exchange regulations. Pursuant to section 15 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the Company also publishes all press releases and ad hoc disclosures as well as an up-to-date financial calendar, information on the Annual General Meeting, and other required announcements on its website in the News and Investors sections.

:: Table 10 DIRECTORS' DEALINGS (REPORTABLE SECURITIES TRANSACTIONS PURSUANT TO THE GERMAN SECURITIES TRADING ACT)

Date	Name	Function	Type of transaction	Market	Price in €	Number	Transaction volume in €
18.06.09	Dr Clemens Doppler	Supervisory Board	Purchase	Xetra	2.92	2,375	6,935.00
05.11.09	Dr Ulrich Dauer	Management Board	Exercise of subscription rights	OTC	3.00	20,000	60,000.00
06.11.09	Dr Daniel Vitt	Management Board	Exercise of subscription rights	OTC	3.00	20,000	60,000.00
10.11.09	Dr Manfred Rüdiger	Supervisory Board	Exercise of ubscription rights	OTC	3.00	1,000	3,000.00
13.11.09	Dr Jörg Neermann	Supervisory Board	Exercise of subscription rights	OTC	3.00	2,500	7,500.00

6.3 COMPENSATION REPORT OF 4SC

The compensation report discloses the basic elements of the compensation system for the Management Board and the Supervisory Board of 4SC. These compensation systems largely comply with the recommendations of the German Corporate Governance Code. They are designed to compensate the members of the Company's Management Board and Supervisory Board in line with their activities and responsibilities.

COMPENSATION OF THE MANAGEMENT BOARD :: The compensation that 4SC pays to the members of its Management Board serves to reward each member's personal performance, taking the Company's economic position and success into account. It is also aligned with standards customary to both the industry and the country as well as the Company's fortunes. The German Act on the Adequacy of Compensation for Management Boards (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) took effect on 5 August 2009. The corporate bodies of 4SC have dealt extensively with this law. It serves to ensure that the Management Board's compensation includes incentives aimed at enhancing the given company's performance in the long term. Whilst 4SC's current compensation system already takes most of these principles into account, the Company plans to implement the statutory requirements at the time when director's contracts that do not yet fulfil these requirements are amended.

DETERMINATION OF THE MANAGEMENT BOARD'S COMPENSATION :: The proposal for the Management Board's compensation is being drawn up by the Human Resources Committee, which will subsequently present it to the full Supervisory Board for approval. All requirements of the VorstAG will be included at the time new director's contracts are signed with members of the Company's Management and Supervisory Boards or existing ones are extended. Current deviations in the existing director's contracts from the VorstAG and the German Corporate Governance Code are disclosed in the Declaration of Compliance in chapter 6.1 of this management report.

AMOUNT AND STRUCTURE :: The annual compensation of the Management Board members comprises three components: fixed compensation, a performance-based bonus and long-term performance-based compensation in the form of stock options.

FIXED COMPENSATION :: The amount of the fixed compensation is contingent on the given individual's position and responsibility as well as on parameters customary to both the industry and the market. Fixed compensation is paid on a monthly basis.

PERFORMANCE-BASED COMPENSATION :: The Supervisory Board fixes the performance-based bonus following an appropriate annual performance review, exercising due discretion. The bonus is based on the performance of 4SC and the degree to which predefined individual and general corporate goals have been achieved.

Another compensation component with a long-term incentive effect is the ESOP (Employee Stock Option Programme), in which the Management Board and all employees can participate. These stock options entitle their holders to acquire shares of 4SC. For more detailed information on the current options holdings, please see section 9 of the 2009 IFRS notes.

In regards to compliance with the recommendations of the German Corporate Governance Code and the requirements of the VorstAG as they relate to executive compensation, please see our disclosures in the section entitled, Declaration of Compliance by the Management Board and the Supervisory Board pursuant to section 161 German Stock Corporation Act, in section 6.1 of this management report.

MANAGEMENT BOARD COMPENSATION FOR 2009 :: Compensation of the Management Board of 4SC in financial year 2009 amounted €890 thousand (previous year: €843 thousand), of which 70% were attributable to fixed and 30% to variable compensation. A detailed breakdown of the Management Board members' individual salaries can be found in section 10.1 of the 2009 IFRS notes.

D&O LIABILITY INSURANCE :: A deductible for the D&O liability insurance policy was set at a maximum of $50 thousand (item 3.8 of the Code) for claims filed in the USA only. 4SC deviates in this instance from the VorstAG, which recently came into force, and the current recommendations of the Code.

SHAREHOLDINGS OF THE MANAGEMENT BOARD MEMBERS :: As of 31 December 2009 the current members of 4SC's Management Board held a total of 706,720 stock options, entitling them to 683,920 shares. Furthermore, they held 917,442 shares, which represent 2.4% of the Company's total shares.

COMPENSATION OF THE SUPERVISORY BOARD :: 4SC is a biotech company that focuses on research and development. Given that the Company is posting losses at this time, it is difficult to use financial performance indicators as the basis for determining bonuses. It is for this reason that no performance-based compensation will be paid to the members of the Company's Supervisory Board. Besides, executing the recommendation of the German Corporate Governance Code would give rise to substantial additional administrative costs that seem disproportionate to the Company's current size.

DETERMINATION OF THE SUPERVISORY BOARD'S COMPENSATION :: The compensation paid to the members of the Supervisory Board is based on a resolution of the Company's Annual General Meeting on 5 June 2008.

AMOUNT AND STRUCTURE :: The basic annual compensation paid to each Supervisory Board member is €13 thousand, with the Chairman of the Supervisory Board receiving double this amount and his deputy receiving 1.5 times this amount. The Company pays €5 thousand to Supervisory Board members for each membership in a Supervisory Board committee. In a departure from the recommendation in item 5.4.6 of the German Corporate Governance Code however, it does not distinguish between chairmanship and regular membership because all work in the committees is more or less evenly distributed among all the members.

SUPERVISORY BOARD COMPENSATION FOR 2009 :: In financial year 2009, compensation paid to the members of the Supervisory Board totalled €139 thousand. A breakdown of the compensation of individual Supervisory Board members is provided in section 10.2 of the 2009 IFRS notes.

SHAREHOLDINGS OF THE SUPERVISORY BOARD MEMBERS :: As at 31 December 2009, the members of 4SC's Supervisory Board held a total of 125,875 shares equivalent to an interest of 0.3% in the Company (item 6.6 sentence 2 of the German Corporate Governance Code). As already in 2008, the members of the Company's Management Board and Supervisory Board engaged in financial transactions in 2009 that had a noticeable impact on the Company, as follows from the director's dealings table in chapter 6.2 of this management report. In particular, this occurred in connection with the capital increase that was successfully completed in November 2009.

6.4 DISCLOSURES RELEVANT FOR TAKEOVERS PURSUANT TO SECTION 289(4) GERMAN COMMERCIAL CODE

SUMMARY OF SUBSCRIBED CAPITAL :: The Company's share capital currently comprises 38,502,739 no-par value bearer shares which do not entail other rights nor do they have a preferred status

RESTRICTIONS ON VOTING RIGHTS OR ON THE TRANSFER OF SHARES :: There are no limitations on voting rights or the transfer of shares.

EQUITY INTERESTS EXCEEDING 10% OF VOTING RIGHTS :: According to information currently available to the company, the following important shareholders hold equity stakes in excess of 10%:

:: Santo Holding (Germany) GmbH, Stuttgart, with a share of approx. 48.05%
:: FCP Anlage AG, Gräfelfing, 16.39%

SHARES WITH SPECIAL RIGHTS CONVEYING POWERS OF CONTROL :: There are no shares with special rights conveying powers of control.

NATURE OF VOTING CONTROL WHERE EMPLOYEES HAVE AN EQUITY INTEREST AND DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS :: Employees, who hold equity in the company via direct purchase of shares or employee stock option programmes, are not subject to binding voting rights.

LEGAL REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND ON AMENDMENTS TO THE ARTICLES OF ASSOCIATION :: The appointment and dismissal of Management Board members is governed by sections 84 and 85 German Stock Corporation Act (Aktiengesetz – AktG).

Pursuant to article 7(1) of the Articles of Association as amended on 16 November 2009, the Supervisory Board appoints the members of the Management Board for a maximum of five years. The appointment of members of the Management Board may be renewed, or the term of office extended, provided that the term of each such renewal or extension does not exceed five years. This shall require a further resolution by the Supervisory Board, which may be adopted at the earliest one year before a member's current term of office expires. The extension of a member's term of office may only be provided for without a new resolution by the Supervisory Board if the member has been appointed for less than five years, provided that, as a result of the extension, the total term of office does not exceed five years. Pursuant to article 7(3) of the Articles of Association, the Supervisory Board is responsible for concluding, amending or terminating the employment agreement of the Management Board member in question as well as withdrawing his or her appointment.

As a rule, any change in the Articles of Association requires a corresponding resolution on the part of the Annual General Meeting, pursuant to section 179 German Stock Corporation Act. Pursuant to article 13 of the Articles of Association, the Supervisory Board is also authorised to amend the Articles of Association in ways which only affect their wording.

AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE AND BUY BACK SHARES :: The Management Board has not been authorised by the Annual General Meeting to issue new shares from authorised capital or to buy back shares.

KEY AGREEMENTS ENTERED INTO BY THE COMPANY PROVIDING FOR A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID :: The Company has not entered into any key agreements or compensation agreements providing for a change of control following a takeover bid.

COMPENSATION AGREEMENTS BETWEEN THE COMPANY AND MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES CONCLUDED IN THE EVENT OF A TAKEOVER BID :: For the Management Board members Dr Ulrich Dauer, Dr Daniel Vitt and Enno Spillner, an agreement was signed in 2007 in the context of rearranging the Management Board's directors' contracts, stipulating 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 the remaining term of their contract, but for a minimum period of 15 months.

7. RISK AND OPPORTUNITIES REPORT

7.1 RISK MANAGEMENT SYSTEM

Incurring certain risks is at the heart of all entrepreneurial activity and essential to any success. 4SC is exposed to business risks, just like any other company. Research and development, intellectual property, cooperation agreements as well as financing are the areas where material potential risks could have a negative impact on the Company's financial position, cash flows and financial performance.

OBJECTIVES AND METHODS OF RISK MANAGEMENT :: As early as 2002, 4SC implemented a comprehensive computer-aided risk management and controlling system in compliance with the German Control and Transparency in Business Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG). This system is an integral part of corporate management and monitoring. Following a defined process, the risk officers from the different business units identify, analyse and asses risks with regard to their probability of occurring, the potential loss amount and the planned countermeasures. These risk officers regularly report to 4SC's risk management officer, who in turn informs the Company's management of possible risks. Based on this, the Management Board and the Supervisory Board decide how the Company handles the identified risks.

PROCESS MANAGEMENT AND SCIENTIFIC PROJECTS :: The Company's internal control system (ICS) supplements the risk management system and works alongside an established ERP system by employing such elements as signatory powers, standard operating procedures (SOPs), work instructions, the two-person integrity (TPI) principle, employee training and emergency planning. They apply to all operating units.

SOPs and work instructions are an integral part of 4SC's quality assurance system and provide binding written instructions on the performance of work. Whilst SOPs are usually derived from laws and thus are of a more general nature, work instructions govern specific procedures. Signatory powers define which employees are authorised to sign orders and invoices. What is decisive in that regard is the amount of the order or invoice, whether it was budgeted and whether the signatory is a project staff person, project director or Management Board member.

Regular project meetings are conducted as part of the scientific projects in order to discuss these matters in detail. A Project Portfolio Steering Committee (PPSC) was also set up in 2008 for development programmes. The PPSC comprises the Management Board, the directors of the development programmes, the management of the research projects as well as the business development unit and convenes approximately once every six weeks. Whilst it serves to discuss the projects' progress and deal with open matters in individual projects, it also addresses matters of a more general and strategic nature.

RISK MANAGEMENT IN THE ACCOUNTING PROCESS :: The aforementioned components of the internal control system such as signatory powers, work instructions, the TPI principle and emergency planning also apply to the accounting process. The finance team is engaged in an ongoing learning process in order to be able to fully implement constantly changing legal requirements in the Company. 4SC's controlling system rests on three pillars: planning, monitoring and reporting. 4SC prepares a three-year plan for internal steering and controlling purposes, taking the strategic planning into account. The necessary data related to steering and controlling are furnished to the Management Board every month based on both this plan and the actual figures. Reports on such non-financial performance indicators as the progress of the projects, patents and PR / IR are provided on a quarterly basis. These management tools allow both the Management Board and Controlling to identify and assess opportunities and risks early on.

The separate IFRS financial statements are also prepared in accordance with uniform rules and regulations. Close coordination between the bookkeeping department and the Company's specialist departments as well as clearly defined and established processes ensure that the invoicing procedure from placement of the order all the way to payment of the invoice is smooth. The manageable size of the bookkeeping team ensures uniform presentation of all like items. Rules on inventory measurement, clear customer billing processes as well as clear processes for recording supplier services that have not yet been billed also ensure accurate recording of transactions that are handled by the specialist departments.

Specific access rules apply within the ERP system; any changes in these rights are subject to approval. This ensures the security of all postings and the respective separation of functions in the system as a whole.

7.2 THE COMPANY'S EXPOSURE TO RISK

Some of the individual risks set forth below are related to each other and can affect each other, in a positive or negative way. The occurrence of one or several risks could have negative effects on 4SC's product development; its financial position, cash flows and financial performance, and / or its share price.

7.2.1 INDUSTRY-SPECIFIC RISKS

COMPETITION :: Short technology cycles and high innovative power are the defining characteristics of the biotech industry. The risk for 4SC is that other technologies making it possible to develop new drug candidates more economically or rapidly in the indications that are the Company's specialty are brought to market, thus facilitating faster product launches.

In addition, competitors are developing drug candidates in indications that 4SC also addresses. The approval authorities could give preference to these competing drug candidates on account of their greater efficacy or tolerance or their side effect profile. Consequently, the drug candidates that 4SC is developing and plans to license might not be approved at all or only to a limited extent or might fail to gain a sufficiently strong or extended market position. In turn, this could make it impossible for 4SC to enter into licensing partnerships for its proprietary drug candidates or cause a cooperation or licensing partner to fail in its efforts to advance or market one of the Company's drug candidates. As a result, 4SC would not generate any milestone payments or licence fees in future under the planned licensing agreements with pharmaceutical and biotech companies.

DEVELOPMENT OF DRUG CANDIDATES (GENERAL) :: The success of 4SC stands and falls with its research and development projects. 4SC is subject to development risks because it is a product-focused biotechnology company. Development risks are particularly pronounced in the biotech industry owing to drug candidates' long development cycles. Typical risks include the following: Individual drug candidates are ineffective or have side effects such that they cannot be successfully advanced, or the responsible authorities do not grant the requisite approvals at all or only after a delay. 4SC has several drug candidates at present that are in preclinical and clinical development phases. Although the study results available to date have shown that the drug candidates are safe to use and well-tolerated, the Company cannot rule out that in pending studies 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 delays or even the discontinuation of clinical development.

ADMINISTRATIVE PROCEEDINGS :: The business operations of 4SC are subject to extensive legal regulations and controls. The ability to develop and market new drug candidates can be hampered by administrative proceedings over which 4SC has only limited control. For instance, 4SC requires approval from the authorities to carry out clinical studies and operate its own research facilities. The loss, expiry or withdrawal of such approval can lead to delays in the development of 4SC's research projects.

7.2.2 RISKS FROM THE COMPANY'S BUSINESS ACTIVITIES

DEVELOPMENT AND LICENSING DEALS :: 4SC is specialised in the research and development of drug candidates. Hence the Company must generate substantial revenue in order to achieve profitability, for instance from milestone payments, licensing revenue or royalties under licensing agreements with pharmaceutical and biotech companies as well as under cooperation agreements. To date, 4SC's revenue has not allowed the Company to finance itself and generate profits. In light of these facts, and also considering the future need to incur large research and development expenses, the Company will continue to post negative operating results for the time being. In order to become profitable in the medium term, 4SC has to enter into long-term agreements with the pharmaceutical industry or large biotechnology companies. The development of the respective drug candidates could be delayed and / or result in lower revenue if 4SC fails to gain such partners at all or if it can only do so at economically unfavourable terms. Should a cooperation or licensing partner fail to develop a 4SC drug candidate further or market it, 4SC could potentially not receive milestone payments or licensing fees in future.

COOPERATION PARTNERS :: 4SC generates most of its revenue from agreements with a few cooperation partners. Any decision by a partner to terminate the agreement or cease making payments would have a negative effect on the Company's revenue and thus on its future cash flows and financial performance.

PATENTS AND TRADEMARKS :: 4SC protects its proprietary technologies and developments by establishing industrial property rights as well as through comprehensive patenting and licensing strategies. Even where patents are granted, it cannot be ruled out that third parties may challenge the validity of such patents or even the patent application as such. It can also not be ruled out that 4SC may become involved in patent disputes with third parties. Any legal ruling against 4SC's patents – generally in lengthy and cost-intensive legal proceedings – could impede the Company's continued development.

7.2.3 PRODUCT DEVELOPMENT RISKS

COLLABORATION WITH EXTERNAL SERVICE PROVIDERS IN RESEARCH AND DEVELOPMENT :: 4SC does not own or operate any production facilities at present because it does not have the requisite governmental permit. As a result, the Company depends on subcontractors, i.e. so-called contract manufacturing organisations (CMOs). These furnish the pharmaceutical substances for the Company's drug candidates, produce them in clinical and commercial quantities and both formulate and produce the actual drug. Here, 4SC's dependence on such external suppliers and manufacturers exposes it to risks. In particular, this concerns timely and sufficient deliveries in terms of quantity or quality as well as compliance with governmental requirements and quality assurance standards.

4SC is also dependent on contract research organisations (CROs) in connection with preclinical and clinical development. Any failure on the part of the cooperation partner in question to exercise due care could jeopardise the development of 4SC's drug candidates and possibly even cause the respective study to be discontinued. Moreover, the CROs must fulfil governmental requirements and quality assurance standards that 4SC can only influence to a limited degree even though the CROs are carefully selected.

PATIENT RECRUITMENT :: Aside from the aforementioned general product development risks that are typical for the industry – such as dependence on governmental approvals for clinical development and the possibility that ongoing studies might be subject to unexpected events – the development of drug candidates also gives rise to another risk. A sufficient number of suitable subjects and patients must be recruited for clinical studies. This can occur at a sluggish pace and encounter delays, given the complex medical circumstances that surround clinical studies. In addition, clinical study centres might be unable to recruit a sufficiently large number of patients for the clinical study in question because other clinical studies are being conducted concurrently. In turn, this could jeopardise the studies' timeline.

7.2.4 CAPITAL MARKET RISKS

ADDITIONAL FINANCING :: 4SC will continue to need a large amount of capital in the medium to long term if it is to realise its corporate and development goals. Meeting this capital need requires the Company to generate enough revenue from licences or cooperation deals. However, if product development costs exceed such income, the Company would have to raise additional equity or borrowings. 4SC cannot guarantee that such financing would be available on time, in the amount required, on economically feasible terms, or at all. Failure to raise sufficient funds could force 4SC to reduce its research and product development expenses, which could also have a negative effect on the Company's financial position, cash flows and financial performance. If the Company raises additional capital by issuing new shares, existing shareholders could see a dilution of their shares.

INFLUENCE EXERTED BY A FEW PRINCIPAL SHAREHOLDERS :: As defined by section 21 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in conjunction with section 25 of the WpHG, 4SC currently has four principal shareholders which have exceeded notification thresholds. Together, these shareholders hold over 81% of the share capital and voting rights. They are therefore theoretically in a position to exert a controlling influence on resolutions at the Annual General Meeting. Regardless of how other shareholders vote, they can influence all decisions regarding future business transactions of 4SC.

7.2.5 FINANCIAL RISKS

CASH INVESTMENTS :: 4SC possesses liquid cash reserves that it invests to earn interest as long as these funds are not needed. Currently, all of these funds are invested safely in overnight money and term deposits as well as money market funds that entail no or insubstantial liquidity and default risks. Whilst 4SC is exposed to an interest rate risk from securities subject to variable interest rates, they only account for 13% of the Company's aggregate financial assets and liquid funds as at the balance sheet date. The market value of these securities could rise or fall in line with changes in interest rates. Yet any change in interest rates would not have material effects on the fair values of these investments because the repurchase price is guaranteed.

Transactions with international business partners where contractual payment terms are made in a currency other than the euro entail a currency risk. This risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable. 4SC does not engage in hedging transactions but instead endeavours to pay its own liabilities in foreign currencies, mitigating the risk of exchange rate fluctuations.

NOTICE OF LOSS PURSUANT TO SECTION 92(1) GERMAN STOCK CORPORATION ACT (AKTIENGESETZ – AKTG) :: 4SC is a company which has yet to achieve profitability and has posted operating losses in all of the past financial years. Given the scope of its research and development expenses, over time these losses have accumulated into large loss carryforwards. These loss carryforwards are offset against equity and could result in a loss amounting to half the Company's share capital under German commercial law – despite the share premium from the issued shares. In this case, section 92(1) of the AktG would require 4SC to immediately convene an extraordinary General Meeting. Holding such an extraordinary General Meeting could result in organisational and financial expenditures for 4SC and have a negative impact on the price of its shares.

ALLOWANCE OF TAX LOSS CARRYFORWARDS :: 4SC has corporate tax loss carryforwards of €59,695 thousand pursuant to a tax assessment dated 31 December 2008. Substantial additional losses that have not yet been subject to a tax assessment have been incurred since 31 December 2008.

The application of section 8(4) of the German Corporate Income Tax Act (Körperschaftsteuergesetz – KStG) relating to the use of cumulative loss carryforwards, which was already problematic for the industry, has become considerably more difficult since the introduction of section 8c of the KStG on 1 January 2008 as part of the German Business Tax Reform Act. Any transfer of between 25% and 50% of the subscribed capital within a five-year period results in a partial elimination of tax losses carried foward, whereas any transfer of more than 50% of the subscribed capital results in a complete elimination thereof. As part of the Citizens' Relief Act (Bürgerentlastungsgesetz) that took effect in the summer of 2009 and the German Growth Acceleration Act (Wachstumsbeschleunigungsgesetz) that took effect on 1 January 2010, the German parliament has taken steps to ease the limitations on loss carryforwards. Whilst these statutes noticeably mitigate the problem, they do not eliminate it.

In recent years, 4SC has seen some changes among its shareholders, capital increases and investments from new shareholders, all of which is also possible in future. At the same time, new operating assets of significant scope have been acquired. Individually or jointly, two articles of the German Corporate Income Tax Act (Körperschaftsteuergesetz – KStG) – section 8(4) and section 8c – could have a negative impact on the Company's future after-tax results and equity, especially because there is legal uncertainty as to how to interpret these provisions. It is possible in 4SC's view therefore, that tax authorities might adopt the position that existing loss carryforwards may no longer be offset against profits in future. This would have a material negative impact on the Company's after-tax earnings once it reaches profitability and result in additional liquidity outflows.

FINANCIAL MARKET CRISIS :: The capital market crisis exposes 4SC to potential risks. Even though the Company adopts a conservative approach, the crisis in the financial markets could have a negative impact on the value of cash investments, exchange rate fluctuations or the loss of receivables. The steep decline in interest rates on the capital market lowered our net finance income year-on-year.

Further reductions in the liquidity of 4SC's share are also conceivable. The withdrawal of individual investors could negatively impact the performance of the Company's share price, making it less attractive to international institutional investors.

7.2.6 ADMINISTRATIVE AND OTHER RISKS

KEY PERSONNEL AND HOLDERS OF KNOW-HOW :: The success of 4SC largely depends on its senior management and key scientific and technical personnel. Many of these employees have a wealth of experience and are hard to replace. Although competition for highly-skilled personnel in the biotech sector is very intense, 4SC has so far always succeeded in filling the most important positions with suitable staff on reasonable employment terms. However, any loss of key managerial, scientific or technical personnel could be detrimental to the Company's competitiveness.

LEGAL RISKS :: The management of 4SC makes its decisions after discussing the relevant issues with both internal and external experts in order to reduce the diverse range of risks related to corporate, labour, tax, patent and other laws.

OTHER RISKS :: Other risks related to environmental protection, IT security, purchasing as well as general safety requirements are not deemed significant. 4SC has taken organisational precautions in order to fulfil the requirements in question and control the internal processes.

7.2.7 OVERALL ASSESSMENT OF THE COMPANY'S EXPOSURE TO RISK

From today's perspective, the Company does not perceive any factors that could jeopardise the existence of 4SC as a going concern in the 2010 financial year, all aforementioned risks notwithstanding. The Company is convinced that its opportunities outweigh any of the risks related to the development of drug candidates. 4SC is well positioned thanks to its broad and widely diversified pipeline. The additional funds that the Company raised at the close of 2009 and the anticipated revenue ensure the ongoing development of its existing projects. The Company's financing is secure beyond the next 12 months.

7.3 OPPORTUNITIES AVAILABLE TO THE COMPANY

PROJECT-RELATED PROGRESS ENHANCES THE COMPANY'S ENTERPRISE VALUE :: A variety of 4SC's drug candidates will reach important milestones in the short and medium term. In all likelihood, this will have a positive impact both on the assessment of individual projects and the measurement of the Company's aggregate value. This is true in particular if project candidates enter the clinical development phase or successfully complete a study phase.

SINGLE PRODUCT CANDIDATES CAN GENERATE SEVERAL PROJECTS :: In the past, 4SC's research and development projects have shown repeatedly that a single development candidate can act as an entire platform, generating a variety of projects with distinct products for different indications. In the short term, this can lead to an expansion of the project pipeline, thus further diversifying risk and enhancing potential and value. One current example is the vidofludimus project, which is being developed in parallel in two indications, rheumatoid arthritis and inflammatory bowel disease. In oncology, the drug candidate resminostat is also being examined in two indications, HCC and HL, in clinical studies.

EXTERNAL PARTNERSHIPS AND LICENSING AGREEMENTS ENHANCE THE COMPANY'S ENTERPRISE VALUE :: 4SC is involved in intensive and regular discussions with potential partners in the pharmaceutical industry. These days, pharmaceutical companies are entering into cooperation agreements and licensing partnerships for new products at increasingly earlier development stages. This is due to the fact that, for one, many patents for existing products are expiring and, for another, there were setbacks in several development projects. As a result, partnerships between pharmaceutical and biotech companies are increasingly being structured to the benefit of the biotech industry. Given its project portfolio, 4SC might also stand to gain from this trend in the long term. Moreover, these types of partnerships would further validate 4SC's development candidates and support the Company's business model.

TAKEOVERS :: Major pharmaceutical and biotechnology companies are not just interested in in-licensing drug candidates at early development phases. In recent years, they have repeatedly decided to directly acquire companies with attractive technologies or development candidates. The premiums that are paid over such companies' current market value usually are very high. This could benefit 4SC's shareholders.

LICENSING REVENUES FROM PATENTS :: 4SC's broad and well-positioned patent portfolio can generate additional licensing revenue if other developers are forced to use such patent rights in order to advance their own projects. Granting the use of its patent rights would enable 4SC to generate licensing revenue and improve its financial position, cash flows and financial performance.

8. EVENTS AFTER THE REPORTING PERIOD

4SC had a good start into the 2010 financial year. The Company pushed the development of its clinical products in the first few months of the year in order to build up a broadly positioned and sustainable pipeline of drug candidates for autoimmune diseases and cancer.

RESMINOSTAT :: TREATMENT OF THE FIRST PATIENT IN HL :: 4SC started to treat the first patient on 12 January 2010 as part of the Phase II "SAPHIRE" study in HL. This study is investigating the efficacy of resminostat in HL patients who are no longer responding to conventional treatment methods or who have relapsed after initially successful treatment. This open-label, one-arm, multi-centre and international study is being conducted on 33 patients. The objective overall response rate (ORR) of resminostat in a standard therapy in refractory patients is its primary endpoint. The secondary endpoints include assessment of progression-free survival (PFS), time to progression (TTP), duration of response (DOR) and overall survival (OS) as well as safety, tolerance and pharmacokinetics. The results are expected by the end of 2011.

4SC-203 :: TRIAL WITH A FIRST GROUP OF SUBJECTS :: The open-label Phase I study with the drug candidate 4SC-203 began on 21 January 2010. This randomised, double-blind, placebo-controlled, dose-escalation study investigates the safety, tolerability, pharmacokinetics and pharmacodynamics of 4SC-203, administered as single dose intravenously in healthy volunteers. The study is expected to last for approximately six months and to report results in 2010.

4SC-205 :: TREATMENT OF THE FIRST PATIENTS WITH SOLID TUMOURS :: On 11 February 2010, 4SC announced that it was treating the first patient with the oral Eg5 kinesin spindle protein inhibitor 4SC-205 in a clinical Phase I study in patients with solid tumours or malignant lymphomas. This first-in-man Phase I, open-label, dose-escalation study called "AEGIS" investigates the safety, tolerability, pharmacokinetics, and pharmacodynamics of orally administered 4SC-205 and is expected to report results in 2011.

9. ANTICIPATED DEVELOPMENTS

9.1 MACROECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMIC PROSPECTS :: The forecasts for 2010 vary widely, now that the global recession has come to an end in 2009 and the international financial and economic crisis seems to have peaked. It is the view of the World Bank that recovery will weaken in the course of the year because statutory stimulus packages will become less effective. In its report for 2010, the World Bank forecasts that global economic growth will be 2.7% this year – after declining by 2.2% the previous year – and 3.2% the following year.

POSITIVE TREND IN THE HEALTHCARE SECTOR :: Strong sustained growth is being forecast for the healthcare industry in general and the biotechnology industry in particular. Growth rates of at least 11% are expected for the biotech industry while those for the pharmaceutical industry are expected to be between 1.5% and 2.5%. The development of innovative drugs – even those with blockbuster potential – for diseases that cannot be adequately treated to date is predicated first and foremost on scientific and technological progress. The increasing trend toward acquisitions and mergers in the biotech industry will continue because pharmaceutical companies want to secure their product pipelines by means of acquisitions. These factors will allow the biotechnology industry to delink itself in part from general macroeconomic developments.

Rising life expectancy overall triggers a steady demand for new drugs and drug candidates, as people want to maintain their quality of life even as they age. Likewise the increase in healthcare costs is continuing unabated. The need for medical care is growing and will require measures aimed at limiting costs. As a result, innovative and more economical products are expected to have better market opportunities. But economic growth and rising disposable incomes in the emerging economies will also drive the demand for drugs. The healthcare sector is expected to expand by between 12% and 14% in the seven largest emerging countries – Brazil, China, India, Mexico, Russia, South Korea and Turkey.

BIOTECH – A GROWTH INDUSTRY :: Biotech companies will benefit from the fact that the pharmaceutical industry is facing a dramatic drop in sales. A survey conducted by the investment bank Morgan Stanley revealed that the revenue of major pharmaceutical groups will fall by about 42% between 2011 and 2015 because their patents are expiring. In the US alone, the loss of patents will open up a market with a sales potential of approximately $185 billion by 2014 – $145 billion of which could flow to the biotech industry. This increases the pressure on the pharmaceutical industry to enter into alliances with biotechnology companies, license products or acquire companies. At the same time however, the willingness of venture capitalists to provide funds is declining so that a growing number of biotech companies will no longer be able to finance their promising research projects in the coming years.

9.2 COMPANY OUTLOOK

SUFFICIENT FUNDING TO ACHIEVE VALUE-ENHANCING MILESTONES :: The Company's financing is on a secure footing even beyond the next 12 months thanks to both the funds that were raised in 2008 and 2009 in connection with the capital increases and the expected revenue from research cooperation deals. The funds will suffice until about the end of 2011, given a solid level of €35,621 thousand in cash and cash equivalents as well as an operating cash burn rate adequate to the planned development steps. The Company's management also aims to generate additional cash inflows and revenue during this period through alliances such as development cooperation deals and licensing agreements. If that does not succeed to the extent required, additional equity or borrowings will have to be made available in order to ensure the Company's continued existence and its successful performance in the medium and long term.

Research and development costs will rise yet again in 2010 because additional Phase I and II studies are planned for 4SC's drug candidates in connection with the Company's continued focus on the rapid and concurrent development of its pipeline until proof-of-concept. This will allow 4SC to achieve additional important value-enhancing milestones particularly with respect to the clinical products. Under the Company's current plans however, in 2011 research and development costs should basically return to their 2009 level. 4SC also expects the revenue from research cooperation agreements in both 2010 and 2011 to reach a level that is on par with 2009. It is against this backdrop that 4SC anticipates posting a loss yet again in both years. The number of employees will not change significantly over the next 24 months. Capital expenditures in subsequent years will basically entail replacement purchases of lab equipment and IT systems. But since 4SC is well equipped at this time, no major investments are anticipated.

PRODUCT PIPELINE – ATTRACTIVE AND BROADLY POSITIONED :: To a significant degree, both the performance and the market valuation of 4SC are contingent on the results of individual drug candidates' studies. By focusing on indications such as cancer and auto immune diseases, these drug candidates are attractive to the major pharmaceutical companies. 4SC intends to obtain the results of the Phase II studies of its two most advanced clinical programmes in 2010. Results for the Phase IIa study in inflammatory bowel disease are expected in the first half of the year whilst those for the Phase IIb study in RA are expected at the end of 2010. For resminostat a third Phase I study will be launched that investigates it in solid tumours in conjunction with chemotherapy whilst the Phase II HCC and HL studies continue to make progress and could yield further value-enhancing clinical findings.

The new products that were generated by the Company's research reduce the drug development risk and ensure that the pipeline is sustainable – above all 4SC-203 and 4SC-205, both of which are in Phase I and should yield results in 2010 and 2011. Moreover, two additional candidates – 4SC-202 and 4SC-207 – are being prepared in the preclinical stage, and 4SC-202 is expected to enter the clinical phase in 2010.

IINDICATIONS THAT OFFER GOOD OPPORTUNITIES :: Technological progress in both genomics and proteomics has provided new insights into the biological processes of many cancers, thus enabling many new approaches to targeted therapies. Oncology is a highly diverse and fragmented market with high commercial value. There are also many niche indications where the proof-of-concept can be achieved within a relatively short period and a small number of patients.

It is against this backdrop that the market opportunities of resminostat for the HCC indication are regarded as relevant in commercial terms. HCC is the third most frequent cause of death from cancer; each year approximately 600,000 people die of this disease worldwide. The five-year survival rate is about 7%. There is a high medical need for this disease that is not being adequately addressed by existing therapy options.

The treatment options for inflammatory diseases have improved in recent years thanks to biologically-derived proteins that are used as therapeutic agents. Yet there is an enormous need for affordable, orally administered drugs that can halt the progression of the underlying disease, either when used as a monotherapy or in conjunction with established treatment options.

Overall 4SC believes that it is well positioned to achieve not only its corporate and development goals but also material clinical milestones that will enhance the Company's value. Hence 4SC has started the new financial year with good prospects for its future.

ANNUAL FINANCIAL STATEMENTS (IFRS) AND NOTES

ANNUAL FINANCIAL STATEMENTS (IFRS) AND NOTES

:: STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2009

in €000's	Notes	2009	2008
Revenue	3.1	1,861	2,969
Cost of sales	3.3	- 548	- 1,426
GROSS PROFIT		**1,313**	**1,543**
Distribution costs	3.4	- 354	- 393
Research and development costs	3.5	- 14,151	- 11,498
Administrative costs	3.6	- 3,376	- 2,960
Other income	3.7	131	613
OPERATING PROFIT/LOSS		**- 16,437**	**- 12,695**
NET FINANCE INCOME/LOSS			
Profit/loss from investments accounted for using the equity method		29	33
Finance income		404	1,032
Finance costs		- 114	- 174
NET FINANCE INCOME/LOSS	3.9	**319**	**891**
EARNINGS BEFORE TAXES		**- 16,118**	**- 11,804**
Income taxes	4.	11	- 50
PROFIT/LOSS FOR THE YEAR		**- 16,107**	**- 11,854**
Changes in fair values of available-for-sale financial assets		0	3
Amount reclassified to profit and loss		3	14
MEASUREMENT OF FINANCIAL INSTRUMENTS	3.10	**3**	**17**
COMPREHENSIVE INCOME/LOSS		**- 16,104**	**- 11,837**
Earnings per share (basic and diluted; in €)	5.	- 0.54	- 0.51

See attached notes

:: STATEMENT OF FINANCIAL POSITION – ASSETS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

in €000's	Notes	31.12.2009	31.12.2008
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6.1	14,837	15,608
Property, plant and equipment	6.2	1,485	1,547
Investments accounted for using the equity method	6.3	62	33
Other financial assets	6.4	154	154
Other non-current assets	6.11	157	157
TOTAL NON-CURRENT ASSETS		**16,695**	**17,499**
CURRENT ASSETS			
Inventories	6.5	22	26
Trade accounts receivable	6.6	535	580
Receivables from associates and investees	6.7	0	0
Other financial assets	6.8	100	14,500
Cash and cash equivalents	6.9	35,521	7,346
Current tax assets	6.10	162	254
Other current assets	6.11	868	889
TOTAL CURRENT ASSETS		**37,208**	**23,595**
TOTAL ASSETS		**53,903**	**41,094**

:: STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

in €000's	Notes	31.12.2009	31.12.2008
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital		38,503	28,503
Share premium		67,836	48,101
Reserves		942	819
Accumulated deficit		- 56,372	- 40,265
TOTAL EQUITY	6.12	**50,909**	**37,158**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4.	39	50
Other liabilities	6.17	65	59
TOTAL NON-CURRENT LIABILITIES		**104**	**109**
CURRENT LIABILITIES			
Trade accounts payable	6.13	913	1,370
Accounts payable to associates	6.14	29	32
Financial liabilities	6.15	0	902
Provisions	6.16	45	0
Other liabilities	6.17	1,903	1,523
TOTAL CURRENT LIABILITIES		**2,890**	**3,827**
TOTAL EQUITY AND LIABILITIES		**53,903**	**41,094**

See attached notes

:: STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2009

in €000's	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Result before taxes		- 16,118	- 11,804
Corrections for:			
Depreciation and amortisation		1,289	774
Net finance income/loss		- 319	- 891
Non-cash expenses ESOP[1]		120	172
Non-cash expenses and income		- 320	932
Interest received		616	583
Interest paid		- 2	- 35
Decrease/increase in trade accounts receivable		45	- 449
Decrease in accounts receivable from associates/investees		0	459
Decrease/increase in inventories		4	- 7
Decrease/increase in current tax assets		92	- 180
Decrease/increase in other current assets		21	- 336
Decrease/increase in trade accounts payable		- 457	890
Decrease in accounts payable to associates		- 3	- 71
Increase in provisions		45	0
Increase in other liabilities		386	578
CASH FLOWS FROM OPERATING ACTIVITIES	7.	**- 14,601**	**- 9,385**

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

in €000's	Notes	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments in intangible assets		- 85	- 14,177
Payments for investments in property, plant and equipment		- 371	- 816
Income from sales of property, plant and equipment		0	4
Payments for equity investments		0	- 154
Purchase of financial assets not classified as cash or cash equivalents		- 100	- 14,000
Sale of financial assets not classified as cash or cash equivalents		14,499	6,332
CASH FLOWS FROM INVESTING ACTIVITIES	7.	**13,943**	**- 22,811**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to subscribed capital		10,000	9,501
Payments to share premium		19,735	19,706
Repayment of long-term loans		- 902	0
CASH FLOWS FROM FINANCING ACTIVITIES	7.	**28,833**	**29,207**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**28,175**	**- 2,989**
+ Cash and cash equivalents at the beginning of the period		7,346	10,335
= CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**35,521**	**7,346**

The consolidated statement of cash flows was prepared in accordance with the provisions of IAS 7. Further disclosures on the statement of cash flows are contained in note 7.

See attached notes

:: STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2009

			Reserves				
in €000's	Subscribed capital	Share premium	Reserves ESOP	Retained earnings	Revaluation surplus	Accumulated deficit	Total
BALANCE ON 01.01.2008	**19,002**	**28,395**	**583**	**67**	**- 20**	**- 28,411**	**19,616**
Options issued (ESOP 2001/2003)			2				2
Options issued (ESOP 2004/2004)			5				5
Options issued (ESOP 2004/2005)			11				11
Options issued (ESOP 2004/2006/1)			5				5
Options issued (ESOP 2006/2006/2)			124				124
Options issued (ERSATZ-ESOP 2001/2006/3)			13				13
Options issued (ESOP 2006/2007)			5				5
Capital increase of 14 July 2008	9,501	19,706					29,207
Options issued (ESOP 2006/2008)			7				7
Comprehensive income/loss 2008					17	- 11,854	- 11,837
Measurement of financial instruments					*17*		*17*
Net profit/loss 2008						*- 11,854*	*- 11,854*
BALANCE ON 31.12.2008	**28,503**	**48,101**	**755**	**67**	**- 3**	**- 40,265**	**37,158**
BALANCE ON 01.01.2009	**28,503**	**48,101**	**755**	**67**	**- 3**	**- 40,265**	**37,158**
Options issued (ESOP 2004/2004)			1				1
Options issued (ESOP 2004/2005)			5				5
Options issued (ESOP 2004/2006/1)			3				3
Options issued (ESOP 2006/2006/2)			55				55
Options issued (ESOP 2006/2007)			5				5
Options issued (ESOP 2006/2008)			25				25
Capital increase of 16 November 2009	10,000	19,735					29,735
Options issued (ESOP 2009/2009)			26				26
Comprehensive income/loss 2009					3	- 16,107	- 16,104
Measurement of financial instruments					*3*		*3*
Net profit/loss 2009						*- 16,107*	*- 16,107*
BALANCE ON 31.12.2009	**38,503**	**67,836**	**875**	**67**	**0**	**- 56,372**	**- 50,909**

For more information on components and changes in equity, see item "6.12 Equity" of the notes.

See attached notes

:: NOTES TO THE FINANCIAL STATEMENTS

TO THE ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2009

1. GENERAL DISCLOSURES AND DISCLOSURES ABOUT THE COMPANY

4SC, headquartered at 82152 Planegg-Martinsried, Am Klopferspitz 19a, is registered in the Commercial Register of the Munich District Court under HRB no. 132917. An excerpt from the Commercial Register dated 11 January 2010, with the most recent entry dated 20 November 2009, has been made available. The Articles of Association as amended on 16 November 2009 apply.

The shares of 4SC are listed under the share price symbol VSC, German securities identification number 575381 and ISIN DE0005753818, in the Prime Standard Segment of the Regulated Market 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 support the achievement of the corporate purpose. For this purpose, the Company 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, enter into intercompany agreements, particularly profit transfer and control agreements, and establish branch offices and other outlets domestically and abroad.

The Management Board approved the annual financial statements for release on 15 March 2010. The Supervisory Board is authorised to revise the annual financial statements after approval by the Management Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These annual financial statements were created in accordance with the accounting principles of the International Financial Reporting Standards (IFRS) – as adopted by the EU – pursuant to 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; IFRS and IFRIC not yet adopted, however, 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.

These financial statements were prepared on the assumption that the Company will continue operating as a going concern. In the financial statements, all essential information is included, so that the financial statements meet the requirements of section 325(2a) of the German Commercial Code (Handelsgesetzbuch – HGB).

The financial year corresponds to the calendar year. The annual financial statements are prepared in euros. The degree of precision used in the presentation is thousands of euros (€000's).

The statement of financial position is broken down into current and non-current assets and liabilities; the income statement has been prepared using the cost of sales method. Where items in the statement of financial position and in the income statement are summarised in the interests of clarity, this is explained in the notes.

4SC classifies assets and liabilities as current if they are expected to be liquidated or redeemed within twelve months following the balance sheet date, if they are held primarily for trading purposes, or if they constitute cash and cash equivalents.

These annual financial statements represent the single-entity financial statements of Germany-based 4SC and in addition to 4SC also take account of the associated company, quattro research GmbH, Planegg-Martinsried, as well as the equity investments in Nexigen GmbH, Bonn, and Quiescence Technologies LLC., Melbourne, Florida, USA, both of which are accounted for 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 2009.

Standard	Title	Published by the EU on
IFRS 8	Operating Segments	17.11.2007
Amendments to IAS 23	Borrowing Costs	17.12.2008
Amendments to IFRS 2	Share-based Payment	17.12.2008
IFRIC 13	Customer Loyalty Programmes	17.12.2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	17.12.2008
Amendments to IAS 1 (2007)	Presentation of Financial Statements	18.12.2008
Amendments to IAS 32/IAS 1	IAS 32: Financial Instruments: Presentation/ IAS 1: Presentation of Financial Statements	22.01.2009
Amendments to IFRS 1/IAS 27	IFRS 1: First-time Adoption of International Financial Reporting Standards/IAS 27: Consolidated and Separate Financial Statements	24.01.2009
Various[1]	Improvements of IFRSs (Annual Improvements)	24.01.2009
Amendments to IAS 39/IFRS 7	IAS 39: Financial Instruments: Recognition and Measurement/ IFRS 7: Financial Instruments: Disclosures	10.09.2009
Amendments to IFRIC 9/IAS 39	IFRIC 9: Reassessment of Embedded Derivatives/ IAS 39: Financial Instruments: Recognition and Measurement	01.12.2009
Amendments to IFRS 4/IFRS 7	IFRS 4: Insurance Contracts/ IFRS 7: Financial Instruments: Disclosures	01.12.2009

[1] :: Under article 2 of the Regulation, some of the amendments must be applied for the first time at the latest to financial years beginning after 31 December 2008. All other amendments – especially those concerning IFRS 5 and IFRS 1 – must be applied at the latest to financial years beginning after 30 June 2009.

Effective 1 January 2009, IAS 14, which previously governed segment reporting, was replaced by IFRS 8, which requires an entity to report financial and descriptive information about its reportable segments. Business areas of a company involved in business operations able to generate income and expenses, for which separate financial data is available, constitute reportable segments. In addition, operating results are regularly reviewed by chief operating decision-makers to determine how resources are to be distributed and profitability assessed. In general, financial information must be reported on the basis of internal controlling. 4SC does not at this time provide segment reporting, as it does not show clearly distinct financial information for separate business areas, i.e. there are no reportable segments. IFRS 8 thus had no impact on the Company's financial position, cash flows and financial performance. This requirement notwithstanding, entities that have a single reportable segment must make disclosures pursuant to IFRS 8.31 ff. This applies to 4SC. IFRS 8 thus entails expanded disclosures in the notes.

Under the amendment of IAS 23, an entity may no longer expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Instead, such borrowing costs form part of the cost of that asset and thus must be capitalised. The amendments to IAS 23 do not affect the present annual financial statements because 4SC does not possess any qualifying assets at this time, nor do we expect them to affect 4SC's annual financial statements in future, given the information currently available to us.

The amendments to IFRS 2 clarify the meaning of vesting conditions in share-based payment arrangements, how to account for non-vesting conditions and how to book cancellations of share-based payment arrangements. The amendments to IFRS 2 had no impact on the present annual financial statements, nor are they expected to have an effect on 4SC's annual financial statements in future, given the information currently available to us.

IFRIC 13 eliminated inconsistencies that had arisen in practice in accounting for customer award credits offered in connection with customer loyalty programmes. IFRIC 14 clarifies a number of provisions in IAS 19 that concern the measurement of an asset related to a defined benefit retirement plan that is subject to minimum funding requirements. Neither interpretation affected the present annual financial statements, nor do we expect them to have any impact on 4SC's annual financial statements in future, given the information currently available to us.

The revised version of IAS 1 contains changes in some of the requirements applicable to the presentation of financial statements. In particular, this concerns the obligation to present – besides the income statement – a statement of comprehensive income that also includes a presentation of the components of other income. 4SC has included the statement of comprehensive income in these annual financial statements.

The amendments to IAS 32 und IAS 1 govern the recognition of puttable financial instruments that must henceforth be classified as equity. The amendments to IFRS 1 und IAS 27 clarify the definition of the cost of investments in subsidiaries, jointly controlled entities or associates. The amendments to IFRIC 9 und IAS 39 serve to clarify the treatment of embedded derivatives if a hybrid (combined) contract is reclassified out of the "fair value through profit or loss" category. None of the aforementioned amendments to existing standards had any effect on the present annual financial statements, nor do we expect them to affect 4SC's annual financial statements in future, given the information currently available to us.

The amendments to IAS 39 und IFRS 7 specify effective dates and the transitional provisions applicable to the revisions of the standards that the IASB published on 13 October 2008. Since 4SC already presented its 2008 annual financial statements in accordance with Commission Regulation (EC) No 1004 / 2008, the amendments to IAS 39 and IFRS 7 do not affect the present annual financial statements.

The amendments to IFRS 4 and IFRS 7 provide for specific disclosures on the fair value measurement of and the liquidity risk inherent in financial instruments. Whilst these amendments have entailed expanded disclosures in these notes, they do not affect 4SC's financial position, cash flows and financial performance.

The improvements of the IFRS in connection with the Annual Improvement Project had no impact on the present annual financial statements, nor are they expected to have any impact on 4SC's annual financial statements in future, given the information currently available to us.

ACCOUNTING REGULATIONS NOT APPLIED EARLY :: In addition, the following standards, interpretations and amendments to existing standards have been adopted by the EU. Since application is not yet mandatory for the present annual financial statements, 4SC refrained from voluntary early application of those standards.

Standard	Title	Effective date[1]	Published by the EU on
IFRIC 12	Service Concession Arrangements	29.03.2009	26.03.2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	30.06.2009	05.06.2009
Amendments to IFRS 3	Business Combinations	30.06.2009	12.06.2009
Amendments to IAS 27	Consolidated and Separate Financial Statements	30.06.2009	12.06.2009
Amendments to IAS 39	Financial Instruments: Recognition and Measurement	30.06.2009	16.09.2009
IFRIC 17	Distribution of Non-cash Assets to Owners	31.10.2009	27.11.2009
IFRIC 18	Transfer of Assets from Customers	31.10.2009	01.12.2009
IFRIC 15	Agreements for the Construction of Real Estate	31.12.2009	23.07.2009
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	31.12.2009	26.11.2009
Amendments to IAS 32	Financial Instruments: Presentation	31.01.2010	24.12.2009

[1] :: for financial years beginning after the date

Given the information currently available to us, neither the amendments to IFRS 1 nor the interpretations IFRIC 12, IFRIC 15, IFRIC 16, IFRIC 17 and IFRIC 18 are expected to have any effect on the Company's annual financial statements in future. Since the amendments to IAS 39 concern clarifications on hedge accounting and the amendments to IAS 32 concern clarifications on the recognition of specific subscription rights, at this time 4SC also does not expect these changes to have any impact on the Company's annual financial statements in future. We cannot reliably assess at this time to what extent the amendments to IAS 27 and IFRS 3 will affect 4SC's annual financial statements in future.

2.3 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies were of significance in preparing these annual financial statements. 4SC applied these accounting policies uniformly for similar transactions, other events and contingencies.

FOREIGN CURRENCY ITEMS :: Foreign currency transactions are initially measured by using the spot exchange rate applicable at the respective transaction date (IAS 21.21). On each balance sheet date, monetary items in a foreign currency are translated at the closing rate in accordance with IAS 21.23. In contrast, non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing on the date of the transaction.

Exchange differences arising from translating monetary items at rates different from those at which they were translated on initial recognition are recognised in profit or loss in the period in which they arise in accordance with IAS 21.28. They are shown under net finance income / loss.

INTANGIBLE ASSETS :: Intangible assets acquired are recognised in accordance with IAS 38. They are initially recognised at cost, if the recognition requirements of IAS 38.18 are met. Following initial recognition, intangible assets are recognised at cost less accumulated amortisation using the straight-line method.

Research costs are expensed in the period incurred in accordance with IAS 38.54. Development costs are recognised if certain criteria in accordance with IAS 38.57 are met. Given the risks existing until commercialisation, 4SC does not fully meet the requirements of IAS 38 for recognising internally generated intangible assets. Developments costs are therefore also expensed in the period in which they are incurred.

GOODWILL :: Goodwill reported in the statement of financial position under intangible assets results from merging 4SC GmbH into 4SC AG in the year 2000. Goodwill was recognised at cost and amortised using the straight-line method based on a useful life of ten years until the end of financial year 2004. The provisions of IFRS 3 have been adopted for financial years starting on or after 1 January 2005. Accordingly, amortisation of goodwill has been discontinued since the 2005 financial year; instead, goodwill is tested for impairment once a year in accordance with IAS 36. An impairment loss is recognised on goodwill if the recoverable amount is lower than the carrying amount of the asset. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. 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 allocates this goodwill to the project 4SC-101 (using the INN vidofludimus since January 2010) as the cash-generating unit for the purpose of impairment testing. For impairment test purposes, the value in use of the vidofludimus project is compared with the carrying amount of the goodwill. A risk-adjusted cash flow forecast is prepared for determining 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 the cash flow and thus for determining the value in use.

In accordance with IAS 38.118, the development of intangible assets is shown in the statement of changes in non-current assets under item "6.1 Intangible assets".

PROPERTY, PLANT AND EQUIPMENT :: Property, plant and equipment is recognised at cost less cumulative depreciation using the straight-line method. The carrying amounts of property, plant and equipment are tested for impairment whenever there are indications that an asset's carrying amount may exceed its recoverable amount. The useful lives of and depreciation methods applied to property, plant and equipment 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 recognised. Gains or losses resulting from the sale or retirement of assets are reflected in other operating income or under the area of activity concerned.

In accordance with IAS 16.73, the development of property, plant and equipment is shown in the statement of changes in non-current assets under item "6.2 Property, plant and equipment".

EQUITY INVESTMENTS :: As of the balance sheet date, 4SC has stakes in three companies, which are recognised as associates in accordance with IAS 28 or as investments in accordance with IAS 39 depending on the degree of influence 4SC has in each case.

The company quattro research GmbH, Planegg-Martinsried, in which 4SC holds a 48.8% stake, was founded as an independent entity at the beginning of January 2004. 4SC 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 entity is thus recognised as an associate using the equity method in accordance with IAS 28. The balance sheet date and accounting policies employed for similar business transactions and events are the same for 4SC and this associate.

4SC sold its worldwide exclusive rights to its QSB substances to Quiescence Technologies LLC. (previously QuoNova LLC.), Melbourne, Florida, USA at the end of December 2006. Besides the proceeds from this sale, 4SC was also given a direct interest of 10.0% in the equity of QuoNova LLC. Pursuant to the requirements of IAS 28, to date this stake has been accounted for using the equity method because 4SC was part of the executive committee and because significant transactions with Quiescence Technologies LLC. potentially enabled 4SC to exercise significant influence over the company. Our co-operation with the company was reduced in the course of the 2008 financial year as the project progressed according to plan. Moreover, given the current uncertainty regarding the economic situation of Quiescence Technologies LLC., until further notice 4SC will refrain from providing any advance services under its collaboration with that company. No material transactions were executed during the reporting year in connection with this equity interest as a result. In addition, 4SC no longer is part of the executive committee because Dr Ulrich Dauer resigned from the Board of Directors of Quiescence Technologies LLC. on 2 February 2009. Hence 4SC no longer exercises significant influence over the company as at 31 December 2009 such that no recognition pursuant to the requirements of IAS 28 is necessary. Instead, the equity interest was classified as a financial asset available for sale in accordance with IAS 39.

4SC has had a 3.7% stake in Bonn-based Nexigen GmbH since May 2008. With this stake, 4SC had received a takeover option which gave it the exclusive right to take over Nexigen completely within 15 months (i.e. by August 2009). On 15 May 2009, the management of 4SC announced that it would not exercise the option to take over Nexigen GmbH. As at 31 December 2009, 4SC therefore cannot exert any significant influence on this investee. The Company's stake in the investee falls significantly short of the 20% limit and 4SC has no significant business transactions with Nexigen GmbH and only provides one of the three Advisory Board members. The equity interest in Nexigen GmbH entails securities that must be classified as available for sale pursuant to IAS 39. They are measured 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 materials and consumables are recognised at the lower of cost and net realisable value in accordance with IAS 2.9. The FIFO method is applied for allocation purposes in accordance with IAS 2.27.

TRADE ACCOUNTS RECEIVABLE :: Trade accounts receivable are recognised at the original invoiced amount less allowances for bad debts. These allowances for bad debts are based on the management's assessment of the recoverability of specific customer 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 invoice terms originally agreed.

RECEIVABLES FROM ASSOCIATES AND INVESTEES :: Accounts receivable from associates and investees are recognised at cost less an allowance for bad debts. Cost either corresponds to the value of the consideration at the effective date or is measured at the amount in which reimbursement is expected.

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 investments and other financial assets are financial instruments as defined by IAS 39. Depending on the individual case, these are classified either as financial assets at fair value through profit or loss or as financial assets available for sale. Classification of financial assets into measurement categories is made 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". Gains and losses from subsequent measurement are recognised in profit or loss in accordance with IAS 39.55a.

Financial instruments that are categorised as "available for sale" are measured at fair value. The resulting gains and losses from measurement at fair value – with the exception of impairment losses in accordance with IAS 39.67 ff – are recognised directly in equity under revaluation surplus as per IAS 39.55b until the financial asset is derecognised. At that point in time, the cumulative gain or loss previously recorded in equity is reclassified to profit or loss. However, the interest calculated using the effective interest method is recognised in profit or loss.

The equity investments in Nexigen GmbH and Quiescence Technologies LLC., which are also classified as available for sale in accordance with IAS 39, are measured at fair value pursuant to IAS 39.43.

The carrying amounts of these financial assets are reviewed at regular intervals or at least at every reporting date as to whether there is an active market for the respective assets and whether there are objective indications of impairment. With regard to equity instruments, a significant or long-term reduction of fair value is an objective indication of a possible impairment. Such an impairment loss is expensed immediately.

In accordance with IAS 1.60, financial instruments are classified as non-current or current assets, depending on their remaining life as of the balance sheet date. Financial instruments with a remaining life of more than one year as of the balance sheet date are shown as other financial assets among non-current assets. Financial instruments with a remaining life on the balance sheet date of less than one year are shown as other financial assets among 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 deposits that have an original term of more than three months are shown as other financial assets. If the other financial assets meet the recognition criteria as defined by IAS 7.7, they are shown as cash equivalents.

OTHER ASSETS :: Other assets comprise all receivables that are not shown as separate items in the statement of financial position. They are measured at an amount equivalent to the anticipated level of reimbursement.

CASH AND CASH EQUIVALENTS :: Cash consists of cash on hand, bank balances and short-term time deposits. Cash equivalents comprise other short-term and highly liquid investments with an original term of no more than three months, which are subject only to insignificant fluctuations in value. They are recognised at their nominal value.

TRADE ACCOUNTS PAYABLE AND ACCOUNTS PAYABLE TO ASSOCIATES :: Trade accounts payable and accounts payable to associates are current liabilities in accordance with IAS 1.60 and are accordingly carried at their settlement amount. They are derecognised when the underlying obligation has been discharged or expires.

PROVISIONS AND ACCRUALS :: Provisions and accruals are recognised 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 is possible.

According to 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 recognised according to IAS 37.11 as part of other liabilities, whereas provisions are reported separately.

Where a provision entails a range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used in accordance with IAS 37.39.

As at 31 December 2009, 4SC had obligations that had to be classified as provisions as well as obligations that were shown as accruals under the item "other liabilities".

OTHER LIABILITIES :: In addition to accruals, other liabilities also comprise all payment obligations of the Company that are not shown as separate items in the statement of financial position. They are carried at their settlement amount.

INCOME TAXES :: The actual tax liabilities arising from income taxes for the current and previous periods are to be recognised 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 recognised as an asset. The refund claims or liabilities are measured at the amount corresponding to the expected level of refund from the tax authorities or payment to the tax authorities. The given amount is calculated on the basis of the tax rates and laws applicable as of the balance sheet date.

Deferred taxes are accounted for in the statement of financial position in accordance with IAS 12. They are recognised on the basis of temporary differences in the recognition of assets and liabilities between the IFRS financial statements and the tax accounts. 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 unused tax losses are carried as assets pursuant to IAS 12.34 only to the extent that it is probable that future taxable profit will be available in order to realise the claim. In accordance with IAS 1.56, deferred tax assets and liabilities must not be shown as current assets and liabilities.

REVENUE RECOGNITION :: The business model of 4SC is aimed at generating revenue from licence fees, advance payments, milestone payments and royalties. 4SC generates additional revenue by making both its technology platform and its know-how available as a service package to partners and customers in the pharmaceutical and biotechnology industry under cooperation agreements.

Sales from 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 flat sums per scientist billed ("FTE"). Amounts received prior to the rendering of services are recognised as advances received before being reversed to profit or loss as of each 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 are an advance payment following the signature of the contract without specific services having been provided. Revenue from up-front payments is recognised as deferred income and recognised in profit or loss over the term of the contract. Milestone payments are contingent upon the achievement of contractually stipulated targets. The attainment of these milestones depends largely on meeting specific requirements, so that the resulting revenue is only posted 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 revenue as of the date upon which the cooperation partner generates external sales that result in royalties. Income from licences granted for specific, contractually-defined periods is deferred and recognised as revenue over the duration of the license. Irrevocably sold licenses are posted as revenue for the full amount as of the date of transfer of usage rights.

IAS 11 does not apply in this case as the service provision concerned does not constitute long-term, customer-specific production as defined by IAS 11.3 and IAS 11.5.

COST OF SALES :: Cost of sales comprise staff, material and other costs incurred directly attributable to the generation of revenue.

DISTRIBUTION, RESEARCH AND DEVELOPMENT AND ADMINISTRATIVE COSTS :: The following costs are classified as distribution, research and development and administrative costs:

:: Direct staff and material costs
:: Depreciation and amortisation
:: Other direct costs
:: Prorated overheads

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

Development costs are defined as expenses incurred to put research results into technical and commercial practice. They are recognised as intangible assets if certain criteria pursuant to IAS 38.57 are met. At 4SC, the risks involved up until the commercialisation of its products mean the requirements for the recognition of development costs as intangible assets in accordance with IAS 38 are not met in full. Developments costs are therefore also expensed in the period in which they are incurred.

GOVERNMENT GRANTS :: In accordance with IAS 20.12, government grants are recognised in profit or loss on a systematic basis in the period in which the entity recognises as expenses the related costs for which the grants are intended to compensate. 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 operating activities which is not shown as finance income or does not represent the reimbursement of research expenditures. For the most part, 4SC 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 on an accrual basis. If amounts are collected for future periods, they are only recorded on a pro rated basis. For this purpose, a deferred income item is created, which is accordingly reversed over the following months. Provided they involve refunds, reimbursements of expenses are recognised at the time of receipt of payment or, if the expenses are passed on, 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:

IMPAIRMENT LOSSES :: The impairment test for goodwill and acquired intangible assets (patents) 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 cash flows, as well as changes in the discount rate, could have considerable consequences for the determination of fair value and, ultimately, the level of goodwill impairment.

When testing the impairment of receivables, the Management Board must assess their recoverability on the basis of the customer's creditworthiness. Changes in the customer's creditworthiness could lead to a valuation allowance for receivables.

MEASUREMENT OF EQUITY INVESTMENTS :: The Management Board had to assess whether it exercises control with regard to quattro research GmbH, in which case the company would have to be consolidated in accordance with IAS 27. The Management Board determined that the conditions which would constitute control of quattro research GmbH 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 the equity investments in Quiescence Technologies LLC. (previously QuoNova LLC.) and Nexigen GmbH too, the degree of influence exerted by 4SC had to be estimated. Here, the Management Board arrived at the decision that the Company had neither a controlling nor a significant influence as at 31 December 2009 and neither entity had to be consolidated or recognised as an investment accounted for using the equity method.

RESERVES ESOP/EXPENDITURE FROM STOCK OPTIONS :: The accounting for 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 posted during the financial year.

3. DISCLOSURES ON THE STATEMENT OF COMPREHENSIVE INCOME

3.1 REVENUE

Revenue in 2009 declined from €2,969 thousand to €1,861 thousand year-on-year. Whilst revenue of €750 thousand in the 2008 financial year was generated from the licensing agreement with Erlangen-based ViroLogik GmbH, revenue in the current financial year stems from research cooperation agreements alone.

3.2 STAFF COSTS

in €000's	2009	2008	Change in %
Wages and salaries	4,896	4,096	20
Social security contributions	806	669	20
ESOP[1]	120	172	- 30
STAFF COSTS	**5,822**	**4,937**	**18**
Employees and Management Board (annual average)	91	80	14

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

4SC hired additional personnel during the reporting year, especially to enhance its development team, given the increase in the number of programmes. On the annual average, the total number of employees rose from 80 by just under 14% to 91. This is also reflected in the increase in wages and salaries as well as in the attendant employee benefits and social security contributions. The wages and salaries rose to €4,896 thousand in the reporting year (previous year: €4,096 thousand) and the employee benefits and social security contributions rose to €806 thousand (previous year: €669 thousand) and thus by 20% in each case.

During the reporting year, funds accruing through salary waiver were appropriated for direct insurance for the benefit of Company staff and the Management Board. These contributions are classified as defined contribution plans and are recognised and measured in accordance with IAS 19.44. Total expenditures in connection with defined contribution plans amounted to €85 thousand in the reporting year (2008: €77 thousand). Of this amount, €15 thousand (2008: €19 thousand) are attributable to Management Board members. In addition, a total of €676 thousand (2008: €556 thousand) was paid to statutory pension funds.

In addition, options granted to staff and Management Board members during the reporting year were shown as staff costs in accordance with IFRS 2. A total of €120 thousand in staff costs arose in the 2009 financial year from the options (2008: €172 thousand); of this

amount, €80 thousand (2008: €41 thousand) are attributable to members of the Management Board. The year-on-year decrease stems from the fact that, under IFRS 2, the options granted in 2006 – which accounted for a major portion of the staff costs in 2008 – could only be considered on a pro rata basis in 2009.

On the whole therefore, staff costs climbed from €4,937 thousand in 2008 by 18% to €5,822 thousand in 2009. They are shown in the income statement under the items, cost of sales, distribution costs, research and development costs as well as administrative costs in accordance with their functional classification.

3.3 COST OF SALES

in €000's	2009	2008	Change in %
Staff	445	574	- 22
Material	101	130	- 22
Bad debt allowance	0	700	- 100
Commissions	0	15	- 100
Other	2	7	- 71
COST OF SALES	**548**	**1,426**	**- 62**

The decrease in the costs of staff and material by 22% each basically reflects the decline in revenue from research cooperation deals. At the same time, €700 thousand in bad debt allowances related to receivables from Quiescence Technologies LLC. as well as €15 thousand in commissions paid on royalties from licensing agreements were eliminated in 2009. In sum, the cost of sales dropped from €1,426 thousand in 2008 by 62% to €548 thousand in 2009.

3.4 DISTRIBUTION COSTS

in €000's	2009	2008	Change in %
Staff	189	197	- 4
Legal and other consulting	62	93	- 33
Travel and conferences	50	52	- 4
Rental costs including ancillary costs	53	51	4
DISTRIBUTION COSTS	**354**	**393**	**- 10**

Distribution costs fell by 10% year-on-year, from €393 thousand in the previous year to €354 thousand in the reporting year, mainly due to the decline in legal and consulting costs because a portion of the costs incurred the previous year was related to the royalties from licensing agreements.

3.5 RESEARCH AND DEVELOPMENT COSTS

in €000's	2009	2008	Change in %
Third-party services	6,671	5,541	20
Staff	3,582	2,676	34
Depreciation and amortisation	1,168	662	76
Patents	1,110	1,138	- 2
Material	700	595	18
Rental costs including ancillary costs	578	521	11
Software licences	163	134	22
Travel and conferences	134	56	139
Other	394	317	24
Grants (EU and Ministry of Education and Research)	- 349	- 142	146
RESEARCH AND DEVELOPMENT COSTS	**14,151**	**11,498**	**23**

Research and development costs rose from €11,498 thousand in 2008 by 23% to €14,151 thousand in 2009. The integration of the oncology programmes acquired from Nycomed into the Company's own pipeline and the ongoing development of 4SC's entire project pipeline were the main drivers of this development. It led to higher external costs for both services and materials as well as to increased depreciation and amortisation. Staff costs rose at the same time due to the expansion of the teams in the scientific divisions, especially the development department.

Income from grants rose significantly. Aside from the two EU-funded projects "Antimal" and "Premal" that already existed in 2008, income was generated from two new programmes in the reporting year. 4SC launched the MedSys research project "Spere4Sys" as part of a consortium effective 1 April 2009. The Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung – BMBF) is providing a €321 thousand grant over 36 months to fund the project, which is aimed at investigating cancer drugs in model systems of tumours. On 1 June 2009, Nexigen GmbH and 4SC launched a research project aimed at developing a new screening technology. This project is being supported by the Federal Ministry of Economics and Technology (Bundesministerum für Wirtschaft und Technologie – BMWi). 4SC might receive a total grant of up to €82 thousand over a period of 21 months.

In 2009, the Company received a total of €349 thousand in government grants (previous year: €142 thousand). 4SC will continue its efforts to obtain new grants in order to generate additional revenue.

3.6 ADMINISTRATIVE COSTS

in €000's	2009	2008	Change in %
Staff	1,605	1,490	8
Advertisement (PR & IR)	443	253	75
Rental costs including ancillary costs	287	260	10
Legal and other consulting	262	274	- 4
Supervisory Board	143	146	- 2
Depreciation and amortisation	119	113	5
Insurance, fees and contributions	107	108	- 1
External services	105	51	106
Travel and conferences	102	78	31
Other	203	187	9
ADMINISTRATIVE COSTS	**3,376**	**2,960**	**14**

Administrative costs rose by €416 thousand or 14% to €3,376 thousand. The increase in staff costs by 8% due to a variety of factors such as rising salaries and the attendant social security contributions, increased staff costs under stock options and lower contributions was the main cost driver. 4SC's enhanced presence at international industry and investor conferences caused the costs for investor relations activities to rise by 75%, from €253 thousand in 2008 to €443 thousand in 2009.

3.7 OTHER INCOME

in €000's	2009	2008	Change in %
Cost allocations to ViroLogik GmbH	62	488	- 87
Sublease to quattro research GmbH	27	23	17
Insurance compensation payments	20	0	n/a
Other cost allocations	5	28	- 82
Other	17	74	- 77
OTHER INCOME	**131**	**613**	**- 79**

There was a strong year-on-year decline in other income by 79% to €131 thousand, mainly owing to the substantial decrease in cost allocations related to external services provided to ViroLogik GmbH and other business partners.

Laboratory facilities and office space that we did not need were rented to quattro research GmbH, Planegg-Martinsried, as in the previous year. The term of this sublease is governed by the term of 4SC's lease, which runs until 31 December 2011. If the primary lease is terminated – for whatever reason – the sublease will also be terminated without any exception. Moreover, 4SC and quattro research GmbH may terminate the sublease by giving three months' notice. Based on the three-month period of notice, the total minimum future rent payments under this sublease amount to €7 thousand.

3.8 DEPRECIATION AND AMORTISATION

in €000's	2009	2008	Change in %
Amortisation of intangible assets	856	434	97
Depreciation of property, plant and equipment	433	340	27
DEPRECIATION AND AMORTISATION	**1,289**	**774**	**67**

Depreciation and amortisation rose substantially from €774 thousand in 2008 to €1,289 thousand in 2009. Amortisation of intangible assets – mainly due to the recognition of the rights acquired from Nycomed and the corresponding amortisation over their expected useful life – was higher year-on-year because the patents had only been acquired during the year 2008. Depreciation of property, plant and equipment rose at the same time on account of the capital expenditures during the reporting year.

Depreciation and amortisation are shown in the income statement solely under the items, research and development costs and administrative costs.

3.9 NET FINANCE INCOME / LOSS

Net finance income / loss constitutes the result derived from the accounting of the stakes held in associates using the equity method. This concerns the measurement of the equity investment in quattro research GmbH. Further explanation can be found under item "6.3 Investments accounted for using the equity method".

in €000's	2009	2008	Change in %
Share in the profit/loss of quattro research GmbH	29	33	- 12
PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	**29**	**33**	**- 12**

The income shown under net finance income / loss is comprised as follows:

in €000's	2009	2008	Change in %
Interest-bearing investment of cash and cash equivalents	358	746	- 52
Securities measured through profit or loss	44	193	- 77
Income from exchange rate differences	2	28	- 93
Income from the effective interest method	0	65	- 100
FINANCE INCOME	**404**	**1,032**	**- 61**

The expenses shown under net finance income / loss are comprised as follows:

in €000's	2009	2008	Change in %
Losses from the disposal of securities	106	54	96
Expenses from exchange rate differences	5	60	- 92
Expenses from the effective interest method	0	60	- 100
Interest payments to former silent partners	0	35	- 100
Other interest expense	3	0	n/a
FINANCE COSTS	**114**	**174**	**- 34**

3.10 RECONCILIATION TO COMPREHENSIVE INCOME

In the 2008 financial year, the EU adopted the amendments to IAS 1, among others, that were published by the IASB. One of these amendments relates to the expansion of the previous income statement by a reconciliation of the profit or loss to comprehensive income, including a presentation of the components of other income in the statement of comprehensive income.

in €000's	2009	2008	Change in %
Changes in fair values of available-for-sale financial assets	0	3	- 100
Amount reclassified to profit and loss	3	14	- 79
MEASUREMENT OF FINANCIAL INSTRUMENTS	**3**	**17**	**- 82**

The recognition of the financial instruments in other income generated a profit of €3 thousand in 2009, compared to €17 thousand in 2008. In both periods, the recognition resulted from financial assets available for sale, where according to IAS 39.55b the profit or loss must be recognised directly in equity until the financial assets are derecognised.

4. INCOME TAX AND DEFERRED TAXES

4SC 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 activities. 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 recognised in the income statement are made up as follows:

in €000's	2009	2008	Change in %
Current tax expense	0	0	0
Deferred tax expense	0	- 50	- 100
Deferred tax income	11	0	n/a
TOTAL INCOME TAXES	**11**	**- 50**	**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 income and earnings comprise the corporate income tax, the solidarity surcharge and trade tax. As a result of the German Business Tax Reform Act in 2008 (Unternehmensteuerreformgesetz) the corporate income 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 income 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 2010 is therefore 26.33%.

No deferred tax assets were recognised as of 31 December 2009 and 31 December 2008. As was the case for the previous year, deferred tax assets on losses carried forward were not recognised during the 2009 year, since the Company has a history of losses, and given that deferred tax assets from unused tax losses can only be offset against taxable income, requiring at least substantial indications that in future sufficient taxable profit will be available against which the unused tax losses can be used (IAS 12.34).

Deferred tax assets and liabilities as of 31 December 2009 and 31 December 2008 are distributed as follows:

in €000's	2009	2008	Change in %
DEFERRED TAX LIABILITIES			
Investments accounted for using the equity method	1	0	n/a
Financial assets	0	1	- 100
Cash and cash equivalents	29	40	- 28
Other liabilities	9	9	0
TOTAL DEFERRED TAX LIABILITIES	**39**	**50**	**- 22**

The deferred tax liabilities related to the financial assets stem from the different measurements of our equity investment in quattro research GmbH under IFRS versus German commercial and tax law. In the cash and cash equivalents, they arise from the market valuation according to IFRS, and in the other liabilities from different recognition criteria applicable to deferred liabilities under IFRS and German commercial and tax law.

The value of tax losses unrecognised as deferred tax assets but reportable per IAS 12.81 (e) is as follows as of the balance sheet date:

in €000's	2009	2008
Tax loss carryforward	75,521	59,341
Effective tax rate	26.33	26.33
Value of the tax loss carryforwards	19,885	15,624

This calculation is based on the assumption that the tax rates applicable after 1 January 2010 will still be valid in the future upon achieving the value of the taxable losses carried forward, and that 4SC's losses carried forward will still be able to be utilised.

In general, losses may be carried forward indefinitely to offset future profits, although some restrictions apply with regard to the use of losses carried forward in relation to sections 8(4) and 8c of the German Corporate Income Tax Act (Körperschaftsteuergesetz – KStG).

Over the last years, 4SC 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 currently prevailing legal uncertainty, which has arisen in connection with the interpretation of the provisions applicable in this context, and the attitude adopted by the competent revenue authorities, 4SC 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 will, however, continue to petition for the admissibility of its losses carried forward.

The reconciliation between the product of annual net loss and applicable tax rate and income tax result for 4SC is made up as follows:

in €000's	2009	2008
Earnings before taxes	- 16,118	- 11,804
Expected tax income at a tax rate of 26.33% (2008: 26.33%)	4,244	3,108
Income (+)/expense (-) shown in the income statement	11	- 50
DIFFERENCE TO BE EXPLAINED	**4,233**	**3,158**
Less tax effects on deferred tax assets and loss carryforwards for which no deferred taxes were recognised in the current period	4,260	3,133
Non-deductible expenses	30	86
Other differences	- 57	- 61
TOTAL RECONCILIATION	**4,233**	**3,158**
DIFFERENCE AFTER RECONCILIATION	**0**	**0**

5. EARNINGS PER SHARE

The undiluted earnings per share are calculated in accordance with IAS 33.9 et seq. by dividing the net profit / loss for the period attributable to the shareholders (numerator) by the average weighted number of shares outstanding in the reporting period (denominator). This is based on an annual net loss of €16,107 thousand (previous year: - €11,854 thousand) and a number of shares of 29,752,739 for the reporting year (previous year: 23,435,585).

Because the options issued are not dilutive given 4SC's loss and the share price has currently dropped below the exercise price of the options, i.e. the options are currently "out of money", the diluted and basic earnings per share are identical.

in €	2009	2008
EARNINGS PER SHARE (BASIC AND DILUTED)	**- 0.54**	**- 0.51**

The Company's Annual General Meetings on 1 March 2001, 28 July 2004, 28 June 2006, 29 June 2007, 5 July 2008 and 15 June 2009 decided to increase the Company's share capital conditionally. These resolutions could mean that undiluted earnings per share could potentially be diluted in future if option rights are granted to members of the Management Board and employees of the Company or shares are granted to the owners or creditors of convertible bonds to be issued, participation rights and / or warrants. Details about the conditional capital can be found under items "6.12 Equity" and "9. Stock option programme".

6. DISCLOSURES ON THE STATEMENT OF FINANCIAL POSITION

6.1 INTANGIBLE ASSETS

The development of intangible assets pursuant to IAS 38.118 is shown in the statement of changes in non-current assets.

		Cost				Amortisation and impairment losses				Carrying amounts	
in €000's	Useful life from ... to ... years	Balance on 01.01.2009	Additions 2009	Disposals 2009	Balance on 31.12.2009	Balance on 01.01.2009	Additions 2009	Disposals 2009	Balance on 31.12.2009	Balance on 31.12.2009	Balance on 31.12.2008
INTANGIBLE ASSETS											
Software and patents	2–20	14,646	85	0	14,731	824	856	0	1,680	13,051	13,822
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
INTANGIBLE ASSETS		**16,432**	**85**	**0**	**16,517**	**824**	**856**	**0**	**1,680**	**14,837**	**15,608**

Changes in intangible assets during the previous year were as follows:

		Cost				Amortisation and impairment losses				Carrying amounts	
in €000's	Useful life from ... to ... years	Balance on 01.01.2008	Additions 2008	Disposals 2008	Balance on 31.12.2008	Balance on 01.01.2008	Additions 2008	Disposals 2008	Balance on 31.12.2008	Balance on 31.12.2008	Balance on 31.12.2007
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**

With the exception of the goodwill recognised in the statement of financial position, there were no intangible assets with indefinite useful lives. There were no internally generated intangible assets.

Besides investments in software, the additions during the reporting year concerned subsequent asset costs related to the acquisition of the rights to Nycomed's oncology projects in 2008 that arose in connection with the transfer of the patents to 4SC.

Amortisation and impairment of intangible assets is shown in the income statement mainly under the items, research and development costs and administrative costs.

in €000's	2009	2008	Change in %
Distribution costs	2	2	0
Research and development costs	830	417	99
Administrative costs	24	15	60
AMORTISATION AND IMPAIRMENT OF INTANGIBLE ASSETS	**856**	**434**	**97**

GOODWILL ::

in €000's	31.12.2009	31.12.2008	Change in %
GOODWILL	**1,786**	**1,786**	**0**

The goodwill results from the merger of 4SC GmbH into 4SC AG in 2000. At the time, a fair value of €3,572 thousand was determined. This goodwill was amortised until financial year 2004 in accordance with IAS 22.44. Since the 2005 financial year, the provisions of IFRS 3 und IAS 36 have been applied. 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 at least once a year.

As a result of the discontinuation of recognising amortisation, the net loss for the period since financial year 2005 has improved by €357 thousand per annum – before taking impairment losses into account.

The impairment test conducted at the end of the reporting year did not indicate a need for adjustment of the value recognised as of 31 December 2009. For the impairment test, the value in use of the vidofludimus project for the indications rheumatoid arthritis and inflammatory bowel diseases was compared with the carrying amount of goodwill. The value in use is determined essentially by means of the following factors: The discount factor is 14% (previous year: 13%) and determines at which interest rate future cash flows will be discounted. The probability of a market entry, assumed to be 16% (previous year: 16%), depends on the development phase that the project is in. The maximum anticipated sales are based on an estimate by 4SC and depend primarily on expected market shares, future patent numbers and anticipated revenue per patient. The expected cash flows have been calculated for the period up to 2034, on the basis of corresponding 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:

	Rheumatoid arthritis		Inflammatory bowel disease	
in %	Decrease in parameters	Increase in parameters	Decrease in parameters	Increase in parameters
Discount factor	- 14	17	- 17	20
Maximum revenue to be expected	- 12	12	- 14	14
Probability of market entry	- 11	11	- 12	12
Period in which cash flows are to be expected	- 6	8	- 8	8

No need for recognising impairment losses on the goodwill of 4SC would result in any of the cases mentioned above.

6.2 PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment pursuant to IAS 16.73 is shown in the statement of changes in non-current assets.

Property, plant and equipment include office equipment, laboratory equipment, other operating and office equipment, IT equipment (hardware) and leasehold improvements.

		Cost				Depreciation and impairment losses				Carrying amounts	
in €000's	Useful life from ... to ... years	Balance on 01.01.2009	Additions 2009	Disposals 2009	Balance on 31.12.2009	Balance on 01.01.2009	Additions 2009	Disposals 2009	Balance on 31.12.2009	Balance on 31.12.2009	Balance on 31.12.2008
PROPERTY, PLANT AND EQUIPMENT											
Office equipment	8–14	138	4	0	142	79	11	0	90	52	59
Laboratory equipment	3–14	2,792	209	27	2,974	2,206	197	27	2,376	598	586
Low-value assets	n/a	0	5	5	0	0	5	5	0	0	0
Compound item	5	80	73	0	153	16	30	0	46	107	64
Leasehold improvements	3,5–14	1,033	0	0	1,033	477	79	0	556	477	556
Other operating and office equipment	3–13	182	15	0	197	98	18	0	116	81	84
IT equipment	3–13	1,357	65	61	1,361	1,159	93	61	1,191	170	198
PROPERTY, PLANT AND EQUIPMENT		**5,582**	**371**	**93**	**5,860**	**4,035**	**433**	**93**	**4,375**	**1,485**	**1,547**

The development of property, plant and equipment in the previous year was as follows:

		Cost				Depreciation and impairment losses				Carrying amounts	
in €000's	Useful life from ... to ... years	Balance on 01.01.2008	Additions 2008	Disposals 2008	Balance on 31.12.2008	Balance on 01.01.2008	Additions 2008	Disposals 2008	Balance on 31.12.2008	Balance on 31.12.2008	Balance on 31.12.2007
PROPERTY, PLANT AND EQUIPMENT											
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
Compound item	5	0	80	0	80	0	16	0	16	64	0
Leasehold improvements	3,5–14	946	87	0	1,033	404	73	0	477	556	542
Other operating and office 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
PROPERTY, PLANT AND EQUIPMENT		**5,158**	**816**	**392**	**5,582**	**4,086**	**340**	**391**	**4,035**	**1,547**	**1,072**

Additions in the reporting period primarily concern investments in technical laboratory equipment such as an automated device for measuring pKa values (€93 thousand) as well as investments in the replacement and expansion of equipment in this area. An additional €65 thousand (previous year: €162 thousand) was invested in IT hardware. This basically concerns investments in the expansion of the storage system and in servers, as well as investments in the replacement and expansion of desktop computers, notebooks and printers.

The depreciation and impairment of property, plant and equipment is essentially shown on the income statement under the items, research and development costs and administrative costs.

in €000's	2009	2008	Change in %
Cost of sales	0	1	- 100
Research and development costs	338	242	40
Administrative costs	95	97	- 2
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**433**	**340**	**27**

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method concerns shares held in quattro research GmbH.

The respective key figures of quattro research GmbH as of 31 December 2009 are as follows:

in €000's	2009	2008	Change in %
Revenue	859	844	2
Profit/loss for the year	58	96	- 40
Total assets	410	356	15
Equity	262	204	28
Liabilities	148	152	- 3

The profit posted by quattro research GmbH raises the carrying amount of the shares held by 4SC to €62 thousand of the balance sheet date (31 December 2008: €33 thousand).

6.4 OTHER FINANCIAL ASSETS

This item in the statement of financial position reflects financial instruments within the meaning of IAS 39 with a remaining life of more than one year as of the balance sheet date. This includes the equity investment in Nexigen GmbH and, as of 31 December 2009, also the equity investment in Quiescence Technologies LLC.

in €000's	31.12.2009	31.12.2008	Change in %
Equity investment in Nexigen GmbH	154	154	0
Equity investment in Quiescence Technologies LLC.	0	0[1]	0
OTHER FINANCIAL ASSETS	**154**	**154**	**0**

[1] :: Recognised as an investment accounted for using the equity method as of 31 December 2008

The equity investment in Nexigen GmbH was originally made in May 2008. 4SC has a 3.7% stake in this company.

The 10% stake in Quiescence Technologies LLC. was acquired in December 2006 and initially recognised as an investment accounted for using the equity method. As at 31 December 2009 however, 4SC no longer exercises significant influence over said company, eliminating the need to recognise the equity investment in accordance with the provisions of IAS 28. Instead, it is shown as a financial asset pursuant to IAS 39 and classified as available for sale. But its carrying amount is still zero due to a lack of clarity in regards to Quiescence Technologies LLC's financial situation.

6.5 INVENTORIES

in €000's	31.12.2009	31.12.2008	Change in %
Consumables	17	22	- 23
Solvents	5	4	25
INVENTORIES	**22**	**26**	**- 15**

Inventories decreased due to efficiency gains in warehousing processes even though research and development activities increased.

Material costs amounting to €823 thousand (2008: €731 thousand) 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.

6.6 TRADE ACCOUNTS RECEIVABLE

in €000's	31.12.2009	31.12.2008	Change in %
Domestic	535	580	- 8
TRADE ACCOUNTS RECEIVABLE	**535**	**580**	**- 8**

On 31 December 2009, as on the balance sheet date of the previous year, there were no bad debt allowances for trade accounts receivable in accordance with IAS 39.63 f.

The receivables in the amount of €535 thousand result from research cooperation agreements. They were not yet due on the balance sheet date and were paid in January 2010, as contractually stipulated.

6.7 RECEIVABLES FROM ASSOCIATES AND INVESTEES

This item in the statement of financial position shows receivables from Quiescence Technologies LLC., which were written down in full.

	Total receivables		thereof non-current		thereof current	
in €000's	2009	2008	2009	2008	2009	2008
Receivables from Quiescence Technologies LLC. from the sale of exclusive rights to QSB substances	0[1]	0[1]	0	0[1]	0[1]	0[1]
Receivables from Quiescence Technologies LLC. from scientific services	0[1]	0[1]	0	0	0[1]	0[1]
RECEIVABLES FROM ASSOCIATES AND INVESTEES	**0**	**0**	**0**	**0**	**0**	**0**

[1] :: These items are impacted by the specific valuation allowances

The management of 4SC decided at the close of the third quarter of 2008 – in the light of the uncertainty that had begun to cloud the finances and liquidity of Quiescence Technologies LLC. during the 2008 financial year – to write down €700 thousand in total non-current and current receivables from Quiescence Technologies LLC. resulting from the purchase price for QSB substances and a cooperation agreement. This situation did not change during the 2009 financial year so that there still is a receivable of €700 thousand as at 31 December 2009 that has been written down in full.

6.8 OTHER FINANCIAL ASSETS

This item in the statement of financial position reflects financial instruments within the meaning of IAS 39 as well fixed deposits with a remaining life of less than one year as of the balance sheet date, which are not included in cash equivalents.

in €000's	31.12.2009	31.12.2008	Change in %
Financial instruments with a remaining life of less than one year	0	500	- 100
Fixed deposits with a remaining life of less than one year	100	14,000	- 99
OTHER FINANCIAL ASSETS	**100**	**14,500**	**- 99**

The decrease in other financial assets is the result of sales.

6.9 CASH AND CASH EQUIVALENTS

This item in the statement of financial position comprises cash on hand and bank balances. In addition, this item comprises financial instruments within the meaning of IAS 39 as well as fixed deposits which serve the purpose of meeting short-term payment obligations. They have an original term of no more than three months and are only subject to insignificant variations in value.

in €000's	31.12.2009	31.12.2008	Change in %
Financial instruments with an original term of less than three months	4,653	4,886	- 5
Fixed deposits with an original term of less than three months	1,000	1,200	- 17
Bank balances	29,867	1,260	2,270
CASH AND CASH EQUIVALENTS	**35,521**	**7,346**	**384**

6.10 CURRENT TAX ASSETS

4SC receives interest from its fixed deposits, money market funds and securities. Financial institutions are required to withhold tax and solidarity surcharge on such interest income. Because the Company posted a net loss for the 2009 and 2008 financial years, it has a tax refund claim with regard to the taxes it has paid.

in €000's	31.12.2009	31.12.2008	Change in %
CURRENT TAX ASSETS	**162**	**254**	**- 36**

The decrease in current tax assets results from lower interest income in 2009 compared to 2008.

6.11 OTHER CURRENT ASSETS

in €000's	31.12.2009	31.12.2008	Change in %
Advances paid for third-party services/chemicals	277	32	766
Tax refund claims	270	336	- 20
Prepaid expenses	183	136	35
Rent deposit IZB West	157	157	0
Advances paid on intangible assets and property, plant and equipment	74	0	n/a
Government grants	33	24	38
Prepaid interest	10	269	- 96
Other	21	92	- 77
OTHER CURRENT ASSETS	**1,025**	**1,046**	**- 2**

Other assets are presented in the statement of financial position according to IAS 1.60 as separate classifications.

	Total receivables		Thereof non-current		Thereof current	
in €000's	2009	2008	2009	2008	2009	2008
Advances paid for third-party services/chemicals	277	32	0	0	277	32
Tax refund claims	270	336	0	0	270	336
Prepaid expenses	183	136	0	0	183	136
Rent deposit IZB West	157	157	157	157	0	0
Advances paid on intangible assets and property, plant and equipment	74	0	0	0	74	0
Government grants	33	24	0	0	33	24
Prepaid interest	10	269	0	0	10	269
Other	21	92	0	0	21	92
OTHER ASSETS	**1,025**	**1,046**	**157**	**157**	**868**	**889**

Based on the information available today, there are no indications giving rise to doubts regarding grant funding. Rent deposits serve to safeguard the landlord's claims.

Prepaid expenses primarily comprise prepaid invoices under maintenance contracts, licences and online research. The advances paid for third-party services comprise payments for external services that were made before the service in question was rendered. The advances paid for intangible assets and property, plant and equipment concern advance payments before an asset is created.

6.12 EQUITY

SHARE CAPITAL AND SHARES :: The share capital of 4SC currently totals €38,502,739.00. It is composed of 38,502,739 no-par value bearer shares. Each share represents €1.00 4SC's share capital, entailing one vote at the Annual General Meeting. Share capital is fully paid-in at this time.

4SC shares are securitised under 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(3) of the Articles of Association.

Changes in share capital during the reporting year were as follows, as a result of the 16 November 2009 capital increase:

At the start of the reporting year, the Company's share capital amounted to €28,502,739.00. On 23 October 2009, the Management Board of 4SC, with the approval of the Supervisory Board, resolved to increase the Company's share capital to up to €39,903,834.00 by issuing up to 11,401,095 no-par value bearer shares from authorised capital. The subscription ratio of the shareholders was 5:2. A total of 10,000,000 new shares were placed at a price of €3.00 each in connection with this capital increase; the appropriate announcement was made on 16 November 2009. The capital increase was recorded in the Commercial Register on 20 November 2009. The new shares participate in profits from 1 January 2009. As a result, the share capital of 4SC increased by €10,000,000.00 to €38,502,739.00.

CONDITIONAL CAPITAL :: The Company's Annual General Meetings on 1 March 2001, 28 July 2004, 28 June 2006, 29 June 2007, 5 July 2008 and 15 June 2009 decided to increase the Company's share capital conditionally as follows:

Conditional capital	Amount (€000's)	AGM resolution dated	Purpose
I	53	01.03.2001/ 29.06.2007	Exercise of "ESOP 2001" options held by Company employees and Management Board members
II	166	28.06.2006/ 29.06.2007	Granting of options to members of the Management Board and Company employees with a term of up to ten years ("ERSATZ-ESOP 2001")
III	106	28.07.2004/ 28.06.2006	Exercise of "ESOP 2004" options held by Company employees and Management Board members
IV	340	28.06.2006	Granting of options to members of the Management Board and Company employees as well as employees of affiliated companies with a term of up to ten years ("ESOP 2006")
V	4,000	28.06.2006	Granting of shares to owners and/or creditors of still to be issued convertible bonds and/or warrants
VI	1,000	15.06.2009	Granting of options to members of the Management Board and Company employees as well as employees of affiliated companies in Germany and abroad with a term of up to ten years ("ESOP 2009")
2008	3,500	05.06.2008	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)

AUTHORISED CAPITAL :: The Annual General Meeting on 15 June 2009 authorised the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 14 June 2014, once or repeatedly, by up to €14,251,369.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 14,251,369 new no-par value bearer shares (Authorised Capital 2009 / I).

The Authorised Capital 2009 / I that had been recorded in the Commercial Register on 18 June 2009 was reduced to €4,251,369.00 as a result of the capital increase on 16 November 2009. The new shares participate in profits from 1 January 2009.

SHARE PREMIUM :: The share premium consists of premiums paid by shareholders in the course of capital increases executed in financing rounds.

Pursuant to IAS 32.35, transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. The transaction costs in connection with the 16 November 2009 capital increase amounted to €265 thousand. In the previous year, transaction costs of €246 thousand were incurred in connection with the 14 July 2008 capital increase. These costs were charged against the share premium.

RESERVES :: The item in the statement of financial position, reserves, comprises the following individual items:

The ESOP reserve amounting to €875 thousand (previous year: €755 thousand) 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 measured in accordance with the provisions of IFRS 2. The calculation is explained under item "9. Stock option programme".

The retained earnings of €67 thousand as of 31 December 2009 remained unchanged compared to the previous year.

APPROPRIATION OF EARNINGS :: The accumulated deficit of €56,372 thousand (previous year: €40,265 thousand) is carried forward to new account.

CAPITAL MANAGEMENT DISCLOSURES :: Since the Company posted a net loss for the year, the primary objectives of capital management are to retain a sufficiently high amount of liquid reserves to enable the further development of the project pipeline and technology without significant limitations, and to maintain or strengthen equity so that financial challenges such as a notice of loss in accordance with section 92(1) German Stock Corporation Act (Aktiengesetz – AktG) as a result of equity being halved can be avoided. Accordingly, an increase in the accumulated deficit and thus a further reduction in equity must be minimised to the extent 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. Given the Company's development stage and risk profile, raising equity is the principal action that can be taken in this context. Of course, the Company's goal continues to generate revenue in order to reach break-even and reduce the losses carried forward.

Capital management as a whole concerns management of equity and loss carryforwards Due to the positive effect of the capital increase carried out in the reporting year on the one hand, and the net loss posted for the year on the other hand, the share capital rose from €37,158 thousand at the end of 2008 by €13,751 thousand to a total of €50,909 thousand as of 31 December 2009.

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

6.13 TRADE ACCOUNTS PAYABLE

in €000's	31.12.2009	31.12.2008	Change in %
Domestic	764	1,073	- 29
EU	59	271	- 78
Other countries	90	26	246
TRADE ACCOUNTS PAYABLE	**913**	**1,370**	**- 33**

Despite the progress made in the project pipeline, the liabilities from trade accounts payable decreased by 33% year-on-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 licences.

6.14 ACCOUNTS PAYABLE TO ASSOCIATES

The accounts payable to associates as of the balance sheet date concerned quattro research GmbH. Two agreements were signed with that company regarding the development, servicing and maintenance of software and servicing and maintenance of 4SC's IT infrastructure and databases. The amount of €29 thousand owed to quattro research GmbH results from its year-end billing (31 December 2008: €29 thousand).

As of 31 December 2008, accounts payable amounting to €3 thousand to Quiescence Technologies LLC. were recognised, resulting from an advance payment received.

6.15 FINANCIAL LIABILITIES

As at 31 December 2008, the Company had €902 thousand in financial liabilities to Technologie Beteiligungsfonds Bayern GmbH & Co. KG, Munich, in connection with non-current loans. They were repaid in early January 2009, with the result that there are no financial liabilities as at 31 December 2009.

6.16 PROVISIONS

The solicitors' office that we had used in the past for ongoing patent matters issued final invoices in connection with the transfer of our patent portfolio from it to another law firm which, in the Company's view, contains a substantial number of unjustified items. Approximately €66 thousand were billed for no good reason. No settlement has been reached to date in regards to this amount. We cannot preclude that the patent law firm will file suit in future to enforce its claim in full.

Given the uncertain outcome of such a lawsuit, pursuant to IAS 37.39, 4SC based its determination of the provision on the mid-point of the range that is theoretically possible in its view. We also recognised a provision to cover the solicitors' fees for the expected dispute.

Given that the disclosures required under IFRS would seriously prejudice the position of 4SC in the dispute, in accordance with IAS 37.92 the Company is dispensing with making the disclosures pursuant to IAS 37.84 – 37.89.

6.17 OTHER LIABILITIES

in €000's	31.12.2009	31.12.2008	Change in %
Accrued liabilities	1,832	1,158	58
Liabilities related to social security	102	95	7
Advances received	32	203	- 84
Liabilities to the tax office	0	72	- 100
Miscellaneous other liabilities	2	54	- 96
OTHER LIABILITIES	**1,968**	**1,582**	**24**

Other liabilities are presented in the statement of financial position according to IAS 1.60 as separate classifications.

	Total liabilities		Thereof non-current		Thereof current	
in €000's	2009	2008	2009	2008	2009	2008
Accrued liabilities	1,832	1,158	65	59	1,767	1,099
Liabilities related to social security	102	95	0	0	102	95
Advances received	32	203	0	0	32	203
Liabilities to the tax office	0	72	0	0	0	72
Miscellaneous other liabilities	2	54	0	0	2	54
OTHER LIABILITIES	**1,968**	1,582	**65**	59	**1,903**	1,523

Accrued liabilities were comprised as follows as of the balance sheet date:

in €000's	31.12.2009	31.12.2008	Change in %
Invoices outstanding	1,198	608	97
Bonus paid to Management Board	185	140	32
Compensation of the Supervisory Board	139	139	0
Personnel liabilities	109	106	3
Financial statements preparation and auditing costs	90	68	32
Renovation IZB West	65	59	10
Contribution to employer's liability insurance	26	21	24
Other	20	17	18
ACCRUED LIABILITIES	**1,832**	**1,158**	**58**

The non-current accrued liabilities result from the renovation costs for the lease that runs until the end of 2011. They are recognised at the present value of the payment obligation. All other accrued liabilities are of a current nature. There is only insignificant insecurity regarding the amount of actual utilisation. There are no claims for reimbursement against third parties.

6.18 OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

CARRYING AMOUNTS AND FAIR VALUES ACCORDING TO MEASUREMENT CATEGORIES ::

in €000's	Measurement category pursuant to IAS 39	Measurement as of 31.12.2009		Measurement as of 31.12.2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LaR	535	535	580	580
Receivables from associates and investees	LaR	0	0	0	0
Income tax refund claims	LaR	162	162	254	254
Other non-current assets	LaR	157	157	157	157
Other current assets	LaR	868	868	889	889
Fixed deposits and bank balances	LaR	30,967	30,967	16,460	16,460
Financial assets measured at fair value through profit and loss – held for trading	AFVPL	4,653	4,653	4,885	4,885
Available-for-sale financial assets (equity investment in Nexigen)	AfS	154	154	154	154
Available-for-sale financial assets (securities)	AfS	0	0	500[1]	500[1]
Trade accounts payable	LaR	- 913	- 913	- 1,370	- 1,370
Accounts payable to associates	LaR	- 29	- 29	- 32	- 32
Financial liabilities	LaR	0	0	- 902	- 902
Provisions	LaR	- 45	- 45	0	0
Other non-current liabilities	LaR	- 65	- 65	- 59	- 59
Other current liabilities	LaR	- 1,903	- 1,903	- 1,523	- 1,523
TOTAL		**34,541**	**34,541**	**19,993**	**19,993**
Of which aggregated by IAS 39 measurement category					
Financial assets measured at fair value through profit or loss	AFVPL	4,653	4,653	4,885	4,885
Financial assets held to maturity	Htm	0	0	0	0
Loans and receivables	LaR	29,734	29,734	14,454	14,454
Available-for-sale financial assets	AfS	154	154	654[1]	654[1]

[1] :: Figures changed compared to the previous year's presentation.

VALUATION METHOD :: Trade accounts receivable and other assets mainly have short remaining terms. The values recognised represent the approximate fair value. Non-current other assets are interest-bearing; their carrying amount and fair value are therefore identical. These are guarantee deposits (deposit) lodged with the landlord. The fixed deposits and bank balances reported for the first time for the financial year just ended were interest-bearing; carrying amount and fair value are therefore also identical.

The primary financial instruments existing as at the balance sheet date were classified as financial assets measured at fair value through profit or loss in accordance with IFRS 39. Gains and losses from these instruments' subsequent measurement are recognised in profit or loss. Bank statements and other bank confirmations serve to verify the fair value as at year's end. The Company also held securities as at the close of the previous financial year that were classified as available for sale. Here too, bank statements and other bank confirmations served to verify the fair value.

The equity investment in Nexigen GmbH entails securities that must be classified as available for sale pursuant to IAS 39. There is no price available from an active market. As there has been no indication 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. The equity investment in Quiescence Technologies LLC. has been recognised at €0 thousand.

Trade accounts payable, accounts payable to associates, provisions and other liabilities predominantly have short remaining terms. Hence their carrying amounts correspond approximately to their fair value at the balance sheet date. As the non-current liabilities are discounted, carrying amount and fair value are also identical in this item.

FAIR VALUE HIERARCHY :: Both the primary financial instruments that are recognised at fair value through profit or loss as at the balance sheet date and the securities that were classified as available for sale in the previous year were allocated to Level 1 in accordance with IFRS 7.27A (prices in active markets). The equity investment in Nexigen GmbH, as well as that in Quiescence Technologies LLC. in 2009, were both classified as available for sale pursuant to IAS 39 and allocated to Level 3 (input factors that cannot be observed). No financial assets were allocated to Level 2. No reclassifications of fair values from or into another hierarchy level were made either in 2008 or in 2009.

NET RESULTS ACCORDING TO MEASUREMENT CATEGORIES :: The net result of the financial instruments in the reporting year, in accordance with IAS 39 is composed of the following:

		Subsequent measurement				
in €000's	Interest result	At fair value	Currency translation	Impairment loss	Disposal	Net result 2009
Financial assets measured at fair value through profit or loss						
held for trading	130	39	0	0	- 102	**67**
classified as measured at fair value through profit or loss upon initial recognition	0	0	0	0	0	**0**
Financial assets held to maturity	0	0	0	0	0	**0**
Loans and receivables	236	0	3	0	0	**239**
Available-for-sale financial assets	- 11	0	0	0	- 3	**- 14**
TOTAL	**355**	**39**	**3**	**0**	**- 105**	**292**

In the previous year, the net result of the financial instruments, in accordance with IAS 39, was comprised as follows:

		Subsequent measurement				
in €000's	Interest result	At fair value	Currency translation	Impairment loss	Disposal	Net result 2008
Financial assets measured at fair value through profit or loss						
held for trading	69	187	28	0	- 28	**256**
classified as measured at fair value through profit or loss upon initial recognition	1	0	0	0	0	**1**
Financial assets held to maturity	0	0	0	0	0	**0**
Loans and receivables	573	0	- 24	- 700	0	**- 151**
Available-for-sale financial assets	72	0	0	0	- 20	**52**
TOTAL	**715**	**187**	**4**	**- 700**	**- 48**	**158**

The interest from financial instruments as defined in IAS 39 is shown in net finance income, as are the other components of the net result.

There were no securities in the "held to maturity" category for either the previous year or the reporting year at 4SC.

RISKS FROM FINANCIAL INSTRUMENTS ::

1. LIQUIDITY, DEFAULT AND INTEREST RATE RISKS RELATED TO LIQUID RESERVES

4SC possesses liquid reserves that it invests in order to earn interest as long as these funds are not needed. Currently, all of these funds are invested safely in fixed and term deposits as well as money market funds that entail no or insubstantial liquidity and default risks. Whilst 4SC is exposed to an interest rate risk from securities subject to variable interest rates, they only account for 13% of the Company's aggregate financial assets and liquid funds as at the balance sheet date. The market value of these securities could rise or fall in line with changes in interest rates. Yet any change in interest rates would not have material effects on the fair values of these investments because they are subject to a guaranteed repurchase price that is renewed every six months. As at the balance sheet date, all the invested funds (fixed and term deposits as well as money market funds) had short maturities and thus would not be sensitive to changes in interest rates.

2. CURRENCY RISKS

4SC executes transactions with international business partners where contractual payment terms are made in a currency other than the euro, exposing the Company to a currency risk in the item, loans and receivables. This risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable.

4SC does not engage in hedging transactions but instead endeavours to pay its own obligations in foreign currencies, mitigating the risk of exchange rate fluctuations. This is also the reason why the US-dollar account was closed in 2009. Liabilities denominated in foreign currencies as at 31 December 2009 were the equivalent of €34 thousand in US dollars (USD), the equivalent of €21 thousand in British pounds (GBP) and the equivalent of €12 thousand in Swiss francs (CHF).

A total of $1,000 thousand in receivables from Quiescence Technologies LLC were written down in full in the 2008 financial year. This situation did not change during the 2009 financial year so that there still is a receivable of $1,000 thousand as at 31 December 2009 that has been written down in full.

Owing to the small amount of assets and liabilities in foreign currencies, a gain or decline by 10% in the value of the euro versus the foreign currency in question would only have changed the outcome as follows:

in €000's	Increase	Decrease
Euro vs. US dollar	3	- 2
Euro vs. Swiss franc	1	- 1
Euro vs. British pound	3	- 2

If euro and foreign currency exchange rates had remained stable in the financial year just ended, the net loss of 4SC would have decreased by €3 thousand (previous year: increased by €4 thousand).

3. DEFAULT RISKS IN CONNECTION WITH RECEIVABLES

In addition, 4SC is subject to the risk of a possible loss due to bad debt in terms of the loans and receivables category. 4SC 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 financial position, cash flows and financial performance.

The non-current and current receivables from Quiescence Technologies LLC. in the amount of €700 thousand were written down in full in the 2008 financial year. Thus, on the balance sheet date, 4SC had no receivables that were past due and not impaired.

4SC's maximum default risk in connection with receivables is equivalent to the carrying amount of the trade accounts receivable, i.e. €535 thousand as at the balance sheet date (31.12.2008: €580 thousand).

6.19 OTHER FINANCIAL OBLIGATIONS

Other financial obligations for the years subsequent to the balance sheet date include facilities and office space rented by 4SC. This lease was renewed in 2007 and runs out on 31 December 2011. If 4SC continues to meet the criteria set by the landlord after expiration, the lease may be extended again. Purchase options do not exist. The lease contains terms for adjusting the rent: 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/m² per year. In the reporting year, a lease running until the end of 2013 was signed for the Überlingen-Bonndorf site rented from January 2009, resulting in rent amounting to €22 thousand per year. No terms for rent adjustment or purchase options exist. If the lease is not terminated six months before it expires, it is renewed for a further five years.

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

in €000's	Decrease
2010	731
2011	761
2012	22
2013	22
From 2014	0
TOTAL	**1,536**

The income statement for the reporting year contains expenses of €741 thousand from the leases (2008: €681 thousand). The increase is due to the office in Überlingen-Bonndorf that was rented in January 2009 and large additional payments for ancillary costs.

Financial obligations above and beyond those under leases basically stem from scientific service contracts, including external services in connection with the execution of the clinical and preclinical studies. This entails obligations up to an amount of €7,299 thousand; the maturity is contingent on the progress of the respective study. There were no financial obligations under leases as at the balance sheet date.

7. DISCLOSURES ON THE STATEMENT OF CASH FLOWS

The development of cash and cash equivalents is shown in the table below:

in €000's	31.12.2009	31.12.2008	Change in %
Cash flows from operating activities	- 14,601	- 9,385	56
Cash flows from investing activities	13,943	- 22,811	n/a
Cash flows from financing activities	28,833	29,207	- 1
NET CHANGE IN CASH AND CASH EQUIVALENTS	**28,175**	**- 2,989**	**n/a**
+ Cash and cash equivalents at the beginning of the period	7,346	10,335	- 29
= CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**35,521**	**7,346**	**384**

In addition to cash and cash equivalents, 4SC has liquid funds that are predominantly invested for better return in fixed deposits and money market funds. The reconciliation from the statement of cash flows to the total cash balance is shown in the following table:

in €000's	31.12.2009	31.12.2008	Change in %
Cash and cash equivalents at the end of the period	35,521	7,346	384
Other financial assets	100	14,500	- 99
CASH BALANCE/FUNDS	**35,621**	**21,846**	**63**

8. COMPANY-WIDE DISCLOSURES IN ACCORDANCE WITH IFRS 8

ALLOCATION OF REVENUE BY PRODUCTS AND SERVICES IN ACCORDANCE WITH IFRS 8.32

in €000's	2009	2008	Change in %
Research cooperation	1,861	2,219	- 16
Licence agreements	0	750	- 100
REVENUE	**1,861**	**2,969**	**- 37**

INFORMATION ABOUT GEOGRAPHICAL AREAS IN ACCORDANCE WITH IFRS 8.33

in €000's	2009	2008	Change in %
Germany	1,858	2,446	- 24
Other countries	3	523	- 99
REVENUE	**1,861**	**2,969**	**- 37**

All non-current assets are based in Germany.

INFORMATION ABOUT MAJOR CUSTOMERS PURSUANT TO IFRS 8.34

4SC generates more than 10% of its revenue from a single external customer. In the year just ended, revenue of €1,796 thousand was generated under contracts with one customer.

9. STOCK OPTION PROGRAMME

The table below provides an overview of stock option programmes issued to date as well as tranches and option terms:

Option programme	Tranche	Issue	Subscription price in €	Subscription ratio[1]	Issued in 000's	Outstanding on 01.01.2009 in 000's	Issued in 2009 in 000's	Expired 2009 in 000's	Exercised in 2009 in 000's	Outstanding on 31.12.2009 in 000's	Exercisable on 31.12.2009 in 000's	Max. number of shares available on in 000's	Fair value in €	Cumulative staff costs[2] in €	Staff costs in 2009 in €
ESOP 2001	2001/1	31.03.01	9.60	2:1	74	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2001/2	10.10.01	9.60	2:1	110	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2002	30.06.02	12.00	2:1	120	17	0	17	0	0	0	0	n/a	0	0
ESOP 2001	2003	30.09.03	5.08	2:1	318	61	0	0	0	61	56	31	0.74	52	0
ESOP 2004	2004	30.09.04	4.24	2:1	122	83	0	5	0	78	63	39	0.72	62	1
ESOP 2004	2005	30.09.05	4.24	2:1	93	78	0	5	0	73	43	36	0.71	54	5
ESOP 2004	2006/1	30.05.06	4.53	2:1	26	26	0	0	0	26	13	13	0.74	19	3
ESOP 2006	2006/2	25.08.06	3.80	1:1	296	262	0	6	0	256	182	256	1.71	441	55
ERSATZ-ESOP 2001	2006/3	25.08.06	3.80	1:1	166	119	0	5	0	114	87	114	1.54	183	0
ESOP 2006	2007	26.11.07	3.65	1:1	9	9	0	0	0	9	5	9	1.49	13	5
ESOP 2006	2008	22.08.08	3.45	1:1	43	43	0	0	0	43	0	43	1.50	60	25
ESOP 2009	2009	26.11.09	3.29	1:1	888	0	888	0	0	888	0	888	1.03	768	26
TOTAL					**2,265**	**698**	**888**	**38**	**0**	**1,548**	**449**	**1,429**		**1,652**	**120**

[1] :: The tranches affected by the December 2004 capital reduction had a subscription ratio of 2:1.

[2] :: Cumulative staff costs are calculated until the end of holding period.

On 26 November 2009, 4SC issued one tranche comprising 888,291 options under the ESOP 2009 that was newly established during the reporting year; these options entitle the optionees to subscribe to an equivalent number of shares. Of the aforementioned total, 436,991 options were granted to the Company's employees and 451,300 to the members of its Management Board.

All option tranches issued are exercisable only in return for shares. Authorised Capital I through IV and Conditional Capital VI were adopted to fulfil 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. Options may only be exercised if the share price exceeds the issue price by a minimum of 20% at the exercise date.

Tranches issued since 25 August 2006 have a term of ten years. Half of the options of the "2006/2", "2007", "2008" and "2009" tranches 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. All of the options of the "2006/3" tranche are exercisable after two years. The subscription rights may be exercised on condition that the applicable reference price exceeds the exercise price by more than 1/240th between the date on which the option is issued and the onset of the respective exercise period in the previous month.

The weighted average remaining term of all tranches issued is 7.87 years. The exercise prices of all tranches issued range from €3.29 to €12.00; and the exercise prices of all existing tranches range from €3.29 to €5.08.

An overview of weighted average exercise prices is given below:

Exercise prices (weighted, €)	2009	2008
Options outstanding as of 01.01.	4.25	4.19
Options issued in the reporting period	3.29	3.45
Options expired in the reporting period	7.54	4.55
Options outstanding as of 31.12.	3.60	4.10
Options exercisable as of 31.12.	4.08	4.25

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

Tranche	Expected vesting period	Market price (€)	Volatility	Risk-free interest rate
2009	3.75 years	3.26	40.17%	1.89%
2008	3.75 years	3.50	51.07%	3.97%

The market price stated is the closing price of 4SC's shares in Xetra trading on the Frankfurt / Main 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.

10. COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

10.1 MANAGEMENT BOARD

The total compensation paid to the members of the Management Board amounted to €890 thousand (2008: €843 thousand). Of this total amount, €15 thousand (2008: €19 thousand) represents contributions to defined contribution plans according to IAS 19.7. Prorated staff costs attributable to options included in overall compensation amounted to €80 thousand for the reporting year (2008: €41 thousand). However, these were non-cash expenses.

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

Compensation in €000's	Fixed		Variable		Staff costs arising from options		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Dr Ulrich Dauer	166	166	49	43	9	18	224	227
Dr Daniel Vitt	156	156	49	43	9	18	214	217
Dr Bernd Hentsch	156	79	49	37	24	6	229	122
Dr Gerhard Keilhauer	0	79	0	18	0	- 65[1]	0	32
Dipl.-Kfm. Enno Spillner	146	147	39	34	38	64	223	245
COMPENSATION OF THE MANAGEMENT BOARD	**624**	**627**	**186**	**175**	**80**	**41**	**890**	**843**

[1] :: As the options of Dr Gerhard Keilhauer have expired 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 staff costs from stock options were recognised in his case.

The following shareholdings were attributable to the members of the Management Board as of the balance sheet date:

Number of shares	Shares 01.01.2009	Purchase	Sale	Shares on 31.12.2009
Dr Ulrich Dauer	410,639	20,000	0	430,639
Dr Daniel Vitt	396,803	20,000	0	416,803
Dr Bernd Hentsch	0	0	0	0
Dipl.-Kfm. Enno Spillner	70,000	0	0	70,000
SHARES HELD	**877,442**	**40,000**	**0**	**917,442**

Number of stock options	Options 01.01.2009	Additions	Decrease	Exercise	Options 31.12.2009	Maximum number of shares available
Dr Ulrich Dauer	40,600	111,600	0	0	152,200	147,400
Dr Daniel Vitt	40,600	111,600	0	0	152,200	147,400
Dr Bernd Hentsch	36,220	116,500	0	0	152,720	152,720
Dipl.-Kfm. Enno Spillner	138,000	111,600	0	0	249,600	236,400
STOCK OPTIONS HELD	**255,420**	**451,300**	**0**	**0**	**706,720**	**683,920**

The total of 111,600 stock options each that were granted to Dr Ulrich Dauer, Dr Daniel Vitt und Enno Spillner during the financial year had a fair value of €116 thousand each at the time they were issued whilst the 116,500 options issued to Dr Bernd Hentsch had a fair value of €121 thousand.

With the exception of fixed compensation, 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 signed in the context of rearranging their directors' contracts, stipulating 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 the remaining term of their contract, but for a minimum period of 15 months. Apart from this, there are no post-employment or termination benefits owed to the Management Board members.

As of the balance sheet date, the members of the Company's Management Board were also members of the following control bodies and Supervisory Boards:

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

:: Deputy Chairman of the Supervisory Board of Concentro Management AG, Nuremberg (since May 2002)

Dr Ulrich Dauer and Dr Bernd Hentsch did not hold any positions in other control bodies or Supervisory Boards as of the balance sheet date.

10.2 SUPERVISORY BOARD

The total compensation paid to the members of the Supervisory Board amounted to €139 thousand (2008: €139 thousand). Individual Supervisory Board member compensation for the reporting year breaks down as follows:

in €000's	Occupation	Compensation 2009	Compensation 2008
Dr Jörg Neermann (Chairman)	Investment Manager/Partner LSP Life Science Partners Munich, Germany	35	35
Dr Robert O'Connell (Deputy Chairman until 05.06.2008)	Consultant Catalyst Consulting Dorset, United Kingdom	0	12
Günter Frankenne (Deputy Chairman since 05.06.2008)	Managing Proprietor/Consultant STRATCON Strategy Consulting Berg bei Neumarkt, Germany	24	23
Helmut Jeggle (since 05.06.2008)	Head of Business Planning & Analyzing ATHOS Service GmbH Munich, Germany	20	13
Dr Brian Morgan (until 05.06.2008)	Consultant Morgan Consulting Abinger Common, United Kingdom	0	7
Dr Thomas Strüngmann (from 05.06.2008 to 15.06.2009)	Chief Executive Officer (CEO) ATHOS Service GmbH Munich, Germany	5	7
Dr Thomas Werner (since 15.06.2009)	Partner Inventages Geneva, Switzerland	9	21
Dr Manfred Rüdiger	Managing Director/Partner t2cure GmbH Frankfurt/Main, Germany	23	21
Dr Clemens Doppler	Partner/Managing Director HeidelbergCapital Asset Management GmbH Heidelberg, Germany	23	21
COMPENSATION OF THE SUPERVISORY BOARD		**139**	**139**

The shareholdings of the Supervisory Board members developed as follows during the reporting period:

Number of shares held	Shares 01.01.2009	Purchase	Sale	Shares 31.12.2009
Dr Jörg Neermann	97,500	2,500	0	100,000
Dr Manfred Rüdiger	15,000	1,000	0	16,000
Dr Clemens Doppler	7,500	2,375	0	9,875
SHARES HELD	**120,000**	**5,875**	**0**	**125,875**

As of the balance sheet date, the members of the Company's Supervisory Board were also members of the following control bodies and Supervisory Boards:

DR JÖRG NEERMANN:
:: Affimed AG, Heidelberg, member of the Supervisory Board
:: Vivendy Therapeutics Ltd., Basel, Switzerland, member of the Management Board
:: KeyNeurotek Pharmaceuticals AG, Magdeburg, Deputy Chairman of the Supervisory Board
:: Bubbles & Beyond GmbH, Leipzig, member of the Advisory Board
:: Efficas Inc., Boulder, USA, Non-executive Board member
:: Curetis AG, Holzgerlingen, member of the Supervisory Board

GÜNTER FRANKENNE:
:: Concentro AG, Nuremberg, Chairman of Supervisory Board
:: KeyNeurotek Pharmaceuticals AG, Magdeburg, Chairman of the Supervisory Board
:: November AG, Cologne, Chairman of the 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, Deputy Chairman of the Advisory Board

DR CLEMENS DOPPLER:
:: Accovion GmbH, Eschborn, Chairman of the Advisory Board
:: Merlion Pharmaceuticals Inc., Singapore, member of the Supervisory Board
:: Nanogate AG, Saarbrücken, member of the Supervisory Board
:: Sensovation AG, Stockach, Deputy Chairman of the Supervisory Board
:: Vasopharm GmbH, Würzburg, member of the Advisory Board

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 THOMAS WERNER:
:: PharmaSwiss S.A., Zug, Switzerland, Executive Chairman
:: CM&D Pharma Ltd., London, United Kingdom, Non-Executive Chairman
:: SkyePharma PLC, London, United Kingdom, Non-Executive Director
:: Accera Inc., Broomfield, Colorado, USA, independent Board Director

Dr Manfred Rüdiger did not hold any positions in other control bodies or Supervisory Boards as of the balance sheet date.

11. OTHER INFORMATION

11.1 RELATED PARTY TRANSACTIONS

4SC engaged in the following significant business transactions with related parties in the period from 1 January 2009 to 31 December 2009:

QUATTRO RESEARCH GMBH, PLANEGG-MARTINSRIED :: 4SC 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 for supporting research activities. For the period from January to December 2009, this contract had a net volume of €277 thousand (2008: €277 thousand). In addition, there is an IT service contract, on the basis of which quattro research GmbH provides maintenance services for 4SC's infrastructure. As a result of this contract, 4SC incurred net costs of €21 thousand in 2009 (2008: €21 thousand). A further €18 thousand (2008: €19 thousand) worth of equipment was supplied to 4SC by quattro research GmbH. As of the balance sheet date, the liabilities toward quattro research GmbH resulting from these contracts amounted to €29 thousand (31 December 2008: €29 thousand).

In addition, a business relationship exists between 4SC as main tenant and quattro research GmbH as subtenant in the offices of 4SC. The rent payable by quattro research GmbH is based on the conditions of 4SC's lease. In the reporting period, the Company recognised income from subletting premises in the amount of €26 thousand (2008: €23 thousand). As of the balance sheet date, quattro research GmbH owed 4SC less than €1 thousand in outstanding ancillary costs (31 December 2008: 4SC owed quattro research GmbH less than €1 thousand).

CONRAD HINRICH DONNER BANK, HAMBURG (CHD) :: On 15 October 2009, 4SC signed a contract with Conrad Hinrich Donner Bank (CHD) for the execution of a capital increase for 4SC in the fourth quarter of 2009. One of Conrad Hinrich Donner Bank's Management Board members, Marcus Vitt, is a brother of 4SC's CSO, Dr Daniel Vitt. In the reporting year, 4SC incurred expenses related to this capital increase with CHD amounting to €97 thousand (2008 capital increase: €118 thousand); these transaction costs are posted against equity. Simultaneously, as part of the 2009 capital increase, 4SC was able to pass on expenses totalling €2 thousand to CHD (2008: €3 thousand). As of the balance sheet date, this receivable of €3 thousand gross (31 December 2008: €3 thousand) was still outstanding.

Based on the contract signed in December 2005, CHD has assumed the function of payment and depository agent for 4SC, which triggers an annual expenditure of €3 thousand.

In addition, CHD has advised 4SC since October 2008 on optimising its relationships with private and institutional investors. In the reporting year, 4SC incurred expenses of €28 thousand (2008: €6 thousand); as of 31 December 2009, no liabilities existed therefrom.

OTHER RELATED PARTY TRANSACTIONS :: Beyond this, there were no further business transactions with related parties in the reporting period where the transaction volume in each case exceeded €10 thousand or where the total annual transaction volume is likely to exceed €10 thousand.

11.2 CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 285 NO. 16 GERMAN COMMERCIAL CODE

On 17 February 2009 and 25 February 2010, the Company's Management Board and Supervisory Board declared in accordance with section 161 German Stock Corporation Act (Aktiengesetz – AktG) that they are almost completely in compliance, with a few exceptions, with the recommendations of the "Government Commission on the German Corporate Governance Code" issued by the Federal Ministry of Justice. The declarations of compliance were made permanently available to the public on the same day on the website www.4SC.com.

11.3 REPORTABLE EQUITY INVESTMENT PURSUANT TO SECTION 160(1) NO. 8 GERMAN STOCK CORPORATION ACT

In the reporting period, the Company was notified of the following reportable equity investments pursuant to section 160(1) no. 8 German Stock Corporation Act (Aktiengesetz – AktG):

Notifying entity	Date of notice	Voting share in %
DWS Investment GmbH, Frankfurt/Main	30.10.2009	2.996
DWS Investment GmbH, Frankfurt/Main	16.11.2009	3.347
DWS Investment GmbH, Frankfurt/Main	19.11.2009	2.891
HeidelbergCapital Private Equity Fund I GmbH & Co. KG, HeidelbergCapital Asset Management GmbH, Dr Clemens Doppler & Professor Martin Weiblen, Munich	26.11.2009	7.66
Deutsche Bank AG, Frankfurt/Main Nordwestdeutscher Wohnungsbauträger GmbH, Frankfurt/Main DBG Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main VCG Venture Capital Gesellschaft mbH, Munich	27.11.2009	8.55
Deutsche Bank AG, Frankfurt/Main Nordwestdeutscher Wohnungsbauträger GmbH, Frankfurt/Main DBG Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main VCG Venture Capital Gesellschaft mbH, Munich	01.12.2009[1]	8.55
Deutsche Bank AG, Frankfurt/Main Nordwestdeutscher Wohnungsbauträger GmbH, Frankfurt/Main DBG Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main VCG Venture Capital Gesellschaft mbH, Munich	04.12.2009[2]	8.55
First Capital Partner GmbH, Gräfelfing[3]	16.12.2009	16.39
FCP Biotech Holding GmbH, Gräfelfing	16.12.2009	11.62
WE Verwaltungs GmbH, Gräfelfing	16.12.2009	16.39
WE Vermögensverwaltung GmbH & Co, Gräfelfing	16.12.2009	16.39
Wolfgang Egger, Germany	16.12.2009	16.39

[1] :: This is a correction of the notice made on 27.11.2009

[2] :: This is a correction of the notice made on 01.12.2009

[3] :: These voting rights are also attributable to FCP Anlage AG, Gräfeling

The reportable equity investments are published in the BörsenZeitung on the date of notice and are made permanently available on the website www.4sc.com.

11.4 AUDITOR'S FEES PURSUANT TO SECTION 285 NO.17 GERMAN COMMERCIAL CODE

On 15 June 2009, the Company's Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, to serve as the auditor of the 2009 financial statements.

in €000's	2009	2008
Auditing services	67	66
Other verification services	42	46
Other services	0	1
TOTAL FEE BILLED BY THE AUDITOR	**109**	**113**

In the 2009 financial year, a total of €67 thousand was recognised for financial statements auditing services provided in 2009 (previous year: €66 thousand for the 2008 financial statements audit).

Fees of €10 thousand for other verification services in connection with two analytical reviews and the reviews of the quarterly financial statements were incurred in the reporting year (2008: €9 thousand). The issue of the comfort letter in the context of the capital increase generated another €27 thousand in expenses (previous year: €20 thousand). These expenses will be recognised as transaction costs and subtracted from equity. Furthermore, costs of €5 thousand were incurred for the means test in connection with the "Antimal" project funded by the EU and the preparation of the corresponding audit certificates (2008: €7 thousand). In the previous year, €10 thousand for reviewing system implementation were also invoiced.

Other services rendered by KPMG AG Wirtschaftsprüfungsgesellschaft in the reporting year included the execution of client seminars in which 4SC participated. The costs for this came to less than €1 thousand (2008: €1 thousand).

11.5 AVERAGE NUMBER OF EMPLOYEES PURSUANT TO SECTION 285(1)(7) HGB

The average number of employees (excluding the Management Board and trainees) during the financial year just ended was 86 (2008: 75).

Of these 86 employees (excluding the Management Board and trainees), 65 worked in research and development, 19 in sales and administration and two in information technology. Of the 75 employees in the previous year (excluding the Management Board and trainees), 56 worked in research and development, 17 in sales and administration and two in information technology.

As in the previous year, 4SC had four Management Board members and one trainee in 2009 on average such that the total number of employees on average was 91 in 2009 and 80 in 2008.

12. EVENTS AFTER THE REPORTING PERIOD

4SC had announced the commencement of the following studies by the time these annual financial statements were prepared:

:: Phase II study of resminostat (4SC-201) for treating Hodgkin's lymphoma (press release dated 12 January 2010);
:: Phase I study of the multi-target kinase inhibitor (4SC-203) in healthy volunteers (press release dated 21 January 2010); and
:: Phase I study of 4SC-205 in patients with solid tumours or malignant lymphomas (press release dated 11 February 2010).

There were no other events occurring after the end of the financial year which had a significant impact on the financial position, cash flows or financial performance of 4SC.

Planegg-Martinsried, 15 March 2010

The Management Board:

DR ULRICH DAUER, CEO

DR BERND HENTSCH, CDO

DIPL.-KFM. ENNO SPILLNER, CFO

DR DANIEL VITT, CSO

AUDITORS' REPORT

WE HAVE ISSUED THE FOLLOWING UNQUALIFIED AUDITORS' REPORT:

"Unqualified auditors' report

We have audited the separate IFRS financial statements, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, 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, 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 325 (2a) HGB (German Commercial Code) are the responsibility of the company's management. Our responsibility is to express an opinion on the separate IFRS financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the separate IFRS financial statements in accordance with § 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 separate 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 separate 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 separate 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 separate IFRS financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 325 (2a) HGB [Handelsgesetzbuch: 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 separate 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 9.2 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 form of equity capital or debt, if the Company is unable to generate sufficient cash flows from cooperations and outlicensing."

Munich, March 15, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by

PASTOR
Wirtschaftsprüferin
(Auditor)

RAHN
Wirtschaftsprüfer
(Auditor)

:: 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 oportunities and risks associated with the expected development of the company."

Planegg-Martinsried, 15 March 2010

The Management Board:

DR ULRICH DAUER, CEO

DR BERND HENTSCH, CDO

DIPL.-KFM. ENNO SPILLNER, CFO

DR DANIEL VITT, CSO

OTHER INFORMATION

OTHER INFORMATION

:: MEDICAL GLOSSARY

:: 1–9

4SCAN® :: Patented technology of 4SC which simulates the principle of high throughput screening on the computer in order to generate new molecules for biology and chemistry research.

:: A

ACR20 :: Improvement in the disease by at least 20% compared to the base value, i.e. reduction of 20% in the number of swollen and tender joints, and a reduction of 20% in three of the following five parameters: physician's overall assessment of disease activity, patient's overall assessment of disease activity, patient's assessment of pain, C-reactive protein or erythrocyte sedimentation rate in blood, and degree of physical disability in Health Assessment Questionnaire (HAQ) score.

ACR50 :: Improvement in the disease by 50% over the base value. For the parameters, see ACR20.

ACR70 :: Improvement in the disease by 70% over the base value. For the parameters, see ACR20.

ACUTE MYELOID LEUKAEMIA :: Malignant form of cancer affecting part of the haemopoietic system.

AML :: Abbreviation for acute myeloid leukaemia.

ANTI-MITOTIC :: Inhibiting mitosis, i.e. cell nucleus division.

APOPTOSIS :: The process of programmed cell death. This process can be caused by external factors, for example it may be triggered by immune cells, or may be activated due to cellular processes such as a damaged genome. Apoptosis is actively conducted by the cell´s internal components and results in destruction of the cell.

AUTOIMMUNE DISEASE :: Illness that cause the body's immune system to attack its own tissue.

:: C

CLINICAL STUDIES :: Trials (Phase I through III) in drug development that are conducted in healthy subjects and patients.

CROHN'S DISEASE :: Autoimmune disease resulting in chronic inflammation of the intestine.

:: D

DAS28 :: "Disease activity score"; system that serves to measure the activity of the disease in RA patients based on 28 defined joints.

DHODH :: Dihydroorotate dehydrogenase; enzyme which plays an important role in building DNA in the cell.

DMARD :: Disease-modifying anti-rheumatic drugs; agents that alter the course and progression of rheumatoid arthritis.

DNA :: Deoxyribonucleic acid is a biological molecule that contains the genetic information in a cell and codes the blueprint for making the proteins.

DOR :: Duration of response.

:: E

EG5 :: Kinesin spindle protein which plays a role in the distribution of chromosomes to the daughter cells during cell division.

ENDPOINT :: General result of a study that evaluates the outcome of the individual steps based on a clinical trial protocol.

ENZYME :: Protein which enables or accelerates chemical reactions in cells by acting as a catalyst.

:: F

FIRST-IN-MAN :: Voluntary, usually healthy person participating in a clinical study.

:: H

HCC :: Hepatocellular carcinoma.

HDAC :: Abbreviation for histone deacetylase.

HDAC INHIBITOR :: Histone deacetylase inhibitor designed to prevent the cell division process of tumours directly and in a targeted way.

HEPATOCELLULAR CARCINOMA :: Malignant tumour triggered by the hepatocytes of the liver's tissue; the most common form of liver cancer.

HL :: Abbreviation for Hodgkin's lymphoma.

HODGKIN'S LYMPHOMA :: Hodgkin's lymphoma is a malignant tumour in the lymph nodes.

:: I

IBD :: Abbreviation for inflammatory bowel disease.

INFLAMMATORY BOWEL DISEASE (IBD) :: A group of inflammatory conditions that recurr in the gastrointestinal tract, including the small intestine and colon; Crohn's disease and ulcerative colitis are the main types.

INHIBITOR :: Substance that inhibits a specific enzyme reaction.

INN :: Abbreviation for international nonproprietary name, which is granted by the WHO.

IN SILICO :: Description based on silicon, the chemical element used to manufacture computer chips. Computer-based simulation of biochemical processes and examination of the efficacy of molecules.

IN VITRO :: Experiments that take place in a controlled, artificial environment outside of the living organism, e.g. in a test tube.

IN VIVO :: Experiments that take place in the living organism, e.g. in animal testing.

:: K

KINASE :: Protein which controls cellular signal transfer.

:: L

LUPUS :: Autoimmune disease, frequently accompanied by joint pain similar to rheumatism; inflammation may also occur in the heart, lungs, kidneys and brain.

:: M

MS :: Abbreviation for multiple sclerosis.

MULTIPLE SCLEROSIS :: Autoimmune disease of the central nervous system which results in degeneration of the nerve sheath.

:: N

NEUROPATHY :: Collective term for nervous system diseases.

:: O

ORR :: Objective overall response rate.

OS :: Overall survival.

:: P

PFSR :: Progression-free survival rate.

PHARMACODYNAMICS :: Study of the efficacy of drugs in a living organism.

PHARMACOKINETICS :: Spatial and temporal distribution of compounds throughout the various tissues of anorganism.

PHASE I :: Clinical trial of a drug conducted in a small number of healthy patients subject to strict controls; serves to test the tolerance, pharmacokinetics, method of administration and safe dose of the compound.

PHASE II :: Clinical trial conducted in a small number of patients subject to strict controls to identify a compound's sudden side effects and risks; determination of the efficacy of the drug and any potential side effects.

PHASE III :: Study conducted in a large number of patients (between several hundred and several thousand) to determine the safety, efficacy and optimum dosage of a drug under real therapeutic conditions.

PRECLINICAL :: Laboratory tests related to a new drug candidate conducted in animals, organs or cell cultures in order to obtain satisfactory evidence that a clinical study is justified and that the drug candidate is classified as safe.

PROOF-OF-CONCEPT :: Milestone proving a drug candidate's efficacy in medical terms, usually in Phase II.

PROTEASOME :: Multi-protein complex for the decomposition of used cellular products.

PROTEIN :: Large complex molecule composed of amino acids. Proteins are essential to the structure, regulation and function of all organisms; typical proteins include enzymes and antibodies.

:: R

RA :: Abbreviation for rheumatoid arthritis.

RECIST CRITERIA :: Abbreviation for response evaluation criteria in solid tumours; guidelines on the evaluation of therapeutic success in solid tumours.

RHEUMATOID ARTHRITIS :: Autoimmune disease of the connective tissue, especially the joints.

:: S

STEROID :: Class of hormones such as cholesterol which has an anti-inflammatory effect.

:: T

TARGET :: Specific biological molecule, e.g. an enzyme or receptor, which plays an important role in the origination or development of a disease. Compounds/drugs develop their therapeutic activity by binding to a target molecule.

TAXOL :: Drug derived from natural cytotoxins. It inhibits cell growth by attacking the spindle apparatus during cell division. Taxanes are used in chemotherapy of cancers.

:: FINANCIAL/SECTOR GLOSSARY

TOXICITY :: Undesirable side effects of a substance depending on its dose.

TOXICOLOGY :: Field of science examining the effects of toxic substances or the toxicity of substances.

TTP :: Time to progression.

TUBULIN STRUCTURE :: Cellular components which play a significant role in cell division, among others.

:: U

ULCERATIVE COLITIS :: Chronic inflammatory disease of the mucous membranes of the large intestine.

:: B

BMBF :: German abbreviation for the German Federal Ministry of Education and Research.

:: C

CAGR :: Compound Annual Growth Rate. The annualised growth rate of an investment over a specified period of time.

CHD BANK :: Conrad Hinrich Donner Bank.

:: D

D&O INSURANCE :: Directors & Officers insurance.

:: E

EQUITY METHOD :: Method used in annual financial statements to account for an entity's investment in another entity's voting capital.

ESOP :: Abbreviation for employee stock option programme.

:: F

FIFO METHOD :: Abbreviation for "first in, first out"; a procedure related to the measurement of inventories and their utilisation in connection with fluctuating procurement prices.

:: I

IAS :: Abbreviation for International Accounting Standards.

IASB :: Abbreviation for International Accounting Standards Board.

IFRIC :: Abbreviation for International Financial Reporting Interpretations Committee.

IFRS :: Abbreviation for International Financial Reporting Standards.

IMPAIRMENT TEST :: Annual test of recognised goodwill for impairment.

:: M

MEDICAL ETHICS COMMITTEE :: Assessment of ethical and legal aspects of medical research in human beings; the medical ethics committee must approve the commencement of clinical studies.

:: O

OUT-LICENSING AGREEMENT :: Granting of a license to a third party to use one or more industrial property rights.

:: P

PRIME STANDARD :: Listing segment of Deutsche Börse with clearly defined transparency requirements.

:: R

ROYALTIES :: Compensation for the use of third-party rights to intellectual property. Royalties are generally calculated as a certain percentage of the revenue generated from the intellectual property rights.

:: W

WHO :: World Health Organization; the United Nations agency responsible for international public health.

:: FINANCIAL CALENDAR

30 MARCH 2010
- Annual Report 2009

11 MAY 2010
- Q1 Report 2010

21 JUNE 2010
- Annual General Meeting 2010

10 AUGUST 2010
- Q2 Report 2010

11 NOVEMBER 2010
- Q3 Report 2010

:: PUBLISHING INFORMATION

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FIVE-YEAR OVERVIEW

KEY FIGURES AT A GLANCE

in T €	2009	2008	2007	2006	2005
Revenue	1,861	2,969	1,376	3,664	2,068
Operating profit/loss	- 16,437	- 12,695	- 8,303	- 5,530	- 6,337
Net profit/loss for the year	- 16,107	- 11,854	- 8,130	- 5,540	- 6,277
Equity	50,909	37,158	19,616	7,854	9,159
Equity ratio	94.4%	90.4%	88.9%	78.8%	81.5%
Total assets	53,903	41,094	22,063	9,973	11,244
Cash flows from operating and investing activities	- 658	- 32,196	- 11,762	- 8,476	- 5,833
Cash flows from financing activities	28,833	29,207	19,575	4,120	10,653
Net change in cash and cash equivalents	28,175	- 2,989	7,813	- 4,356	4,820
Cash and cash equivalents	35,521	7,346	10,335	2,522	6,878
Cash balance/funds	35,621	21,846	17,193	4,471	6,878
EMPLOYEES					
Number of employees and Management Board members (annual average)	91	80	64	55	52
THE 4SC SHARE					
Earnings per share (basic and diluted) (in €)	- 0.54	- 0.51	- 0.57	- 0.50	- 0.77
Number of shares issued (annual average, in 000's)	29,753	23,436	14,225	11,125	8,188
Free float	100%	100%	100%	64%	25%
Annual high (Xetra) (in €)	3.50	3.80	3.98	5.44	4.41
Annual low (Xextra) (in €)	2.60	2.50	2.53	3.35	4.24
Closing price on balance sheet date (in €)	2.96	3.09	3.43	3.69	4.35
Market capitalisation on balance sheet date (in €000's)	113,968	88,073	65,176	42,292	45,806
Average daily trading volume (Xetra) (shares)	7,274	5,041	11,867	6,898	11,914

To offer successful therapies for AUTOIMMUNE DISEASES.
To develop innovative drugs in ONCOLOGY.

BY PEOPLE. WITH PEOPLE. FOR PEOPLE.

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