TAILORED DRUGS FOR STRONG PATIENT BENEFIT.

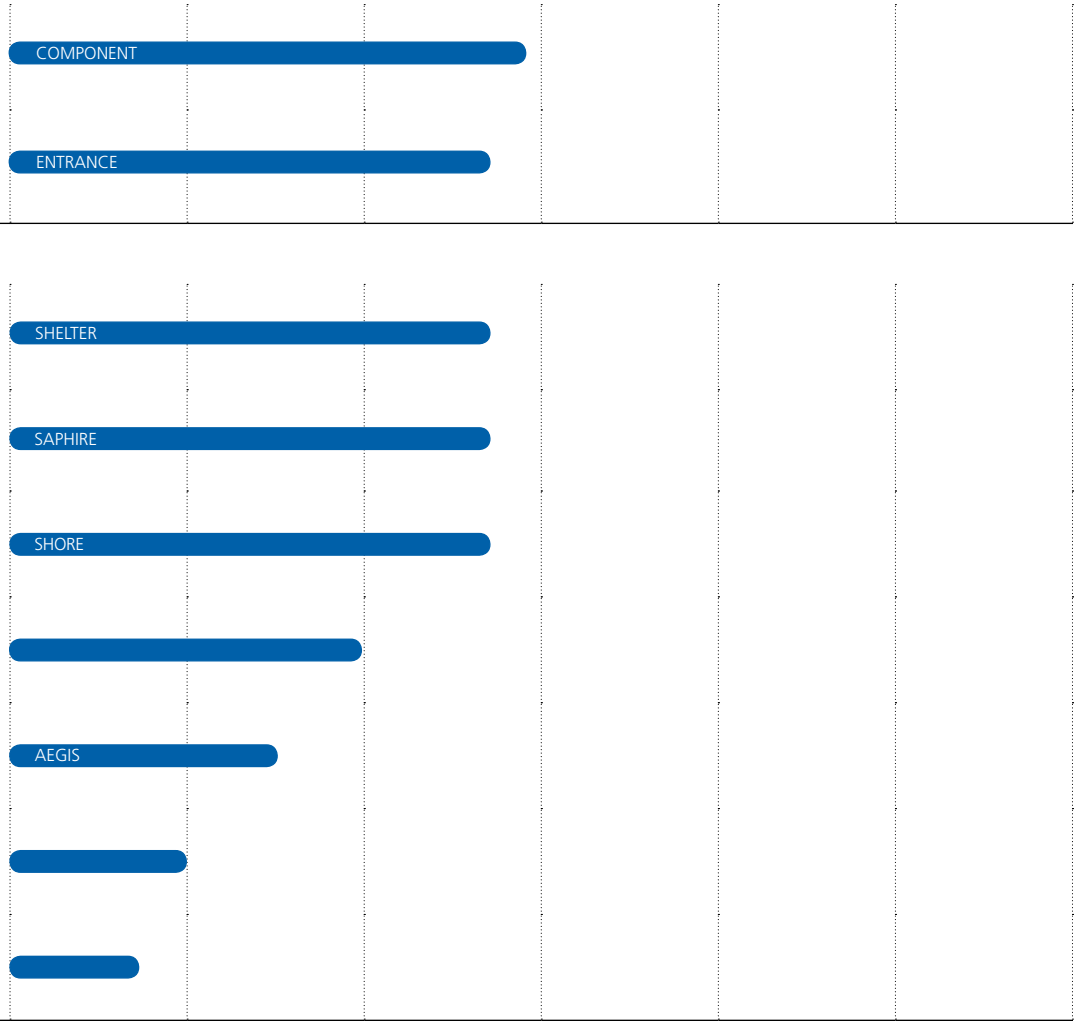
BY PEOPLE. WITH PEOPLE. FOR PEOPLE.

:: BY PEOPLE. WITH PEOPLE. FOR PEOPLE.

Targeted research and development for innovative drugs.

:: 01 PRODUCT PIPELINE

PROCUCT	INDICATION	MODE OF ACTION
AUTOIMMUN DISEASE		
Vidofludimus 4SC-101 see Page 8	Rheumatoid Arthritis (RA)	Oral autoimmune modulator of the DHODH enzyme and the IL-17 cytokine
Vidofludimus 4SC-101	Inflammatory Bowel Disease (IBD)	Oral autoimmune modulator of the DHODH enzyme and the IL-17 cytokine
ONCOLOGY		
Resminostat 4SC-201 see Page 9	Hepatocellular Carcinoma (HCC)	Oral pan histone deacetylase (HDAC) inhibitor
Resminostat 4SC-201	Hodgkin's Lymphoma (HL)	Oral pan HDAC inhibitor
Resminostat 4SC-201	Colorectal Cancer (CRC)	Oral pan HDAC inhibitor
4SC-203	Oncology	Oral multi-kinase inhibitor selective of FLT3 and VEGF
4SC-205	Solid Tumours	Oral Eg5 kinesin spindle protein inhibitor
4SC-202	Haematologic and Solid Tumours	Oral selective HDAC inhibitor with a strong anti-mitotic effect
4SC-207	Solid Tumours	Oral cell-cycle blocker



:: Tab. 01 KEY FINANCIAL FIGURES

in €000's	2010	2009	Change in %
Revenue	989	1,861	- 47
Operating profit/loss	- 20,271	- 16,437	- 23
Profit/loss for the year	- 20,075	- 16,107	- 25
Equity	31,210	50,909	- 39
Equity ratio	89.9%	94.4%	- 4.5%P
Total assets	34,731	53,903	- 36
Cash flows from operating and investing activities	- 30,565	- 658	- 4,545
Cash flows from financing activities	0	28,833	- 100
Net change in cash and cash equivalents	- 30,565	28,175	n/a
Cash and cash equivalents	4,956	35,521	- 86
Cash balance/funds	17,607	35,621	- 51
EMPLOYEES			
Number of employees and Management Board members (annual average)	94	91	3

:: Tab. 02 ACHIEVEMENTS 2010

Goals 2010	Results 2010
WE AIM TO BECOME A LEADING PARTNER TO THE PHARMACEUTICAL INDUSTRY FOR THERAPEUTICS IN AUTOIMMUNE AND ONCOLOGY INDICATIONS	
Proof-of-concept for vidofludimus – Phase IIa results in the IBD ENTRANCE study	✓
Successful completion of patient recruitment for vidofludimus in the Phase IIb COMPONENT study in RA	✓
Successful establishment of a late-stage oncology pipeline	✓
Expand the pipeline and strengthen its value by launching new Phase I programmes	✓
Efficient capital allocation to development programmes	✓
Increased visibility in the international capital markets	✓
Future Goals 2011	
REALISATION OF FURTHER IMPORTANT CLINICAL PROOF-OF-CONCEPTS FOR OUR PRODUCTS IN ORDER TO ESTABLISH THE CONDITIONS FOR PARTNERING AGREEMENTS	
Proof-of-concept for vidofludimus in RA	
Proof-of-concept for resminostat in HCC and HL	
Licensing agreements with pharmaceutical and global biotechnology companies	

4SC researches and develops innovative, orally administered small-molecule drugs for autoimmune diseases and cancer – indications with a high unmet medical need. The aim is for these targeted therapies to provide better efficacy and a lower side-effect profile than existing treatments and to offer greater benefits and new hope for patient groups that have been specifically selected for treatment. Thanks to its balanced clinical pipeline and continuous research into new, value-creating programmes, 4SC is evolving into an attractive partner for pharmaceutical and global biotechnology companies.

BY PEOPLE. WITH PEOPLE. FOR PEOPLE.

:: LETTER TO THE SHAREHOLDERS

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

DEAR SHAREHOLDERS,
DEAR FRIENDS AND PARTNERS,

Last year, 4SC made significant advances in the development of drugs for autoimmune diseases and cancer. With a total of four small-molecule compounds in seven Phase I and II clinical studies, we have a balanced and mature pipeline. Our drug development activities are focused on the concept of targeted therapies, i.e. therapies that specifically influence and control signalling pathways, thereby generating considerable benefits for patients. In 2010, we evolved into an important developer of targeted therapies and created a good starting position for achieving other company and development goals.

During the past financial year, we reported major successes with our lead compounds in particular. In our work on autoimmune diseases, we reached the primary endpoint in the Phase IIa ENTRANCE study in inflammatory bowel disease (IBD) with vidofludimus, an orally administered IL-17 and DHODH inhibitor, at the beginning of November 2010 with an extremely positive response rate of 88.5% in the treatment of patients with Crohn's disease and ulcerative colitis. In addition, patient recruitment was finalised at the end of the year for the Phase IIb COMPONENT study in rheumatoid arthritis (RA). We expect preliminary data from this study in the second quarter of 2011. Numerous preclinical models also highlight the suitability of vidofludimus for other autoimmune indications in which the interleukin-17-inhibitory effect provides a targeted therapeutic option in diseases such as lupus, psoriasis and multiple sclerosis as well as organ transplant rejection.

In the field of oncology we successfully built up a late-stage pipeline in 2010. The HDAC inhibitor resminostat is now being developed in three indications. The three-pillar strategy with resminostat in three active Phase II studies aims to develop opportunities in the diverse and highly fragmented oncology market with high commercial potential. We presented initial positive data from the Phase II SAPHIRE study for the treatment of Hodgkin's Lymphoma (HL) and from the Phase II SHELTER study in hepatocellular carcinoma (HCC) at two scientific conferences in the second half of 2010. In the Phase I/II SHORE study in colorectal cancer (CRC), treatment of the first patient with KRAS-mutations began in January 2011.

For 2011, we now anticipate final Phase II results from three studies and, with these, the potential proof-of-concept for vidofludimus in RA as well as for resminostat in HCC and HL. This will boost the value of the products and increase our company's enterprise value. We aim to present data from the Phase IIb COMPONENT study with vidofludimus in RA around the middle of the year. In the oncology portfolio, positive indications of efficacy from

left: vidofludimus' molecular structure

the Phase II SHELTER study in HCC with resminostat were presented in January. Results of this study, which is investigating an HDAC inhibitor in Phase II for the first time as second-line and combination therapy in HCC, are scheduled for the second half of 2011. The Phase II study in HL is also expected to be completed in the second half of 2011. In 2012, the Phase I/II study in CRC will deliver initial dose-ranging results on safety and tolerability in line with planning.

New Phase I programmes are also ensuring a supply of potential cancer therapeutics and are increasing the value of 4SC's product pipeline. We have two new drugs in Phase I trials: 4SC-203 and 4SC-205. The 4SC-203 trial was successfully concluded in early January 2011, while results for 4SC-205 are expected for this year. Moreover, two additional candidates – 4SC-202 and 4SC-207 – are being evaluated in the preclinical stage to facilitate entry in the clinical phase in 2011.

In the fields of autoimmune diseases and oncology, a series of acquisitions and cooperation deals in 2010 with high takeover premiums showed investors the strong, sustained interest in innovative biotechnology companies. Promising clinical developments also demonstrated the high demand for drugs in these indications. Astellas Pharma purchased OSI Pharmaceuticals for $3.5 billion, for example. AstraZeneca and Rigel Pharmaceuticals signed an agreement on the small-module drug candidate R788 for treating RA. In the course of their collaboration, AstraZeneca and Rigel Pharmaceuticals commenced a Phase III study in RA with the small-molecule drug fostamatinib, while Cosmo Pharmaceuticals reported Phase III top-line results for its new compound, budesonide MMX. In the HDAC area, Novartis and Methylgene reported final Phase II data from their studies of mocetinostat in HL.

We consider ourselves well positioned in this environment with our balanced and mature pipeline. Over the coming months we expect to make further promising announcements about advancements in our clinical programmes. We are confident of being able to continue the success we have demonstrated up to now and meet the value-enhancing goals set for all our trials. The advanced products will continue to be developed beyond proof-of-concept in partnerships with international biotechnology and pharmaceutical companies that will push the implementation and completion of the clinical studies required for regulatory approval and also launch the drugs on the market. In 2011, we will therefore focus squarely on completing clinical developments and on possible partnering activities that will help secure further funding for 4SC. We firmly believe that the anticipated data will provide the basis for promising partnerships.

To strengthen our financial starting position when negotiating possible licensing partnerships for one or several of our products, we successfully completed a further capital increase of almost €12 million in February 2011. Excluding subscription rights, 3,452,647 new shares were placed with institutional investors at a price of €3.40. This also made the shares more visible in the international capital markets and expanded the base of investors internationally.

We are looking forward to the coming months and are confident of continuing our success to date and satisfying our shareholders as well as potential licensing partners with further positive results from our product development activities.

I would like to extend my warm thanks to you on behalf of myself and my colleagues in the Management Board, for your trust, loyalty and constructive support during this past year. Special thanks also go to our employees, who have been instrumental in the Company's success.

Sincerely,

DR ULRICH DAUER, CEO

:: RESEARCH AND DEVELOPMENT STRATEGY

4SC researches and develops innovative and targeted orally administered small-molecule drugs for autoimmune diseases and cancer – indications with a high unmet medical need. The various products are designed to provide patients with greater benefits than existing forms of treatment. Thanks to its broad clinical pipeline and continuous research into new, value-driven programmes, 4SC is evolving into an attractive partner for pharmaceutical and global biotechnology companies.

NEW, TARGETED THERAPIES FOR THE TREATMENT OF AUTOIMMUNE DISEASES AND CANCER

EXTENSIVE PIPELINE :: 4SC's product pipeline currently includes four clinical products at varying stages of development as well as two preclinical programmes. The clinical programmes are in five Phase II studies and two Phase I studies. This provides the Company with a sustainable, broad, well-balanced pipeline that is also one of the most extensive in Europe among small cap biotechs.

INTEGRATED RESEARCH :: 4SC has its own research department that is focused on delivering novel, innovative drug candidates to the Company's own product pipeline. Its research activities help 4SC gain an in-depth understanding of the causes and course of a disease and the effects that are generated in the body. For example, the immune system's response to external signals, e.g. in the case of infections, is controlled by so-called signalling mechanisms. 4SC researches intensively into the possibilities of specifically influencing and controlling signalling pathways in autoimmune diseases and cancer through new drugs that are developed using methods from medicinal chemistry. New, relevant diagnostic approaches and biomarkers are researched concurrently. The results are then incorporated into the further clinical development of the drugs.

CLINICAL EXPERTISE :: In order to implement clinical studies in operations effectively and successfully, 4SC has an experienced development team that is structured by the different programmes and indications. This team structure ensures that study design, recruitment, advancement, data generation and presentation of the scientific results are each supported by a specialised project team so that their expertise can be leveraged specifically for the programme in question.

4SC is using biomarker programmes to select specific patient populations for the inclusion in advanced, extensive clinical studies. This enables the Company to monitor the course of therapy precisely and continuously and raises the probability of success in the clinical study because the only participants are patients who are likely to react positively to the drug that is being evaluated. The larger the positive effect, the smaller the number of people participating in the study can be for statistical reasons. This increases the efficiency of the clinical studies and makes tailored drugs cheaper to develop.

Research and development is an integral part of 4SC's business strategy. As many as 70 of the Company's 94 employees – i.e. around 75% – work in this area alone.

IMPROVED DRUGS :: Based on its integrated research and development approach and with the support of the biomarker programmes, 4SC is able to develop drugs that are compelling as they could provide greater benefits for patients on account of their improved efficacy and lower side effect profile. These drugs are highly targeted and are administered orally. Should regulatory approval be granted they will only be prescribed to patients who are suitable candidates for this form of therapy, whilst other patients will be spared the possible side effects.

EFFICIENT STRUCTURES :: Focusing on the two indications of autoimmune diseases and cancer, carrying out targeted research at a relatively early stage and maintaining interdisciplinary project teams that contribute biological and chemical expertise to clinical development, enables 4SC to develop many projects simultaneously with a relatively lean structure and limited resources.

:: 02 ROADMAP

DEVELOPMENT

:: Focus on two indications: autoimmune diseases and oncology

:: Ensure clinical success by diversifying risk across a broad and well-balanced product pipeline with numerous drug candidates

:: Establish outstanding clinical expertise by commencing three Phase II studies

:: Successful capital increase of € 30 million to advance the company's strategy

2009

MILESTONES ACHIEVED

:: Proof-of-concept for vidofludimus – Phase IIa results in the IBD ENTRANCE study

:: Successful completion of patient recruitment for vidofludimus in the Phase IIb COMPONENT study in RA

:: Successful establishment of a late-stage oncology pipeline

:: Expand the pipeline and strengthen its value by launching new Phase I programmes

:: Efficient capital allocation to development programmes

:: Increased visibility in the international capital markets

2010

SUSTAINED GROWTH

:: Potential proof-of-concept for vidofludimus – Phase IIb results in RA

:: Potential proof-of-concept for resminostat – Phase II results in both HCC and HL

:: Partnerships with pharmaceutical and global biotechnology companies based on an attractive product pipeline in autoimmune diseases and oncology

:: Continued funding of 4SC through clinical milestones and licensing fees

2011+

:: PRODUCTS

4SC's product pipeline is focused on autoimmune and cancer indications and currently comprises six compounds in different development stages. All programmes are aimed at offering targeted therapy options to facilitate significant improvements in treating patients. Two of the compounds are already in several Phase II trials for different indications. This comprehensive and advanced product pipeline enables 4SC to position itself firmly as an interesting partner of pharmaceutical and global biotechnology companies.

ABOUT VIDOFLUDIMUS :: 4SC-101 :: Vidofludimus is a novel, orally administered small-molecule drug for the treatment of autoimmune disorders such as rheumatoid arthritis (RA) and inflammatory bowel disease (IBD). Vidofludimus is classified as a DMARD (disease modifying anti-rheumatic drug), which means that it can slow the progression of the disease in addition to providing symptomatic treatment. Vidofludimus is currently in two Phase II studies.

The Phase IIb combination study with methotrexate, entitled COMPONENT, examines the efficacy of vidofludimus in treating mild to moderate RA patients.

In addition, vidofludimus demonstrated impressive efficacy in a Phase IIa exploratory study, entitled ENTRANCE, in patients with IBD.

The therapeutic effect is based on a dual mechanism: it inhibits both the cytokine interleukin-17 (IL-17) and 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 are much higher in inflamed tissues. Preclinical studies have shown that vidofludimus suppresses the expression of a central cytokine, IL-17. As a signalling molecule IL-17 is involved in controlling and regulating inflammatory processes and is linked to numerous autoimmune diseases where the immune response is out of control. 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.

As a tablet, vidofludimus is an oral available small-molecule inhibitor of IL-17A and IL-17F production.

Some of the currently available therapies display severe side effects that cause additional discomfort for patients with such chronic diseases that require long-term treatment, and frequently lead to the discontinuation of therapy. It is this issue which 4SC addresses with vidofludimus because the compound should offer a broad treatment option with significantly fewer side effects.

In rheumatoid arthritis, the Phase IIb COMPONENT trial aims to position vidofludimus as a once daily, oral treatment in combination with methotrexate, the oral standard of care treatment for RA.

The exploratory Phase IIa ENTRANCE trial in IBD already showed that this compound can be applied in a broader autoimmune diseases setting.

Beyond this, various preclinical models demonstrate the application options of vidofludimus in further autoimmune indications such as lupus, psoriasis, multiple sclerosis and transplant rejection.

ABOUT RESMINOSTAT :: 4SC-201 :: Resminostat is an orally administered histone deacetylase (HDAC) inhibitor for the treatment of cancers, which modifies the DNA structure of tumour cells to cause their differentiation and programmed cell death (apoptosis). In contrast to many conventional cytotoxic drugs, because of their epigenetic mechanism the efficacy of HDAC inhibitors does not depend on the active process of cell division. As a result, HDAC inhibitors can also target cancer cells which are not actively dividing. The application of resminostat as a cancer treatment therefore opens up a broad spectrum of possibilities, in particular in combination with a number of standard chemotherapies.

Resminostat is currently in a Phase II proof-of-concept study to treat hepatocellular carcinoma (HCC) – the most common form of liver cancer –, a Phase II study in Hodgkin's lymphoma (HL) and a Phase I/II study in advanced colorectal cancer patients with KRAS mutations (CRC).

As HDAC inhibitors modify the DNA structure of tumour cells, they offer a mechanism of action that has the potential to stop tumour progression and induce tumour regression and therefore aim to gain the therapeutic control of the cancer. In a completed Phase I trial in patients with various cancer types, stable disease was achieved in over 50% of the patients, whilst the treatment was well tolerated and showed a positive, differentiating pharmacological profile compared to other drugs in this class.

The two-arm, proof-of-concept, Phase II SHELTER study evaluates the second-line treatment with resminostat alone or in combination with sorafenib (Nexavar®), the current standard of care in advanced HCC, to see if it can induce progression free survival and tumour responses in patients who display progressive disease under treatment with sorafenib. Initial clinical data have already been published. So far, resminostat has proven to be safe and well tolerated. No pharmacokinetic interactions were observed between resminostat and sorafenib. A considerable portion of patients showed stabilisation of their disease after 6 or 12 weeks of study treatment.

The Phase II SAPHIRE trial evaluates the efficacy of resminostat for the treatment of HL patients who are refractory or who relapsed after the classical treatment method of chemotherapy. Initial preliminary trial data on the compound's safety and efficacy have already been published. Based on the results, about half of the 18 patients included in the first recruitment cohort benefited from treatment with resminostat. Two of these patients were assessed as partial responders whilst additional patients showed a stabilisation of their disease.

The Phase I/II SHORE trial evaluates the efficacy and tolerability of resminostat in colon cancer as a third indication. In this trial resminostat is evaluated in combination with the FOLFIRI regimen, an established, frequently used form of chemotherapy to treat colon cancer, as a second-line treatment in patients with KRAS tumour mutations.

:: EXTENSIVE AND ADVANCED PRODUCT PIPELINE

Six compounds against autoimmune diseases and cancer in different development stages.

VIDOFLUDIMUS (4SC-101)
Two Phase II studies:
:: Phase IIb COMPONENT trial in RA,
Results are expected for the 2nd quarter of 2011
:: Phase IIa ENTRANCE trial in IBD,
Successfully completed

RESMINOSTAT (4SC-201)
Three ongoing Phase II studies:
:: Phase II SHELTER trial in HCC,
Initial results published
:: Phase II SAPHIRE trial in HL,
Initial results published
:: Phase I/II SHORE trial in CRC,
Initial results expected for 2012

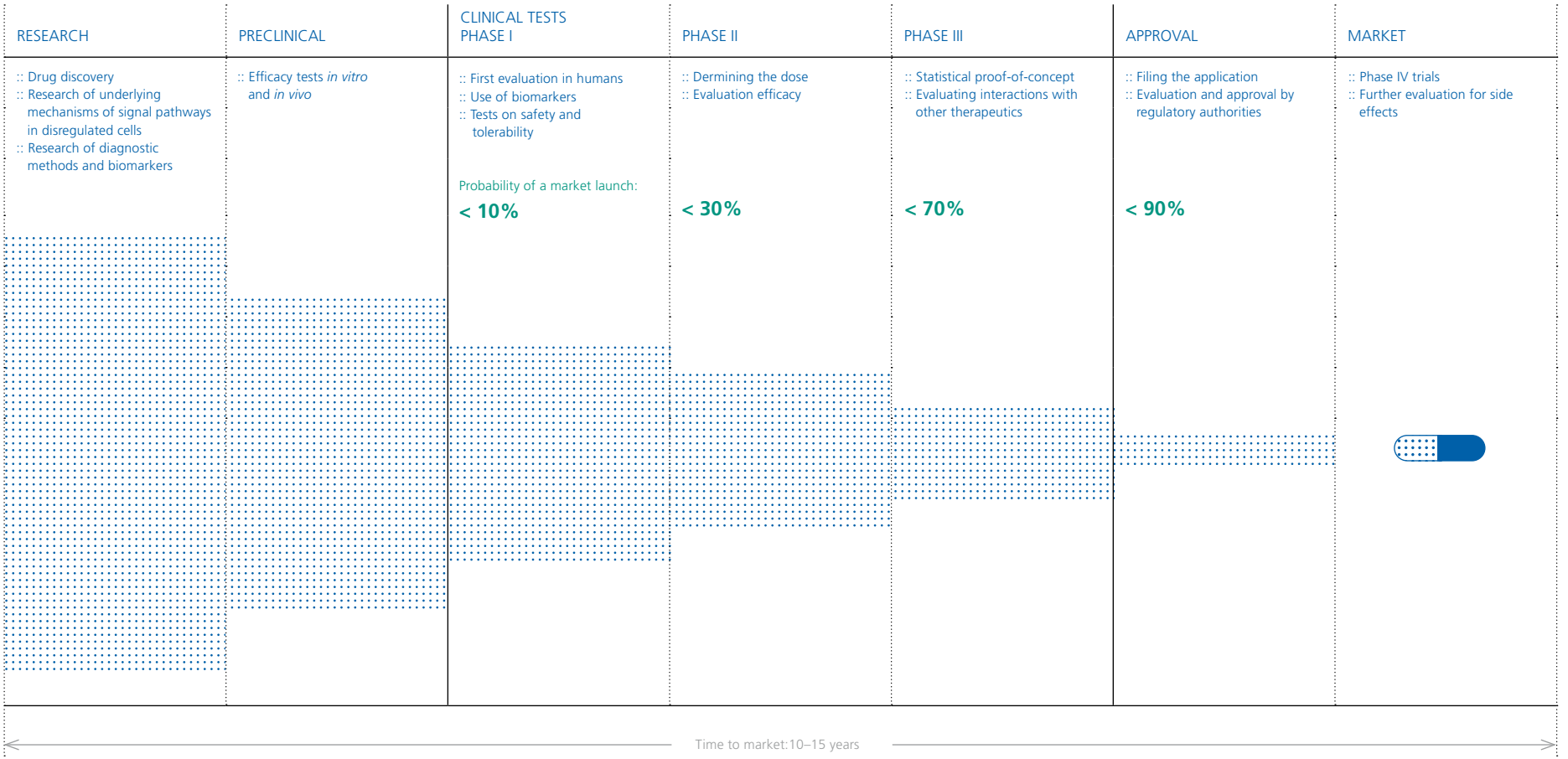
4SC-203
:: Lead indication: Oncology
:: Phase I study in healthy volunteers,
Successfully completed

4SC-205
:: Lead indication: Solid tumours,
:: Phase I AEGIS trial
Results are expected for 2011

4SC-202
:: Lead indication: Hematological and solid tumours
:: Preclinical

4SC-207
:: Lead indication: Solid tumours

:: 03 PROCESS OF DEVELOPMENT



ABOUT 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. FLT3 is involved in the growth and maturation of normal blood cells. With the 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-203 was jointly developed with ProQinase GmbH, a company based in Freiburg, Germany. The molecule has successfully completed a randomised, double-blind, placebo-controlled Phase I study in healthy volunteers which demonstrated the safety, tolerability and pharmacokinetics of this intravenously delivered compound.

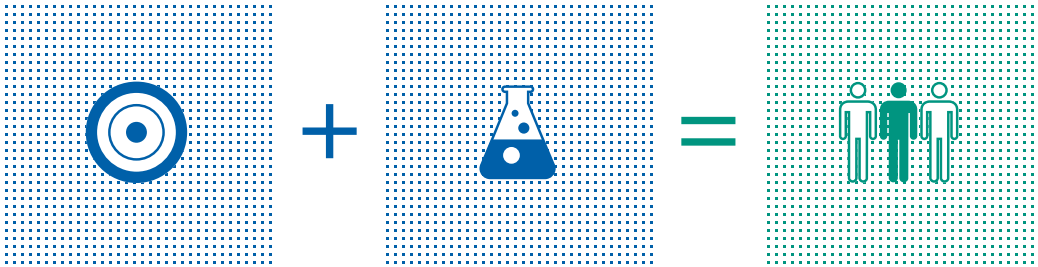
ABOUT 4SC-205 :: 4SC-205 is an oral small-molecule inhibitor of the human kinesin spindle protein Eg5, which is of crucial importance for proper cell division (mitosis). Mitosis inhibitors, such as taxol, are used as the first-line therapy in numerous cancers. As opposed to taxol, which is neurotoxic, 4SC-205 does not directly affect microtubules, but only the kinesin Eg5 which is only present during cell division. This compound is in the Phase I AEGIS study in patients with solid tumours or malignant lymphoma in order to evaluate its safety, tolerability, pharmacokinetics and pharmacodynamics. Currently, 4SC-205 is the only oral Eg5 kinesin inhibitor in clinical development.

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. Allosteric inhibition of Eg5 by 4SC-205 leads to cell cycle arrest in mitosis and subsequent programmed cell death (apoptosis). Mitosis is the fundamental process required for cell division and tissue proliferation. The mitotic spindle apparatus has for decades been a primary target for the development of anti-mitotic drugs 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 efficacious inhibitor of tumour cell proliferation of various cancer origins, both *in vitro* and *in vivo*.

ABOUT 4SC-202 :: This molecule is an orally administered selective class I HDAC inhibitor. In contrast to the more advanced HDAC inhibitor resminostat 4SC-202 belongs to a different chemical class of compounds, selectively affects class I HDACs and separately demonstrates a particularly strong anti-mitotic activity. 4SC-202 enables a dual attack on malignant cancer cells and is therefore not a back-up compound for resminostat. Its strong, specific anti-mitotic effect could make this candidate particularly suitable for the treatment of cancer types that exhibit high rates of cell division.

ABOUT 4SC-207 :: 4SC-207 is a novel, orally available cell-cycle blocker (CCB) for the treatment of tumours resistant to chemotherapy. This anti-mitotic compound inhibits the division of actively proliferating tumour cells. In preclinical testing, apoptosis was observed in dividing cancer cells only, rather than in non-proliferating cells. A prominent characteristic of 4SC-207 is its resistance breaking activity. 4SC-207 also affects cancer cells that have built up resistance to taxanes and alkaloids. This resistance to chemotherapy is one of the most important causes for the lack of activity of first-line therapies following a relapse.

:: TARGETED THERAPIES – THE 4SC CONCEPT



**TARGET –
FUNCTION AND DRUG**

**TRANSLATIONAL
RESEARCH**

Findings from biomedical basic research are directly applied to the prevention, diagnostics and treatment of diseases.

:: **SELECTION OF PATIENTS**
:: **OBSERVATION OF PATIENTS**
:: **INCREASED BENEFIT FOR PATIENTS**

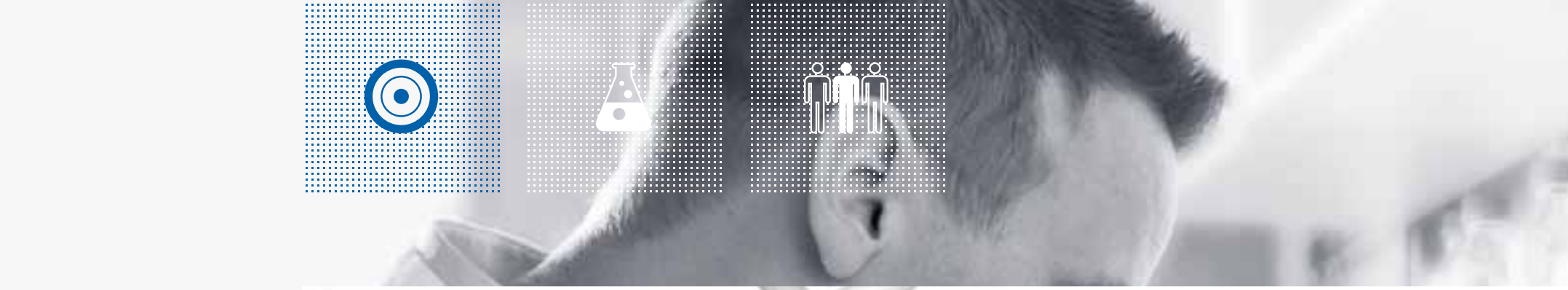
:: TARGETED. EFFICIENT. BETTER.

Diseases are as varied as people, which is why standardised forms of treatment are not effective in all cases. Biomedical research has facilitated innovative approaches and made tailored therapies part of medical practice. This approach provides the potential to master the challenges currently facing drug development and create benefits for patients through individualisation.

:: TARGETED

BETTER UNDERSTAND AND TREAT DISEASE MECHANISMS.

The decoding of the human genome created the foundation for innovative approaches in drug development. Genetic information provides insight into the interaction of biological molecules in the body and the underlying causes of disease processes. Targeted research enables us to identify important targets and understand the role they play. This knowledge is then translated into innovative therapies for the benefit of patients.



At 4SC preclinical research is the starting point for the development of new targeted therapies for cancer and autoimmune indications, two disease areas with a very high medical need. Here, 4SC is expanding its understanding of the underlying mechanisms of signal pathways in disregulated cells. The initial patient selection is made, and the decision which projects could hold promise for a clinical study. This ensures a continuous supply of clinical projects for the pipeline.

INTERVIEW WITH DR DANIEL VITT

:: Chief Scientific Officer of 4SC

Dr Vitt, how important is the concept of targeted therapies in 4SC's research?

DR DANIEL VITT :: The pharmaceutical market is undergoing radical changes worldwide. Drugs are required to be increasingly efficacious and safe, and concurrently, there is growing pressure on costs. Targeted therapies form the basis for research into and the development of new drugs that are ideal for meeting these market requirements. At 4SC, our research activities focus on mechanisms of signal pathways. This permits a more selective therapy and simultaneously reduces undesired side effects. From the very beginning, we have also been researching new diagnostic methods and biomarkers associated with these therapies.

How will these findings be used in ongoing drug development?

DR DANIEL VITT :: By gaining a precise understanding of the underlying pharmacology, we can optimise new molecules for specific medical uses. Projects with a target allow various products to be generated that in turn lead to drugs with very different properties and uses. For this, we are using the expertise we have built up over the years in the biology of control mechanisms in autoimmune diseases and can-

«Targeted therapies form the basis for the research and development of new drugs that meet markets requirements.»

cer. Another particularly important area is research into pharmacological effects and signal control in our advanced clinical projects. One example is cytokine regulation by vidofludimus, in which 4SC displays its strengths from closely intertwining its drug discovery with product development and product positioning.

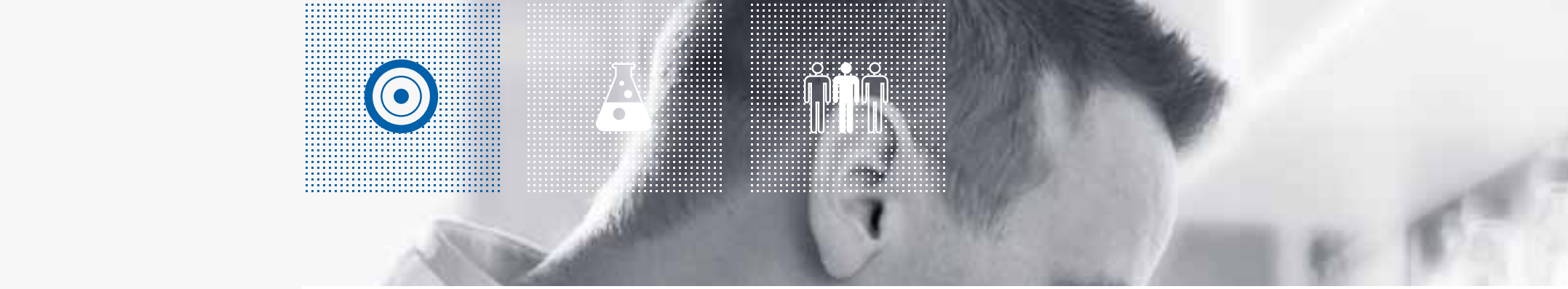
To what extent can biomarker programmes support this development process?

DR DANIEL VITT :: Biomarkers have become an integral part of drug development today. We study protein biomarkers that are connected with modulated signal pathways, enzymatic biomarkers such as HDAC inhibition and µRNA-based signatures.

Biomarkers are used to estimate the likelihood that a patient will actually benefit from treatment with a specific drug. The benefit for the patient is obvious: the patient ideally only receives drugs to which he or she will actually respond. This reduces unnecessary side effects and helps lower health care costs. Using predictive biomarkers also makes the clinical studies that 4SC conducts smaller and more meaningful.

Why is using the approach of targeted therapies particularly helpful in cancer and autoimmune diseases?

DR DANIEL VITT :: Targeted technologies were first used in oncology, where they are clearly differentiated from cytotoxic therapies.
However, the principle of signal control with the associated targeted approach in therapy is just as applicable in treating autoimmune diseases. The immune system's response to external signals such as in the case of infections is controlled by highly conserved genetic signalling mechanisms. For this, the body uses very specific messengers, mostly from the cytokine and chemokine families. In many cases, the malfunctioning of such signal pathways is directly related to the manifestation of an autoimmune disease. Higher production of the cytokine IL-17 is particularly relevant in diseases such as IBD, RA and MS, for example.
Another important aspect is the possibility of developing predictive biomarkers, which allow a more targeted treatment of patients with the most suitable therapy for their conditions.



about :: AUTOIMMUNE DISEASES

One of 4SC's focus of research is the development of new therapies for the treatment of autoimmune diseases.

4SC evaluates the effect of potential new drugs on the specific regulation of these diseases.

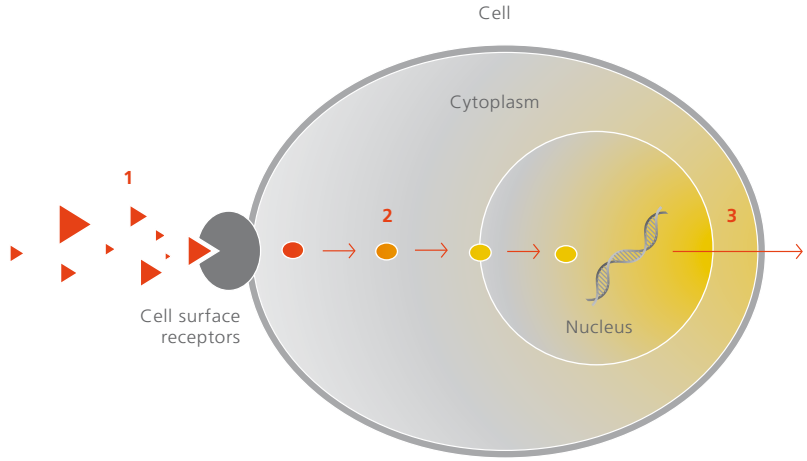
For example, the development of highly selective ion channel blockers should pave the way to innovative treatments for multiple sclerosis and arthritis.

Other efforts pursue the development of inhibitors that target the protein kinases classes. These research activities focus on kinases which are responsible for the disease-related over-regulation of transcription factors and are expected to have a low side effect profile when their activity is inhibited.

In addition, previously unknown classes of chemical compounds are discovered with the help of the proprietary computer-based 4SCan® technology. The combination of new targets and new compound classes forms the innovation driver in 4SC's future portfolio.

:: 04 OVERVIEW OF SIGNAL TRANSDUCTION

:: Faulty signal transduction can lead to, for example, an uncontrolled immune response (autoimmune diseases) or cell growth (cancer).
:: Targeted therapies approach is based on the targeted inhibition of signalling pathways.



:: 1 Stimulation by messenger molecules

:: 2 Signal transduction through enzymes or other primary messenger molecules

:: 3 Cell response
:: Metabolism adjustment
:: Protein production
:: Immune response
:: Cell growth

about :: ONCOLOGY

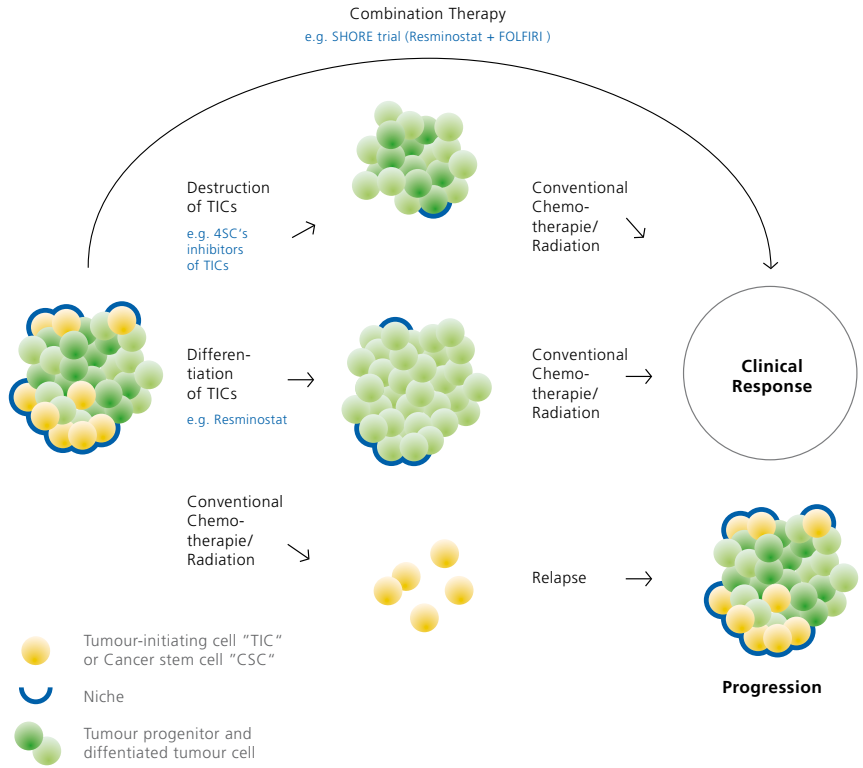
In the field of oncology, 4SC explores innovative mechanism of action to improve long-term survival and quality of life.

With the aim of fighting cancer, 4SC identifies new compounds that target cancer stem cells (CSC) or tumour-initiating cells (TIC). Cancer stem cells are cells which have tumour-forming properties but also possess certain characteristics of non-malignant stem cells, including self-renewal and differentiation. Tumour stem cells are highly resistant to conventional therapeutic approaches and it is now believed that these cells are capable of initiating new tumours and are therefore responsible for metastasis and relapses.

A second focus of oncological research at 4SC is on small-molecule compounds which address so-called epigenetic targets. Some of these proteins catalyse the chemical modification of chromatin; in particular, the acetylation and deacetylation of histone proteins which regulate gene expression in the cell.

The third pillar of oncological research at 4SC is based on the development of molecular therapy concepts in the field of cancer immunotherapy. Representatives of this class of compound activate the body's own immune response and help to eliminate malignant cells in cancer patients.

:: 05 NEW MODES OF ACTION IN CANCER THERAPY



FACTS & FIGURES

:: 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.

0.5–1.0%

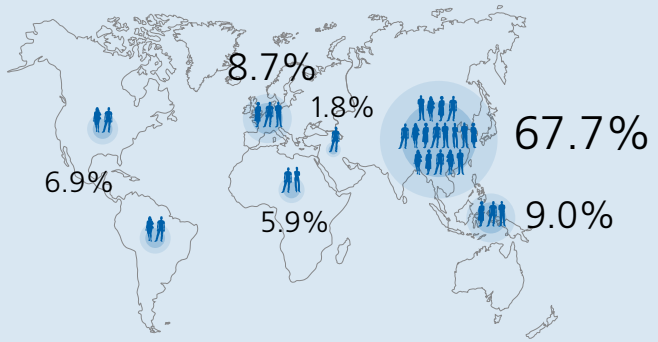
of the population suffers from RA

Source: WHO Population Data

:: 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. The worldwide incidence is 600,000 new patients diagnosed per year, which represents about 5.6% of all malignant tumours.

:: 06 DISTRIBUTION OF HCC PATIENTS WORLDWIDE



Southeast Asia and Africa have the highest prevalence of the disease. The prevalence is on the increase in Europe and northern Africa.

Source: GLOBOCAN 2008

:: EFFICIENT

KNOWLEDGE GENERATED IN THE LABORATORY DRIVES INNOVATION IN CLINICAL DEVELOPMENT.

At 4SC the development of tailored drugs involves identifying the most promising research projects for Phase I and Phase II clinical studies to evaluate efficacy, tolerability and safety. In order to advance as many projects as possible, in parallel, and ensure an in-depth exchange of knowledge, 4SC research is performed in small interdisciplinary teams.

The use of targeted therapies enables patients to be identified before the studies begin and monitored during the course of the therapy. A clinical study will have a much higher success rate if patients who are likely to react positively to the drug being tested are selected. Statistics show that the clearer the positive effect, the smaller the number of people participating in the study can be. This increases the efficiency of the clinical studies and makes tailored drugs more cost effective to develop.

INTERVIEW WITH DR BERND HENTSCH
:: Chief Development Officer at 4SC

Dr Hentsch, how important is the concept of targeted therapies in 4SC clinical development?

DR BERND HENTSCH :: The concept of targeted therapies plays a key role in the clinical development of tailored drugs at 4SC AG. Here, we apply the knowledge gained from previous research in our clinical studies, for example by making intensive use of biomarkers to identify the patients who might benefit particularly well from the treatment with these drugs. This is called "translational research".

What are the benefits of such a "targeted therapy" for patients?

DR BERND HENTSCH :: Our aim is to identify the patients for whom the treatment could have a particularly high therapeutic value and we do this by using suitable biomarkers. These biomarkers are used early on in the treatment to facilitate a continuous assessment of the development of a patient's disease, where possible.

This means that other patients who are less suited to this form of therapy are excluded and can avoid possible side effects.

«Targeting patients that can be identified as gaining a particularly strong benefit from treatment.»

Which criteria are used for portfolio management at 4SC?

DR BERND HENTSCH :: Projects are selected based on an in-depth analysis of a new therapy, taking into account the medical need, the other therapies that are being developed and have already been approved, and the resulting strategic development opportunities that could arise for a new drug. This analysis starts in the target identification and drug discovery phase and continues throughout the entire development phase.

How does the concept affect the development of your lead compound vidofludimus?

DR BERND HENTSCH :: The use of biomarkers is very important for vidofludimus. For one thing, general inflammation parameters can be observed and disease-specific markers analysed in order to characterise the course of the disease. Also, in immunological diseases, specifically analysing what are known as "immune messengers" – cytokines – provides an excellent platform for function-based studies. Vidofludimus regulates the release of the pro-inflammatory cytokine Interleukin-17, which is a major factor in various autoimmune diseases. Measuring this cytokine in patients can therefore provide information about the efficacy of vidofludimus.

How does the concept affect the development of your lead compound resminostat?

DR BERND HENTSCH :: 4SC has designed a particularly broad biomarker programme for resminostat. Here, various gene expression changes will be analysed to determine whether their change correlates with a therapeutic response from the patients following treatment with resminostat or whether a therapeutic response can no longer be expected.

We also analyse specific biomarkers for the selected indications. In our clinical study in colorectal cancer patients, for example, we are particularly interested in including patients whose tumours have KRAS mutations. A new second-line option is especially necessary for such patients. In this indication we are also studying the presence of the HDAC-2 isoenzyme, which is considered a pathological factor for colorectal tumours in particular. It will be interesting to see whether the therapeutic efficacy of resminostat is particularly good in patients that express a high level of HDAC-2 in their tumour tissue. This could then lead to an actual stratification of patient groups.

about :: VIDOFLUDIMUS

Vidofludimus is the most advanced compound of 4SC in autoimmune indications.

It is currently in Phase II development in rheumatoid arthritis (RA) and inflammatory bowel disease (IBD), for which positive results from a Phase IIa study were already reported.

The Phase IIb COMPONENT trial aims to position vidofludimus as a once daily, oral treatment in combination with methotrexate, the oral standard of care treatment for RA.

Through the exploratory Phase IIa ENTRANCE trial in IBD the potential application of this compound was demonstrated in a broader autoimmune diseases setting.

:: 07 PIPELINE "VIDOFLUDIMUS"

PRODUCT	RESEARCH	PRECLINICAL	PHASE I	PHASE II	PHASE III	INDICATION
4SC-101	COMPONENT					Rheumatoid Arthritis (RA)
4SC-101	ENTRANCE					Inflammatory Bowel Disease (IBD)

THE COMPONENT STUDY IN RA

:: Randomised, two-arm, double-blind, placebo-controlled, international and multi-centre
:: 244 patients, 12 weeks
:: Treatment background with methotrexate (the current standard therapy)
:: Primary endpoint: ACR20
:: Secondary endpoints: ACR50, ACR70, DAS28, safety parameters and pharmacokinetics
:: Initial study results are expected in the first half of 2011

THE ENTRANCE STUDY IN IBD

:: Open-label, one-arm, multi-centre
:: 24 patients, 12 weeks
:: Serves to investigate whether vidofludimus can replace or reduce the use of steroids
:: Primary endpoint: significant increase of the response rate in corticosteroid-dependent IBD patients to 88.5% versus an average placebo response across published benchmark clinical trials of approximately 20%
:: Secondary endpoints: CDAI/CAI scores, safety, pharmacokinetic and biomarker data
:: The primary endpoint was met. Initial study results were reported at the beginning of November, 2010

about :: RESMINOSTAT

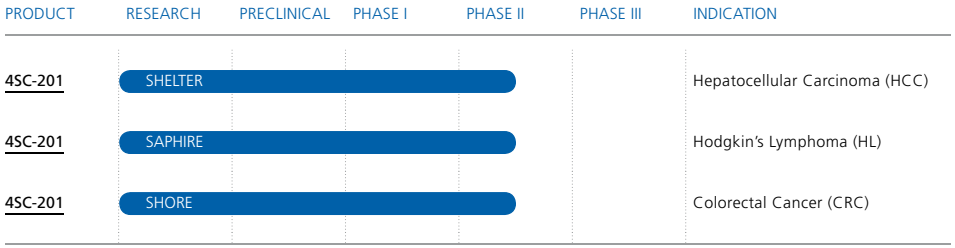
4SC's lead oncology compound, resminostat is currently being evaluated in three Phase II trials.

The Phase II SHELTER study evaluates, if the second-line treatment with resminostat in patients with hepatocellular carcinoma, can induce progression free survival and tumour responses in patients who display progressive disease under treatment with sorafenib.

The Phase II SAPHIRE trial will evaluate the efficacy of resminostat for the treatment of Hodgkin Lymphoma patients who are refractory to classical treatment method of chemotherapy first line treatment or have relapsed after responding to first line therapy.

The Phase I/II SHORE study will examine the efficacy and tolerability of resminostat in a third indication, colorectal cancer. The compound will be evaluated in combination with an established, standard chemotherapy as a second-line therapy for patients with KRAS-mutated tumours.

:: 08 PIPELINE "RESMINOSTAT"



THE SHELTER STUDY IN HCC

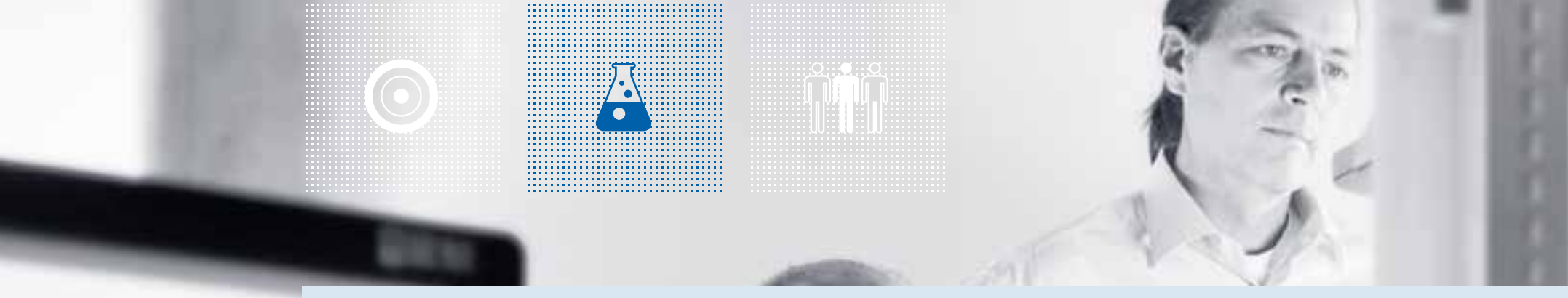
:: Open-label, two-arm, multi-centre
:: Up to 50 patients, 12 weeks
:: Primary endpoint: progression-free survival rate (PFSR) after 12 weeks, optional open-ended continuation of treatment
:: Secondary endpoints: time to progression (TTP), progression-free survival rate (PFSR) after six weeks and overall survival (OS), safety parameters and pharmacokinetics as well as examination of biomarkers
:: Results are expected in 2011

THE SAPHIRE STUDY IN HL

:: Open-label, one-arm, multi-centre, international
:: 33 patients
:: Primary endpoint: objective overall response rate (ORR)
:: Secondary endpoints: progression-free survival rate (PFSR), time to progression (TTP), duration of response (DOR) and overall survival (OS), safety parameters and pharmacokinetics
:: Results are expected in 2011

THE SHORE STUDY IN CRC

:: Open-label, tow-arm, multi-centre
:: 70 patients
:: Primary endpoint: progression-free survival (PFS)
:: Secondary endpoints: progression-free survival rate (PFSR) after 8 weeks and every 8 weeks thereafter, time to progression (TTP), overall survival (OS), safety parameters and pharmacokinetics as well as examination of biomarkers
:: The dose ranging of the trial is expected to be completed in 2012



FACTS & FIGURES

:: VIDOFLUDIMUS

Worldwide, annual market volume for the lead indications of vidofludimus.
in billion US-$

7.3+
Rheumatoid Arthritis (RA)

3.5+
Inflammatory Bowel Disease (IBD)

:: RESMINOSTAT

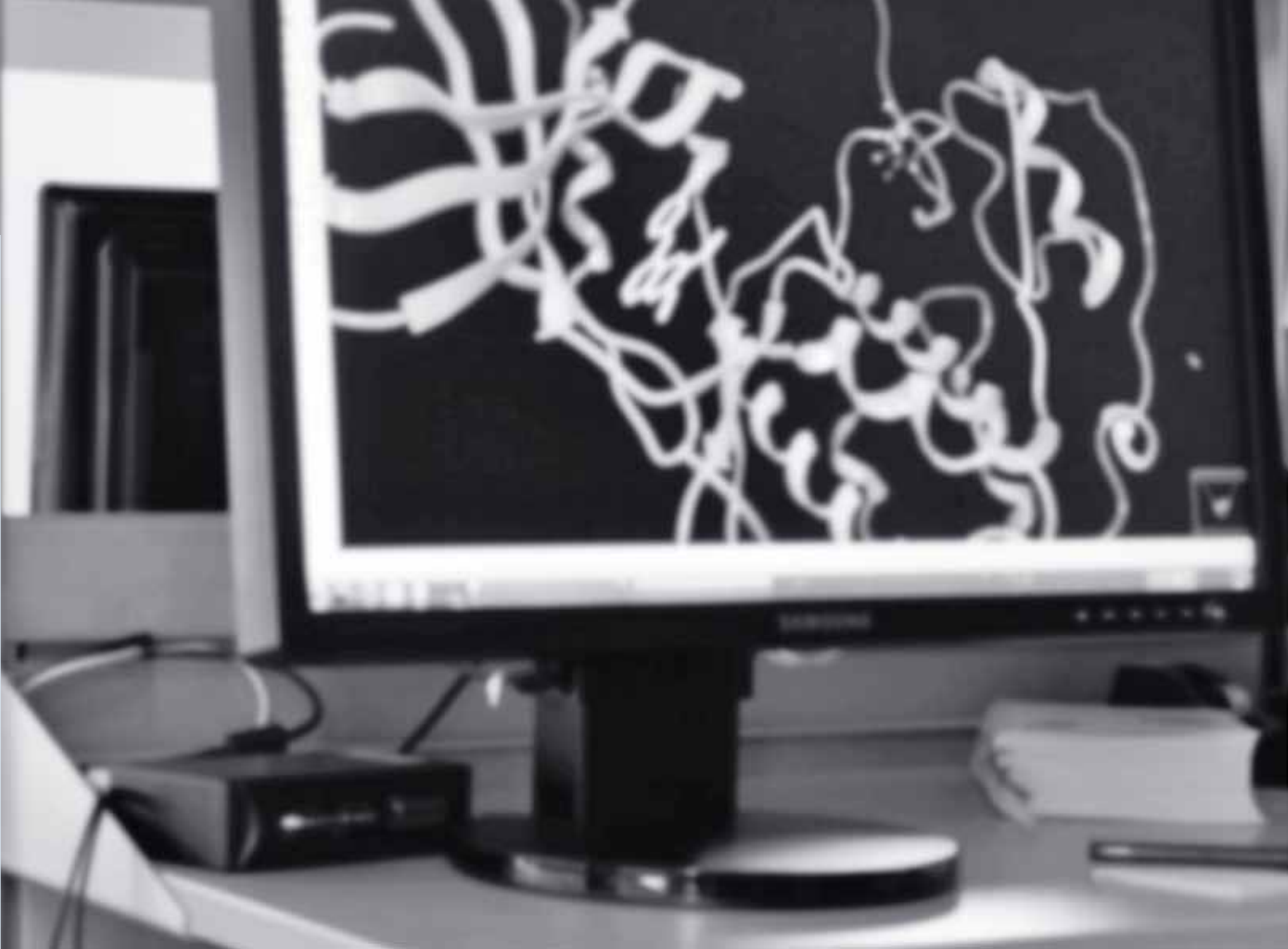
Worldwide, annual market volume for the lead indications of resminostat.
in billion US-$

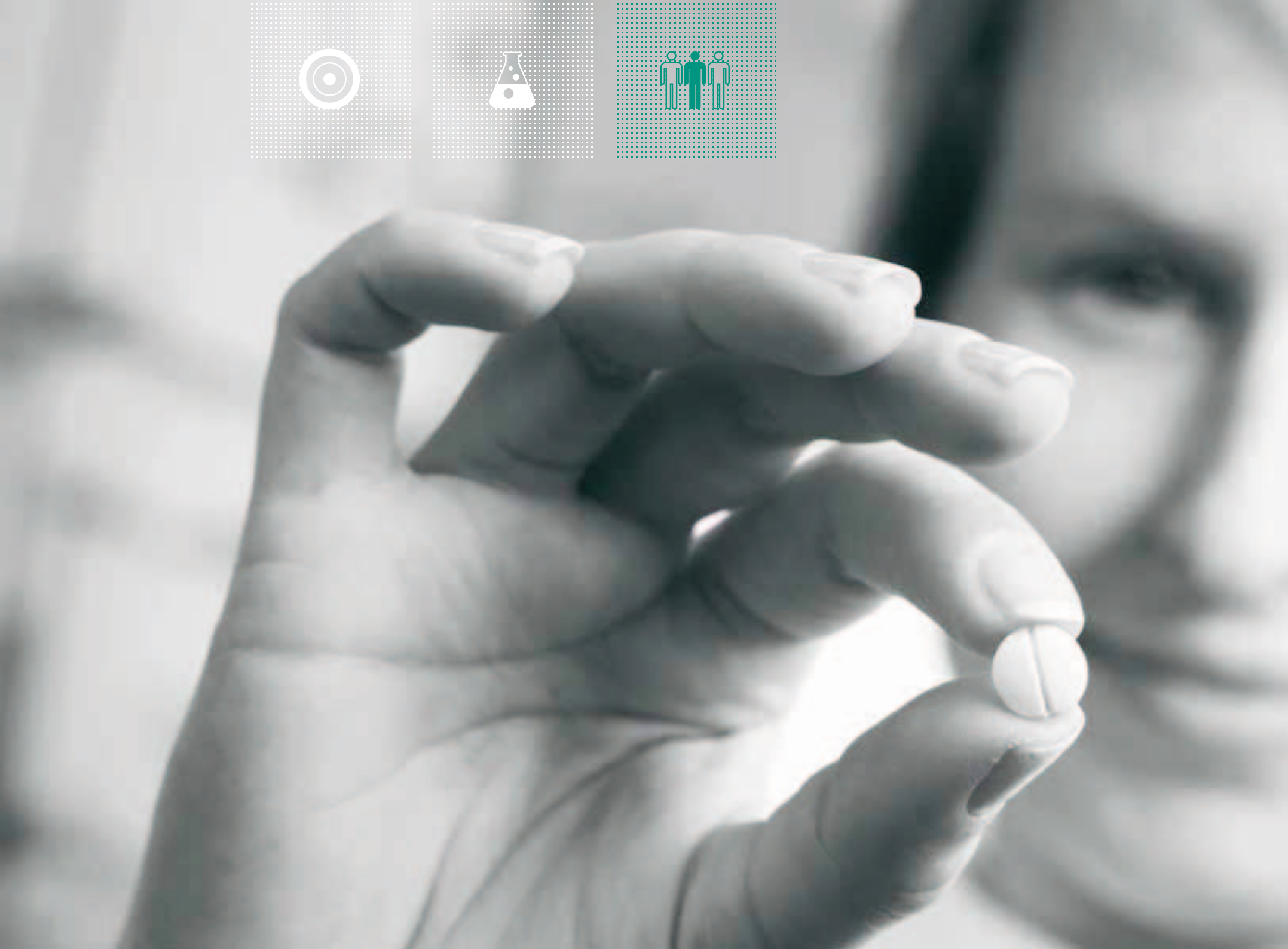
1.0+
Hepatocellular Carcinoma (HCC)

7.0+
Colorectal Cancer (CRC)

0.5+
Hodgkin's Lymphoma (HL)

Source: Decision Resources, Datamonitor, MedTrack, Lead Discovery, BioNest

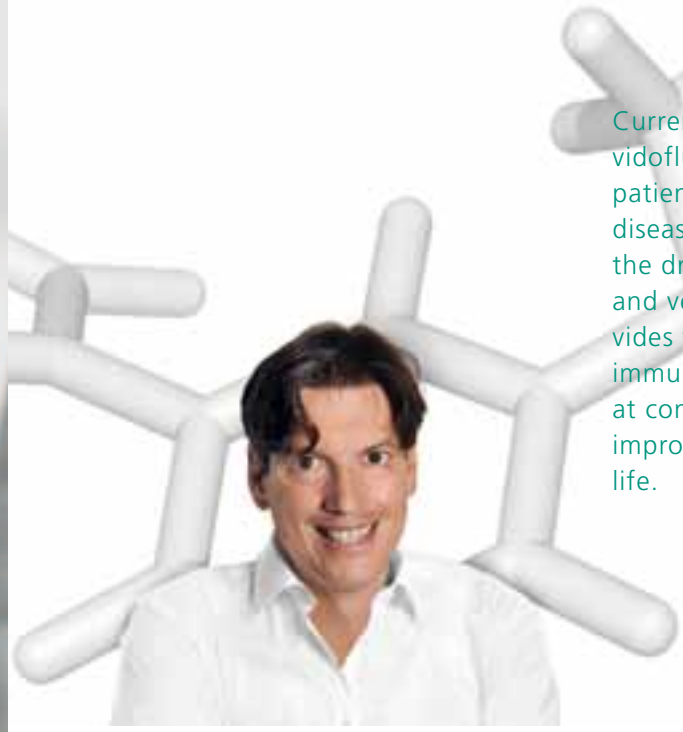




:: BETTER

PATIENTS BENEFIT FROM THE ADVANTAGES PROVIDED BY TAILORED DRUGS.

The progress made in fundamental research and the understanding of the human genome has provided significant insight into the causes of diseases and enabled the development of targeted therapies. Once a drug is approved, patients benefit from the result of many years of research and development. The treatment is more efficacious, safer and better tolerated.



Current study results show that, vidofludimus is efficacious in patients with inflammatory bowel disease. In addition to its efficacy the drug is orally administered and very well tolerated. This provides the setting for an option in immunosuppressive therapy aimed at controlling the disease and improving the patients' quality of life.

INTERVIEW WITH PROFESSOR DR KLAUS HERRLINGER
:: lead investigator of the ENTRANCE study, Head of Department of Gastroenterology, Hepatology and Endocrinology at the Robert Bosch Hospital in Stuttgart, Germany

Professor Dr Herrlinger, where do you see the greatest medical need in the treatment of patients with inflammatory bowel disease (IBD)?

PROFESSOR DR HERRLINGER :: So far, there is no causal therapy available for treating inflammatory bowel disease. Until this exists, therapy will mainly involve traditional immunosuppression. In over 50% of patients, the disease's progression requires long-term immunosuppressive therapy. Here, I see the greatest need for novel anti-inflammatory substances with high efficacy and a low side effect profile.

«The results from the ENTRANCE trial are very promising. Vidofludimus could represent a viable alternative treatment option for IBD patients in the future.»

Is there anything to report on the patients' experience with regard to vidofludimus' efficacy and tolerability?

PROFESSOR DR HERRLINGER :: The patients report that they tolerate the drug very well. As regards efficacy, the results of the entire study population are very promising. By the end of the treatment phase with vidofludimus, over 50% of the steroid-dependent study participants were in remission without intake of any steroids. I can report on two patients from my own outpatient clinic who responded very well to vidofludimus after standard immunosuppressants had failed. These patients are naturally very keen for us to continue advancing the development of vidofludimus.

Given these results and the standard therapies available, how do you assess the potential of vidofludimus in this indication?

PROFESSOR DR HERRLINGER :: Vidofludimus appears to hold promise in respect of its efficacy and side effect profile. Should these results be confirmed in later studies, vidofludimus could be a further alternative to standard immunosuppressants and be used in long-term therapy, particularly in patients with chronically active diseases.

Therapeutic TNF antibodies are also being increasingly used to treat inflammatory bowel disease. What, in your opinion, is the clinical advantage of these over a future therapy with small-molecule substances like vidofludimus?

PROFESSOR DR HERRLINGER :: In spite of fairly good efficacy in remission induction, the long-term results of TNF antibodies in remission maintenance are rather disappointing. Also, in view of the development of opportunistic infections, biologicals are not the first choice for long-term remission maintenance. This is why I believe there is space here for new, effective substances with a favourable side effect profile like vidofludimus. But also in terms of cost, new small-molecule substances may offer an advantage over the expensive TNF antibody therapies.

«We firmly believe that vidofludimus will be an efficacious and well tolerated treatment option for RA patients in the future. A low side effects profile and simple administration in tablet form would significantly improve patients' quality of life. We are confident that we will shortly be able to present further positive data from our current Phase II study.»

:: DR ALDO AMMENDOLA
Director Strategic Planning & Marketing,
head of the COMPONENT study at 4SC

«Rheumatoid arthritis has a major impact on my life and my well-being. I really hope that a new drug like vidofludimus will halt the progression of my disease and give me back a life free of pain with greater mobility.»

:: CLAUDIA ALBRECHT, 68,
suffering from RA for ten years

«We are confident that using resminostat on HCC patients who no longer respond to the only drug approved up to now may help stabilise the disease in the second line of treatment.»

:: PROF DR MICHAEL BITZER
lead investigator of the SHELTER study,
Tübingen University Hospital

«Resminostat has a proven potential of becoming a valuable new therapeutic option for usually young patients suffering from relapsed or refractory Hodgkin's Lymphoma.»

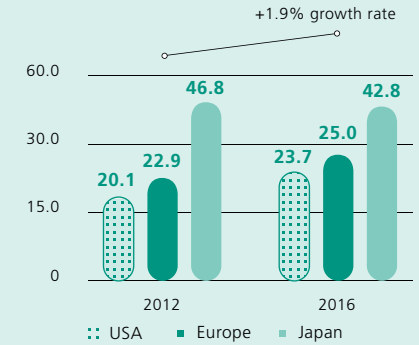
:: PROF DR JAN WALEWSKI
lead investigator of the SAPHIRE study,
Maria Sklodowska Curie Memorial Institute,
Warsaw, Poland

«Resminostat could become a valuable and, more importantly, a targeted option for second-line treatment of colon cancer patients with KRAS-mutated tumours in combination with a standard form of chemotherapy.»

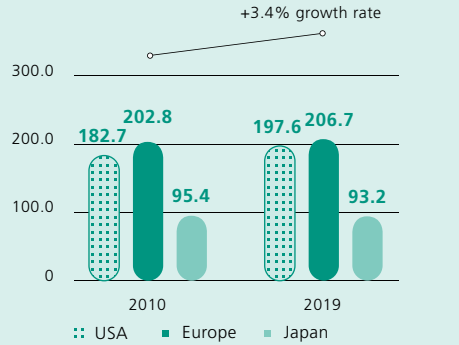
:: DR STEFAN BAUER
lead investigator of the SHORE study,
Heidelberg University

FACTS & FIGURES

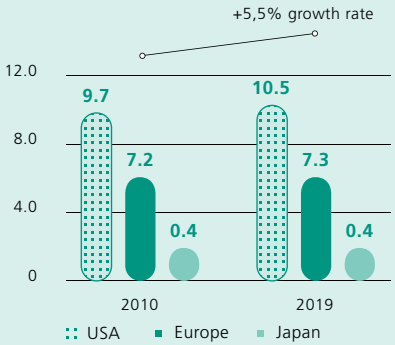
:: 09 EXPECTED DEVELOPMENT OF PATIENT FIGURES OF HCC :: IN 000'S



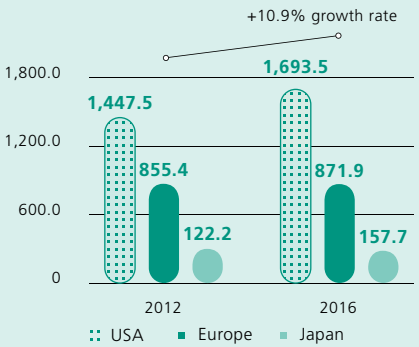
:: 10 EXPECTED DEVELOPMENT OF PATIENT FIGURES OF CRC :: IN 000'S



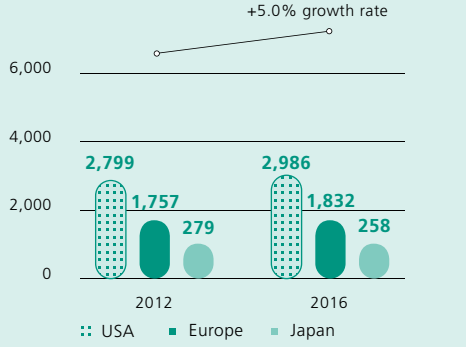
:: 11 EXPECTED DEVELOPMENT OF PATIENT FIGURES OF HL :: IN 000'S



:: 12 EXPECTED DEVELOPMENT OF PATIENT FIGURES OF IBD :: IN 000'S



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



Source:
IBD: Datamonitor, June 2010
RA: Datamonitor, September 2010
HCC: Datamonitor, December 2010
CRC: GLOBOCAN 2002, Datamonitor, March 2010
HL: GLOBOCAN 2002, Datamonitor, March 2010

:: 4SC SHARE PRICE PERFORMANCE

4SC's share price climbed almost 20% during the year before closing at €3.51. The Company's market capitalisation increased to around €135 million.

4SC'S SHARE ON THE UP

The year 2010 ended very successfully for 4SC in the equity markets, as did the financial year as a whole. After opening the new year at €3.02, the Company's shares initially moved sideways for some time, a period marked by considerable volatility and occasionally high volumes. The turning point came in November following the publication of positive results from the Phase IIa study of vidofludimus for the treatment of inflammatory bowel disease, which increased the share price and the stock's liquidity. Overall, the Company's shares posted gains of almost 20% during the year, closing the year at an annual high of €3.51. Market capitalisation rose from €114 million to €135 million – leading 4SC's share to outperform most of the benchmark indices in the sector.

ENCOURAGING PRICE TREND IN THE BENCHMARK INDICES :: After continuing to suffer the effects of the global economic and financial crisis in 2009, 2010 was a good year for the German stock exchange. Buoyed by the economic recovery, Germany's stock market finished 2010 with strong gains, the DAX climbing 16.1% over the year as a whole to 6,914.19 points at the closing date.

The NASDAQ Biotechnology Index for the US market ended the year at 970.17 points, 15.0% higher than at the close of the previous year. This stands in contrast to the DAXsubsector All Biotechnology, which closed the year down 2.9% at 110.54 points.

SUCCESS IN DRUG DEVELOPMENT LIFTS SHARE PRICE :: The 4SC share began the new year on a quiet note. The share price reached its provisional high for the year at €3.28 on 19 January 2010 before losing ground again, showing a sideways trend in spite of various positive reports in the following months, before recording its low for the year of €2.67 on 7 June 2010. The announcement of preliminary Phase II data from the SAPHIRE study of resminostat at the 8th International Symposium on Hodgkin's lymphoma eventually provided fresh momentum at the end of October. The publication of positive data from the Phase IIa ENTRANCE study of vidofludimus in patients with inflammatory bowel disease finally lifted the share price to over €3.00 again on 4 November 2010. Jumping 14.6% compared with the previous day, the share closed the day at €3.18, concurrently experiencing a sharp rise in liquidity. The announcement on 1 December 2010 at the presentation of preliminary Phase II data from the SAPHIRE study of resminostat in patients with Hodgkin's lymphoma at the 52nd annual conference of the American Society of Hematology (ASH) substantiated the upward trend. Underpinned by further positive announcements, including the award of the US patent for resminostat and the completion of patient recruitment in the Phase IIb COMPONENT study of vidofludimus, the uptrend was sustained until the end of the year, allowing the shares to close trading in 2010 at an annual high of €3.51.

:: Table 03 KEY FIGURES OF THE 4SC SHARE AS AT 31.12.2010

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 €)	- 0.52
Number of shares issued (annual average)	38,502,739
Free Float	19.4%
Annual high (Xetra) (in €)	3.51
Annual low (Xetra) (in €)	2.67
Closing price on balance sheet date (Xetra) (in €)	3.51
Trading volume (Xetra, annual average)	10,050

INCREASE IN THE TRADING VOLUME :: In contrast to the previous year, the trend in the trading volume was also extremely encouraging in 2010. The average number of shares traded per day on Xetra in 2010 was 10,050 shares. This represents an increase of almost 40% compared with an average daily trading volume of 7,274 shares in the previous year.

Towards the end of the year, the numerous company announcements supported the growth in the trading volume and generally improved the shares' liquidity. The outstanding preliminary results from the Phase IIa study of vidofludimus in inflammatory bowel disease pushed the shares of 4SC to new highs since its listing on the German stock exchange in December 2005 with 149,861 shares traded on Xetra and a trading volume of €453 thousand on 4 November 2010.

STABLE SHAREHOLDER STRUCTURE :: As far as 4SC is aware, its shareholder structure as at 31 December 2010 remained unchanged compared with the end of 2009. With approximately 48.1% of the shares, Santo Holding remains the Company's largest shareholder, followed by FCP with around 16.4%, DVCG/VCG with around 8.6% and Heidelberg Capital with around 7.7%. The founders and management hold approximately 3.2% of the shares. The free float as defined by Deutsche Börse remains unchanged at 19.4%.

ACTIVE, TRANSPARENT COMMUNICATION :: 4SC stepped up its communication with the capital markets and other stakeholders in 2010, once again with the goal of increasing visibility for investors and raising the share's liquidity. This involved various media events and analyst meetings as well as road shows in and outside Germany. 4SC reached important milestones from an international perspective as it received invitations from leading, international investment banks to attend investor healthcare conferences that enabled the Company to position itself in relation to its international competitors. 4SC presented at several conferences in the year just ended, including:

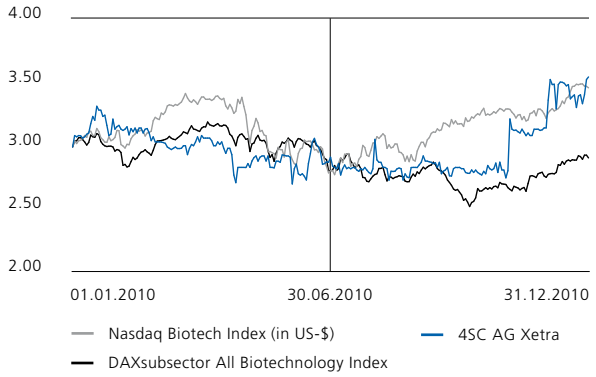
:: UBS Global Life Sciences Conference, New York, USA
:: DZ Bank German Healthcare Conference, Zurich, Switzerland
:: Piper Jaffray 5th Annual Europe Conference, London, UK
:: Jefferies 2010 Global Life Science Conference, New York, USA
:: Kempen & Co Life Sciences Conference, Brussels, Belgium
:: Credit Suisse Global Healthcare One-on-One Conference, London, UK
:: 12th Annual BIO CEO and Investor Conference, New York, USA

In 2010, 4SC was covered by the following analysts: Equinet from Frankfurt/Main, Midas Research from Mannheim and Warburg Research (formerly SES Research) from Hamburg regularly prepared research on 4SC. With the addition of the London-based Edison Research, the Company secured internationally distributed coverage. Edison published its first research report in November.

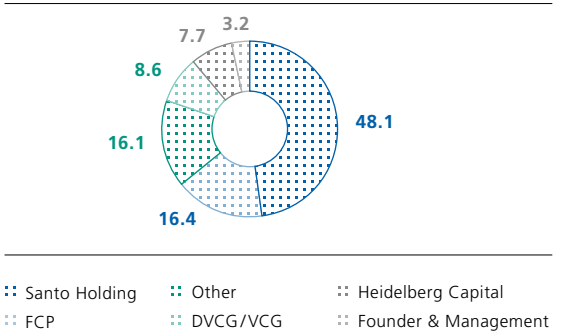
INTERNATIONAL AWARDS :: 4SC strives to provide transparent, comprehensive information on its business model, its positioning in the biotechnology industry and current business developments.

This is why the Company is pleased to have gained recognition for its achievements in providing regular reporting from independent juries. 4SC won the platinum award, the highest level award, from the League of American Communications Professionals (LACP) for its 2009 annual report in the biotech category. Overall, the annual report ranked 75th among the 4,000 international reports submitted. 4SC was also successful in the ARC Awards conferred by the independent organisation MerComm, Inc. in New York. The jury for the international "Annual Report Competition" awarded the 2009 annual report with the gold award.

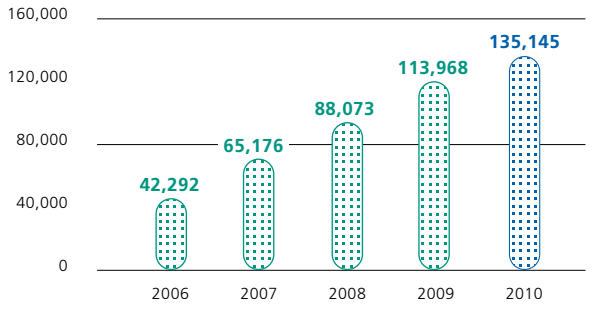
:: 14 SHARE PRICE :: IN €, INDEXED ON 4SC



:: 15 SHAREHOLDINGS :: IN % BASED ON INFORMATION AVAILABLE ON 31.12.2010



:: 16 MARKET CAPITALISATION AS AT 31.12.2010 :: IN €000'S



:: REPORT OF THE SUPERVISORY BOARD

Dr Jörg Neermann :: Chairman of the Supervisory Board

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

2010 was yet another successful financial year for 4SC, one marked by progress and accomplishments in the development of targeted therapies for the treatment of autoimmune diseases and cancer. In particular, the announcement of the extremely positive preliminary data from the Phase IIa clinical study with vidofludimus for the treatment of inflammatory bowel disease, one of the drugs on which the Company has pinned its hopes, underlined the high potential of 4SC's broad product pipeline.

In our capacity as the Supervisory Board, we monitored and advised the Management Board in the pursuit of its executive responsibilities, appointed the members of the Management Board 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 2010, 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 Dr Clemens Doppler; Günter Frankenne, Diplom-Volkswirt (Master of Economics); Helmut Jeggle, Diplom-Betriebswirt (Master in Business Administration); Dr Manfred Rüdiger and Dr Thomas Werner. Mr Frankenne occupied the position of Deputy Chairman until the constituent Supervisory Board meeting held after the re-election of the Supervisory Board at the Annual General Meeting on 21 June 2010. At this meeting Dr Werner was elected the new Deputy Chairman.

Our meetings dealt mainly with the ongoing development of our product pipeline, potential partnering agreements for individual programmes, the handling of development candidates in early clinical stages, the further financing of 4SC and the generic and strategic development options generally open to our Company. For example, this included defining our development strategy and discussing the progress of the individual products in clinical and preclinical development. Other topics of importance were the re-appointment of the members of the Management Board until 2013 and the re-election of the entire Supervisory Board by the Annual General Meeting 2010.

The Management Board informed us in a regular, timely and comprehensive manner of important developments and changes; 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. We adopted our resolutions by circular memorandum, as necessary, 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.

There was once again 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.

:: Tab. 04 COMMITTEES

	Audit Committee	Human Resources Committee	Business Development Committee
Dr Jörg Neermann	Member (until 21 June 2010)	Chairman	
Dr Clemens Doppler	Member	Member (from 21 June 2010)	Member
Dipl.-Vw. Günter Frankenne	Member (from 21 June 2010)	Member (until 21 June 2010)	
Dipl. Bw. Helmut Jeggle	Chairman	Member (from 21 June 2010)	
Dr Manfred Rüdiger		Member (until 21 June 2010)	Member (Chairman until 21 June 2010)
Dr Thomas Werner			Chairman (Member until 21 June 2010)

In the 2010 financial year, we attended four required meetings: on 22 March, 21 June, 5 October and 3 December 2010. The newly elected Supervisory Board was also constituted at the meeting held directly after the Annual General Meeting on 21 June 2010. All members of the Management Board also 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, potential licencing agreements, finance and administration issues, strategic options as well as our exposure to risk and personnel issues. This also included the discussion regarding the requirements of the new German Act on the Adequacy of Compensation for Management Boards (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG). Please see page 24 for the specific agenda :: Table 05.

In order to increase the efficiency of our work, we formed three Supervisory Board committees – an Audit Committee, a Human Resources Committee and a Business Development Committee. 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 four times in person and held one telephone conference during the reporting year, mainly to discuss the renewal of the directors' contracts, compensation issues – especially in light of the new statutory requirements – and bonuses. In this context, the Human Resources Committee prepared the contractual and compensation topics and submitted these to the entire Supervisory Board for approval.

The Audit Committee met six 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. The Audit Committee met in person on 18 November 2010 to discuss in detail the budget for the years 2011 to 2013. Of the Audit Committee members, the chairman Mr Jeggle and ordinary member Mr Frankenne in particular qualify as independent financial experts as defined by section 100(5) and section 107(4) of the German Stock Corporation Act (Aktiengesetz – AktG) for they have the relevant expertise on the basis of their qualifications and professional experience.

In 2010, the Business Development Committee conducted three meetings via telephone. The main topics discussed were the alignment of further business activities as well as the initiation and examination of potential licencing agreements.

The table on page 24 provides a detailed overview of each Committee's agenda items :: Table 06.

The Company's Annual General Meeting on 21 June 2010 elected KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, to serve as the auditor of the 2010 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 2010 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 in due time ahead of our meeting on 18 March 2011. 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 during its meeting on 18 March 2011. During that same meeting, the Supervisory Board carried out its final discussion and examination of the financial statements and management reports. 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 2011, 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 26 May 2010 and intend to be in compliance in the future – with the exceptions mentioned in the Declaration of Compliance.

At its meeting on 3 December 2010 in particular, the Supervisory Board discussed the changes to the Code, mostly with regard to the new recommendations on an appropriate consideration of women in management positions, the Management Board and the Supervisory Board as well as the further professionalisation of the Supervisory Board's work. For more information, please see the "Statement on Corporate Governance" on pages 39 to 41 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 discussed and adapted at the Supervisory Board meeting on 3 December 2010. The Supervisory Board followed up on the results after this meeting. In a circular memorandum on 28 January 2011, it was confirmed that the Supervisory Board works efficiently.

An intensive 2010 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 of 4SC for their dedication and successful work.

Planegg-Martinsried, March 2011

DR JÖRG NEERMANN
Chairman of the Supervisory Board

:: Tab. 05 SUPERVISORY BOARD MEETINGS

The following table enumerates specific issues that were addressed at individual Supervisory Board meetings in addition to standard topics. The following topics were always discussed at all meetings: current financial reporting, advances in research and development (especially in the clinical studies) and business development activities.

22 MARCH 2010:
FIRST MEETING REQUIRING PERSONAL ATTENDANCE

:: Financials meeting: Discussion and adoption of the 2009 annual financial statements
:: Final approval of the 2010 budget
:: Adoption of the report of the Supervisory Board for 2009
:: Confirmation of the Supervisory Board's efficient work (2009 efficiency review)
:: Explanation and adoption of the Reports on Corporate Governance and Executive Compensation
:: Presentation of the agenda items for the Annual General Meeting on 21 June 2010
:: Final determination of the key points for the new directors' contracts and resolution to conclude new contracts with all existing members of the Management Board
:: Discussion of the status and progress of the Company's development programmes as well as any necessary financing measures

21 JUNE 2010:
SECOND MEETING REQUIRING PERSONAL ATTENDANCE

:: Constituent meeting: Assumption of office by all newly elected Supervisory Board members, appointment of the Chairman and Deputy Chairman of the Supervisory Board
:: Follow-up to the Annual General Meeting held on the same day
:: Determination of the Supervisory Board committees and their members
:: Commissioning of KPMG to audit both the 2010 annual financial statements and the 2010 half-year report
:: Discussion of possible prioritisations in development activities
:: Discussion of ongoing partnering activities and business development
:: Discussion of the extension of business development capacity
:: Discussion of the leveraging of additional potential from projects in early stages
:: Summarising discussion of the new contracts of the Management Board and the pending appointment of the Management Board members
:: Amendments of the wording of the Articles of Association ("clean-up work")

5 OCOBER 2010:
THIRD MEETING REQUIRING PERSONAL ATTENDANCE

:: Presentation of the 2011 financial calendar
:: Announcement of the issue of a small tranche from the Employee Stock Option Programme
:: Planning of a side letter for the contracts of the Management Board
:: Discussion of the extension of business development capacity

3 DECEMBER 2010:
FOURTH MEETING REQUIRING PERSONAL ATTENDANCE

:: Discussion and approval of the 2011 budget and the three-year budget
:: Discussion of current corporate governance issues
:: Discussion of the questionnaire regarding the Supervisory Board's 2010 efficiency review
:: Achievement of management's targets in 2010
:: Determination of the corporate goals for 2011

:: Tab. 06 COMMITTEE MEETINGS

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

4 FEBRUARY 2010: Discussion of and planning for the 2009 annual financial statements including definition of the areas of emphasis for the audit in the presence of the auditor
1 MARCH 2010: Interim status report on the 2009 annual financial statements audit in the presence of the auditor
28 APRIL 2010: Discussion of the 3-month financial report
27 JULY 2010: Discussion of the 2010 half-year financial report
26 OCTOBER 2010: Discussion of the 9-month financial report 2010
18 NOVEMBER 2010: Discussion of the 2011 budget and the three-year budget
29 NOVEMBER 2010: Discussion of further adjustments to the 2011 budget and to the three-year budget

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

21 MARCH 2010: Discussion of pending new directors' contracts as well as of the management milestones for 2010
22 MARCH 2010: Further discussion of pending new directors' contracts as well as of the management milestones for 2010
24 JUNE 2010: Final discussion of the key points of the new directors' contracts
5 OCTOBER 2010: Discussion of compensation components for Management Board members
3 DECEMBER 2010: Discussion of the achievement of management's targets in 2010 and bonuses for the Management Board; agreement on targets for management in 2011

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

9 JULY 2010: Preliminary discussion of the topics for a Management Board – Supervisory Board strategy workshop
26 JULY 2010: Discussion of possible licencing agreements
1 OCTOBER 2010: Discussion of possible licencing agreements

Further progress in clinical pipeline.

:: MANAGEMENT REPORT

1. THE COMPANY 4SC

1.1 BUSINESS ACTIVITIES

4SC is an international biotechnology company specialised in the research and development of novel, targeted drugs for the treatment of serious autoimmune diseases and cancer. The Company's goal is to build a sustainable and robust product pipeline. To this end, small-molecule drug candidates are developed until the early clinical phases. Obtaining proof-of-concept makes these attractive for development and licensing deals with pharmaceutical and biotech companies that complete the development and marketing of the approved products. 4SC aims to use such partnerships to generate licence fees, milestone payments and royalties in order to achieve sustainable growth for the Company.

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 PRODUCT PIPELINE AT A GLANCE

The therapeutic focus of 4SC is on autoimmune diseases and cancer. The treatment options for these indications are areas of unmet medical need and offer major market potential.

Autoimmune diseases cause the body's immune system to attack itself. With vidofludimus 4SC is developing a targeted therapeutic for rheumatoid arthritis (RA) and inflammatory bowel disease (IBD).

Cancers are diseases that trigger uncontrolled growth of the body's cells, displacing and destroying healthy tissue in the process. 4SC's most advanced product in this area is resminostat. This compound is currently being developed in three Phase II studies in hepatocellular carcinoma (HCC), Hodgkin's lymphoma (HL) and KRAS-mutant colorectal cancer (CRC). Two more compounds from 4SC's oncology portfolio – 4SC-203 and 4SC-205 – currently are in clinical Phase I studies.

1.4 MARKETS

4SC intends to licence its products with pharmaceutical and biotechnology companies that have established drug marketing capabilities. The Company is focused on the key pharmaceutical markets – the EU, North America and Japan – as well as markets where intellectual property rights are adequately protected by means of patents or marketing licences.

1.5 CORPORATE STRATEGY AND GOALS

4SC intends to develop into a profitable company by researching and developing targeted drugs which are then partnered. These products are suitable for treating diseases with a high medical need and have large growth and sales potential. The Company intends to use licensing revenues to become a profitable company.

2. ECONOMIC ENVIRONMENT

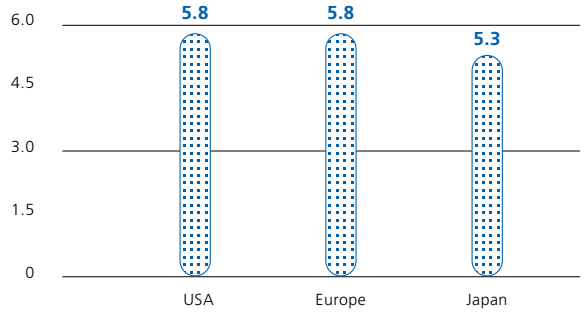
2.1 GLOBAL ECONOMY: SHARP RISE IN GLOBAL ECONOMIC OUTPUT

Thanks to coordinated international efforts, the global economy recovered faster than expected in 2010, with the emerging markets – especially China – recording much higher growth rates than the economies of established industrialised nations.

In the euro zone, the pace of the recovery was slower on account of the sluggish increase in productivity. Inflation climbed to its highest level in over two years, reaching 2.2% in December 2010. National debt surged in many European countries in 2010. Setting up a rescue fund with a total volume of €750 billion helped calm the financial markets during the crisis in Greece. European governments introduced strict austerity measures aimed at stabilising public finances.

Germany witnessed the strongest upturn among the euro countries. A rebound in exports and far-reaching economic stimulus packages helped the German economy expand in the first half of 2010 by 3.6% compared with 2009, the fastest growth since reunification. The situation on the German labour market continued to improve, with the unemployment figures nearing the three million mark for the first time since 1992. In December 2010, inflation accelerated compared to previous months. Consumer prices rose by 1.0% against the previous month of November and, according to initial data, were 1.7% higher than in December 2009.

:: 17 EXPENDITURE ON HEALTH: AVERAGE ANNUAL GROWTH RATE 1990–2007, IN %



Source: OECD data, own company calculation

2.2 REFORMS FOR A FUTURE-PROOF HEALTHCARE SYSTEM

The austerity measures in European countries and the healthcare reform in the United States created uncertainty on the financial markets. President Obama's reform envisages providing healthcare for 32 million uninsured Americans and restructuring the $2.5 trillion healthcare system – elements that have been a familiar part of and enshrined in European welfare states for many years.

According to a study by the OECD, living and working conditions have improved in Europe, where advances in healthcare over the past 20 years have significantly increased life expectancy. Despite major differences in the basic structures and the systems in place, spending on healthcare rose in all European countries, and in all countries except for Cyprus this is mainly financed by the public sector.

In Germany, the Act for Sustainable and Socially Balanced Financing of Statutory Health Insurance entered into force on 1 January 2011 as part of the 2010 healthcare reform. Germany's ruling coalition hopes that this reform will reduce costs by around €3.5 billion in 2011 and €4 billion in 2012. For this, significant savings potential needs to be unlocked in the pharmaceutical sector and policyholders' contributions used more efficiently. The reform will therefore be instrumental in creating a future-proof healthcare system with high-quality, affordable care. The Act on the Reorganisation of the Drug Market (AMNOG), which likewise entered into force on 1 January 2011, is also helping curb the rising trend in expenditure on medication by the statutory health insurance providers by reducing costs and intensifying competition. For all drugs made from new compounds, proof of the additional benefit for patients must be evidenced before being brought to market. A fixed price is determined for drugs that do not provide an additional benefit. This means that in the future pharmaceutical companies will no longer be able to set their own prices.

2.3 CURRENT DEVELOPMENTS IN THE PHARMA AND BIOTECH INDUSTRY

Biotechnology remains the driver of innovation in the healthcare sector. The above-average growth prospects and the currently low rating of biotech companies created the basis for a sustained recovery in this sector during 2010. Biotech companies succeeded in positioning themselves as providers of research and development processes. Companies that develop drugs with a high medical need that show a personalised, beneficial approach in indications for which there is considerable demand, for example in autoimmune diseases and cancer, did particularly well. These companies will also be able to achieve fair prices for their products in the future.

A series of acquisitions and cooperation agreements with high takeover premiums also showed investors the comparative depth of company valuations in 2010. In June 2010, for example, Astellas Pharma purchased the US biotech group OSI Pharmaceuticals for a price of $3.5 billion, an increase of 40% on the previous offer. Together with OSI, Astellas acquired the company's lead compound for the treatment of lung and pancreatic cancer, the small-molecule drug called Tarceva, which generated global revenue of $1.2 billion in 2009.

Speculation about a takeover of US biotech company Genzyme by the French pharmaceutical group Sanofi-Aventis drove up Genzyme's share price. Rumours of a takeover bid have been circulating since early July 2010. In a hostile bid, Sanofi-Aventis submitted an offer of $18.5 billion to shareholders, who rejected it as too low. At the beginning of 2011, when the reporting period had ended, Sanofi-Aventis extended the deadline for acceptance of its offer one more time and the takeover of Genzyme was finally agreed in mid-February 2011. This is further proof that global pharmaceutical companies are increasingly looking towards the biotech sector for sustained growth.

A recovery in the sector was also seen in Germany. Listed companies such as Martinsried-based Morphosys AG continued to deliver on their corporate strategy; the company completed an acquisition and the expansion of its antibody portfolio which resulted in a strong improvement of its share-price performance. In the private sector, several companies

closed significant financing rounds, among them Immatics Biotechnologies GmbH, Tübingen, which raised €54 million. But German companies nevertheless continued to experience difficulties in finding early-stage financing.

2.4 OVERVIEW OF CLINICAL DEVELOPMENTS – POSITIVE RESULTS STIMULATE THE MARKET

Positive clinical results continued to stimulate the market in 2010. In particular in the small molecule space, companies delivered promising clinical results and closed partnerships in the autoimmune and oncology space – especially with HDAC inhibitors.

In February 2010, the biopharmaceuticals company AstraZeneca and US company Rigel Pharmaceuticals signed an agreement for the development and marketing of the small-molecule drug candidate R788 against rheumatoid arthritis. In addition to receiving $100 million upfront, Rigel will be paid up to $345 million for reaching clinical milestones and will be entitled to another, up to $800 million, and double-digit royalties in the event of full commercial success.

The Danish biopharmaceutical company TopoTarget entered into a partnership with US company Spectrum Pharmaceuticals to push forward the joint development of belinostat. TopoTarget will receive $30 million upfront plus additional payments up to a total of $350 million providing clinical milestones and regulatory clearance are achieved. On top of this, TopoTarget will receive double-digit royalties on sales of belinostat. At the end of 2010, TopoTarget initiated a Phase II trial of belinostat in combination with Tarceva in non-small cell lung cancer (NSCLC) as well as a Phase I study in combination with warfarin, an anticoagulant.

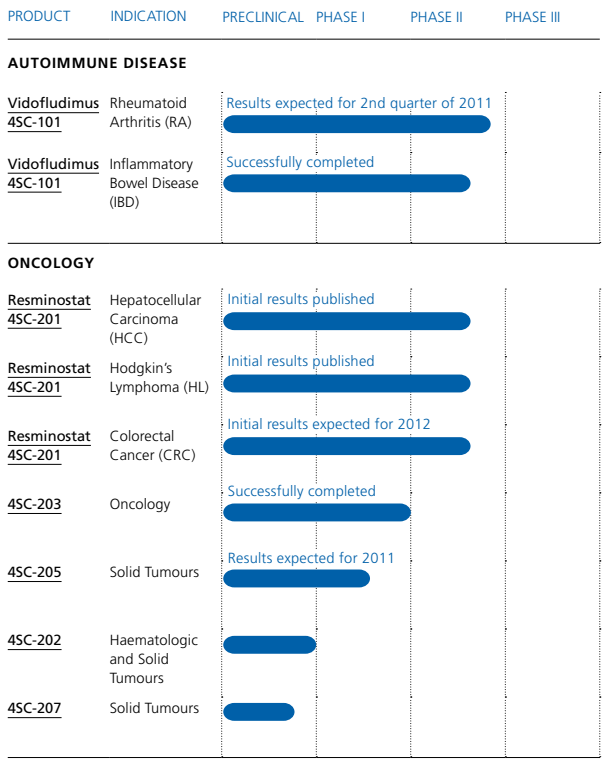
In the field of HDAC, Novartis and the Canadian biopharma company Methylgene reported final Phase II data from their studies of mocetinostat in Hodgkin's lymphoma at the annual meeting of the American Society of Hematology (ASH) in Florida, USA.

The large number of ongoing studies relating to autoimmune diseases underlines the strong, steady demand for compounds for this indication. In early 2010, in the course of their collaboration, AstraZeneca and Rigel Pharmaceuticals kicked off a Phase III trial in rheumatoid arthritis with the small-molecule drug fostamatinib.

During the last quarter of 2010, the Italian company Cosmo Pharmaceuticals reported Phase III top-line results for its new compound budesonide MMX, a drug for the indication ulcerative colitis, a form of inflammatory bowel disease. In contrast to 4SC's orally administered Interleukin-17 inhibitor, budesonide MMX is steroid-based and demonstrates the considerable demand for innovative drugs in this indication.

In addition to the encouraging developments in the studies, some setbacks were also recorded – one relating to the antibody ocrelizumab developed by Roche and Biogen Idec, who discontinued the clinical development programme following safety concerns not only in lupus but also in rheumatoid arthritis.

:: 18 STATUS OF THE PRODUCT PIPELINE



As per 14.03.2011

The following table shows the most important product development milestones in 2010:

:: Tab. 07 MOST IMPORTANT PRODUCT DEVELOPMENT MILESTONES IN 2010

Date	Product	Indication / patient population	Event	Study information	Endpoint
20.12.	Vidofludimus	RA	Completion of patient recruitment in Phase IIb COMPONENT study	244 patients, two-arm, randomised, double-blind, placebo-controlled, multi-centre, international	Primary: ACR20 Secondary: ACR50 / 70, DAS28 / Safety / pharma-cokinetics / biomarkers
04.11.	Vidofludimus	IBD	Primary endpoint reached in Phase IIa ENTRANCE study	26 patients,one-arm, open-label,multi-centre, international	Primary: Determination of the number of complete and partial responders to the study treat-ment Secondary: CDAI / CAI values Safety / pharmacokinetics / biomarkers
26.10.	Resminostat	HL	Preliminary data on efficacy and tolerability for the first 18 patients from the first Simon-stage of patient recruitment in the Phase II SAPHIRE study	33 patients, one-arm, open-label, multi-centre international	Primary: ORR Secondary: OS / PFSR / TTP / DOR / Safety / pharmacokinetics / biomarkers
17.09.	Resminostat	HCC	Preliminary data on efficacy and tolerability for the first nine patients in the Phase II SHELTER study	50 patients, two-arm, open-label, multi-centre international	Primary: PFSR after 12 weeks Secondary: PFSR after 6 weeks / TTP / OS Safety / pharmacokinetics / Biomarkers
26.05.	Resminostat	HL	Commencement of the second Simon-stage of patient recruitment in the Phase II SAPHIRE study	33 patients, one-arm, open-label, multi-centre international	Primary: ORR Secondary: OS / PFSR / TTP / DOR / Safety / pharmacokinetics / biomarkers
11.02.	4SC-205	Solid tumours / malignant lymphomas	Commencement of the Phase I AEGIS study, treatment of the first patient	Up to 30 patients, one-arm, open-label, multi-centre	Primary: Safety / pharmacokinetics
21.01.	4SC-203	Healthy subjects	Commencement of a Phase I study, treatment of the first healthy volunteer	Up to 50 patients, randomised, double-blind, placebo-controlled	Primary: Sicherheit / Pharmacokinetics
12.01.	Resminostat	HL	Commencement of the Phase II SAPHIRE study	33 patients, one-arm, open-label, multi-centre international	Primary: ORR Secondary: OS / PFSR / TTP / DOR Safety / pharmacokinetics / biomarkers

3. BUSINESS PERFORMANCE

3.1 KEY EVENTS IN 2010

SUCCESSFUL CLINICAL STUDIES STRENGTHEN THE BALANCED, MATURING PIPELINE :: 2010 was an important financial year for 4SC. With six ongoing clinical studies of several small-molecule drug candidates in Phases I and II, 4SC has evolved into an important developer of targeted therapies for the treatment of autoimmune diseases and cancer.

During the reporting year, 4SC published positive data with vidofludimus in the Phase IIa ENTRANCE study in IBD. The Company also achieved positive initial results in its oncology portfolio with resminostat in two Phase II studies.

Vidofludimus, an orally administered IL-17 and DHODH inhibitor, was evaluated in various autoimmune indications in two Phase II studies during the financial year. In the Phase IIa ENTRANCE study for the treatment of IBD, 4SC successfully reached the primary endpoint with an outstanding response rate of 88.5%. The Company finalised patient recruitment at the end of the year for the parallel Phase IIb COMPONENT study of patients suffering from RA. Initial data from this study is expected to be available in the second quarter of 2011.

The oral pan histone deacetylase (HDAC) inhibitor resminostat is the Company's most advanced drug for cancer diseases. 4SC is developing the compound in three different indications and types of tumours.

Early on in the reporting year, 4SC kicked off the open-label Phase II SAPHIRE study for treating Hodgkin's lymphoma. In May 2010, this study was moved into a second recruitment phase in accordance with Simon's two-stage design. Positive initial data was presented in the second half of 2010 at two scientific conferences: at the 8th International Symposium on Hodgkin Lymphoma in Cologne in October and the 22nd EORTC-NCI-AACR symposium in Berlin in November.

In parallel, positive initial results from the Phase II SHELTER study for the treatment of patients with hepatocellular carcinoma with resminostat, which commenced mid-2009, were presented at two academic conferences: the 2010 Visceral Medicine conference in Stuttgart in September and at the 22nd EORTC-NCI-AACR symposium in Berlin in November.

In 2010, 4SC completed preparations for the third study – the Phase I/II SHORE study in patients with KRAS-mutated colon cancer. Treatment of the first patient began in January 2011.

The oncology products portfolio was expanded in 2010 with the launch of the Phase I AEGIS study with 4SC-205, a Eg5 kinesin spindle protein inhibitor.

In addition, 4SC successfully completed a Phase I trial in healthy volunteers with the multi-kinase inhibitor 4SC-203, another oncology compound. The results from this study were presented in early January 2011, shortly after the end of the reporting period. More information on this can be found in the report on events after the reporting period (chapter 8) of this management report.

US PATENT GRANTED FOR RESMINOSTAT :: The US Patent and Trademark Office granted the orally administered pan histone deacetylase inhibitor resminostat patent no. 7842820. This patent, entitled "novel sulfonylpyrroles", covers the composition of matter and pharmaceutical compositions of a novel group of compounds, including resminostat, which inhibit HDACs.

4SC IS AWARDED RESEARCH GRANTS BY THE FEDERAL MINISTRY OF EDUCATION AND RESEARCH AND THE EUROPEAN UNION :: Within the framework of a cooperation with Bonn-based Nexigen GmbH, a company that specialises in researching into and developing innovative peptide drugs for cancer indications, 4SC received a research grant in 2010 from the Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung – BMBF). Under the "KMU-Innovativ" programme the consortium will receive funding of up to €1.4 million. The aim of the joint project is to develop novel peptide-based therapies for treating forms of cancer caused by the malfunctioning of the Wnt signalling pathway, which is especially prevalent in cancerous cells in colorectal and prostrate cancer.

In December, 4SC, also as part of a consortium, received with its partners €5.8 million in EU funds to research into the connection between periodontal diseases and rheumatoid arthritis. In this context, 4SC is studying the role of cytokines such as Interleukin-17 (IL-17) with the goal of developing selective small-molecule inhibitors from these proteins.

3.2 DESCRIPTION OF THE PRODUCT PIPELINE

4SC has a broad and balanced pipeline of drug candidates focused on treating autoimmune diseases and oncology. The pipeline currently comprises six small molecules in different development stages.

VIDOFLUDIMUS – 4SC-101 (INTERLEUKIN-17 INHIBITOR): SUPPRESS INFLAMMATORY PROCESSES :: Vidofludimus is 4SC's most advanced oral compound. It is being developed for the treatment of rheumatoid arthritis (RA) and inflammatory bowel disease (IBD). In addition, it is also well positioned in other autoimmune diseases such as lupus, psoriasis and multiple sclerosis.

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. Patient recruitment for this study was completed at the end of 2010. Initial study results are expected for the second quarter of 2011.

In November 2010, the Company announced initial positive data from the Phase IIa ENTRANCE study in IBD, which began in March 2009. The study's primary endpoint was reached. The exploratory, open-label, one-arm and multi-centre study was conducted on 34 patients. It investigated whether vidofludimus can replace or reduce the use of steroids. The primary endpoint was defined as a significant increase in the response rate in corticosteroid-dependent IBD patients versus average placebo response rates of approximately 20% across clinical benchmark studies. A total of 88.5% of the patients enrolled in the ENTRANCE study responded to treatment with vidofludimus. Following completion of a twelve week treatment phase with vidofludimus, disease remission was maintained in 14 out of 26 patients (53.9%) available for the efficiency analysis without intake of any corticosteroids (complete responders). A further nine out these 26 patients (34.6%) remained in remission at the end of the study treatment period at a corticosteroid dose equal to or below the patients' individual threshold doses (partial responders) at which they experienced a documented disease relapse prior to entry into the study. Overall, vidofludimus significantly increased the number of patients with response (complete and partial responders = 88.5%) compared to the pre-defined placebo rate criterion of 20%. Vidofludimus was well tolerated with no critical safety issues observed.

RESMINOSTAT – 4SC-201 (CLASS I & II PAN-HDAC INHIBITOR): A DRUG FOR THREE CANCER INDICATIONS :: Resminostat is the most advanced, orally administered, drug candidate in the oncology portfolio. It is focused on the indications hepatocellular carcinoma (HCC), the most common form of liver cancer, and Hodgkin's lymphoma (HL), a disease of the body's haematopoietic system, as well as – since early 2011 – advanced colorectal cancer (CRC). Resminostat is therefore currently being studied in three Phase II trials. Initial data from two of these studies was published in 2010 and presented at several conferences.

In the SHELTER study, patients with HCC are being evaluated to determine the extent to which treatment with resminostat alone or in combination with sorafenib (Nexavar®), the current standard first-line therapy for advanced HCC, can improve the progression-free survival of patients or induce tumour responses in patients. This two-arm proof-of-concept study is being conducted in university hospitals in Germany with oncology expertise. The objective of the study is to treat some 60 patients. The primary endpoint of the study is to determine the progression free survival rate after twelve weeks of treatment. The study's secondary endpoints involve the analysis of time to progression, the progression-free survival time and the progression-free survival rate after six weeks as well as the overall survival time and the drug's safety and tolerability, pharmacokinetics and the investigation of biomarkers.

The data from this study published in November 2010 contains information on safety and tolerability in the first nine patients. In the study's combination arm, resminostat has so far proven to be safe and well tolerated, though daily doses of 400 mg of sorafenib and up to 400 mg of resminostat were administered in a 14-day treatment cycle in line with the '5+9' dosing schedule already investigated in Phase I studies. The same applies to the second study arm, in which resminostat was administered as monotherapy with a daily dose of 600 mg, also in line with the '5+9' dosing schedule. Furthermore, no pharmacokinetic interactions were observed between resminostat and sorafenib. At the time of study entry, patients had documented progressive disease under sorafenib therapy. Following initiation of the trial therapy, a considerable portion of patients showed stabilisation of their disease (Stable Disease according to RECIST criteria) after 6 or 12 weeks of study treatment: In six of the nine patients, the progression of their disease stabilised following six weeks of treatment. After twelve weeks of treatment, three of the four patients studied continued to show signs of continuing stabilisation. Patients may remain on therapy as long as a clinical benefit is recorded. In certain cases, the disease remained stable for more than 12 weeks of study treatment. One patient in the combination arm, receiving 400 mg of resminostat and 400 mg of sorafenib has been treated for 36 weeks with documented Stable Disease.

In the SAPHIRE study, resminostat is being investigated in patients with HL. This study is an open-label, one-arm Phase II trial that follows Simon's two-stage design. Resminostat is given orally to patients for five consecutive days, followed by a nine-day treatment-free period ('5+9' dosing schedule). In the main phase of the trial, patients receive the study treatment for six cycles (12 weeks). Disease assessments are performed after treatment cycles three and six by computed tomography in combination with positron emission tomography (PET/CT), as recommended by the International Working Group (IWG) criteria for the evaluation of HL. Patients showing response or stable disease at the end of the main treatment phase may continue on study treatment for up to one year. The trial will conclude when the last patient will have completed one year of therapy, develops progressive disease or treatment is discontinued for other reasons. Patients for this study are recruited across ten centres in Poland, Romania and the Czech Republic.

The primary endpoint of the study is to determine the objective overall response rate of resminostat in patients who no longer respond to first line treatment or have relapsed after responding to first line therapy. The secondary endpoints include assessment of progression-free survival, time to progression, duration of response and overall survival. The safety and tolerance of resminostat is also evaluated.

In the fourth quarter of 2010, 4SC presented positive initial Phase II data on the safety, tolerability and efficacy of resminostat in 18 patients from the first stage of patient recruitment in Simon's two-stage design. The oral administration of 600 mg of resminostat over a period of five days in a two-week treatment cycle was well tolerated by the patients. Minor to moderate side effects mainly occurred in gastrointestinal and haematological areas. In addition, a number of cases of anaemia were observed which, according to the experts, are mostly directly related to the underlying disease. Based on the pharmacokinetic data available to date, the bioavailability of the HDAC inhibitor is good. The plasma exposition achieved with resminostat led to significant pharmacodynamic activities that manifested themselves, among other things, in a time-dependent inhibition of the activity of the HDAC target enzyme after dosage.

In this first patient cohort, the average treatment duration with resminostat reached approximately nine weeks. Using recognised PET/CT assessment criteria, around half of the 18 patients benefited from treatment with resminostat. Of these patients, two demonstrated partial response (PR) with regard to the size of the target lesions (i.e. a reduction in size by over 50%). The other patients showed stable disease (SD). Based on the PET analysis of these patients, almost all showed a metabolic response by the tumour that took the form of reduced metabolic activity of the tumour lesions. More than half of the patients were classed as partial responders with a reduction in metabolic activity of over 25%.

According to the statistical design of the SAPHIRE study, a minimum number of five responders were required in this reported first Simon stage comprising 18 patients in order to extend the study to a second enrolment phase of an additional 15 patients (the second Simon stage). After reaching this threshold, the study proceeded into the second Simon stage recruitment phase in May 2010. Due to the good tolerability and side effect profile observed in this relatively young HL patient population an optional increase of the daily dose of resminostat from 600 mg to 800 mg has been implemented.

In January 2011, i.e. shortly after the reporting period had ended, a further Phase I/II study (SHORE) was commenced to investigate the efficacy and tolerability of resminostat in a third target indication – colon cancer. In this trial resminostat is evaluated in combination with the FOLFIRI regimen, an established, frequently used form of chemotherapy to treat colon cancer, as a second-line treatment in patients with KRAS tumour mutations. More information on this can be found in the report on events after the reporting period (chapter 8) of this management report.

4SC-203 (PROTEIN KINASES): INHIBIT UNCONTROLLED CELL PROLIFERATION :: At the beginning of 2010, 4SC announced the start of another Phase I clinical study in oncology investigating the effect of the multi-kinase inhibitor 4SC-203 in healthy volunteers. The findings from this study were presented in January 2011, shortly after the end of the reporting period.

In this randomised, double-blind, placebo-controlled, Phase I dose escalation study the safety, tolerability, and pharmacokinetics of 4SC-203 was assessed in 60 healthy, male volunteers aged 20 to 46 years. Cohorts of eight subjects each, randomised in a 6:2 ratio (active:placebo), received ascending single intravenous doses of the compound. The dose range comprised 0.041 to 2.5 mg/kg, which corresponds to a total dose of 2.5 to 150 mg for an individual of 60 kg body weight. 4SC-203 proved to be safe and was well tolerated by all subjects.

For more information on the results please see the report on events after the reporting period (chapter 8) of this management report.

4SC-205 (EG5 KINESIN INHIBITOR): STOP CELL DIVISION :: The Phase I AEGIS clinical study was initiated in early 2010 for the orally administered Eg5 kinesin spindle protein inhibitor 4SC-205. This study analyses the use of 4SC-205 in patients for the first time and investigates the safety, tolerability, pharmacokinetics and pharmacodynamics of 4SC-205 taken orally by patients in escalating doses.

Six dosage cohorts (3+3 design) will be enrolled and patients with advanced cancers will be treated for two to three week treatment cycles with dosing on days one and eight of each cycle. After six weeks of treatment patients will undergo radiological disease assessments. Patients may remain on therapy beyond the initial two therapy cycles as long as they tolerate the treatment and do not demonstrate progressive disease. The study will be performed in two centres in Germany and is expected to report results in 2011.

PRECLINICAL PROJECTS – SUPPLY BASE FOR PHASE I :: In addition to its extensive pipeline of clinical products, 4SC also develops new, innovative drug candidates in its preclinical research to ensure a continuous stream of products into the pipeline.

The focus during the 2010 financial year was on the further development of the second HDAC inhibitor 4SC-202, as well as the cell cycle blocker 4SC-207, which have been selected as the next candidates for clinical development.

Unlike resminostat, the HDAC inhibitor 4SC-202 has a clearly differentiated target profile. This orally administered drug differs from the more advanced HDAC inhibitor resminostat in that it belongs to a different chemical class with a selective, inhibitory effect on Class I HDAC enzymes. In addition it shows a separate, additional mitotic effect. A Phase I clinical study in haematological tumours was prepared for this compound in 2010. The trial is expected to commence in the first six months of 2011.

4SC-207 will continue to be evaluated in the preclinical stage so that the Company can define the development plan and prepare the first clinical study in the course of the 2011 financial year.

3.3 COMMENTS ON ACHIEVEMENT OF GOALS

In 2010, 4SC focused on the clinical development of its various autoimmune and oncology programmes. Building up a broad, balanced product pipeline provides 4SC with multiple options for entering into successful partnerships with pharmaceutical and biotechnology companies in the field of autoimmune and oncology diseases.

To achieve this goal, taking the financing opportunities into account, 4SC is conducting several studies in parallel in different phases ranging from early to late clinical development.

To date, three clinical studies with resminostat have been started in different indications with the goal of maximising value and the product's revenue potential. Positive initial results from two of the three studies attest to the prospects of success and have brought 4SC a step closer to its goal of building and maintaining a mature, sustainable product pipeline.

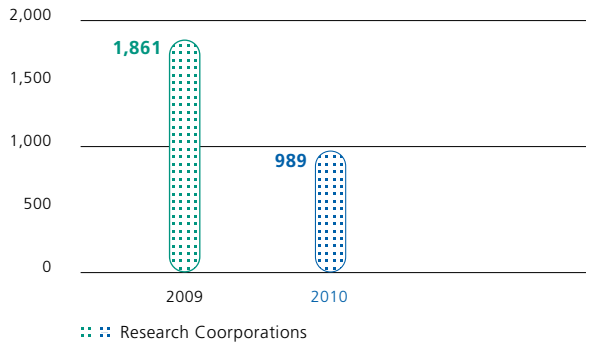
In the field of autoimmune diseases, recruitment for the study in RA was completed in 2010. In parallel, 4SC increased the value of its product pipeline through positive Phase IIa results with vidofludimus for the treatment of IBD.

The kick-off of two more Phase I studies with the compounds 4SC-203 and 4SC-205 further expanded the product pipeline to ensure its sustainability and that it remains well-balanced.

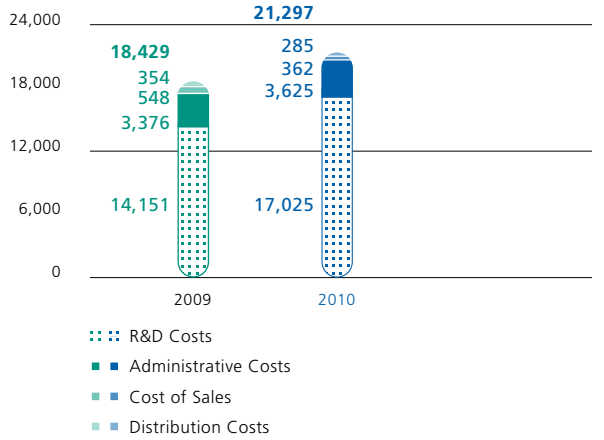
These achievements in 2010 again brought 4SC closer to its stated goal of becoming an attractive partner to pharmaceutical and biotechnology companies in the fields of autoimmune and oncology diseases. Funds at the reporting date as well as the expected revenue and other income will ensure the continued development of the existing programmes and the achievement of the next four clinical milestones, the Phase IIb results with vidofludimus in RA, the Phase II results with resminostat in HCC and HL, plus the Phase I results with 4SC-205. The Company's liquidity was given a further boost by the capital increase completed on 24 February 2011, after the reporting period had ended, which generated gross issue proceeds of €11.74 million.

2011 is expected to build on the prior successful year. The Company already expects to deliver further important clinical milestones in the first half of the year. For more information please see the outlook in chapter 9 of this management report.

:: 19 REVENUE :: IN € 000'S



:: 20 OPERATING EXPENSES :: IN € 000'S



4. FINANCIAL POSITION, CASH FLOWS AND FINANCIAL PERFORMANCE

4.1 FINANCIAL PERFORMANCE

REVENUE :: Revenue declined from €1,861 thousand in the previous year to €989 thousand in 2010. This is due to that 4SC continues to channel most of its resources into internal development programmes in order to create value, and the decline of research cooperations according to plan.

OPERATING EXPENSES :: Operating expenses comprise the cost of sales, distribution costs, research and development costs and administration costs. At €21,297 thousand in 2010, they were up 16% compared with the previous year's figure of €18,429 thousand.

Research and development costs are the largest block of expenses, accounting for 80% of total expenditure. These amounted to €17,025 thousand in 2010 after €14,151 thousand in 2009. This increase year-on-year is attributable to the significant expansion and implementation of clinical studies in parallel, which pushed up development costs accordingly.

Administrative costs rose from €3,376 thousand in 2009 to €3,625 thousand in 2010. This 7% increase resulted in particular from non-cash staff costs under stock options and higher costs for investor relations activities.

Both the cost of sales and distribution costs declined, the cost of sales falling 34% to €362 thousand due to lower revenue (previous year: €548 thousand). Distribution costs, which consist of the costs incurred by the Business Development and Public Relations/Marketing units, fell by 19% to €285 thousand (previous year: €354 thousand) during the same period. This is due to reduced expenses for public relations.

OPERATING PROFIT/LOSS :: As expected, the Company's operating loss rose from €16,437 thousand in 2009 to €20,271 thousand in 2010.

NET FINANCE INCOME/LOSS :: Net finance income decreased from €319 thousand in 2009 to €170 thousand in 2010 owing to a drop in finance income despite a simultaneous decline in finance costs. The share in the profit/loss of associates remained unchanged at €29 thousand, however.

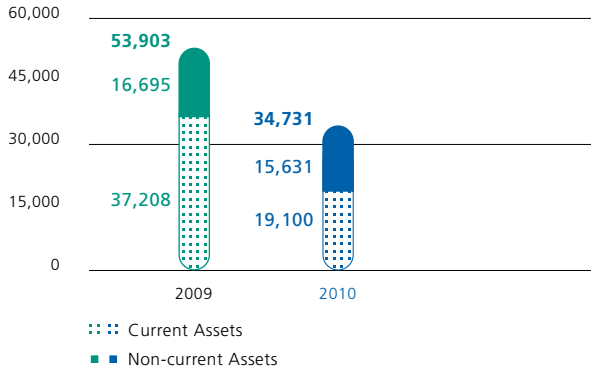
PROFIT/LOSS FOR THE YEAR :: On account of the developments described, the loss for 2010 increased according to plan to €20,075 thousand, up from €16,107 thousand in the previous year. This represents an increase of almost 25%.

EARNINGS PER SHARE :: Following the capital increase implemented at the end of 2009, the number of shares in the reporting period was 38,502,739, up from an average of 29,752,739 in the previous year. The loss per share fell accordingly to €0.52, compared with €0.54 in 2009 in spite of a higher net loss for the year.

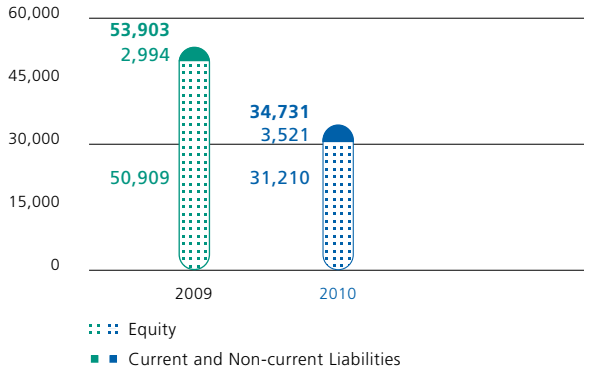
4.2 FINANCIAL POSITION

STRUCTURE OF THE BALANCE SHEET ::

:: 21 ASSETS :: IN € 000'S



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



NON-CURRENT ASSETS :: Non-current assets fell from €16,695 thousand as at 31 December 2009 to €15,631 thousand as at 31 December 2010. This decline is almost exclusively due to depreciation of property, plant and equipment and amortisation of intangible assets.

CURRENT ASSETS :: The steep fall in current assets from €37,208 thousand as at 31 December 2009 to €19,100 thousand as at the close of the financial year as expected was primarily attributable to the decrease in the cash balance/funds, which comprises the items cash and cash equivalents and other financial assets. In total, these two items decreased from €35,621 thousand to €17,607 thousand as a result of the operating loss incurred by 4SC.

EQUITY :: The decline in equity from €50,909 thousand as at 31 December 2009 to €31,210 thousand as at the end of 2010 largely reflected the loss for the period of €20,075 thousand. The accumulated deficit rose from €56,372 thousand to €76,447 thousand. At 89.9%, the equity ratio as at 31 December 2010 was down 4.5 percentage points on the figure for 31 December 2009 (94.4%).

CURRENT AND NON-CURRENT LIABILITIES :: At €60 thousand, non-current liabilities were down compared with 31 December 2009 (€104 thousand). Current liabilities, on the other hand, rose significantly by 20% to €3,461 thousand, principally due to an increase in other liabilities. This item on the statement of financial position mainly comprises unbilled outsourced scientific services (e.g. clinical studies) as well as advances received from the European Union for development projects; both of these items increased as against the previous year.

TOTAL ASSETS :: Total assets/total equity and liabilities amounted to €34,731 thousand as at 31 December 2010, down 36% on the end-of-year figure for the previous year (31 December 2009: €53,903 thousand).

4.3 CASH FLOWS

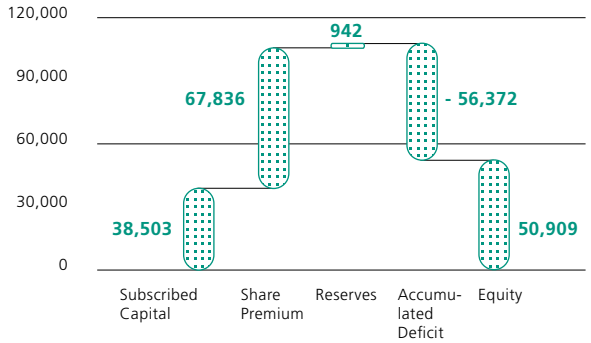
CASH FLOWS FROM OPERATING ACTIVITIES :: A total of €17,562 thousand was used for operating activities during 2010. The difference compared with the pre-tax loss of €20,101 thousand is attributable to adjustments for non-cash items in the statement of comprehensive income (principally depreciation and amortisation plus stock options) and also to changes in items in the statement of financial position that had a positive effect on cash flows such as the reduction in receivables or the build-up of debt.

In the prior-year period, cash outflows from operating activities came to €14,601 thousand with a pre-tax loss of €16,118 thousand.

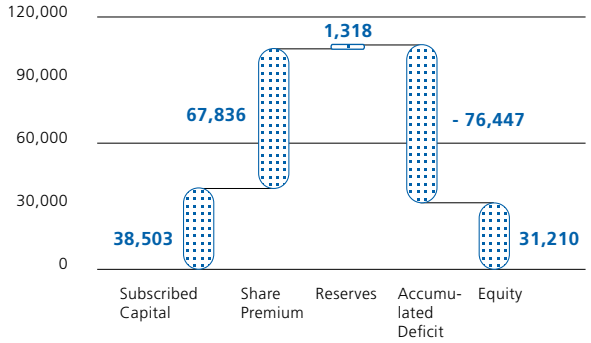
CASH FLOWS FROM INVESTING ACTIVITIES :: The cash outflows from investing activities in the reporting year amounted to €13,003 thousand. This includes investments of €28 thousand in intangible assets and capital expenditure of €424 thousand on property, plant and equipment. In addition, 4SC purchased financial instruments worth €12,651 thousand and sold financial instruments in the amount of €100 thousand in 2010.

In the same period in 2009, the Company invested €85 thousand in intangible assets and €371 thousand in property, plant and equipment. The purchase and sale of financial instruments generated net cash inflows of €14,399 thousand, which resulted in positive cash flows from investing activities totalling €13,943 thousand in this period.

:: 23 COMPOSITION OF EQUITIY IN 2009 :: IN € 000'S



:: 24 COMPOSITION OF EQUITIY IN 2010 :: IN € 000'S



CASH FLOWS FROM FINANCING ACTIVITIES :: No cash flows from financing activities were generated in the reporting period. The prior-year period was dominated by the capital increase implemented in November 2009, which netted cash of €29,735 thousand for 4SC and from which long-term loans of €902 thousand were repaid in January 2009.

FUNDS :: Cash and cash equivalents amounted to €4,956 thousand at the reporting date. As additional funds of €12,651 thousand were invested in current financial assets, total funds amounted to €17,607 thousand as at 31 December 2010 (31 December 2009: €35,621 thousand).

4.4 GENERAL STATEMENT REGARDING THE COMPANY'S ECONOMIC SITUATION

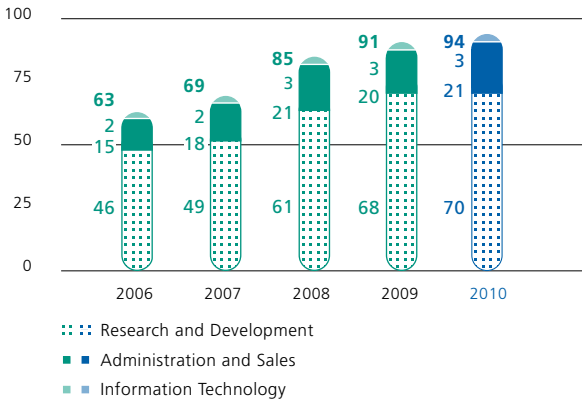
As expected, the progress achieved with programmes and the Company's broad pipeline resulted in higher costs in 2010. With revenue declining at the same time, the net loss in 2010 increased further. Although total assets, the equity base and funds as at 31 December 2010 were perceptibly lower than the comparative figures at the prior-year reporting date, the Company had sufficient liquidity at all times during the 2010 financial year. The financing of the programmes was not in jeopardy at any time.

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

:: 25 NUMBER OF EMPLOYEES AS AT 31.12.



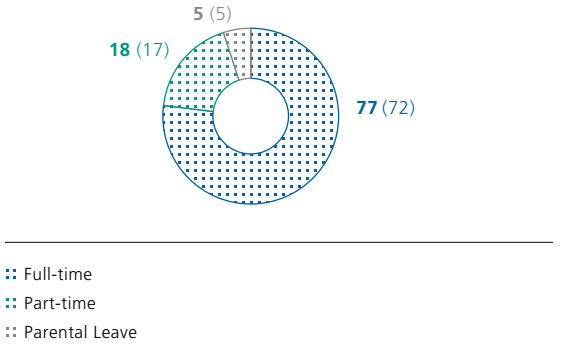
4SC hired a small number of additional personnel during the reporting year. As at 31 December 2010, the Company had 90 employees and four Management Board members. Compared with the end of 2009, the workforce was expanded by three people, who were hired primarily for the development department (31 December 2009: 87 employees and four Management Board members).

:: Tab. 08

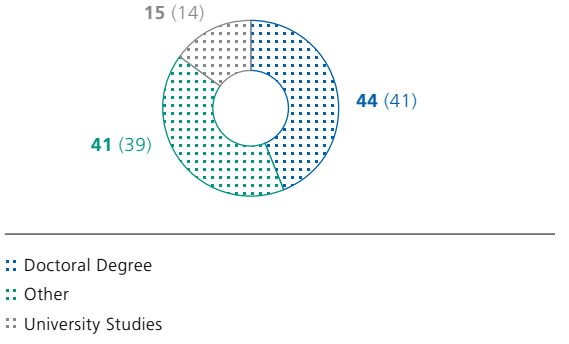
	31.12.2010	31.12.2009	Change in %
Research and development	70	68	3
Administration and sales	21	20	5
Information technology	3	3	0
TOTAL	**94**	**91**	**3**

Since 4SC is a biotechnology company, close to three quarters of its employees work in research and development. This percentage remained unchanged compared with the end of the previous year.

:: 26 PERCENTAGE AND NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT AS AT 31.12.2010 :: IN % (NUMBER))



:: 27 PERCENTAGE AND NUMBER OF EMPLOYEES BY LEVEL OF EDUCATIONS AS AT 31.12.2010 :: IN % (NUMBER)



4SC takes steps to ensure a balanced personnel policy. It looks for the most skilled employees for the position in question. In particular, 4SC offers flexible working arrangements that enable its female employees in particular to balance career and family. At 31 December 2010, 18% of the Company's female staff worked part time (31 December 2009: 13% of staff). With a total headcount of 90 employees and four Management Board members, this translates into 80.5 full-time equivalents (FTEs) as at 31 December 2010 (31 December 2009: 79.3 FTEs).

Since 2008, 4SC has also acted as a vocational training provider and currently has one trainee chemical laboratory technician.

INCREASE IN STAFF COSTS :: Compared to the previous year, the staff costs of 4SC rose by 10% to €6,418 thousand (2009: €5,822 thousand). This is due to the hiring of additional employees in 2010 and to the fact that employees who had been hired in 2009 were paid a full annual salary for the first time. Of these staff costs, €376 thousand (2009: €120 thousand) arose from non-cash expenses for the stock option programme.

ISSUE OF FURTHER STOCK OPTIONS :: The 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 representatives of the human resources department.

Because the Company will continue to rely on highly motivated employees, 4SC maintained its existing stock option programmes in the reporting year and issued a small tranche of new stock options from the "ESOP 2009" programme launched in 2009. Participants in this issue included new employees hired since the last issue and employees entitled to a larger number of options on account of changes in working times. 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 and development department on the other hand ensures that all processes – from obtaining an order to paying the invoice – run smoothly.

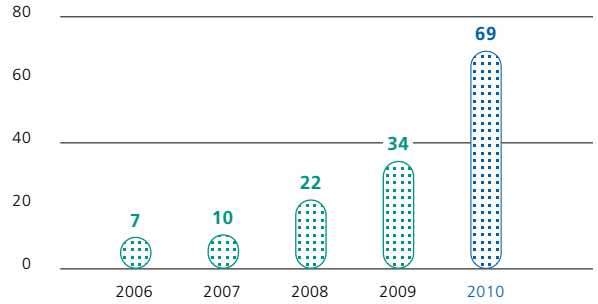
4SC places great value on maintaining a network of suppliers in order to ensure that it is not dependent on any one supplier, which could cause it to be inflexible. Suppliers are generally selected based on three criteria: quality, pricing and availability. Given the overall increase in the purchasing volume, delivery terms again were renegotiated at length and improved further in the 2010 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. Furthermore, 4SC continued to play 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 INTELLECTUAL PROPERTY RIGHTS

NUMBER OF PATENTS DOUBLED ::

:: 28 PATENTS GRANTED AS AT 31.12.



NUMBER OF PATENT APPLICATIONS ON THE RISE :: As at the close of 2010, 4SC held 69 patents and had filed 431 patent applications worldwide, The number of patents granted thus doubled compared with the previous year. By the end of 2010, a total of ten patents had been granted for vidofludimus, the most advanced drug for the treatment of autoimmune diseases, including the crucial composition of matter patent in both the United States and Europe. 4SC has secured seven patents for resminostat, the lead compound in anti-cancer drugs, including the composition of matter patent in the United States issued by the US Patent and Trademark Office in the 2010 financial year. Taken together, these patents and patent applications make up 66 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 there under 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.

5.4 CORPORATE RESPONSIBILITY/SUSTAINABILITY

EMPLOYEE SAFETY AND ENVIRONMENTAL PROTECTION :: 4SC takes issues of corporate responsibility seriously: the Company 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; one 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 2010 reporting year that all members of 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). All lab employees are trained annually 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 operation of biological labs of security levels 1 and 2, as well as work in the radionuclide lab has been approved by the authorities.

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

ETHICAL RESPONSIBILITY :: 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. The Company is committed to reducing tests involving animals to the minimum and replace them to the extent possible with alternatives, such as cell culture testing. The few essential tests that 4SC performed on animals in 2010 were all subject to monitoring by an external animal protection officer and required governmental permits.

Contract research organisations are carefully selected and commissioned to perform a number of animal studies and clinical studies on people. In this context, 4SC places particular emphasis on compliance with official requirements as well as ethical and scientific quality standards.

SOCIAL RESPONSIBILITY :: 4SC is committed to social responsibility. In April 2010 it 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.

6. CORPORATE GOVERNANCE REPORT

Corporate governance comprises the entire system of responsible management and control of a company aimed at the sustainable creation of value. For this reason, good, transparent corporate governance is a top priority for 4SC, which is 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. In preparing the 2010 financial statements, 4SC's Management Board and Supervisory Board again considered the recommendations of the Code's most recent version from 26 May 2010. These included the new provisions of the Code concerning diversity in the Management Board and Supervisory Board as well as the training and further education of Supervisory Board members. The Supervisory Board finally defined its positioning on these matters in its resolution on 28 January 2011.

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. 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 25 February 2010. This declaration was based on the version of the German Corporate Governance Code dated 18 June 2009. The German Corporate Governance Code was revised in 2010. The currently valid version is dated 26 May 2010.

The Management Board and Supervisory Board of 4SC state, in accordance with Section 161 AktG, that 4SC has complied 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, complies and will comply with the recommendations of the German Corporate Governance Code based on the 26 May 2010 version:

:: 1) Item 3.8(3) of the Code: Since 1 July 2010, the Company's current D&O insurance policy for the members of its Management Board has contained the deductible required by law. The Company's current D&O insurance policy for the members of its Supervisory Board, as previously, specifies a deductible in the maximum amount of US$ 50 thousand per case. This only relates to cases of damage in the USA. No specific deductible was stipulated for the insured members of the Supervisory Board because the Management Board and the Supervisory Board agree that all members of the Company's corporate bodies are required to show responsibility as a matter of course. A deductible is not necessary especially because major shareholders are represented on the Supervisory Board.

The law as well as the Company's Articles of Association impose strict limitations on the Supervisory Board's ability to influence the business activities of a stock corporation. Under Section 76(1) AktG the Management Board is responsible for managing the Company on its own. Aside from participating in the determination of the parameters of the Company's corporate strategy, the Supervisory Board's ability to influence its implementation or the Company's operating business is limited. This also applies to measures designed to avert losses for the Company. We do not intend therefore to stipulate a significant deductible in the D&O insurance for the members of the Supervisory Board in future.

:: 2) Item 4.2.3(2) and 3 of the Code: The current variable remuneration components for the Management Board are based on an annual success based Bonus I as well as long-term performance-oriented remuneration – which took effect retroactively to 1 January 2010 following the resolution on the new director's contracts in June 2010 – in the form of a three-year Bonus II and stock options. The current Stock Option Programmes for the Management Board and employees are based on binding shareholder resolutions adopted at the Company's Annual General Meeting. These options can only be exercised in the event of clearly defined share price increases. 4SC believes that these programmes are ideally tailored to the Company. In connection with the Stock Option Programme, the Company thus deliberately foregoes the limitation for extraordinary and unforeseeable developments recommended in the Code (Cap) and referring the stock options to reference parameters (e.g. share indices).

:: 3) 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.

:: 4) 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 practice it has been shown that all committee members assume work and organisation in equal measures.

:: 5) 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 and development-oriented technology company, this recommendation of the Code does not appear appropriate at present and would create a disproportional administrative expense.

Planegg-Martinsried, 25 February 2011

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. They are 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 the vast majority 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 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.

:: Tab. 09 COMMITTEES

	Audit Committee	Human Resources Committee	Business Development Committee
Dr Jörg Neermann	Member (until 21 June 2010)	Chairman	
Dipl.-Vw. Günter Frankenne	Member (from 21 June 2010)	Member (until 21 June 2010)	
Dr Clemens Doppler	Member	Member (from 21 June 2010)	Member
Dipl.-Bw. Helmut Jeggle	Chairman	Member (from 21 June 2010)	
Dr Manfred Rüdiger		Member (until 21 June 2010)	Member (Chairman until 21 June 2010)
Dr Thomas Werner			Chairman (member until 21 June 2010)

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 details of the Management Board's work are set out in rules of procedure for the Management Board. The areas for which the individual Management Board members are responsible are defined in the schedule of responsibilities, which is part of the rules of procedure. The individual Board departments liaise closely, for example at the regular Board meetings generally held once a week. The full Board of Management passes resolutions with a simple majority of the members participating in the resolution.

SUPERVISORY BOARD :: The Supervisory Board consists of six members, who are elected at the Annual General Meeting. Chairman is Dr Jörg Neermann, Deputy Chairman Dr Thomas Werner. Other members are Dr Clemens Doppler, Günter Frankenne, Helmut Jeggle and Dr Manfred Rüdiger.

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, Helmut Jeggle, Chairman of the Audit Committee, and Günter Frankenne, member of the Audit Committee, both are an experienced, independent financial experts.

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 our approval were submitted to us at the Supervisory Board meetings or via circular memorandum.

In financial year 2010, 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.

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 reported to the full Supervisory Board on their work. :: TAB. 09.

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

SUPERVISORY BOARD'S EFFICIENCY REVIEW :: The Supervisory Board of 4SC put its efficiency to the test on 3 December 2010 as a follow-up to the previous review in December 2009. 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. This was confirmed in a circular memorandum on 28 January 2011. Collaboration within the Supervisory Board and with the Management Board received a positive assessment. Individual proposals for improvement, including those concerning the further professionalisation of the Supervisory Board's work, were discussed and will now be implemented.

OTHER DISCLOSURES ON CORPORATE GOVERNANCE ::

DIVERSITY AT MANAGEMENT LEVEL AND IN THE MANAGEMENT BOARD :: The Company's Management Board and Supervisory Board discussed compliance with the stipulations of the German Corporate Governance Code at length once again in the reporting year, especially the changes relating to diversity and the training and further education of Supervisory Board members resolved by the Government Commission on 26 May 2010.

When filling management positions in the enterprise, 4SC implements the recommendation introduced in the changes to the Code on the consideration of women. It is the Company's ambition and in its nature to find the most skilled employees for the necessary positions. In this connection, the Company has always taken steps to ensure a balanced personnel policy. Female managers currently account for 46% of the managers below Management Board level. Women employees in particular can make use of flexible working arrangements to balance work and family. In addition 4SC sponsors a day care facility in close proximity to the Company.

In 2010, the existing Management Board members' contracts were renewed for three more years. The Supervisory Board nevertheless intends to follow the Code's recommendation about diversity more closely in the next Management Board appointments in 2013, aiming in particular for an appropriate consideration of women.

:: Tab. 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 €
23.03.10	Dr Thomas Werner	Supervisory Board	Purchase	Xetra	2.90	3,775	10,947.50
24.03.10	Dr Thomas Werner	Supervisory Board	Purchase	Xetra	2.90	1,225	3,552.50
28.04.10	Dr Ulrich Dauer	Management Board	Purchase	OTC	2.84	6,800	19,322.88

OBJECTIVES OF THE SUPERVISORY BOARD WITH REGARD TO ITS COMPOSITION :: Following the debate at its meeting on 3 December 2010, the Supervisory Board resolved in January 2011 to define concrete objectives for the future composition of the Supervisory Board.

The entire Supervisory Board was re-elected at the Annual General Meeting in June 2010 and it is assumed that all members will remain in office for the full term until the 2013 Annual General Meeting; the Company's Supervisory Board agrees on the following objectives for the regular or possibly premature elections:

When proposing suitable candidates for the Supervisory Board in the future, care will continue to be taken to ensure that these have a broad range of expertise and relevant experience. In this connection, the Supervisory Board intends to increase the proportion of female members in the full Supervisory Board in the next elections and keep the experience of the Supervisory Board members focused on the international biotechnology and pharmaceutical industry. The current members of the Supervisory Board work or have worked at some stage in the biotech and pharmaceutical sector at an international level, have the relevant contacts and are familiar with the needs of this sector on the basis of their own experience. A mix of different qualifications in the entire Supervisory Board remains important – from experience in the fields of natural sciences and development to expertise in the application of accounting standards and the use of internal control systems. The demands on independent Supervisory Board members and the avoidance of conflicts of interest will continue to be taken into account. The age limit of 75 years laid down in the rules of procedure will continue to be observed. The proposals made by the Supervisory Board on the election of Supervisory Board members will also remain focused on the interests of 4SC.

6.2 DIRECTORS' DEALINGS, SHAREHOLDERS, DISCLOSURE AND COMMUNICATION

ANNUAL GENERAL MEETING AND SHAREHOLDERS :: 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 4 July 2011. The representatives can be contacted during the Annual General Meeting as well.

EQUITY INVESTMENTS (THIRD-PARTY COMPANIES) :: The disclosures on significant equity investments can be found in chapter 6.3 of the separate financial statements in accordance with IFRS.

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 2010 annual financial statements pursuant to the German Commercial Code and the 2010 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 www4sc.com. 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 & Media and Investors sections.

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. As part of the resolution on the re-appointment of all existing Management Board members in June 2010, all service contracts were aligned with the provisions of the VorstAG. With regard to compensation, the contracts concluded have retroactive effect from 1 January 2010.

DETERMINATION OF THE MANAGEMENT BOARD'S COMPENSATION :: The proposal for the Management Board's compensation is drawn up by the Human Resources Committee, which subsequently presents it to the full Supervisory Board for approval. The provisions of the VorstAG were taken into consideration when the new director's contracts were concluded in 2010.

The compensation is reviewed annually by the Supervisory Board, taking the Company's economic situation and the performance of the individual Management Board member into account.

In addition, the Supervisory Board may reduce the Management Board compensation appropriately if the Company's situation deteriorates such that continuing to pay the remuneration would be unreasonable for the Company.

AMOUNT AND STRUCTURE :: The annual compensation of the Management Board members comprises three components: 1) fixed compensation (base salary), 2) two performance-based bonuses and 3) stock options. The performance-based compensation comprises an annual bonus (bonus I) as well as a long-term bonus measured on the basis of the director's performance over three years (bonus II). Over and above the current remuneration components, the Supervisory Board may stipulate a special bonus at its own discretion if specific strategic corporate targets have been achieved.

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 that are geared in particular towards listed small- and mid-cap companies from the biotechnology sector and related industries (e.g. MedTech). Fixed compensation is paid on a monthly basis.

PERFORMANCE-BASED COMPENSATION :: The Supervisory Board fixes the performance-based Bonus I following an appropriate annual performance review, exercising due discretion. Bonus I is based on the performance of 4SC and the degree to which predefined individual and general corporate goals have been achieved. These goals comprise different strategic topics from the clinical pipeline, investor relations, business development and general management and are weighted on the basis of their priorities for further business development.

In addition to the basic salary and the short-term bonus I, each Management Board member additionally receives a long-term salary component as a second bonus, measured over three years. This is aimed at promoting sustainable business development and is based on personal and company-specific goals that the Management Board and Supervisory Boards define together at the start of each financial year. Whether a Management Board member is entitled to payment of bonus II depends on whether these goals have been achieved during the three-year target achievement period defined. The first target achievement period therefore relates to 2010 to 2012, the second to 2011 to 2013, etc. The Supervisory Board will resolve on the achievement of the targets at its last meeting prior to the end of the relevant three-year target achievement period, initially at the last meeting in the 2012 financial year.

Another compensation component with a long-term incentive effect is the ESOP (Employee Stock Option Programme), in which the Management Board and all employees 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 2010 IFRS notes.

In regards to compliance with the recommendations of the German Corporate Governance Code 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 2010 :: Compensation of the Management Board of 4SC in financial year 2010 amounted €1,058 thousand (previous year: €890 thousand); of which 68% were attributable to fixed and 32% to variable compensation. A detailed breakdown of the Management Board members' individual salaries can be found in section 10.1 of the 2010 IFRS notes.

D&O LIABILITY INSURANCE :: Since 1 July 2010, the Company's current D&O insurance policy for the members of its Management Board has contained the deductible required by law. In regards to compliance with the recommendations of the German Corporate Governance Code as they relate to D&O insurance, 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.

SHAREHOLDINGS OF THE MANAGEMENT BOARD MEMBERS :: As of 31 December 2010 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 924,242 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 that is still posting a loss at this time. It is for this reason that no performance-oriented compensation based on financial performance indicators will be paid to the members of the Company's Supervisory Board. Besides, executing the recommen-

dation of the German Corporate Governance Code would give rise to substantial additional administrative costs that are 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 2010 :: In financial year 2010, 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 2010 IFRS notes.

SHAREHOLDINGS OF THE SUPERVISORY BOARD MEMBERS :: As at 31 December 2010, the members of 4SC's Supervisory Board held a total of 130,875 shares equivalent to an interest of 0.3% in the Company. As already in 2009, several members of the Company's Management Board and Supervisory Board invested in the Company in 2010, as follows from the director's dealings table in chapter 6.2 of this management report.

6.4 DISCLOSURES RELEVANT FOR TAKEOVERS PURSUANT TO SECTION 289(4) GERMAN COMMERCIAL CODE AS AT 31 DECEMBER 2010

SUMMARY OF SUBSCRIBED CAPITAL :: The Company's share capital as at 31 December 2010 comprised 38,502,739 no-par value bearer shares which do not entail other rights nor do they have a preferred status.

More information on the capital increase completed on 24 February 2011, after the end of the reporting period, can be found in the report on events after the reporting period (chapter 8) in this management report.

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, approx. 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 21 June 2010, 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 following sets out the authorisations of the Management Board to issue shares from authorised or contingent capital as approved by the Annual General Meeting.

AUTHORISED CAPITAL 2010/I :: The Annual General Meeting on 21 June 2010 authorised the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 20 June 2015, once or repeatedly - as at the 31 December 2010 closing date - by up to €19,251,369.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 19,251,369 new no-par value bearer shares (Authorised Capital 2010/I). The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in connection with capital increases in return for contributions in kind. Subscription rights may be excluded in cash capital increases (i) for fractional amounts, (ii) if the issue price of the new

shares is not significantly lower than the stock market price of the Company's shares already quoted on the stock market and the shares' notional interest in the share capital does not exceed altogether 10% of the Company's share capital either at the time this authorisation becomes effective or at the time it is exercised, (iii) to the extent that it is necessary to be able to grant holders or creditors of convertible bonds and/or bonds with warrants, participation rights and/or income debentures (or any combination of these instruments) that have been or will be issued by the Company new no-par value bearer shares of the Company after exercising their conversion rights or warrants, (iv) insofar as it is necessary to grant holders of conversion rights or warrants or creditors of convertible bonds with conversion obligations that have been or will be issued by the Company a subscription right to new no-par value shares of the Company to the extent to which they would be entitled as shareholders after exercising their warrants or conversion rights or satisfying their conversion obligations, and (v) pursuant to section 202(4) German Stock Corporation Act to issue the new shares of up to a total amount of €100,000.00 to Company employees or employees of the Company's German and foreign affiliates excluding the members of the Company's Management Board and the members of management of affiliated companies. The Management Board is authorised, subject to the approval of the Supervisory Board, to determine the further details of the implementation of capital increases from Authorised Capital 2010/I. The further details are derived from Article 5(7) of the Articles of Association.

2010 CONVERTIBLE BOND – CONDITIONAL CAPITAL V :: On 21 June 2010, the Annual General Meeting authorised the Management Board to issue, on one or several occasions up to 20 June 2015, convertible bonds, bonds with warrants, participation rights or income debentures (or any combination of these instruments) (collectively "bonds"), made out to the bearer and/or registered, with or without limited maturity, up to a total par value of €60,000,000.00 and to grant the holders or creditors of such bonds conversion rights or warrants or to impose conversion obligations on no-par bearer shares of the Company with a notional interest in the share capital of up to a total value of €7,500,000.00 in accordance with the respective bond terms. The bonds shall be issued against contributions in cash or in kind and may be denominated in euros or any other legal tender. The authorisation also comprises the option of assuming the required guarantees for bonds issued for subordinated Group companies with the consent of the Supervisory Board as well as making further announcements and taking the necessary steps to ensure the successful issue of the bonds and granting the holders of such bonds conversion rights or warrants or imposing conversion obligations on no-par value bearer shares of the Company. The individual issues can be divided into a number of equal bonds.

In the event of the issue of bonds that grant a warrant or conversion right or specify a conversion obligation, the conversion price or warrant exercise price must amount to at least 80% of the volume-weighted average price of the Company's shares in XETRA trading (or a corresponding successor system) on the Frankfurt Stock Exchange during the period from the beginning of the book building process by the banks issuing the bonds to the day on which the price of the bond is finally determined or – in the event that a subscription right is granted – at least 80% of the volume-weighted average price of the Company's shares in XETRA trading (or a corresponding successor system) on the Frankfurt Stock Exchange during the days on which the subscription rights associated with the bonds are traded on the Frankfurt Stock Exchange, with the exception of the final two days of the trading in subscription rights. If a volume-weighted average price is not determined for the relevant period in accordance with the aforementioned provisions, the conversion price or warrant exercise price must amount to at least 80% of the closing price of the Company's shares in XETRA trading (or a corresponding successor system) on the Frankfurt Stock Exchange on the last stock exchange trading day prior to the day on which the price of the bond is finally determined. In the event of a bond issue in which a conversion obligation is specified, the conversion price in accordance with the respective bond terms may also equal at least 80% of the volume-weighted average price of the Company's shares in XETRA trading (or a corresponding successor system) on the Frankfurt Stock Exchange during the last ten days prior to or after the bond's maturity.

In the event of the issue of bonds with warrants, the proportion of the share capital represented by the shares of the Company to be obtained with each warrant bond may not exceed the nominal amount and the issue price of the warrant bond in question.

In the event of the issue of convertible bonds, the proportion of the share capital represented by the shares to be issued after the conversion may not exceed the lower of the nominal amount and the issue price of the convertible bond in question. The terms of the convertible bond may also provide for a conversion obligation on maturity (or at an earlier date).

Under the authorisation, notwithstanding section 9(1) German Stock Companies Act, the bond terms may contain a dilution protection clause in certain cases and/or allow adjustments to be made.

Shareholders shall generally be granted a right to subscribe for the bonds. The bonds may also be underwritten by one or several banks or companies as defined by section 186(5) sentence 1 German Stock Corporation Act with the obligation that they offer these to the shareholders for subscription. However, subject to the consent of the Supervisory Board, the Management Board is authorised to exclude shareholders' subscription rights in the following cases: (i) if the bonds are issued against cash contributions with conversion rights and/or warrants or conversion obligations and the issue price is not significantly lower than the bonds' theoretical market value calculated in accordance with recognised actuarial principles and bonds are only issued with conversion rights and/or warrants or conversion obligations pursuant to section 186(3) sentence 4 German Stock Corporation Act to satisfy the conversion rights and warrants or fulfil the conversion obligation and the shares issued do not represent more than 10% of the share capital, either at the time this authorisation becomes effective or at the time it is exercised, (ii) insofar as participation rights or income debentures are issued without a conversion right or obligation or a warrant, where these participation rights or income debentures have features similar to obligations, i.e. they do not confer membership rights of the Company or entitle the owners to receive a portion of the liquidation proceeds and the interest payments are not calculated on the basis of the net profit, net retained profits, the dividend or, in any other way, as a profit-based interest rate, and the interest rate and the issue price of the participation rights or income debentures are in line with the prevailing conditions on the market at the time of the issue, (iii) for fractional amounts, (iv) insofar as it is necessary to grant the holders of conversion rights or warrants a subscription right to no-par value bearer shares of the Company or grant the creditors of bonds with conversion obligations a subscription

right to the extent to which they would be entitled as shareholders after exercising their conversion rights or warrants or after satisfying the conversion obligations, and (v) insofar as bonds are to be issued against contributions in kind and the value of the contribution in kind is commensurate with the value of the bonds.
The Management Board is authorised to determine all further details of the issue and terms of the bonds and to establish these in agreement with the executive bodies of the subordinated Group companies issuing the bond.

The share capital has been conditionally increased by up to EUR 7,500,000.00 through the issue of up to 7,500,000 no-par value bearer shares for the granting of shares to the holders or creditors of convertible bonds and/or bonds with warrants, participation rights and/or income debentures (or any combination of these instruments) issued by the Company or by a subordinated Group company on the basis of the authorisation resolved by the Annual General Meeting on 21 June 2010 (Conditional Capital V).

OTHER CONDITIONAL CAPITAL ::

CONDITIONAL CAPITAL I :: The Company's share capital has been conditionally increased by up to €30,500.00 through the issue of up to 30,500 no-par value bearer shares with a notional interest in the share capital of €1.00 per share (Conditional Capital I). The conditional capital increase is exclusively for the purpose of satisfying subscription rights issued and exercised on the basis of the authorisation resolved by the Annual General Meeting on 1 March 2001. The conditional capital increase serves solely to grant options on one or several occasions to members of the Management Board and Company employees in accordance with the resolution passed by the Annual General Meeting on 1 March 2001. The conditional capital increase shall only be implemented to the extent that stock options have been issued, the holders of the options issued exercise their option and the Company does not grant treasury shares to satisfy the subscription rights or use existing authorised capital for this purpose. The new shares each carry dividend rights from the beginning of the financial year in which they are created through the exercise of options; they will be issued at the exercise price stipulated in the above-mentioned resolution passed by the Annual General Meeting on 1 March 2001.
The Supervisory Board is authorised to amend the wording of the Articles of Association in accordance with the scope of the capital increase from conditional capital.

CONTINGENT CAPITAL II :: The Company's share capital has been conditionally increased by up to €114,000.00 through the issue of up to 114,000 no-par value bearer shares with a notional interest in the share capital of €1.00 per share (Conditional Capital II). The conditional capital increase is exclusively for the purpose of granting options to members of the Management Board and Company employees in accordance with the resolution passed by the Annual General Meeting on 28 June 2006 under agenda item 8 (h). The conditional capital increase shall only be implemented to the extent that stock options are issued, the holders of the options issued exercise their options and the Company does not grant treasury shares to satisfy the subscription rights or use existing authorised capital for this purpose. The new shares carry dividend rights from the beginning of the financial year in which they are issued.

CONDITIONAL CAPITAL III :: The Company's share capital has been conditionally increased by up to €88,314.00 through the issue of up to 88,314 no-par value bearer shares with a notional interest in the share capital of €1.00 per share (Conditional Capital III). The conditional capital increase is exclusively for the purpose of satisfying subscription rights issued and exercised on the basis of the authorisation resolved by the Annual General Meeting on 28 July 2004. The conditional capital increase shall only be implemented to the extent that stock options have been issued, the holders of the options issued exercise their options and the Company does not grant treasury shares to satisfy the subscription rights or utilise existing authorised capital for this purpose or the options are not paid out in cash. The new shares carry dividend rights from the beginning of the financial year in which they are created through the exercise of options.

The Supervisory Board is authorised to amend the wording of the Articles of Association in accordance with the scope of the capital increase from conditional capital.

CONDITIONAL CAPITAL IV :: The Company's share capital has been conditionally increased by up to €305,133.00 through the issue of up to 305,133 no-par value bearer shares with a notional interest in the share capital of €1.00 per share (Conditional Capital IV). The conditional capital increase is exclusively for the purpose of granting options on one or several occasions to members of the Management Board and Company employees as well as to employees of any affiliated companies in accordance with the resolution passed by the Annual General Meeting on 28 June 2006 under agenda item 8 (b). The conditional capital increase shall only be implemented to the extent that stock options are issued, the holders of the options issued exercise their options and the Company does not grant treasury shares to satisfy the subscription rights or use existing authorised capital for this purpose. The new shares carry dividend rights from the beginning of the financial year in which they are issued.

CONDITIONAL CAPITAL VI :: The Company's share capital has been conditionally increased by up to €1,000,000.00 through the issue of up to 1,000,000 new no-par value bearer shares with a notional interest in the share capital of €1.00 per share (Conditional Capital VI). Conditional Capital VI may be used exclusively for the purpose of safeguarding subscription rights from stock options that will be issued by the Company to members of its Management Board as well as to employees of the Company and its German and foreign affiliates between 15 June 2009 and 14 June 2014 on the basis of the authorisation resolved by the Annual General Meeting under agenda item 7 (b). The conditional capital increase shall only be implemented to the extent that stock options are issued, the holders of the stock options issued exercise their right to subscribe for shares of the Company and the Company does not grant treasury shares to satisfy the subscription rights or utilise existing authorised capital for this purpose. The new shares carry dividend rights from the beginning of the financial year for which, at the time the subscription rights are exercised, the Annual General Meeting had not yet resolved on the appropriation of net retained profits. The new shares will be issued at the fixed exercise price and the other conditions set out in the authorisation resolved by the Annual General Meeting on 15 June 2009 under agenda item 7 (b). With the approval of the Supervisory Board, the Management Board – or, where members of the Management Board are affected, the Supervisory

Board alone – is authorised to determine the further details of the implementation of the conditional capital increase. Following the implementation of all or part of the conditional capital increase, the Supervisory Board is authorised to amend the wording of Article 5 of the Articles of Association (amount and division of the share capital) accordingly.

There are no authorisations to purchase treasury shares and the Company does not have any treasury 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, Enno Spillner and Dr Bernd Hentsch, an agreement was signed in 2010 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. Furthermore, in the event that a controlling interest is acquired in the Company the regulations on the expiry of stock options for the Management Board members are rescinded, i.e. all stock options issued to the members of the Management Board up to the termination date remain with the Management Board members regardless of the termination of their employment.

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. The "Project Portfolio Steering Committee" (PPSC) was set up for development programmes in 2008 and has since been merged with the Project Coordination Meeting (PCM) for the Joint Project Coordination Meeting (JPCM). The purpose of the Meeting is to forge close ties between the research and development departments as well as with the Management Board. At the weekly JPCM, one project from the research department and another from the development department are presented and discussed. The JPCM is attended by members of the Management Board, the project managers from both departments, a representative of the Business Development unit and the owners of the sub-projects.

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 products 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 products in indications that 4SC also addresses. The approval authorities could give preference to these competing compounds on account of their greater efficacy or tolerance or their side effect profile. Consequently, the products 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 products or cause a cooperation or licensing partner to fail in its efforts to advance or market one of the Company's compounds. 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.

In addition, with regard to past and future licensing deals, 4SC is subject to both tax laws in Germany and the laws of the licensing partner's country of domicile. As a result, 4SC may have to pay taxes abroad that it cannot or can only partly credit in Germany due to its loss-making situation. This would have a negative effect on the Company's financial position, cash flows and financial performance.

PRODUCT DEVELOPMENT (GENERAL) :: The success of 4SC stands and falls with its research and development programmes. 4SC is subject to development risks because it is a product-focused biotechnology company. Development risks are particularly pronounced in the biotechnology industry owing to drug candidates' long development cycles. Typical risks include the following: Individual products 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 compounds 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 products 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 small-molecule compounds. Hence the Company must generate substantial revenue in order to achieve profitability, for instance from advance payments, milestone payments 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 products 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 compounds 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 products, 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 compounds 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 drugs 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. There is also a risk that the Company's continued existence in the medium to long term will be jeopardised if additional cash inflows cannot be generated through outlicensing or partnerships or through capital increases. On the basis of the current volume of funds, taking the 2011 capital increase into account, 4SC is able to finance itself for the next twelve months at least. 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 approx. 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 (investment grade) in term deposits, borrower's note loans and 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, i.e. from money market funds. However, they only account for 9% 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 for the money market funds.

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 would result in organisational and financial expenditures for 4SC and could have a negative impact on the price of its shares, among others because of the corresponding notice of loss.

ALLOWANCE OF TAX LOSS CARRYFORWARDS :: Pursuant to the last notification received concerning the separate determination of residual losses carried forward as at 31 December 2008, 4SC AG has corporate tax losses carried forward of €59,695 thousand. Substantial additional losses that have not yet been subject to a tax assessment have been incurred since 31 December 2008. The notification for the 2008 calendar year is also still subject to revision.

The application of section 8(4) of the German Corporate Income Tax Act (Körperschaftsteuergesetz – KStG) relating to the use of cumulative losses carried forward, 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 forward 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 fully 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.

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 biotechnology 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 2011 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 balanced pipeline. Funds at 31 December 2010 and the capital increase completed in February 2011 as well as the target revenue and other income will safeguard the continued development of the existing programmes and the financing of the Company for the next twelve months and beyond. Until then, management expects to generate additional cash inflows through partnerships. Should this fail to happen to the required extent, the Company's continued existence will be at risk in the medium term if additional equity or debt cannot be secured.

7.3 OPPORTUNITIES AVAILABLE TO THE COMPANY

PROJECT-RELATED PROGRESS ENHANCES THE COMPANY'S ENTERPRISE VALUE :: A variety of 4SC's products 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 programmes and the measurement of the Company's aggregate value. This is true in particular if compounds enter the clinical development phase or successfully complete a study phase.

SINGLE PRODUCT CANDIDATES CAN GENERATE SEVERAL PROGRAMMES :: In the past, 4SC's research and development programmes have shown repeatedly that a single compound can act as an entire platform, generating a variety of programmes with distinct products for different indications. In the short term, this can lead to an expansion of the product pipeline, thus further diversifying risk and enhancing potential and value. One current example is vidofludimus, a compound that is being developed in parallel in two indications, RA and IBD. In oncology, the drug candidate resminostat is being examined in three indications, HCC, HL and CRC, 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 product portfolio, 4SC might also stand to gain from this trend in the long term. Moreover, these types of partnerships would further validate 4SC's programmes and support the Company's business model.

TAKEOVERS :: Major pharmaceutical and biotechnology companies are not just interested in in-licensing compounds at early development phases. In recent years, they have repeatedly decided to directly acquire companies with attractive technologies or products. 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

Right at the start of the 2011 financial year, 4SC was able to present further progress made in its clinical programmes. The Company also provided information on a capital increase that was carried out in mid-February.

4SC-203: SUCCESSFUL COMPLETION OF PHASE I :: On 7 January 2011, 4SC announced the successful completion of its Phase I study investigating the effect of the multi-kinase inhibitor 4SC-203 in healthy volunteers. In this randomised, double-blind and placebo-controlled, Phase I dose escalation study the safety, tolerability, and pharmacokinetics of 4SC-203 was assessed in 60 healthy, male volunteers aged 20 to 46 years.

The compound proved to be safe and was well tolerated by all subjects. Only 33% of volunteers experienced adverse events, which were all graded of mild intensity with the exception of three events which were moderate. No dose-dependent increase in the number of Treatment-Emergent Adverse Events and no Serious Adverse Event were observed. The administration of 4SC-203 did not produce any toxicological laboratory results because no changes in physical and laboratory parameters were recorded. Pharmacokinetics of 4SC-203 in the investigated range displayed the expected dose-dependent exposure. Overall, these Phase I data provide an excellent basis for the further clinical development of 4SC-203.

RESMINOSTAT: COMMENCEMENT OF THE PHASE I/II SHORE STUDY IN COLON CANCER PATIENTS WITH K-RAS MUTATION :: On 20 January 2011, the Company commenced a third Phase I/II clinical study for the cancer drug resminostat. This study is investigating resminostat as second-line therapy in colon cancer patients with K-ras-mutated tumours.

This SHORE study is a randomised, open-label, multi-centric and two-arm Phase I/II study with 70 patients. It aims to investigate the efficacy, safety and pharmacokinetics of resminostat in combination with the FOLFIRI chemotherapy treatment regimen as compared with monotherapy with FOLFIRI in the control arm.

The primary endpoint of the study is to determine the progression free survival (PFS). The secondary endpoints include progression free survival rate (PFSR) after eight weeks and every eight weeks thereafter, the analysis of time-to-progression (TTP), overall survival (OS), analysis of drug safety, tolerability, pharmacokinetics and the investigation of biomarkers.

RESMINOSTAT: UPDATED DATA FROM THE PHASE II SHELTER STUDY :: Also in January 2011, 4SC presented updated study data through Prof Michael Bitzer, lead investigator of the Phase II SHELTER study with resminostat, at the 2011 Gastrointestinal Cancer Symposium held in San Francisco on 20-21 January.

CAPITAL INCREASE OF ALMOST €12 MILLION IMPLEMENTED :: On 24 February 2011, 4SC announced the completion of a capital increase that generated gross issue proceeds of around €11.74 million for the Company and placed 3,452,647 new shares with institutional investors at a price of €3.40 per share. Existing shareholders' subscription rights were excluded. The capital increase increased the number of no-par value bearer shares from 38,502,739 to 41,955,386 and raised the free float to around 26.0%.

VIDOFLUDIMUS: FINAL DATA FROM THE PHASE IIA ENTRANCE STUDY :: In February 2011, 4SC presented final data from the Phase IIa ENTRANCE study with vidofludimus in IBD at the 6th ECCO IBD Conference in Dublin, Ireland. This confirmed the positive top-line results announced in November 2010: vidofludimus demonstrated a total response rate of 88.5% in steroid-dependent IBD patients versus an average placebo response rate of approximately 20% across benchmark clinical trials.

9. ANTICIPATED DEVELOPMENTS

9.1 MACROECONOMIC AND SECTOR DEVELOPMENTS

GLOBAL ECONOMIC PROSPECTS: SLOWDOWN OF GROWTH IN INDUSTRIALISED COUNTRIES :: Following a marked recovery of the global economy in 2010, the forecasts for 2011 are more conservative. The World Bank believes that the global upswing will lose some of its momentum. Accordingly, economic output will grow by just 3.3% in 2011 (previous year: 3.9%), followed by 3.6% in 2012. Government stimulus packages are coming to an end, though the financial crisis does not yet seem to be completely over. Industrialised countries in particular have to come to terms with the fact that the pace of growth will slow in 2011. Emerging markets, on the other hand, will drive the growth of the global economy. In the United States, the Fed revised its economic forecasts downwards. Still, the economic recovery is likely to be slow. In the euro zone, the debt crisis in smaller countries has so far had only a minimal effect on the growth prospects of the core countries. The European Commission in its latest economic forecasts predicts growth of around 1.7% in 2011. The German economy is expected to expand faster in 2011, by 2%.

HEALTHCARE SECTOR: STRONGER-THAN-AVERAGE DEMAND IN EMERGING MARKETS :: Healthcare policy measures, patent expiry, new drugs, efficient research and development as well as dynamic growth in newly industrialised countries continue to dominate the healthcare market. It is expected that the global pharmaceutical market will grow in the range of 5-8% per year over the coming years to reach a market volume of $1.1 trillion by 2014. An annual average growth rate of 3-6% is forecast for the United States, the largest single market, in the next few years. This contrasts with the yearly growth of 14-17% forecast for the emerging markets up to 2014. More acquisitions and partnerships are anticipated among European pharmaceutical companies in the coming years with expansion in developing countries and in the area of consumer health.

BIOTECH – A GROWTH INDUSTRY :: The impending dramatic drop in sales of the blockbuster products developed by the pharmaceutical industry in the medium term due to patents expiring is generating sustained, strong demand for new, innovative products, especially for niche indications or indications with a high medical need. This makes biotech companies with mature product pipelines interesting for pharmaceutical groups and facilitates outlicensing, cooperation deals and further consolidation in the biotechnology industry.

Many biotech companies are still having difficulty procuring finance. According to a study by Jefferies International Ltd., sustainable success and an increase in market value depend on the following key factors, amongst others: outlicensing of products, milestone payments by existing partners, positive clinical results and regulatory decisions.

9.2 COMPANY OUTLOOK

FINANCING AND PARTNERSHIPS :: The Company's management aims to generate cash inflows and revenue by forging alliances such as development cooperation deals and licensing agreements for clinical products. Funds of €17,607 thousand and the expected revenue and other income will ensure the continuity of the existing programmes and the financing of the Company beyond the next twelve months with an operating cash burn rate appropriate for the planned development steps – at approximately the same level as in 2010. This cash balance will also be boosted by the capital increase implemented on 24 February 2011, after the reporting period had ended, which generated gross issue proceeds of €11.74 million.

Going forward, 4SC will continue to focus on the rapid and concurrent development of its clinical pipeline. This will allow 4SC to achieve additional important milestones, particularly with respect to the clinical products, and create more options for forming partnerships. Under the Company's current plans for 2011 and 2012, research and development costs will remain at more or less the same level as in 2010. All the same, 4SC does not expect to generate any revenue from early research cooperation deals in 2011 and 2012, in contrast to previous years. 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. Up until the preparation of these financial statements, the Company's economic development in the 2011 financial year proceeded according to plan.

PRODUCT PIPELINE – ATTRACTIVE AND ROBUST :: To a significant degree, both the performance and the market valuation of 4SC are contingent on the clinical results of individual drugs' studies. The broad and well-balanced product pipeline reduces the risk inherent in drug development and ensures sustainability with in-house research. Four drug candidates are currently in seven clinical studies, and two more compounds are now being evaluated in the preclinical development stage.

In the first half of 2011, 4SC hopes to achieve positive results for vidofludimus, its most advanced product, also in the second Phase II study, Phase IIb in rheumatoid arthritis (RA). Positive results were already reported in November 2010 for the Phase IIa study in inflammatory bowel disease (IBD).

In the oncology portfolio, a series of Phase II results are expected for resminostat in 2011. The Phase II studies in Hodgkin's lymphoma (HL) and hepatocellular carcinoma (HCC) should be concluded this year, further boosting the value of the product and increasing the Company's enterprise value. In addition, a third Phase I/II study in colon cancer patients with K-ras mutations (CRC) was started in 2011 that is scheduled to deliver preliminary results from the dosage escalation phase in 2012.

Two drugs are in Phase I trials: 4SC-203 and 4SC-205. After positive Phase I data on 4SC-203 had been reported in volunteers in early January 2011, results are also expected this year for 4SC-205. Moreover, two additional candidates – 4SC-202 and 4SC-207 – are being evaluated in the preclinical stage to facilitate entry in the clinical phase in 2011.

INDICATIONS WITH STRONG MARKET OPPORTUNITIES :: 4SC is focusing on new approaches for targeted therapies in the indications autoimmune diseases and cancer with the goal of developing innovative, targeted small-molecule drugs. On account of the high unmet medical need, biotechnology and pharmaceutical companies are extremely interested in partnerships and licensing deals.

The treatment options for IBD have improved in recent years thanks to biological antibodies. Yet there is an enormous need for orally administered drugs that can specifically halt the progression of the underlying disease, either when used as a monotherapy or in conjunction with established treatment options, have a more favourable side effect profile and can be produced more cost-efficiently. 4SC's product vidofludimus offers this profile for the treatment of autoimmune diseases like RA and IBD because the compound should offer a broad treatment option with significantly fewer side effects. Beyond this, various animal models demonstrate the application options of vidofludimus in further autoimmune indications such as lupus, psoriasis, multiple sclerosis and transplant rejection.

The oncology market remains a very diverse and fragmented market with high commercial value and a lack of effective drugs. There are also many niche indications in oncology where proof-of-concept can be achieved within a relatively short period and with smaller groups of patients. This makes it possible to demonstrate a product's efficacy at an early stage and thus speed up its time to market. It is against this backdrop that market opportunities of resminostat for the three indications chosen – HCC, CRC and HL – are regarded as relevant in commercial terms. HCC is the most common form of liver cancer, the fifth most common form of cancer and the third leading cause of death by cancer worldwide. There is a high medical need for this disease which up to now has been inadequately addressed with a single form of therapy. For HL, a malignant disease of the lymphatic system, the progression-free survival rate for patients who do not respond to second-line therapy is currently 17%. In colon cancer, the identification of the K-ras mutations and the consequences for successful treatment with drugs based on EGFR receptors have generated a need for second-line treatment in this sub-population of 40% of all patients. Colorectal cancer is the second leading cause of death from cancers in the western world. Here, too, resminostat focuses on an indication with high demand and substantial commercial potential.

In 2010, 4SC reached key milestones, particularly with its most advanced products, and created a good starting position for achieving other company and development goals. Over the coming months, 4SC expects important results from three more Phase II studies and is confident that it will be able to sustain its current level of success.

Planegg-Martinsried, 14 March 2011

The Management Board:

DR ULRICH DAUER, CEO

DR BERND HENTSCH, CDO

DIPL.-KFM. ENNO SPILLNER, CFO

DR DANIEL VITT, CSO

Financing of programmes secured.

:: ANNUAL FINANCIAL STATEMENTS (IFRS) AND NOTES

:: STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2010

in €000's	Notes	2010	2009
Revenue	3.1	989	1,861
Cost of sales	3.3	- 362	- 548
GROSS PROFIT		**627**	**1,313**
Distribution costs	3.4	- 285	- 354
Research and development costs	3.5	- 17,025	- 14,151
Administrative costs	3.6	- 3,625	- 3,376
Other income	3.7	37	131
OPERATING PROFIT/LOSS		**- 20,271**	**- 16,437**
NET FINANCE INCOME/LOSS			
Share in the profit/loss of associates	3.9	29	29
Finance income	3.9	169	404
Finance costs	3.9	- 28	- 114
NET FINANCE INCOME/LOSS		**170**	**319**
EARNINGS BEFORE TAXES		**- 20,101**	**- 16,118**
Income tax	4.	26	11
PROFIT/LOSS FOR THE YEAR		**- 20,075**	**- 16,107**
Amount reclassified to profit and loss		0	3
MEASUREMENT OF FINANCIAL INSTRUMENTS	3.10	**0**	**3**
COMPREHENSIVE INCOME/LOSS		**- 20,075**	**- 16,104**
Earnings per share (basic and diluted; in €)	5.	- 0,52	- 0,54

See attached notes

:: STATEMENT OF FINANCIAL POSITION – ASSETS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

in €000's	Notes	31.12.2010	31.12.2009
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6.1	14,012	14,837
Property, plant and equipment	6.2	1,383	1,485
Investments accounted for using the equity method	6.3	90	62
Other financial assets	6.4	146	154
Other assets	6.11	0	157
TOTAL NON-CURRENT ASSETS		**15,631**	**16,695**
CURRENT ASSETS			
Inventories	6.5	21	22
Trade accounts receivable	6.6	281	535
Receivables from investees	6.7	0	0
Other financial assets	6.8	12,651	100
Cash and cash equivalents	6.9	4,956	35,521
Current tax assets	6.10	249	162
Other assets	6.11	942	868
TOTAL CURRENT ASSETS		**19,100**	**37,208**
TOTAL ASSETS		**34,731**	**53,903**

:: STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

in €000's	Notes	31.12.2010	31.12.2009
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital		38,503	38,503
Share premium		67,836	67,836
Reserves		1,318	942
Accumulated deficit		- 76,447	- 56,372
TOTAL EQUITY	6.12	**31,210**	**50,909**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4.	13	39
Other liabilities	6.16	47	65
TOTAL NON-CURRENT LIABILITIES		**60**	**104**
CURRENT LIABILITIES			
Trade accounts payable	6.13	968	913
Accounts payable to associates	6.14	29	29
Provisions	6.15	45	45
Other liabilities	6.16	2,419	1,903
TOTAL CURRENT LIABILITIES		**3,461**	**2,890**
TOTAL EQUITY AND LIABILITIES		**34,731**	**53,903**

See attached notes

:: STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2010

in €000's	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before taxes		- 20,101	- 16,118
Adjustment for statement of comprehensive income items			
Depreciation and amortisation		1,379	1,289
Net finance income/loss		- 170	- 319
Stock options		376	120
Other non-cash items		65	- 320
Changes in statement of financial position items			
Inventories		1	4
Trade accounts receivable		254	45
Current tax assets		- 87	92
Other assets		83	21
Trade accounts payable		55	- 457
Accounts payable to associates		0	- 3
Provisions		0	45
Other liabilities		498	386
Interest received		86	616
Interest paid		- 1	- 2
CASH FLOWS FROM OPERATING ACTIVITIES	7.	**- 17,562**	**- 14,601**

in €000's	Notes	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		- 28	- 85
Purchase of property, plant and equipment		- 424	- 371
Purchase of financial investments		- 12,651	- 100
Sale of financial investments		100	14,499
CASH FLOWS FROM INVESTING ACTIVITIES	7.	**- 13,003**	**13,943**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to subscribed capital		0	10,000
Payments to share premium		0	19,735
Repayment of long-term loans		0	- 902
CASH FLOWS FROM FINANCING ACTIVITIES	7.	**0**	**28,833**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**- 30,565**	**28,175**
+ Cash and cash equivalents at the beginning of the period		35,521	7,346
= CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,956**	**35,521**

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

See attached notes

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2010

			Reserves				
in €000's	Subscribed capital	Share premium	Reserves stock options	Retained earnings	Revaluation surplus	Accumulated deficit	Total
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*
Profit/loss 2009						*- 16,107*	*- 16,107*
BALANCE ON 31.12.2009	**38,503**	**67,836**	**875**	**67**	**0**	**- 56,372**	**- 50,909**
BALANCE ON 01.01.2010	**38,503**	**67,836**	**875**	**67**	**0**	**- 56,372**	**- 50,909**
Options issued (ESOP 2004/2005)			1				1
Options issued (ESOP 2004/2006/1)			2				2
Options issued (ESOP 2006/2006/2)			13				13
Options issued (ESOP 2006/2007)			2				2
Options issued (ESOP 2006/2008)			20				20
Options issued (ESOP 2009/2009)			338				338
Options issued (ESOP 2009/2010)			0				0
Comprehensive income/loss 2010						- 20,075	- 20,075
Profit/loss 2010						*- 20,075*	*- 20,075*
BALANCE ON 31.12.2010	**38,503**	**67,836**	**1,251**	**67**	**0**	**- 76,447**	**31,210**

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 2010

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 25 February 2011, with the most recent entry of that same day, has been made available. The Articles of Association as amended on 24 February 2011 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/Main Stock Exchange.

The purpose of the enterprise is the identification, research and optimisation of drugs and the development, use and marketing of chemical, biotechnological and computer processes.

The Company is authorised to engage in all transactions that are expedient to and foster the achievement of the corporate purpose. For this purpose, 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 14 March 2011. 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 IFRSs and IFRICs 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). Differences may result from commercial rounding of exact figures.

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

These annual financial statements represent the separate financial statements of Germany-based 4SC and in addition to 4SC also take account of the following companies:

Company/Domicile	Measured as	Measured acc. to
quattro research GmbH, Planegg-Martinsried, Germany	Associate	IAS 28
Nexigen GmbH, Bonn, Germany	Equity investment	IAS 39
Quiescence Technologies LLC, Melbourne, Florida, USA	Equity investment	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 2010.

Standard	Title	Published by the EU on	Effect on these annual financial statements
Various[1]	Improvements of IFRSs 2008 *(Annual Improvements 2008)*	24.01.2009	None
IFRIC 12	Service Concession Arrangements	26.03.2009	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	05.06.2009	None
Amendments to IFRS 3	Business Combinations	12.06.2009	None
Amendments to IAS 27	Consolidated and Separate Financial Statements	12.06.2009	None
IFRIC 15	Agreements for the Construction of Real Estate	23.07.2009	None
Amendments to IAS 39	Financial Instruments: Recognition and Measurement	16.09.2009	None
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	26.11.2009	None
IFRIC 17	Distribution of Non-cash Assets to Owners	27.11.2009	None
IFRIC 18	Transfer of Assets from Customers	01.12.2009	None
Various	Improvements of IFRSs 2009 *(Annual Improvements 2009)*	24.03.2010	None
Amendments to IFRS 2	Share-based Payment	24.03.2010	None
Amendments to IFRS 1	First-time Adoption of International Financial Reporting	24.06.2010	None

[1] :: Under article 2 of the Regulation, some of the amendments had to 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.

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	Expected effect on future annual financial statements
Amendments to IAS 32	Financial Instruments: Presentation	31.01.2010	24.12.2009	None
Amendments to IFRS 1 / IFRS 7	IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters / IFRS 7: Financial Instruments: Disclosures	30.06.2010	01.07.2010	None
IFRIC 19 / Amendments to IFRS 1	IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments / IFRS 1: First-time Adoption of International Financial Reporting Standards	30.06.2010	24.07.2010	Cannot be reliably estimated
Amendments to IAS 24 / IFRS 8	IAS 24: Related Party Disclosures / IFRS 8: Operating Segments	31.12.2010	20.07.2010	Reduced disclosures in the notes due to the simplified definition of related parties
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement	31.12.2010	20.07.2010	None
Various	Improvements of IFRSs 2010 *(Annual Improvements 2010)*	30.06.2010 / 31.12.2010[2]	19.02.2011	None

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

[2] :: Some of the amendments must be applied for the first time at the latest to financial years beginning after 30 June 2010. All other amendments – especially those concerning IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 12 – must be applied at the latest to financial years beginning after 31 December 2010.

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 reporting 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 on 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 ("impairment test"). 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 resulting from the sale or retirement of fixed assets are recognised in other operating income, losses from the sale of retirement of fixed assets are recognised 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 reporting 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 reporting 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, USA, at the end of December 2006. Besides the proceeds from this sale, 4SC was also given a direct equity interest of 10.0%. 4SC does not 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 business transactions with Quiescence Technologies LLC and is not part of the executive committee. The equity interest in Quiescence Technologies LLC entails securities that must be classified as available for sale pursuant to IAS 39. They are measured at the fair value in accordance with IAS 39.43.

4SC has had a 3.7% stake in Bonn-based Nexigen GmbH since May 2008. 4SC does not 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 business transactions with Nexigen GmbH and only provides one of 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 at the fair value in accordance with IAS 39.43.

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 INVESTEES :: Accounts receivable from 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 FINANCIAL ASSETS :: The other financial assets are financial instruments as defined by IAS 39. Depending on the individual case, the are classified as follows:

:: financial assets at fair value through profit or loss
:: available-for-sale financial assets
:: held-to-maturity financial assets

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. This measurement also applies to the equity investments in Nexigen GmbH and Quiescence Technologies LLC, which are also classified as available for sale in accordance with IAS 39.

Financial instruments classified as held to maturity are initially measured in accordance with IAS 39.43 at fair value including transaction costs that are directly attributable to the acquisition of the financial instruments. In accordance with IAS 39.46b, the instruments are subsequently measured at amortised cost using the effective interest method.

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 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 reporting date. Financial instruments with a remaining life of more than one year as of the reporting date are shown as other financial assets among non-current assets. Financial instruments with a remaining life on the reporting 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 a term of more than three months calculated from the date of acquisition 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 a term of no more than three months calculated from the date of acquisition, which are subject only to insignificant fluctuations in value. Receivables recognised at their nominal value.

STOCK OPTIONS :: The accounting for stock options granted to employees and the Management Board is handled according to the guidelines of IFRS 2 "Share-based Payment". Under IFRS 2, the Company is required to spread the estimated fair values of stock options and other benefits at the measurement date as compensation cost over the period in which the employees provide the services associated with the grant of equity instruments.

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 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.

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 TAX :: 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 reporting 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 reporting date or such future tax rates as have already been announced. 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 not shown as current assets and liabilities.

REVENUE RECOGNITION :: The business model of 4SC is aimed at generating revenue from licensing agreements (usually in terms of 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"). Settlement for the services rendered is recognised as trade accounts receivable until payment by the customers. Amounts received prior to the rendering of services are recognised as advances received before being reversed to pr it 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 as prepayments at the start of a given cooperation. Revenue recognition requires an analysis of the overall circumstances and is therefore contingent on the content of the relevant contract. Revenue is recognised upon receipt of the invoice providing all conditions in IAS 18.14 have been satisfied. Where individual conditions have not been satisfied, the revenue 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, if agreed, has been 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 pro rata temporis 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 if no further obligations exist for 4SC.

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 11.4 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. Such reimbursements are made in the amount of the actual costs incurred or plus an administration fee, depending on the individual case.

Income from subleasing is recorded on an accrual basis. 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 reporting date, as well as expenses and income within the reporting period. Actual values may vary from such estimated values.

As of the reporting 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 the impairment of goodwill or the acquired intangible assets.

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 company as special purpose entities in accordance with SIC-12.

In the case of the equity investments in Quiescence Technologies 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 2010 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.

2.5 SEGMENT REPORTING

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.

3. DISCLOSURES ON THE STATEMENT OF COMPREHENSIVE INCOME

3.1 REVENUE

Revenue in 2010 declined from €1,861 thousand to €989 thousand year-on-year. Revenue in these two years stemmed from research cooperation agreements alone.

3.2 STAFF COSTS

in €000's	2010	2009	Change in %
Wages and salaries	5,166	4,896	6
Social security contributions	876	806	9
Stock options	376	120	213
STAFF COSTS	**6,418**	**5,822**	**10**
Employees and Management Board (annual average)	94	91	3

4SC hired additional personnel during the reporting year, especially to enhance its development team, given the increase in the number of development programmes. On the annual average, the total number of employees rose by 3% from 91 to 94. 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 by 6% to €5,166 thousand (previous year: €4,896 thousand) and the employee benefits and social security contributions rose by 9% to €876 thousand (previous year: €806 thousand) in the reporting year.

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 €99 thousand in the reporting year (2009: €85 thousand). Of this amount, €17 thousand (2009: €15 thousand) are attributable to Management Board members. In addition, a total of €741 thousand (2009: €676 thousand) was paid to statutory pension funds.

The 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 €376 thousand in staff costs arose in the 2010 financial year from the options (2009: €120 thousand); of this amount, €217 thousand (2009: €80 thousand) are attributable to members of the Management Board. The year-on-year increase stems from the fact that, under IFRS 2, the options granted at the end of 2009, which were only considered on a pro rata basis in the previous year, were recognised for the full year in 2010.

On the whole therefore, staff costs climbed from €5,822 thousand in 2009 by 10% to €6,418 thousand in 2010. 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	2010	2009	Change in %
Staff	294	445	- 34
Material	67	101	- 34
Other	1	2	- 50
COST OF SALES	**362**	**548**	**- 34**

The decrease in the costs of staff and material by 34% each basically reflects the decline in revenue from research cooperation deals. In sum, the cost of sales dropped from €548 thousand in 2009 by 34% to €362 thousand in 2010.

3.4 DISTRIBUTION COSTS

in €000's	2010	2009	Change in %
Staff	113	189	- 40
Legal and other consulting	71	62	15
Travel and conferences	56	50	12
Other	45	53	- 15
DISTRIBUTION COSTS	**285**	**354**	**- 19**

Distribution costs, which consist of the costs incurred by the Business Development and PR/Marketing units, fell by 19% year-on-year to €354 thousand (previous year: €285 thousand) during the reporting period. This was due to a decrease in public relations expenses, which is reflected above all in staff costs.

3.5 RESEARCH AND DEVELOPMENT COSTS

in €000's	2010	2009	Change in %
External services	8,838	6,671	32
Staff	4,042	3,582	13
Depreciation and amortisation	1,204	1,168	3
Patents	1,189	1,110	7
Rental costs including ancillary costs	763	578	32
Material	614	700	- 12
Software licences	167	163	2
Travel and conferences	160	134	19
Other	395	394	0
Grants (EU and Ministry of Education and Research)	- 347	- 349	- 1
RESEARCH AND DEVELOPMENT COSTS	**17,025**	**14,151**	**20**

Research and development costs rose by 20% to €17,025 thousand in 2010 from €14,151 thousand in 2009. The considerable increase year-on-year is attributable to the significant expansion of the clinical studies, which pushed up development costs accordingly. This principally manifested itself in increased costs for external services as well as higher expenses for travel to the clinical study centres. Staff costs also rose due to the addition of new members to the team – especially in development – both during 2009 and in 2010, with a simultaneous rise in rental costs including ancillary costs as a result of the spatial reorganisation at 4SC.

Income from grants remained almost unchanged at €347 thousand, compared with €349 thousand in the previous year. 4SC reported on two new grant programmes in 2010. As part of the cooperation with Bonn-based company Nexigen GmbH, 4SC received a research grant in 2010 from the Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung – BMBF). Under the "KMU-Innovativ" programme the consortium will receive funding of up to €1.4 million. In December, 4SC , also as part of a consortium, and its partners received a grant commitment of €5.8 million to research into the connection between periodontal diseases and rheumatoid arthritis. 4SC will continue to seek new grants in order to generate additional revenue and compensate for grant programmes that are coming to an end.

3.6 ADMINISTRATIVE COSTS

in €000's	2010	2009	Change in %
Staff	1,969	1.605	23
Advertisement (investor relations)	498	443	12
Legal and other consulting	241	262	- 8
Depreciation and amortisation	173	119	45
Supervisory Board	141	143	- 1
Rental costs including ancillary costs	128	287	- 55
Insurance, fees and contributions	95	107	- 11
Travel and conferences	87	102	- 15
External services	66	105	- 37
Other	227	203	12
ADMINISTRATIVE COSTS	**3,625**	**3,376**	**7**

Administrative costs rose by 7%, from €3,376 thousand to €3,625 thousand. The main cost driver was the increase in staff costs by 23% due to a variety of factors such as rising salaries and the attendant social security contributions, and also mainly due to the increased staff costs under stock options. 4SC's enhanced presence at international industry and investor conferences caused the costs for investor relations activities to rise by 12%. The 45% increase in depreciation and amortisation is the result of a large number of investments in IT equipment at 4SC. By contrast, the significant decrease in rental costs including ancillary costs is attributable to a spatial reorganisation at 4SC.

3.7 OTHER INCOME

in €000's	2010	2009	Change in %
Sublease to quattro research GmbH	23	27	- 15
Insurance compensation payments	3	20	- 85
Other cost allocations	1	5	- 80
Cost allocations to ViroLogik GmbH	0	62	- 100
Other	10	17	- 41
OTHER INCOME	**37**	**131**	**- 72**

There was a strong year-on-year decline in other income by 72% to €37 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 4SC 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 originally ran until 31 December 2011. The contract nevertheless contained a three-month notice period that quattro research GmbH exercised effective 31 October 2010. In the future, 4SC will not receive any lease payments under this sublease.

3.8 DEPRECIATION AND AMORTISATION

in €000's	2010	2009	Change in %
Amortisation of intangible assets	853	856	0
Depreciation of property, plant and equipment	526	433	21
DEPRECIATION AND AMORTISATION	**1,379**	**1,289**	**7**

Depreciation and amortisation rose by 7%, from €1,289 thousand in 2009 to €1,379 thousand in 2010. Amortisation of intangible assets – which mainly stem from the recognition of the rights acquired from Nycomed and the corresponding amortisation over their expected useful life – remained almost unchanged compared with the previous year. The overall increase in depreciation and amortisation results from depreciation of property, plant and equipment on account of the capital expenditures during the reporting year.

Depreciation and amortisation are shown in the income statement nearly 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	2010	2009	Change in %
Share in the profit/loss of quattro research GmbH	29	29	0
PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	**29**	**29**	**0**

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

in €000's	2010	2009	Change in %
Interest-bearing investment of cash and cash equivalents	130	358	- 64
Securities measured through profit or loss	21	44	- 52
Income from exchange rate differences	18	2	800
FINANCE INCOME	**169**	**404**	**- 58**

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

in €000's	2010	2009	Change in %
Expenses from exchange rate differences	20	5	300
Impairment of financial assets	8	0	n/a
Losses from the disposal of securities	0	106	- 100
Other interest expense	0	3	- 100
FINANCE COSTS	**28**	**114**	**- 75**

3.10 RECONCILIATION TO COMPREHENSIVE INCOME

The reconciliation of profit/loss for the year to comprehensive income/loss is as follows:

in €000's	2010	2009	Change in %
Amount reclassified to profit and loss	0	3	- 100
MEASUREMENT OF FINANCIAL INSTRUMENTS	**0**	**3**	- 100

No financial instruments were recognised under other comprehensive income in 2010. A profit of €3 thousand had been generated in 2009. 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 has operated at a loss since it began its business activities and 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	2010	2009	Change in %
Current tax expense	0	0	0
Deferred tax income	26	11	136
TOTAL INCOME TAXES	**26**	**11**	**136**

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 (Unternehmenssteuerreformgesetz) 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 2011 is therefore 26.33%.

No deferred tax assets were recognised as of 31 December 2010 and 31 December 2009. As was the case for the previous year, deferred tax assets on losses carried forward were not recognised during the 2010 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 2010 and 31 December 2009 are distributed as follows across the statement of financial position:

in €000's	2010	2009	Change in %
DEFERRED TAX LIABILITIES			
Investments accounted for using the equity method	1	1	0
Cash and cash equivalents	2	29	- 93
Other liabilities	10	9	11
TOTAL DEFERRED TAX LIABILITIES	**13**	**39**	**- 67**

The deferred tax liabilities related to the financial assets stem from the different measurements of the 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 reporting date:

	2010	2009
Tax loss carried forward (in €000's)	95,060	75,521
Effective tax rate (in %)	26.33	26.33
Value of the tax losses carried forward (in €000's)	25,029	19,885

This calculation is based on the assumption that the tax rates applicable after 1 January 2011 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 of expected income tax and the effective tax expense/income is as follows:

in €000's	2010	2009
Earnings before taxes	- 20,101	- 16,118
Expected tax income at a tax rate of 26.33% (2009: 26.33%)	5,293	4,244
Income (+)/expense (-) shown in the income statement	26	11
DIFFERENCE TO BE EXPLAINED	**5,267**	**4,233**
Unrecognised tax losses carried forward	5,139	4,260
Non-deductible expenses	21	30
Other differences	107	- 57
TOTAL RECONCILIATION	**5,267**	**4,233**

5. EARNINGS PER SHARE

The basic earnings per share are calculated in accordance with IAS 33.9 ff. by dividing the profit/loss for the period attributable to the shareholders (numerator) by the average weighted number of shares outstanding in the reporting period (denominator).

	2010	2009
Based on profit/loss for the year (in €000's)	- 20,075	- 16,107
Based on average number of shares (in thsd.)	38,503	29,753
EARNINGS PER SHARE (BASIC AND DILUTED, IN €)	**- 0.52**	**- 0.54**

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

FINANCING MEASURES AFTER THE REPORTING DATE

On 24 February 2011, after the reporting period had ended, 4SC implemented a non-public capital increase with exclusion of the existing shareholders' subscription rights, placing a total of 3,452,647 new shares with institutional investors at a price of €3.40 per share. The number of no-par value bearer shares rose from 38,502,739 to 41,955,386.

POTENTIAL EQUITY INSTRUMENTS

The Company's Annual General Meetings on 1 March 2001, 28 July 2004, 28 June 2006, 29 June 2007, 5 June 2008, 15 June 2009 and 21 June 2010 decided to increase the Company's share capital conditionally. These resolutions could mean that basic 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 01.01.2010	Additions 2010	Disposals 2010	Balance on 31.12.2010	Balance on 01.01.2010	Additions 2010	Disposals 2010	Balance on 31.12.2010	Balance on 31.12.2010	Balance on 31.12.2009
INTANGIBLE ASSETS											
Software and patents	2–20	14,731	28	0	14,759	1,680	853	0	2,533	12,226	13,051
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
INTANGIBLE ASSETS		**16,517**	**28**	**0**	**16,545**	**1,680**	**853**	**0**	**2,533**	**14,012**	**14,837**

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 01.01.2009	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**

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.

The figure reported for software and patents includes three key patents with carrying amounts of between €1,370 thousand and €7,212 thousand (previous year: €1,460 thousand to €7,718 thousand) whose residual amortisation period is between 14.25 years and 16.17 years (previous year: 15.25 to 17.17 years).

Additions in the reporting year primarily relate to investments in client and server software as well as in the redesign of 4SC's website.

The 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	2010	2009	Change in %
Distribution costs	0	2	- 100
Research and development costs	829	830	0
Administrative costs	24	24	0
AMORTISATION OF INTANGIBLE ASSETS	**853**	**856**	**0**

GOODWILL

in €000's	31.12.2010	31.12.2009	Change in %
GOODWILL	**1.786**	**1.786**	**0**

Pursuant to IAS 36.80 ff., goodwill is not amortised, but rather subject to an impairment test at least once a year.

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 2010. For the impairment test, the value in use of the vidofludimus programme 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: 14%) and determines at which interest rate future cash flows will be discounted. The probability of a market entry, assumed to be 35.1% (previous year: 30.2%), 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 patient numbers and anticipated revenue per patient. The expected cash flows have been calculated for the period up to 2035, on the basis of corresponding patent terms in addition to taking a commercialisation phase following the expiration of patent protection into account.

There was no need for recognising impairment losses on the goodwill of 4SC.

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				Amortisation and impairment losses				Carrying amounts	
in €000's	Useful life from … to years	Balance on 01.01.2010	Additions 2010	Disposals 2010	Balance on 31.12.2010	Balance on 01.01.2010	Additions 2010	Disposals 2010	Balance on 31.12.2010	Balance on 31.12.2010	Balance on 31.12.2009
PROPERTY, PLANT AND EQUIPMENT											
Office equipment	8–14	142	11	0	153	90	10	0	100	53	52
Laboratory equipment	3–14	2,974	227	67	3,134	2,376	218	67	2,527	607	598
Leasehold improvements	3.5–14	1,033	6	0	1,039	556	79	0	635	404	477
Other operating and office equipment	3–13	197	11	1	207	116	23	1	138	69	81
IT equipment	3–13	1,361	103	0	1,464	1,191	99	0	1,290	174	170
Other	0–5	153	66	66	153	46	97	66	77	76	107
PROPERTY, PLANT AND EQUIPMENT		**5,860**	**424**	**134**	**6,150**	**4,375**	**526**	**134**	**4,767**	**1,383**	**1,485**

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

		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
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
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
Other	0–5	80	78	5	153	16	35	5	46	107	64
PROPERTY, PLANT AND EQUIPMENT		**5,582**	**371**	**93**	**5,860**	**4,035**	**433**	**93**	**4,375**	**1,485**	**1,547**

Additions in the reporting period concern both investments in new technical laboratory equipment such as a peptide synthesizer (€85 thousand) as well as investments in the replacement and expansion of equipment in this area. An additional €103 thousand (previous year: €65 thousand) was invested in IT hardware. This essentially concerns investments in the expansion of the cluster (€55 thousand), as well as investments in the replacement and expansion of servers, desktop computers, laptops and printers. 4SC is under no obligation to acquire property, plant and equipment.

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	2010	2009	Change in %
Distribution costs	1	0	n/a
Research and development costs	376	338	11
Administrative costs	149	95	57
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	**526**	**433**	**21**

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 2010 are as follows:

in €000's	2010	2009	Change in %
Revenue	882	859	3
Profit/loss for the year	59	58	2
Total assets	469	410	14
Equity	315	262	20
Liabilities	154	148	4

The profit posted by quattro research GmbH raises the carrying amount of the shares held by 4SC to €90 thousand of the reporting date (31 December 2009: €62 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 reporting date. This includes the equity investments in Nexigen GmbH and Quiescence Technologies LLC.

in €000's	31.12.2010	31.12.2009	Change in %
Equity investment in Nexigen GmbH	146	154	- 5
Equity investment in Quiescence Technologies LLC	0	0	0
OTHER FINANCIAL ASSETS	**146**	**154**	**- 5**

The equity investment in Nexigen GmbH was originally made in May 2008. 4SC has a 3.7% stake in this company. 4SC recognised losses of €8 thousand for permanent impairment based on the revaluation performed within the scope of a financing transaction arranged by Nexigen GmbH in September 2010.

The 10% stake in Quiescence Technologies LLC was acquired in December 2006. 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	31.12.2010	31.12.2009	Change in %
Consumables	17	17	0
Solvents	3	5	- 40
Chemicals	1	0	n/a
INVENTORIES	**21**	**22**	**- 5**

Inventories remained almost unchanged year-on-year, down just €1 thousand.

Material costs amounting to €686 thousand (2009: €823 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	31.12.2010	31.12.2009	Change in %
Germany	281	535	- 47
TRADE ACCOUNTS RECEIVABLE	**281**	**535**	**- 47**

On 31 December 2010, as on the reporting 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 €281 thousand result from research cooperation agreements. They were not yet due on the reporting date and were paid in January 2011, as contractually stipulated.

6.7 RECEIVABLES FROM INVESTEES

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

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 2010 financial year so that there still is a receivable of €700 thousand as at 31 December 2010 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 reporting date, which are not included in cash equivalents.

in €000's	31.12.2010	31.12.2009	Change in %
Financial instruments with a remaining life of less than one year	3,500	0	n/a
Fixed deposits with a remaining life of less than one year	9,151	100	9,051
OTHER FINANCIAL ASSETS	**12,651**	**100**	**12,551**

The increase in other financial assets is the result of purchases.

The terms and conditions of financial assets as at 31 December 2010 were as follows:

in €000's	Carrying amount	Term in months	Interest rate in %
Financial instruments with a remaining life of less than one year			
Deutsche Pfandbriefbank AG, promissory notes	3,000	14–18	1.54–1.70
UBS fixed-interest bond	500	6	1.93
Fixed deposits with a remaining life of less than one year			
Südwestbank, fixed deposits	9,000	5–13	1.05–1.35
UniCreditGroup, fixed deposits in US dollar	151	4–8	0.35–0.60

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	31.12.2010	31.12.2009	Change in %
Financial instruments with an original term of less than three months calculated from the date of acquisition	1,549	4,653	- 67
Fixed deposits with an original term of less than three months calculated from the date of acquisition	0	1,000	- 100
Bank balances	3,406	29,867	- 89
Cash on hand	1	0	n/a
CASH AND CASH EQUIVALENTS	**4,956**	**35,521**	**- 86**

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 2010 and 2009 financial years, it has a tax refund claim with regard to the taxes it has paid.

in €000's	31.12.2010	31.12.2009	Change in %
CURRENT TAX ASSETS	**249**	**162**	**54**

The income tax refund claims as at 31 December 2010 comprise a claim for withholding tax on investment income for the 2009 financial year that the tax office has not yet refunded plus the tax claim for 2010. The prior-year figure included refund claims for 2009 only.

6.11 OTHER ASSETS

in €000's	31.12.2010	31.12.2009	Change in %
VAT refund claims	302	270	12
Prepaid expenses	220	183	20
Rent deposit IZB West	157	157	0
Advances paid for third-party services and chemicals	137	277	- 51
Government grants (EU, Ministry of Education and Research, Ministry of Economics and Technology)	68	33	106
Prepaid interest	55	10	450
Advances paid on intangible assets and property, plant and equipment	0	74	- 100
Other	3	21	- 86
OTHER ASSETS	**942**	**1,025**	**- 8**

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	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
TAX refund claims	302	270	0	0	302	270
Prepaid expenses	220	183	0	0	220	183
Rent deposit IZB West	157	157	0	157	157	0
Advances paid for third-party services and chemicals	137	277	0	0	137	277
Government grants (EU, Ministry of Education and Research, Ministry of Economics and Technology)	68	33	0	0	68	33
Prepaid interest	55	10	0	0	55	10
Advances paid on intangible assets and property, plant and equipment	0	74	0	0	0	74
Other	3	21	0	0	3	21
OTHER ASSETS	**942**	**1,025**	**0**	**157**	**942**	**868**

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 comprises 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.

6.12 EQUITY

SHARE CAPITAL AND SHARES :: The share capital of 4SC as of 31 December 2010 amounted to €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.

There were no changes in share capital in the reporting year.

CONDITIONAL CAPITAL :: The Company's Annual General Meetings decided to increase the Company's share capital conditionally as follows:

Conditional Capital	Amount (€000's)	AGM resolution dated	Purpose
I	31	01.03.2001/ 21.06.2010	Exercise of "ESOP 2001" options held by Company employees and Management Board members
II	114	28.06.2006/ 21.06.2010	Granting of options to members of the Management Board and Company employees with a term of up to ten years ("ERSATZ-ESOP 2001")
III	88	28.07.2004/ 21.06.2010	Exercise of "ESOP 2004" options held by Company employees and Management Board members
IV	305	28.06.2006/ 21.06.2010	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	7,500	21.06.2010	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)
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")

AUTHORISED CAPITAL :: The Annual General Meeting on 21 June 2010 authorised the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 20 June 2015, once or repeatedly, by up to €19,251,369.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 19,251,369 new no-par value bearer shares (Authorised Capital 2010/I).

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.

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

The reserve stock option amounting to €1,251 thousand (previous year: €875 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 2010 remained unchanged compared to the previous year.

APPROPRIATION OF EARNINGS :: The accumulated deficit of €76,447 thousand (previous year: €56,372 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 net loss posted for the year, equity fell from €50,909 thousand as of 31 December 2009 by €19,699 thousand to €31,210 thousand as of 31 December 2010.

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	31.12.2010	31.12.2009	Change in %
Germany	800	764	5
EU	73	59	24
Other countries	95	90	6
TRADE ACCOUNTS PAYABLE	**968**	**913**	**6**

Due to the progress made in the product pipeline, the liabilities from trade accounts payable increased by 6% 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 reporting 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 2009: €29 thousand).

6.15 PROVISIONS

As in the previous year, provisions amounted to €45 thousand, resulting from the following: 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 €36 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 and certain losses are therefore equally likely to occur, 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.

6.16 OTHER LIABILITIES

in €000's	31.12.2010	31.12.2009	Change in %
Accrued liabilities	2,005	1,832	9
Advances received	351	32	997
Liabilities related to social security	109	102	7
Other liabilities	1	2	- 50
OTHER LIABILITIES	**2,466**	**1,968**	**25**

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	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Accrued liabilities	2,005	1,832	47	65	1,958	1,767
Advances received	351	32	0	0	351	32
Liabilities related to social security	109	102	0	0	109	102
Other liabilities	1	2	0	0	1	2
OTHER LIABILITIES	**2,466**	**1,968**	**47**	**65**	**2,419**	**1,903**

Accrued liabilities were comprised as follows as of the reporting date:

in €000's	31.12.2010	31.12.2009	Change in %
Invoices outstanding	1,435	1,198	20
Compensation of the Supervisory Board	139	139	0
Personnel liabilities	121	109	11
Management Board bonus	116	185	- 37
Renovation IZB West	72	65	11
Financial statements preparation and auditing costs	71	90	- 21
Contribution to employer's liability insurance	26	26	0
Other	25	20	25
ACCRUED LIABILITIES	**2,005**	**1,832**	**9**

The non-current accrued liabilities result from long-term Management Board bonuses. 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.

6.17 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 31.12.2010		Measurement as of 31.12.2009	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LaR	281	281	535	535
Receivables from investees	LaR	0	0	0	0
Income tax refund claims	LaR	249	249	162	162
Other non-current assets	LaR	0	0	157	157
Other current assets	LaR	942	942	868	868
Fixed deposits and bank balances	LaR	12,558	12,558	30,967	30,967
Financial assets at fair value through profit or loss – held for trading	AFVPL	1,549	1,549	4,653	4,653
Held-to-maturity financial assets	Htm	3,500	3,500	0	0
Available-for-sale financial assets (equity investment in Nexigen)	AfS	146	146	154	154
Trade accounts payable	LaR	- 968	- 968	- 913	- 913
Accounts payable to associates	LaR	- 29	- 29	- 29	- 29
Other non-current liabilities	LaR	- 47	- 47	- 65	- 65
Other current liabilities	LaR	- 2,419	- 2,419	- 1,903	- 1,903
TOTAL		**15,762**	**15,762**	**34,541**	**34,541**
Of which aggregated by IAS 39 measurement category					
Financial assets at fair value through profit or loss	AFVPL	1,549	1,549	4,653	4,653
Held-to-maturity financial assets	Htm	3,500	3,500	0	0
Loans and receivables	LaR	10,567	10,567	29,734	29,734
Available-for-sale financial assets	AfS	146	146	154	154

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

The primary financial instruments existing as at the reporting date were classified as financial assets at fair value through profit or loss or held-to-maturity financial assets in accordance with IFRS 39.

Of the financial instruments at fair value through profit or loss, gains and losses from 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. In accordance with IAS 39.46b, financial instruments classified as held to maturity are subsequently measured at amortised cost using the effective interest method. Bank statements and other bank confirmations also serve to verify the value as at year's end.

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. However, the financing transaction arranged by Nexigen GmbH in September led to a revaluation of the company that 4SC had used to calculate the fair value, which gave rise to impairment losses of €8 thousand for 4SC. Subsequent to this financing arrangement there were no indications of further impairment. 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 reporting date.

FAIR VALUE HIERARCHY :: Both the primary financial instruments that are recognised at fair value through profit or loss as at the reporting date and the securities that were classified held to maturity in the previous year were allocated to Level 1 in accordance with IFRS 7.27A (prices in active markets). On the basis of the 2010 round of financing, the equity investment in Nexigen GmbH was allocated in the reporting year to Level 2 (market input factors that can be observed immediately and are not Level 1 input factors). In the previous year, this had been allocated to Level 3 (input factors that cannot be observed). A reclassification from Level 3 to Level 2 therefore took place in 2010; no reclassifications of fair values from or into another hierarchy level were made 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 2010
Financial assets at fair value through profit or loss						
held for trading	3	21	0	0	0	24
Held-to-maturity financial assets	30	0	0	0	0	30
Loans and receivables	97	0	- 2	0	0	95
Available-for-sale financial assets	0	0	0	- 8	0	- 8
TOTAL	**130**	**21**	**- 2**	**- 8**	**0**	141

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 2009
Financial assets at fair value through profit or loss						
held for trading	130	39	0	0	- 102	67
Held-to-maturity financial assets	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**

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.

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, borrower's note loans 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, i.e. from money market funds. However, they only account for 9% of the Company's aggregate financial assets and liquid funds as at the reporting 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 reporting date, all the invested funds had short maturities and thus would not be sensitive to changes in interest rates

2. LIQUIDITY RISK INHERENT IN FINANCIAL LIABILITIES

4SC has financial liabilities, i.e. contractual obligations to deliver liquid assets to another party. These are presented in the statement of financial position under trade accounts payable, accounts payable associates and other liabilities. Because most of the financial liabilities are current, they are not subject to liquidity risk.

3. 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. For this reason, dollars are bought when the exchange rate is favourable. As at 31 December 2010, 4SC had bank accounts and fixed-term deposits in US dollars equivalent to €176 thousand (31 December 2009: €0).

Liabilities denominated in foreign currencies as at 31 December 2010 were the equivalent of €22 thousand in US dollars, the equivalent of €40 thousand in British pounds (GBP) and the equivalent of €7 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 and 2010 financial years so that there still is a receivable of $1,000 thousand as at 31 December 2010 that has been written down in full.

Varying exchange rates and their impact on assets and liabilities were simulated in a sensitivity analysis so as to determine the effects on profit or loss. A gain or decline by 10% in the value of the euro versus the foreign currency in question would have changed the outcome as follows as of 31 December 2010:

	Increase	Decrease
Euro vs. US dollar	- 13	11
Euro vs. Swiss franc	1	- 1
Euro vs. British pound	5	- 4

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 €1 thousand (previous year: decreased by €3 thousand).

4. 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 receivables from Quiescence Technologies LLC in the amount of €700 thousand were written down in full in the 2008 financial year. Thus, on the reporting 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. €281 thousand as at the reporting date (31.12.2009: €535 thousand).

6.18 OTHER FINANCIAL OBLIGATIONS

Other financial obligations for the years subsequent to the reporting 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 remained 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.

Financial obligations under leases exist at the reporting date from an operating lease for a mass spectrometer developed by Xevo. The lease, which commenced in September 2010, has a term of 36 months and requires 4SC to make an annual payment of €76 thousand in advance monthly instalments. There are no extension or purchase price options or escalation clauses.

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

in €000's	
2011	837
2012	98
2013	73
2014	0
from 2015	0
TOTAL	**1,008**

The income statement for the reporting year contains expenses of €751 thousand from the leases (2009: €741 thousand). Expenses under leases in 2010 amounted to €25 thousand (2009: €0 thousand).

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 €10,081 thousand (2009: €7,299 thousand); the maturity is contingent on the progress of the respective study.

7. DISCLOSURES ON THE STATEMENT OF CASH FLOWS

In addition to cash and cash equivalents, 4SC has liquid funds that are predominantly invested for better return in fixed deposits, borrower's note loans, a fixed-interest bond and money market funds. Taken together, these items comprise the cash balance/funds:

in €000's	31.12.2010	31.12.2009	Change in %
Cash and cash equivalents at the end of the period	4,956	35,521	- 86
Other financial assets	12,651	100	12,551
CASH BALANCE/FUNDS	**17,607**	**35,621**	**- 51**

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	2010	2009	Change in %
Research cooperation	989	1.861	- 47
REVENUE	**989**	**1.861**	**- 47**

INFORMATION ABOUT GEOGRAPHICAL AREAS IN ACCORDANCE WITH IFRS 8.33

in €000's	2010	2009	Change in %
Germany	989	1.858	- 47
Other countries	0	3	-100
REVENUE	**989**	**1.861**	**- 47**

As in the previous year, all non-current assets were based in Germany in the reporting period.

INFORMATION ABOUT MAJOR CUSTOMERS PURSUANT TO IFRS 8.34

In the year just ended, all revenue was generated under contracts with one customer. In the previous year, 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 2010 in 000's	Expired in 2010 in 000's	Exercised in 2010 in 000's	Outstanding on 31.12.2010 in 000's	Exercisable on 31.12.2010 in 000's	Max. number of shares available on 31.12.2010 in 000's	Fair value in €	Cumulative staff costs[2] in €000's	Staff costs in 2010 in €000's
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	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2003	30.09.03	5.08	2:1	318	61	0	61	0	0	0	0	0.74	52	0
ESOP 2004	2004	30.09.04	4.24	2:1	122	78	0	6	0	72	60	36	0.72	62	0
ESOP 2004	2005	30.09.05	4.24	2:1	93	73	0	5	0	68	55	34	0.71	53	1
ESOP 2004	2006/1	30.05.06	4.53	2:1	26	26	0	0	0	26	19	13	0.74	19	2
ESOP 2006	2006/2	25.08.06	3.80	1:1	296	256	0	11	0	245	236	245	1.71	436	13
ERSATZ-ESOP 2001	2006/3	25.08.06	3.80	1:1	166	114	0	6	0	108	88	108	1.54	183	0
ESOP 2006	2007	26.11.07	3.65	1:1	9	9	0	0	0	9	7	9	1.49	14	2
ESOP 2006	2008	22.08.08	3.45	1:1	43	43	0	1	0	42	21	42	1.50	61	20
ESOP 2009	2009	26.11.09	3.29	1:1	888	888	0	25	0	863	0	863	1.04	830	338
ESOP 2009	2010	26.11.10	3.09	1:1	18	0	18	0	0	18	0	18	0.77	11	0
TOTAL					**2,283**	**1,548**	**18**	**115**	**0**	**1,451**	**486**	**1,368**		**1,721**	**376**

[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 2010, 4SC issued one tranche comprising 17,829 options under its "ESOP 2009" entitling the beneficiaries to subscribe for an equivalent number of shares. Participants in this issue included new employees hired since the last issue and employees entitled to a larger number of options on account of changes in working times.

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 under the "ESOP 2006" and "ESOP 2009" programmes 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 outstanding is 7.23 years. The exercise prices of all outstanding tranches based on the subscription price range from €3.09 and €4.53.

An overview of weighted average exercise prices is given below:

Exercise prices (weighted, €)	2010	2009
Options outstanding as of 01.01.	3.60	4.25
Options issued in the reporting period	3.09	3.29
Options expired in the reporting period	4.41	7.54
Options outstanding as of 31.12.	3.53	3.60
Options exercisable as of 31.12.	3.92	4.08

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
2010	3.75 years	3.10	29.98%	1.37%
2009	3.75 years	3.26	40.17%	1.89%

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 in the reporting year amounted to €1,058 thousand (2009: €890 thousand). Of this total amount, €17 thousand (2009: €15 thousand) represents contributions to defined contribution plans according to IAS 19.7. Prorated staff costs attributable to options included in overall compensation amounted to €217 thousand for the reporting year (2009: €80 thousand). However, these were non-cash expenses.

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

Compensation	Fixed		Variable		Staff costs arising from options		Total	
in €000's	2010	2009	2010	2009	2010	2009	2010	2009
Dr Ulrich Dauer	190	166	29	49	47	9	266	224
Dr Daniel Vitt	179	156	30	49	47	9	256	214
Dr Bernd Hentsch	186	156	31	49	61	24	278	229
Dipl.-Kfm. Enno Spillner	170	146	26	39	62	38	258	223
COMPENSATION OF THE MANAGEMENT BOARD	**725**	**624**	**116**	**186**	**217**	**80**	**1,058**	**890**

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

Number of shares	Shares on 01.01.2010	Purchase	Sale	Shares on 31.12.2010
Dr Ulrich Dauer	430,639	6,800	0	437,439
Dr Daniel Vitt	416,803	0	0	416,803
Dr Bernd Hentsch	0	0	0	0
Dipl.-Kfm. Enno Spillner	70,000	0	0	70,000
SHARES HELD	**917,442**	**6,800**	**0**	**924,242**

Number of stock options	Options 01.01.2010	Options	Expiry	Exercise	Options 31.12.2010	Maximum number of shares available
Dr Ulrich Dauer	152,200	0	0	0	152,200	147,400
Dr Daniel Vitt	152,200	0	0	0	152,200	147,400
Dr Bernd Hentsch	152,720	0	0	0	152,720	152,720
Dipl.-Kfm. Enno Spillner	249,600	0	0	0	249,600	236,400
STOCK OPTIONS HELD	**706,720**	**0**	**0**	**0**	**706,720**	**683,920**

No stock options were issued to the members of the Management Board in the 2010 financial year.

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, Enno Spillner and Dr Bernd Hentsch, an agreement was signed in 2010 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. Furthermore, in the event that a controlling interest is acquired in the Company the regulations on the expiry of stock options for the Management Board members are rescinded, i.e. all stock options issued to the members of the Management Board up to the termination date remain with the Management Board members regardless of the termination of their employment. Apart from this, there are no post-employment or termination benefits owed to the Management Board members.

As of the reporting 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)

Dr Ulrich Dauer, Dr Bernd Hentsch and Enno Spillner did not hold any positions in other control bodies or Supervisory Boards as of the reporting date.

10.2 SUPERVISORY BOARD

The total compensation paid to the members of the Supervisory Board amounted to €139 thousand (2009: €139 thousand). Individual Supervisory Board member compensation for the reporting year breaks down as follows:

in €000's	Occupation	Compensation 2010	Compensation 2009
Dr Jörg Neermann (Chairman)	Partner of LSP Life Sciences Partners, Munich, Germany/Managing Director of LSP Services Deutschland GmbH, Munich, Germany	32	35
Dr Thomas Werner (Deputy Chairman since 21 June 2010)	Management Consultant, Utting am Ammersee, Germany/President & CEO of Accera, Inc., Broomfield, Colorado, USA	21	9
Günter Frankenne (Deputy Chairman until 21 June 2010)	Managing Proprietor of STRATCON Strategy Consultants, Berg bei Neumarkt, Germany	21	24
Helmut Jeggle	Head of Business Planning & Analyzing of Athos Service GmbH, Munich, Germany	20	20
Dr Manfred Rüdiger	Partner of LSP Life Sciences Partners, Munich, Germany/CEO of Affectis Pharmaceuticals AG, Planegg-Martinsried, Germany	20	23
Dr Clemens Doppler	Partner & Managing Director of Heidelberg-Capital Asset Management GmbH, Heidelberg, Germany	25	23
Dr Thomas Strüngmann (until 15 June 2009)	Chief Executive Officer (CEO) of Athos Service GmbH, Munich, Germany	0	5
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 01.01.2010	Purchase	Sale	Shares 31.12.2010
Dr Jörg Neermann	100,000	0	0	100,000
Dr Manfred Rüdiger	16,000	0	0	16,000
Dr Clemens Doppler	9,875	0	0	9,875
Dr Thomas Werner	0	5,000	0	5,000
SHARES HELD	**125,875**	**5,000**	**0**	**130,875**

As of the reporting 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, Germany, member of the Supervisory Board
:: Curetis AG, Holzgerlingen, Germany, member of the Supervisory Board
:: Vivendy Therapeutics Ltd., Basel, Schweiz, Chairman of Management Board

DR THOMAS WERNER:
:: CM&D Pharma Limited, London, United Kingdom, Non-Executive Chairman
:: Medigene AG, Planegg-Martinsried, Germany, Member of the Supervisory Board
:: PharmaSwiss S.A., Zug, Switzerland, Executive Chairman
:: SkyePharma PLC, London, United Kingdom, Non-Executive Director

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

DIPL.-VW. GÜNTER FRANKENNE:
:: Concentro AG, Nuremberg, Chairman of Supervisory Board
:: CURADIS GmbH, Erlangen, Germany, Deputy Chairman of the Advisory Board
:: Epigenomics AG, Berlin, Germany, member of the Supervisory Board
:: iMTM GmbH, Magdeburg, Germany, Deputy Chairman of the Advisory Board
:: KeyNeurotek Pharmaceuticals AG, Magdeburg, Germany, Chairman of the Supervisory Board
:: November AG, Cologne, Germany, Chairman of the Supervisory Board
:: Verbena AG, Berg in Neumarkt, Germany, member of the Supervisory Board
:: ViroLogik GmbH, Erlangen, Germany, Chairman of the Advisory Board

HELMUT JEGGLE:
:: BioNTech AG, Mainz, Germany, Chairman of the Supervisory Board
:: Ganymed Pharmaceuticals AG, Mainz, Germany, member of the Supervisory Board
:: Sidroga AG, Zoffingen, Switzerland, President of the Management Board
:: VANGUARD AG, Berlin, Germany, member of the Supervisory Board

Dr Manfred Rüdiger did not hold any positions in other control bodies or Supervisory Boards as of the reporting 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 2010 to 31 December 2010:

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 2010, this contract had a net volume of €277 thousand (2009: €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 2010 (2009: €21 thousand) As of the reporting date, the liabilities toward quattro research GmbH resulting from these contracts amounted to €29 thousand (31 December 2009: €29 thousand); they were repaid as contractually agreed by January 2011.

In addition, a business relationship existed until 31 October 2010 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 €23 thousand (2009: €26 thousand). As of the reporting date 4SC had no receivables from quattro research GmbH.

DONNER & REUSCHEL BANK, HAMBURG (FORMERLY: CONRAD HINRICH DONNER BANK) :: Based on the contract signed in December 2005, Donner & Reuschel Bank has assumed the function of payment and depository agent for 4SC, which triggers an annual expenditure of €3 thousand. In addition, Donner & Reuschel Bank 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 (2009: €28 thousand); as of 31 December 2010, no liabilities existed therefrom. One of Donner & Reuschel Bank's Management Board members, Marcus Vitt, is a brother of 4SC's CSO, Dr Daniel Vitt.

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. No liabilities existed from these transactions as of 31 December 2010.

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

On 25 February 2010 and 25 February 2011, 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

The following table shows the principal shareholders of 4SC who – on the basis of the notifications received by the Company in accordance with section 21 ff. of the German Securities Trading Act (WpHG) – hold more than 3% of the Company's shares. The figures given in each case refer to the last published notification. The actual status at 31 December 2010 may differ from these amounts, however.

Notifying entity	Date of notice	Voting share
Santo Holding (Deutschland) GmbH	25.10.2007	31.55%[1]
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	04.12.2009	8.55%
First Capital Partner GmbH, Gräfelfing[2]	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] :: Based on an estimate of the management, the share held by Santo Holding (Deutschland) GmbH as of 31 December 2010 was about 48.05%.

[2] :: These voting rights are also attributable to FCP Anlage AG, Gräfelfing.

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

On 21 June 2010, the Company's Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, to serve as the auditor of the 2010 financial statements.

in €000's	2010	2009
Auditing services	68	67
Other verification services	10	42
Other services	11	0
TOTAL FEE BILLED BY THE AUDITOR	**89**	**109**

In the 2010 financial year, a total of €68 thousand was recognised for financial statements auditing services provided in 2010 (previous year: €67 thousand for the 2009 financial statements audit).

Fees of €10 thousand for other verification services in connection with the reviews of the quarterly financial statements were incurred in the reporting year (2009: €10 thousand). The issue of the comfort letter in the context of the 2009 capital increase generated €27 thousand in expenses in the previous year. These expenses were 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.

Other services rendered by KPMG AG Wirtschaftsprufungsgesellschaft in the reporting year included the execution of client seminars in which 4SC participated. The costs for this came to less than €1 thousand (2009: less than €1 thousand). In addition, an amount of €11 thousand was invoiced in the reporting year for the provision of information on the audit of the annual financial statements as at 31 December 2009 in connection with the DPR audit (sampling).

11.5 AVERAGE NUMBER OF EMPLOYEES PURSUANT TO SECTION 285 NO. 7 GERMAN COMMERCIAL CODE

The average number of employees (excluding the Management Board and trainees) during the financial year just ended was 90 (2009: 86).

Of these 90 employees (excluding the Management Board and trainees), 67 worked in research and development, 19 in sales and administration and four in information technology. Of the 86 employees in the previous year (excluding the Management Board and trainees), 65 worked in research and development, 19 in sales and administration and two in information technology. The Company had four Management Board members in 2010 and 2009 and one trainee in 2009 such that the total number of employees on average was 94 in 2010 and 91 in 2009. Since September 2010, 4SC again has had one trainee chemical laboratory technician.

12. EVENTS AFTER THE REPORTING PERIOD

The Company had announced the following results from clinical studies by the time these annual financial statements were prepared:

:: First-in-man Phase I results for 4SC-203 (press release dated 7 January 2011)
:: First patient dosed in Phase I/II SHORE study in KRAS-mutant colorectal cancer patients with resminostat (press release dated 20 January 2011)
:: Presentation of updated data on the Phase II SHELTER trial with resminostat at the 2011 Gastrointestinal Cancer Symposium in San Francisco, USA (press release dated 21 January 2011)
:: Presentation of final data from the Phase IIa study with vidofludimus in inflammatory bowel disease at the 6th ECCO IBD Conference in Dublin, Ireland (press release dated 28 February 2011).

The capital increase concluded on 24 February 2011 strengthened 4SC's cash flows and financial position. The issuance of 3,452,647 new shares to institutional investors at €3.40 per share generated gross issue proceeds of around €11.74 million. The number of no-par value bearer shares rose from 38,502,739 to 41,955,386.

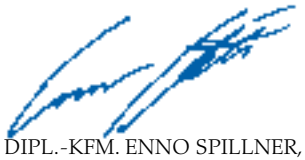
There were no other events occurring after the end of the financial year which had a significant impact on the financial position, cash flows or financial performance of 4SC.

Planegg-Martinsried, 14 March 2011

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, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the annual financial statements, and the management report of the 4SC AG, Planegg, District of Munich for the business year from January 1 to December 31, 2010. 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 [Handelsgesetzbuch: 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 [Handelsgesetzbuch: 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 section 7.2.4 in the management report. Therein it is disclosed that the Company's ability to continue as a going concern will be jeopardised in the medium to long term, if additional cash inflows cannot be generated through outlicensing or partnerships or through capital increases."

Munich, March 15, 2011

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, liabili-ties, financial position and profit or loss of the company, and the management report includes a fair review of the devel-opment and performance of the business and the position of the company, together with a description of the principal op-portunities and risks associated with the expected development of the company."

Planegg-Martinsried, 14 March 2011

The Management Board:

DR ULRICH DAUER, CEO

DR BERND HENTSCH, CDO

DIPL.-KFM. ENNO SPILLNER, CFO

DR DANIEL VITT, CSO

:: 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, Creactive 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.

AE :: Abbreviation for adverse events..

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

CAI :: Abbreviation for colitis activity index; this index is used for determining disease activity in patients suffering from ulcerative colitis.

CDAI :: Abbreviation for Crohn's disease activity index; this index is used for determining disease activity in patients suffering from Crohn's disease.

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

CRC :: Abbreviation for colorectal cancer.

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 :: Abbreviation for duration of response.

:: E

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

EGFR :: Abbreviation for epidermal growth factor receptor; a transmembrane receptor with intrinsic tyrosine kinase activity that is highly regulated and/or found in mutated form in many types of tumours, thus leading to uncontrolled cell growth.

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.

FOLFIRI :: chemotherapy scheme for treating colon cancer.

:: H

HCC :: Abbreviation for 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 LYMPHOM :: Hodgkin's lymphoma is a malignant tumour in the lymph nodes.

:: I

IBD :: Abbreviation for inflammatory bowel disease.

IL-17 :: Abbreviation for interleukin-17, a cytokine regulating cell growth and differentiation.

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 :: Abbreviation for objective overall response rate.

OS :: Abbreviation for overall survival.

:: P

PFS :: Abbreviation for progression free survival.

PFSR :: Abbreviation for 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) under real therapeutic conditions to determine the safety, efficacy and optimum dosage of a drug.

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

SAE :: Abbreviation for serious adverse events.

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.

TARGETED THERAPIES :: Specific influencing and controlling of signalling pathways in cancer and autoimmune diseases.

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.

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 :: Abbreviation for 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.

:: FINANCIAL / SECTOR GLOSSARY

:: A

AFS :: Abbreviation for available for sale, one of four categories of financial instruments.

AFVPL :: Abbreviation for at fair value through profit or loss, one of four categories of financial instruments.

:: 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.

DIVERSITY :: Concept of corporate governance,that takes into account the diversity of people and functions among a company's workforce, management and Supervisory Board.

:: 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.

:: H

HTM :: Abbreviation for held to maturity, one of four categories of financial instruments von Finanzinstrumenten.

:: 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.

:: L

LAR :: Abbreviation for loans and receivables, one of four categories of financial instruments.

:: 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.

:: S

SIC :: Abbreviation for Standing Interpretations Committee.

:: W

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

:: FINANCIAL CALENDAR

29.03.2011
:: Annual Report 2010

10.05.2011
:: Q1 Report 2011

04.07.2011
:: Annual General Shareholders' Meeting 2011

09.08.2011
:: Q2 Report 2011

08.11.2011
:: Q3 Report 2011

21.-23.11.2011
:: Analyst Conference – German Equity Forum
Frankfurt, Germany

:: PUBLISHING INFORMATION

EDITOR
:: 4SC AG :: Am Klopferspitz 19a, 82152 Planegg-Martinsried, Germany

INVESTOR RELATIONS
:: 4SC AG ::
Yvonne Alexander, yvonne.alexander@4SC.com ::
T +49 (0)89 70 07 63 66
Bettina von Klitzing-Stückle, bettina.von.klitzing@4SC.com ::
T +49 (0)89 70 07 63 0

CONCEPTION, DESIGN & TEXT
:: PETRANIX Corporate & Financial Communications AG :: Zurich

PHOTOGRAPHY
:: Steffen Jänicke

:: FIVE-YEAR OVERVIEW

KEY FIGURES AT A GLANCE

in €000's	2010	2009	2008	2007	2006
Revenue	989	1,861	2,969	1,376	3,664
Operating profit/loss	- 20,271	- 16,437	- 12,695	- 8,303	- 5,530
Net profit/loss for the year	- 20,075	- 16,107	- 11,854	- 8,130	- 5,540
Equity	31,210	50,909	37,158	19,616	7,854
Equity ratio	89.9%	94.4%	90.4%	88.9%	78.8%
Total assets	34,731	53,903	41,094	22,063	9,973
Cash flows from operating and investing activities	- 30,565	- 658	- 32,196	- 11,762	- 8,476
Cashflows from financing activities	0	28,833	29,207	19,575	4,120
Net change in cash and cash equivalents	- 30,565	28,175	- 2,989	7,813	- 4,356
Cash and cash equivalents	4,956	35,521	7,346	10,335	2,522
Cash balance/funds	17,607	35,621	21,846	17,193	4,471
EMPLOYEES					
Number of employees and Management Board members (annual average)	94	91	80	64	55
THE 4SC SHARE					
Earnings per share (basic and diluted) (in €)	- 0.52	- 0.54	- 0.51	- 0.57	- 0.50
Number of shares issued (annual average, in 000's)	38,503	29,753	23,436	14,225	11,125
Free float	100%	100%	100%	100%	64%
Annual high (Xetra) (in €)	3.51	3.50	3.80	3.98	5.44
Annual low (Xextra) (in €)	2.67	2.60	2.50	2.53	3.35
Closing price on balance sheet date (in €)	3.51	2.96	3.09	3.43	3.69
Market capitalisation on balance sheet date (in €000's)	135,145	113,968	88,073	65,176	42,292
Average daily trading volume (Xetra) (shares)	10,050	7,274	5,041	11,867	6,898

:: 4SC AG :: Am Klopferspitz 19a, 82152 Planegg-Martinsried, Germany
:: T +49 (0) 89 70 07 63 0 :: F +49 (0) 89 70 07 63 29

:: www.4sc.com