2012

ANNUAL REPORT

* ***Epigenetics:*** *Each and every human cell contains identical genetic information. What happens to a cell is determined by the way this information is processed. Epigenetics is the key to controlling this process. 4SC is one of the pioneers in this field of science. We develop epigenetic anti-cancer drugs.*

4SC at a glance

Headquartered in Planegg-Martinsried near Munich, 4SC is an innovative biotech company with a strong focus on research and development.

At 4SC, we concentrate on all aspects of the research and development value chain for small-molecule drugs with targeted mechanisms of action for use in the treatment of cancer and autoimmune diseases.

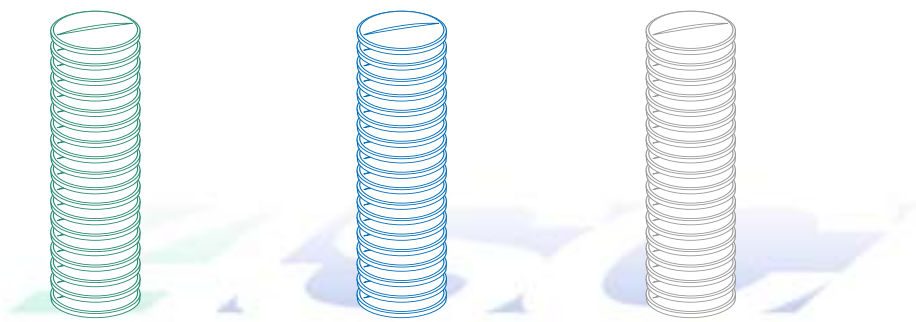
Our broad and balanced pipeline comprises promising products at various stages of clinical and preclinical development, as well as early-stage research projects. We focus on indications that address unmet medical needs coupled with considerable commercial potential. We wish to develop treatment options that offer a better side effect profile, improved efficacy and provide a better quality of life for affected patients.

4SC's three strategic pillars are early-stage pharmaceutical research; drug development; and the use of partnerships to promote and commercialise our drug programmes.

Research: Powered by our innovative, computerised technology platform and strengthened by our expertise in drug discovery, we efficiently investigate compounds for our own drug programmes and on behalf of customers from the biotech and pharmaceuticals sectors. Development: As a pioneer in innovative fields such as epigenetics, cancer stem cells, cancer immunotherapy and autoimmune diseases, we introduce our most promising substances into clinical development and work to develop these along the path to approval. Partnerships: We look to employ close partnerships with industry and academia in research, development and marketing in order to secure our commercial success.

4SC was established in 1997 and has been listed on the Prime Standard of the Frankfurt Stock Exchange since December 2005 (ISIN DE0005753818). We employ a total of 86 members of staff in the Group parent company 4SC AG and its wholly-owned subsidiary 4SC Discovery GmbH as at 31 December 2012.

In the 2012 financial year, 4SC achieved significant milestones in the research and development of its drug programmes, resulting in significant improvements to the Company's market position and return to its shareholders.



RESEARCH DEVELOPMENT PARTNERSHIPS

STRATEGIC PILLARS OF 4SC

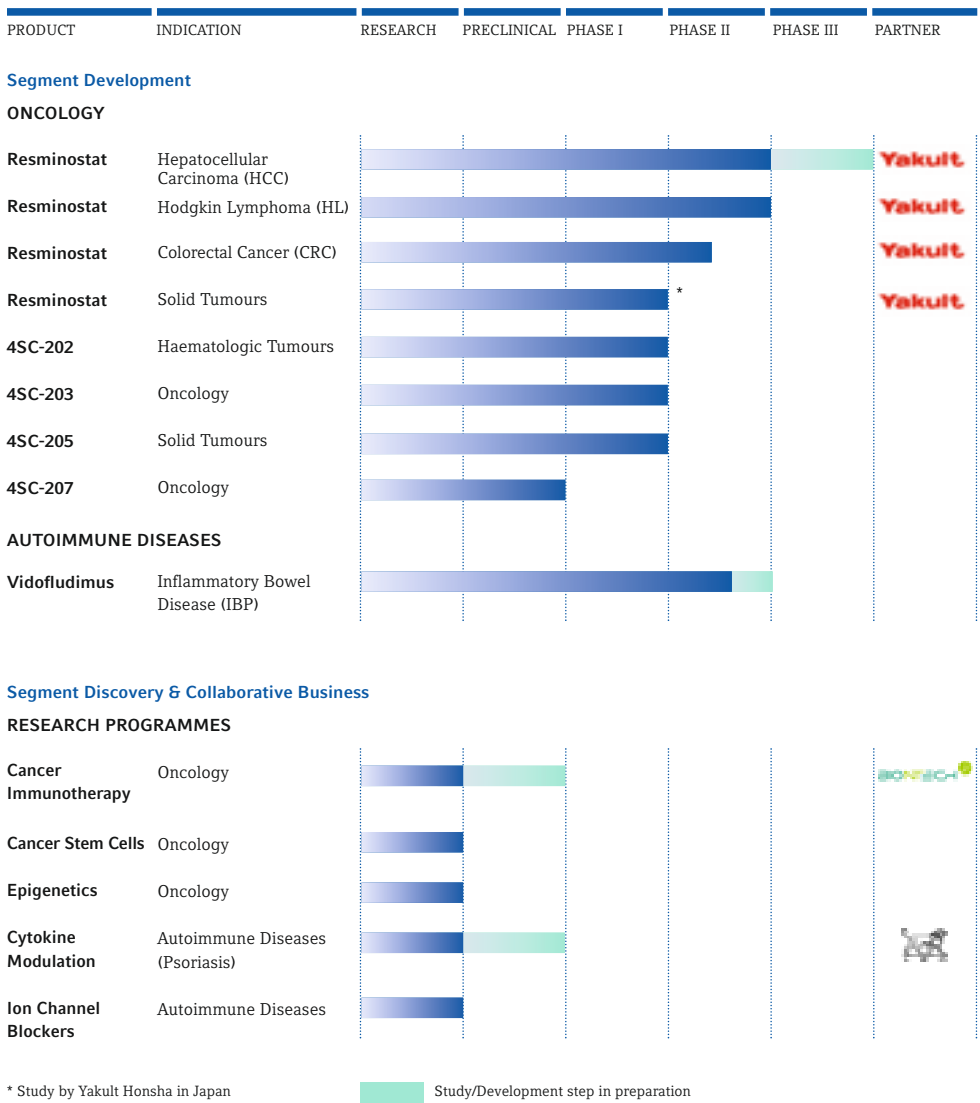
Product pipeline (as at 12 March 2013)

For a biotechnology company like 4SC, a sustainable product pipeline is a decisive factor for business success.

Thanks to a large number of medically promising substances in research and development, we are well positioned for 2013 and beyond. Our current product pipeline comprises five drug candidates in clinical development, as well as a series of programmes in preclinical development and in early-stages of research and drug discovery.

All our drug programmes are focused on the treatment of cancer and autoimmune diseases – in indications with a high unmet medical need and large commercial potential. These programmes focus on innovative fields of medical research such as epigenetics, cancer stem cells, cancer immunotherapy and autoimmune diseases.

It is our goal to work with strong partners from industry and academia to progress our drug programmes in clinical development along the path to approval. Thanks to our broad expertise and success in early-stage drug discovery, we are also capable of efficiently resupplying our own pipeline with new drug candidates.



* Study by Yakult Honsha in Japan

Study/Development step in preparation

> FIVE-YEAR OVERVIEW 4SC GROUP – KEY FIGURES AT A GLANCE

in € 000's unless stated otherwise

	2012	2011	2010	2009	2008
Financial performance, cash flows and financial position					
Revenue	4,353	780	989	1,861	2,969
Operating profit/loss	-13,366	-18,793	-20,271	-16,437	-12,695
Net profit/loss for the year	-13,217	-19,071	-20,075	-16,107	-11,854
Equity (at year-end)	21,813	23,533	31,210	50,909	37,158
Equity ratio (at year-end)	75.0%	73.9%	89.9%	94.4%	90.4%
Total assets (at year-end)	29,067	31,838	34,731	53,903	41,094
Monthly use of cash from operations (average)(1)	1,260	1,072	1,501	1,255	1,655[2]
Capital measures (net)	11,367	11,080	0	28,833	29,207
Cash balance/funds (at year-end)	12,064	15,820	17,607	35,621	21,846

	2012	2011	2010	2009	2008
Staff					
Total number of employees (incl. Management Board) (at year-end)	86	96	94	91	89
Number of full-time employees (incl. Management Board) (at year-end)	74	80	81	79	77

	2012	2011	2010	2009	2008
The 4SC share					
Earnings per share (basic and diluted) (in €)	-0.29	-0.46	-0.52	-0.54	-0.51
Number of shares issued (annual average, in 000's)	46,170	41,455	38,503	29,753	23,436
Free float on reporting date according to Deutsche Börse	30.0	26.4	19.4	19.0	29.4
Annual high (XEXTRA) (in €)	3.04	4.89	3.51	3.50	3.80
Annual low (XETRA) (in €)	1.26	1.20	2.67	2.60	2.50
Closing price on reporting date (XETRA) (in €)	2.03	1.23	3.51	2.96	3,09
Market capitalisation on reporting date (in €000's)	102,255	51,621	135,145	113,968	88,073
Average daily trading volume (all markets) (shares)	56,713	43,221	14,449	9,211	7,008

(1) Calculation: (Change in cash funds at year-end compared with the previous year + proceeds from the capital increase) / 12

(2) Excluding the acquisition of Nycomed's oncology projects for €14 million

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Highlights in 2012

> In the 2012 financial year, 4SC achieved significant milestones in research and development while making decisive progress in advancing its drug programmes towards market maturity. The company also further strengthened its positioning at both administrative and financial levels. Below are the most significant events of the year at a glance:

> January:

Resminostat: Efficacy in liver cancer demonstrated for the first time

In the clinical Phase II SHELTER trial with the epigenetic cancer drug resminostat, the primary endpoint is reached ahead of schedule – the first significant indicator of the efficacy of the drug in advanced liver cancer (HCC).

> February:

Vidofludimus: Anti-inflammatory mode of action confirmed

Preclinical data confirm vidofludimus' mode of action for inflammatory bowel disease and encourage 4SC to press ahead as planned with the next development step in this indication - a clinical Phase IIb trial.

> April:

4SC Discovery GmbH: Corporate partnerships with Henkel and CRELUX launched

The Group's subsidiary, 4SC Discovery, engages in research on the identification of new detergent ingredients with Henkel. Also, 4SC Discovery launches "i2c", a platform for drug discovery services with biotech company CRELUX.

4SC Discovery GmbH: Milestone payment received

In a research partnership with Sanwa Kagaku Kenkyusho, 4SC Discovery receives a contractually agreed milestone payment for enabling the Japanese pharmaceutical company to make decisive progress in developing a new compound.

> May:

Resminostat: Clinical development work starts in Japan

4SC's Japanese development and marketing partner Yakult Honsha starts a clinical Phase I trial to investigate the safety and tolerability of resminostat in Japanese cancer patients. Japan is a key strategic area of development for resminostat.

Resminostat: Presentation of further impressive efficacy data in liver cancer

Resminostat shows further clinical efficacy in advanced liver cancer (HCC) with excellent data on progression-free survival. The results of the combination therapy of resminostat with the drug sorafenib generate major interest at ASCO, the international cancer conference.

> July:

4SC AG: Capital increase successfully concluded

A cash capital increase from authorised capital with subscription rights brings 4SC gross proceeds of €12.6 million, further strengthening its equity base.

4SC Discovery GmbH: Expansion of early-stage research activities
4SC Discovery and CRELUX launch a collaboration with the biotech company Ribological for the discovery and optimisation of new cancer compounds – the first service partnership based on the i2c platform.

> **August:**

4SC AG: Supervisory Board bolstered with experienced pharmaceutical managers
Dr. Irina Antonijevic, Director of Clinical Research at Genzyme (Sanofi Group), and Klaus Kühn, former CFO of Bayer AG are elected to the Supervisory Board by the Annual General Meeting of 4SC AG.

> **September:**

Resminostat: Excellent survival data in liver cancer published
Second-line combination therapy involving resminostat and sorafenib in patients with liver cancer (HCC) achieves a median overall survival of eight months – the highest figure recorded worldwide to date in comparable studies and patient groups.

> **October:**

Resminostat: Patent protection granted in China
4SC extends patent protection for resminostat: In China, the world's third largest pharma market and the country with the highest number of liver cancer patients, 4SC is granted a Notification of Allowance by the state patent authority.

4SC Discovery GmbH: Grant for the development of personalised cancer drugs
4SC Discovery receives a €600 thousand grant from the m⁴ leading-edge cluster in Munich for the development of personalised cancer drugs in tumour immunotherapy.

> **November:**

Anti-cancer compound 4SC-202: Patent protection granted in Asia
4SC receives patent protection for its second epigenetic anti-cancer compound 4SC-202 in Japan, South Korea and India, thus strengthening its IP around the further development and future marketing in the commercially significant Asian oncology market.

> **December:**

Anti-cancer compound 4SC-205: Study expanded based on good Phase I data
4SC publishes promising results on safety, pharmacokinetics and biomarkers from the clinical Phase I AEGIS trial with 4SC-205 in cancer patients and initiates a study amendment to further investigate the compound.

Resminostat: Phase I trial endpoint in colorectal cancer met
The Phase I/II SHORE study confirms the safety and tolerability of resminostat in combination with chemotherapy treatment in colorectal cancer patients. This sets the stage for starting the study's second part, which will investigate efficacy.

4SC Discovery GmbH: First early-stage partnering deal agreed
4SC Discovery signs a license agreement with biopharma company BioNTech in the field of cancer immunotherapy. 4SC Discovery receives an upfront payment of €2.5 million and is entitled to future milestone and royalty payments.

Letter to the shareholders

Dr Bernd Hentsch*
Chief Development Officer (CDO)

Doctor of biology, born 1960, Management Board member since 2008

Responsible for:
Clinical & Preclinical Development, Pharmaceutical Development, Drug Supply

Dr Daniel Vitt*
Chief Scientific Officer (CSO)

Doctor of chemistry, born 1968, Founding member, Managing Director of 4SC Discovery GmbH since 2012

Responsible for:
Translational Pharmacology, Chemistry, Internal Services, Patent & Intellectual Property, Information Technology

Dr Ulrich Dauer*
Chief Executive Officer (CEO)

Doctor of chemistry, born 1965, Founding member, Chief Executive Officer since 1999

Responsible for:
Investor & Public Relations, Human Resources, Business Development, Strategic Planning & Marketing, Quality Assurance

Enno Spillner*
Chief Financial Officer (CFO)

Degree in business administration, born 1970, Management Board member since 2005

Responsable for:
Accounting, Controlling, Purchasing, Corporate Law

* As at 12.03.2013

Dear Shareholders,
Dear Friends and Partners of 4SC,

For 4SC, 2012 was a highly successful year. We have taken a decisive step towards achieving our vision of having a first 4SC drug approved. Our compound resminostat concluded the Phase II stage of clinical trials in liver cancer with excellent results, which have further improved the prospects for a future market launch.

I am pleased to say that there is a whole series of successful results to report in this year's 4SC Annual Report – results that ultimately are reflected in the more than 60% increase in enterprise value seen during the financial year. Our strategic and operational decisions have made 4SC a significant player in the international market for epigenetic compounds. In addition to the resounding success enjoyed by our main value driver resminostat, other innovative compounds also delivered positive results in clinical trials.

Our subsidiary 4SC Discovery GmbH, which was spun off at the beginning of the year, has positioned itself superbly in the market for pharmaceutical early-stage research. We have also employed strict cost controls, efficient resource usage and a successful capital increase to further strengthen 4SC's financial base. For 2013, the primary goal we have set ourselves for resminostat is to secure a collaborative venture with an international partner from the pharmaceutical industry. We want to work jointly towards starting, and

achieving positive results, in Phase III testing for resminostat in liver cancer. This will enable 4SC to further enhance its good standing in a market with a high medical need and tremendous economic potential.

(i)
Breakthrough with resminostat

Our epigenetic compound resminostat entirely fulfilled expectations in 2012. We presented resoundingly successful results in the treatment of liver cancer from the clinical Phase II SHELTER trial. What we – as pioneers in the field of epigenetics – started some years ago has now reached a point at which success in both medical and economic terms has finally become palpable.

Epigenetics is fast developing into a megatrend in cancer medicine. Today, the targeted modulation of the structural 'wrapping' of cellular genes lets us influence the genetic information contained within them. With resminostat, we want to exploit the mechanisms behind sensitisation to give patients with liver cancer the chance of a significantly greater rate of survival. We aim to halt and suppress the liver cancer cell resistance mechanisms that typically occur in response to the cancer drug sorafenib by using resminostat as a supplementary therapy. By applying this combination therapy in the SHELTER study, we achieved an average overall patient survival of eight months and thereby the highest figure so far achieved in comparable clinical trials of new therapeutic approaches in the second-line treatment of liver cancer.

Following publication of these successful results, interest in development and marketing rights for resminostat expressed by potential partners from the pharmaceutical industry has risen sharply. Our exclusive partnership for the Japanese market with prestigious Yakult Honsha Co., Ltd. dates back to 2011. Our goal is to tap resminostat's enormous potential on a global scale. To this end, we want to start a Phase III registration trial in liver cancer this year with an international pharmaceutical company.

(ii)
Massive market potential

Our successes with resminostat have not distracted us from focusing on our strategic goal of a well-stocked clinical pipeline. A sustainable pipeline is decisive for the company's long-term growth in value. In 2012, for example, we successfully pressed ahead with clinical Phase I testing for our two innovative cancer drugs – the epigenetic compound 4SC-202 and the cell division inhibitor 4SC-205. In the field of autoimmune diseases, we are continuing to work on preparations for a Phase IIb trial with our compound vidofludimus in the Crohn's disease indication, a type of inflammatory bowel disease. Good clinical data substantiate the compound's possible high potential in this blockbuster indication.

(iii)
Second pillar of operations

The start of operations at our subsidiary 4SC Discovery underpins the second pillar of our business: 4SC Discovery acts as a service provider for major pharmaceutical companies and industrial groups while partnering with innovative biotech companies. We have already acquired prestigious partners including Henkel and CRELUX. The growing trend toward outsourcing research activities in Big Pharma should drive further growth. 4SC Discovery focuses its activities on drug discovery and optimisation. 4SC Discovery is also pursuing cooperative ventures, so as to draw on the help of strong biotech and pharma partners to drive our own early-stage research programmes forward rapidly and effectively towards market maturity, and to share in their later marketing. We entered into our first early-stage licensing partnership for our cancer immunotherapy programme in late 2012 with the Mainz-based biopharma company BioNTech AG. In the first quarter of 2013, we also reported another key venture – a partnership with the prestigious Danish pharmaceutical company LEO Pharma A/S in the psoriasis indication. This

(iv)
Strategic partnerships

explosive start gives us cause to hope that we will be able to generate a balanced cash flow from our activities in this segment as early as 2013. This should mean 4SC can cover part of its capital requirements from its own business in the future.

(i)
Revenue growth and cost savings improve consolidated result

In 2012, we more than quintupled our consolidated revenue to €4.4 million. As a result of the successful conclusion of clinical trials, as well as strict cost control measures, research and development costs decreased further, thus substantially reducing our operating expenses. This in turn considerably improved our consolidated loss from operations, reducing it by more than €5 million to €-13.4 million. Our current expenses are well-balanced against the major prospective opportunities we are procuring via our research and development work. The successful capital increase in 2012 has given us a solid financial base and puts us in an excellent position to master forthcoming tasks.

(ii)
Pursuing our vision

In 2013, we will once again make every effort to make our vision of having the first 4SC-branded drug a reality. We are focusing our efforts on starting a resminostat registration trial with a strong international partner. We want to systematically fortify our development pipeline and press ahead with clinical testing for our compounds. We will work to step up the promising development of 4SC Discovery and further optimise our service portfolio.

It goes without saying that every one of our employees at 4SC has a decisive role to play in our success. Their daily dedication and outstanding commitment are part and parcel of our success. We would like to take this opportunity to thank all of our employees for their continued support.

We also want to express our heartfelt thanks to our customers, business partners and shareholders. We will continue to give you our very best in the future and will ensure that our work together makes 2013 into another successful year for 4SC.

Please allow me to add a few personal remarks: As we announced on 6 March 2013, I decided to resign effective 31 March 2013 for personal reasons after serving as the CEO of 4SC AG for 13 years. I regard it as a privilege to have shaped 4SC over such a long period of time together with a unique team of employees and Management Board colleagues. The Supervisory Board has appointed our Chief Financial Officer, Enno Spillner, as my successor. Together with Daniel Vitt and Bernd Hentsch, he will ensure continuity in the Company's management. I am convinced that 4SC will continue its successful development in the future and I will remain on amicable terms with the Company. Thank you very much for your support over the past years.

Yours sincerely,

Planegg-Martinsried, March 2013

Dr Ulrich Dauer
Chief Executive Officer

> **Dr. Thomas Werner**
Chairman of the Supervisory Board

– Management consultant,
Utting am Ammersee

Additional positions:
– Basilea Pharmaceutica Ltd., Basel, Switzerland (Member of the Board of Directors)
– Blackfield AG, Cologne (Member of the Supervisory Board)
– BSN medical GmbH, Hamburg (Member of the Advisory Board)
– Medigene AG, Planegg-Martinsried (Member of the Supervisory Board)
– SkyePharma PLC, London, UK (Non-Executive Director)
– SuppreMol GmbH, Munich (Deputy Chairman of the Advisory Board)

Dear Shareholders, Ladies and Gentlemen,

2012 was an eventful and successful year for 4SC. The Company reached important operating milestones and further advanced its research and development programmes. Very good efficacy data were demonstrated in a Phase II clinical trial with resminostat, 4SC's lead oncology compound, in the treatment of advanced liver cancer. On this basis the Company is currently working on preparations for a Phase III study in order to achieve market approval in this indication, preferably together with a pharmaceutical partner. 4SC Discovery GmbH, the Group's subsidiary founded at the end of 2011 for the commercialisation of early-stage research, also looks back on a successful first year of business.

We, the Supervisory Board, feel that the achievement of these milestones means that 4SC is still on the right track and is consistently adhering to corporate strategy.

It is our opinion that a constructive and trusting collaboration between the Supervisory Board and the Management Board is an essential part of good corporate management.

In our capacity as the Supervisory Board, we regularly advised and monitored the Management Board in the pursuit of its executive responsibilities and worked closely

with it to support the Company's development in the past year – as we are required to do under law, the Company's Articles of Association and our rules of procedure. Once again, the cooperation with the Management Board was open and constructive in 2012 to thoroughly discuss and coordinate all relevant issues and pending decisions of fundamental importance.

Change in the composition of the Supervisory Board

In addition to myself – Dr Thomas Werner – as Chairman of the Supervisory Board, and the Deputy Chairman, Klaus Kühn, the other members of the Supervisory Board at the end of 2012 were as follows: Dr Irina Antonijevic, Dr Clemens Doppler, Helmut Jeggle and Dr Manfred Rüdiger.

There were several changes in the composition of the Supervisory Board and the committees during 2012: After more than ten years of service on the Supervisory Board of 4SC AG, Dr. Jörg Neermann resigned from his office as a member and Chairman of the Supervisory Board effective 31 May 2012.

In addition, Günter Frankenne resigned from this post as a member of the Supervisory Board, effective from the end of the Annual General Meeting on 6 August 2012. On behalf of the Supervisory Board, I would like to thank Dr. Jörg Neermann and Günter Frankenne for their commitment and their successful work for the Company.

The Annual General Meeting on 6 August 2012 appointed Dr. Irina Antonijevic (Director Clinical Research at Genzyme Corporation (Sanofi Group)) and Klaus Kühn (former member of the Management Board of Bayer AG) to the Supervisory Board for the remaining term of office of the two departed members.

These personnel changes also led to changes in the composition of the committees. For more information on this please refer to the table in this Report of the Supervisory Board.

Close cooperation with the Management Board

The Management Board informed us in a continuous, timely and comprehensive manner of significant changes and developments. The Supervisory Board was thus involved at all times in all material decisions relevant to the Company.

At the Supervisory Board meetings, the Management Board reported to us on the Company's performance and explained any deviation from plans and targets. We closely examined and asked questions about all topics presented to us and discussed these with the Management Board in the required level of detail. We exhaustively discussed strategic projects and business transactions as well as other relevant key topics with the Management Board. Legal transactions requiring our approval were always discussed with us and presented to us for approval both during and outside the Supervisory Board meetings.

In the 2012 financial year, the Supervisory Board continued to believe that there was no reason to conduct additional examinations, such as inspecting the Company's documentation or commissioning experts.

The Management Board used extraordinary strategy meetings, monthly written 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.

Meetings of the Supervisory Board in 2012

The Supervisory Board held four ordinary meetings, one extraordinary meeting and two strategy meetings in 2012. Five teleconferences were also held. All members of the Supervisory Board attended these meetings – with individual exceptions. No one member missed more than half of the meetings.

Our meetings in 2012 focused on the results of the clinical trials with resminostat, as well as on potential and concrete partnership agreements for individual drug programmes. Other matters addressed were the Company's financing and strategic direction. In particular, the promising data from the Phase II resminostat trial in the liver cancer indication make us very optimistic. In this respect we, the Supervisory Board, are delighted that the Company has succeeded in completing a capital increase in July 2012 in spite of the difficult capital market conditions.

The first Supervisory Board meeting on 14 March 2012 focused on the adoption of the Company's annual financial statements for 2011 and the approval of the consolidated financial statements, the start of operations of the subsidiary 4SC Discovery GmbH, the status of research collaborations and the clinical programmes, strategic considerations, and the further financing of the Company.

During its second meeting on 6 August 2012 following the Annual General Meeting, the Supervisory Board was reconstituted. In addition to the re-election of the existing Supervisory Board committees, a new committee for research and development was established in order to enable the Supervisory Board to advise and monitor this area of key importance for the Company even better in future. Our discussions also prioritised the follow-up analysis of the 2012 capital increase, as well as the further cost-based focus on the Company's main value drivers. Another focal issue was the discussion of additional partnership opportunities for vidofludimus and resminostat. We also discussed early partnerships in the context of 4SC Discovery GmbH.

The third meeting on 8 and 9 October 2012 focused on the Company’s medium- to long-term strategic focus. To this end, this meeting was extended to include a strategy section, at which experts reported on the various indication areas of 4SC's drug candidates. At the actual meeting, we considered the further corporate and strategic direction of the Company, current developments relating to corporate governance, as well as the status of the Group's partnership activities and the research collaborations of 4SC Discovery GmbH.

At an extraordinary meeting on 22 November 2012, we concerned ourselves solely with the future partnering strategy for the individual drug candidates.

The final regular meeting on 6 December 2012 focused on the licensing activities relating to resminostat and vidofludimus. We also discussed and adopted the budgets for the years 2013 to 2015 and considered to what extent 4SC's targets for 2012 were met. Issues relating to corporate governance were among the topics discussed after that.

Four committees make the Supervisory Board's work more efficient

In order to further increase the efficiency of our work, we formed four Supervisory Board committees – an Audit Committee, a Human Resources Committee, a Business Development Committee and – in August 2012 – a Research & Development Committee.

In our view, a 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 and carry out this function in the full Supervisory Board. 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 Audit Committee met five times via conference call, in part in the presence of KPMG AG, the auditor. At these meetings, the committee members discussed the respective interim reports during the reporting year, for example. The Audit Committee met in person on 22 November 2012 to discuss in detail the budget for the years 2013 to 2015. Of the Audit Committee members, the chairman Klaus Kühn in particular qualifies as an independent financial expert as defined by section 100(5) and section 107(4) of the German Stock Corporation Act (Aktiengesetz – AktG) for he has the relevant expertise on the basis of his qualifications and professional experience as the former CFO of Bayer AG.

The Business Development Committee conducted one meeting via telephone in 2012. Discussions focused on the status of the licensing and cooperation projects, the strategic focus of business activities, as well as the initiation and consideration of further licensing partnerships in connection with the Company's development programmes.

The Human Resources Committee convened twice in the year under review, once for a video conference to introduce Dr. Antonijevic as a Supervisory Board candidate, and once for a telephone conference to discuss matters relating to corporate governance and the remuneration of the Management Board.

The Research & Development Committee convened once in 2012 for a telephone conference. During this conference the committee discussed the clinical and scientific data on resminostat and vidofludimus, as well as the future interaction between the Management Board and Supervisory Board with regard to scientific matters.

Approved annual financial statements for 2012

The Company's Annual General Meeting on 6 August 2012 elected KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, to serve as the auditor of the financial statements for the 2012 financial year. KPMG audited the single-entity financial statements of 4SC AG prepared in accordance with requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the 2012 consolidated financial statements of the Group managed by 4SC AG prepared in accordance with the International Financial Reporting Standards (IFRS), as well as the combined management report, issuing an unqualified Auditors' report. The Management Board made these financial statements and the combined management report as well as the audit reports available to us in due time ahead of our meeting on 12 March 2013. The Audit Committee discussed and examined information on the current single-entity financial statements and consolidated financial statements with the auditor and the Company's Management Board in a meeting and a conference call and subsequently reported its deliberations to the Supervisory Board during its meeting on 12 March 2013. During this meeting, the

Supervisory Board discussed and examined the financial statements and the combined management report. The assessments made by the Management Board in the combined management report were consistent both with those previously communicated in its reports to the Supervisory Board and our own assessments. The auditor reported to the Audit Committee and the full Supervisory Board on the key findings of its audit and was 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. Since it was determined at this Supervisory Board meeting that a loss amounting to half of the Company's share capital had occurred, the Management Board and the Supervisory Board decided to adjust the report on events after the reporting period and the risk report accordingly and ask the auditors to audit these reports once again. We then agreed with the auditor's findings on the audit of the annual financial statements and on 15 March 2013 approved the annual financial statements as drawn up by the Management Board.

The annual financial statements of 4SC AG are thereby adopted and the consolidated financial statements of 4SC are thereby approved.

Importance of corporate governance

Finally, we, as the Supervisory Board, would like to address the German Corporate Governance Code: 4SC takes the Code's recommendations very seriously and complies with them with a few exceptions. In its most recent Declaration of Compliance dated 25 February 2013, the Management Board and the Supervisory Board therefore stated that they were and are in compliance with the recommendations of the German Corporate Governance Code (GCGC) as amended on 15 May 2012 and intend to be in compliance in the future - with the exceptions mentioned in the Declaration of Compliance.

As the Code in 2012 mainly provided for amendments relating to the independence of Supervisory Board members, the Supervisory Board looked intensively at this issue during its meeting on 6 December 2012 and after this meeting amended its objectives for the composition and the rules of procedure of the Supervisory Board in this respect.

	Supervisory Board	Audit Committee	Human Resources Committee	Business Development Committee	Research & Development Committee (new from 06.08.2012)
Dr. Thomas Werner	C (from 13.06.2012; previously: DC)		C (from 13.06.2012; previously: M)	C	M
Klaus Kühn	DC (from 06.08.2012)	C (from 06.08.2012)		M (from 06.08.2012)	
Dr. Irina Antonijevic	M (from 06.08.2012)				C
Dr. Clemens Doppler	M	M	M (from 06.08.2012)	M (until 06.08.2012)	
Helmut Jeggle	M	M (from 06.08.2012; previously: C)	M		
Dr. Manfred Rüdiger	M (DC from 13.06. to 06.08.2012)			M	M
Dr. Jörg Neermann	M + C (until 31.05.2012)		C (until 31.05.2012)		
Günter Frankenne	M (until 06.08.2012)	M (until 06.08.2012)			

C = Chairman, DC = Deputy Chairman, M = Member

For a company with our shareholder structure we consider a number of at least three independent members to be appropriate in accordance with the German Corporate Governance Code. We also reached the conclusion that this objective is currently fulfilled, since even taking the Code's new definition of independence into consideration, at least five of the six Supervisory Board members can be qualified as independent in the sense of the Code. Based on their own assessment, all members of the Supervisory Board also concluded that none of them have any conflicts of interest. Helmut Jeggle, however, concluded that potential conflicts of interest cannot be ruled out per se, given that he is also an employee of 4SC AG's major shareholder.

Conflicts of interest and their handling

Helmut Jeggle did not participate in the discussions and resolutions of the Supervisory Board in connection with the licensing agreement announced on 17 December 2012 between 4SC subsidiary 4SC Discovery GmbH and BioNTech AG because, in addition to being a member of 4SC's Supervisory Board, he is also Chairman of the Supervisory Board of BioNTech AG.

For more information on this please refer to the corporate governance report in chapter 1.2 of the Company's combined management report for 2012. This section also contains the Declaration of Compliance.

The efficiency review of the Supervisory Board members' work recommended by the GCGC 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. The results were discussed at the extraordinary Supervisory Board meeting on 1 February 2013 and the efficiency review for 2012 was finally approved.

On 6 March 2013, Dr Ulrich Dauer has informed the board of his intent to resign from his post as Chief Executive Officer and Member of the Management Board effective 31 March 2013 for personal reasons. On behalf of the Supervisory Board of 4SC AG, I wish to thank Dr Ulrich Dauer for his successful work over many years and his outstanding commitment to the Company.

Enno Spillner, the Company’s Chief Financial Officer since 2005, has been appointed by the Supervisory Board as the new Chief Executive Officer of 4SC AG with effect from 1 April 2013.

In the past financial year 2012 we reached important strategic milestones in the Company's research and development programmes. This is the basis for what promises to be an exciting 2013 for the Company. The Supervisory Board would like to thank the members of the Management Board and all employees for their good work and their high level of commitment.

Planegg-Martinsried, March 2013

Dr Thomas Werner
Chairman of the Supervisory Board

4SC on the stock markets

> **Shares of 4SC posted an impressive gain of 61.1% in 2012, significantly outperforming the overall market and the relevant benchmark indices. This excellent performance was especially attributable to the continued positive clinical results delivered by 4SC's lead oncology compound resminostat in the liver cancer indication. During the reporting period, the company also strengthened its financial base through the successful placement of a capital increase.**

Capital markets remain jittery

The equity markets were extremely volatile in 2012. A strong uptrend in the world's most important benchmark indices at the beginning of the year was followed by sobering developments in the second quarter, when concerns surrounding the "Greek crisis" and the sovereign debt problems in major economies wiped out broad-based price gains around the world. The financial markets did not calm until the second half of the year. The equity markets recovered, ending the year with new highs prompted by statements from the European Central Bank and the US Federal Reserve about their plans to continue to support the markets in the long term with a supply of cheap money. The resulting low interest rates and the continuing anxiety about inflation reinforced the trend towards investment in tangible assets.

Share price increases by 61%

4SC shares started 2012 on an impressive note. In January, the anti-cancer drug resminostat indicated evidence of its efficacy in the Phase II clinical trial in the liver cancer indication for the first time. This lifted the share price from its opening price of €1.26 (XETRA) on 2 January – also 4SC's low for the year – by over 140% within a few weeks to a high for the year of €3.04 on 6 February 2012. Positive reports on the anti-inflammatory effect of vidofludimus generated sustained interest among capital market participants. In the consolidation phase that followed, the share price moved sideways within a range of €2.15 to €2.75 until the beginning of June 2012. At the end of May, the 4SC share price increased around 15% after resminostat delivered further compelling Phase II data in the treatment of liver cancer.

Capital increase placed successfully

In July, the company successfully concluded a capital increase from authorised capital with subscription rights, which generated gross proceeds of €12.6 million. Due to the discount offered as part of the capital increase and the dilutive effect, the share price initially fell to approximately €1.60 before stabilising, in the months that followed, at around €1.50, the issue price of the new shares. The publication in September 2012 of excellent results on the overall survival rate of the liver cancer patients treated with resminostat in a Phase II trial gave a further boost to the company's shares, which gained around 50% in value. 4SC shares were trading at €2.25 on 17 September 2012. In the fourth quarter, they then moved sideways to trade at between €1.85 and €2.25. The market rewarded the positive results from the clinical Phase I trial of the anti-cancer compound 4SC-205 at the beginning of December 2012 with gains of over 15%. Further positive company news at year-end stabilised the share price at more than €2.00. On 28 December 2012, the share closed the year at €2.03, demonstrating strong performance of 61.1% for 2012.

4SC outperforms benchmark indices

4SC shares outperformed both the overall market and the other sector specific benchmark indices. The DAX and the SDAX posted gains of 29% and 19%, respectively, in the same period. A comparison with the subindices for the biotechnology sector shows a similar picture. For example, the German DAXsubsector Biotechnology Index (German SIN: 723801) gained 35% in 2012, while the US Nasdaq Biotechnology Index (German SIN: 617026) increased by 30%.

Larger free float and higher trading volume

The successfully placed capital increase raised the number of shares issued to 50,371,814. A total of 8,403,510 new shares were issued at a price of €1.50 per share. The transaction was recorded in the Commercial Register on 3 July 2012. The new shares were admitted to trading on the Frankfurt Stock Exchange on 24 September 2012. The capital increase raised the free float as defined by Deutsche Börse to around 30%. On the whole, the company has a solid shareholder structure with strong, long-term anchor shareholders. The largest shareholder is still Santo Holding. As far as the company is aware, the other major shareholders are FCP, DVCG/VCG, Heidelberg Capital and Roland Oetker. The founders and management have a stake in the company of slightly above 2%.

> KEY FIGURES OF THE 4SC SHARE AS AT 31.12.2012

German SIN	575381
ISIN	DE0005753818
Stock exchange symbol	VSC
Type of shares	Bearer shares
Number of shares	50,371,814
Market segment	Prime Standard
Stock exchange	XETRA and all German stock exchanges
Designated sponsors	Close Brothers Seydler Bank AG, Donner &Reuschel Aktiengesellschaft
First day of trading	15 December 2005
Earnings per share (basic and diluted) (in €)	-0.29 €
Number of shares issued (annual average)	46,170,059
Free float	30.0%
Annual high (XETRA) (in €)	3.04 €
Annual low (XETRA) (in €)	1.26 €
Closing price on reporting date (XETRA) (in €)	2.03 €
Daily trading volume (all trading venues, annual average)	56,713

Through the increase in the free float, the shares of 4SC became more attractive to a broader group of investors. The average daily trading volume on all German trading venues, including Tradegate, increased from 43,221 (2011) to 56,713 shares (2012), an increase of 31.2%. Of this figure, 30,434 shares were traded on the XETRA electronic trading system in 2012, compared with 26,307 in 2011 (+15.7%).

Intensive investor relations activities

In 2012, 4SC continued its highly active, transparent communication with the capital markets and all key stakeholders. Its goal was to provide detailed explanations of the 4SC business model, the company's current situation, and the development and prospects of the clinical products. The continuous dialogue with investors, analysts, the business and financial press and retail investors as well as participation in capital market events drew increased attention to the 4SC share, raising the company's visibility and the share's liquidity.

> Shareholder structure

Based on an estimate by 4SC's management as at 12.03.2013

	in Percent
Santo Holding	48.10
FCP	9.91
DVCG/VCG	6.13
HeidelbergCapital	5.86
Roland Oetker (ROI)	3.34
Founders & Management	2.31
Others	24.35
Total	**100.00**

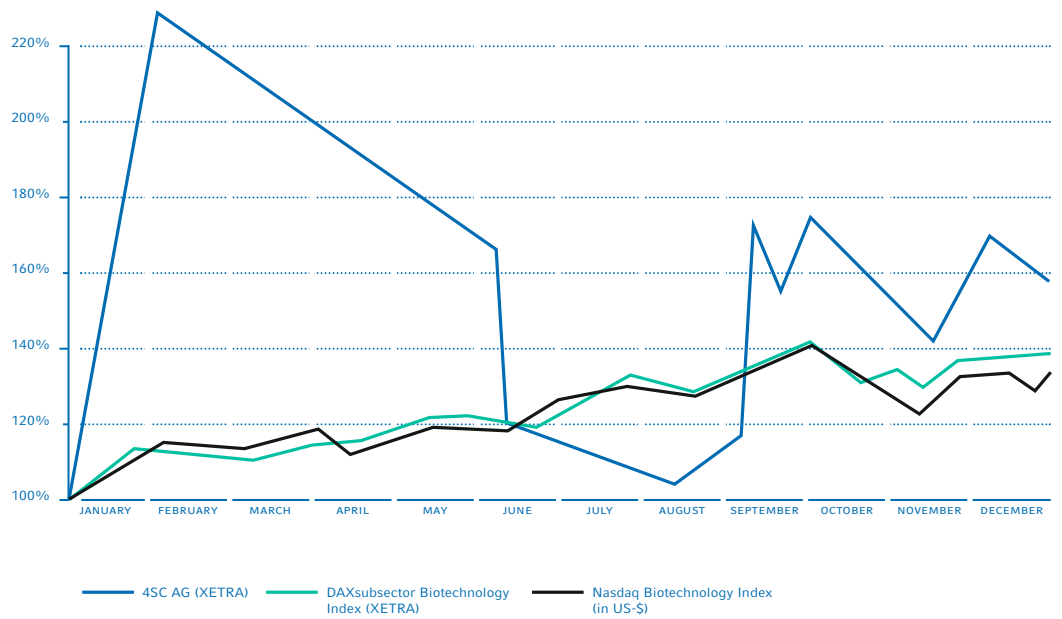
> Average daily trading volume (all trading venues) 2010 - 2012

	Number
2010	14,449
2011	43,221
2012	56,713

In 2012, 4SC attended a number of investor conferences, including:
– CBS German Small and Mid Cap Conference, Frankfurt
– Credit Suisse Global Healthcare Conference, London, United Kingdom
– Kempen & Co Annual Healthcare Conference, Amsterdam, the Netherlands
– Future Leaders in the Biotech Industry Conference, New York, USA
– BioEquity Europe, Frankfurt
– German Equity Forum, Frankfurt
– Jefferies 2012 Global Healthcare Conference, London, United Kingdom

Analysts from the following banks and brokers regularly covered the Company in 2012: Edison Research (London), equinet (Frankfurt), Kempen (Amsterdam) and M.M. Warburg (Hamburg).

> SHARE PRICE (in %, indexed on 4SC AG in 2012)



Epigenetics

Epigenetics as a megatrend: Why do twins develop differently, although they both share the same genetic code? 4SC develops new anti-cancer drugs based on epigenetics.

Our genetic operating system

As the new millennium dawned, medical research had nearly reached its target. Or so researchers thought. With the decoding of the human genome, the way seemed clear for identifying, treating and curing what had before been incurable illnesses. And, sure enough, individual genes had been identified that cause specific illnesses, such as cancer. Yet this genetic data, embedded deep in the DNA, was activated in some cases but not in others. No one knew why. We had the human genome – and thus all of the 'hardware' and its data – at our fingertips. What was lacking, however, was knowledge of the 'operating system' responsible for the structure and the scope of data processing.

The megatrend in biotechnology

Around 10 years ago, 4SC was one of the very first pioneers to start working on tackling this 'software problem' in human DNA. Why do monozygotic twins develop differently, although they both share the same genetic code? Why does one person fall ill and another person not, even though they both share identical genes? A hidden code had to be the answer. Epigenetics – i.e. research on the details of the human genome – was the solution. This branch of science rapidly established itself as a hot topic in biotechnology. Today, it represents a megatrend in drug discovery and especially in cancer research.

Switching genes on and off

In collaboration with prestigious research institutions and experts in medical and pharmaceutical science, 4SC set about discovering the epigenetic code to our genes. For our part, we wanted to crack the code in relation to cancer and thus decipher the ways in which the operating system communicates with the data held in our genes, i.e. how it executes and manages this information. While research on the interplay of epigenetic regulatory patterns is still in its infancy, we have already gained some important insights. As one example, we now know that the effects of genes on mind and body are influenced by the degree to which they are activated. This insight suggests we could very well be in a position to utilise external factors to switch bad genes off and good genes on – as if they were light switches – without needing to manipulate the basic pattern of our DNA.

Application software: small-molecule drugs

If we define our genes as the hardware and the epigenetic code as the operating system, then compounds with epigenetic activities are the 'applications' or 'service packs' with which diseases such as cancer can be treated and monitored in the future – and perhaps, one day, even be cured. 4SC has set itself the objective of becoming a leading company in the discovery and development of innovative small molecule drugs for the major indications of autoimmune diseases and cancer. In so doing, we want to furnish an improved therapeutic benefit for the affected patient groups – and give them new hope.

Cancer: the Damoclean sword of our time

Cancer is our modern Sword of Damocles. As people age, the pathological change of cells occurs with increasing frequency. This makes the disease a constant entity in our society. For many types of cancer, medicine has yet to achieve a decisive breakthrough, despite decades of concentrated effort. The chance of making a major contribution to combating this disorder is something that motivates our daily work at 4SC. The epigenetic regulation of tumour cells is currently attracting a lot of interest. We are focusing on the epigenetic principle behind the sensitisation of cancer cells in order to develop new therapeutic models.

Fighting resistance, reprogramming tumour cells

One major obstacle found in modern cancer therapies is the development of resistance. Conventional drug treatment programmes expose the tumour cells to permanent stress, to which they often respond by walling themselves off. Initial progress made by treatment is thereby slowed or even halted. Yet epigenetic research has shown that all tumour cells have one thing in common: they generally exhibit an altered epigenetic code. With an appropriate compound, we want to reprogram this code by directly influencing the methods used to access the cell's inherited information. This targeted alteration of cellular informational transfer should prevent cancer cells from being able to wall themselves off and ensure they once again respond to conventional cancer therapies. In other words: they are to be "sensitised".

Pioneer in developing new compounds

4SC is one of the first companies in the world to have started developing a new generation of drugs based on the concept of sensitisation. The results are encouraging: In several trials, we have been able to show that combination therapy with our epigenetic compound resminostat either restores or significantly improves the efficacy of other, conventional cancer drugs.

Resminostat for the treatment of liver cancer

At 700,000 deaths per year, liver cancer is the third-highest cause of death from cancers worldwide. As things stand, the compound sorafenib is the only conventional drug available for treating liver cancer. Such treatment often enjoys very limited success, however, since the tumour cells stop responding to this drug after just a short while. In clinical tests, we have already been able to provide convincing evidence for the efficacy of our substance resminostat in liver cancer. We now want to provide further proof of this in a global registration programme. The sensitisation of liver cancer cells by resminostat should suppress the process of developing resistance to sorafenib therapy and enable patients to have a significantly longer life with the disease. 4SC will therefore be prioritising the registration of resminostat as a combination therapy with sorafenib for liver cancer.

New mode of action for cancer medicine: Using the epigenetically induced sensitisation of tumour cells, 4SC aims at preventing the development of tumour cell resistance against conventional anti-cancer drugs.

Sensitisation

Research

Drug discovery: 4SC scientist Dr Sylvia Prütting measures the electrical stimulation of ion channels in cells using a patch clamp. 4SC investigates new compounds against autoimmune diseases based on ion channel inhibition.

From scientific computing to smart chemistry

Before a drug is launched on the market, many years pass, during which it must prove its worth in tests and clinical trials. Time thus becomes a key factor of success in the biotech and pharma sectors. For 4SC, this insight was the green light for its successful history to date. From the very start – in 1997 – the four company founders specialised in smart chemistry, developing a computerised rapid screening system for use in early stage drug discovery. This system was used to identify and optimise the chemical compounds that formed the basis for developing a new drug. The Company's business model and name – 4SC ("Fo(u)r Smart Chemistry") – were born. What was a unique level of expertise at the time enabled us to generate our own compounds for development quickly and efficiently: The technology start-up developed into an integrated biotechnology company whose scope of operations ranges from early-stage drug discovery to advanced clinical drug development.

The foundation of our success

Research is the foundation of our success. Today, 4SC is a strong market player in drug discovery thanks to its computer-based technology platform, its high level of competence in small molecule chemistry and its in-depth medical expertise in drug research. We now need only the briefest of periods to identify and test a wide range of compounds. Together with our partners, we handle the entire value chain in pharmaceutical early-stage research – from conceptual work on the compound through to the start of clinical development.

Feeding the pipeline

This also ensures we keep our own clinical development pipeline well-stocked with compounds, thus securing long-term growth for our business. 4SC focuses research on areas with strong future potential – such as epigenetics, cancer immunotherapy, cancer stem cells and autoimmune diseases. Our research scientists also support the crucial transition from discovery to clinical development and retain a key role in the overall development process on the path to market maturity.

4SC Discovery: cutting costs for Big Pharma

In the pharmaceuticals industry, the trend for outsourcing in-house research continues unabated. Cost pressures and a focus on core business are both fuelling demand from pharmaceutical companies for the buying-in of external research services. 4SC picked up on this trend early on, spinning off the subsidiary 4SC Discovery GmbH: this company consolidates all of 4SC's research involving its own compound pipeline and increasingly provides support to external partners and customers. Thanks to our services, our partners can research their own compounds more efficiently while reducing their own capital needs. 4SC Discovery - both alone and together with its marketing partner CRELUX GmbH - has rapidly gained a good reputation in the market and launched joint ventures with prestigious companies. Our subsidiary is superbly positioned to continue its fledgling success story.

Speed is nothing without control

A key maxim in motor racing is that "Speed is nothing without control". This maxim is also true in both the biotechnology and pharmaceutical industries. It is no use being able to identify compounds rapidly and efficiently if you are unable to exploit this ability to achieve real results. Only if we control the drug development process selectively and expediently will we be able to turn innovative research results into mature products for the market. At 4SC, we have therefore established clinical drug development as one of our core competencies. Our success is based on first selecting the right compounds with the highest therapeutic and economic potential in the fields of cancer and autoimmune disease therapy. Here we make every effort to work with partners on the shortest route to market maturity.

Clinical development as a key value driver

Clinical development is the most important value driver in our business. The essential task in the drug development process is to establish proof of the drug's safety and efficacy via comprehensive testing conducted in three phases of trials. The application for market approval completes this process. As for any research-based pharma or biotech company, 4SC's work here is governed by a stringent set of regulations. Yet even under these circumstances, our integrated approach and our substantial pharmacological expertise means we regularly excel in our field. As one example, our research unit that supports the development process regularly investigates new biomarkers in order to analyse specific mechanisms of action across a range of patient populations and thus promote efforts towards personalised medicine.

Development collaboration

As with research, 4SC's work here also involves collaboration with prestigious partners. Clinical drug development is a time-consuming and expensive process. Collaboration with partners – which accelerates and streamlines the process – is therefore an important success factor. 4SC therefore signed its first exclusive license agreement for the Japanese market with Yakult Honsha at an early stage. Over the next few years, we will work together on the further development of our epigenetic compound resminostat against liver cancer and other tumour disorders, and pursue registration in Japan.

Blockbusters on board

4SC currently has five compounds in clinical development: the two most advanced compounds have already successfully passed Phase II testing. For resminostat – a highly innovative epigenetic anti-cancer compound – we are now preparing the pivotal Phase III registration trial in liver cancer. We intend to start this trial soon with an international partner. Our second advanced compound, vidofludimus, has also produced a convincing set of results in an initial Phase II trial in inflammatory bowel disease. Both compounds are very well-placed to become major blockbusters.

Clinical development: By examining cell culture samples, 4SC scientist Dr Hella Kohlhof analyses the effect of 4SC's drugs on certain signalling pathways in order to establish biomarkers for clinical trials.

Development

Partnerships

Partnership in the preclinical development of anti-cancer drugs: Professor Dr Stefan Endres, Head of the Department of Clinical Pharmacology at the Medical Clinic of the University of Munich (left), and Dr Stefan Strobl, Managing Director of 4SC Discovery GmbH.

Keeping our eye on the prize

In 2013, 4SC is poised to begin a new chapter in the history of the Company. In 1997, we started out as a technology services provider for the pharmaceutical research sector. Today, we are an integrated biotechnology company with a promising portfolio of new drugs to counter cancer and autoimmune diseases and a strong research division. One integral part in this context is played by our compound resminostat, which we want to bring into the third - and last - phase of clinical testing together with an international partner. The planned registration trial for resminostat in liver cancer should then act as the springboard for the worldwide market launch of the first small molecule 4SC-labelled drug with blockbuster potential. We want to use this to achieve market breakthrough and demonstrate the success of our business model.

Open corporate culture and the partner network

The fight against cancer and autoimmune diseases cannot be won alone. For this reason, partnerships play an important role at all levels of our business: in early-stage research, in clinical development and in the marketing of our products. In choosing epigenetics and cancer immunotherapy, we are focusing on recent fields of research, which are highly promising and which will see dynamic growth in the years and decades to come. To make the best of this potential, we at 4SC have worked to create an open corporate culture – both internally and in our networks with our numerous collaboration partners. Our success is the success achieved by our employees as well as our partners at universities and research institutions, among doctors, and at clinics and other companies.

Strong roots

The size of a tree's roots will decide how tall and sturdy it becomes. Research forms the roots of our business. It is a key factor for our growth and our ultimate size – both as a source of new compounds for our own drug discovery work and as a knowledge base underpinning our successful service business. This is why we founded 4SC Discovery GmbH. Our new subsidiary has opened up our research activities for third parties and already succeeded in acquiring renowned customers such as Henkel.

Strong partners

For a tree to stay healthy in root and branch and produce ripe fruit, one needs enough fertiliser and strong helpers for the harvest. This is why 4SC utilises joint license and marketing ventures with strong companies from the biotechnology and pharmaceuticals industries. After all, securing the best-possible yield from our work is crucially dependent on our success in developing our promising drug programme in attractive indications to market maturity. With companies such as Yakult Honsha, LEO Pharma and BioNTech, we have already found reliable companions for several of our research and development programmes. We want to pursue this strategy in order to generate substantial patient benefit with our drugs while creating long-term value for 4SC's shareholders, employees and partners.

Products and markets

> 4SC is a discovery and development company of targeted, cost-effective small molecule drugs for the treatment of autoimmune diseases and cancer – indications with a high unmet medical need and major economic potential. The aim is for these targeted therapies to exhibit better efficacy and a lower side-effect profile than existing forms of treatment and to offer greater benefits and a higher quality of life for patients.

(i)
Sustainable development pipeline

4SC does not limit its operations to individual projects, but has, over the years, established a broad-based development pipeline focusing on risk diversification and sustainability. This enables 4SC to share its expertise in clinical drug development – which constitutes the Company's main value driver – among several products.

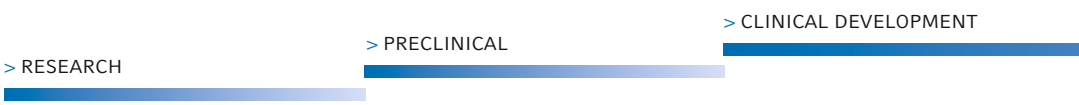
Since 4SC is able to draw on its high-performance IT-based technology platform for drug discovery and lead optimisation, the Company can generate new compounds autonomously while keeping discovery and development costs at moderate levels. This enables 4SC both to support other companies in their research efforts and to create compounds for its own development work. As one of the first German biotechnology companies, 4SC has succeeded in progressing a small molecule drug candidate, discovered and developed in-house, to the Phase II stage of clinical development.

The 4SC product pipeline currently comprises five compounds in clinical development and multiple drug programmes in the preclinical and early stages of research. This comprehensive and advanced product pipeline makes the Company an increasingly attractive partner for global pharmaceutical and biotech companies. 4SC's product pipeline is protected by a strong patent portfolio.

(ii)
Substantial potential to add value

The focus of clinical development is currently on the compounds resminostat, vidofludimus, 4SC-202 and 4SC-205. Thus 4SC is targeting innovative products that the Company believes offer considerable potential to add value in the future – e.g. by achieving key development milestones on the path to market maturity or by facilitating new development and marketing partnerships.

> PHARMACEUTICAL DISCOVERY AND DEVELOPMENT PROCESS



The pharmaceutical discovery and development process

(i)

Discovery of new compounds

The pharmaceutical discovery and development process typically starts with the search for new target molecules and their specific compounds. Once the target molecule – which is believed to play a key role in the pathogenesis and progression of particular diseases – is identified, a search is then conducted across databases and substance libraries to find suitable compound molecules that have the potential to influence the target molecule's activity or function.

After a new compound has been identified and undergone a multi-stage optimisation process, preclinical testing is then used to analyse its efficacy and safety. Once this stage in drug development has been concluded successfully, a green light can be given for clinical trials of the compound in humans.

In Phase I of clinical development, the compound is administered for the first time, to a few (usually healthy) volunteers. In cancer medicine, however, these studies are generally conducted with actual patients. This first phase focuses on gaining an initial assessment of how the body responds to the new drug. This includes an estimate of the drug's safety and tolerability, as well as its pharmacokinetics – parameters that define the drug's absorption, its distribution in the body, its biochemical metabolisation and its excretion.

In clinical Phase II, the compound is tested on another group of patients, still relatively small in number. This phase aims to obtain the first medical proof-of-concept and confirm a safe and pharmacodynamically effective – i.e. potentially efficacious – dose.

The last clinical phase before registration – Phase III – tests the efficacy of the drug using a larger patient population. These studies vary, depending on the indication, the regulatory agencies' requirements and competitors' studies. Phase III is designed to provide a decisive set of proof-of-concept data. At the same time, it also thoroughly analyses risk-benefit considerations, drug safety aspects and the drug's potential interactions with other medicines.

(ii)

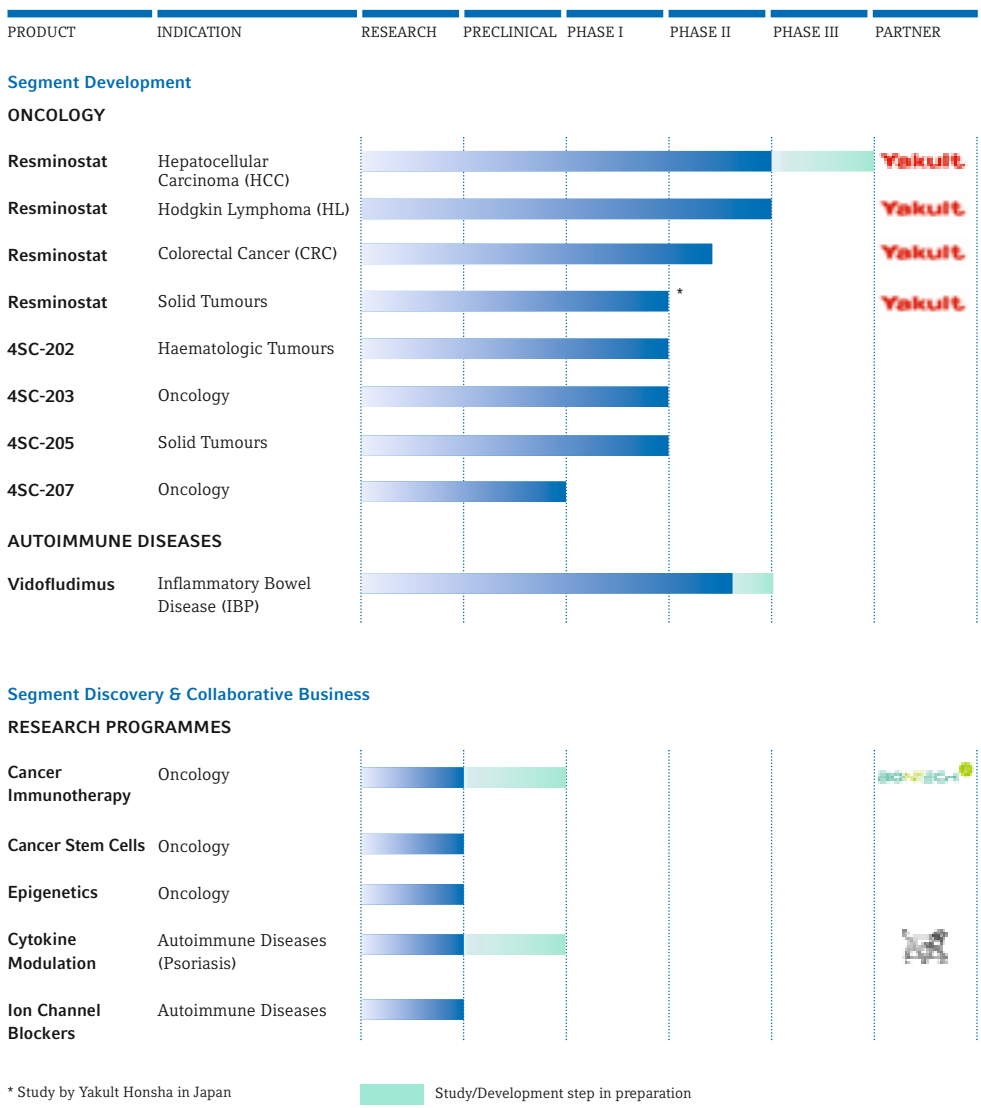
Proof-of-concept as an objective

The application for approval of a drug can usually be filed if all three phases have been completed successfully, with the Phase III study usually serving as the pivotal study. Following approval of a new drug, an optional fourth testing stage may also be scheduled. Such a Phase IV trial may serve to identify rare side effects or interactions that can only be detected in large patient populations.

(PHASE I, PHASE II, PHASE III)

> MARKET APPROVAL

> On the home strech - the product pipeline of 4SC



Resminostat – Our lead compound in oncology

Resminostat is 4SC's lead oncology compound. The compound resminostat is an oral drug classified as a "pan-histone deacetylase (HDAC) inhibitor", which features a new epigenetic mode of action that is of particular interest for therapeutic use.

Mode of action

HDAC inhibitors modify the three-dimensional (chromatin) DNA structure of tumour cells and can trigger cell differentiation, which can ultimately result in programmed cell death (apoptosis). HDAC inhibitors therefore offer a mechanism of action that has the potential to halt tumour progression and induce tumour regression. Additionally, resminostat can also induce what is known as tumour cell "sensitisation" to other anti-cancer compounds. This process can suppress or reverse certain tolerance and resistance mechanisms which tumour cells often develop against cancer drugs. Supplementary treatment with resminostat can therefore be expected to restore or significantly improve the efficacy of a previously administered cancer therapy which was no longer effective. Furthermore, combining resminostat and common cancer drugs right from the very beginning can also be expected to effectively enhance the success of such a treatment.

(i)
»Sensitisation« of tumour cells

This mode of action means that resminostat – as a new, targeted therapy – offers a supplementary treatment option for a wide range of cancers that is both therapeutically and commercially highly attractive. Administration of resminostat is promising not only as a monotherapy but also – and above all – as a combination therapy with other cancer drugs such as conventional chemotherapies or tumour therapies utilising a targeted model, such as kinase inhibitors.

(ii)
Huge opportunity in combination therapy

Clinical Phase II development programme

To address markets with a high unmet medical need, 4SC has positioned resminostat as a novel therapy option for the indications of liver cancer (hepatocellular carcinoma, HCC), colon cancer (colorectal cancer, CRC) and Hodgkin's lymphoma (HL – a type of lymph node cancer). A broad-based clinical Phase II development programme is currently investigating resminostat in these three indications. In all trials, the compound has shown very good safety and tolerability and promising anti-tumour activity both as monotherapy and in combination with other cancer therapies. Yet resminostat also has the potential for deployment against a wide range of other cancers where the development of drug resistance hinders the effectiveness of conventional cancer drugs. Thanks to its innovative mode of action – the sensitisation of cancer cells – scientific tests are in progress for later clinical deployment in blockbuster indications such as breast or lung cancer, plus other gastrointestinal and urological indications such as stomach and prostate cancer.

(iii)
Broad therapeutic scope of application

Key patents protecting resminostat have already been awarded in major markets such as the USA, Europe, Japan and China. For the indications of HL and HCC, resminostat also has been granted the status of an "Orphan Drug" or "Orphan Medicinal Product" in

the US and Europe, respectively. This status guarantees that once the compound has been approved no other similar drug with the same mode of action may be launched on the market for the two indications for a period of seven years (in the US) or ten years (in Europe). This has significantly improved resminostat's competitive position following potential regulatory approval.

Versatile deployment options generate massive market potential

(i)
Commercial potential

HEPATOCELLULAR CARCINOMA (HCC) is the most common form of liver cancer, the fifth most common cancer worldwide and, with 700,000 deaths annually, the third leading cause of death by cancer. Current treatment options are very limited. For patients with advanced HCC, sorafenib is currently the only compound approved for treatment. In this indication, the commercial potential for a new, effective and well-tolerated therapy option is considerable. A comparative benchmark is the global annual sales volume for sorafenib, which totalled around US-$1 billion in 2011.

COLORECTAL CARCINOMA (CRC) is one of the most frequently diagnosed malignant tumours of the digestive system. In Western countries, the number of cases is steadily increasing. Colon cancer is already the second leading cause of death from cancers. When treated conventionally (chemotherapy in combination with antibodies or kinase inhibitors), these tumours often develop defence mechanisms that in turn neutralise the efficacy of these types of drugs. Such defence mechanisms can be effectively suppressed by utilising a combination therapy with resminostat. Resminostat's epigenetic mechanism enables it to resensitise tumours and thus sustain or magnify the efficacy of other drugs.

HODGKIN'S LYMPHOMA (HL) is a cancer of the lymphatic system, which is part of the immune system. In many cases, the chances of HL responding to treatment are very

> RESMINOSTAT

Binding of resminostat to the target molecule

good if detected early. However, not all patients respond to current standard therapies (chemotherapy, radiation, transplantation of autologous stem cells), and these can also be accompanied by significant long-term toxicity. This group of patients with an advanced stage of the disease (i.e. classifiable as refractory or relapsed Hodgkin's lymphoma) has a particularly high unmet medical need for new therapy options – a need that, by implication, offers a chance for a drug such as resminostat.

Keeping an eye on the next step: Start of the registration trial for resminostat

To achieve initial market approval as fast as possible, the Company is focusing its efforts on the indication of liver cancer (HCC). In 2012, a whole series of persuasive results demonstrating resminostat's clinical efficacy were published from the clinical Phase II SHELTER study in this indication, most recently in September 2012. The data shows that the combination therapy of resminostat with the drug sorafenib achieved an average (median) overall survival of eight months. This is the highest value achieved to date by comparable second-line therapy studies in patients with advanced liver cancer (HCC).

(i)
Market approval for liver cancer as an objective

Based on these highly positive data, the further development of resminostat towards market approval for liver cancer forms a key pillar of 4SC's strategy. Using these highly promising study results, 4SC is currently in discussions with regulatory agencies and potential partners for the preparation of a Phase III registration trial. In this trial, resminostat is to be evaluated in combination with sorafenib as a second-line treatment in advanced HCC after disease progression under first-line sorafenib therapy.

This trial is scheduled to commence in collaboration with a partner in the second half of 2013. The aim of this trial will be to achieve regulatory approval for resminostat in combination with sorafenib in second-line therapy of advanced liver cancer as fast as possible. Ideally, the exclusive partnership with the Japanese Yakult Honsha Co., Ltd. signed in 2011 for the further development and marketing of resminostat in Japan should now be augmented with a globally positioned pharmaceuticals partner for the other markets.

At the same time, 4SC also intends to obtain approval for the first-line therapy of liver cancer in combination therapy with sorafenib – a step that will also considerably enhance the market prospects for resminostat in this indication.

4SC-202 – Our second epigenetic cancer drug candidate

4SC-202 is the second epigenetic drug candidate currently in clinical development at 4SC. It is classified as a selective deacetylase (DAC) inhibitor, which specifically inhibits the HDAC 1, 2 and 3 enzymes. 4SC-202 is also an oral anti-cancer compound and possesses a unique mode of action. It therefore ideally complements and extends 4SC's portfolio of epigenetic compounds.

(i)
Epigenetic mode of action

Mode of action

4SC-202 features a highly innovative mode of action, thereby targeting a number of key functional areas identified as being responsible for the development of cancers. By initiating epigenetic changes, 4SC-202 particularly influences a key cell signalling pathway known as the "Wnt signalling pathway". This pathway been shown to play a key role in the development, growth and spread (metastasis) of cancer cells. This also means 4SC-202 is an effective inhibitor of cancer stem cell properties, thus presenting itself as a promising therapeutic option.

In terms of its mode of action, this sharply differentiates 4SC-202 from resminostat, the Company's most advanced epigenetic anti-cancer compound, and its potential therapeutic applications. 4SC-202 is therefore an ideal extension of and complement to 4SC's clinical product pipeline. The compound could be especially useful in the treatment of haematological cancers, as well as solid tumours whose growth depends substantially on the Wnt signalling pathway.

Clinical development programme

The compound, which has already demonstrated high levels of efficacy in preclinical models, is currently being investigated in a clinical Phase I trial in patients with haematological tumours. The compound has exhibited outstanding tolerability to date in this trial. 4SC will be evaluating the most promising indications for possible Phase II trials. The special epigenetic mode of action that combats tumour activity means 4SC-202 has a broad range of potential medical applications.

4SC-205 – Our innovative compound that inhibits tumour cell division

Mode of action

4SC-205 is 4SC's third attractive anti-cancer compound currently being investigated in clinical trials. 4SC-205 inhibits a protein molecule, termed kinesin spindle protein (Eg5), which plays a key role in cell division (mitosis) and therefore the growth of cancer cells. Cell division inhibitors (such as Taxol) are deployed with great success in oncology, although they have serious side effects. Due to 4SC-205's special mode of action, the compound does not cause such side effects. To the best of the Company's knowledge, 4SC-205 is also the only oral Eg5 inhibitor currently in clinical development anywhere in the world.

(ii)
The only oral compound of its kind worldwide in clinical development

Clinical development programme

The compound, which has successfully inhibited the growth of tumour cells in preclinical studies, is now being investigated in a clinical Phase I trial in cancer patients. A comprehensive safety and tolerability profile has already been established, and an outstanding pharmacokinetic profile has also been demonstrated. Biomarker analyses have also confirmed 4SC-205's desired mechanism of action. The study has since been broadened and is currently investigating a new, innovative dosage regime that could form an optimised basis for subsequent Phase II development of the compound.

Two further anti-cancer compounds

With 4SC-203 and 4SC-207, the Company has two further anti-cancer compounds in the product pipeline, at the clinical (4SC-203) and preclinical (4SC-207) stage. No trials are currently conducted with these compounds because the Company is focusing its clinical development efforts on those compounds that promise to have the greatest potential to increase 4SC's enterprise value, i.e. resminostat, vidofludimus, 4SC-202 and 4SC-205. To fully exploit the potential of the compounds 4SC-203 and 4SC-207, the Company will now draw up further development plans for the compounds – an activity that will also involve talks with possible partners.

Vidofludimus – Our lead compound for treating autoimmune diseases

Vidofludimus is an orally administered small-molecule compound for the treatment of autoimmune diseases and is 4SC's most advanced drug candidate in this field of therapy. 4SC's initial focus in the clinical development of vidofludimus is on inflammatory bowel disease.

(i)
Dual mode of action

Mode of action

The therapeutic efficacy of vidofludimus is based on a dual principle. First, the compound suppresses the formation of pro-inflammatory autologous messenger substances. The compound also blocks the enzyme DHODH (dihydroorotate dehydrogenase). This has the effect of inhibiting cell growth for activated immune cells in human blood – cells which play an important role in the development and further progression of autoimmune diseases.

Thanks to its innovative mechanism of action, the activity it has demonstrated in clinical trials and its good tolerability, vidofludimus has major potential for broad-based deployment in autoimmune diseases.

Clinical development programme

Vidofludimus has successfully completed a study at the Phase IIa stage of clinical development in inflammatory bowel disease (IBD), an indication whose market potential is steadily increasing worldwide. A Phase IIb study in rheumatoid arthritis has also been completed. This trial confirmed the anti-inflammatory activity of the compound while yielding outstanding tolerability data. Preclinical models have also substantiated the therapeutic potential of vidofludimus for a wide range of other autoimmune disorders – such as psoriasis, multiple sclerosis and organ transplant rejection.

Inflammatory bowel disease: Multiple indications with a high unmet medical need

For inflammatory bowel disease indications, medical need and market potential are both significant, and will continue to increase in the years to come. No later than 2016, some four million people will be affected by these disorders worldwide. The market is estimated to reach a volume of almost US-$6 billion by 2019. Accordingly, vidofludimus has blockbuster potential for this group of indications alone.

The term inflammatory bowel disease (IBD) is a collective term for a group of

inflammatory conditions of the grastrointestinal tract, in which acute phases alternate with phases where the patient is free of symptoms. According to the latest research, these diseases are caused by a deregulated response of the body's own immune system against the intestinal mucosa. Here, the body's own pro-inflammatory mediators such as interleukin-17A and interleukin-17 F – which are successfully inhibited by vidofludimus – play a key role in the pathogenesis of IBD.

Patients suffer from abdominal pain, bleeding, diarrhoea, weight loss, fatigue and other symptoms. The currently available therapy options for the two main types of IBD – Crohn's disease and ulcerative colitis – are generally limited to anti-inflammatory steroids such as cortisone, immunosuppressants and certain antibodies. However, the efficacy of these types of therapy is limited, and they are often have severe side effects.

CROHN'S DISEASE: This disease is characterised by an inflammatory affliction of part of or the whole of the digestive tract and is currently incurable. Approximately 0.9 million people in the seven largest industrial countries currently suffer from CD and mostly contract the disease between the ages of 20 and 40. Crohn's disease can lead to a considerable reduction in patients' quality of life.

(i)
High medical need in Crohn's disease and ulcerative colitis

ULCERATIVE COLITIS: This disease primarily afflicts the large intestine, causing characteristic ulcers or open sores. Ulcerative colitis currently affects around 1.4 million patients in the seven largest industrialised countries.

The next milestone on the path to market maturity

4SC is initially concentrating on the clinical development of vidofludimus in the field of inflammatory bowel disease indications. This strategy is backed by the good clinical trial data, attractive market potential and the comparatively favourable competitive situation for such indications. Following this, 4SC will work to secure a Phase IIb trial in

> VIDOFLUDIMUS

Binding of vidofludimus to the target molecule

patients with Crohn's disease. The data package required by the authorities is available and negotiation with regulatory agencies is complete. Trial initiation is now being discussed with a number of potential partners. Our aim is to facilitate the clinical development of vidofludimus towards market maturity and thus – in collaboration with partners – to fully exploit the value of this potential blockbuster drug.

Early-stage research

(i)
Powerful technology platform

Complementing its core competencies in clinical drug development, 4SC also actively works on the discovery and optimisation of new compounds by deploying its own, high-performance technology platform. This serves to continuously expand the Company's own clinical development pipeline while also forming the basis for a solid service business. This ensures the Company's sustainable development and strengthens its business model.

Ahead of the game in drug discovery: Research fields and programmes

The Company's research scientists have spent many years investigating innovative approaches to treatment in attractive therapeutic fields. In oncology, these include the pioneering fields of epigenetics, cancer stem cells and cancer immunotherapy while the focus for autoimmune and inflammatory diseases is on ion channel suppression and the modulation of cytokines (messenger substances).

Research commercialisation with 4SC Discovery

At the beginning of 2012, the Company's research activities were transferred to 4SC Discovery GmbH, a wholly-owned subsidiary of 4SC AG, in a move that further improved flexibility in relation to forming external partnerships. 4SC Discovery strengthens the Group's business strategy by generating revenue from research collaborations and service business conducted with prestigious partners – including Henkel and Ribological. A key role here is also played by the strategic marketing and distribution partnership between 4SC Discovery and CRELUX GmbH. By using the shared technology platform i2c ("idea to candidate"), both partners can cover the entire value chain in pharmaceutical early-stage research projects – from the basic idea through to the preclinical development candidate – and thus offer biotech and pharma customers a comprehensive package of services. Early-stage partnering (licensing) deals are also being used by 4SC Discovery to accelerate the further development and commercialisation of the Company's own research programmes. We signed our first early-stage licensing partnership for 4SC's research programme involving TLR agonists in cancer immunotherapy in late 2012 with the Mainz-based biopharma company BioNTech AG. In the first quarter of 2013, 4SC Discovery entered into a development and marketing partnership with the Danish pharmaceutical company LEO Pharma A/S. Working together, both companies will press ahead with 4SC's cytokine modulation research programme, with the aim of developing drugs for the treatment of chronic inflammatory skin disorders, such as e.g. psoriasis.

(ii)
Licensing deals with BioNTech and LEO Pharma

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1. BUSINESS, GENERAL ENVIRONMENT AND CORPORATE GOVERNANCE

1.1 Group structure and business activities

Legal structure of the Group

The 4SC Group – hereinafter referred to as "4SC", "the Company" or "the Group" – comprises 4SC AG as the Group parent as well as its wholly-owned subsidiary 4SC Discovery GmbH.

4SC AG is a publicly listed company under German law domiciled in Planegg-Martinsried in the district of Munich. It was recorded in the Commercial Register on 30 August 2000 as the successor of 4SC GmbH, which had been founded in 1997. The shares of 4SC AG have been traded in the Prime Standard segment of the German Stock Exchange since 15 December 2005.

4SC Discovery GmbH, also domiciled in Planegg-Martinsried, was founded at the end of 2011 and commenced operations on 1 January 2012.

Where information in this report refers to 4SC AG or 4SC Discovery GmbH, these will be explicitly referred to as "4SC AG" or "4SC Discovery GmbH".

> MARKET APPROVAL
> CLINICAL DEVELOPMENT
> PRECLINICAL
> RESEARCH

4SC Group*

4SC AG

Development segment

Management Board:

Dr Ulrich Dauer (Chief Chief Executive Officer, CEO) | Dr Bernd Hentsch (Chief Development Officer, CDO) | Enno Spillner (Chief Financial Officer, CFO) | Dr Daniel Vitt (Chief Scientific Officer, CSO)

Strategy:

– Clinical development of attractive drugs for the treatment of cancer and autoimmune diseases on the path to market maturity
– Growth through development and marketing partnerships
– Broad-based medical and pharmacological expertise

4SC DISCOVERY GMBH

Discovery & Collaborative Business segment

Management:

Dr Daniel Vitt | Dr Stefan Strobl

Strategy:

– Generating revenue from research services and collaborative ventures to strengthen 4SC's business model
– Marketing the Company's own drug programmes at an early stage of development through partnerships
– Replenishing the 4SC Group's clinical development pipeline

* As at 12.03.2013

Business activities and organisation

4SC's field of business is the research and development of novel small-molecule drugs for the targeted treatment of cancer and autoimmune diseases. These drugs are intended to provide innovative treatment options that are more tolerable and efficacious than existing therapies and can provide a better quality of life to patients.

(i)
Licensing deals as an objective

The Group's product portfolio consists of a number of highly promising innovative programmes in several clinical and preclinical phases of drug development as well as in early research stages. The aim is to conduct all therapeutic programmes at phases of development that constitute an attractive basis from which the Group can secure licensing deals with the pharmaceutical and biotechnology industry. For further details of the individual products and progress made in their development during the 2012 financial year, please consult the chapters entitled Research and Development Process (chapter 1.3) and Significant Events Related to the Company's Research and Development Activities (chapter 2.2) of this combined management report.

In addition, 4SC also owns an in-house technology platform (4SCan®) that enables the company to apply computerised virtual screening methods for the identification and optimisation of new drug candidates. This transfers early components of drug development from the lab to the computer, thus leading to a marked acceleration in the discovery of new drug candidates while considerably reducing costs.

(ii)
Integrated research and development process

Together with the modern research and development facilities at 4SC, this procedure is embedded into an integrated drug research and development process that extends across almost the entire value chain – from the identification of new active compounds through to their investigation in clinical trials.

The Group operates in the two complementary segments of Discovery & Collaborative Business and Development. The Discovery & Collaborative Business segment, which is represented by 4SC Discovery GmbH, comprises all activities involved in early-stage drug research (drug discovery and lead optimisation) and its subsequent commercialisation. The scope of activities in the Development segment, collectively represented by 4SC AG, comprises the later stages of the pharmaceutical development process, i.e. preclinical and clinical development of 4SC drug candidates on their path to market maturity.

1.2 Corporate governance report

Corporate governance comprises the entire system of responsible management and control of a company aimed at the sustainable creation of value. Good, transparent corporate governance is a top priority for the 4SC Group, which is committed to the German Corporate Governance Code with respect to its goals, values and processes. In the run-up to the preparation of the 2012 consolidated financial statements, the Company's Management Board and Supervisory Board again considered the recommendations of the Code's most recent version from 15 May 2012.

(iii)
Importance of corporate governance

4SC complies with most of the recommendations and suggestions contained in the German Corporate Governance Code. Only in a few cases did the Company 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 and suggestions of the German Corporate Governance Code and contains the disclosures and explanations required under sections 315 (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).

1.2.1 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 24 February 2012. This declaration was based on the version of the German Corporate Governance Code dated 26 May 2010. The German Corporate Governance Code was not revised in 2011. The currently applicable version is dated 15 May 2012.

The Management Board and Supervisory Board of 4SC state, in accordance with Section 161 AktG, that 4SC complies and will comply with the recommendations of the Government Commission "German Corporate Governance Code" based on the 15 May 2012 version, with the exceptions stated below:

1. D&O insurance for Supervisory Board members (item 3.8 (3) of the Code):

The Company's current D&O insurance policy for the members of its Management Board contains the deductible required by law. The Company's current D&O insurance policy for the members of its Supervisory Board 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.

Under Section 76 (1) AktG the Management Board is responsible for managing the Company on its own. The main tasks of the Supervisory Board are to participate in the strategic alignment of the Company and to advise and supervise the Management Board. Its influence on operations is therefore rather 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. Stock Option Programme for the Management Board (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 in the form of a three-year Bonus II and stock options. Over and above these remuneration components, the Supervisory Board has stipulated a special bonus at its own discretion that is tied to the achievement of specific strategic corporate targets. 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).

(i)
Tailored employee participation programme

3. Nomination committee of the Supervisory Board (item 5.3.3 of the Code):

The Supervisory Board has decided against establishing a Nomination Committee. The Supervisory Board of 4SC 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. Transparency in proposing candidates for elections to the Supervisory Board (item 5.4.1 (4) to (6) of the Code):

At the present time, there are still a number of legal uncertainties surrounding the recommendation in item 5.4.1 (4) to (6) of the Code as amended on 15 May 2012 relating to the publication of certain circumstances concerning candidate proposals to the Annual General Meeting, particularly with respect to the level of detail and the location of the publication. For this reason we declare a deviation from the Code for highly precautionary reasons. The Supervisory Board will nonetheless endeavour to meet the requirements of item 5.4.1 (4) to (6).

5.Remuneration for Supervisory Board committee members (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.

Since submitting its last Declaration of Compliance dated 24 February 2012, 4SC AG has complied with the recommendations of the German Corporate Governance Code in its previous version dated 26 May 2010, with the exception of the above-mentioned items 3.8 (3) D&O insurance for Supervisory Board members, 4.2.3 (2) and (3) Stock Option Programme for the Management Board, 5.5.3 Nominating committee of the Supervisory Board, 5.4.6 (1) Remuneration for Supervisory Board committee members, and 5.4.6 (2) Performance-related remuneration of the members of the Supervisory Board. The reasons for these exceptions can be derived from the explanations above.

The recommendation of a performance-related remuneration of the Supervisory Board (item 5.4.6 (2)) was deemed inappropriate for 4SC AG and was dismissed as a disproportionate administrative expense. The deviation from the recommendation of a performance-related remuneration of the Supervisory Board has ceased to apply, since the new version of the Code omits this recommendation.

The new version of the Code issued in 2012 expands the requirements on setting the objectives for the Supervisory Board's composition (item 5.4.1 (2)), adding that in future the number of independent Supervisory Board members is also to be stipulated. The Supervisory Board made this stipulation at its meeting on 1 February 2013 and has complied with this recommendation since this date.

Planegg-Martinsried, 25 February 2013

Dr Ulrich Dauer
For the Management Board

Dr Thomas Werner
For the Supervisory Board

(i)
Fair and respectful conduct

Disclosures on corporate governance practices

4SC's corporate governance is based on fair and respectful dealings with one another. Given the manageable size of the Company, which permits personal interaction with the employees and partners, as well as flat hierarchies, and the fact that there is essentially only one company location, these standards are sufficient to ensure responsible cooperation with one another.

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

(ii)
Constructive collaboration of Management Board and Supervisory Board

As stipulated by the German Stock Corporation Act, 4SC AG is steered by a Management Board and a Supervisory Board. Both corporate bodies collaborate closely and constructively 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. For this purpose, 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 informs the Supervisory Board about significant events between meetings. Urgent decisions may be discussed by way of conference calls and resolutions may be adopted by circular memorandum if required.

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

Management Board

The Management Board of 4SC AG, which comprises Dr Ulrich Dauer (Chairman), Dr Bernd Hentsch, Enno Spillner and Dr Daniel Vitt, manages the Company's business on its own authority. The prime objective of the Management Board is to ensure a stable development of business and to sustainably increase the Company's value. The members of the Management Board complement each other's skills and experience and have been managing the Company as a well-versed team for many years. The details of the Management Board's work are set out in rules of procedure. The areas for which the individual members are responsible are defined in the schedule of responsibilities, which is part of the rules of procedure. All Management Board departments coordinate their work with each other, for example at Management Board meetings generally held once a week. Decisions to be made by the Management Board as a whole are passed with a simple majority of the members participating in the resolution. The Chairman of the Management Board shall cast the tie-breaking vote in the event of a tie.

Supervisory Board

As of 31 December 2012, the Supervisory Board had six members, who were elected by the Annual General Meeting. The Supervisory Board's Chairman is Dr Thomas Werner; Klaus Kühn is its Deputy Chairman. The other members are Dr Irina Antonijevic, Dr Clemens Doppler, Helmut Jeggle and Dr Manfred Rüdiger.

In a by-election the Annual General Meeting on 6 August 2012 elected Dr Irina Antonijevic and Klaus Kühn as new members of the Supervisory Board, after Dr Jörg Neermann, effective 31 May 2012, and Günter Frankenne, effective at the end of the Annual General Meeting on 6 August 2012, had stepped down from the Supervisory Board.

Committees

In order to make the Supervisory Board more efficient in its work, four committees have been set up: the Audit Committee, the Human Resources Committee, the Business Development Committee, and the R&D Committee, a new committee established in August 2012. All committees regularly report to the full Supervisory Board on their work. For more information on this matter, please see the report of the Supervisory Board in the 2012 Annual Report of 4SC.

(i)
Efficient cooperation

Supervisory Board's efficiency review

The Supervisory Board came to the unanimous conclusion that collaboration is efficient. This finding was adopted at an extraordinary meeting of the Supervisory Board on 1 February 2013.

Other disclosures on corporate governance

Objectives of the Supervisory Board with regard to its composition

(ii)
Broad expertise and diversity on the Supervisory Board

At the end of 2010 the Supervisory Board resolved for the first time to stipulate specific objectives for its future composition. In its meeting on 6 December 2012 these objectives were discussed again based on the Code amendment from May 2012 and adopted at the meeting on 1 February 2013:

When making future candidate proposals, continued care shall be taken to ensure as broad a range as possible of expertise and relevant experience on the Supervisory Board of 4SC AG. In this connection, the Supervisory Board intends to maintain or increase the proportion of female members in the next elections. The focus on experience in the international biotechnology and pharmaceutical business shall also be maintained. 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 very familiar with the needs of this sector on the basis of their own experience. By way of the by-election of Supervisory Board members in August 2012, Dr Irina Antonijevic became the first woman to be appointed to 4SC's Supervisory Board. The Supervisory Board also gained a certified financial expert in Klaus Kühn, former CFO of Bayer AG.

The Supervisory Board of 4SC AG continues to regard a mix of different qualifications in the entire Supervisory Board as important – ranging from knowledge in the fields of natural sciences and development to experience in initiating business on an international level through to expertise in the application of accounting standards and the use of internal control systems.

The requirements of the German Corporate Governance Code concerning independent Supervisory Board members and the avoidance of conflicts of interest will also continue to be taken into account. In order to ensure this, the Supervisory Board intends to permanently have at least three independent members. This objective has already been achieved. At the extraordinary Supervisory Board meeting on 1 February

2013 the Supervisory Board concluded that, at the present time, five of its members meet the Code's definition of independence.

The age limit of 75 years at the time of election that is 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 the Company.

1.2.2 Directors' dealings, shareholders, disclosure and communication

Directors' dealings (reportable securities transactions pursuant to the German Securities Trading Act)

Under the requirements of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of the Management Board and Supervisory Board are obliged to disclose any transactions with 4SC shares. 4SC received the following notifications in the 2012 financial year:

> DIRECTORS´ DEALINGS (reportable securities transactions pursuant to the German Securities Trading Act)

Date	Name, Function	Type transaction	Market	Price in €	Number	Transaction volume in €
26.06.2012	Dr Clemens Doppler (Supervisory Board)	Purchase	OTC	1.50	3,718	5,577.00

Annual General Meeting and shareholders

The Annual General Meeting is one of the central bodies 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 resolutions on changing the Company's capital. Moreover, the Management Board presents the consolidated financial statements to the Annual General Meeting.

The Annual General Meeting provides all 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. At the Annual General Meeting on 2 May 2013, the Company will therefore provide authorised representatives to vote by proxy in accordance with the shareholder's instructions. 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 chapters 7.3 and 7.4 of the notes to the 2012 consolidated financial statements in accordance with IFRS.

Accounting and audit of financial statements

The consolidated financial statements of 4SC are prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. They are then audited by the appointed auditor, approved by the Supervisory Board and made

accessible to the public within a period of 90 days after the end of the respective financial year.

In the 2012 reporting period, the separate financial statements of 4SC AG pursuant to the German Commercial Code and the IFRS consolidated financial statements of 4SC were reviewed and approved by the Supervisory Board before being published. In addition, the Audit Committee discussed the interim 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

(i)
Fast and comprehensive communication

In order to inform its shareholders in good time, simultaneously and comprehensively, 4SC AG publishes all relevant information on its website at www.4sc.de. All reports are published in German and English within the period recommended by the German Corporate Governance Code and the stock exchange regulations. Pursuant to section 15 of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG), the Company also publishes all press releases and ad hoc announcements 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.

1.2.3 Compensation report of 4SC AG

The compensation report, which discloses the basic elements of the compensation system for the Management Board and the Supervisory Board, is part of the Group management report and the report on corporate governance. The Company's compensation systems comply with legal regulations and largely comply with the recommendations of the German Corporate Governance Code.

Compensation of the Management Board

The compensation paid to the members of the Management Board serves to reward each member's personal performance and create an incentive for successful corporate management, taking the Company's economic position into account. It is also aligned with standards customary to both the industry and the country.

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 compensation is reviewed annually by the Supervisory Board.

The Supervisory Board is also authorised to reduce the overall compensation of the Management Board by an appropriate amount, if the Company's situation deteriorates such that continued payment of this compensation would be unsustainable.

Amount and structure

The annual compensation of the Management Board members comprises three components:

1. Fixed compensation (base salary)
2. Two performance-based bonuses
3. Stock options

Fixed compensation

The amount of the fixed compensation is contingent on the given individual's position and responsibility as well as on parameters customary to both the industry and the market 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 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 has stipulated a special bonus at its own discretion that is tied to the achievement of specific strategic corporate targets.

(i)

Business performance as a benchmark

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 concern different strategic topics from the clinical development, business development, investor relations and general management, which are weighted on the basis of their priorities for further business development.

In addition to his basic salary and the short-term bonus I, each Management Board member additionally receives a long-term salary component as a second bonus that is measured over three years and serves to promote sustainable business development. Bonus II 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 a pre-defined three-year period. The first target achievement period relates to 2010 to 2012, the second to 2011 to 2013, etc. Immediately after the end of each target achievement period, the Supervisory Board decides whether or not the targets have been met – usually by circular memorandum and based on the proposal of the Human Resources Committee.

Stock options

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 programmes provide for the issue of stock options which entitle their holders to acquire 4SC shares. For more detailed information on the current options holdings, please see chapter 10.1 of the 2012 consolidated IFRS notes.

Regarding compliance with the Code recommendations on management compensation, please the disclosures in the section entitled "Declaration of Compliance pursuant to section 161 of the German German Stock Corporation Act", which is part of the statement on corporate governance in this combined management report (chapter 1.2.1).

Management Board compensation for 2012

The total compensation paid to the members of the Management Board of 4SC AG in the reporting period amounted to €928 thousand, of which 81% were attributable to fixed and 19% to variable compensation. A detailed breakdown of the Management Board members' individual salaries can be found in chapter 10.1 of the 2012 consolidated IFRS notes in the 4SC annual report.

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. Regarding compliance with the Code recommendations on D&O insurance for Supervisory Board members, please the disclosures in the section entitled "Declaration of Compliance pursuant to section 161 of the German German Stock Corporation Act", which is part of the statement on corporate governance in this combined management report (chapter 1.2.1).

Shareholdings of the Management Board members

As of 31 December 2012 the current members of 4SC AG's Management Board held a total of 687,120 stock options, entitling them to 674,120 shares. Furthermore, they held 924,242 shares, which represent 1.83% of the Company's total shares.

Compensation of the Supervisory Board

The Company is of the opinion that the Supervisory Board in particular should be interested in the Company's sustainable and successful long-term development. 4SC therefore believes that fixed compensation for the members of the Supervisory Board is appropriate for meeting this goal.

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 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 committee members.

Supervisory Board compensation for 2012

In financial year 2012, compensation paid to the members of the Supervisory Board totalled €141 thousand. A breakdown of the compensation of individual Supervisory Board members is provided in chapter 10.2 of the 2012 consolidated IFRS notes in the 4SC annual report.

Shareholdings of the Supervisory Board members

As at 31 December 2012, the members of 4SC's Supervisory Board held a total of 43,593 shares equivalent to an interest of 0.09% in the Company.

1.2.4 Disclosures relevant for takeovers pursuant to sections 289 (4) and 315 (4) German Commercial Code (HGB) as at 31 December 2012

Summary of subscribed capital

The Company's share capital as of 31 December 2012 comprised 50,371,814 no-par value bearer shares which do not entail other rights nor do they have a preferred status.

Restrictions on voting rights or on the transfer of shares

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

Equity interests exceeding 10% of voting rights

According to information currently available to the company, Santo Holding (Deutschland) GmbH, Holzkirchen, with an equity stake of approx. 48.1% (management estimate) is the only shareholder of 4SC AG with an equity stake in excess of 10%.

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 (2) of 4SC AG's Articles of Association as amended on 6 August 2012, the Management Board of 4SC AG shall consist of at least one person, whereby the Supervisory Board shall stipulate the precise number of members according to legal requirements and may appoint one Management Board member to be Chairman. Pursuant to article 7 (1) of the Articles of Association, the Supervisory Board shall appoint 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. A member's term of office may only be extended 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 (Aktiengesetz - AktG). Pursuant to article 13 of the Articles of Association, the Supervisory Board of 4SC AG is authorised, however, 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 issue of new shares by the Management Board requires resolutions by the Annual General Meeting.

Authorised capital 2012/I

Pursuant to article 5 (7) of the Articles of Association and subject to the approval of the Supervisory Board, the Management Board is authorised to increase the Company's share capital until 5 August 2017, once or repeatedly, by up to €20,984,152.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 20,984,152 new no-par value bearer shares (Authorised Capital 2012/I). In this context, shareholders' subscription rights can be excluded with the approval of the Supervisory Board in certain cases as described in more detail in article 5 (7) of the Articles of Association.

2012 Bonds – Conditional Capital V

On 6 August 2012, the Annual General Meeting authorised the Management Board to issue, once or repeatedly, until 5 August 2017, convertible bonds, bonds with warrants, participation rights or income debentures or any combination of these instruments (collectively "bonds") with or without limited maturity up to a total par value of €60 million, in return for contributions in cash or in kind to be determined by the aforementioned authorisation and to assume guarantees for bonds issued for subordinated Group companies with the Company's consent. The Management Board is also authorised to grant the holders or creditors of such bonds issued on the basis of the above-mentioned authorisation conversion rights or warrants on up to 7.5 million shares as stipulated in the bond terms. The terms of the bonds may also provide for a conversion obligation. For this, the share capital has been conditionally increased by up to €7.5 million (Conditional Capital V, article 5 (6) of the Articles of Association). In this context, shareholders' subscription rights to the new bonds can be excluded with the approval of the Supervisory Board in certain cases as described in more detail in the authorisation by the Annual General Meeting.

Other conditional capital in connection with stock option programmes

Conditional 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 new shares (Conditional Capital II, article 5 (2a) of the Articles of Association). The conditional capital increase serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 28 June 2006 to grant stock options to members of the Management Board and employees of the Company in accordance with the terms of this authorisation.

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 new shares (Conditional Capital III, article 5 (3) of the Articles of Association). The conditional capital increase serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 28 July 2004 to grant stock options to members of the Management Board and employees of the Company in accordance with the terms of this authorisation.

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 new shares (Conditional Capital IV, article 5 (3a) of the

Articles of Association). The conditional capital increase serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 28 June 2006 to grant stock options to members of the Management Board and employees of the Company as well as employees of affiliated companies in accordance with the terms of this authorisation.

Conditional Capital VI

The Company's share capital has been conditionally increased by up to €1 million through the issue of up to 1 million new shares (Conditional Capital VI, article 5 (5) of the Articles of Association). Conditional Capital VI serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 15 June 2009 to grant stock options to members of the Management Board and employees of the Company as well as employees of domestic and international affiliated companies in accordance with the terms of this authorisation.

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 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, the following was agreed in 2010: In the event of a takeover by a third party and when the Management Board is to be dissolved as a result, their salaries will 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. This means that 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.

1.3 Research and development process

The pharmaceutical research and development process at 4SC defines the path taken from identifying a new compound via preclinical tests to the various phases of clinical trials in humans with the objective of securing market approval – ideally together with pharmaceutical development and marketing partners.

Early-stage research and preclinical development

Typically, this process begins with the search for a new compound and its associated target molecules, i.e. those ascribed a key role in the development of a particular disease. Once the target molecule is located, 4SC's computerised screening technology is then deployed, which executes an effective and targeted search process throughout the

(i)
Innovative technology platform for drug discovery

relevant databases and molecule libraries to identify a suitable active compound. Once a new compound has been identified and optimised, early-stage research is complete. The drug candidate then goes into preclinical development, where its efficacy and safety are assessed in cell culture models (in vitro) as well as in animal models in compliance with regulatory stipulations (in vivo). Only when these conditions have been met can clinical development start, in which the compound is tested on humans.

Clinical development

In Phase I clinical development, the compound is then first administered to a small group of typically healthy volunteers (test subjects). Oncology studies, in contrast, are generally conducted on patients, even in Phase I. Phase I focuses on gaining an initial assessment of how the body responds to the new drug. This assessment delivers details of the drug's safety and tolerability, as well as its pharmacokinetics, which measures the drug's absorption and distribution in the body together with its biochemical metabolisation as well as its excretion.

In Phase II, the compound is then tested on a select group of patients, still relatively small in number. This phase aims to obtain the first medical proof-of-concept and determine a safe and pharmacodynamically effective – i.e. potentially efficacious – dose.

(ii)
Application for market approval possible after successful Phase III

Phase III then follows, which tests the efficacy of the drug using a larger and statistically significant patient population. This phase is intended to deliver decisive data establishing the drug's efficacy and the basis for market approval. In addition, key roles are also played by risk-benefit considerations, drug safety aspects and the drug's potential interactions with other medicaments.

The application for approval of the drug can only be filed if all three phases have been completed successfully. One further stage of testing is also possible: Phase IV testing – which may take place only once a new drug has received market approval – is used to identify rare side effects or interactions that can only be detected in large patient populations.

The entire research and development process – from identification of the target molecule to market approval of the drug – generally involves a time frame of considerably more than ten years.

It may be possible to accelerate the process by engaging in partnerships or transactions with other companies. As one example, 4SC acquired its oncological lead compound resminostat from a pharmaceutical company at a time when the compound was already in Phase I clinical trials. At advanced stages in this process, 4SC also prioritises the conclusion of licensing deals with other companies to advance the development of its product candidates towards market maturity, thereby mitigating 4SC's own risks and financial burden.

The 4SC product pipeline

The current 4SC product pipeline comprises a total of five compounds in clinical development (Phase I and Phase II) and multiple drug programmes in the preclinical and early stages of research. All programmes are concerned with the treatment of autoimmune diseases and cancers – indications with a pressing need for therapeutic solutions and huge economic potential.

(i)
Programmes in indications with a high medical need

Clinical development work at 4SC is currently focusing on the compounds resminostat (Phase II), vidofludimus (Phase II), 4SC-202 (Phase I) and 4SC-205 (Phase I). 4SC is thereby deliberately targeting those value drivers that the Company firmly believes offer the largest potential to add value to the entire Group – e.g. by facilitating development and marketing partnerships or by achieving substantial progress in clinical development.

1.4 Corporate strategy and goals

4SC has set itself the goal of funding its own research and development programmes from the revenue generated from business operations and to become profitable in the long term. The Development segment is working to secure development and marketing partnerships with strong players in the pharmaceutical and biotechnology industry, so as to systematically develop the separate clinical and preclinical programmes towards market maturity. This approach is intended to enhance development work while simultaneously reducing development risk. Sustained cash flows will be established by means of upfront and milestone payments from joint venture partners, complemented by revenue from license fees and royalties, thus making a key contribution to the Company's financing and growth.

In addition, the Discovery & Collaborative Business segment will generate revenue from research services and/or for research collaborations with pharmaceutical and biotechnology companies. This segment will also press ahead with 4SC's own early-stage research programmes through development and marketing partnerships as well as licensing deals with pharmaceutical and biotechnology companies, generating cash inflows in the process.

(ii)
Positive cash flow through marketing partnerships

By focusing on two indications with a high unmet medical need, conducting targeted research and using interdisciplinary project teams, 4SC with its comparatively lean structure and modest use of resources can implement several projects simultaneously and thereby ensure that its business model remains viable in the long term.

The key performance indicators of the Group are revenue and operating expenses, which are reviewed on a regular basis. Particularly expenses related to the research and development activities of the projects constitute an important measure of performance. The average monthly cash burn is another key financial indicator. The ratio of funds to the planned average monthly cash burn rate shows for how long sufficient cash is expected to be available.

Additional performance indicators related to research and development are also used to manage the Company. Patient-related indicators include clinical findings regarding the safety, tolerance and efficacy of the drug candidates being developed. 4SC measures the efficiency and success of these processes using, for example, the observance of schedules and budgets as well as the success of clinical trials.

2. OVERVIEW OF THE DEVELOPMENT OF BUSINESS

2.1 Macroeconomic development and developments in the pharma and biotechnology industry

Macroeconomic development

The sovereign debt crisis in Europe has caused a progressive slowdown in the global economy since mid-2012. In the course of this development, which led to accordingly high levels of uncertainty in the markets, the forecasts of economic experts had to be downgraded a number of times over the course of the year. The International Monetary Fund (IMF), for instance, estimated global growth of just 3.3% in its economic outlook published in October 2012, after calculating a figure of 3.8% the previous year.

(i)

China leading the way again

Growth was once again driven by the emerging markets, for which the IMF forecast an increase of 5.3% (2011: +6.2%), with China leading the way once more by generating growth of 7.8% (2011: +9.2%). Nevertheless, the expansion in the emerging markets was unable to replicate the dynamic growth of the past few years, due to the uncertainties in Europe and economic recessions in other industrialised countries. Economic growth in the industrialised countries was also significantly slower, at an average of 1.3% (2011: +1.6%). With a 2.2% higher economic output, the economies of the USA (2011: +1.8%) and Japan (2011: -0.8%) did comparatively well.

In the case of the euro zone, the IMF calculated an economic decline of 0.4% (2011: +1.4%), although in particular the countries affected by the debt crisis slipped deep into recession. Spain's economy, for example, is expected to contract by 1.5% (2011: +0.4%), while Italy is expected to decline by as much as 2.3% (2011: +0.4%). The development of the German economy was significantly better: According to the preliminary calculations published by the Federal Statistical Office (Destatis) in mid-January, the German economy grew by 0.7% (2011: 3.0%) However, even the German economy experienced a marked slowdown in the second half of 2012. Once again, the export sector proved to be very robust, growing by 4.1% (2011. +7.8%) – in spite of a difficult foreign trade environment. Investments in plant and equipment, on the other hand, declined by 4.4% (2011: +7.0%).

Developments in the pharma and biotechnology industry

2012 was a highly successful year for the biotechnology industry. The sector's encouraging development is reflected in drug approvals and clinical successes as well as in the industry's strong performance on the capital markets. In 2012, the US Food and Drug Administration (FDA) issued 41 approvals for new drugs (2011: 30 approvals), more than in any preceding year. Following good results in late-stage clinical development in 2012, a large number of other applications for and decisions on regulatory approval are already scheduled for 2013. On the capital markets, the biotech indices delivered above-average performance, outperforming the market as a whole. Around the world, companies in the industry raised new funds of US-$6.3 billion on the capital markets in 2012, around 50% more than in the previous year (2011: US-$4.2 billion).

The trend towards cost savings in the area of research and development that was already apparent in 2011 continued in the reporting period, especially among large companies in the pharmaceutical industry. In April 2012, Merck Serono, for example, announced plans to close its Geneva facility with the loss of 1,250 jobs, while Roche announced in June that it was shutting its plant in Nutley, New Jersey, USA, and laying off 1,000 R&D employees. 4SC's Management Board firmly believes that the gaps these measures will leave in the research and development pipelines of the large pharmaceutical companies will provide good business opportunities for specialised biotechnology companies like 4SC that have strong research activities.

(i)
Good opportunities for biotechnology companies like 4SC

Furthermore, it was also established that the pharmaceutical groups are now prepared to pay record premiums to acquire biotech companies, to secure a supply of innovative new products. This is because a large number of drugs – in some cases very high turnover drugs – will lose their patent protection in the next three years. According to estimates, the annual revenue generated from these products totals around US-$200 billion. For this reason Bristol-Myers-Squibb, for instance, paid US-$2.5 billion for the biotech company Inhibitex, which is equivalent to a 160% mark-up; and GlaxoSmithKline acquired Human Genome Sciences for US-$3.6 billion, at a premium of 99%.

Despite difficult market conditions, the German biotechnology sector was able to breathe out again slightly, since the dramatic decline in funding (capital increases and venture capital), which had to be absorbed in the previous year, did not persist. Totalling around €300 million in 2012, the biotechnology companies acquired more than double the funding they raised in 2011. According to a survey published by the biotechnology industry association "BIO Deutschland" at the beginning of 2013, the companies consider their current business situation to be significantly more positive than in the previous year. Their willingness to invest even increased to its highest value since surveys began in 2006.

(ii)
Willingness to invest reaches highest value since 2006

In terms of clinical developments in 4SC's industry environment, there were both advances and setbacks. Particularly in the segment for epigenetic compounds, in which 4SC is active with its compounds resminostat and 4SC-202, Denmark-based Topotarget A/S announced a very positive result in September: The company's HDAC inhibitor belinostat reached the primary endpoint in a Phase III trial for the treatment of peripheral T-cell lymphoma – a cancer of the lymphatic system. The positive sentiment for this new epigenetic compound class was amplified by MEI Pharma's acquisition of the HDAC inhibitor pracinostat, developed by the US biotechnology company S*BIO.

Companies suffered numerous setbacks in the clinical development of compounds to fight liver cancer. In one such case, the brivanib compound from US pharma giant Bristol-Myers Squibb did not attain its primary endpoint in a Phase III trial as a first-line therapy for patients with advanced liver cancer. This compound had already failed to achieve the desired results in second-line therapy at the end of 2011. Another Phase III trial, in which Astellas Pharma was testing its compound tarceva in combination with the Bayer cancer drug sorafenib, also failed to meet the desired objective in this indication, as no improvements were observed in patients compared with standard therapy.

2.2 Significant events related to the Company's research and development activities

4SC's core activity is the research and development of new drugs in the primary indications cancer and autoimmune diseases. Consequently, the Company's research and development activities are crucial to its success. The Group continued its development in this field very successfully in financial year 2012, with both Group segments reaching important milestones.

2.2.1 Development segment

The Development segment, which comprises the clinical and preclinical development work for drug candidates from the product pipeline (resminostat, vidofludimus, 4SC-202, 4SC-205, 4SC-203 and 4SC-207) as conducted by the Group's parent company 4SC AG, achieved decisive progress for its leading products during the reporting year.

ONCOLOGY
Resminostat

> Resminostat: 4SC's lead oncology compound

– Highly innovative epigenetic mode of action especially for combination therapy in various tumour indications
– Clinical Phase II trial in liver cancer, Hodgkin's lymphoma and colon cancer showing excellent safety and efficacy results so far
– Clinical Phase III registration trial in liver cancer in preparation

Resminostat (4SC-201) is the Company's lead compound in the field of cancer medicine. Resminostat has an innovative epigenetic mechanism of action that enables this compound to be deployed for tumour cell sensitisation, a novel, targeted tumour therapy for a broad spectrum of indications, particularly in combination with other anti-cancer drugs.This process can suppress or reverse certain tolerance and resistance mechanisms that tumour cells often develop against other anti-cancer drugs in the course of the treatment.Supplementary treatment with resminostat can therefore be expected to restore or, when the combination is administered right at the start of therapy, significantly improve the efficacy of a previously administered cancer therapy that was no longer effective.

Up to now, resminostat has been clinically tested in a broad Phase II development programme, in both monotherapy and in combination with other drugs. In the reporting period, 4SC achieved significant milestones with resminostat and brought the drug candidate significantly closer to market maturity.

Treatment of liver cancer: excellent Phase II results; preparations for Phase III registration trial underway

In mid-January 2012, 4SC released excellent efficacy data from the Phase II SHELTER clinical trial with resminostat at the Gastrointestinal Cancers Symposium of the American Society of Clinical Oncology (ASCO) in San Francisco. This trial investigated resminostat as a second-line therapy for patients with advanced liver cancer (HCC). At the time of enrolment, all patients being treated with sorafenib, the only HCC drug currently registered in the market, had shown a radiologically proven progression of the disease in first-line therapy. The study investigated the efficacy and safety of resminostat both as a monotherapy and in combination with sorafenib for this difficult to treat patient group. The primary trial endpoint – prevention of disease progression for at least twelve weeks in at least 20% of the examined patients – was met ahead of schedule with both therapy approaches.

(i)
Primary study endpoint reached ahead of schedule

4SC presented further highly regarded results of the trial at cancer symposiums organised by the ASCO in Chicago and the European Society for Medical Oncology (ESMO) in Barcelona, both of which took place in June 2012. The analyses show that resminostat can offer a clear survival benefit for liver cancer patients who no longer responded to first-line therapy with sorafenib. In terms of median progression-free survival, combination therapy delivered an excellent value compared with other therapies investigated in this indication in comparable clinical trials and patient populations.

The further assessment of the trial, presented at the Annual Conference of the International Liver Cancer Association (ILCA) in Berlin in September 2012, showed convincing results for combination therapy of resminostat with sorafenib, also with regard to an improved life expectancy for patients, thus confirming the excellent efficacy data previously achieved. As far as 4SC is aware, the median overall survival rate of eight months is the highest figure ever achieved in second-line therapy trials with comparable HCC patients. By comparison, the life expectancy of liver cancer patients who exhibited tumour progression during treatment with sorafenib is only 5.2 months – a figure derived from the registration trial relevant for sorafenib (the SHARP study).

(ii)
Highest value ever achieved compared to similar studies

Based on these promising results and the urgent medical need to develop new therapies to treat HCC, 4SC is seeking rapid approval in this indication. In this connection, the Company is currently preparing a Phase III trial which – in cooperation with a partner that has yet to be identified – is due to begin in the second half of 2013 with the goal of achieving regulatory approval for resminostat in combination with sorafenib in second-line therapy of HCC. The study design has already been agreed in consultations with official agencies in Europe and the US. The high unmet medical need in second-line therapy for HCC is illustrated by the fact that, on average, patients exhibit tumour progression after only about 5.5 months with sorafenib (SHARP study), whereupon they do not have recourse to any other treatment option. Furthermore, 4SC is planning to conduct further clinical trials to also achieve regulatory approval for resminostat in combination with sorafenib in first-line therapy of liver cancer, which would significantly improve the compound's market opportunities in this indication.

Treatment of lymph node cancer: biomarker data published

At the Annual European Hematology Association (EHA) Congress held in Amsterdam in June 2012, 4SC presented biomarker data from the Phase II SAPHIRE trial for the potential use as personalised medicine in the risk assessment of Hodgkin's Lymphoma (HL) patients. An analysis of these biomarkers allows new gene expressions to be identified, which will serve to identify HL patients who may be benefiting to a notable extent from resminostat therapy.

Treatment of colon cancer: interim target of Phase I/II trial met

In mid-December 2012, highly positive interim results were published from the clinical Phase I/II SHORE trial with resminostat in combination therapy with FOLFIRI chemotherapy in patients with advanced colon cancer. The objective of the Phase I part of the trial was to demonstrate the safety, tolerability and pharmacokinetics of this combination therapy. This objective was met, thus laying the foundations for commencing the second phase of the trial which will investigate the clinical efficacy of the resminostat-FOLFIRI combination in advanced-stage colon cancer patients. The Phase I part of the trial already provided initial evidence of the clinical benefit of this new therapeutic approach. Data showed that combination therapy stabilised the tumour in some patients for a comparatively long period of time – up to a maximum of 33 weeks.

(i)
Positive interim result in colon cancer study

The SHORE trial investigates resminostat in patients with K-RAS-mutated colon cancer. This patient group, which comprises around 40% of all colon cancer patients, has a heightened need for additional therapeutic options. Due to this mutation, this group does not respond to anti-EGFR therapy, which usually can be administered as a second-line therapy in colon cancer patients, along with chemotherapy. 4SC's aim is to investigate whether resminostat may provide an additional benefit to this patient group in combination with a chemotherapy such as FOLFIRI, in which case it could possibly be established as a new treatment option for these patients.

Start of clinical development in Japan

Yakult Honsha Co., Ltd., 4SC's Japanese development partner, initiated a Phase I trial with resminostat in May 2012 to investigate the safety and tolerability of the compound in Japanese cancer patients. The start of clinical development of resminostat in Japan is of major importance for 4SC's development strategy, as the incidence of liver cancer is particularly high in this country, which gives rise to a particularly urgent medical need for new therapeutic options.

Patent protection reinforced in Asian growth markets

After resminostat was granted the composition-of-matter patent in Japan at the end of 2011, this key patent was also granted in Taiwan in March 2012, and announced in three other countries (South Korea, India and the Philippines). In the meantime, this patent has also been granted in South Korea and the Philippines. Furthermore, 4SC was granted the composition-of-matter patent in China in October 2012. Due to the high number liver cancer patients in Asia, the granting of these patents for resminostat is strategically significant for the compound's further development in these markets.

4SC-202

> 4SC-202: 4SC's second epigenetic anti-cancer compound

– Inhibits a signalling pathway that is important for tumour development and growth, and targets cancer stem cells
– Has shown excellent clinical safety and tolerability data so far
– Currently in a clinical Phase I trial in haematological tumour diseases

Continuation of the Phase I trial

The Phase I dose finding trial ("TOPAS" trial) with 4SC-202 in patients with advanced haematological tumours, which was originally to be completed in the reporting year, will be continued in 2013. The very good tolerability of the compound allows for additional dose alternatives to be tested and thus for the best possible treatment regime to be determined. Apart from resminostat, 4SC-202 is 4SC's second highly promising epigenetic compound. This substance inhibits the Wnt signalling pathway in cancer cells, which is important for the development and growth of tumours, and attacks cancer stem cells. This independent mechanism of action makes the 4SC-202 an ideal addition to 4SC's clinical development pipeline.

Patent protection in Japan and other Asian markets

Patent protection for 4SC-202 was extended in the attractive Asian growth markets in mid-November 2012. The Japanese and South Korean patent authorities have awarded 4SC the Notice of Allowance, which means the granting of the composition-of-matter patents for the compound is imminent. In India, the composition-of-matter patent has already been granted for 4SC-202.

4SC-205

> 4SC-205: A further anti-cancer drug candidate

– The only oral inhibitor of a protein that plays a crucial role in cell division and tumour growth which is in clinical development worldwide
– Delivered positive clinical Phase I data on safety, tolerability, pharmacokinetics and biomarkers
– Currently in a clinical Phase I study amendment for further examination in tumour patients

Phase I trial yields positive results

At the beginning of December 2012, 4SC announced highly positive results from a clinical Phase I trial ("AEGIS trial") in tumour patients. In this trial the cancer compound 4SC-205 was employed for the first time in 46 patients with advanced-stage tumours. Under investigation were the compound's safety, tolerability, pharmacokinetics and the pharmacodynamic efficacy of 4SC-205, with all primary trial objectives being met. For this reason, 4SC has decided to extend the trial in order to investigate an additional, innovative dosing scheme. 4SC-205 has an interesting therapeutic mechanism of action: it specifically inhibits the Eg5 protein, which plays an important role in cell division and tumour growth. 4SC-205 is the only oral compound of its kind worldwide in clinical development.

4SC-203 and 4SC-207

4SC's development pipeline is rounded off by the two anti-cancer compounds 4SC-203 and 4SC-207. In 2011, 4SC-203 completed a clinical Phase I trial on healthy subjects; 4SC-207 is in the preclinical development stage. Given that 4SC's focus in the reporting year – as already announced at the end of 2011 – was on the further development of its current main value drivers, however, there were no development activities relating to 4SC-203 and 4SC-207 in the reporting year.

AUTOIMMUNE DISEASES

Vidofludimus

> Vidofludimus: The lead compound against autoimmune diseases

– Unique dual anti-inflammatory mode of action for broad potential application in autoimmune diseases

– Has shown convincing clinical Phase II data on safety and efficacy

– Clinical Phase IIb study in Crohn's disease in preparation

Vidofludimus (4SC-101) is 4SC's lead compound in the field of autoimmune diseases. Based on its innovative anti-inflammatory action and its good clinical tolerability, it has broad potential for use in this area of application. 4SC's initial focus in the clinical development of vidofludimus is on inflammatory bowel disease.

New preclinical trial results

In February 2012, 4SC presented new preclinical data at the ECCO-IBD (European Crohn's and Colitis Organisation - Inflammatory Bowel Disease) Conference in Barcelona on the mechanism of action of vidofludimus in inflammatory bowel disease, an indication with growing global market potential. The results confirmed the unique anti-inflammatory mode of action of vidofludimus.

In mid-June 2012, the Company published convincing preclinical data with vidofludimus in a kidney transplant model, which further raised the profile of the compound. These data showed that vidofludimus significantly prolongs the survival rate of laboratory animals following a kidney transplant, and that it improves the symptoms of acute transplant rejection.

Publication of Phase IIa clinical data in the Journal of Crohn's and Colitis

In November 2012, the prestigious Journal of Crohn's and Colitis published the results of the Phase IIa ENTRANCE clinical trial concluded in 2011. In this study, vidofludimus had been investigated in steroid-dependent patients with Crohn's disease or ulcerative colitis. The compound exhibited very good levels of efficacy and tolerability: In 88.5% of the patients, dependence on cortico-steroid drugs was often completely eliminated or at least reduced significantly.

Preparation of a Phase IIb trial

(i)
Planned study design in Crohn's disease

In the course of the further clinical development of vidofludimus, a Phase IIb trial in Crohn's disease patients was prepared during the reporting period. This trial, which is to be conducted in cooperation with a partner yet to be identified, consists of two parts. In the first part different dosages aim to effect an improvement in the state of the disease and stop progression of the disease. In the second part, the plan is to maintain the stabilisation achieved and investigate the optimum dosage required for this.

2.2.2 Discovery & Collaborative Business segment

The Discovery & Collaborative Business segment, which comprises the activities relating to drug discovery and early-stage research and subsequent commercialisation of the drug compounds by 4SC Discovery GmbH, also developed very successfully after commencing its operations on 1 January 2012.

Milestone payment from Sanwa Kagaku Kenkyusho Co., Ltd. (SKK), Japan

As part of a research collaboration already completed with the Japanese pharmaceutical company SKK the Group received a milestone payment in March 2012, which accrued to 4SC Discovery GmbH. This payment is based on the fact that a drug candidate that was identified by 4SC had reached an agreed development milestone at SKK.

Marketing and sales partnership with CRELUX GmbH

In April 2012, 4SC Discovery GmbH started a strategic marketing and sales partnership with the Planegg-Martinsried-based biotechnology company CRELUX GmbH, which specialises in protein manufacture and crystallisation. The two partners have consolidated their core competencies in the joint discovery platform i2c (idea to candidate). On this platform, services for pharmaceutical and biotechnology companies are offered covering the entire value chain of early-stage pharmaceutical research, from the idea for the project to the preclinical development candidate.

New research partnerships

At the start of April 2012, 4SC Discovery GmbH agreed a new research collaboration with the consumer goods group Henkel AG & Co. KGaA, Düsseldorf. The objective of this collaboration is to identify new laundry detergent ingredients with the help of 4SC's compound screening. This marks the first time that 4SC Discovery GmbH is employing its computerised screening method in this area for the first time. This method has already been used successfully for a number of years to identify new drugs in the pharmaceutical field.

In the course of this marketing and sales partnership with CRELUX GmbH, 4SC Discovery announced the start of a research collaboration in compound screening with Ribological GmbH, Mainz, in July 2012. The aim of this collaboration is to identify and optimise new, more effective anti-cancer compounds.

In December 2012, 4SC Discovery GmbH signed an agreement for extensive research collaboration in the field of cancer medicine with BioNTech AG. In the service partnership, which was launched at the start of 2013 and will run for three years, 4SC Discovery GmbH will be commissioned by the Mainz-based biopharmaceutical company to identify and optimise new small molecule anti-cancer drugs for defined therapeutic targets. BioNTech AG will then develop these further. Under the partnership, 4SC Discovery GmbH will receive a cost-based service fee as well as success-based payments on achievement of specific milestones plus royalties linked to future net sales of the products.

"Drug Discovery in the Age of Epigenetics" symposium hosted

In September 2012, 4SC Discovery GmbH hosted a medical research symposium addressing the topic of "Drug Discovery in the Age of Epigenetics" in Planegg-Martinsried near Munich. The conference was attended by distinguished scientists from research institutions and industry, who discussed new developments and insights concerning the role played by epigenetics in causing cancer disease and how this research can be used to derive strategies for combating such illnesses.

Research funding for the development of personalised anti-cancer drugs

In October 2012, 4SC Discovery GmbH received a research grant of €600 thousand from the Munich biotech cluster of excellence m4 for the development of personalised anti-cancer drugs. The funds made available will support a research collaboration with the Department of Clinical Pharmacology in the Medical Clinic at Ludwig Maximilian University of Munich for the preclinical development of new compounds for cancer immunotherapy.

Granting an exclusive licence to BioNTech AG

(i)

First early-stage partnering deal

In mid-December 2012, 4SC Discovery GmbH entered into an exclusive worldwide licensing agreement with Mainz-based biopharmaceutical company BioNTech AG in the field of cancer immunotherapy. Under the agreement, BioNTech AG will receive an exclusive license for worldwide commercialisation rights to the toll-like receptor (TLR) agonists of 4SC's subsidiary. 4SC Discovery GmbH will receive an upfront payment of €2.5 million from BioNTech AG as well as an entitlement to payments on achievement of specific sales milestones plus royalties linked to net sales of the product and a share of the revenue of BioNTech AG from possible further licensing.

2.3 Significant events at Group level

Important strategic decisions were taken and implemented at Group level in the reporting year, relating to both financial strategy and administration.

Changes in the Supervisory Board

The Annual General Meeting on 6 August 2012 elected two new, experienced pharmaceutical managers to 4SC AG's Supervisory Board: Dr Irina Antonijevic, Director of Clinical Research at Genzyme (Sanofi Group) in the USA, and Klaus Kühn, former CFO of Bayer AG. The two replace Dr. Jörg Neermann, who resigned from his position as a member and Chairman of the Supervisory Board for personal reasons, effective 31 May 2012, and Günter Frankenne, who resigned from office at the end of the Annual General Meeting on 6 August 2012.

At its meeting following the Annual General Meeting, the Supervisory Board elected Klaus Kühn as its new Deputy Chairman. The Supervisory Board members had already elected Dr Thomas Werner as their new Chairman and Dr. Manfred Rüdiger as their – temporary – Deputy Chairman on 13 June 2012.

Capital increase concluded

(i)

A total of €12.6 million raised

In spite of a difficult capital market environment the Group successfully concluded a capital increase in July 2012 and thus strengthened its financial and equity base. The Company placed 8,403,510 new bearer shares at a price of €1.50 per share with both existing shareholders and new institutional investors. This transaction generated gross issue proceeds of €12.6 million for 4SC. The Company's share capital thus increased from €41,968,304 to €50,371,814.

3. FINANCIAL PERFORMANCE, CASH FLOWS AND FINANCIAL POSITION

The 4SC Group, comprising 4SC AG and its wholly-owned subsidiary 4SC Discovery GmbH, reports consolidated figures for the 2012 financial year. The comparative figures for the 2011 financial year refer to the separate financial statements of 4SC AG. The figures for 2012 and 2011 are nevertheless comparable because only the research activities that still belonged to 4SC AG in 2011 were spun off to 4SC Discovery GmbH with effect from 1 January 2012.

(ii)

Active in two Group segments

Since the beginning of 2012, the 4SC Group has reported in two operating segments: Development and Discovery & Collaborative Business. The Development segment comprises the development programmes for vidofludimus, resminostat, 4SC-202, 4SC-203, 4SC-205 and 4SC-207. The Discovery & Collaborative Business segment comprises the activities involved in drug discovery and early-stage research plus subsequent commercialisation and, in particular, service business and research collaborations related to drug discovery and optimisation.

3.1. Financial performance

(iii)

Consolidated revenue more than quintupled

Revenue

Consolidated revenue in the reporting year rose to €4,353 thousand, increasing more than fivefold from the 2011 figure of €780 thousand. In the Development segment, revenue comprised the proportional release of the deferred income recognised in connection with the partnership entered into with Yakult Honsha Co., Ltd., Japan, in 2011

for resminostat in the amount of €894 thousand (2011: €637 thousand) as well as cost allocations to 4SC's cooperation partners in the amount of €502 thousand (2011: €98 thousand).

> Key figures of the 4SC Group (short version)

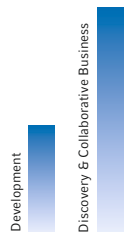
in € 000's

	2012	2011
Revenue	4,353	780
Operating expenses	17,749	19,584
Operating profit/loss	-13,366	-18,793
Consolidated net profit/loss	-13,217	-19,071
Earnings per share (in €)	-0.29	-0.46

The Discovery & Collaborative Business segment generated as much as 68% of consolidated revenue, or €2,957 thousand, in 2012, its first year of operations. An upfront payment of €2,500 thousand received under the licence agreement concluded with BioNTech AG, Mainz, was recognised as revenue in the fourth quarter of 2012. A further €456 thousand of segment revenue in 2012 originated from research collaborations with Sanwa Kagaku Kenkyusho Co., Ltd. (SKK), Japan, Henkel AG & Co. KGaA, Ribological GmbH, ViroLogik GmbH and other partners.

> Segment revenue

Revenue by segment in 2012



	in € 000's	in percent
Development	1,396	32
Discovery & Collaborative Business	2,957	68

(i)
Operating expenses lowered significantly

Operating expenses

Operating expenses, comprising the cost of sales, distribution costs, research and development costs and administrative costs, fell to €17,749 thousand in 2012, a decrease of 9% on the prior-year figure (2011: €19,584 thousand). Of the total expenditure, €13,539 thousand was attributable to the Development segment and €4,210 thousand to the Discovery & Collaborative Business segment.

Research and development costs were trimmed by 14% in 2012 to €12,909 thousand (2011: €15,012 thousand), but at 73% (2011: 77%) still constitute the largest block of operating expenses. The decline in research and development costs is mainly due to the smaller number of ongoing clinical trials than in the previous year. This was contrasted by an increase in preparatory expenditure for the planned Phase II and Phase III trials with 4SC's most advanced drug development candidates.

Administrative costs amounted to €3,916 thousand in the reporting period, down marginally by 1% year-on-year (2011: €3,962 thousand).

Distribution costs, which consisted of business development and strategic planning & marketing expenses, increased to €597 thousand in 2012 owing to the expansion of consulting services in connection with out-licensing projects (2011: €487 thousand).

Likewise, the cost of sales rose by 166% to €327 thousand (2011: €123 thousand), mainly due to the resumption of the collaborative business consolidated in the Discovery & Collaborative Business segment. The cost of sales also includes the agency fees incurred in connection with the deferred income recognised as a result of the upfront payment received from Yakult Honsha Co., Ltd. that will be reversed on a pro rata basis.

> Operating expenses

in € 000's

	2012	2011
Research and development costs	12,909	15,012
Administrative costs	3,916	3,962
Distribution costs	597	487
Cost of sales	327	123
Total	17,749	19,584

Operating profit/loss

(i)
Operating result improved considerably

On the back of higher revenue and lower overall expenditure, 4SC's operating loss improved by 29% in 2012, declining to €13,366 thousand (2011: €18,793 thousand). The Development segment reported an operating loss of €10,933 thousand, while an operating loss of €2,433 thousand was allocated to the Discovery & Collaborative Business segment in the first year of operations of 4SC Discovery GmbH.

Net finance income/loss

Net finance income contracted by 49% to €159 thousand (2011: €309 thousand). This was due mainly to continuously falling interest rates on the capital markets and the decrease in available funds, which reduced finance income year-on-year to €137 thousand (2011: €310 thousand). The share in the profit/loss of associates remained almost unchanged year-on-year at €33 thousand (2011: €31 thousand). Exchange rate differences fell by 66% year-on-year, impacting finance costs by just €11 thousand (2011: €32 thousand).

Taxes

In the reporting period, the 4SC Group incurred expense of €10 thousand from current income taxes in the form of a non-creditable, merely deductible Japanese withholding tax (2011: €587 thousand).

Consolidated net loss

The net loss fell by 31% to €13,217 thousand in 2012 on the basis of the developments described, particularly through significantly higher revenue and lower operating expenses (2011: €19,071 thousand).

Earnings per share

The average number of shares in the reporting period rose to 46,170,059 (2011: 41,455,379 shares) as a consequence of the capital increase successfully implemented in mid-2012. The simultaneous drop in the consolidated net loss lowered the loss per share to €0.29 (2011: loss of €0.46).

3.2. Financial position

> Structure of the statement of financial position

in € 000's

	2012 in € 000's	2012 in percent	2011 in € 000's	2011 in percent
Non-current assets	13,326	46	15,086	47
Current assets	15,741	54	16,752	53
Total	29,067		31,838	

	2012 in € 000's	2012 in percent	2011 in € 000's	2011 in percent
Equity	21,813	74	23,533	74
Non-current liabilities	3,755	13	4,782	15
Current liabilities	3,499	13	3,523	11
Total	29,067		31,838	

Non-current assets

Non-current assets fell to €13,326 thousand as at 31 December 2012 (31 December 2011: €15,086 thousand), mainly as a result of the pro-rata depreciation and amortisation of intangible and tangible assets. Intangible assets remained the most significant item of non-current assets at €12,223 thousand (31 December 2011: €13,574 thousand), followed by property, plant and equipment at €787 thousand (31 December 2011: €1,065 thousand). The decrease in financial assets from €264 thousand as at 31 December 2011 to €154 thousand at the reporting date is mainly due to the sale of the entire investment in Nexigen GmbH.

Current assets

The decline in current assets to €15,741 thousand as at 31 December 2012 (31 December 2011: €16,752 thousand) as expected was largely due to the decrease in funds (comprising cash and cash equivalents and other financial assets) to €12,064 thousand (31 December 2011: €15,820 thousand). This stems from the outflow of funds precipitated by 4SC's operating loss in spite of a successful capital increase at 4SC AG completed in July 2012. The substantial increase in trade accounts receivable to €3,084

thousand (31 December 2011: €115 thousand) is mainly attributable to the licence agreement concluded with BioNTech AG, Mainz, whose payment was not yet due at the reporting date.

Equity

(i) Equity positively influenced by capital increase

The decline in equity to €21,813 thousand as at 31 December 2012 (31 December 2011: €23,533 thousand) was influenced by a variety of factors. The capital increase that was implemented had the main positive effect. The share capital rose by €8,404 thousand, from €41,968 thousand to €50,372 thousand. The share premium also increased by €2,963 thousand, from €75,451 thousand to €78,414 thousand. Accordingly, the number of shares increased by 8,403,510, from 41,968,304 to 50,371,814. The loss for the year of €13,217 thousand (31 December 2011: €19,071 thousand) had a negative effect, increasing net accumulated losses to €108,735 thousand (31 December 2011: €95,518 thousand).

The equity ratio increased by 1.1 percentage points to 75.0% (31 December 2011: 73.9%).

Current and non-current liabilities

Non-current liabilities, which similar to 2011 mainly consisted of deferred income in connection with the partnership with Yakult Honsha Co., Ltd., decreased by 21% to €3,755 thousand at the close of 2012 (31 December 2011: €4,782 thousand). By contrast, current liabilities fell by 1% to €3,499 thousand at the end of the reporting period (31 December 2011: € 3,523 thousand). These principally include other liabilities and deferred income totalling €2,905 thousand (31 December 2011: €2,744 thousand) and predominantly comprise unbilled external services as well as the current portion of the deferred income amounting to €894 thousand, also relating to the partnership with Yakult Honsha Co., Ltd. Trade accounts payable decreased to €584 thousand (31 December 2011: €705 thousand).

Total assets/Total equity and liabilities

Total assets/total equity and liabilities amounted to €29,067 thousand as at 31 December 2012, down 9% on 31 December 2011 (€31,838 thousand) as a consequence of the circumstances described.

3.3 Cash flows

Cash flows from operating activities

A total of €15,174 thousand was used for operating activities during the 2012 reporting period. The change compared with the negative earnings before taxes of €13,207 thousand is attributable to adjustments for non-cash items in the statement of comprehensive income (principally straight-line depreciation and amortisation, an impairment loss recognised on a patent acquired in the course of the transfer of assets to 4SC Discovery GmbH plus stock options) but also to changes in items in the statement of financial position that had a negative effect on cash flows, especially the increase in trade

accounts receivable and the reduction in deferred income. In the prior-year period, cash outflows from operating activities came to €12,229 thousand with a pre-tax loss of €18,484 thousand. The deferred income recognized in 2011 in connection with the upfront payment received from Yakult Honsha Co., Ltd. had a positive effect.

Cash flows from investing activities

The cash inflows from investing activities in 2012 amounted to €3,063 thousand (2011: €3,013 thousand). The Company invested €51 thousand (2011: €465 thousand) in intangible assets and €50 thousand (2011: €168 thousand) in property, plant and equipment and received cash inflows of €152 thousand (2011: €0 thousand) from the sale of financial assets and property plant and equipment. The acquisition of financial instruments in the amount of €5,988 thousand (2011: €17,500 thousand) with a simultaneous cash inflow from the sale of financial instruments of €9,000 thousand (2011: €21,146 thousand) resulted in additional net cash inflows of €3,012 thousand (2011: €3,646 thousand).

Cash flows from financing activities

The net cash flow of €11,367 thousand from financing activities in the 2012 reporting period are due to the capital increase that was successfully completed on 3 July 2012. In the previous year, a capital increase of €11,034 thousand was implemented in February and employee shares worth €46 thousand were issued in May.

Funds

Cash and cash equivalents amounted to €6,076 thousand at the end of the reporting period (31 December 2011: €6,820 thousand). Additional funds in the amount of €5,988 thousand (31 December 2011: €9,000 thousand) were invested in short-term fixed-interest securities at the end of 2012. As at 31 December 2012, the Company had cash and securities totalling €12,064 thousand (31 December 2011: €15,820 thousand).

3.4 General statement regarding the Company's economic situation

(i)
Focusing on value drivers in clinical development

Expenses were significantly reduced year-on-year in 2012, thanks in particular to 4SC's focus in the reporting period on the value drivers in the clinical trials. Revenue, on the other hand, received a significant boost. This increase is directly related to the resumption of the collaborative business and the initiation of early-stage partnering deals in the new Discovery & Collaborative Business segment, which helped trim the net loss in 2012 by 31% year-on-year. Although total assets, the equity base and funds as at 31 December 2012 were lower than the comparative figures at the prior-year reporting date, the Company had sufficient liquidity at all times during the 2012 financial year. The financing of the programmes was not in jeopardy at any time. This was ensured in particular by the proceeds from the capital increase completed in July 2012.

(ii)
Revenue growth and cost savings reduce net loss for the year

As in 2012, the Group's economic development in the 2013 financial year again proceeded according to plan up until the preparation of this combined management report.

4. EMPLOYEES

(i)

60 employees in Development, 26 employees in Discovery & Collaborative Business

At the end of the reporting year, the 4SC Group had 86 employees, including the Management Board of 4SC AG and the executive management of 4SC Discovery GmbH (31 December 2011: 96); 56% of the employees were female. The Development segment had 60 employees at the end of the year, while the Discovery & Collaborative Business segment had 26. The average number of employees in 2012 was 90 - six employees fewer than in the previous year (96).

Overall, the Company adheres to a balanced personnel policy and fills the relevant positions with the most qualified employees. Furthermore, 4SC offers flexible working arrangements that enable its employees with children in particular to balance career and family. As at 31 December 2012, 22% (31 December 2011: 19%) of the workforce were working part-time. Converted based on the total of 86 employees (incl. Management Board and executive management), the Company had a total of 74 full-time employees (full-time equivalents, FTEs) at the end of 2012 (31 December 2011: 80), taking part-time employees and employees on parental leave into account. This compares to 80 FTEs as at 31 December 2011. As at the end of 2012, 69% (31 December 2011: 73%) of the FTEs worked in research and development, and 31% (31 December 2011: 27%) in sales and administration.

> Total number of employees

By area, as at 31.12.

	2012	2011
Research & Development	62	69
Administration & Sales	21	24
IT	3	3
Total	86	96

Since 2008, 4SC has acted as a vocational training provider and currently has one trainee chemical laboratory technician. The Company supports the development of its employees by offering internal and external further training opportunities. As an incentive for employees, 4SC offers a salary model that is based on the factors qualifications, professional experience, position held and performance. The respective basic salaries are reviewed regularly by the relevant superior, the Human Resources representative and the Management Board, in order to effect changes in salaries in line with budget and performance criteria.

(ii)

Staff costs reduced

Compared with the previous year, the Company's staff costs fell significantly by 8% to €6,118 thousand in 2012 (2011: €6,640 thousand). This is partly due to the fact that in 2012 only a small number of isolated salary increases were granted, but also to a decrease in the workforce in the course of the year. In many cases, as a result of selective cost-cutting measures, positions that became vacant when employees left the Company were either not filled or were filled through internal transfers. Of the staff costs, €130 thousand (2011: €313 thousand) arose from non-cash expenses for stock option programmes.

5. NON-FINANCIAL PERFORMANCE INDICATORS

5.1 Intellectual property rights

For a research-based biotechnology company, such as 4SC, having a broad portfolio of industrial property rights is crucial. It strengthens the competitive position of the Company's proprietary development programmes on route to marketability and thus supports their potential future market success. 4SC has an efficient patent management team. This team strategically reinforced the existing patent portfolio in the reporting year. At the end of 2012 the Group had an extensive global portfolio of industrial property rights. It comprised 224 granted patents and 143 pending patent applications in a total of 21 patent families in the Development segment, as well as 40 granted patents and 92 pending patent applications in a total of 13 patent families in the Discovery & Collaborative Business segment. Compared with the previous year, the number of patents thus rose by 30% (2011: 202 patents granted 398 pending patent applications in 43 patent families).

(i)

Patent portfolio strengthened further

4SC significantly extended patent protection for its leading oncology compound resminostat in the reporting year. The important composition of matter patents were granted in Taiwan, South Korea and the Philippines in 2012; in China, India and Europe, the respective patent authorities indicated that such patents will be granted, thus patent protection is also imminent in these countries. The Company currently holds a total of 17 patents for resminostat, including the composition-of-matter patents granted in the USA, Japan and Russia. A total of 44 patents had been issued for vidofludimus, the lead compound in autoimmune diseases, by end of 2012, including 35 in the Contracting and Extension States to the European Patent Convention, as well as the important composition-of-matter patents in the USA, China, South Korea, India and Russia.

Patent protection was also increased in important markets for the Company's newer clinical oncology compounds, 4SC-202 and 4SC-205, in the reporting year. The granting of a patent for 4SC-202, 4SC's second epigenetic compound besides resminostat, is imminent in China and Japan after Notices of Allowance were obtained; in India and South Korea the composition-of-matter patent was granted in 2012 for 4SC-202, thus further expanding the patent portfolio here in addition to the patents already granted in Europe and the USA. At the end of 2012, 4SC was granted the Notice of Allowance from the European Patent Office and the Chinese patent authorities for its oral cell division inhibitor, 4SC-205; patent granting in the Contracting and Extension States to the European Patent Convention and China is thus assured.

In order to further strengthen the position of the compounds, 4SC is also striving to obtain patent protection for certain forms of delivery of its compounds, for its most important drug programmes, including resminostat, vidofludimus, 4SC-202 and 4SC-205. One example of this is resminostat's mesylate salt, which has already been used in clinical trials with resminostat, and for which a total of 49 patents currently exist, including 39 in the Contracting and Extension States to the European Patent Convention, as well as in the USA, China and Russia. This approach provides a means of strengthening effective patent protection for the compounds.

Compared to the previous year, the overall number of patent applications pending has remained more or less constant. A benefit-oriented efficiency review of the current stock

of patent applications once again resulted in a decision to withdraw a number of existing applications. In contrast, an increasing number of new applications to protect promising projects in early research stages from the Discovery & Collaborative Business segment, were filed on a global level or are soon to be filed. These have already yielded initial results: Granting of the composition-of-matter patent is imminent after receipt of a Notice of Allowance in the world's most important pharmaceutical market, the USA, for the research project on the modulation of cytokines in the field of autoimmune diseases, for which a development and marketing partnership with LEO Pharma A/S was launched in the first quarter of 2013. In 2012 an initial patent was granted in New Zealand for the cancer immunotherapy project partnered with BioNTech AG since the end of 2012, which features the research and development of so-called TLR agonists; shortly after the end of the reporting period a Notice of Allowance was issued by the European Patent Office, thus the granting of a patent is imminent in Europe.

All this highlights the strength of 4SC's research and innovation, which uses a forward-thinking patent strategy to safeguard the development of future drugs. Besides its patents, 4SC also owns a variety of rights to strategically important word and word/picture marks.

5.2 Corporate responsibility/sustainability

Employee safety and environmental protection

The issue of corporate responsibility is a core concern at 4SC.The Company places a high value on ensuring the maximum possible safety of its employees and on protecting the environment. In order to achieve these objectives, appropriate measures are continuously implemented, reviewed and optimised in all processes.

(i)
Occupational health and safety committee as a central element

The occupational health and safety committee serves as a core instrument to fulfil these tasks. It is comprised of two safety officers, the biological safety officer, the company medical officer and the safety specialist. The latter two functions are held by external experts, who provide the Company with professional advice and appraisals. The occupational health and safety committee assists 4SC's management in all aspects of occupational safety, occupational healthcare, the safe handling of hazardous substances and biomaterials, as well as compliance with legal requirements.

A specialist company regularly carries out a risk assessment in accordance with the German Occupational Health and Safety Act (Arbeitsschutzgesetz). All laboratory employees receive annual training on the handling of hazardous substances in accordance with applicable hazardous substance regulations.

In addition to the personnel and organisational measures, the technical and structural requirements for the handling, storage and transport of hazardous substances and biomaterials are complied with. These include, for example, the safety-based design of laboratory equipment, personal protective gear, adequate fire-protection equipment, biological safety areas and a radionuclide laboratory. All relevant equipment and apparatus are regularly checked and serviced and have the necessary government permits. Last but not least, 4SC's waste disposal concept also helps to protect the environment.The professional and environmentally compatible disposal of hazardous waste is carried out by a specialist company.

4SC Discovery GmbH is fully integrated in the 4SC Group's occupational health and safety organisation.

(i)
Reportable incidents at work reduced further

The consistent development and implementation of the organisational and technical measures resulted in a further reduction in 2012 of the already low number of reportable incidents at work. There were no incidents resulting directly from work activities in the reporting year. The site inspections conducted by the institution for statutory accident insurance and prevention and the authorities also raised no significant objections. In association with the reduction of risks for employees the costs arising due to accidents at work were also further reduced.

Ethical responsibility

4SC relies on data derived from animal testing in order to research 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 experimental tests carried out on animals in 2012 were conducted exclusively within the scope of government-approved animal-testing projects and are continuously monitored by an external animal protection officer.

Contract research organisations, which are carefully selected, are 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.

5.3 Procurement

Procurement, logistics and warehousing processes at 4SC are organised and handled by a central procurement department. These processes are defined and fixed. Close coordination between purchasing on the one hand and both bookkeeping and the research & development department on the other hand ensures that all processes - from obtaining an order to paying the invoice - run smoothly and cost-efficiently.

The Group has a broad network of suppliers in order to ensure that it is not dependent on any one supplier. The required goods are generally sourced based on quality, pricing and availability. Despite the decrease in purchasing volume, delivery terms were renegotiated at length and improved further in the 2012 reporting year. Furthermore, the Company continued to play an active role in the purchasing association for the Munich biotech region in order to secure favourable delivery terms.

(ii)
Further improvement of delivery terms achieved

4SC cooperates with a number of providers of research and development services especially in pharmacology, toxicology, metabolism, analytics, production, clinical development, pharmacovigilance and statistics. The selection of partners is contingent on the requirements of the given project. In addition to price, quality and the observance of deadlines, the key selection criteria are their experience in the respective field and applicable regulatory parameters.

6. OPPORTUNITY AND RISK REPORT

6.1 Risk management system

4SC's risk management and internal control system

4SC has designed its active risk management system with the aim of minimising risks and eliminating them through suitable measures. The Group is exposed to certain business risks, just like any other company. The risks mainly relate to the research and development of drugs, the protection of intellectual property, the cooperation with partners, the preservation of equity and the Group's medium- and long-term financing. These risks must be assessed and managed, if necessary, so as to maximise the Company's opportunities.

(i)
Comprehensive risk management system in place

As early as 2002, 4SC implemented a comprehensive computer-aided risk management 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, the period of time to which they relate and the existing and planned countermeasures. These risk officers regularly inform 4SC's risk management officer, who in turn informs management of the status of risks. Based on this, the Management Board and the Supervisory Board decide how the Company handles the identified risks.

The Company's internal control system (ICS) supplements the risk management system and works by employing such elements as signatory powers, controlled specification and verification documents such as policies, standard operating procedures (SOPs), work instructions, the two-person integrity (TPI) principle, spot checks, employee training and emergency planning. These elements are mandatory for all operating units.

Specifications as part of 4SC's quality management system are documents containing the requirements for the product on offer or instructions on tasks to be carried out, e.g. the creation of job and job function descriptions. Verification documents are records or documents that state the achieved results or provide objective proof of activities carried out, e.g. in the form of an audit report. 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 or executive management member.

Regular project meetings are conducted as part of the scientific projects in order to discuss these matters in detail. The Joint Project Coordination Meeting (jPCM) ensures close coordination among the research and development departments as well as with the Management Board. The jPCM is held once every two weeks and it covers the presentation and discussion of one project each from the Discovery & Collaborative Business segment and the Development segment. The jPCM is attended by members of the Management Board, the project managers from both segments, representatives of the Business Development and Strategic Planning and Marketing units and the owners of the sub-projects.

(ii)
Close coordination of research and development

Risk management and internal control system in the accounting process

The aforementioned components of the internal control system such as signatory powers, work instructions, the TPI principle, spot checks and emergency planning also apply especially to the accounting process. The finance team is engaged in an ongoing learning process in order to be able to fully implement in the Company all of the constantly changing legal requirements that are relevant to the Group.

Essentially, the controls for ensuring the regularity and reliability of the Group's financial reporting process constitute automated controls, such as validation checking of financial figures and system access monitoring on the basis of a rights model. They are supplemented by manual controls, such as deviation and trend analyses made on the basis of defined key figures, as well as comparisons with budget figures. The reliability of the financial reporting process is also underpinned by monthly reviews of the key financial indicators with the operating units.

(i)
4SC`s controlling system

The Group's controlling system rests on three pillars: planning, monitoring and reporting. Taking the strategic planning into account, 4SC prepares three-year plans for internal steering and controlling purposes both for the Group and for the individual companies, 4SC AG and 4SC Discovery GmbH. The necessary data related to steering and controlling are furnished to the Management Board every month based on both these plans and the current actual figures. There are also quarterly reports on the development of business, progress in the research and development programmes, activities in human resources, public relations and investor relations as well as on patents as non-financial performance indicators. These management tools allow both the Management Board and Controlling to identify, assess and address opportunities and risks early on.

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. 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. The IFRS financial statements are also prepared in accordance with uniform rules and regulations. The manageable size of the bookkeeping team ensures uniform presentation of all like items.

Specific access rules apply within the enterprise resource planning system; any changes in these rights are subject to approval by the responsible members of the Management Board. This ensures the security of all postings and the respective separation of functions in the system as a whole.

6.2 4SC'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. Should these risks manifest themselves, either individually or together with other risks or other circumstances, this may severely compromise 4SC's business activities, its achievement of key corporate goals and/or its ability to refinance itself, as well as adversely affecting the company's financial performance, cash flows and financial position to a significant degree. In a worst-case scenario, this could lead to a situation where 4SC is forced to go into liquidation or file for insolvency.

6.2.1 Industry-specific risks

Competition

(i)
Acute need of the pharmaceutical industry to replenish pipelines

Short technology cycles, long development cycles and substantial investments to achieve marketable products as well as 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 addressed by the Company are brought to market, thus possibly facilitating faster product launches. Particularly with respect to the acute need of the pharmaceutical industry to fill its own research and development pipelines by in-licensing innovative products from biotechnology companies, 4SC competes with other companies that are engaged in drug research and development and that can develop and offer attractive drug candidates in the same indication areas using their own technology platforms. The competitive situation is influenced in particular by the target indications, on the one hand, and by the addressed therapeutic target structures or selected mechanisms of action, on the other. In addition, the competitors from the emerging markets (Brazil, China, India, Mexico and South Africa) are becoming more interesting for customers worldwide, due to their growing experience. 4SC assumes that this will further intensify competition in the biotechnology industry.

Due to the fact that competitors develop products in indications also addressed by 4SC, there is a risk that the regulatory authorities may give preference to these competing compounds and grant them approval instead – whether because of their potentially better efficacy, tolerability 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 royalties in future under existing or planned licensing agreements with pharmaceutical and biotech companies. There is a risk, therefore, that investments made in research and development will not pay off.

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, e.g. due to its loss-making situation (e.g. withholding tax). This would have a negative effect on the Company's financial performance, cash flows and financial position.

Product development (general)

(ii)
Sector exposed to special risks due to long development periods

The success of 4SC stands and falls with its research and development programmes. The Company is subject to drug 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, have side effects that are severe or difficult to tolerate, or cannot be formulated or produced such that they cannot be successfully advanced.
– External service providers become insolvent,
– The responsible authorities do not grant the requisite approvals at all or only with restrictions or after a delay.

(i)

Several drug candidates in development phases in order to reduce the risks

4SC has several drug candidates at present that are in preclinical and clinical development phases. A broad product pipeline can reduce the risk of or dependence on a single compound. Although the study results available to date indicate that the compounds that are currently in clinical development are safe to use and well-tolerated, 4SC 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. Such findings might delay the development of a compound or cause its development to be terminated, which could have a negative impact on the price of 4SC's shares and on the Company's financial performance, cash flows and financial position.

Trends in healthcare policy

The industry continues to be dependent to a certain degree, in the medium and long term, on the developments in national and international healthcare systems and healthcare policy, which currently focuses on reducing healthcare costs. Increasingly restrictive regulatory and reimbursement conditions, for example, could have an adverse effect on achievable drug prices and thus impact revenue from drug sales. On top of that, the difficult economic conditions in many healthcare systems mean that healthcare policy is having an increasing influence on the approval and remuneration of new drugs, which could have an adverse effect on the industry in the medium and long term. Health insurance funds and government institutions are increasing the pressure to reduce prices for medication. The benefit of medications is already being measured with complex regulations, which is increasing the administrative burden and making it more difficult to obtain regulatory approval. The German federal government, for example, expects the reforms to deliver significant cost savings and/or quality improvements in the healthcare sector. Among others, this means that in the future pharmaceutical companies will no longer be able to set their own prices, e.g. in Germany. This may have an adverse effect on the remuneration structure and profitability of individual compounds. As a result, it could become financially unattractive for pharmaceutical companies to get products approved in individual markets. Another possible consequence is that the tougher approval conditions may prevent products from being approved for commercialisation at all.

Administrative proceedings

The business operations of 4SC are subject to extensive legal regulations and controls. The development and marketing of new products can be hampered by administrative proceedings over which the Company 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 advancement of 4SC's research and development projects.

6.2.2 Risks from the Company's business activities

Development and licensing deals

The Group is specialised in the research and development of small-molecule compounds. In order to achieve profitability, 4SC must generate substantial revenue, for instance from upfront payments, milestone payments or royalties under licensing agreements with pharmaceutical and biotech companies as well as under research and cooperation agreements. To date, the Company's revenue has not allowed it 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. Any delay in negotiations concerning development and licensing deals with respect to the Company's proprietary drug programmes also presents a potential risk. In cases where the desired partnership is required for the further clinical development of the products (e.g. in connection with highly complex Phase III trials), clinical development could be delayed. This would also result in delays to the acquisition of the funding elements sought by signing such partnership contracts (such as potential upfront and/or milestone payments), which, in turn, would have a correspondingly negative impact on the company's financial and liquidity planning. Furthermore, should a cooperation or licensing partner fail in its attempts to progress, to license or to market a compound, this could result in 4SC failing to receive milestone payments or licensing fees, which, in turn, could further delay – or indeed prevent – the company's achievement of medium-term profitability.

(i)
Dependent on lucrative partnership deals

Cooperation partners

4SC currently generates most of its revenue from agreements with a few cooperation partners, with BioNTech, Mainz, and Yakult Honsha Co., Ltd., Japan, accounting for more than 90% of revenue in 2012. Any decision by such an important partner to terminate the cooperation agreement or cease making payments would have a negative effect on the Company's revenue and earnings. Going forward, the Company aims to generate

higher revenue from activities in the earlier stages of drug research in the short and medium term, something it hopes to achieve above all through research collaborations with pharmaceutical companies in the fields of drug discovery and optimisation. Failure by 4SC to find such cooperation partners would jeopardise the Company's attempts to boost its revenue, which in turn could have an adverse effect on its future financial performance and cash flows.

Business activities of 4SC Discovery GmbH

The Group's subsidiary, 4SC Discovery GmbH, which commenced operations at the beginning of 2012, is still not profitable and there is currently no assurance that it will be able to secure an adequate number of new customers in the medium term to build an independent, sustainable business of its own that makes a positive contribution to Group earnings.

Patents and trademarks

4SC protects its proprietary technologies and developments by establishing industrial property rights as well as through comprehensive patenting and licensing strategies. It cannot be ruled out that third parties may object to patent applications made by 4SC during the patent approval process or even challenge the validity of patents. 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 following lengthy and cost-intensive legal proceedings – could impede the Company's continued development. No such objections have been raised or are known to 4SC at this time.

6.2.3 Product development risks

Collaboration with external service providers in research and development

4SC currently does not own or operate any facilities for the manufacture of pharmaceutical products because it does not have the requisite governmental permit. As a result, the Company depends on subcontractors (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 and quality as well as compliance with governmental requirements and quality assurance standards. The occurrence of this risk could result in the postponement or termination of individual clinical studies with the attendant consequences for development and/or losses in revenue.

(i)
Cooperation with contract research organisations

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.

Risks relating to the production of compounds for clinical trials

The performance of clinical trials requires a sufficiently large quantity of the sufficient quality of the respective compound for administration to the subjects or patients. In particular from the point of Phase III tests, a production process must be in place that allows the compound to be manufactured in a reproducible manner in the same, consistent quality for the clinical tests and for possible marketing at a later date. The aim is to provide consistency of care for patients in the event of subsequent regulatory approval. If such a process fails to be established or is delayed, this may prevent or delay the start of a clinical trial. This could accordingly have adverse effects on the further development process on route to the desired market launch and thus on the earnings power of a drug programme or its commercialisation.

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 or 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 or 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 (e.g. attractiveness of a study, study design, competitive situation, patient population, locations). 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 and execution and result in delays. To push forward with the studies, 4SC might be forced to include additional clinical centres in the ongoing studies, which in turn would result in significant cost increases.

6.2.4 Capital market risks

Additional financing

The Company will continue to require 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 in case its reserves are not sufficient. There is no guarantee that 4SC will be able to raise such funds on time, in the amount required, at economically viable conditions, or at all. This could hinder 4SC in its further development and prevent it from making important investments, for example in the area of research and product development, or force it to discontinue the development of one or more of its products. This could have a negative impact on the Company's competitive position and adversely effect its financial performance, cash flows and financial position.

(i)

Financing into the third quarter of 2014

The current volume of funds in connection with the current forecast of further expense and revenue planning will safeguard 4SC's financing into the third quarter of 2014. However, there is a risk that the Company's continued existence as a going concern in the medium to long term might be jeopardised if additional cash inflows cannot be generated through outlicensing, cooperation deals or partnerships and/or through capital increases. In this connection, planned capital measures might partly fail, or fail entirely, e.g. due to a difficult market environment. Should the Company have no access to additional funding this could impede or entirely prevent it from continuing as a going concern and result in the liquidation or insolvency of 4SC.

If the Company raises additional capital by issuing new shares, existing shareholders could see a dilution of their shares.

Influence exerted by 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 has five principal shareholders which have exceeded notification thresholds at time this Group management report has been prepared. Together, these shareholders hold over 73% of the share capital and voting rights. They are thus theoretically in a position to exert a controlling influence on resolutions of the Annual General Meeting and, regardless of how the other shareholders vote, exert a significant influence on all major decisions taken by 4SC AG concerning the future business transactions of 4SC, as well as on the future composition of the Supervisory Board and thus also, indirectly, the Management Board.

6.2.5 Financial risks and balance sheet risks

Cash investments

Any available cash funds which 4SC does not urgently require are invested to earn interest. All of these funds are invested safely (investment grade) in overnight and term deposits, borrower's note loans and bearer notes that entail only minor liquidity and default risks.

Transactions with international 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 settle its own obligations in foreign currencies, primarily US dollars, sterling and Swiss francs, thereby 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 – despite the share premium from the issued shares – resulted in a loss amounting to half the Company's share capital under German commercial law. In this case, section 92(1) of the AktG requires the Company to immediately convene a General Meeting. The notice of loss in an ad-hoc disclosure and the holding of such a 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 notice of loss.

Allowance of tax loss carryforwards

Pursuant to the last notification received concerning the separate determination of residual loss carryforwards as at 31 December 2011, 4SC has corporate tax loss carryforwards of €115,215 thousand and trade tax loss carryforwards of €114,449 thousand. Substantial additional losses that have not yet been subject to a tax assessment have been incurred since 31 December 2011.

The application of section 8(4) of the German Corporate Income Tax Act (Körperschaftsteuergesetz - KStG) relating to the use of cumulative loss carryforwards, which was already problematic for the industry, has become considerably more difficult since the introduction of section 8c of the KStG on 1 January 2008 as part of the German Business Tax Reform Act. Any transfer of between 25% and 50% of the subscribed capital within a five-year period results in a partial elimination of tax losses carried 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 partially mitigate the problem, they do not eliminate it. Furthermore, at present there is considerable uncertainty surrounding the applicable legal situation due to ongoing and pending court cases as well as pending legislative processes at national and European level.

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 partially or 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 have a negative influence on liquidity.

Risks from fair value adjustments in connection with the transfer of various assets from 4SC AG to 4SC Discovery GmbH

In order to be able to commence operations with 4SC Discovery GmbH at the beginning of 2012, important tangible and intangible assets, particularly from the area of research, were transferred by way of contributions in kind from 4SC AG to 4SC Discovery

GmbH. These assets were capitalised at 4SC Discovery GmbH, triggering fair value adjustments amounting to €9,064 thousand at 4SC AG. If it is foreseeable that the Company will not succeed in providing sufficient liquidity for the further development of these products and/or will not be able to verify the marketability of the products, or should the further development of these products not be scientifically or technically feasible, the capitalised items will be re-tested for impairment and adjusted in value, if necessary. This could have a material adverse effect on the financial performance and financial position of 4SC AG according to HGB.

6.2.6 Administrative and other risks

Key personnel and holders of know-how

(i)
Experienced personnel

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 and pharmaceutical 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 many of 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.

Risks relating to a control and profit transfer agreement between 4SC AG and 4SC Discovery GmbH

The control and profit transfer agreement concluded retrospectively to the beginning of financial year 2012 between 4SC AG and 4SC Discovery GmbH could be terminated early in certain circumstances, e.g. if the shareholder structure of 4SC Discovery GmbH were to change due to the addition of new external shareholders. A new control and profit transfer agreement could only be concluded and be relevant for tax purposes with the next Annual General Meeting and it is possible that 4SC AG's Annual General Meeting might not approve such an agreement again. This could mean that both companies might no longer be permitted to be consolidated at tax level which, in turn, could have an adverse effect on the companies' financial performance, cash flows and financial position. The same applies if, for example, a new shareholder of 4SC Discovery GmbH does not accept a new control and profit transfer agreement.

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.

6.2.7 Overall assessment of the Company's exposure to risk

(i)
Opportunities outweigh risks

From today's perspective, the Company does not perceive any factors that could jeopardise the existence of 4SC as a going concern in the 2013 financial year, all aforementioned risks notwithstanding. The Company is convinced that its opportunities outweigh any of the risks related especially to the development of drug candidates. 4SC is well positioned thanks to its broad and balanced pipeline. Funds at 31 December 2012 in connection with the current forecast of future expense and revenue planning will safeguard the continued development of the programmes on which 4SC focuses and the financing of the Company for the next twelve months and beyond. Until then, management expects that it will be able to generate additional cash inflows through partnerships. Should this fail to happen to the required extent, the Company's continued existence would be at risk in the medium term if additional equity or debt cannot be secured.

6.3 Opportunities of 4SC

Project-related progress enhances the Company's enterprise value

Several of 4SC's products might 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 such example is the oncological compound resminostat, which is being evaluated by 4SC in clinical studies in three indications: liver cancer (hepatocellular carcinoma – HCC), lymph node cancer (Hodgkin's lymphoma – HL) and colon cancer (colorectal carcinoma – CRC).

External partnerships and licensing agreements enhance the Company's enterprise value

(ii)
Increasing number of programmes at interesting stages of development

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. A number of factors contribute to this development. For one, many patents for existing products are expiring and, for another, there were setbacks in several development projects of pharmaceutical companies. As a result, partnerships between pharmaceutical and biotech companies are increasingly being structured to the benefit of the biotech industry. 4SC has benefited from this trend in the resminostat licensing deal with Yakult Honsha Co., Ltd. 4SC now has a growing number of programmes in the stages of development that are interesting for pharmaceutical companies. Such partnerships may also validate 4SC's programmes and – for example in

the form of licensing revenue, upfront payments and milestone payments received as well as royalties – attest to the Company's business model and strengthen its financial performance, cash flows and financial position.

Additional marketing of research enhances the Company's enterprise value

The establishment of 4SC Discovery GmbH at the end of 2011 as a wholly-owned subsidiary of 4SC AG was intended to additionally improve the positioning of the Company's research unit vis-à-vis external partners for research services, research collaborations and partnerships with products in the research stage. In the financial year just ended, 68% of consolidated revenue was generated by this Group subsidiary. If one or several of these commercial aspects can continue to be realised, this might also further tangibly strengthen the Group's financial performance, cash flows and financial position.

Takeovers

Major pharmaceutical and biotechnology companies are not just interested in in-licensing compounds at early or advanced 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 significant. This could benefit 4SC's shareholders.

Licensing revenue 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.

7. EVENTS AFTER THE REPORTING PERIOD

(i)
Positive course continued

In 2013, the Company continued its development along a similar trajectory as in 2012. In the Development segment, patent protection for the lead oncology compound, resminostat, was strengthened further. The Discovery & Collaborative Business segment continued on its successful course by entering into two research partnerships.

4SC obtains key patent for anti-cancer compound resminostat in Europe

The Company reported in January 2013 that it had received a Notice of Intention to Grant from the European Patent Office regarding the composition-of-matter patent for its anti-cancer compound resminostat. Thus, the grant of this key patent for the entire European market is now imminent. Thus patent protection for resminostat is complete in all key global markets, In China, Europe, India, Japan, Russia, South Korea and the US, the composition-of-matter patent has either been granted or patent granting is imminent.

4SC Discovery and BioNTech launch strategic cancer therapy research partnership

4SC's wholly-owned research subsidiary announced in February 2013 that it had launched an extensive research collaboration in the field of cancer medicine with BioNTech AG at the beginning of the year. The corresponding agreement was signed in December 2012. In the service partnership, which will run for three years, 4SC Discovery GmbH will be commissioned by the Mainz-based biopharmaceutical company to identify and optimise new small molecule anti-cancer drugs for defined therapeutic targets. BioNTech AG will then develop these further. Under the partnership, 4SC Discovery GmbH will receive a cost-based service fee as well as success-based payments on achievement of specific milestones plus royalties linked to future net sales of the products. This is the second strategic partnership forged by the two companies.

4SC Discovery and LEO Pharma announce research and license agreement

In February 2013, 4SC Discovery GmbH and LEO Pharma A/S, Ballerup, Denmark, concluded an extensive research and licensing agreement in connection with the therapy of chronic inflammatory skin diseases. The objective of the agreement is the research, development and commercialisation of a new orally administered compound for the treatment of psoriasis. Under this agreement, 4SC Discovery GmbH will receive an upfront payment of €1 million and additional funds for further research and development work. LEO Pharma A/S will receive an exclusive option on the in-licensing of the global rights to the marketing and commercialisation of the compound. If LEO Pharma makes use of this option, 4SC Discovery GmbH will be entitled to a milestone payment of up to €3 million and to further payments of up to €92 million when specific development milestones are reached, as well as to royalties of up to a double-digit percentage from later product sales.

CEO Dr Ulrich Dauer to step down on 31 March 2013; his successor will be CFO Enno Spillner

On 6 March 2013, the Company announced that Dr Ulrich Dauer, will be stepping down as a member of the Management Board and Chief Chief Executive Officer of 4SC AG effective 31 March 2013 for personal reasons. His successor will be Enno Spillner, who has been Chief Financial Officer of 4SC AG since 2005 and will hold both posts in the future. Enno Spillner was appointed by the Supervisory Board as CEO and CFO for three years with effect from 1 April 2013.

Notice of loss at 4SC AG pursuant to Section 92 (1) AktG

On 12 March 2013, 4SC AG announced that, in accordance with the accounting principles of the German Commercial Code (HGB), 4SC AG had incurred a loss amounting to half of its share capital in March. This is due to operating losses that have accumulated as planned in drug development as part of 4SC AG's business. A loss amounting to half of the share capital triggers a legal obligation under Section 92 (1) German Stock Corporation Act to convene a General Meeting of shareholders, at which this fact is to be disclosed. The Management Board of 4SC AG intends to disclose this fact and discuss the company's situation at the Annual General Meeting scheduled for 2 May 2013.

8. ANTICIPATED DEVELOPMENTS

The following paragraphs contain forecasts and expectations regarding future developments. Actual results might differ substantially from these estimates of likely developments if one or more uncertainties, whether mentioned or not, were to arise, or if the assumptions underlying the foregoing statements turn out to be incorrect.

8.1 Macroeconomic and sector development

Economic researchers are predicting moderate global growth in 2013. According to the International Monetary Fund (IMF), the global economy will expand by 3.6% this year, slightly faster than in 2012 (+3.3%). The IMF's estimates assume that the European sovereign debt crisis will progressively ease. The growth engine will continue to be the emerging economies, for which the IMF envisages an average growth rate of 5.6%. For China in particular, stronger growth (8.2%, after 7.8% in 2012) is forecast for 2013 once again on the back of the Chinese government's stimulus measures. The greatest challenge facing the global economy remains the euro zone sovereign debt crisis, for which sustainable solutions still need to be found. Economic researchers nevertheless assume that the situation in the countries on the periphery of the euro zone such as Italy and Spain, which are currently still in recession, could improve in the second half of the year if the austerity measures are relaxed. According to forecasts by the federal government, Germany will achieve growth of 0.4% in 2013. The economy in the US is likely to recover faster than in Europe, possibly growing at a rate of 2.1% in 2013 according to IMF estimates. On the whole, growth in the industrialised countries will remain relatively low at an anticipated 1.5%.

(i)
Sector expectations generally positive for 2013

Expectations of the development of the biotechnology industry for 2013 are essentially positive. Market participants are confident that the encouraging development of the sector in 2012 with regard to regulatory approval, clinical success and strong capital performance will continue. This optimism stems from a large number of imminent approvals as well as expected clinical results. According to the BioCentury news service, for example, it was already clear at the beginning of the year that the US Food and Drug Administration (FDA) would decide on at least 30 approvals in the course of the year. Furthermore, BioCentury is documenting a total of 98 upcoming regulatory milestones or Phase III trial results in the industry during 2013. This year, investors once again expect to see an increasing trend towards investments in biotech companies with a lower market capitalisation, after buyers of equities in 2012 had favoured mainly large biotech companies with a market capitalisation of over US-$5 billion. This trend started to become apparent as early as January 2013. In addition, one survey showed that companies from the sectors of oncology, antibiotics and orphan diseases were especially popular among investors.

Germany's biotechnology industry also has a relatively optimistic outlook. According to a survey published by the biotechnology industry association "BIO Deutschland" at the beginning of 2013, the companies consider their current business situation to be significantly more positive than in the previous year. Their willingness to invest even increased to its highest value since surveys began in 2006.

8.2 Company outlook

(i)
Clinical trials aiming for market approval planned

4SC is expecting data from several Phase I and Phase II clinical trials in 2013. Preparations for advanced clinical trials are also underway, in order to bring in particular the two most advanced clinical products, resminostat and vidofludimus, much closer to market maturity in collaboration with partners.

For the anti-cancer compound resminostat, following publication in September 2012 of the excellent results on the overall survival in advanced liver cancer (HCC), the data package in the Phase II SHELTER trial is mostly complete. After database closure at the end of 2012, publication of the additionally evaluated trial results including the analysis of patient subgroups and the biomarker studies is scheduled for 2013; both of these events will take place at scientific conferences to be held during the year. On the basis of the excellent trial results for advanced liver cancer up to now, 4SC – together with its partner Yakult Honsha Co., Ltd., which is exclusively responsible for Japan, and an international partner that has yet to be identified – is seeking rapid approval in this indication. One of the core elements of our development strategy will be to achieve regulatory approval for resminostat in combination with sorafenib in second-line therapy of advanced liver cancer through an international Phase III trial. The planned study design has already been agreed in consultations with official agencies in Europe and the US. At the same time, 4SC also intends to obtain approval for the first-line therapy of liver cancer in combination therapy with sorafenib through additional trials – a step that will also considerably enhance the market prospects for resminostat in this indication.

(ii)
Talks with potential international partners

Following the conclusion in 2011 of a licensing agreement with Yakult Honsha Co., Ltd. for the development and commercialisation of resminostat in Japan, 4SC is currently in talks with potential international partners about further licensing and development partnerships for resminostat. The Company is also currently working on establishing the production process on a larger scale to produce the required study medication for resminostat for the planned Phase III trial. In addition, the regulatory authorities need to give their formal approval before the trial can officially start. The Management Board of 4SC AG estimates that the planned trial could start in the second half of 2013. This depends on a partner being found and the remaining preparations for the trial being successfully completed.

In the ongoing Phase I/II SHORE trial, in which resminostat in combination with FOLFIRI chemotherapy is being studied in the colorectal cancer indication, 4SC expects the clinical efficacy data to be available in the next 12-18 months. Interim results on the efficacy will possibly be available as early as the end of 2013. In Phase II of the SHORE trial, which 4SC's Management Board estimates may begin in the first half of 2013, the efficacy of the resminostat FOLFIRI combination will be studied. Positive interim results on the Phase I part of the trial were reported at the end of 2012, providing data on the safety, tolerability and pharmacokinetics of the drug candidate.

For vidofludimus, the Company's lead compound for autoimmune diseases, 4SC is aiming to start a Phase IIb clinical trial in the Crohn's disease indication, building on the good results of a Phase IIa trial in inflammatory bowel disease. The design of the planned trial has already been completed and agreed with the international regulatory authorities. Activities are currently focusing on the search for a suitable partner with whose support the trial is to be conducted.

(i)
Two promising anti-cancer compounds in ongoing Phase I

The Company is currently testing two other promising anti-cancer compounds, 4SC-202 and 4SC-205, in ongoing Phase I clinical trials. The Phase I dose-finding study "TOPAS" with the epigenetic compound 4SC-202 in patients with advanced haematological tumours is already well advanced. On the strength of the compound's excellent tolerability, additional doses are now being tested. The Company currently assumes that it will be able to publish the results in the second half of 2013 after determination of the best-possible treatment dosage.

4SC also believes that the ongoing Phase I AEGIS trial with 4SC-205 in patients with solid tumours – which, as far as 4SC is aware, is the only oral eg5 kinesin inhibitor in clinical trials worldwide – is on course. After promising results on safety, tolerability, pharmacokinetics and biomarkers were reported in December 2012, a study amendment was begun to test the substance in a new, innovative dosing scheme. Results of the AEGIS study amendment protocol are expected towards mid-2013.

4SC aims to secure licensing deals with companies from the pharma and biotech sectors, to ensure the targeted advancement of its clinical development programmes towards market maturity – particularly those involving its lead compounds vidofludimus and resminostat. This is intended to secure a flow of funds – e.g. by means of upfront payments, milestone payments and royalties – and enable 4SC to participate in the substances' successful future development. Given the promising study results with both compounds, the Company remains optimistic about the continuation of discussions with potential partners.

(ii)
4SC Discovery aims to engage in further partnerships

The Group's subsidiary 4SC Discovery GmbH is currently focusing its efforts on securing further service provision agreements and research collaborations with companies in the pharmaceutical and biotech sectors. 4SC Discovery GmbH is also planning further early-stage partnering deals for the development and commercialisation of its own research programmes. In addition to direct cash inflows, 4SC Discovery GmbH intends to participate in the further development of its projects, for example through milestone payments and royalties.

The 4SC Group had funds of €12,064 thousand at the end of the 2012 financial year. These existing funds in connection with the current forecast of further expense and revenue planning will ensure the Company's financing into the third quarter of 2014. This forecast is based on the assumption that the monthly operating cash burn rate in 2013 will be approximately € 0.6 million and that the Company's research and development programmes will run according to plan. Regardless of the assumption that revenue will continue to increase in 2013, 4SC expects to make a loss in the short to medium-term. However, based on current planning its research and development costs in 2013 will be lower than in 2012, due, among other things, to the lower number of clinical trials in

progress. The Group's operating loss should also be lower than in 2012 thanks to falling costs and the expected rise in earnings contributions from the collaborative activities of 4SC Discovery GmbH (Discovery & Collaborative Business segment).

(i)
4SC Discovery plans to generate a balanced cash flow from operations as early as 2013

Based on the strong operating performance of 4SC Discovery GmbH in 2012, which has so far continued into 2013, the Management Board of 4SC AG expects that the wholly-owned subsidiary 4SC Discovery GmbH will be able to achieve a balanced cash flow from operating activities as early as 2013 assuming that the order situation continue to develop favourably and partnerships can be concluded. In the medium term, 4SC Discovery GmbH aims to finance its research activities from its operating activities, become profitable and thus help to finance the entire Group.

If the research and development collaborations are successful, the Management Board expects both revenue and other income at Group level in 2014 to be higher than in 2013. As a result, earnings could further improve in the 2014 financial year even though expenses are expected to remain higher than income.

Should it prove impossible to generate sufficient additional cash flows with the planned operating measures, for example in the form of cooperation deals or partnerships, additional capital requirements would have to be met by raising further equity and/or borrowings to ensure the Company’s continued existence in the medium and long term.

On the whole, given the promising clinical development programmes and the strengths in the area of early-stage research that are consolidated in 4SC Discovery GmbH, 4SC is very optimistic about 2013 and beyond.

9. DEVELOPMENT BUSINESS OF 4SC AG

The management report of 4SC AG and the Group management report for the 2012 financial year have been combined in accordance with Section 315(3) German Commercial Code (HGB) in conjunction with Section 298(3) HGB. In addition to the reporting on the 4SC Group, we outline the development of 4SC AG. As a rule, the combined management report also includes all mandatory components for 4SC AG.

4SC AG is the parent company of the 4SC Group with headquarters in Planegg-Martinsried. Its operations are focused on the clinical development of new compounds. 4SC AG generated just over 30% of consolidated revenue in this area of business in 2012. The principal management functions of the entire Group are the responsibility of 4SC AG's Management Board. Among other things, the Management Board defines the Group strategy, allocates resources such as investment funds and is responsible for the managing the Group's executives and finances. The Management Board of 4SC AG also makes decisions about communication with the Company's main target groups, especially with the capital markets and shareholders. 4SC AG's economic environment is largely identical to that of the Group and is described in section 2 of the combined management report. As at 31 December 2012, 4SC AG had 62 employees, including four Management Board members. The annual financial statements of 4SC AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

9.1 Financial performance of 4SC AG (HGB)

Revenue

4SC AG's revenue amounted to €1,396 thousand in 2012, an increase of almost 80% compared with the previous financial year (2011: €780 thousand).

Revenue comprised the proportional release of the deferred income recognised in connection with the partnership entered into with Yakult Honsha Co., Ltd., Japan, in 2011 for resminostat in the amount of €894 thousand (2011: €637 thousand) as well as cost allocations to cooperation partners of 4SC AG in the amount of €502 thousand (2011: €98 thousand).

Other operating income

4SC AG's other operating income also rose appreciably by 88% to €2,003 thousand (2011: €1,063 thousand). This increase is mainly attributable to the income from cost allocations to affiliated companies resulting from ongoing clearing transactions with 4SC Discovery GmbH, for example in the form of on-charged personnel expenses and project costs. Reduced investment grants as well as lower income from the reversal of provisions had an offsetting effect.

Staff costs

The 30% decrease in 4SC AG's staff costs to €4,469 thousand (2011: €6,367 thousand) is mainly due to the spin-off of the research operations into a separate company, 4SC Discovery GmbH, with effect from 1 January 2012.

Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets

The increase in the amortisation and write-downs of intangible fixed assets and the depreciation and write-downs of tangible fixed assets to €1,473 thousand (2011: €1,343 thousand) was influenced by two opposing factors following the transfer of assets to 4SC Discovery GmbH. On the one hand, the partial transfer of fixed assets to 4SC Discovery GmbH reduced depreciation and amortisation at 4SC AG. On the other hand, in the course of the transfer, a patent acquired was impaired and written down among the fixed assets of 4SC AG.

Other operating expenses

4SC AG's other operating expenses, which mainly comprise third-party services provided by external and affiliated companies, legal and consulting costs, occupancy costs and investor relations costs, were reduced by 25% to €10,248 thousand (2011: €13,662 thousand). This decrease is mainly due to two complementary factors: First, due to the spin-off of 4SC Discovery GmbH, 4SC AG no longer incurred any of the costs associated with early-stage research in the reporting period.

Second, external purchased services fell in the reporting period, mainly as a result of the smaller number of ongoing clinical trials than in the previous year and the correspondingly lower expense incurred as a result. This decrease in costs more than compensated for the increased preparatory expenditure in the reporting period for the planned Phase II and Phase III trials with the Company’s most advanced drug development candidates.

Net finance income/loss

4SC AG's net finance income decreased to €230 thousand (2011: €278 thousand) as a result of lower interest income.

Cost of loss absorption

A loss of €2,712 thousand arose from the control and profit transfer agreement based on which 4SC AG has absorbed the losses of 4SC Discovery GmbH since the reporting period.

Result from ordinary activities

The result from ordinary activities improved by 21% year on year to €-15,274 thousand (2011: €-19,251 thousand).

Extraordinary result

The extraordinary result in the amount of €9,064 thousand recorded in the reporting year (2011: €0 thousand) results from fair value adjustments in connection with the contribution in kind made to 4SC Discovery GmbH.

Net profit/loss for the year

The developments described reduced 4SC AG's net loss for the year by €13,631 thousand to €6,220 thousand (2011: €19,851 thousand). Adding the loss carried forward from the previous year in the amount of €98,186 thousand, the net accumulated losses amount to €104,406 thousand.

9.2 Financial position of 4SC AG (HGB)

Fixed assets

In spite of the amortisation of intangible fixed assets and depreciation of tangible fixed assets with little new investment at the same time, the fixed assets of 4SC AG at the reporting date increased to €23,116 thousand (2011: €12,631 thousand). This increase is mainly attributable to two opposing factors related to 4SC Discovery GmbH. In the course of the transfer of assets to 4SC Discovery GmbH, the tangible fixed assets of 4SC AG were reduced and a patent acquired was impaired. Financial assets were strengthened by the integration of the research operations into 4SC Discovery, which resulted in fair value adjustments of € 9,064 thousand, and by the loans to the subsidiary.

Current assets

The fall in current assets to €14,176 thousand at the close of the financial year (31 December 2011: €16,772 thousand) as expected was primarily attributable to the decrease in the cash funds. This comprises the items securities as well as cash in hand and bank balances. In total, these two items decreased to €11,932 thousand (31 December 2011: €15,769 thousand) as a result of the operating loss incurred by 4SC AG.

Equity

The increase in equity to €27,634 thousand as at 31 December 2012 (31 December 2011: €21,248 thousand) was influenced by a variety of factors. The capitalisation measure completed in July 2012 had a positive effect, increasing the share capital by €8,404 thousand to €50,372 thousand (31 December 2011: €41,968 thousand) and the share premium by €4,202 thousand to €81,668 thousand (31 December 2011: €77,466 thousand). Similarly, the number of shares rose by 8,403,510, from 41,968,304 to 50,371,814. The net loss for the year of €6,220 thousand had a negative effect, increasing net accumulated losses to €104,406 thousand (31 December 2011: €98,186 thousand).

The equity ratio increased by 1.9 percentage points to 73.7% as at the reporting date (31 December 2011: 71.8%).

Other provisions

Other provisions decreased by 38% to €1,171 thousand (2011: €1,881 thousand), largely due to the reduced use of external scientific services.

Liabilities

Liabilities increased to €8,685 thousand as at 31 December 2012 (31 December 2011: €6,461 thousand). On account of the control and profit transfer agreement concluded with 4SC Discovery GmbH on 6 August 2012 with retroactive effect to 1 January 2012, 4SC Discovery GmbH's loss of €2,712 thousand (31 December 2011: €0 thousand) was absorbed; liabilities also include €161 thousand resulting from ongoing clearing transactions with the subsidiary.

Total assets/Total equity and liabilities

The total assets/total equity and liabilities of 4SC AG amounted to €37,501 thousand as at 31 December 2012, up 27% on the end-of-year figure for the previous year (31 December 2011: €29,590 thousand) due to the facts described above.

9.3 Cash flows of 4SC AG (HGB)

Cash flows from operating activities

A total of €13,616 thousand was used for the operating activities of 4SC AG during the 2012 reporting period (2011: €13,407 thousand). The change compared with the negative result from ordinary activities of €15,274 thousand (2011: €-19,251 thousand) principally results from the absorption of losses of the affiliated company 4SC Discovery GmbH in the financial year.

Cash flows from investing activities

The cash outflows from investing activities in the reporting year amounted to €2,826 thousand (2011: 3,438 thousand). Investments in the reporting period focused on financial assets in the form of 4SC Discovery GmbH and on loans for 4SC Discovery GmbH. The purchase and sale of financial assets generated cash inflows of €3,012 thousand (2011: €3,646 thousand).

Cash flows from financing activities

The gross cash flows of €12,605 from financing activities in the reporting period (2011: €11,787 thousand) are due to the capital increase that was completed in July 2012.

Funds

The cash funds amounted to €5,932 thousand at the reporting date. Since additional funds of €6,000 thousand were invested in securities, the total funds of 4SC AG amounted to €11,932 thousand as at 31 December 2012 (31 December 2011: €15,769 thousand).

9.4 General statement regarding the Company's economic situation

The most important factor affecting the economic situation of 4SC AG which has helped to reduce both staff costs and other operating expenses is the spin-off of the research operations into 4SC Discovery GmbH with effect from 1 January 2012. Likewise, the concentration in clinical development on 4SC AG's growth drivers in 2012 further reduced expenses compared with the previous year. The higher income from development partnerships and the increase in other income also had a positive effect. However, the absorption of a loss in the amount of €2,712 thousand under the control and profit transfer agreement concluded with 4SC Discovery GmbH triggered additional expenses. This was contrasted by the extraordinary income resulting from fair value adjustments in the amount of €9,064 thousand, which significantly reduced the net loss in 2012 compared with the previous year. Although total assets, the equity base and funds as at 31 December 2012 were lower than the comparative figures at the prior-year reporting date, the Company had sufficient liquidity at all times during the 2012 financial year and the financing of its programmes was not in jeopardy at any time. This was ensured in particular by the proceeds from the capital increase completed in July 2012. The economic development of 4SC AG proceeded according to plan in the 2012 financial year and up until the preparation of the management report in the 2013 financial year.

9.5 Events after the reporting period

The events after the reporting period can be found in section 7 of the combined management report of the 4SC Group.

9.6 Risks and opportunities

The performance of 4SC AG is essentially subject to the same risks and opportunities as that of the 4SC Group. 4SC AG generally shares in the risks to which its equity investments and subsidiaries are exposed, corresponding to its stake in these companies. On account of statutory and contractual contingencies, the relationships to the equity investments and subsidiaries can also put pressure on 4SC AG's earnings (especially with regard to financing and the absorption of losses in accordance with the control and profit transfer agreement between 4SC AG and 4SC Discovery GmbH). As the parent company of the 4SC Group, 4SC AG is part of the Group-wide risk management system. For more information please refer to section 6.1 of the combined management report. A description of the internal control system for 4SC AG required by section 289(5) of the German Commercial Code is also provided in section 6.1.

9.7 Anticipated developments (outlook)

Expectations concerning 4SC AG's continued performance in the next two years are virtually identical to the outlook for the 4SC Group, which is described in detail in the report on anticipated developments for the Group in section 6.8. 4SC AG aims to generate cash inflows and increasing revenue by forging alliances in the form of development cooperation deals and licensing agreements for its clinical development programmes. According to current planning for 2013 and 2014, 4SC AG's research and development costs will be below the level for the reporting period, which correlates, among other things, with the further decrease in the number of ongoing clinical studies, but is mainly related to the transfer of the early-stage research activities to 4SC Discovery GmbH. Overall, 4SC AG is also still forecasting a net loss for the year in the short and medium term, which might be slightly higher in 2013 and 204 than in the reporting period.

4SC AG had funds of €11,932 thousand at the end of the 2012 financial year. Based on the statements in the Group's report on anticipated developments in chapter 8 and the control and profit transfer agreement with the sole, wholly-owned subsidiary 4SC Discovery GmbH, the financing of the parent company, 4SC AG, is ensured into the third quarter of 2014. The Management Board of 4SC AG is careful to point out that should it prove impossible to generate sufficient additional cash flows with the planned operating measures by 4SC AG or 4SC Discovery GmbH, for example in the form of cooperation deals or partnerships, additional capital requirements would have to be met by raising further equity and/or borrowings to ensure the Company’s continued existence in the medium and long term.

As the parent company of the 4SC Group, 4SC AG expects to be able to benefit from the projected positive development of the 4SC Group in 2013 and beyond.

9.8 Publication

The annual financial statements of 4SC AG prepared in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act and the combined management report are published in the electronic Federal Gazette.

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Consolidated financial statements of 4SC

for the financial year from 1 January to 31 December 2012

> CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in €000's

	Consolidated notes	2012	2011
Revenue	4.1	4,353	780
Cost of sales	4.3	-327	-123
Gross profit		**4,026**	**657**
Distribution costs	4.4	-597	-487
Research and development costs	4.5	-12,909	-15,012
Administrative costs	4.6	-3,916	-3,962
Other income	4.7	30	11
Operating profit/loss		**-13,366**	**-18,793**
Net finance income/loss			
Share in the profit of equity-accounted investees	4.9	33	31
Finance income	4.9	137	310
Finance costs	4.9	-11	-32
Net finance income/loss		159	309
Earnings before taxes		**-13,207**	**-18,484**
Income tax expense	5.	-10	-587
Profit/loss for the period = Consolidated comprehensive income/loss		**-13,217**	**-19,071**
Earnings per share (basic and diluted; in €)	6.	-0.29	-0.46

See the attached consolidated notes

> CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS

in €000's

	Consolidated notes	31.12.2012	31.12.2011
Non-current assets			
Intangible assets	7.1	12,223	13,574
Property, plant and equipment	7.2	787	1,065
Investments accounted for using the equity method	7.3	154	121
Other investments	7.4	0	143
Other assets	7.11	162	183
Non-current assets		**13,326**	**15,086**
Current assets			
Inventories	7.5	22	25
Trade accounts receivable	7.6	3,084	115
Receivables from investees	7.7	0	2
Other financial assets	7.8	5,988	9,000
Cash and cash equivalents	7.9	6,076	6,820
Current income tax assets	7.10	127	69
Other assets	7.11	444	721
Current assets		**15,741**	**16,752**
Total assets		**29,067**	**31,838**

See the attached consolidated notes

> CONSOLIDATED STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

in €000's

	Consolidated notes	31.12.2012	31.12.2011
Equity			
Subscribed capital		50,372	41,968
Share premium		78,414	75,451
Reserves		1,762	1,632
Accumulated deficit		-108,735	-95,518
Equity	7.12	**21,813**	**23,533**
Non-current liabilities			
Other liabilities	7.16	180	313
Deferred income	7.16	3,575	4,469
Non-current liabilities		**3,755**	**4,782**
Current liabilities			
Trade accounts payable	7.13	584	705
Accounts payable to associates	7.14	10	29
Provisions	7.15	0	45
Other liabilities	7.16	2,011	1,850
Deferred income	7.16	894	894
Current liabilities		**3,499**	**3,523**
Total equity and liabilities		**29,067**	**31,838**

See the attached consolidated notes

> CONSOLIDATED STATEMENT OF CASH FLOWS

in €000's

	Consolidated notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before taxes		-13,207	-18,484
Adjustment for statement of comprehensive income items			
Depreciation and amortisation		1,714	1,392
Net finance income/loss		-158	-309
Stock options		130	313
Other non-cash items		-31	25
Changes in statement of financial position items			
Inventories		3	-4
Trade accounts receivable		-2,969	166
Receivables from investees		2	-2
Current income tax assets		-58	180
Other assets		298	38
Trade accounts payable		-121	-263
Accounts payable to associates		-19	0
Provisions		-45	0
Other liabilities		28	-303
Deferred income		-894	5,363
Interest received		174	260
Interest paid		-11	-1
Income taxes paid		-10	-600
CASH FLOWS FROM OPERATING ACTIVITIES	8.	**-15,174**	**-12,229**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		-51	-465
Purchase of property, plant and equipment		-50	-168
Sale of property, plant and equipment		10	0
Sale of equity investments		142	0
Purchase of financial investments		-5,988	-17,500
Sale of financial investments		9,000	21,146
CASH FLOWS FROM INVESTING ACTIVITIES	8.	**3,063**	**3,013**
Cash flows from financing activities			
Payments to subscribed capital		8,404	3,465
Payments to share premium		2,963	7,615
CASH FLOWS FROM FINANCING ACTIVITIES	8.	**11,367**	**11,080**
NET CHANGE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS		**-744**	**1,864**
+ Cash and cash equivalents at the beginning of the period		6,820	4,956
= CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**6,076**	**6,820**

See the attached consolidated notes

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

> CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €000's

	Consolidated notes	Subscribed capital	Share premium	Reserves stock options	Retained earnings	Accumulated deficit	Total
Balance on 01.01.2011		**38,503**	**67,836**	**1,251**	**67**	**-76,447**	**31,210**
Options issued (ESOP 2004/2006/1)				1			1
Options issued (ESOP 2006/2007)				1			1
Options issued (ESOP 2006/2008)				8			8
Options issued (ESOP 2009/2009)				299			299
Options issued (ESOP 2009/2010)				5			5
Capital increase 24.02.2011		3,452	7,580				11,032
Employee shares 12.05.2011		13	35				48
Consolidated comprehensive income/loss 2011						-19,071	-19,071
Consolidated profit/loss 2011						*-19,071*	*-19,071*
Balance on 31.12.2011		**41,968**	**75,451**	**1,565**	**67**	**-95,518**	**23,533**
Balance on 01.01.2012		**41,968**	**75,451**	**1,565**	**67**	**-95,518**	**23,533**
Options issued (ESOP 2006/2008)				2			2
Options issued (ESOP 2009/2009)				119			119
Options issued (ESOP 2009/2010)				5			5
Options issued (ESOP 2009/2011)				4			4
Capital increase 03.07.2012	7.12	8,404	2,963				11,367
Consolidated comprehensive income/loss 2012						-13,217	-13,217
Consolidated profit/loss 2012						*-13,217*	*-13,217*
Balance on 31.12.2012		**50,372**	**78,414**	**1,695**	**67**	**-108,735**	**21,813**

See the attached consolidated notes

For more information on components and changes in equity, see item "7.12 Equity" of the consolidated notes.

1. GENERAL DISCLOSURES

1.1 Parent company

The consolidated financial statements of 4SC comprise 4SC AG as the parent company, which is headquartered at 82152 Planegg-Martinsried, Am Klopferspitz 19a, and has been recorded in the Commercial Register of the Munich District Court under HRB no. 132917, and the following wholly owned and fully consolidated subsidiary:

– 4SC Discovery GmbH, Planegg-Martinsried, Germany

An excerpt from the Commercial Register dated 8 January 2013, with the most recent entry dated 3 September 2012, has been made available. The Articles of Association as amended on 6 August 2012 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 4SC AG is the identification, research and optimisation of drugs and the development, use and marketing of chemical, biotechnological and computer processes.

4SC AG 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.

1.2 Companies included in the consolidated financial statements

4SC AG consolidates 4SC Discovery GmbH (together the Group or 4SC) using the full consolidation method.

4SC Discovery GmbH was recorded in the Munich Commercial Register on 14 December 2011 and commenced operations on 1 January 2012. The object of this company is the identification, investigation and optimisation of new compounds and therapeutic agents, in the form of both research services and proprietary compounds, as well as the development and marketing of innovative chemical, biotechnology and computer simulation processes for the development of drug candidates. This company shares the premises of 4SC AG. In a capital increase in return for contributions in kind, both tangible and intangible assets belonging to the research activities of 4SC AG were transferred to the subsidiary. Assets comprise all those projects and products including the related intellectual property (IP) rights, for which no early development candidate (EDC) has been defined yet as well as 4SC's proprietary technology platforms for modelling, screening and drug discovery and optimisation. Overall, 28 employees moved from 4SC AG to 4SC Discovery GmbH as at 1 January 2012.

The following companies were also taken into account in these financial statements:

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

1.3 Changes in the group of consolidated companies

Effective 8 October 2012, the Company sold its 1.76% stake in Nexigen GmbH, Cologne. This equity investment was shown as an available-for-sale financial asset in accordance with IAS 39 since May 2008. It was measured at the fair value in accordance with IAS 39.46b until it was sold.

1.4 Release of the financial statements

The Management Board approved the consolidated financial statements for release on 12 March 2013. The Supervisory Board is authorised to revise the consolidated financial statements after approval by the Management Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements were prepared pursuant to section 315a of the German Commercial Code (Handelsgesetzbuch – HGB) and in accordance with the accounting principles of the International Financial Reporting Standards (IFRS) - as adopted by the EU – and 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.

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

2.2 Principles of consolidation

All intragroup transactions are eliminated; revenue, expenses, and earnings, as well as receivables and liabilities between the Group companies, are offset against each other.

2.3 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 1 January 2012.

Standard	Title	Published by the EU on	Effect on these consolidated-financial statements
Amendments to IFRS 7	Financial Instruments: Disclosures – Transfer of Financial Assets	23.11.2011	None

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 consolidated 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 consolidated financial statements
Amendments to IAS 1	Presentation of Financial Statements – Presentation of Items of other Comprehensive Income	01.07.2012	06.06.2012	None
Amendments to IAS 19	Employee benefits	01.01.2013	06.06.2012	None
Amendments to IFRS 1	IFRS 1: First-time Adoption – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	01.01.2013	29.12.2012	None
Amendments to IAS 12	IAS 12: Income Taxes – Deferred Taxes: Recovery of Underlying Assets			
Amendments to IFRS 13	IFRS 13: Fair Value Measurement			
IFRIC 20	IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine			
Amendments to IFRS 7	IFRS 7: Financial Instruments: Disclosures – Offsetting a Financial Asset and a Financial Liability	01.01.2013[2]	29.12.2012	None
Amendments to IAS 32	IAS 32: Financial Instruments: Presentation – Offsetting a Financial Asset and a Financial Liability			
IFRS 10	IFRS 10: Consolidated Financial Statements	01.01.2014	29.12.2012	Cannot be reliably estimated
IFRS 11	IFRS 11: Joint Arrangements			
IFRS 12	IFRS 12: Disclosures of Interests in Other Entities			
Amendments to IAS 27	IAS 27: Separate Financial Statements			
Amendments to IAS 28	IAS 28: Investments in Associates and Joint Ventures			

1: For financial years beginning on or after the date
2: Under article 2 of the Regulation, some of the amendments (especially amendments to IFRS 7) must be applied for the first time at the latest to financial years beginning on or after 1 January 2013. The other amendments (especially amendments to IAS 32) must be applied at the latest to financial years beginning on or after 1 January 2014.

In addition, the following standards, interpretations and amendments to existing standards have been adopted by the IASB but have not yet been adopted by the EU.

Standard	Title	Effective date	Published by the EU on	Expected effect on future consolidated financial statements
Amendments to IFRS 1	First-time Adoption – Government grants	From financial year 2013	Planned for Q1.2013	None
Various	Improvements of IFRSs (May 2012)	From financial year 2013	Planned for Q1.2013	None
Amendments to IFRS 10	IFRS 10: Consolidated Financial Statements	From financial year 2013	Planned for Q1.2013	Cannot be reliably estimated
Amendments to IFRS 11	IFRS 11: Joint Arrangements			
Amendments to IFRS 12	IFRS 12: Disclosures of Interests in Other Entities – Transitional Provisions			
Amendments to IFRS 10	IFRS 10: Consolidated Financial Statements	From financial year 2014	Planned for Q3.2013	Cannot be reliably estimated
Amendments to IFRS 12	IFRS 12: Disclosures of Interests in Other Entities – Transitional Provisions			
Amendments to IAS 27	IAS 27: Separate Financial Statements – Investment Entities			
IFRS 9 Amendments to IFRS 9 und IFRS 7	IFRS 9: Financial instruments IFRS 7: Financial instruments: Disclosures – Mandatory Effective Date and Transition	From financial year 2015	Decision postponed	Cannot be reliably estimated

2.4. Key accounting policies

The following accounting policies were of significance in preparing these consolidated 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 or less impairment losses.

Research costs are expensed in the period incurred in accordance with IAS 38.54. Development costs are recognised if the criteria in accordance with IAS 38.57 are met. Given the risks existing until commercialisation, 4SC does not fully meet the requirements of IAS 38.57 for recognising internally generated intangible assets. Developments costs are therefore also expensed in the period in which they are incurred. The useful lives of and depreciation methods applied to intangible assets are reviewed and adjusted as necessary at the end of each financial year.

Goodwill

Goodwill reported in the consolidated statement of financial position under intangible assets results from merging the original 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 vidofludimus project as the smallest cash-generating unit for the purpose of impairment testing. For impairment test purposes, the value in use of the 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 "7.1 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. IAS 36.6 defines recoverable amount as the higher of an asset's fair value less costs to sell and its value in use. 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 “7.2 Property, plant and equipment“.

Equity investments

As of the reporting date, 4SC has stakes in two companies via 4SC AG; these are recognised as associates in accordance with IAS 28 or as investments in accordance with IAS 39 depending on the degree of influence 4SC AG 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 39.46.

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, they 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 Quiescence Technologies LLC and, in the previous year, Nexigen GmbH, 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 investments 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.

Deferred income

Unless all criteria for recognition as revenue are met, non-refundable upfront payments received in connection with out-licensing agreements concluded are reported as deferred income, which is recognised in profit or loss over the probable development life of the products.

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 period exceeds that owed for the period 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 in an amount corresponding to the resulting deferred tax liability if it is probable that a 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.

The milestone payment received from Sanwa Kagaku Kenkyusho Co., Ltd, Japan, during the reporting period is subject to withholding tax in Japan. The Japanese withholding tax is recognised as current tax expense when incurred. Setting off the withholding tax against the German corporation tax is not an option because 4SC does not pay corporation tax due to its present loss-making situation.

Revenue recognition

The business model of 4SC is aimed at generating revenue from licensing agreements (depending on the design of the given contract in the form of upfront payments, milestone payments, cost reimbursements under a development cooperation and royalties). 4SC generates additional revenue by making both the technology platform and know-how available as a service package to partners and customers in the pharmaceutical and biotechnology industry under cooperation agreements through the subsidiary, 4SC Discovery GmbH.

Upfront 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. Providing all conditions in IAS 18.14 ff. have been satisfied, revenue is recognised when the service has been rendered and the material risks of ownership have been transferred to the customer. Where individual conditions have not been met, upfront payment are recognised as deferred income. The income is then reversed to profit or loss on a pro-rata basis over term of the contract or the expected development period.

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.

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 profit or loss as of each reporting date in accordance with the current progress of services rendered as per project management.

Cost of sales

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

Distribution, research and development as well as administrative costs

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

– Direct staff and material costs
– Depreciation and amortisation
– Other direct costs
– Pro-rated 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 the 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 reimbursement of expenses. Such reimbursements are made in the amount of the actual costs incurred or plus an administration fee, depending on the individual case.

2.5. Use of estimates

In preparing these consolidated financial statements, it was necessary for the Management Board to make estimates and discretionary decisions which influence the disclosed value of assets and liabilities, the disclosed value of uncertain assets and contingent liabilities as of the reporting date, as well as expenses and income within the reporting period. Estimates and discretionary decisions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 4SC makes estimates and assumptions concerning the future. Actual results may differ substantially from the expected developments.

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 requires the estimation of the value in use on the basis of anticipated future cash flows of the cash-generating unit and of the appropriate discount rate. Factors such as lower than expected sales and subsequent lower net cash flows, as well as changes in the discount rate, could have considerable consequences for the determination of fair value and, ultimately, the level of goodwill impairment.

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

Measurement of equity investments

The Management Board had to assess whether 4SC AG 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 investment in Quiescence Technologies LLC the degree of influence exerted by 4SC had to be estimated. Here, the Management Board arrived at the decision that, as in the previous year, the Company had neither a controlling nor a significant influence as at 31 December 2012 and neither entity had to be consolidated or recognised as an investment accounted for using the equity method.

Reserves ESOP / Expenditure from stock options

The accounting for stock options granted to employees and the Management Board is handled according to the guidelines of IFRS 2. In doing so, the Management Board must carry out estimates of the number of equity instruments expected to be exercisable. Deviations from these estimates influence the amount of reserves for stock options reported as equity, as well as the expenses posted during the financial year.

3. SEGMENT REPORTING

Segment reporting has been prepared in accordance with the principles of IFRS 8. An operating segment is a component of an entity (the Group) that engages in business activities, generates both revenue and income and incurs expenses. Commercial success is monitored regularly by the Company's chief operating decision-maker, i.e. the Management Board of 4SC. Financial information is available for each individual operating segment by definition.

The Group's management structure and structure of its intragroup reporting form the basis for segmentation. Segment result and segment assets contain components that may be directly attributable to a single segment or allocated to all segments on a reasonable basis.

Segment information is prepared using essentially the same accounting policies as those used for the consolidated financial statements.

Since 1 January 2012, 4SC has used two operating segments – "Development" and "Discovery & Collaborative Business" – as its segment reporting format in line with its internal control (management approach). Each individual operating segment, along with its core business and core projects, is set out below.

Development

The Development segment comprises the clinical and preclinical development work for drug candidates from the Group's product pipeline and is conducted by the Group's parent company 4SC AG. It currently comprises the development programmes for vidofludimus, resminostat, 4SC-202, 4SC-203, 4SC-205 and 4SC-207.

Discovery & Collaborative Business

The Discovery & Collaborative Business segment comprises the activities collectively handled by 4SC Discovery GmbH, namely drug discovery and early-stage research plus subsequent commercialisation, in particular through service business and research collaborations related to drug discovery and optimisation.

There was no intersegment revenue. The segment results were as follows (previous year's figures were omitted in accordance with IFRS 8.29 and IFRS 8.30):

> SEGMENT RESULTS FOR 2012

in €000's

	Development	Discovery & Collaborative Business	Not allocated	Consolidation	Group
Revenue (total)	**1,396**	**2,957**	**0**	**0**	**4,353**
External revenue	1,396	2,957	0	0	4,353
Intersegment revenue	0	0	0	0	0
Other income	**1,331**	**164**	**0**	**-1,465**	**30**
Operating expenses	**13,660**	**5,554**	**0**	**-1,465**	**17,749**
of which research and development costs	9,290	4,618	0	-999	12,909
of which cost of sales, distribution costs and administrative costs	4,370	936	0	-466	4,840
Segment result	**-10,933**	**-2,433**	**0**	**0**	**-13,366**
Finance income	**5**	**1**	**164**	**0**	**170**
Finance costs	**8**	**2**	**1**	**0**	**11**
Earnings before taxes	**-10,936**	**-2,434**	**163**	**0**	**-13,207**
Income tax expense	0	10	0	0	10
Net profit/loss for the year	**-10,936**	**-2,444**	**0**	**0**	**-13,217**
Current assets	303	3,219	12,219	0	15,741
Non-current assets	12,437	575	314	0	13,326
Total segment assets	**12,740**	**3,794**	**12,533**	**0**	**29,067**
Current liabilities	3,025	474	0	0	3,499
Non-current liabilities	3,748	7	0	0	3,755
Equity	0	0	21,813	0	21,813
Total segment liabilities	**6,773**	**481**	**21,813**	**0**	**29,067**
Investments	88	13	0	0	101
Depreciation and amortisation	1,542	172	0	0	1,714

Most of the external revenue was generated in the Discovery & Collaborative Business segment, 85% of this being generated with BioNTech AG under a licence agreement concluded in Germany.

The item, “Not allocated current assets” in the reporting period principally comprises cash and cash equivalents of €12,064 thousand.

The external revenue of €1,396 thousand in Development segment is fully attributable to out-licensing and cooperation agreements with Yakult Honsha Co., Ltd. in connection with resminostat; it was generated in Asia. The licensing business has made the German company BioNTech the customer generating the highest revenue in the Discovery & Collaborative Business segment (€2,500 thousand). As at 31 December 2012, €2,975 thousand of the carrying amount of trade accounts receivable were attributable to this customer. A further revenue of €456 thousand were attributable to research collaboration, of which €35 thousand were generated in European markets and €100 thousand in Asia.

All non-current assets are based in Germany.

4. DISCLOSURES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

4.1 Revenue

Consolidated revenue increased substantially year-on-year to €4,353 thousand (2011: €780 thousand). The Discovery & Collaborative Business segment generated as much as 68% of consolidated revenue, or €2,957 thousand, in 2012, its first year of operations (2011: €0 thousand). 4SC recognised as revenue an entitlement to an upfront payment of €2,500 thousand under the licence agreement concluded with BioNTech AG, Mainz, in the fourth quarter of 2012, plus a further €457 thousand from various research collaborations with Henkel AG & Co. KGaA, Ribological GmbH, ViroLogik GmbH and other partners.

The revenue in the Development segment of €1,396 thousand (2011: €780 thousand) comprised the proportional release of the deferred income recognised in connection with the partnership entered into with Yakult Honsha Co., Ltd., Japan, in 2011 for resminostat in the amount of €894 thousand (2011: €637 thousand) as well as allocations of development costs and deliveries of drug compounds, also to Yakult Honsha Co., Ltd., in the amount of €502 thousand (2011: €98 thousand).

The allocation of revenue by segments, products and services as well as by geographical regions can be seen in the segment reporting in section 3 of the notes to the consolidated financial statements.

4.2 Staff costs

in €000's

	2012	2011	Change in %
Salaries	5,093	5,425	-6
Social security contributions	895	902	-1
Stock options	130	313	-58
Staff costs	**6,118**	**6,640**	**-8**
Employees and Management Board (annual average)	90	96	**-6**

The Company's staff costs decreased by 8% in 2012 to €6,118 thousand (2011: €6,640 thousand). This is mainly due to the decrease in the workforce over the year from an average of 96 employees in 2011 to 90 employees on average in 2012. In many cases, as a result of cost-cutting measures, positions that became vacant when employees left the Company were either not filled or were filled through internal transfers. Furthermore, only a small number of salary increases were granted in the reporting period.

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 €128 thousand in the reporting year (2011: €94 thousand). Of this amount, €18 thousand (2011: €16 thousand) are attributable to Management Board members. In addition, a total of €727 thousand (2011: €767 thousand) was paid to statutory social security funds.

The stock 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 €130 thousand in staff costs arose in the 2012 financial year from the options (2011: €313 thousand); of this amount, €79 thousand (2011: €188 thousand) were attributable to members of the Management Board.

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.

4.3 Cost of sales

in €000's

	2012	2011	Change in %
External services	88	0	n/a
Staff	82	17	382
Depreciation	69	49	41
Commission	49	0	n/a
Material	37	2	1,750
Other	2	55	-96
Cost of sales	**327**	**123**	**166**

The increase in the cost of sales from €123 thousand in 2011 to €327 thousand in the reporting period can be attributed to the resumption of the collaborative business consolidated in the Discovery & Collaborative Business segment. This is also reflected in the external services, depreciation and amortisation, staff costs and material items.

The cost of sales also includes commissions of €49 thousand in connection with the licence agreement concluded with BioNTech AG, Mainz, and a milestone payment.

4.4 Distribution costs

in €000's

	2012	2011	Change in %
Legal and other consulting	262	206	27
Staff	168	203	-17
Travel and conferences	94	67	40
Other	73	11	564
Distribution costs	**597**	**487**	**23**

Against a backdrop of extended consulting activities in connection with out-licensing projects, distribution costs, which consist of the costs incurred by the Business Development and Strategic Planning & Marketing units, increased by 23% year-on-year to €597 thousand during the reporting period (previous year: €487 thousand).

4.5 Research and development costs

in €000's

	2012	2011	Change in %
External services	5,107	7,085	-28
Staff	4,001	4,409	-9
Depreciation and amortisation	1,503	1,191	26
Patents	839	1,047	-20
Rental costs including ancillary costs	740	739	0
Material	382	536	-29
Software licences	202	129	57
Travel and conferences	182	174	5
Other	389	504	-23
Grants (EU and Ministry of Education and Research)	-436	-802	-46
Research and development costs	**12,909**	**15,012**	**-14**

Research and development costs declined by 14% to €12,909 thousand in 2012, from €15,012 thousand in 2011. The year-on-year decline in research and development costs was mainly due to the smaller number of ongoing clinical trials than in the previous year despite the increase in preparatory expenditure for the planned Phase II and Phase III trials with 4SC's most advanced drug development candidates. Added to this is an impairment loss in the amount of €496 thousand resulting from the impairment of a patent recognised in connection with the transfer of assets to 4SC Discovery GmbH.

Due to the expiry of grants, which could not be compensated by new grants until at the end of 2012, income from grants decreased substantially year-on-year to €436 thousand, down 46% from €802 thousand in the previous year. 4SC will continue to seek new grants in order to generate additional income.

4.6 Administrative costs

in €000's

	2012	2011	Change %
Staff	1,869	2,011	-7
Investor relations	513	517	-1
Legal and other consulting	459	537	-15
Rental costs including ancillary costs	214	124	73
Depreciation and amortisation	142	151	-6
Supervisory Board	141	139	1
Travel and conferences	128	90	42
Insurance, fees and contributions	125	121	3
External services	114	47	143
Other	211	225	-6
Administrative costs	**3,916**	**3,962**	**-1**

Administrative costs amounted to €3,916 thousand in the reporting period, a slight reduction of 1% year-on-year (2011: €3,962 thousand). The 7% decrease in staff costs and the costs of legal and other consulting services more than compensated for an increase in rental costs including ancillary costs attributable to a spatial reorganisation, higher travel expenses as well as an increase in external services.

4.7 Other income

in €000's

	2012	2011	Change in %
Income from the sale of fixed assets	10	0	n/a
Insurance compensation payments	5	0	n/a
Other cost allocations	5	4	25
Cost allocations from research cooperation	3	5	-40
Sublease to quattro research GmbH	0	2	-100
Other	7	0	n/a
Other income	**30**	**11**	**173**

There was a strong year-on-year increase in other income by 173% to €30 thousand in 2012.

4.8 Depreciation, amortisation and impairment losses

in €000's

	2012	2011	Change in %
Amortisation of and impairment losses on intangible assets	1,403	903	55
Depreciation of property, plant and equipment	311	489	-36
Depreciation, amortisation and impairment losses	**1,714**	**1,392**	**23**

Depreciation and amortisation increased by 23%, from €1,392 thousand in 2011 to €1,714 thousand in 2012. Amortisation of and impairment losses on intangible assets mainly stem from the capitalisation of the rights acquired from Nycomed and the recognition of an asset for customer loyalty as defined by IAS 38 plus the corresponding amortisation. A further €496 thousand was recognised as an impairment loss in connection with the transfer of assets to 4SC Discovery GmbH. Depreciation of property, plant and equipment decreased due to low investments.

Depreciation, amortisation and impairment losses are shown in the income statement under the items, cost of sales, research and development costs and administrative costs.

4.9 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 "7.3. Investments accounted for using the equity method".

in €000's

	2012	2011	Change in %
Share in the profit/loss of quattro research GmbH	33	31	6
Profit/loss from investments accounted for using the equity method	**33**	**31**	**6**

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

in €000's

	2012	2011	Change in %
Interest-bearing investment of cash and cash equivalents	129	275	-53
Income from exchange rate differences	6	10	-40
Securities measured through profit or loss	2	25	-92
Finance income	**137**	**310**	**-56**

The decrease in finance income to €137 thousand in 2012 (2011: €310 thousand) was due mainly to the continued decline in interest rates on the capital markets and the reduction in available funds.

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

in €000's

	2012	2011	Change in %
Expenses from exchange rate differences	10	27	-63
Impairment of investments	0	4	-100
Other interest expense	1	1	0
Finance costs	**11**	**32**	**-66**

5. INCOME TAX, DEFERRED TAXES AND WITHHOLDING TAX

In the reporting period, 4SC incurred for the first time expense from current income taxes in the form of a non-creditable, merely deductible foreign withholding tax. 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

	2012	2011	Change in %
Current tax expense	-10	-600	98
Deferred tax income	0	13	-100
Income tax expense (-) / income (+)	**-10**	**-587**	**98**

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 2013 is therefore 26.33%.

As in the previous year, at 31 December 2012 deferred tax assets were carried in the amount of the deferred tax liabilities that arose. These were offset in the statement of financial position because they relate to income taxes levied by the same taxation authority. Consequently, the deferred tax liabilities of €102 thousand are set off against deferred tax assets in the same amount resulting from taxable temporary differences.

Deferred tax assets and liabilities as of 31 December 2012 and 31 December 2011 are distributed as follows across the statement of financial position:

in €000's

	2012	2011	Change in %
Deferred tax assets and liabilities			
Intangible assets	90	108	-17
Investments accounted for using the equity method	2	1	100
Cash and cash equivalents	0	7	-100
Other liabilities	10	10	0
Deferred tax assets	-102	-126	-19
Total deferred tax assets and liabilities	**0**	**0**	**0**

The deferred tax liabilities reported under intangible assets arose from the use of different recognition criteria for an asset resulting from customer loyalty programmes recognised in accordance with IFRSs. In connection with the investments, they stem from the different measurements of the equity investment in quattro research GmbH under IFRS versus tax law. In the other liabilities they arise from different recognition criteria applicable to deferred liabilities under IFRS 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:

	2012	2011
Tax loss carryforward (in €000's)	128,870	114,816
Reduction for deferred tax liabilities (in €000's)	-387	-479
Effective tax rate (in %)	26.33	26.33
Value of the tax loss carryforwards (in €000's)	33,830	30,105

This calculation is based on the assumption that the tax rates applicable after 1 January 2013 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 full.

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). The criteria mentioned there – various shareholder changes, capital increases, the addition of new shareholders and a significant infusion of new operating assets – which could result in a pro-rated elimination of tax loss carryforwards, applied to 4SC during the past years. 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 the competent revenue authorities might adopt, 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 loss carryforwards.

The reconciliation of expected income tax and the effective tax expense/income is as follows:

in €000's

	2012	2011
Earnings before taxes	-13,207	-18,484
Expected tax income at a tax rate of 26.33% (2011: 26.33%)	3,477	4,867
Income (+)/expense (-) shown in the income statement	-10	-587
Difference to be explained	**3,487**	**5,454**
Unrecognised tax loss carryforwards	3,696	5,212
Non-deductible expenses	20	20
Ineligible foreign withholding tax	7	442
Other differences	-236	-220
Total reconciliation	**3,487**	**5,454**

The milestone payment received from Sanwa Kagaku Kenkyusho during the reporting period is subject to withholding tax in Japan. The Japanese withholding tax is recognised as current tax expense when incurred. Setting off the withholding tax against the German corporation tax is not an option because 4SC does not pay corporation tax due to its present loss-making situation.

6. 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).

	2012	2011
Based on profit/loss for the year (in €000's)	-13,217	-19,071
Based on average number of shares (in thsd.)	46,170	41,455
Earnings per share (basic and diluted, in €)	**-0.29**	**-0.46**

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

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, 21 June 2010 and 6 August 2012 decided to increase the Company's share capital conditionally. These resolutions could mean that undiluted earnings per share could potentially be diluted in future if option rights are granted to members of the Management Board and employees of the Company or shares are granted to the owners or creditors of convertible bonds to be issued, participation rights and/or warrants. Details about the conditional capital can be found under items "7.12 Equity" and "9. Stock option programme".

7. DISCLOSURES ON THE STATEMENT OF FINANCIAL POSITION

7.1 Intangible assets

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

In €000's

		Cost				Amortisation and impairment losses				Carrying amounts	
	Useful life from xx to xx Years	Balance on 01.01.2012	Additions 2012	Diposals 2012	Balance on 31.12.2012	Balance on 01.01.2012	Balance 2012	Diposals 2012	Balance on 31.12.2012	Balance on 31.12.2012	Balance on 31.12.2011
Intangible assets											
Software and patents	2 - 20	14,764	51	606	14,209	3,387	1,334	606	4,115	10,094	11,377
Customer loyalty	6,75	460	0	0	460	49	68	0	117	343	411
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**17,010**	**51**	**606**	**16,455**	**3,436**	**1,402**	**606**	**4,232**	**12,223**	**13,574**

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

In €000's

		Cost				Amortisation and impairment losses				Carrying amounts	
	Useful life from xx to xx Years	Balance on 01.01.2012	Additions 2012	Diposals 2012	Balance on 31.12.2012	Balance on 01.01.2012	Balance 2012	Diposals 2012	Balance on 31.12.2012	Balance on 31.12.2012	Balance on 31.12.2011
Intangible assets											
Software and patents	2 - 20	14,759	5	0	14,764	2,533	854	0	3,387	11,377	12,226
Customer loyalty	6,75	0	460	0	460	0	49	0	49	411	0
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**16,545**	**465**	**0**	**17,010**	**2,533**	**903**	**0**	**3,436**	**13,574**	**14,012**

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 €1,191 thousand and €6,200 thousand (previous year: €1,280 thousand to €6,706 thousand) whose residual amortisation period is between 12.25 years and 14.17 years (previous year: 13.25 to 15.17 years).

Additions in the reporting year primarily relate to enhancements of the ERP system and the "quattro" database. The disposal concerns an acquired patent which was impaired in the course of the transfer of assets to 4SC Discovery GmbH.

The amortisation of intangible assets is shown in the statement of comprehensive income mainly under the items, cost of sales, research and development costs and administrative costs.

in €000's

	2012	2011	Change in %
Cost of sales	69	49	41
Research and development costs	1,293	829	56
Administrative costs	41	25	64
Amortisation of intangible assets	**1,403**	**903**	**55**

Goodwill

in €000's

	31.12.2012	31.12.2011	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 2012. For the impairment test, the value in use of the vidofludimus programme 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 35.12% (previous year: 35.11%), depends on the development phase that the project is in. The maximum anticipated sales are based on an estimate by 4SC and depend primarily on expected market shares, future patent numbers and anticipated revenue per patient. The expected cash flows have been calculated for the period up to 2038, 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.

7.2 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.

In €000's

		Cost				Amortisation and impairment losses				Carrying amounts	
	Useful life from xx to xx Years	Balance on 01.01.2012	Additions 2012	Diposals 2012	Balance on 31.12.2012	Balance on 01.01.2012	Balance 2012	Diposals 2012	Balance on 31.12.2012	Balance on 31.12.2012	Balance on 31.12.2011
Property, plant and equipment											
Office equipment	8-14	163	4	0	167	110	11	0	121	46	53
Laboratory equipment	3-14	3,083	9	6	3,086	2,617	112	6	2,724	363	466
Leasehold improvements	3,5-14	1,039	0	65	974	720	63	65	718	256	319
Other operating and office equipment	3-13	215	9	34	190	158	16	18	156	34	57
IT equipment	3-13	706	1	167	540	582	52	167	467	73	124
Other	0-5	153	27	27	153	107	57	27	137	16	46
Property, plant and equipment		**5,359**	**50**	**299**	**5,110**	**4,294**	**311**	**283**	**4,323**	**787**	**1,065**

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

In €000's

		Cost				Amortisation and impairment losses				Carrying amounts	
	Useful life from xx to xx Years	Balance on 01.01.2012	Additions 2012	Diposals 2012	Balance on 31.12.2012	Balance on 01.01.2012	Balance 2012	Diposals 2012	Balance on 31.12.2012	Balance on 31.12.2012	Balance on 31.12.2011
Property, plant and equipment											
Office equipment	8-14	153	10	0	163	100	10	0	110	53	53
Laboratory equipment	3-14	3,134	71	122	3,083	2,527	211	121	2,617	466	607
Leasehold improvements	3,5-14	1,039	0	0	1,039	635	85	0	720	319	404
Other operating and office equipment	3-13	207	8	0	215	138	20	0	158	57	69
IT equipment	3-13	1,464	37	795	706	1,290	89	797	582	124	174
Other	0-5	153	44	44	153	77	74	44	107	46	76
Property, plant and equipment		**6,150**	**170**	**961**	**5,359**	**4,767**	**489**	**962**	**4,294**	**1,065**	**1,383**

Additions in the reporting year primarily relate to investments for the replacement or enhancement of equipment in the various areas. 4SC is under no obligation to acquire property, plant and equipment.

The depreciation of property, plant and equipment is shown in its entirety in the statement of comprehensive income under the items, research and development costs and administrative costs.

In €000's

	2012	2011	Change in %
Research and development costs	210	362	-42
Administrative costs	101	127	-20
Depreciation of property, plant and equipment	**311**	**489**	**-36**

7.3 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 2012 are as follows:

In €000's

	2012	2011	Change in %
Revenue	1,254	1,090	15
Net loss for the year	68	63	8
Total assets	669	671	0
Equity	446	378	18
Liabilities	223	294	-24

The profit posted by quattro research GmbH raises the carrying amount of the shares held by 4SC AG to €154 thousand of the reporting date (31 December 2011: €121 thousand).

7.4 Other investments

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 investment in Quiescence Technologies LLC and, as at 31 December 2011, also the equity investment in Nexigen GmbH.

In €000's

	2012	2011	Change in %
Equity investment in Nexigen GmbH	0	143	-100
Equity investment in Quiescence Technologies LLC	0	0	n/a
Other investments	**0**	**143**	**-100**

Effective 8 October 2012, the Company sold its 1.76% stake in Nexigen GmbH, Cologne. This equity investment was shown as an available-for-sale financial asset in accordance with IAS 39 since 2008. It was measured at the fair value in accordance with IAS 39.46 until it was sold. The parties have agreed not to disclose the price of the sale.

The 10% stake in Quiescence Technologies LLC was acquired in December 2006. But its carrying amount is still €0 thousand due to a lack of clarity in regards to Quiescence Technologies LLC's financial situation.

7.5 Inventories

In €000's

	31.12.2012	31.12.2011	Change in %
Consumables	20	21	-5
Solvents	2	3	-33
Chemicals	0	1	-100
Inventories	**22**	**25**	**-12**

Inventories decreased by €3 thousand year-on-year.

Material costs amounting to €424 thousand (2011: €542 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.

7.6 Trade accounts receivable

In €000's

	31.12.2012	31.12.2011	Change in %
Germany	3,029	115	2,534
EU	55	0	n/a
Trade accounts receivable	**3,084**	**115**	**2,582**

On 31 December 2012, 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.

Trade accounts receivable are comprised of research cooperation deals with several partners and the licence agreement concluded with BioNTech AG. No trade accounts receivable were due on the reporting date; they were paid in January and February 2013, respectively, as contractually stipulated.

7.7 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 Board of 4SC AG 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 US-$1,000 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 2012 financial year so that there still was a receivable of US-$1,000 thousand as at 31 December 2012 that was written down in full.

In the previous year, this item also included receivables of €2 thousand from quattro research GmbH that were attributable to a subsequent calculation of ancillary costs under a lease for 2009 and 2010.

7.8 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

	31.12.2012	31.12.2011	Change in %
Financial instruments with a remaining life of less than one year	5,988	3,000	100
Fixed deposits with a remaining life of less than one year	0	6,000	-100
Other financial assets	**5,988**	**9,000**	**-33**

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

The terms and conditions of financial assets as at 31 December 2012 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			
UniCreditGroup, promissory note loan	3,000	9 - 13	1.10 - 1.5
UniCreditGroup, bearer note	2,988	8 - 12	0.93 - 1.12

7.9 Cash and cash equivalents

This item in the statement of financial position comprises cash on hand and bank balances. In the previous year, this item also comprised 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

	31.12.2012	31.12.2011	Change in %
Financial instruments with an original term of less than three months			
calculated from the date of acquisition	0	4,012	-100
Bank balances	6,075	2,807	116
Cash on hand	1	1	0
Cash and cash equivalents	**6,076**	**6,820**	**-11**

7.10 Current income 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 2012 and 2011 financial years, it has a tax refund claim with regard to the taxes it has paid.

In €000's

	31.12.2012	31.12.2011	Change in %
Current income tax assets	**127**	**69**	**84**

The current income tax assets as at 31 December 2012 comprise claims for withholding tax on investment income for the 2011 and 2012 financial years that the tax office have not yet refunded. The prior-year figure included refund claims for 2011. The current income tax assets of €69 thousand incurred in 2011 were refunded in January 2013.

7.11 Other assets

In €000's

	31.12.2012	31.12.2011	Change in %
Prepaid expenses	235	187	26
Current tax assets	0	265	-100
Rent deposit IZB West	157	157	0
Advances paid for third-party services	95	68	40
Government grants	87	149	-42
Prepaid interest	17	69	-75
Other	15	9	67
Other assets	**606**	**904**	**-33**

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

In €000's

	Total receivables		thereof non-current		thereof current	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Prepaid expenses	235	187	2	24	233	163
Current tax assets	0	265	0	0	0	265
Rent deposit IZB West	157	157	157	157	0	0
Advances paid for third-party services	95	68	0	0	95	68
Government grants	87	149	0	0	87	149
Prepaid interest	17	69	0	0	17	69
Other	15	9	3	2	12	7
Other assets	**606**	**904**	**162**	**183**	**444**	**721**

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, online research and licences. The advances paid for third-party services comprise payments for external services that were made before the service in question was rendered.

7.12 Equity

Share capital and shares

The share capital of 4SC AG as at 31 December 2012 amounts to €50,371,814.00. It is composed of 50,371,814 no-par value bearer shares. Each share represents €1.00 of 4SC AG's share capital, entailing one vote at the Annual General Meeting. Share capital is fully paid-in at this time.

4SC AG shares are securitised under 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 article 6(3) of the Articles of Association of 4SC AG.

4SC AG successfully completed a rights issue without a public offer on 3 July 2012, placing a total of 8,403,510 new shares with existing shareholders who exercised their subscription right and with institutional investors at a price of €1.50 per share. The number of no-par value bearer shares rose from 41,968,304 to 50,371,814.

Conditional capital

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

in €000's

Conditional capital	Amount (€000's)	AGM resolution dated	Purpose
I	---	06.08.2012	Cancelled
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	06.08.2012	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 6 August 2012 authorised the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 5 August 2017, once or repeatedly, by up to €20,984,152.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 20,984,152 new no-par value bearer shares (Authorised Capital 2012/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. The transaction costs for the capitalisation measures were €1,239 thousand (previous year: €706 thousand). These costs were charged against the share premium.

Reserves

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

The ESOP reserve amounting to €1,695 thousand (previous year: €1,565 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 2012 remained unchanged compared to the previous year.

Appropriation of earnings

The accumulated deficit of €108,735 thousand (previous year: €95,518 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 the programmes' progress. Management keeps a close eye on the equity ratio and the total of the items reported under equity. 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. The Company's goal remains 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. Mainly as a result of the positive effect of the capital increase carried out in the reporting year on the one hand, and the net loss posted for the year on the other hand, equity fell from €23,533 thousand as at 31 December 2011 by €1,720 thousand to a total of €21,813 thousand as at 31 December 2012.

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

7.13 Trade accounts payable

in €000's

	31.12.2012	31.12.2011	Change in %
Germany	436	599	-27
EU	76	45	69
Other countries	72	61	18
Trade accounts payable	**584**	**705**	**-17**

Trade accounts payable decreased by 17% year-on-year. They primarily result from external scientific services and patent services, but also from legal and consulting services invoiced at the end of the year.

7.14 Accounts payable to associates

The accounts payable to associates as of the reporting date concerned quattro research GmbH. One agreement is in place regarding the development, servicing and maintenance of software. The amount of €10 thousand owed results from the December bill (31 December 2011: €29 thousand).

7.15 Provisions

As at 31 December 2011, provisions amounted to €45 thousand, resulting from the following: The solicitors' office that 4SC 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, contained a substantial number of unjustified items. 4SC had recognised provisions to cover both patent costs and the solicitors' fees for the expected dispute.

In the 2012 financial year, the disputes were resolved in an out-of-court settlement. Legal costs of €3 thousand were charged against the provisions, with the remaining provisions of €42 thousand being released. As a result, there were no more provisions as at 31 December 2012.

7.16 Other liabilities and deferred income

in €000's

	31.12.2012	31.12.2011	Change in %
Deferred income	4,469	5,363	-17
Accrued liabilities	1,667	1,975	-16
Tax liabilities (value-added tax)	286	0	n/a
Advances received	114	75	52
Liabilities related to social security	103	112	-8
Prepaid expenses	20	0	n/a
Other liabilities	1	1	0
Other liabilities	**6,660**	**7,526**	**-12**

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

in €000's

	Total liabilities		thereof non-current		thereof current	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Deferred income	4,469	5,363	3,575	4,469	894	894
Accrued liabilities	1,667	1,975	180	313	1,487	1,662
Tax liabilities (value-added tax)	286	0	0	0	286	0
Advances received	114	75	0	0	114	75
Liabilities related to social security	103	112	0	0	103	112
Prepaid expenses	20	0	0	0	20	0
Other liabilities	1	1	0	0	1	1
Other liabilities	**6,660**	**7,526**	**3,755**	**4,782**	**2,905**	**2,744**

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

in €000's

	31.12.2012	31.12.2011	Change in %
Invoices outstanding	908	1,340	-32
Bonus paid to Management Board & the executive management	272	177	54
Compensation of the Supervisory Board	141	139	1
Financial statements preparation and auditing costs	99	105	-6
Personnel liabilities	95	129	-26
Renovation IZB West	38	37	3
Contribution to employer's liability insurance	21	26	-19
Other	93	22	323
Accrued liabilities	**1,667**	**1,975**	**-16**

Deferred income results from the current and non-current liabilities relating to the upfront payment made by Yakult Honsha Co., Ltd., Japan, in April 2011. It is released as revenue on a pro rata basis over the entire assumed development period for resminostat. The non-current accrued liabilities result from long-term Management Board bonuses and outstanding invoices.

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.

7.17 Other disclosures on financial instruments

> CARRYING AMOUNTS AND FAIR VALUES ACCORDING TO MEASUREMENT CATEGORIES

in €000's

	Measurement category persuant to IAS 39	Measurement as of 31.12.2012		Measurement as of 31.12.2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LAR	3,084	3,084	115	115
Receivables from investees	LAR	0	0	2	2
Current income tax assets	LAR	127	127	69	69
Other non-current assets	LAR	162	162	183	183
Other current assets	LAR	444	444	721	721
Fixed deposits and bank balances	LAR	6,076	6,076	8,808	8,808
Financial assets at fair	AFVPL	3,000	3,000	4,012	4,012
value through profit and loss – held for trading					
Financial assets held to maturity	HTM	2,988	2,988	3,000	3,000
Available-for-sale financial assets (equity investment	AFS	0	0	143	143
in Nexigen)					
Trade accounts payable	AC	-584	-584	- 705	- 705
Accounts payable to associates	AC	-10	-10	-29	-29
Other non-current liabilities	AC	-180	-180	-313	-313
Other current liabilities	AC	-2,011	-2,011	-1,850	-1,850
Total		**13,096**	**13,096**	**14,156**	**14,156**
Of which aggregated by IAS 39					
measurement category					
Financial assets at fair value through profit or loss	AFVPL	3,000	3,000	4,012	4,012
Held-to-maturity investments	HTM	2,988	2,988	3,000	3,000
Loans and receivables	LAR	9,893	9,893	9,898*	9,898
Available-for-sale financial assets	AFS	0	0	143	143
At amortised cost	AC	-2,785	-2,785	-2,897	-2,897

* Figures changed compared to the previous year's presentation.

Valuation methods

Trade accounts receivable and other assets mainly have short remaining terms. The values recognised represent the approximate fair value. The majority of the non-current other assets shown is interest-bearing; their carrying amount and fair value are 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 IAS 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 shown in the previous year entailed securities that had to be classified as available for sale pursuant to IAS 39. The equity investment in this company was sold in the reporting year. The equity investment in Quiescence Technologies LLC, which also has to be classified as “available for sale”, continues to be recognised at €0 thousand.

Trade accounts payable, accounts payable to associates and other liabilities predominantly have short remaining terms. Hence their carrying amounts correspond approximately to their fair value at the reporting date.

The assets are continuously reviewed on the basis of these measurement criteria. Hedge accounting is not applicable.

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 (prices in active markets) and Level 2 (directly observable assets) in accordance with IFRS 7.27A. No reclassifications of fair values from or into another hierarchy level were made in 2012.

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:

in €000's

		Subsequent measurement				
	Interest result	At fair value	Currency-translation	Impairment loss	**Disposal**	**Net result 2012**
Financial assets at fair value through profit or loss held for trading	20	0	0	0	0	20
Held-to-maturity investments	61	1	0	0	0	62
Loans and receivables	47	0	6	0	0	53
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortised cost	0	0	-10	0	0	-10
Total	**128**	**1**	**-4**	**0**	**0**	**125**

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

in €000's

		Subsequent measurement				
	Interest result	At fair value	Currency-translation	Impairment loss	**Disposal**	**Net result 2011**
Financial assets at fair value through profit or loss held for trading	0	25	0	0	0	25
Held-to-maturity investments	63	0	0	0	0	63
Loans and receivables	212	0	-17	0	0	195
Available-for-sale financial assets	0	0	0	-4	0	-4
Total	**275**	**25**	**-17**	**-4**	**0**	**278**

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 in safe forms of investment – with a good or very good credit rating – such as borrower's note loans and bearer notes that entail only insignificant liquidity and default risks. These securities do not expose the Company to an interest rate risk. As at the reporting date, all the invested funds had short maturities and thus would not be sensitive to changes in interest rates.

More information is contained in the risk and opportunity report in section 6 of the combined management report.

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 items, loans and receivables and liabilities at amortised cost. 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, thereby mitigating the risk of exchange rate fluctuations. For this reason, US dollars (US-$) are bought when the exchange rate is favourable. As at 31 December 2012, 4SC AG had bank accounts in US dollars with a zero balance (31 December 2011: €0 thousand).

Liabilities denominated in foreign currencies as at 31 December 2012 were limited to the equivalent of €15 thousand in US dollars (US-$), the equivalent of €3 thousand in Swiss francs (CHF) and the equivalent of €1 thousand in British pounds (GBP).

A total of US-$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 2011 and 2012 financial years so that there still was a receivable of US-$1,000 thousand as at 31 December 2012 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 2012:

in €000's

	31. December 2012		31. December 2011	
	Increase	Decrease	Increase	Decrease
Euro vs. US-$	-1	-1	-2	2
Euro vs. Swiss franc	0	0	-2	2
Euro vs. British pound	0	0	0	0

If euro and foreign currency exchange rates had remained stable in the financial year just ended, the net loss of 4SC would have improved by €4 thousand (2011: no change).

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. The Group 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 US-$ 1,000 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. €3,084 thousand as at the reporting date (31.12.2011: €117 thousand, including the carrying amount of receivables from associates). To reduce the default risk, the Company regularly runs its business relationships through different evaluation scenarios and fosters intensive customer relationships.

7.18 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 for five more years on 2 November 2011 and runs out on 31 December 2016. 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 was reduced by €0.30/m² for 2012 and subsequently increases by €0.50/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. The lease, which commenced in September 2010, has a term of 36 months and requires 4SC to make an annual payment of €76 thousand. The payment will be made in advance monthly instalments on a straight-line basis and recognised in the statement of comprehensive income over the term of the lease. There are no extension or purchase options or escalation clauses.

There are no finance lease agreements.

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

in €000's

2013	908
2014	855
2015	875
2016	896
from 2017	0
Total	**3,534**

The statement of comprehensive income for the reporting year contains expenses of €856 thousand from the leases (2011: €810 thousand). Expenses under leases in 2012 amounted to €76 thousand (2011: €76 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 €2,587 thousand (2011: €3,812 thousand); the maturity is contingent on the progress of the respective study.

8. DISCLOSURES ON THE STATEMENT OF CASH FLOWS

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

in €000's

	2012	2011	Change in %
Cash flows from operating activities	-15,174	-12,229	-24
Cash flows from investing activities	3,063	3,013	2
Cash flows from financing activities	11,367	11,080	3
Net change in cash and cash equivalents	**-744**	**1,864**	-140
+ Cash and cash equivalents at the beginning of the period	6,820	4,956	38
= Cash and cash equivalents at the end of the period	**6,076**	**6,820**	-11

In addition to cash and cash equivalents, 4SC has liquid funds that are predominantly invested for better return. As at the reporting date, these were borrower's note loans and bearer notes; as at 31 December 2011, these were borrower's note loans, a fixed-interest bond and fixed-term deposit. Taken together, these items comprise the cash balance/funds:

in €000's

	31.12.2012	31.12.2011	Change in %
Cash and cash equivalents at the end of the period	6,076	6,820	-11
Other financial assets	5,988	9,000	-33
Cash balance/funds	**12,064**	**15,820**	**-24**

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	Subscription ratio[1]	Issued	Outstanding on 01.01.2012	Issue in 2012	Expired in 2012	Exercised in 2012	Outstanding on 31.12.2012	Exercisable on 31.12.2012	Max. number of shares available on 31.12.2012	Fair value	Cumulative staff costs[2]	Staff costs in 2012
			€		€000´s	€000´s	€000´s	€000´s	€000´s	€000´s.	€000´s	€000´s	€	€000´s	€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	0	0	0	0	0	0	0	0,74	52	0
ESOP 2004	2004	30.09.04	4,24	2:1	122	0	0	0	0	0	0	0	0,72	62	0
ESOP 2004	2005	30.09.05	4,24	2:1	93	65	0	65	0	0	0	0	0,71	53	0
ESOP 2004	2006/1	30.05.06	4,53	2:1	26	26	0	0	0	26	26	13	0,74	19	0
ESOP 2006	2006/2	25.08.06	3,80	1:1	296	236	0	13	0	223	223	223	1,71	436	0
ERSATZ-ESOP 2001	2006/3	25.08.06	3,80	1:1	166	108	0	7	0	101	101	101	1,54	183	0
ESOP 2006	2007	26.11.07	3,65	1:1	9	9	0	0	0	9	9	9	1,49	14	0
ESOP 2006	2008	22.08.08	3,45	1:1	43	41	0	0	0	41	41	41	1,50	62	2
ESOP 2009	2009	26.11.09	3,29	1:1	888	809	0	17	0	792	594	792	1,04	829	119
ESOP 2009	2010	26.11.10	3,09	1:1	18	18	0	4	0	14	7	14	0,77	12	5
ESOP 2009	2011	30.11.11	1,44	1:1	18	18	0	1	0	17	0	17	0,65	10	4
Total					**2,301**	**1,330**	**0**	**107**	**0**	**1,223**	**1,001**	**1,210**		**1,732**	**130**

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.

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% during the exercise period.

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 5.89 years. The exercise prices of all outstanding tranches range from €1.44 and €4.53.

An overview of weighted average exercise prices is given below:

Exercise prices (weighted, €)

	2012	2011
Options outstanding as of 01.01.	3.47	3.53
Options issued in the reporting period	–	1.44
Options expired in the reporting period	3.93	3.83
Options outstanding as of 31.12.	3.43	3.47
Options exercisable as of 31.12.	3.50	3.60

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 €928 thousand (2011: €1,095 thousand). Of this total amount, €19 thousand (2011: €16 thousand) represents contributions to defined contribution plans according to IAS 19.7. Pro-rated staff costs attributable to options included in overall compensation amounted to €79 thousand for the reporting year (2011: €188 thousand). However, these were non-cash expenses.

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

in €000's

	Fixed		Variable		Staff costs arising from options		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Dr Ulrich Dauer	196	196	14	43	19	45	229	284
Dr Daniel Vitt	186	186	34	43	19	45	239	274
Dr Bernd Hentsch	194	186	28	43	22	56	244	285
Dipl.-Kfm. Enno Spillner	175	175	22	35	19	42	216	252
Compensation of the Management Board	**751**	**743**	**98**	**164**	**79**	**188**	**928**	**1,095**

The following overviews show the shares and stock options held by members of the Management Board as at the 31 December 2012 reporting date.

Shares Number

	Shares 01.01.2012	Purchase	Sale	Shares 31.12.2012
Dr Ulrich Dauer	437,439	0	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	**924,242**	**0**	**0**	**924,242**

Stock options number

	Options 01.01.2012	Additions	Expired	Exercised	Options 31.12.2012	Maximum number of shares available
Dr Ulrich Dauer	147,400	0	4,800	0	142,600	142,600
Dr Daniel Vitt	147,400	0	4,800	0	142,600	142,600
Dr Bernd Hentsch	152,720	0	0	0	152,720	152,720
Dipl.-Kfm. Enno Spillner	249,600	0	400	0	249,200	236,200
Shares held	**697,120**	**0**	**10,000**	**0**	**687,120**	**674,120**

No stock options were issued to the members of the Management Board in the 2012 financial year.

In addition to the fixed compensation, of which a percentage is paid out at the end of each month, current benefits owed to the members of the Management Board resulting from a portion of the variable compensation totalled €116 thousand as at 31 December 2012.

For the Management Board members Dr Ulrich Dauer, Dr Daniel Vitt, Dr Bernd Hentsch and Enno Spillner, 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)
- Member 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 €141 thousand (2011: €139 thousand). Individual Supervisory Board member compensation for the reporting year breaks down as follows:

in €000's

	Occupation	Compensation 2012	Compensation 2011
Dr Jörg Neermann	Partner of LSP Life Sciences Partners,		
(Chairman until 31.05.2012)	Munich, Germany	12	32
Dr Thomas Werner	Management Consultant,		
(Deputy Chairman until 13.06.2012,	Utting am Ammersee, Germany		
Chairman since 13.06.2012)		34	21
Klaus Kühn	former Chief Financial Officer of		
(since 06.08.2012,	Bayer AG		
Deputy Chairman)		12	0
Dr Irina Antonijevic	Director Clinical Research MS and		
(since 06.08.2012)	Neurology at Genzyme (Sanofi Group),		
	Cambridge, MA, USA	7	0
Dr Clemens Doppler	Partner & Managing Director of		
	HeidelbergCapital Asset Management		
	GmbH, Heidelberg, Germany	23	25
Günter Frankenne	Managing Proprietor of STRATCON		
(until 06.08.2012)	Strategy Consultants, Berg bei		
	Neumarkt, Germany /	10	21
Helmut Jeggle	Head of Business Planning & Analyzing		
	of Athos Service GmbH, Munich, Germany	23	20
Dr Manfred Rüdiger	Venture Partner of LSP Life Sciences		
(Deputy Chairman from 13.06.2012 to	Partners, Munich	20	20
06.08.2012)			
Compensation of the Supervisory Board		**141**	**139**

The following overview shows the shares held by members of the Supervisory Board as at the 31 December 2012 reporting date.

Shares held number

	Shares 01.01.2012	Purchase	Sale	Shares 31.12.2012
Dr Manfred Rüdiger	20,000	0	0	20,000
Dr Clemens Doppler	14,875	3,718	0	18,593
Dr Thomas Werner	5,000	0	0	5,000
Shares held	**39,875**	**3,718**	**0**	**43,593**

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 Thomas Werner:
– Basilea Pharmaceutica Ltd., Basel, Switzerland, member of the Board of Directors
– Blackfield AG, Cologne, member of the Supervisory Board
– BSN medical GmbH, Hamburg, member of the Advisory Board
– Medigene AG, Planegg-Martinsried, member of the Supervisory Board
– SkyePharma PLC, London, United Kingdom, Non-Executive Director
– SuppreMol GmbH, Munich, Deputy Chairman of the Advisory Board

Klaus Kühn:
– Flossbach von Storch AG, Cologne, Chairman of the Supervisory Board
– Hella KGaA, Lippstadt, member of the Shareholder Committee
– Medigene AG, Planegg-Martinsried, Member of the Supervisory Board

Dr Clemens Doppler
– Accovion GmbH, Eschborn, Chairman of the Advisory Board
– Merlion Pharmaceuticals Inc., Singapore, member of the Supervisory Board
– Nanogate AG, Quierschied-Göttelborn, member of the Supervisory Board
– Vasopharm GmbH, Würzburg, member of the Advisory Board

Helmut Jeggle
– AFFiRiS AG, Vienna, Austria, member of the Supervisory Board
– APK ALUMINIUM UND KUNSTSTOFFE AG, Merseburg, member of the Supervisory Board
– BioNTech AG, Mainz, Chairman of the Supervisory Board
– Ganymed Pharmaceuticals AG, Mainz, member of the Supervisory Board
– Sidroga AG, Zoffingen, Switzerland, President of the Management Board
– VANGUARD AG, Berlin, member of the Supervisory Board

Dr Irina Antonijevic and 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 2012 to 31 December 2012:

quattro research GmbH, Planegg-Martinsried, Germany (associate)

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. The software service contract that existed 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 was rescinded effective at the end of 2011. A new contract with terms and conditions that are more favourable for 4SC was signed in January 2012. This contract had a net volume of €200 thousand in the 2012 financial year (2011: €267 thousand). As of the reporting date, the liabilities toward quattro research GmbH resulting from this contract amounted to €10 thousand (31 December 2011: €29 thousand); they were repaid as contractually agreed by January 2013. There were also accrued liabilities for outstanding invoices in the amount of €4 thousand.

Donner & Reuschel Bank, Hamburg (DRB) (other related parties)

DRB has advised 4SC since October 2008 on optimising its relationships with private and institutional investors. As a result of this contract, 4SC incurred costs of €22 thousand in the reporting year (2011: €28 thousand). Based on the contract signed in December 2005, DRB has assumed the function of payment and depository agent for 4SC, which triggers an annual expenditure of €3 thousand. No liabilities existed towards DRB as at 31 December 2012.

One of DRB's Management Board members, Marcus Vitt, is a brother of 4SC's Chief Science Officer, 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 at 31 December 2012.

11.2 Corporate Governance Code pursuant to section 285 no. 16 German Commercial Code

On 24 February 2012 and 25 February 2013, the Company's Management Board and Supervisory Board declared in accordance with section 161 German Stock Corporation Act (Aktiengesetz - AktG) that they are 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 2012 may differ from these amounts, however.

Notifying entity	Date of notice	Voting share
HeidelbergCapital Private Equity Fund I GmbH & Co. KG,		
HeidelbergCapital Asset Management GmbH,		
Dr Clemens Doppler & Professor Martin Weiblen, Munich	26.11.2009	7.66%[1]
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%[1]
Roland Oetker, Germany	16.02.2012	3.01%[1]
First Capital Partner GmbH, Gräfelfing		
WE Vermögensverwaltungs GmbH & Co. KG, Gräfelfing,		
WE Verwaltung GmbH, Gräfelfing,		
Wolfgang Egger, Germany	05.07.2012	9.91%
Santo Holding (Deutschland) GmbH, Holzkirchen	09.07.2012	41.48%[1]

1: Based on an estimate of the management, the shares as at 31 December 2012 were as follows:
– HeidelbergCapital Private Equity FundIGmbH & Co. KG, Munich 5.86%
– Deutsche Bank Aktiengesellschaft (DVCG/VCG), Frankfurt am Main 6.13%
– Roland Oetker, Germany 3.34%
– Santo Holding (Deutschland) GmbH, Holzkirchen 48.10%

11.4 Auditor's fees pursuant to section 285 no. 17 German Commercial Code

On 6 August 2012, the Company's Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, to serve as the auditor of the 2012 financial statements.

in €000's	31.12.2012	31.12.2011
Auditing services	106	102
Other verification services	51	16
Other services	9	42
Total fee billed by the auditor	**166**	**160**

In the 2012 financial year, a total of €106 thousand was recognised for financial statements auditing services (2011: €102 thousand).

Fees of €11 thousand for other verification services in connection with two analytical reviews and the reviews of the interim financial statements were incurred in the reporting year (2011: € 10 thousand). The issue of the comfort letter in the context of the capital increase generated another €40 thousand in expenses (2011: €0 thousand). These expenses were recognised as transaction costs and subtracted from equity. Furthermore, costs of €6 thousand were incurred in the previous year for the means test in connection with the "Antimal" project funded by the EU and the preparation of the corresponding audit certificates.

Other services provided by KPMG AG Wirtschaftsprüfungsgesellschaft during the reporting year concerned consulting and support in the exploratory process regarding "new employee participation models", for which expenses of €9 thousand were incurred. In the previous year, this item contained €35 thousand for the performance of an IT security review and €7 thousand for a written opinion on the upfront payment made by Yakult Honsha Co., Ltd.

11.5 Average number of employees pursuant to section 285 no. 7 HGB

The average number of employees (excluding the Management Board of 4SC AG, the executive management of 4SC Discovery GmbH and trainees) during 2012 was 84 (2011: 91).

Of these 84 employees (excluding the Management Board, the executive management and trainees), 60 worked in research and development, 21 in sales and administration and three in information technology. Of the 91 employees in the previous year (excluding the Management Board and trainees), 66 worked in research and development, 22 in sales and administration and three in information technology.

The Group's workforce in 2012 also included an average of 4 Management Board members at 4SC AG (2011: 4), 1 managing director at 4SC Discovery GmbH (2011: 0) and 1 trainee (2011: 0) such that the total number of employees on average was 90 in 2012 and 96 in 2011. 4SC again had one trainee chemical laboratory technician in 2012.

12. EVENTS AFTER THE REPORTING PERIOD

4SC had announced the following events by the time these consolidated financial statements were prepared:

- 4SC obtains key patent for anti-cancer compound resminostat in Europe (press release dated 8 January 2013)
- 4SC Discovery and BioNTech launch strategic cancer therapy research partnership (press release dated 20 February 2013)
- 4SC Discovery and LEO Pharma announce research and license agreement (press release dated 26 February 2013)
- CEO Dr Ulrich Dauer to step down on 31 March 2013; his successor will be CFO Enno Spillner (ad hoc release dated 6 March 2013)
- 4SC AG: Notice of loss pursuant to section 92 (1) German Stock Corporation Act (Aktiengesetz, AktG) due to rising accumulated losses carried forward (ad hoc release dated 12 March 2013)

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

Planegg-Martinsried, 12 March 2013
The Management Board:

Dr Ulrich Dauer,
Chief Executive Officer

Dr Bernd Hentsch,
Chief Development Officer

Dipl.-Kfm. Enno Spillner,
Chief Financial Officer

Dr Daniel Vitt,
Chief Scientific Officer

Auditor`s report

We have issued the following unqualified auditors' report:

"Unqualified auditors' report

We have audited the consolidated IFRS financial statements, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and notes to the consolidated financial statements, and the combined management report of 4SC AG, Planegg, District of Munich for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and combined management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 (1) HGB [Handelsgesetzbuch: German Commercial Code] are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the combined 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 consolidated financial statements comply with IFRSs, as adopted by the EU, and the additional provisions of German commercial law pursuant to section 315a (1) of the HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion we refer to the discussion in section 6.2.4 of the combined management report. Therein it is disclosed that the Company's and the Group's ability to continue as a going concern depends on the contribution of funds in the form of equity capital or debt financing if sufficient cash inflows cannot be generated through cooperation or partnerships."

Munich, 14 March 2013

KPMG AG

Wirtschaftsprüfungsgesellschaft

Responsibility statement

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

Planegg-Martinsried, 12 March 2013

The Management Board:

Dr Ulrich Dauer,
Chief Executive Officer

Dr Bernd Hentsch,
Chief Development Officer

Dipl.-Kfm. Enno Spillner,
Chief Financial Officer

Dr Daniel Vitt,
Chief Scientific Officer

Excerpt from the annual financial statements of 4SC AG

> Income statement for the financial year from 1 January to 31 December 2012

in €000's

	2012	2011
Revenue	1,396	780
Other operating income	2,003	1,063
Total revenues and income	3,399	**1,843**
Staff costs	-4,469	-6,367
Depreciation, amortisation and write-downs	-1,473	-1,343
Other operating expenses	-10,249	-13,662
Total expenses	-16,191	**-21,372**
Other interest and similar income	231	283
Write-downs of long-term financial assets and securities	0	-4
Interest and similar expenses	-1	-1
Total	**230**	**278**
Result from ordinary activities	**-12,562**	**-19,251**
Extraordinary income	9,064	0
Extraordinary result	**9,064**	**0**
Cost of loss absorption	-2,712	0
Taxes on income	-10	-600
Net loss for the financial year	**-6,220**	**-19,851**
Loss brought forward	-98,186	-78,335
Accumulated deficit	**-104,406**	**-98,186**

> **Balance sheet** for the financial year ended 31 December 2012

in €000's

	31.12.2012	31.12.2011
ASSETS		
Fixed assets		
Intangible assets	10,094	11,377
Tangible fixed assets	212	1,065
Long-term financial assets	12,810	189
Total fixed assets	**23,116**	**12,631**
Current assets		
Inventories	0	25
Receivables and other assets	2,244	978
Securities	6,000	6,987
Cash-in-hand and bank balances	5,932	8,782
Total current assets	**14,176**	**16,772**
Prepaid expenses	**209**	**187**
Total assets	**37,501**	**29,590**
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	50,372	41,968
Capital reserves	81,668	77,466
Accumulated deficit	-104,406	-98,186
Total equity	**27,634**	**21,248**
Provisions	**1,170**	**1,881**
Liabilities		
Trade payables	419	705
Other liabilities	8,266	5,756
Total liabilities	**8,685**	**6,461**
Deferred income	12	**0**
Total equity and liabilities	**37,501**	**29,590**

The balance sheet and the income statement are excerpts from the full annual financial statements of 4SC AG. These annual financial statements were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, and issued with an unqualified auditor's report.

The full annual financial statements of 4SC AG are disclosed in the electronic Federal Gazette. The full annual financial statements can also be solicited from 4SC AG, Investor Relations, Am Klopferspitz 19a, 82152 Planegg-Martinsried.

Glossary

4SCan®
Computerised, virtual high-throughput screening technology developed by 4SC for the simulated testing of large substance databases. Used for the cost-effective, rapid discovery and optimisation of new compounds in pharma research.

Absorption
Biological take-up of substances through the skin/mucous membranes.

AC (Amortised cost)
In accordance with IAS 39, financial instruments in the categories LAR and HTM are to be measured at amortised cost.

AfS
Abbreviation for available for sale.

AFVPL
Abbreviation for at fair value through profit or loss.

Agonist
Substance (ligand) that mimics – or replaces – a specific chemical messenger (e.g. a neurotransmitter) and its function. In so doing, the agonist occupies the corresponding receptor and activates the signal transduction in the cell, causing a detectable effect.

AktG
German Abbreviation for "Aktiengesetz", the German Stock Corporation Act.

Apoptosis
Programmed cell death.

Authorised capital
Defines the value or number of shares that the Annual General Meeting of a listed company has approved for executing a possible future capital increase.

Autoimmune disease
In medicine, a collective term for illnesses that are caused by an excessive response of the immune system against the body's own tissue.

Bioavailability
Pharmacological parameter defining the portion of a compound that is available in the circulatory system (specifically, the cardiovascular system). The parameter indicates how rapidly and completely the substance (active pharmaceutical ingredient) is taken up and available at its target site.

Biomarker
A measurable substance produced by an organism and usable as an indicator of disease.

Biotechnology
Implementation of insights from biology and biochemistry to produce technical or technically applicable items.

Blockbuster
The term 'blockbuster' refers to drugs that are outstandingly successful on the pharmaceutical market. Revenue for a blockbuster drug typically exceeds one billion US dollars annually.

Cancer stem cells
Also known as 'tumour-initiating cells', these cells can form the basis of new tumours and thereby cause a resurgence of the disease and the formation of metastases. They are referred to as cancer stem cells since they possess many of the properties of normal stem cells.

Cell
The smallest unit of life, characterised by its own genetic material, energy-producing system, ability to reproduce and excitability. Enclosed by a cell wall and/or cell membrane.

Chemotherapy
Describes the drug-based therapy used to treat cancers or infections (anti-infectious chemotherapy or antimicrobial chemotherapy).

Chromatin
A DNA and protein structure that enables the tight packaging of DNA in the cell nucleus.

Clinical development
Research studies on drug development as conducted on volunteers and patients.

CMO
Abbreviation for contract manufacturing organisation.

Colitis
Inflammatory disease of the large intestine (colon).

Colorectal carcinoma
Colon cancer.

Combination therapy
Use of two or more drugs to treat an illness.

Compound
Chemical substance given to people for the diagnosis, healing, alleviation or prevention of an illness or disease.

Conditional capital
Defines the value or number of shares that the Annual General Meeting of a listed company has previously approved for the issue of convertible bonds or stock option plans.

Corporate governance
Comprises the entire system of responsible management and control of a company aimed at the sustainable creation of value.

CRC
Abbreviation for colorectal cancer.

CRO
Abbreviation for contract research organisation, i.e. an organisation commissioned with performing clinical studies.

Crohn's disease
Autoimmune disease of the colon.

Cytokine
A cytokine is a protein that has a regulatory function governing the growth and differentiation of bodily cells.

D&O insurance
Directors and Officers liability insurance – a form of liability insurance protecting company assets that a company takes out to cover the consequences of actions by its corporate bodies (directors) or senior employees (officers).

DHODH
Dihydroorotate dehydrogenase; enzyme which plays an important role in building DNA in the cell. The inhibition of DHODH halts cell growth of activated T and B cells which are involved in the pathology (disease development and progress) of autoimmune diseases.

Dilution
By issuing new shares or executing a capital increase without subscription rights, the value of a share is 'diluted'.

Directors' dealings
Personal transactions conducted by the directors (Management Board, Supervisory Board) of a listed company. These must be disclosed by the company.

DNA
Abbreviation for deoxyribonucleic acid. A biological molecule that contains the genetic information in a cell and codes the blueprint for making the proteins.

Drug side effect
Any undesirable, often non-specific effect that a compound produces in addition to its intended effect.

Drug-sensitive
The state in which tumour cells respond to cancer medication.

Drug-tolerant
The state in which tumour cells have developed initial, yet reversible resistance properties to classic cancer medication.

Early-stage Partnering
A licensing deal agreed at an early stage of a research or development programme.

Eg5 kinesin spindle protein
Kinesin spindle protein which plays a role in the distribution of chromosomes to the daughter cells during cell division. A therapeutic target structure for the development of anti-mitotic cancer drugs that aim at inhibiting the cell division of tumour cells and are therefore designed to inhibit further tumour growth.

EGFR
Epidermal Growth Factor Receptor – a protein found in the cell membranes of vertebrates. As the name states, it is the receptor for Epidermal Growth Factor (EGF). In a number of cancers, EGFR is upregulated (overexpressed) and/or found in mutated forms, which leads to tumour cells proliferating in an uncontrolled manner. Innovative cancer therapies aim to block this EGFR signalling and thus suppress tumour growth.

Endpoint
The general result of a clinical 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.

Epigenetics
Specialised field within biology, focusing on cell properties that can be inherited by daughter cells but which are not specified in the DNA sequence. Involves changes to chromosomes influencing the activity of chromosomal sections or even complete chromosomes.

Equity method
Method used in annual financial statements to account for an entity's investment in another entity's voting capital.

ERP
Enterprise Resource Planning – deployment planning for the resources available to the company (capital, means of production, personnel).

ESOP
Abbreviation for employee stock option programme.

FIFO method
Abbreviation for "first in, first out".

First-line therapy
The first therapy used to treat the patient following diagnosis.

FOLFIRI
Chemotherapy scheme for treating colon cancer based on the cancer drug Irinotecan.

Formulation
In a pharmaceutical context, a 'formulation' is the provisioning of a drug in a format that guarantees the desired level of bioavailability in the patient. A formulation can be provided as a gaseous state (as an aerosol), for example, a liquid state (for taking as drops), a semi-solid state (e.g. an ointment) or a solid state (e.g. as a tablet).

FTE
Abbreviation for full-time equivalent. A unit of measure that equates to the hours worked by a person in full-time employment.

Gastrointestinal
Involving the stomach and intestines.

Gene
A component of genetic information, responsible for producing a trait. A gene is a sequence of DNA containing genetic information for synthesising a protein or a piece of functional RNA.

Genome
The entirety of a cell's hereditary information or all of the material carriers of this hereditary information (= all genes as a collective whole).

HDAC
Abbreviation for histone deacetylases. These are enzymes that play an important role in gene regulation by modifying histones (proteins that package the DNA in the cell nucleus). As a result, they directly regulate the transcription (i.e. the reading of genetic information) and therefore also epigenetic modification, i.e. whether certain genetic information can be used for the organism or not. Therefore, the development of HDAC inhibitors is regarded as a meaningful strategy in the fight against cancer.

Hematological
Involving the blood formation system.

Hepatocellular carcinoma (HCC)
Malignant tumour triggered by the hepatocytes of the liver's tissue, often called "liver cancer".

HGB
Abbreviation for "Handelsgesetzbuch", the German Commercial Code

Histone deacetylase
An enzyme (HDAC) that plays a key role in gene regulation.

Hodgkin's lymphoma (HL)
Malignant tumour of the lymphatic system, also classifiable as refractory (stubborn, unresponsive to treatment) or relapsed (recurring).

Htm
Abbreviation for held to maturity.

IAS
Abbreviation for International Accounting Standards.

IASB
Abbreviation for International Accounting Standards Board

IBD
Abbreviation for Inflammatory bowel disease. several relapsing (recurring) or chronic inflammatory illnesses of the colon. The two most common disorders are ulcerative colitis and Crohn's disease.

IFRIC
Abbreviation for International Financial Reporting Interpretations Committee.

IFRS
Abbreviation for International Financial Reporting Standards.

IL-17
Interleukin-17. A cytokine (chemical messenger) that influences the course of inflammatory processes.The production of cytokines IL-17A and IL-17F is closely associated with the development of autoimmune diseases and chronic inflammatory diseases.

Immunotherapy
Forms of treatment in which the immune system is targeted, e.g. for the therapy of cancer or autoimmune diseases.

Impairment test
Test of recognised goodwill for impairment conducted annually or as and when appropriate.

In vitro
Experiments that take place in a controlled, artificial environment outside of the living organism, usually in a test tube.

In vivo
Experiments that take place in the living organism, usually in animal testing.

Indication
Clinical syndrome or profile.

Inhibitor
A blocking substance.

In-licensing
A license deal, generally in the form of the acquisition of development and marketing rights to a product, compound or R&D project.

Ion channel
Protein that enables the flow of ions through the cell membrane.

Ions
Electrically charged atoms or molecules.

jPCM
Joint Project Coordination Meeting. Regular meeting during research projects for project management staff.

Kinases
Enzymes that moderate cellular signalling pathways via phosphorylation of proteins.

K-ras mutation
The K-ras (Kirsten rat sarcoma 2 viral oncogene homolog) gene belongs to the Ras proto-oncogene group. Normally, proto-oncogenes (and the proteins they code for) regulate cell growth. If they mutate, they can permit or even promote the uncontrolled growth of tumour cells. With metastasised colorectal cancer (CRC), the K-ras gene can be present either as a mutated or wild-type variant. The therapy is also selected based on this K-ras status. This is because patients with K-ras mutations (some 30–40 percent of patients, according to studies) receive little or no benefit from therapies aimed at inhibiting EGFR – such as the antibody Cetuximab – and such therapies are therefore unusable for these patients.

LaR
Abbreviation for loans and receivables.

Lymphatic system
Part of the immune system that counters pathogens, foreign particles and malignant changes in parts of the body (e.g. tumour cells).

Lymphoma
Collective term for lymph node enlargements or lymph node swellings and lymphatic tissue tumours.

Mass spectrometry
An analytical technique based on the different masses possessed by the molecules under investigation.

Metabolism
The entirety of life-sustaining chemical transformations in an organism.

Metastasis
The propagation of malignant cells from the primary tumour and the formation of secondary tumours (metastases).

Mitosis
Division of the cell nucleus; important mechanism for the proliferation (reproduction) of cells or tumour cells.

Molecule
A particle composed of at least two atoms.

Monotherapy trial
A study in which only a single drug containing only a single active substance is used for treatment.

MTD
Maximum Tolerated Dose. A key parameter in clinical trials, serving to determine the optimum dosage for a compound.

Multiple sclerosis
Autoimmune disease of the central nervous system which results in degeneration of the nerve sheath; also called Encephalomyelitis disseminata (ED).

Mutation
See –> Genetic mutation.

Notice of Allowance
An award notice covering intellectual property issued by a patent authority; precedes granting of the patent.

Oncology
Branch of medicine dealing with cancer.

Orphan drug
A drug classified by the US Food and Drug Administration (FDA) as a drug for rare diseases. Orphan drug designation is granted by the FDA to promote the development of drugs in the United States that may offer therapeutic benefits for diseases affecting less than 200,000 people in the USA.

Orphan medicinal product
A drug classified by the European Medicines Agency (EMA) as a drug for rare diseases. These drugs address rare diseases that affect no more than five in 10,000 people in the European Union.

OS
Abbreviation for overall survival. The OS value defines the period from the start of an event in the course of an illness (such as cancer) – e.g. the start of therapy in a clinical trial – until the time the patient dies.

PFS
Abbreviation for progression free survival. PFS describes the period during which the progression of a tumour can be halted, e.g. based on a drug tested in clinical trials.

PFSR
Abbreviation for progression free survival rate. Measures the number of patients who have reached a predefined PFS in a clinical trial in relation to the number of patients who were treated and can be evaluated overall in the clinical trial.

Pharmacodynamics
Describes the specific effects of drugs and poisons.

Pharmacokinetics
Spatial and temporal distribution of compounds throughout the various tissues of organism.

Pharmacology
Branch of science dealing with interactions between substances and organisms.

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

Phase II trial
Clinical trial, usually conducted still in a relatively small number of patients, subject to strict controls to identify a compound's sudden side effects and risks; first determination of the efficacy of the drug and any potential immune reactions to it.

Phase IIa trial
A Phase II trial with pilot study features and generally involving fewer patients. Usually focuses on providing confirmation of an initial proof-of-concept for the compound in a small group of patients.

Phase IIb trial
A clinical Phase II trial conducted under controlled study conditions and generally involving more patients than a Phase IIa trial. Usually focuses on providing confirmation of the efficacy of a compound investigated in comparison to a control therapy under statistically controlled conditions (e.g. randomisation).

Phase III trial
Clinical trial conducted in a large number of patients (in general, between several hundred and several thousand) and to rigorous study standards, with the aim of determining the safety, efficacy and optimum dosage of a drug under real therapeutic conditions. Used to generate clinical data that can be used to support an application for the drug's market approval.

Preclinical trial
Laboratory tests on a new drug candidate or a new invasive medical device using animals, organs or cell cultures. Such studies are conducted to provide evidence justifying the performance of a clinical trial.

Primary endpoint
In clinical trials it defines the primary (highest-priority) objective for the study. Achievement of this endpoint is used to determine whether the actions taken (in general, the medical therapy applied) were successful and whether the desired level of efficacy occurred during treatment. Endpoint achievement thus determines the success or failure of a clinical trial.

Prime Standard
Listing segment of Deutsche Börse with additional post-admission obligations and clearly defined transparency requirements.

Progression
The worsening of an illness.

Pro-inflammatory
Promoting an inflammatory response.

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.

QSB
Abbreviation for quorum sensing blocker: substances that block bacterial intercellular communication and are thus intended to prevent the formation of pathogenic characteristics.

RA
Abbreviation for rheumatoid arthritis (see entry).

Radionuclide
An element's radioactive isotope.

Receptors
Molecules commonly found on cell surfaces and which are capable of binding a precisely specified molecule – their 'ligand'. The coming together of ligand and receptor can trigger a chain of reactions within the cell.

Resistance
In a pharmaceutical sense, resistance means that normally effective factors – such as drug dosages – do not (or no longer) work.

Rheumatoid arthritis
Autoimmune disease of the connective tissue, especially the joints.

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.

Scientific computing
Describes an interdisciplinary research discipline located between numerical mathematics, informatics and the scientific field of research from which the model under investigation is sourced. In the form of 4SC's computerised 4Scan® technology, it is used for the effective, rapid discovery and optimisation of new compounds in pharma research.

Screening
Use of an assay to test the biological activity of substances.

Second-line therapy
If the first therapy used to treat the patient following diagnosis (first-line therapy) proves to be ineffective or poorly tolerated by the patient, the second-line therapy is applied.

Sensitisation
Also known as re-sensitisation, the term describes how a tumour cell is returned to its original, drug-sensitive state from a previously drug-tolerant state. By so doing, tumour cells are thus made receptive (sensitive) to the efficacy of a cancer drug to which their previous response was no longer adequate.

Share premium
Component of equity shown in the statement of financial position. It consists of premiums paid by shareholders in the course of capital increases executed in financing rounds.

SIC
Abbreviation for Standing Interpretations Committee.

Side effect
See –> Drug side effect.

Signalling pathway
Pathway via which cells can react to external signals or via which information can be transmitted within cells.

Small-molecule
Having a low molecular weight.

Smart chemistry
Describes the deployment of small-molecule compounds for the targeted treatment of illnesses.

Solid tumours
Swelling or growth. Describes a firm (solid), locally defined accretion of tissue created by the body itself. Can be mature (differentiated) or immature (primitive, undifferentiated). Solid tumours include all tumours and cancers of bodily tissue with the exception of those affecting the blood, bone marrow or lymphatic system.

Steroid
Organic compound that is present in hormones made by the body such as e.g. cortisol. Used in drugs containing cortisone for the treatment of autoimmune diseases.

Study protocol
The test plan for a clinical trial, detailing the most important features of the clinical research project.

Subject
Voluntary, usually healthy person participating in a clinical study.

T cell
A cell used by the immune system for defence.

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

Taxol
Drug used in chemotherapy treatment regimes for solid tumours. It inhibits cell growth by attacking the spindle apparatus during cell division.

TLR
Toll-like receptor: a specialised receptor. Describes a structure in what is termed the 'innate immune system'. TLRs serve to identify structures that occur exclusively on or in pathogens, and they control corresponding gene activation.

Toxicology
Field of science examining the effects of toxic substances or the toxicity of substances.

Tumour
Latin for swelling or growth. A neoplasm (new formation of bodily tissue) resulting from uncontrolled cell growth.

Ulcerative colitis
Specific type of inflammatory bowel disease.

Upfront payments
Prepayments.

WNT Signalling pathway
Signal transduction pathway based on which cells can react to external signals. The signalling pathway is named after its "Wnt" ligand, a signalling protein that has an important function in the development of various animal/human cells. Due to mutations, this signalling pathway is a frequent cause of tumour development.

Financial calendar

> Financial calendar 2013

Annual financial report 2012	25 March 2013
Annual General Meeting, Munich	02 May 2013
3-month financial report 2013 (Q1/2013)	14 May 2013
Half-year financial report 2013 (Q2/2013)	08 August 2013
9-month financial report 2013 (Q3/2013)	07 November 2013
Analyst conference: German Equity Forum, Frankfurt	11-13 November 2013

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