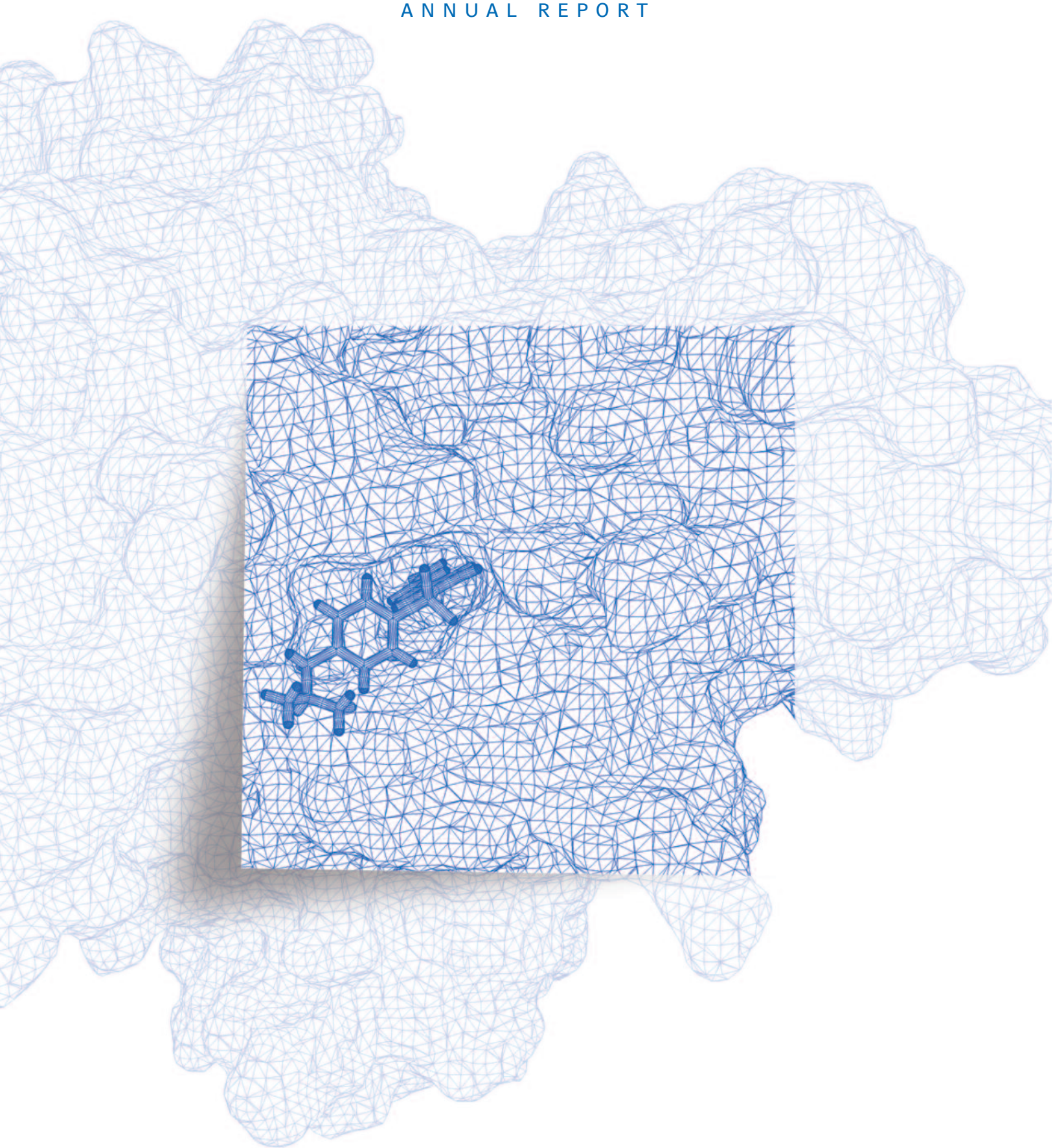
2013

ANNUAL REPORT



4SC

4SC at a glance

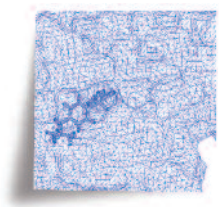
Headquartered in Planegg-Martinsried near Munich, 4SC is an innovative biotech company with a strong focus on research and development.

We are a discovery and development company of targeted small molecule drugs for the treatment of cancer and autoimmune diseases in indications with a high unmet medical need and major economic potential. We wish to offer affected patients treatment options that are more effective and better tolerated to provide a better quality of life. In turn, we hope to create value for our shareholders, partners and employees.

Our product pipeline comprises promising drug programmes at various stages of clinical development, as well as early-stage research projects. Our focus is on fields of research with especially promising futures – such as epigenetics, cancer stem cells, and other, important molecular signalling patterns that contribute to the development and persistence of cancer and autoimmune diseases.

Through development and marketing partnerships with pharmaceutical and biotech companies, we are bringing our programmes closer to market approval, thus ensuring commercial success. We are also strengthening our business model by entering into collaborative service and research partnerships in the field of early-stage pharmaceutical research.

4SC was established in 1997. 4SC AG has been listed on the Prime Standard of the Frankfurt Stock Exchange since December 2005 (ISIN DE0005753818).



The cover picture shows the cancer compound resminostat binding to the HDAC target molecule. In 2013, 4SC resolved to focus on its main value drivers. Activities will concentrate on the development of resminostat in the liver cancer indication.

Product pipeline (13 March 2014)

For a biotechnology company like 4SC, a strong product pipeline is an important factor for business success.

Our current product pipeline comprises four drug candidates in clinical development and several programmes at early research stages. All compound programmes are concerned with the treatment of cancers and autoimmune diseases. Together with strong partners, we want to progress these along the path to market approval.

The Development segment, which is collectively represented by 4SC AG, pursues clinical development in indications with a high medical need. In the Discovery & Collaborative Business segment, our subsidiary 4SC Discovery GmbH works on discovering and researching new compounds in attractive fields of research.

The current focus of 4SC is on the further development of our main value driver resminostat in the liver cancer (HCC) indication.

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

in €000's unless stated otherwise

	2013	2012	2011	2010	2009
Results of operations, financial position and net assets					
Revenue	4,904	4,353	780	989	1,861
Operating profit/loss	-10,592	-13,366	-18,793	-20,271	-16,437
Net profit/loss for the year	-10,525	-13,217	-19,071	-20,075	-16,107
Equity (at year-end)	11,282	21,813	23,533	31,210	50,909
Equity ratio (at year-end) (percent)	63.7	75.0	73.9	89.9	94.4
Total assets (at year-end)	17,705	29,067	31,838	34,731	53,903
Monthly use of cash from operations (average)[1]	597	1,260	1,072	1,501	1,255
Capital measures (net)	0	11,367	11,080	0	28,833
Cash balance/funds (at year-end)	4,899	12,064	15,820	17,607	35,621

	2013	2012	2011	2010	2009
Staff					
Total number of employees (incl. Management Board) (at year-end)	73	86	96	94	91
Number of full-time employees (incl. Management Board) (at year-end)	56	74	80	81	79

	2013	2012	2011	2010	2009
The 4SC share					
Earnings per share (basic and diluted) (in €)	-0.21	-0.29	-0.46	-0.52	-0.54
Number of shares issued (annual average, in 000's)	50,372	46,170	41,455	38,503	29,753
Free float on reporting date according to Deutsche Börse (percent)	30.3	30.0	26.4	19.4	19.0
Annual high (XEXTRA) (in €)	2.20	3.04	4.89	3.51	3.50
Annual low (XETRA) (in €)	1.57	1.26	1.20	2.67	2.60
Closing price on reporting date (XETRA) (in €)	1.60	2.03	1.23	3.51	2.96
Market capitalisation on reporting date (in €000's)	80,595	102,255	51,621	135,145	113,968
Average daily trading volume (all markets) (shares)	37,115	56,713	43,221	14,449	9.211

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

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KEY EVENTS IN 2013

☞ 4SC reviewed and optimised its development strategy, refocused its product pipeline and made targeted modifications to its corporate and staffing structures in 2013. The primary focus was development of the main value driver resminostat in liver cancer. Research subsidiary 4SC Discovery successfully expanded its partnerships in the reporting year. The most significant events of the year at a glance:

January:

Resminostat: Patent notice received for Europe

4SC receives a "notification of allowance" for resminostat, which completes patent protection in all key pharmaceutical markets worldwide.

February:

4SC Discovery: Research partnership started with BioNTech

In a strategic partnership agreed for several years, 4SC's research subsidiary will identify and optimise new small-molecule anti-cancer compounds for the biopharmaceutical company BioNTech.

4SC Discovery: License option agreement signed with LEO Pharma

This agreement will focus on developing a new treatment for psoriasis. 4SC Discovery receives an upfront payment of €1 million, regular payments for funding its research work and performance-based payments of up to €95 million plus royalties.

March/April:

4SC AG: Enno Spillner appointed new CEO

Effective at the end of 31 March 2013, Dr Ulrich Dauer steps down as a member of the Management Board and Chief Executive Officer of 4SC AG for personal reasons. Effective 1 April 2013, the Supervisory Board appoints long-standing Chief Financial Officer Enno Spillner as the Company's new CEO and CFO.

May:

4SC AG: AGM approves Supervisory Board

At the Annual General Meeting of 4SC AG held on 2 May 2013, the shareholders approve all of the meeting's agenda items submitted to the vote by the Company with the required majority. All Supervisory Board members are confirmed as proposed during a routine re-election. As required by Section 92(1) of the German Stock Corporation Act (AktG), the Management Board explains its March 2013 announcement that, pursuant to the accounting principles of the German Commercial Code (HGB), 4SC AG has incurred an accumulated loss amounting to half of its share capital.

4SC: Decision to refocus research and development strategy

4SC will now concentrate on the development of compounds with the greatest potential to increase value and on the further development of resminostat in liver cancer in particular. This will require streamlining the product pipeline and discontinuing certain R&D programmes.

Resminostat: Yakult Honsha starts Phase I/II study in liver cancer in Japan

In a Phase I/II study, the Japanese partner investigates the safety and efficacy of

resminostat in combination with the cancer drug sorafenib as first-line treatment of advanced liver cancer.

Resminostat: Successful completion of Phase I trial in colorectal cancer
The Phase I SHORE study, investigating resminostat in combination with FOLFIRI chemotherapy in colorectal cancer, confirms the positive tolerability of the treatment and achieves the specified trial objectives.

June:

4SC Discovery: Research collaboration starts with CRELUX and UCB
On behalf of the Belgian UCB pharmaceutical group, 4SC Discovery and venture partner CRELUX will utilise the i2c technology platform to jointly research new compounds for the treatment of neurological disorders.

4SC: Resource adjustment reflects refocused development strategy
4SC adopts modified organisational and staffing structures that reflect its refocused development strategy. By the end of the year, this will entail staff reductions of 15% and the closure of the Überlingen-Bonndorf site.

July:

Resminostat: Yakult Honsha starts clinical development in lung cancer
In Japan, Yakult Honsha investigates resminostat in combination with the cancer drug docetaxel in a Phase I/II trial in non-small-cell lung cancer – the fourth tumour indication after liver cancer, colorectal cancer and Hodgkin's lymphoma.

4SC-202: Patent protection expanded in China, Hong Kong and the USA
China grants the composition-of-matter patent for the epigenetic anti-cancer compound 4SC-202, and Hong Kong announces a grant is now imminent. In the USA, the patent protection term is extended by a Notification of Allowance for a patent covering specific 4SC-202 salts.

September:

Resminostat: Biomarker ZFP64 in liver cancer and Hodgkin's lymphoma
Findings from the completed Phase II studies in liver cancer (HCC) and Hodgkin's lymphoma show that elevated expression of the ZFP64 biomarker correlates with a doubling of patient survival. 4SC thus plans to incorporate ZFP64 into the intended HCC study programme to examine resminostat as a potential personalised cancer therapy.

4SC Discovery: Partnership with Panoptes Pharma agreed
The Austrian biotech company Panoptes Pharma receives all patent rights for a preclinical substance discovered by 4SC Discovery in the target indication of uveitis. 4SC Discovery receives a 24.9% share in Panoptes Pharma and will participate in future development successes.

November:

4SC Discovery: Joint research project starts with CRELUX and AiCuris
As commissioned by AiCuris, 4SC Discovery and CRELUX will use their shared technology platform i2c to research new compounds for the treatment of infectious diseases.

* as of: 13 March 2014

A. **Enno Spillner***
Chairman of the Management Board
(Chief Executive Officer/CEO &
Chief Financial Officer/CFO)

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

Responsible for:
Strategy & Business Development, Finance & Controlling, Legal Affairs, Quality Assurance, Human Resources, Purchasing, Investor Relations & Public Relations

B. **Dr Daniel Vitt***
Member of the Management Board
(Chief Scientific Officer/CSO)

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

Responsible for:
Research, Translational Pharmacology, In-house Services, Industrial Property Rights, IT

C. **Dr Bernd Hentsch***
Member of the Management Board
(Chief Development Officer/CDO)

Doctor of biology, born 1960
Management Board member since 2008

Responsible for:
Product Development, Regulatory Affairs, Compound Production

Dear Shareholders,
Dear Friends and Partners of 4SC,

For 4SC and its shareholders, 2013 was a very dynamic and challenging year. We made important progress in our research and development programmes, especially in the further development of our main value driver resminostat and our research subsidiary 4SC Discovery GmbH. Yet we were also unable to achieve key targets we had planned for 2013. Negative factors affecting business performance included delays in identifying a partner for resminostat, a loss announcement due to the halving of our share capital in March 2013 and, last but not least, the resignation of our long-standing CEO Dr Ulrich Dauer at the end of the first quarter of 2013.

(i)
Management Board takes swift and methodical action

The Management Board, under my leadership from April 2013, decided to take swift and methodical action. We have made a number of key structural decisions aimed at focusing the Company's value drivers precisely on their targets and making 4SC better able to face the challenges of the future. We have both reviewed and optimised our corporate strategy. We have refocused our research and development activities and made resource adjustments – most particularly in our administrative and development units. These adjustments also involved significant reductions to the workforce during the year, as well as improvements to cost structures. As a result of making these difficult yet important decisions, we can now concentrate on the projects offering the greatest value to 4SC and thus take a targeted approach to pursuing the future development of the Company. Recent key figures and progress in operating business have validated the course we have adopted.

(ii)
Focus on and progress with resminostat

At the heart of this refocused strategy is the prioritisation of work on our main value driver, the epigenetic anti-cancer compound resminostat. We wish to target further development of this compound towards market maturity in liver cancer – a highly attractive indication in terms of its market potential. We remain convinced that our compound has the potential to become the first licensed 4SC-branded drug.

Progress has been made here in the reporting year. After reporting highly encouraging results from a Phase II trial examining resminostat's safety and efficacy in liver cancer at the end of 2012, we were able to substantiate this result in 2013 with additional data. With ZFP64, we have identified a new, potentially predictive biomarker for treatment with resminostat. Where patients exhibited elevated levels of ZFP64 in their blood before starting treatment, overall survival doubled on average during treatment with resminostat. If these data can be verified, we would be in a position where we could assess the likelihood of a patient responding well to therapy with resminostat before actually commencing treatment. This is an additional and crucial step towards the potential application of the compound in the form of a personalised therapy option. This prospect spurs us on to systematically pursue the course we have taken.

(i)
Yakult Honsha expands development

Development work on resminostat also received further support from Yakult Honsha Co., Ltd. In 2013, our Japanese partner started two Phase I/II trials in the indications of liver cancer and non-small-cell lung cancer in Japan. In the same region, a Phase I trial is also underway with patients with solid masses; we expect findings here from our partner shortly.

(ii)
Early-stage research strengthened successfully

We were successful in strengthening our Company's second pillar – early-stage research and its commercialisation – during 2013. Although only in its second year, our 4SC Discovery GmbH subsidiary proved capable of self-financing its business operations and posted a positive cash flow. Our subsidiary's strategy of establishing early-stage drug discovery partnerships with prestigious pharmaceutical companies such as LEO Pharma (Denmark) or UCB (Belgium) and innovative biotech companies such as BioNTech, AiCuris or Panoptes Pharma is already proving highly successful at generating short- and mid-term contributions to 4SC Group financing and its long-term potential to increase value.

Alongside resminostat, 4SC-202 and 4SC-205 are two other promising anti-cancer compounds whose clinical development we also pursued in 2013. From our perspective, particularly our second epigenetic compound 4SC-202 has major potential as a compound effective against cancer stem cells.

(iii)
Consolidated revenue increased, earnings improved

Consolidated revenue increased significantly in the reporting year, largely as a result of the successes achieved by 4SC Discovery, while cuts made in the course of refocusing our strategy also substantially reduced our loss.

Our strategic targets for 2014 are clear: we wish to secure the clinical develop - ment of our main value driver resminostat in the indication of liver cancer and continue advancing it towards market approval. As a next step, we wish to investigate the efficacy of resminostat in combination therapy with the cancer drug sorafenib, compared to the current standard treatment, which deploys sorafenib as a monotherapy. We are currently focusing primarily on the preparation of a Phase II/III study programme for the first-line therapy of HCC. At the moment, we are preparing the study protocols, which we then plan to discuss with regulators. We are simultaneously working to secure reliable funding for the study.

For 4SC-202 and 4SC-205, we expect to have the results of the ongoing Phase I trials by the second or third quarter of 2014. Importantly, we are also making every effort to ensure the further development of vidofludimus – our compound for autoimmune diseases – by an external partner. Here, we are currently talking to potential project and financing partners with the aim of securing the financing, organisation and completion of a planned Phase IIb trial in Crohn's disease. With our research subsidiary 4SC Discovery GmbH, we wish to ensure the successful continuation of our existing partnerships while establishing new collaborative ventures.

(iv)
Securing of financing has top priority

We are also working tirelessly in the pursuit of another major objective, namely the securing of long-term financing for our projects and the company as a whole. In February 2014, an important initial milestone was achieved in this respect, with US investor Yorkville pledging a funding line of up to €15 million.

(i)
We are facing the challenges

(ii)
Experienced industry expert supporting the team

Ladies and gentlemen, we still face challenges ahead of us. Yet I am convinced we will master these challenges and can continue to advance our company 4SC and our attractive programmes – and resminostat above all – through the process of development towards market maturity.

We will achieve these future successes with an executive team which, while being smaller, will remain strong. Our Management Board colleague Dr Bernd Hentsch, currently responsible for clinical development at 4SC, will leave the company at the end of the first quarter of 2014. On behalf of the Management Board, I wish to thank Bernd, who will continue to support us with his development expertise as a consultant in the future, for his long-standing commitment to 4SC. Going forward, our Chief Scientific Officer and founding Management Board member Dr Daniel Vitt will add Bernd's duties to his own portfolio. Daniel will also receive highly qualified operational support – and for the further development of resminostat in particular – from Dr Samson Fung. An oncologist, Samson Fung has gained many years of experience and expertise in a series of positions at pharmaceutical and biotechnology companies in the clinical early-/late-stage development of cancer drugs. He will now make this expertise available to support 4SC, initially as a consultant. I am firmly convinced that our modified executive team will prove capable of taking a constructive and successful approach to mastering the major tasks ahead of us at 4SC.

My heartfelt thanks to all of our staff, business partners and shareholders for the support shown to our company throughout this demanding year. I hope I can continue to count on your support as we face the challenges ahead.

Yours sincerely,
Planegg-Martinsried, March 2014

Enno Spillner
Chairman of the Management Board

Dr Thomas Werner
Chairman of the Supervisory Board

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)
– SkyePharma PLC, London, UK
(Non-Executive Director)
– SuppreMol GmbH, Munich
(Deputy Chairman of the Advisory Board)

Dear Shareholders, Ladies and Gentlemen,

In the 2013 financial year, 4SC continued to pursue its research and development activities. The Management Board in conjunction with the Supervisory Board made the decision and implemented a plan to narrow the focus of 4SC's research and development activities and restructure the organisation and workforce accordingly. The aim of these measures is to prioritise the development of those projects that offer 4SC the greatest potential for growing value. The Company's primary objectives in the reporting year were and continue to be securing short- and medium-term financing for the Company, while also continuing and operationally advancing the further development of the lead compound resminostat in the indication of advanced liver cancer (HCC) on the way to market maturity. 4SC Discovery GmbH, the Company's wholly owned research subsidiary, had a successful year, entering into a number of new partnerships and generating a positive cash flow from operations for the first time.

(i)
Cooperation and dialogue between the Supervisory Board and Management Board

Close cooperation and dialogue between the Supervisory Board and Management Board is the foundation for efficient operation of the Supervisory Board. 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 2013. All issues relevant to the Company, decisions requiring approval and strategic decisions were always discussed extensively and agreed upon by the Boards.

Continuity on the Supervisory Board

In financial year 2013, the composition of the Supervisory Board and its committees did not change, even after the election held during the Annual General Meeting on 2 May 2013. In addition to myself – Thomas Werner – as Chairman of the Supervisory Board, and the Deputy Chairman, Klaus Kühn, the other members of the Supervisory Board during 2013 were as follows: Dr Irina Antonijevic, Dr Clemens Doppler, Helmut Jeggle and Dr Manfred Rüdiger.

(i)
Changes on the Management Board

However, there was a change of CEO at the end of the first quarter of 2013. On 6 March 2013, Dr Ulrich Dauer stepped down as Chief Executive Officer and member of the Management Board of 4SC AG for personal reasons effective 31 March 2013. On behalf of the Supervisory Board, I would like to thank Dr Dauer for his many years of dedication and service to the Company.

Simultaneously, Enno Spillner, the Company's CFO since 2005, was appointed CEO of 4SC AG by the Supervisory Board with effect from 1 April 2013 and will hold both positions in the future.

Close dialogue 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 issues 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. 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 2013 financial year, the Supervisory Board believed that there was no reason to conduct additional examinations, such as inspecting the Company's documentation or commissioning experts.

The Management Board used 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 2013

The Supervisory Board held five meetings in 2013. With two exceptions, all members of the Supervisory Board attended all of these meetings. No member missed more than one meeting.

(ii)
Focal points of Supervisory Board work in the reporting year

Our meetings in 2013 focused on two main topics: securing medium-term financing for the Company and seeking out suitable partners for the lead compound resminostat in a structured business development process. Furthermore, last year we extensively discussed refocusing the Company's development strategy and the associated restructuring of the organisation and workforce as well as issues relating to progress in the clinical development of the lead compound resminostat in the indication of liver cancer. Additional topics were the extension of the appointments of Mr Spillner, Dr Vitt and Dr Hentsch to the Management Board, and Dr Dauer's departure.

The main points covered in the first Supervisory Board meeting on 1 February 2013 were a discussion concerning the future composition of the 4SC Management Board and the status of the business development activities for resminostat. Moreover, the current financial outlook and the resulting effects on the Company's accounting were discussed at length.

In the second meeting on 12 March 2013, we focused on the adoption of the Company's annual financial statements for 2012 and approval of the consolidated financial statements. The Management Board informed the Supervisory Board in this meeting that, after due consideration, it must be acknowledged that the Company incurred a loss amounting to half of its share capital based on the accounting principles of the German Commercial Code (Handelsgesetzbuch – HGB). This was due to operating losses in 4SC AG's business that accumulated as planned in drug development. The Supervisory Board and Management Board furthermore agreed that, at this point, the assumption that this loss could be avoided with revenue from licensing or other cash-generating measures was no longer valid. The Company then immediately made this situation public in an ad hoc announcement.

During the meeting on 2 May 2013 following the Annual General Meeting, the Supervisory Board was reconstituted. No changes were made to the composition of the Supervisory Board or its committees. Apart from this, we were mainly concerned with focusing the development strategy on value growth, with a particular concentration on resminostat as a first-line therapy for advanced liver cancer. The Supervisory Board voted in favour of the Management Board's proposal on the necessary restructuring of costs and personnel at this meeting as well.

(i)
Supervisory Board backs strategy to refocus activities

The topics covered at the fourth meeting on 16 September 2013 were following up on the restructuring measures completed, current options for resminostat and vidofludimus, and possibilities for obtaining financing for the Company going forward.

We mainly discussed business development activities for resminostat, vidofludimus and 4SC-202 at the last regularly scheduled meeting on 12 December 2013. We also discussed and adopted the budgets for the years 2014 to 2016 and considered to what extent 4SC's targets for 2013 were met. Issues concerning the subsidiary 4SC Discovery GmbH, additional financing possibilities and Management Board contracts were covered subsequently, among others. Mr Jeggle informed us in this meeting that he would step down from the Audit Committee with effect from 31 December 2013. At the same time, Dr Rüdiger announced that he was prepared to take this position on the Audit Committee as at 1 January 2014. An increase in the number of regularly scheduled Supervisory Board meetings from four to six in 2014 and supplementing these in-person meetings with six additional conference calls, if necessary, was resolved at this meeting in order to ensure even closer cooperation between the Management Board and Supervisory Board in the future.

Focus of committee work

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 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.

In 2013 the Audit Committee met six times via conference call and three times in person, in part in the presence of KPMG AG, the auditor responsible until the 2013 Annual General Meeting. The committee members primarily discussed accounting issues, the annual financial statements and the consolidated interim reports in these meetings during the reporting period. Moreover, in its meeting on 11 March 2013 the Audit Committee recommended that the Supervisory Board nominate Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Munich, for election by the Annual General Meeting as auditors of the annual and consolidated financial statements for financial year 2013. The committee also consulted on the details of the audit engagement for the new financial statement auditors for the 2013 financial year. The Audit Committee met in person on 21 November 2013 to discuss in detail the budget for the years 2014 to 2016. Of the Audit Committee members, the chairman Klaus Kühn in particular qualified 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 met five times in 2013 via teleconferences. The key issues discussed were the status of the business development activities for the Company's drug development programmes, particularly for resminostat and vidofludimus, as well as strategic options and the future financing of the Company.

The Human Resources Committee met three times by phone in the reporting period to discuss Management Board contract extensions and remuneration.

The R&D Committee convened three times in 2013 for telephone conferences and discussed the plans for developing resminostat in particular.

The committee's work was supplemented with numerous telephone calls among committee members and bilateral discussions between members of the Management Board and the relevant committee chairperson.

Approved annual financial statements for 2013

The Company's Annual General Meeting on 2 May 2013 elected Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft (formerly: Rölfs RP AG Wirtschaftsprüfungsgesellschaft), 80335 Munich, to serve as the auditor of the annual and consolidated financial statements for the 2013 financial year. Baker Tilly Roelfs audited the single-entity financial statements of 4SC AG prepared in accordance with requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the 2013 consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs), 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 13 March 2014. 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 two conference calls and subsequently reported its deliberations to the Supervisory Board during its meeting on 13 March 2014. During this meeting, the Supervisory Board carried out its discussion and examination of the financial statements and the combined management

(i)
Auditors issue unqualified auditor's report for 2013 annual financial statements

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.

(i)
Annual financial statements approved

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. We then agreed with the auditor's findings on the audit of the annual financial statements and on 13 March 2014 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.

Corporate governance at 4SC

(ii)
Importance of corporate governance

As the Supervisory Board, we also addressed the current priorities of the German Corporate Governance Code (GCGC) during the financial year. 4SC takes the Code's recommendations very seriously and complies with them with a few exceptions. In the most recent Declaration of Compliance dated 24 February 2014, the Management Board and Supervisory Board therefore stated that the Company has complied, currently complies, and in the future aims to comply with the recommendations of the GCGC, as amended, with the exceptions listed in the Declaration.

Since part of the variable remuneration in the current Management Board contracts is not capped, the Supervisory Board and Management Board agreed in the meeting on 12 December 2013 to declare non-compliance with this recommendation in the current Declaration of Compliance dated 24 February 2014.

// COMMITTEES OF THE SUPERVISORY BOARD OF 4SC AG IN 2013

	Supervisory Board	Audit Committee	Human Resources Committee	Business Development Committee	Research & Development Committee
Dr Thomas Werner	C		C	C	M
Klaus Kühn	DC	C		M	
Dr Irina Antonijevic	M				C
Dr Clemens Doppler	M	M	M		
Helmut Jeggle	M	M *	M		
Dr Manfred Rüdiger	M	*		M	M

* Helmut Jeggle stepped down from the Audit Committee effective 31 December 2013.
Dr Manfred Rüdiger has been a member of the Audit Committee since 1 January 2014.

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

For more information on this, also with regard to the details of the Declaration of Compliance, please refer to the corporate governance report in chapter 1.2 of the Company's combined management report for 2013. This section also contains the current Declaration of Compliance.

Conflicts of interest and their handling

The question of potential conflicts of interest was reviewed in every plenary session. In financial year 2013, no conflicts of interest arose in the Supervisory Board.

(i)
Efficient Supervisory Board work

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 Supervisory Board meeting on 12 February 2014 and the efficiency review for 2013 was finally approved.

4SC continued to pursue its research and development activities in the 2013 financial year and worked on important financing and partnership options to provide the best possible foundation for the future development of the Company and its primary clinical product, resminostat. The Supervisory Board would like to thank the members of the Management Board and all employees for their very good work and their high level of commitment.

Planegg-Martinsried, March 2014

Dr Thomas Werner
Chairman of the Supervisory Board

4SC ON THE STOCK MARKETS

☞ 4SC's shares had a mixed trading year in 2013. Despite operational successes in the research and development programmes, the Company's share price tumbled 23% over the year and ultimately trailed benchmark indices for reasons including the downward pressure put on stock performance by unfavourable news. With the market still tight and the trading volume shrinking during the year, the Company's positive news regarding drug development and early-stage research was only rewarded for short periods. The shareholder structure remained stable in 2013 thanks to a number of strong anchor investors. We pressed ahead with extensive investor relations activities to clearly communicate the 4SC capital market story to existing and new potential investors after refocusing the corporate strategy in 2013.

Record mood on capital markets

The expansive monetary policy pursued by the key central banks again gave international capital markets a major boost in 2013. MSCI World, for instance, gained 21% in 2013. The positive performance of worldwide biotech markets outshone even the already favourable general sentiment. The DAXsubsector Biotechnology (German SIN: 723801) index, which tracks the German biotech industry and is an important benchmark index for 4SC, was up 33%. The US NASDAQ Biotechnology Index (German SIN: 617026) hit historical highs and posted a 62% gain.

4SC shares weaken despite prevailing trend

In contrast, 4SC's performance in 2013 was negative, with the share price dropping 23%. This was mainly due to a setback caused by a loss announced in the first quarter in accordance with section 92 (1) German Stock Corporation Act (Aktiengesetz – AktG) and a weak final quarter in which the share price shed 16% with little news to buoy the minimal impetus to buy 4SC shares in a tight market. The lack of another pharmaceuticals partner for resminostat anticipated by some market participants also likely dampened the impulse to buy. In contrast, the positive corporate announcement, of which there were several, particularly concerning progress in the development of resminostat, lifted the Company's share price intermittently, but had no sustained effect on the share price performance of 4SC.

(i)
Positive corporate news without sustained effect on share price performance

Volatile share price performance

4SC's shares kicked off 2013 at a XETRA price of €2.09 (2 January 2013) and gained initially. After announcements regarding issuance of a patent for resminostat in Europe and corporate partnerships landed by 4SC Discovery GmbH, the price reached €2.20, its high for the year on 18 February 2013. The Company suffered a setback when it released an ad hoc announcement on 12 March 2013 stating that a loss equal to half of its share capital had occurred (section 92(1) AktG) in accordance with the accounting principles of the German Commercial Code as the result of losses accrued from drug development operations. This event led to noticeable insecurity among private investors especially and pushed down the share price by more than 20% to below €1.60 in the span of a few days. Later in the year, 4SC's share price was relatively volatile in a range between €1.60 an €2.10 in what was a tight market. The price rose repeatedly for short periods driven

by positive news on resminostat – for instance, to €2.14 on 3 June following the news of positive Phase I data for colorectal cancer or to €1.94 on 30 September after publication of encouraging biomarker data for liver cancer. However, profit taking and a lack of sustained impetus to buy 4SC shares coupled with a low trading volume pushed the share price down. After reaching a low for the year of €1.57 on 27 December 2013, 4SC's shares closed at €1.60 on 30 December 2013. During the reporting year, 4SC's market capitalisation according to XETRA thus dropped from €105 million at the start of the year on 2 January 2013 to €81 million at the end of the year. All told, the share price nudged the €1.60 threshold three times in 2013, but in March, July and most recently in December, investors used this price level to initially buy 4SC shares. As a result, this threshold proved to be a relatively stable floor for 4SC shares during the year.

(i)
4SC share bottoms out at €1.60

Shrinking trading volume, reliable anchor investors

The trading volume of 4SC's shares also fell in the reporting period. After recently rising for four consecutive years, the average daily trading volume across all stock exchanges, including Tradegate, decreased from 55,567 shares in 2012 to 37,115 shares in 2013. The Company continues to enjoy the confidence of several reliable anchor investors whose shares of the total capital remained mostly stable in the reporting according to information available to 4SC. In addition to the principal shareholder Santo Holding, FCP, DVCG/VCG, Heidelberg Capital and Roland Oetker all exceeded the reporting threshold of 3%. The Management Board and Supervisory Board hold an equity investment of 1.2%.

(ii)
Major shareholders with stable investment

// KEY FIGURES OF THE 4SC SHARE AS AT 31.12.2013

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 €)	-0.21
Number of shares issued (annual average)	50,371,814
Free float (in %)	30.3
Annual high (XETRA) (in €)	2.20
Annual low (XETRA) (in €)	1.57
Closing price on reporting date (XETRA) (in €)	1.60
Daily trading volume (all exchanges, annual average)	37,115

(i)

Active dialogue with all stakeholders

Stepped up investor relations activities: identifying opportunities, building trust

After being occupied primarily with internal issues in the first half of 2013 due to the change at the top of the Management Board and the subsequent realignment of the strategic focus and restructuring of the Company, the Management Board stepped up investor relations activities in the second half of the year. The goal was to communicate the realignment and streamlining of the Company and stronger concentration on its main value drivers through active dialogue with investors, analysts, the economic and financial press, and retail investors to highlight the attractive potential value of the investment in 4SC to existing and possible new investors.

In addition to numerous investor road shows in Germany, Switzerland, the UK and the United States, 4SC was showcased at various investor and capital market conferences in 2013, including:

- BioCapital Europe, Amsterdam, the Netherlands
- Kempen & Co Annual Healthcare Conference, Amsterdam, the Netherlands
- BioEquity Europe, Stockholm, Sweden
- Jefferies Global Healthcare Conference, New York, USA
- Guggenheim European Specialty Pharmaceutical and Biotech Conference, New York, USA
- Deutsche Börse Sector Conference, Stockholm. Sweden
- German Equity Forum, Frankfurt
- Close Brothers Seydler Bank AG Mid Cap Conference, Geneva, Switzerland

// SHAREHOLDER STRUCTURE

Based on an estimate by 4SC's management as at 13.03.2014

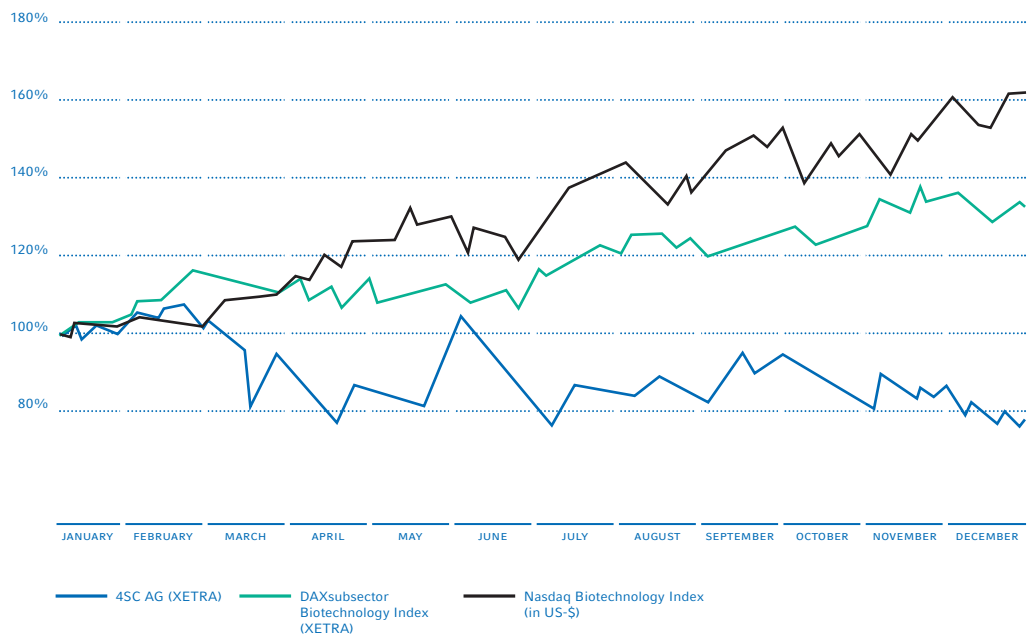
	in Percent
Santo Holding	48.1
FCP	9.6
DVCG/VCG	6.1
HeidelbergCapital	5.9
Roland Oetker (ROI)	4.2
Founders & Management	1.2
Others	24.9
Total	**100.0**

(i)

Reliable analyst coverage

Analysts from the following banks and brokers regularly covered and analysed the shares of 4SC AG in 2013: Edison Research (London, UK), equinet (Frankfurt am Main), Kempen (Amsterdam, the Netherlands) und M.M. Warburg (Hamburg).

// **SHARE PRICE** (in %, indexed on 4SC AG in 2013)



Our vision: The first 4SC-developed drug on the market

Strong, unique characteristics mean resminostat is well-placed

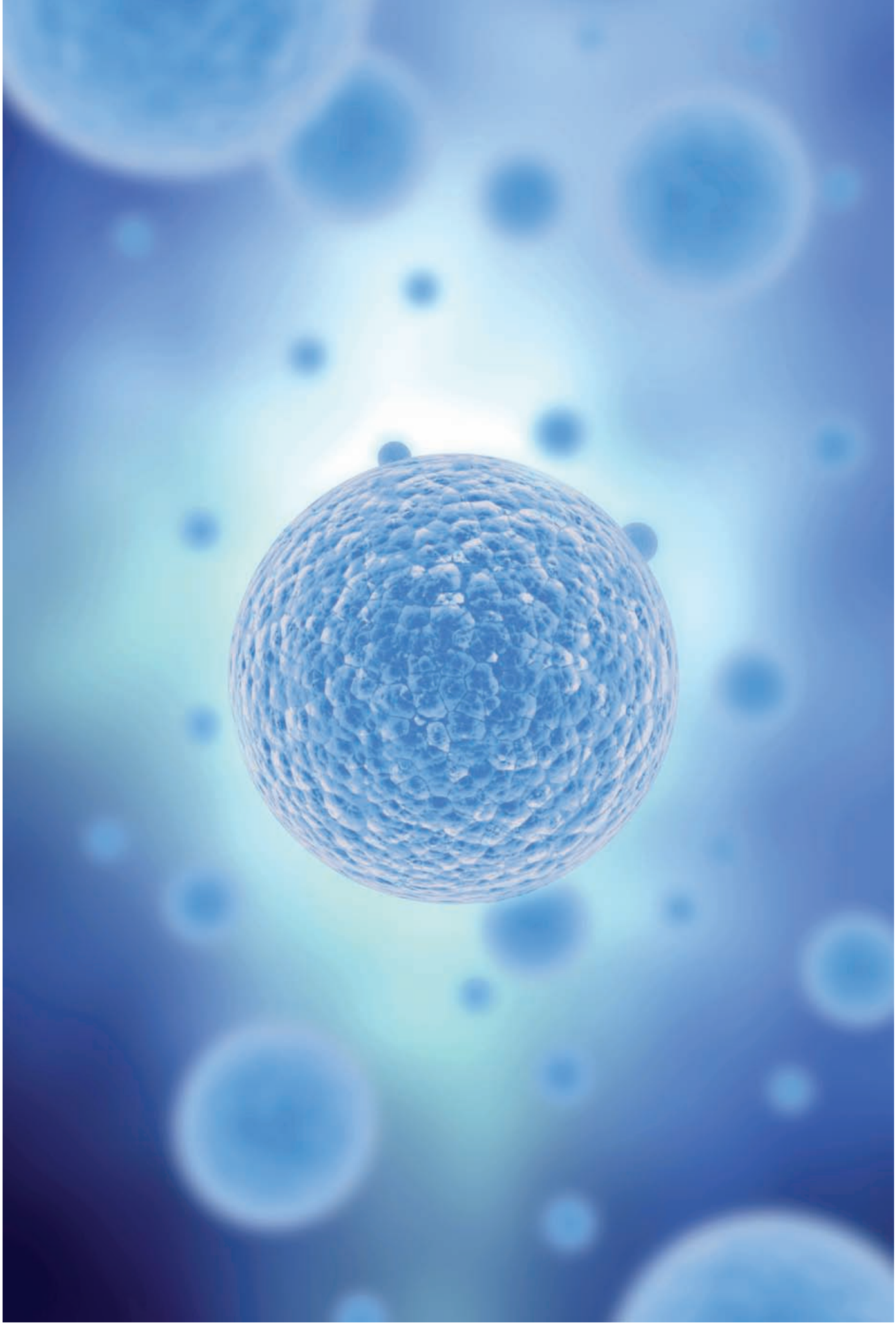
Last year, our advanced drug candidate, the epigenetic antic-cancer compound resminostat, took another step along the long and winding road towards market maturity. In clinical trials involving patients with liver cancer and Hodgkin's lymphoma, patients with elevated levels of the ZFP64 gene before starting treatment responded well to resminostat. Results with these patients showed improvements compared to the encouraging treatment data already obtained. The identification of ZFP64 as a potential biomarker creates the opportunity for the future use of this biomarker in personalised cancer therapy. While resminostat has proven effective as a monotherapy as well, its further development will be oriented towards market approval as a combination therapy with other cancer therapies. This stems from the fact that resistance build-up often limits the efficacy of standard cancer drugs such as chemotherapeutic agents. Thanks to its unique mechanism of action, resminostat can delay or prevent the development of resistance.

Major potential in the multibillion liver cancer market

New drugs against cancer are viewed as one of the most important markets in healthcare. For pharmaceutical companies, revenue with cancer drugs currently totals US-$ 60 billion annually. By 2030, figures from the World Health Organisation suggest the number of cancer diseases will increase by another 50 percent. Liver cancer alone claims 700,000 lives every year, and disease incidence is increasing. At the time of writing, sorafenib is the only drug approved for use in this indication. The next stage in the development of resminostat will therefore be a study programme in advanced liver cancer based on which we can apply for market approval. If successful, our compound – thanks to its unique characteristics – stands a chance of generating peak revenue of up to one billion euros annually in this indication alone.

Validated by our first strong partner

Large pharmaceutical companies are increasingly using the acquisition of innovative compounds from smaller biotech firms – or even the companies themselves – to fill their product pipelines. With Yakult Honsha, one of the market leaders in therapies for gastrointestinal cancer in Japan, 4SC has had a strong partner at its side since 2011 for the development and marketing of resminostat in Japan. In 2013, Yakult Honsha started a clinical Phase I/II trial in liver cancer and is also active in other indications. We are working to acquire other partnerships for the markets outside Japan. Together, we want to work towards realising our vision of the first licensed 4SC-branded drug.

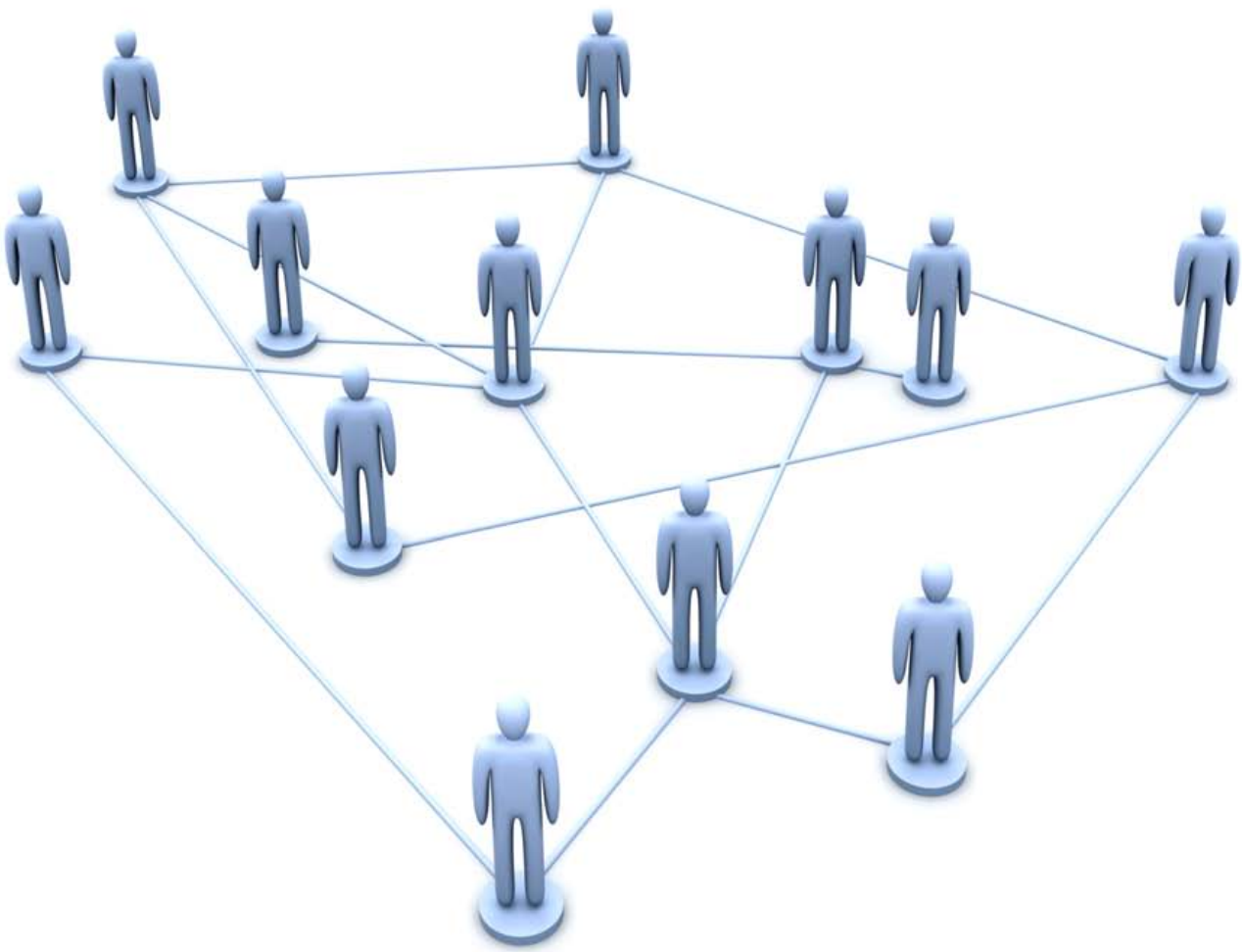


Our mission: Innovative weapons in the fight against cancer

Epigenetics: disease or health?
Certain genes in human DNA are responsible for the onset of diseases such as cancer. Equally, other genes are responsible for ensuring that a person's body can successfully defend itself against the occurrence of such disorders. The decisive question is therefore: how is this genetic information decoded? Can certain genes be switched on and off like a light with a light switch? Epigenetics holds the answers to these questions. Each gene possesses its own individual "packaging", which can differ even between twins with identical DNA. This packaging ultimately decides whether or not the gene's content is activated and whether disease occurs or the person stays healthy. With our small-molecule epigenetic compounds such as resminostat and 4SC-202, we want to take the fight to cancer where conventional drugs are being pushed to their limits.

The mechanism of sensitisation
Successful treatment of cancer regularly founders on the build-up of resistance by tumour cells. Continuously stressed by therapy with conventional cancer drugs, these cells often respond with compartmentalisation. This then retards or even halts the initially positive effect achieved by the treatment. We must therefore attempt to exert an influence on the decoding of the cell's genetic information. To resensitise the tumour cells to drug compounds and thus maintain the effectiveness of the treatment, we make changes to the packaging of the genes responsible. Research has shown that tumour cells generally exhibit an altered epigenetic code. This needs to be reprogrammed. Our substance resminostat has already shown initial promise in its ability to perform this task – even if the road ahead is long.

Innovations in medicine: Resminostat and 4SC-202
Complementing resminostat, the epigenetic anti-cancer compound 4SC-202 is one of our most exciting developments. Currently in Phase I clinical development, this compound features a unique mechanism of action. By blocking cancer stem cell characteristics, 4SC-202 aims to prevent the subsequent recurrence of the disease. Accordingly, the substance offers major potential for treating many aggressive tumours. Our subsidiary 4SC Discovery also continues to research other innovative compounds. Our research concentrates on developing targeted drugs for use in the field of personalised medicine. With the aid of meaningful biomarkers that are capable of reliably defining specific patient characteristics suitable patients can then be selected prior to treatment. The personalised approach helps to improve therapeutic efficiency while reducing the risk of inappropriate treatment and relieving the burden on healthcare systems.



Our philosophy: A culture of partnership

Responsibility and opportunity

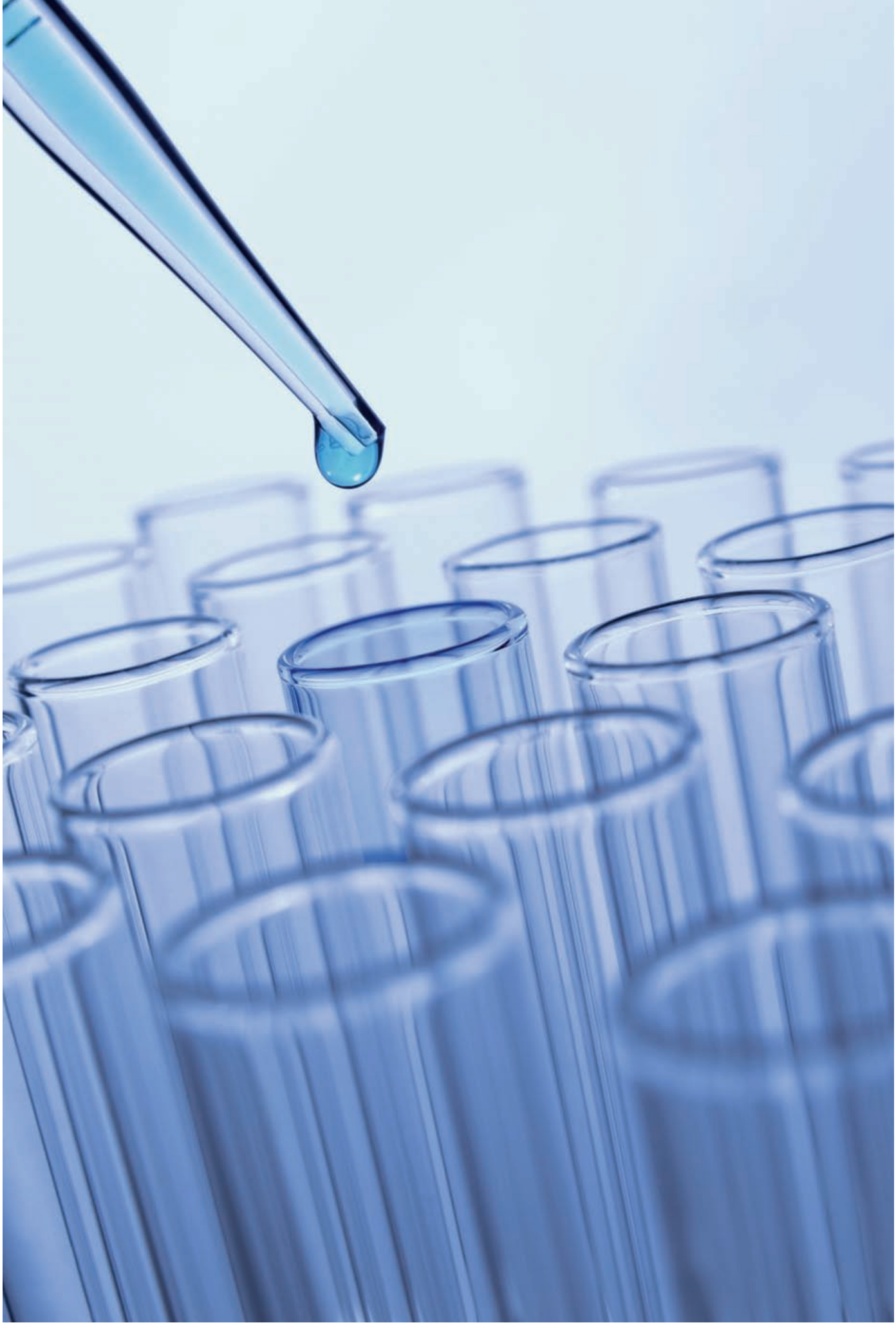
Combating cancer or other incurable illnesses such as autoimmune diseases is a mission that can only be successfully completed as a team. Researching and developing new drugs is both time-consuming and expensive. A breakthrough would mean real hope for millions of patients – and economic success for 4SC. We are well aware of our corporate social and economic responsibilities. As a publicly traded company, we offer our shareholders the chance of participating in our work. As an employer, we depend on the capabilities and commitment of our workforce. As a partner, we offer expertise, motivation and transparency. We work hard to live up to the standards expected of us in this alliance of responsible-minded individuals. Together, we must attempt to combat cancer with new, more effective and well-tolerated treatment options.

Team and team spirit

At 4SC, our employees play a crucial role in our success. A creative and committed workforce is an essential factor in the discovery of new compounds and their successful development into effective drugs. And the whole team has to work perfectly together. We promote an interdisciplinary approach to teamwork and employ a fair and motivational management style. Last year in particular, the refocusing of our development activities also required us to make some drastic cuts. This demanded a great deal of understanding, flexibility and team spirit from our staff. Without exception, everyone has shown that the job gets done if we all pull together.

Openness and transparency

Successful teamwork should not stop at the company gates. For 4SC, closely-knit networking with partners, customers and research institutions is essential. Research in dynamic disciplines in particular – such as epigenetics, cancer stem cells or compound personalisation – requires a broad-based scientific approach. This is why we engage in close and constructive teamwork with a range of research institutes, universities and medical centres. In joint research ventures and development partnerships, we collaborate with other companies in pioneering work on the drugs of the future. Study centre medical staff and, importantly, their patients place their trust in us and place their hope in our products' success. In our clinical trials today and – if successful – in clinical practice tomorrow. That is our mission.



Our strategy: Set a clear course and leverage core competencies

Strategic focus

Our course is set. In 2013, 4SC both reviewed and optimised its development strategy. We have refocused our research and development activities and made resource adjustments within our administrative and development units. As a result, the workforce was downsized during the year and cost savings were made. The decision to take this step has meant we can now concentrate on our main value drivers and thus take a targeted approach to improving business performance. Our current key performance indicators and operational progress show that we are on the right track.

Primary focus on resminostat

4SC will continue to focus its efforts on the value driver resminostat. Here, we are now pursuing the next key stage in its development. This will involve the completion of a pivotal study programme that incorporates our potential biomarker ZFP64. The primary objective is resminostat's deployment as a personalised first-line therapy for advanced liver cancer in combination with sorafenib, the current standard treatment. The medical need and market potential are both considerable here. We are currently preparing the study plans. Assuming support from financing and/or development partners and the approval of regulatory agencies, our preferred approach would be to start a Phase IIb/III study programme. In Japan, we will continue providing active support to our partner Yakult Honsha for ongoing development of resminostat in liver cancer and other indications.

A wider network, a stronger research subsidiary

To maximise the application of our strategy for resminostat's development and market preparation, we intend to continue expanding our global partner network. We are pursuing new development and marketing partnerships, both for other regions and for other 4SC products. These activities are intended to further our development work while simultaneously lowering our exposure to risk. We want to sustain our cash flow into the long term with upfront/milestone payments, and with income from license agreements and royalties. Our research subsidiary is also expanding its network. 4SC Discovery is an innovative company with broad-based expertise in drug discovery. Its research work is founded on the i2c technology platform it shares with CRELUX. Our drug discovery is well-connected and conducted hand-in-hand with strong partners such as LEO Pharma, UCB and BioNTech. This has resulted in 4SC Discovery generating a positive cash flow in only its second year of business operations. Ensuring continuous improvement here – and thus transitioning our early-stage research into a sustainable business model – remains our goal for the future.

Combined Management Report | Contents

COMBINED MANAGEMENT REPORT

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 listed in the Prime Standard segment of the German Stock Exchange since 15 December 2005.

(i)

Listed in the Prime Standard segment of the German Stock Exchange since 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".

// 4SC GROUP*

4SC AG

Development Segment

Management Board:

Enno Spillner (Chairman of the Management Board; Chief Executive Officer/CEO & Chief Financial Officer/CFO)

Dr Bernd Hentsch (Member of the Management Board; Chief Development Officer/CDO)

Dr Daniel Vitt (Member of the Management Board; 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 13 March 2014

Business activities and organisation

4SC researches and develops small molecule drugs with a targeted mechanism of action for the treatment of cancer and autoimmune diseases. These compounds are intended to enable innovative therapy options showing enhanced efficacy and fewer side effects compared to current treatment methods, thus offering patients tangible benefits while improving their quality of life.

(ii)

Innovative therapy for cancer and autoimmune diseases

(i)
Promising fields of research

The Group's product pipeline, which is protected by a comprehensive portfolio of patents, comprises several programmes at various clinical phases of drug development, as well as early-stage research work. 4SC focuses on fields of research with a highly promising future, such as epigenetics, cancer stem cells and other molecular signalling patterns involved in the development of cancer and autoimmune diseases. Details of the individual products and progress made in their development during the 2013 financial year, are presented in the section 1.3 (Research and Development Process) and section 2.2 (Significant Events Related to the Company's Research and Development Activities) of this combined management report.

(ii)
Accelerate search for new drug candidates

4SC also possesses its own, high-performance technology platform (4SCan®). This computerised platform drives the identification and optimisation of new compounds by applying virtual screening methods. This not only accelerates the search for new drug candidates but is also a more cost-effective strategy. In addition, it also enables 4SC to support other companies in their research activities as a joint venture partner or service provider.

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 up to market approval.

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 2013 consolidated financial statements, the Company's Management Board and Supervisory Board again considered the recommendations of the Code's most recent version from 13 May 2013.

(iii)
Corporate governance in practice

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

Management & Supervisory Board Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (AktG) on the German Corporate Governance Code

The Management Board and Supervisory Board last issued a Declaration of Compliance in accordance with Section 161 AktG on 25 February 2013. This declaration was based on the version of the German Corporate Governance Code dated 15 May 2012. The currently applicable version of the German Corporate Governance Code is dated 13 May 2013.

(i) Complying with the recommendations of the German Corporate Governance Code

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 13 May 2013 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. Cap for Management Board remuneration and relevant comparison parameters (item 4.2.3 (2) sentence 6 and 7 of the Code as amended on 13 May 2013):

The new version of the Code dated 13 May 2013 contains the recommendation in item 4.2.3 (2) sentence 6 that the amount of the Management Board's remuneration shall be capped, both overall and for individual remuneration components. As previously, the variable remuneration components shall also be related to demanding, relevant comparison parameters (item 4.2.3 (2) sentence 7 of the Code).

The director's contracts of the members of 4SC AG's Management Board were amended on 24 January 2014. While the contracts' bonus-related provisions previously contained possibilities to cap remuneration in case of extraordinary developments (see item 4.2.3 (3) of the Code as amended on 15 May 2012), no fixed cap was stipulated. The amended director's contracts now specify caps both for the overall Management Board remuneration stipulated in the contracts and for individual bonus provisions.

(ii) Caps for Management Board remuneration introduced

However, in the past stock options were granted to members of the Management Board pursuant to option programmes based on binding resolutions passed by the

Company's general meeting. These options can only be exercised in the event of clearly defined share price increases. If the options can be exercised, the beneficiaries of the stock option programmes would, however, profit from the shares' appreciation potential, which theoretically is unlimited. 4SC believes that these programmes are ideally tailored to the Company. In connection with the existing stock option programmes, the Company thus deliberately foregoes the cap recommended in the Code and referring the stock options to reference parameters (e.g. share indices).

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

(i) Conscious decision not to set up a nomination committee

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. 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 25 February 2013, 4SC AG has complied with the recommendations of the German Corporate Governance Code in its previous version dated 15 May 2012, with the exception of the above-mentioned items 3.8 (3) D&O insurance for Supervisory Board members, 4.2.3 (3) Stock Option Programme for the Management Board, 5.3.3 Nominating committee of the Supervisory Board and 5.4.6 (1) Remuneration for Supervisory Board committee members. The reasons for these exceptions can be derived from the explanations above.

Planegg-Martinsried, 24 February 2014

Enno Spillner
for the Management Board

Dr Thomas Werner
for the Supervisory Board

Disclosures on corporate governance practice

(ii) Fair and respectful conduct

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.

Working practices of the Management Board and the Supervisory Board

(i)
Constructive collaboration of corporate bodies

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

(ii)
Composition of the Management Board

The Management Board of 4SC, currently comprising Enno Spillner (Chairman of the Management Board, Chief Executive Officer/CEO and Chief Financial Officer/CFO), Dr Bernd Hentsch (Management Board member, Chief Development Officer/CDO) and Dr Daniel Vitt (Management Board member, Chief Scientific Officer/CSO), manages the Company's business on its own authority. The prime objective of the Management Board's work 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 cooperating on the Company's Management Board 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.

Enno Spillner was first appointed to the Management Board of 4SC AG as CFO in 2005. After Dr Ulrich Dauer, the former Management Board chairman and CEO, stepped down effective 31 March 2013, Mr Spillner was subsequently also named Management Board chairman (and CEO) with effect from 1 April 2013. His current term of office runs until 31 March 2016. Mr Spillner's responsibilities include Strategy & Business Development, Finance & Controlling, Legal Affairs, Quality Assurance, Human Resources, Purchasing, Investor Relations & Public Relations, and representing the Management Board vis-à-vis the Supervisory Board.

Dr Bernd Hentsch was appointed a member of the Management Board of 4SC AG as CDO in 2008. His current term of office runs until 31 March 2014. Dr Hentsch's responsibilities comprise Product Development, Regulatory Affairs and Compound Production (CMC and GMP). Plans are that he will continue to make his development expertise available to 4SC AG as a consultant after 31 March 2014. He will step down from the Management Board effective 31 March 2014.

Dr Daniel Vitt is one of the founders of 4SC and was first appointed to the Company's Management Board as CSO in 2000. He has also been Managing Director of 4SC Discovery GmbH since 2012. His current term of office runs until 30 September 2016. Dr Vitt is responsible for Research, Translational Pharmacology, In-house Services, IT and

Industrial Property Rights. He will also take over the position of CDO effective 1 April 2014.

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 2013, the Supervisory Board had six members, all of whom were confirmed in their offices by the 2013 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.

Committees

(i)
Efficient Supervisory Board work

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 (BD) Committee, and the R&D Committee. 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 2013 Annual Report of 4SC.

Supervisory Board's efficiency review

At the end of financial year 2013, the Supervisory Board reviewed its efficiency. The Supervisory Board came to the unanimous conclusion that collaboration is efficient. This finding was adopted at a meeting of the Supervisory Board on 12 February 2014.

Other disclosures on corporate governance

Objectives of the Supervisory Board with regard to its composition

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:

(ii)
Broad expertise and diversity on the Supervisory Board

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.

(i)
Qualification and independence of the Supervisory Board

The Supervisory Board of 4SC AG continues to regard a mix of different qualifications in the entire Supervisory Board as important. These range 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 2013 financial year:

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

Date	Name/Function	Type of transaction	Market	Price in €	Number	Transaction volume in €
17.10.2013	Dr Manfred Rüdiger (Supervising Board Member)	Sale	XETRA	1.75	10,000	17,500.00
18.10.2013	Dr Manfred Rüdiger (Supervising Board Member)	Sale	Frankfurt	1.75	5,000	8,750.00

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.

(ii)
Next Annual General Meeting on 9 May 2014

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 9 May 2014, 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 sections 7.3 and 7.4 of the notes to the 2013 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 2013 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)
Transparent communication

In order to inform its shareholders in good time, simultaneously and comprehensively, 4SC AG publishes all relevant information on its website at www4sc.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 Remuneration report of 4SC AG

(ii)
Remuneration systems comply with corporate governance requirements

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

Remuneration of the Management Board

The remuneration 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 aligned with standards customary to both the industry and the country.

Determination of the Management Board's remuneration

The proposal for the Management Board's remuneration is drawn up by the Human Resources Committee, which subsequently presents it to the full Supervisory Board for approval. The remuneration is reviewed annually by the Supervisory Board.

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

Amount and structure

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

1. Fixed remuneration (base salary)
2. A performance-based bonus with four components
3. Stock options

The remuneration amount was adjusted most recently when new employment contracts were signed in 2013. The director's contracts of the members of 4SC AG's Management Board were amended on 24 January 2014 to specify caps for both the fixed remuneration stipulated in the director's contracts and for the individual bonuses.

(i)
Remuneration of the Management Board in line with industry standards

Fixed remuneration

The amount of the fixed remuneration 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 remuneration is paid on a monthly basis.

(ii)
Performance-based bonus options expanded

Performance-based remuneration

The performance-based remuneration 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). In the first quarter of 2013, the Supervisory Board resolved two additional bonus options linked to the achievement of special strategic corporate goals.

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, strategy, investor relations and general management, which are weighted on the basis of their priorities for further business development.

The Supervisory Board will determine whether the goals have been achieved in its first meeting of the subsequent calendar year. Bonus I is payable immediately after the resolution of the Supervisory Board concerning attainment of the goals. There is a cap on the amount.

In addition to his basic salary and the short-term bonus I, each Management Board member additionally receives a long-term salary component (bonus II) 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. There is a cap on the amount.

The Supervisory Board determines whether the goals have been achieved in its first meeting after the end of the respective target achievement period. Bonus II is payable immediately after the resolution of the Supervisory Board concerning attainment of the goals for the three-year target achievement period.

Another variable remuneration component the Management Board receives is Bonus III, which is awarded in the event the Company sells its business operations. The bonus payments in this case are percentages linked to the sales proceeds, capped at a maximum of €2.5 million. In the case of an unforeseeable change in circumstances, the Supervisory Board can limit Bonus III within reason.

The Management Board will receive a Bonus IV if a licence agreement is reached for the lead drug candidate resminostat. The cash flows accruing to the Company until a possible registration of resminostat constitute the basis of calculation for the payments.

For each Management Board member, the Bonus IV is capped at an amount equal to four times the base salary.

Claims arising from Bonus III and IV are payable two months after the date on which the payments triggering the bonuses are received by the Company.

The Supervisory Board reviews Bonus III and IV and decides whether to essentially continue or amend these programmes every three years.

Stock options

(i)
Stock option programme for employees and Management Board

Another remuneration component with a long-term incentive effect is the ESOP (Employee Stock Option Programme), in which the Management Board and all employees participate. Under these programmes stock options were issued to the members of the Management Board in 2009 which entitle their holders to acquire 4SC shares. For more detailed information on the current options holdings, please see section 10.1 of the 2013 consolidated IFRS notes.

Regarding compliance with the Code recommendations on management remuneration, 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 (section 1.2.1).

Management Board remuneration for 2013

The total remuneration paid to the members of the Management Board of 4SC AG in the reporting period amounted to €951 thousand, of which 87% were attributable to fixed and 13% to variable remuneration. This includes the costs arising from the early termination of the contract with former Management Board Chairman Dr Ulrich Dauer with effect from 31 March 2013 and the corresponding proportionate salary components. A detailed breakdown of the Management Board members' individual salaries can be found in section 10.1 of the 2013 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 (section 1.2.1).

Shareholdings of the Management Board members

As of 31 December 2013 the members of 4SC AG's Management Board held a total of 661,120 stock options, entitling them to 661,120 shares. Furthermore, they held 490,603 shares, which represent 0.97% of the Company's total shares.

(i)
Remuneration of the Supervisory Board oriented on long-term success

Remuneration 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 remuneration for the members of the Supervisory Board is appropriate for meeting this goal.

Determination of the Supervisory Board's remuneration

The remuneration 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 remuneration 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 remuneration for 2013

In financial year 2013, remuneration paid to the members of the Supervisory Board totalled €154 thousand. A breakdown of the remuneration of individual Supervisory Board members is provided in section 10.2 of the 2013 consolidated IFRS notes in the 4SC annual report.

Shareholdings of the Supervisory Board members

As at 31 December 2013, the members of 4SC's Supervisory Board held a total of 28,593 shares equivalent to an interest of 0.06% in the Company.

1.2.4 Disclosures under section 289 (4) and 315 (4) German Commercial Code as well as explanatory report

Summary of subscribed capital

The Company's share capital as at 31 December 2013 comprised 50,371,814 no-par value bearer shares which do not entail other rights nor do they have a preferred status.

(ii)
No restrictions regarding voting rights and transfer of shares

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 important shareholders holding 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 2 May 2013, 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.

(i)
Authorised and conditional capital

Authorised capital 2013/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 1 May 2018, once or repeatedly, by up to €25,185,907.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 25,185,907 new no-par value bearer shares (Authorised Capital 2013/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 Convertible Bond – 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

(i)
Conditional capital for 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

(i)
No compensation agreements in case of change of control

The Company has not entered into remuneration agreements providing for a change of control following a takeover bid.

Remuneration agreements between the Company and members of the Management Board or employees concluded in the event of a takeover bid

The following rules came into force when new Management Board contracts were signed in 2013:

If a controlling interest is acquired by way of the acquisition of an interest amounting to more than 50% by a shareholder, a third party or persons acting in concert, or an economically comparable transaction is conducted, and in this context the Company wishes to release Management Board members by terminating their contracts early without good cause within the meaning of section 626 German Civil Code (Bürgerliches Gesetzbuch – BGB), then the Management Board members will receive a settlement. The amount of the settlement is equal to the total remuneration (base salary, Bonus I and Bonus II, and other benefits) the Management Board member would have received until the end of the agreed contract term, but no less than a notional remaining term of 15 months.

In addition, the Management Board member is granted a special termination right in the event of acquisition of a controlling interest.

Furthermore, the rules regarding the expiration of stock options for the Management Board members are suspended. 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

Early-stage research

At 4SC, the pharmaceutical discovery and development process typically commences with a search for new target molecules and their associated compounds. On discovery of the target molecule – i.e. one that is deemed to have a causative role in the occurrence of a disease – the next step is to deploy the Company's own computerised virtual screening technology. By efficiently researching databases and substance libraries, this technology exploits a purpose-built algorithm for the rapid, targeted identification of suitable pharmaceutically active compounds with the potential to influence the target molecule's activity or function. Following their identification in this way, the candidate compounds are further optimised in terms of their chemical, biological and pharmacological properties during a multi-stage laboratory process guided by the computerised

(ii)
Successful discovery of new compounds

technology platform. This early-stage research concludes with the selection of a candidate compound suitable for formal preclinical development.

Preclinical development

(i)
Prerequisites for clinical development

In preclinical tests, including tests using cell cultures (in vitro) and disease models (in vivo), and animal testing prescribed by regulatory legislation, the future drug candidate is investigated in terms of its efficacy and harmlessness. Only when these conditions have been met can clinical development – i.e. the testing of the compound on human subjects – then commence.

Clinical development

In Phase I clinical development, the compound is first administered to a small group of typically healthy volunteers (test subjects). In contrast, initial studies in relation to cancers are generally conducted with actual patients. The aim of Phase I trials is to obtain an initial assessment of how the human body responds to the new drug. Such an assessment comprises an estimate of the drug's safety and tolerability, as well as its pharmacokinetics – a term that describes the sum total of all processes acting on a drug in the body. These include the drug's absorption and distribution in the body, as well as its biochemical metabolisation and excretion.

In the Phase II that follows, the compound is tested in a selected indication on another group of patients, still relatively small in number. This phase has a twofold aim: first, to furnish initial proof of the medical efficacy of the compound in a precisely defined patient group; second, to enable the determination of a safe and potentially active treatment dose by studying the dose-response relationship.

In clinical Phase III, the efficacy of the drug is then tested using a larger and statistically significant patient population. Phase III is intended to supply the decisive, statistically-relevant data for this proof of efficacy and thus establish the basis for a market authorisation application. In parallel, work in this phase also investigates risk-benefit considerations, drug safety aspects and the drug's potential interactions with other medicaments.

An application for approval of the drug can be submitted only after the successful conclusion of all three phases. Following approval, one further round of tests (Phase IV) may also be organised. This phase of testing will be used to investigate rare side effects or drug interactions that are detectable only by studying large patient populations.

(ii)
Lengthy process of drug development

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.

In the very last phases of the research and development process, 4SC actively pursues licensing deals with pharmaceutical and biotechnology companies to drive the development of its drug candidates towards market approval as part of a shared undertaking.

The 4SC product pipeline

Comprising a total of six compounds in the previous year, the Group's clinical product pipeline was reduced to four in the reporting year as part of a deliberate process of strategic pipeline prioritisation and reorientation. This course of action was aimed at focusing available resources on the main value drivers.

(i)
4SC value driver resminostat for liver cancer

Further development of 4SC's most advanced drug candidate, resminostat, will now be targeting the indication of liver cancer, following the Company's previous completion of a successful Phase IIa trial in this indication. In this field of application in particular, both the medical need and the market potential are particularly high. 4SC has also successfully completed clinical trials with resminostat in the indications of Hodgkin's lymphoma (Phase II) and colorectal cancer (Phase I). 4SC's Japanese development partner Yakult Honsha Co., Ltd. is currently investigating the compound in two of its own clinical Phase I/II trials conducted in the indications of liver cancer and non-small-cell lung cancer (NSCLC). On the terms of this 2011 licensing deal agreed exclusively for Japan, 4SC has received an advance payment of €6 million and is entitled to receive further performance-related milestone payments of up to €127 million, as well as royalty payments pegged at a double-digit percentage of sales.

(ii)
Further promising anti-cancer compounds

Alongside resminostat, 4SC is also developing the anti-cancer compounds 4SC-202 and 4SC-205, both now undergoing clinical Phase I trials in haematological (4SC-202) and solid tumour indications (4SC-205). Vidofludimus, the Company's lead compound in the field of treating autoimmune diseases, has successfully completed a Phase IIa trial in inflammatory bowel disease. In line with its strategic focus, 4SC plans to move this compound into the next stage of development – a Phase IIb trial in the indication of Crohn's disease – only as a joint venture with external project and financing partners.

(iii)
Research collaborations expanded significantly

In early-stage research, 4SC is pursuing several compound programmes in work conducted by its subsidiary 4SC Discovery GmbH. Here, the Company is concentrating on the research disciplines of epigenetics, cancer stem cells and other molecular signalling patterns involved in the genesis of cancer and/or chronic inflammatory diseases. Three such programmes have now been transferred to partnerships with other pharmaceutical/biotechnology companies and are being pursued as joint ventures. The novel TLR agonists for cancer immunotherapy programme was licensed out to Mainz-based BioNTech AG in late 2012. Since 2013, an anti-inflammatory compound discovered by 4SC capable of modulating cytokines (messenger substances) is being researched jointly with Danish firm LEO Pharma A/S as a potential treatment for psoriasis. A second anti-inflammatory compound identified by 4SC has been under development since mid-2013 by Austrian company Panoptes Pharma Ges.m.b.H. for deployment in the field of inflammatory eye disorders (such as e.g. uveitis).

1.4 Corporate strategy and objectives

By pursuing the advancement of its compound programmes within the research and development process, 4SC thereby generates product value and increases the value of the Company as a whole. Over time, efforts made in drug discovery and development are intended to generate a steady increase in partnership-based income, which, in the medium- to long-term, should in turn render the Company capable of financing its own business operations and transitioning to long-term profitability.

(iv)
Bringing clinical programmes to market through partnerships

The Company's Development segment pursues development and marketing partnerships with pharmaceutical and biotechnology companies. These partnerships are intended to progress the targeted development of the various clinical programmes towards market approval, thus generating value and cash inflows for the Company. This approach is designed to strengthen development work while reducing development risks.

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, thereby making a key contribution to the Company's financing and growth.

(i)
Leverage the full potential of early-stage research

The purpose of the Discovery & Collaborative Business segment is firstly to ensure a continuous level of input in terms of Group revenue, profit and financing, as generated by services for and research collaborations with pharmaceutical/biotechnology companies in the field of drug discovery. A second objective is to transfer 4SC's own in-house programmes currently in early-stage research to partnerships with pharmaceutical/biotechnology companies to accelerate their further development and generate additional cash inflows for the 4SC Group, as well as to create potential added value over the long term.

The key control variables of the Group are revenue and operating expenses, both of which are reviewed on a regular basis. One especially important indicator tracks the expenses incurred by project research and development activities. Another key financial indicator is the average monthly cash burn rate. The ratio of cash funds to the planned average cash burn rate per month enables a forecast to be made for how long cash is expected to be available.

(ii)
Key performance indicators of the 4SC Group

Company strategy also involves the consultation of additional key performance indicators related to research and development. As one example, clinical findings regarding the safety, tolerability and efficacy of drug candidates currently under development are aggregated into patient-related indicators. Benchmarks for the efficiency and success of these processes include the observance of schedules and budgets as well as the success of clinical trials.

2. OVERVIEW OF THE COURSE OF BUSINESS

2.1 Macroeconomic development and developments in the pharma and biotechnology industry

Macroeconomic development

According to the calculations published by the International Monetary Fund (IMF) in January 2014, the global economy grew by 3.0% in 2013. The repeated slight drop from the previous year's figure of 3.1% is attributable to a number of factors. In the euro zone, the ongoing sovereign debt crisis and high unemployment in some economies put a damper on economic performance. The economy in the United States weakened due to belt-tightening in the federal budget, although a recovery in private-sector demand, the real estate market and the financial sector had actually created fertile ground for greater growth.

An additional factor was a slowdown in the pace of growth in the emerging economies over the year that caused economic output there to rise only 4.7% last year (2012: 4.9%). However, economic engine China saw growth of 7.7% and was able to maintain its 2012 level. At 1.3% (2012: 1.4%), the pace of growth in the industrialised economies slowed significantly with the USA and Japan performing relatively well with expansion of 1.9% (2012: 2.8%) and 1.7% (2012: 1.4%) respectively. The IMF estimates

another decline in economic growth for the euro zone, this time by 0.4% (2012: -0.7%). In particular the countries affected by the debt crisis such as Italy (-1.8%) and Spain (-1.2%) continued to be mired in recession. Due to weak foreign trade, Germany's economic growth was only moderate at 0.5%, the lowest increase since the recession year of 2009.

Developments in the pharma and biotechnology industry

(i)
Positive sector environment for biotech firms

The stock market environment – particularly in North America – moved in a very positive direction for biotech shares in the course of the reporting year. The NASDAQ Biotechnology Index, one of the most important indices for biotech shares, jumped the historic 2,300-point hurdle for the first time in late November 2013, gaining 62% for the year as a whole. The DAXsubsector Biotechnology Index was also up sharply in the reporting year, gaining 33%.

Another indication of the favourable capital market environment is the fact that a total of 59 biotech companies went public in the past year according to BioCentury, a biotech information service, and generated issuing proceeds totalling US-$ 15 billion. Companies also enjoyed a positive atmosphere for raising additional cash by way of capital increases via the stock market (follow-on financing). During the year, biotechnology companies took advantage of this opportunity 139 times, thus obtaining fresh financing totalling approximately US-$ 10 billion. This figure again considerably exceeded the excellent results of the previous year (2012: US-$ 6.3 billion from 111 capital increases).

Despite a stable stock market environment for the biotechnology industry in Germany, the sector's financing situation there was still difficult in the reporting period, especially for smaller companies. Current figures from the BIO Deutschland industry association indicate that venture capital financing and capital increases via the stock market by German biotech companies grew by around 20% year-on-year in 2013. However, at just on €360 million, the level of funds raised by the sector in Germany during this period continued to be low compared with the USA.

(ii)
Encouraging signals from the market

From the perspective of the 4SC Group, there were a number of encouraging signals in 4SC's industry and competitive sphere in the year under review. In the field of epigenetic cancer drugs and histone deacetylase (HDAC) inhibitors, pharmaceutical group Novartis announced positive results for a Phase III trial of its HDAC inhibitor panobinostat in the indication of haematological tumours in December 2013. Like 4SC, Novartis is developing a combination therapy with conventional cancer drugs. In August 2013, US-based Syndax Pharmaceuticals Inc. publicised the launch of a Phase III trial of its HDAC inhibitor entinostat in the breast cancer indication. This treatment will also be tested in combination with established cancer drugs.

In the liver cancer indication, competitors of 4SC suffered setbacks during the reporting year. For one, the US biotech company Arqule was required to reduce the dose of its drug tivantinib by 50% due to side effects in a registration trial for liver cancer on the advice of the United States Food and Drug Administration (FDA). Moreover, both everolimus by Novartis and Pexa-Vec by Transgene failed to meet their objectives in advanced clinical trials as second-line treatment options for patients with advanced liver cancer.

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

(i)
Focusing on the essentials

Core business at 4SC focuses on the research and development of new drugs in the primary indications of cancer and autoimmune diseases. As a consequence, material progress in the Company's research and development activities is crucial to its business success. To further improve efficiency in achieving this objective, the Group Management Board resolved to re-focus the development strategy and corporate resources on the main value drivers in the second quarter of 2013.

In line with the package of measures adopted, the product pipeline was reduced from six to four clinical development programmes, with two early-stage research projects being discontinued. In addition, a strategic focus has now been placed on the ongoing clinical development of the cancer drug resminostat in the indication of advanced liver cancer (HCC), since the medical need and market potential are both equally high in this field of application.

2.2.1 Development segment

The Development segment comprises the clinical and preclinical development work on 4SC's drug candidates as carried out within the Group's parent company 4SC AG. The candidate compounds at the end of the reporting year were resminostat, 4SC-202, 4SC-205 and vidofludimus. The business unit continued to work on developing its drug candidates in the reporting year.

ONCOLOGY

Resminostat

(ii)
Resminostat's innovative, epigenetic mode of action

Resminostat is the Company's lead compound in oncology. Administered in tablet form, the compound is an HDAC inhibitor that possesses an innovative, epigenetic mechanism of action. Resminostat aims to achieve increased life expectancy and an improved quality of life for cancer patients. The compound can halt tumour growth and also cause tumour regression. In addition, resminostat can also bring about tumour cell sensitisation. This process can suppress or reverse certain tolerance and resistance mechanisms that tumour cells frequently develop against other cancer drugs in the course of treatment. If a cancer drug used previously or in parallel no longer demonstrates adequate efficacy alone, combination therapy with resminostat therefore aims at restoring or significantly increasing the efficacy of this drug, and thus achieving improvements in the long-term success of the treatment.

To date, resminostat has undergone clinical trials during a broad-based development programme, both as a monotherapy in the indication of Hodgkin's lymphoma and in combination with other cancer drugs in the indications of liver cancer, colorectal cancer and non-small-cell lung cancer. In the reporting year, both 4SC and its Japanese development partner Yakult Honsha Co., Ltd. have made significant progress with the compound in the primary indication of liver cancer.

Progress in development in the primary indication of liver cancer

Potential predictive biomarker ZFP64 identified in Phase IIa trial

(i)
Potentially predictive biomarker improves prospects for success of resminostat

In May 2013, 4SC published initial findings from the ex-post biomarker evaluation performed on the two completed Phase IIa trials with resminostat in the indications of liver cancer (HCC, SHELTER study) and Hodgkin's lymphoma (HL, SAPHIRE study). Both studies identified the potentially predictive biomarker ZFP64, whose expression levels correlated to the expected rates of survival for the patients treated with resminostat. Specifically, elevated levels of ZFP64 in patient blood prior to treatment were associated with significantly longer overall survival compared to lower levels of ZFP64 in patient blood.

Over the course of the year, these findings were confirmed by a detailed analysis, whose results were presented at two specialist research conferences in September 2013: the International Liver Cancer Association (ILCA) Annual Conference in Washington D.C. and the European Cancer Congress (ECCO) in Amsterdam. Where HCC or HL patients exhibited higher levels of the ZFP64 blood marker prior to treatment with resminostat, their median overall survival doubled in comparison to patients with lower blood levels of ZFP64. In total, around 60% of HCC patients and 65% of HL patients exhibited elevated levels of ZFP64 prior to treatment. This fact indicates ZFP64 has a predictive character when considered in conjunction with resminostat treatment for these tumour indications. If these data are confirmed by other studies, this would therefore not only improve estimates of the success of treatment with resminostat but also improve treatment efficiency over the long term by facilitating the individual selection of patients. One key focus of the next steps taken in the clinical development of resminostat will be to integrate ZFP64 into the planned Phase II/III study programme in the indication of liver cancer to validate ZFP64 as a biomarker and, if successful, further advance resminostat towards market approval as a personalised cancer therapy. Confirmation of the ZFP64 biomarker would significantly enhance resminostat's value.

Yakult Honsha commences clinical Phase I/II trial in first-line therapy in Japan

(i)
Partner Yakult Honsha pushes development of resminostat

In May 2013, pharmaceutical Group Yakult Honsha Co., Ltd., 4SC's sole license and development partner for resminostat in Japan since 2011, started a clinical Phase I/II trial with resminostat in liver cancer (HCC) in Japan. Involving up to 164 patients, this randomised study investigates the safety and efficacy of resminostat in combination with the cancer drug sorafenib in first-line therapy, compared to the current standard treatment, which deploys sorafenib as a monotherapy. For 4SC, this study has major strategic significance: first, because liver cancer is especially widespread in Japan and offers considerable market potential; and second, because the findings from this first-line therapy study could also be significant for 4SC's planned market registration programme.

Preparations for a registration study programme underway

On the strength of the positive results of the clinical Phase IIa SHELTER study with resminostat as a combination therapy with the cancer drug sorafenib for patients with advanced liver cancer (HCC), and further bolstered by the biomarker data published mid-2013 on the potential role of ZFP64 in HCC, 4SC started preparations in earnest for a pivotal (i.e. registration-relevant) development programme for resminostat in this indication in the reporting year. The production process for the necessary clinical study materials (active ingredient production) was further optimised in the reporting year and quantities were manufactured as required. Following this, optimisation work started on the active ingredient formulation for tablet production. A service partner (contract research organisation, CRO) was also selected to work with 4SC in creating the study protocols for the registration programme being pursued.

(i) Steps of the planned development programme with resminostat

4SC's main focus is on the development scenario in the first-line therapy for HCC. Currently, the Company is aiming for a pivotal Phase II/III trial programme in which resminostat is to be tested in combination with sorafenib in contrast to the current standard treatment – monotherapy with sorafenib – in patients with advanced liver cancer (HCC). According to current plans, the controlled, randomised trial programme is expected to consist first of a smaller Phase II stage followed by a larger-scale Phase III stage. The analysis of the data from Phase II stage will concentrate primarily on the biomarker ZFP64 to enable validation of the biomarker for purposes of designing the Phase III stage accordingly. These Phase II data are also intended to offer key initial findings about the potentially superior efficacy of the resminostat-sorafenib combination therapy compared to the sorafenib monotherapy; the data can also be used in negotiations with potential pharmaceutical partners. At this time, the study protocols are being prepared and must then be approved by international public health authorities to ensure a seamless registration process afterwards if the trials are successful.

(ii) Phase II part: biomarker validation

The application of resminostat as a second-line therapy for HCC continues to offer the Company an attractive alternative option for development.

To ensure financing for the planned undertaking, 4SC stepped up meetings with potential regional and global partners and investors in the reporting year, and broadened the financing options under consideration. 4SC's primary goal in terms of financing is to secure funding for the Phase II portion of the planned study programme in the HCC first-line therapy scenario.

Development in the colorectal cancer indication: Phase I trial completed

At the ASCO Conference in Chicago in early June 2013, 4SC announced positive Phase I results from the clinical Phase I/II SHORE trial with resminostat in combination therapy with FOLFIRI chemotherapy in patients with advanced colorectal cancer (CRC). At all dosage levels administered, resminostat proved to be safe and well-tolerated, once

(iii) Good tolerability of resminostat in colorectal cancer

again underlining the compound's positive safety profile and its broad applicability in combination with established cancer therapies. In addition, the treatment showed encouraging signs of clinical activity: In about 50% of patients, stabilisation of the tumour disease was achieved for periods of three months or more – thus meeting the SHORE study's Phase I endpoint. In the course of strategically focusing resources on the further development of resminostat for treating liver cancer, 4SC's Management Board decided to suspend for the time being the originally planned clinical development of resminostat in a Phase II trial stage in the indication of colorectal cancer.

Yakult Honsha Co., Ltd. starts development in Japan in the indication of lung cancer

In July 2013, 4SC's Japanese partner Yakult Honsha Co., Ltd. started a Phase I/II trial with resminostat in the indication of non-small-cell lung cancer (NSCLC) in Japan. Involving up to 118 patients, this study investigates the safety and efficacy of resminostat in combination with the cancer drug docetaxel. Following liver cancer, colorectal cancer and Hodgkin's lymphoma, this marks the start of resminostat's clinical development in a fourth commercially-significant tumour indication.

(i)
Development to date in four commercially significant indications

Patent protection completed in all major pharmaceutical markets

In January 2013, the European Patent Office notified 4SC of an "Intention to Grant" the composition-of-matter patent for resminostat; the patent was subsequently granted in the reporting year. 4SC thus now holds the key composition-of-matter patent for resminostat in the world's key pharmaceutical markets, including China, Europe, the USA, India, Russia, Japan and South Korea.

4SC-202

(ii)
Further attractive epigenetic compound

4SC-202 is the second epigenetic anti-cancer compound in 4SC's clinical development portfolio. This drug candidate is a selective inhibitor of epigenetic target molecules and has a particular affinity for the enzymes LSD1 (KDM1A) and the protein deacetylases HDAC 1, 2 and 3. 4SC-202 features an innovative mode of action, thereby targeting a number of key functional areas identified as being responsible for the development of cancers. As 4SC-202 is particularly effective against tumour stem cells, it covers an attractive and innovative field in oncology. The compound uses epigenetic modifications to influence two key signal transduction pathways used by cells: hedgehog and Wnt. Each pathway plays a key role in the development, growth and proliferation of cancer cells. Since 4SC-202 differs markedly from resminostat in terms of both its mechanism of action and its chemical structure, and as the compounds' potential fields of therapy are dissimilar, 4SC-202 optimally extends and expands the 4SC clinical product pipeline.

Phase I trial continues in haematological tumours

In the reporting year, the Company continued its open clinical Phase I trial (TOPAS study) with 4SC-202 in patients with advanced haematological tumours. On account of

the positive tolerability observed to date, work here focused on the investigation of a further range of doses and dosage regimes to determine the optimum treatment regime for a possible Phase II study at a later date. In a number of patients, the compound also exhibited some promising initial signs of potential clinical efficacy and anti-tumour activity.

Significant expansion of international patent protection

(i)
Good patent protection for 4SC-202

In mid-July 2013, 4SC announced the granting of the composition-of-matter patent for 4SC-202 in China and the imminent granting of the same in Hong Kong. Complementing the granting of the composition-of-matter by the US Patent Office, the Company also received a Notification of Allowance for specific 4SC-202 salts; this significantly extends the term of patent protection for the compound in the world's largest pharmaceuticals market.

4SC-205

(ii)
Third cancer compound in the pipeline

4SC-205 is an anti-cancer compound currently being tested by the Company on patients with solid tumours at an advanced stage. 4SC-205 is a cell division inhibitor that influences a specific protein molecule – the Eg5 kinesin spindle protein. This protein molecule plays an important part in cell division and thus also in the growth of cancer cells. Cell division inhibitors such as e.g. Taxol already have a history of highly successful deployment within cancer therapy. While they are also associated with severe side effects, 4SC-205's specialised mechanism of action means side effects of this kind should not occur. 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.

Phase I trial in solid tumours extended

Following the publication in December 2012 of positive results from the clinical Phase I AEGIS trial investigating the compound's safety, tolerability, pharmacokinetics and biomarkers for patients with advanced solid masses, the study scope was extended in the reporting year. The objective of this extension is to trial additional dosage regimes in order to establish and/or optimise preparations for potential further development of 4SC-205 in a subsequent Phase II trial. In relation to this extension, the Company also resolved to prioritise the immediate enrolment of patients with a specific disease condition (lung tumours or lung metastases) in the trial, since recent scientific research seems highly encouraging for an application of this compound in this context.

4SC-203 and 4SC-207

(iii)
Further potential possible through out-licensing

The oncological programmes 4SC-203 (Phase I trial completed in healthy patients) and 4SC-207 (preclinical development phase) have been discontinued in accordance with the re-focusing of corporate strategy as adopted mid-year 2013. To fully exploit its potential, the option of out-licensing or sale should be assessed for the compound 4SC-203. For this compound, an application in relation to psoriasis and/or pruritus could be one avenue of development to be pursued by potential partners.

AUTOIMMUNE DISEASES

Vidofludimus

Vidofludimus is an orally administered small-molecule drug for the treatment of autoimmune disorders. This drug candidate has exhibited promising results in an initial clinical Phase IIa trial in the field of inflammatory bowel disease (IBD). As a result of the re-focusing of development strategy completed in 2013, 4SC has decided not to allocate any internal resources to the further development of vidofludimus. The Company is currently engaged in high-level talks with potential external partners, designed to facilitate the joint acquisition of investors and hence the implementation of the planned Phase IIb trial in the indication of Crohn's disease. The study design for this trial has already been agreed with international regulators.

(i)
Search for external project and financing partners

2.2.2 Discovery & Collaborative Business segment

The Discovery & Collaborative Business segment comprises the activities involved in the discovery, early-stage research and subsequent commercialisation of drug compounds by 4SC Discovery GmbH. In the reporting year, this business segment continued the successful development begun in early 2012. As a result of earnings from research collaborations and licensing deals with biotechnology and pharmaceutical businesses, 4SC Discovery GmbH had already achieved an operating cash inflow in 2013.

(ii)
4SC Discovery GmbH posts first positive cash flow

Strategic research partnership in oncology with BioNTech AG

Following a cancer immunotherapy licensing deal signed in December 2012 between 4SC Discovery GmbH and Mainz-based biopharmaceutical company BioNTech AG, 4SC announced the start of a second large-scale research collaboration involving the two companies in February 2013. Initially intended to last three years, 4SC Discovery GmbH's role in this partnership will be to identify new small-molecule, anti-cancer compounds for defined therapeutic targets and optimise these for BioNTech AG. 4SC Discovery GmbH’s remuneration will be a service fee proportionate to its research efforts, plus performance-related milestone payments and a potential stake in later net revenue earned on products developed and commercialised by BioNTech.

Research and license option agreement for psoriasis concluded with LEO Pharma A/S

(iii)
Gaining strong and innovative pharma partner

In February 2013, 4SC Discovery GmbH signed an exclusive research and license option agreement with the Danish pharmaceutical company LEO Pharma A/S. Both companies will work together on researching, developing and commercialising an oral agent discovered by 4SC Discovery GmbH for the treatment of chronic inflammatory skin disorders such as psoriasis. Under the agreement, 4SC Discovery GmbH received an upfront payment of EUR 1 million as well as payments depending on the actual costs incurred to fund its ongoing research and development work. In return, LEO Pharma A/S received an exclusive option on the licensing of the global rights to the marketing and commercialisation of the compound. If LEO Pharma A/S makes use of this option,

4SC Discovery GmbH will be entitled to further option and performance-based milestone payments of up to €95 million, as well as to royalties of up to a double-digit percentage from later product sales.

Research collaborations from partnership with CRELUX GmbH: UCB S.A. und AiCuris GmbH & Co. KG

(i) Commercialise "idea to candidate" research platform

In early 2012, a strategic sales partnership based on the i2c ("idea to candidate") joint research platform was initiated with the Martinsried-based biotechnology company CRELUX GmbH. In the reporting year, the partnership – which covers the key elements in the value chain for early-stage pharmaceutical research – was instrumental in generating two new joint research projects.

The first, a collaboration in early-stage research with the Belgian pharmaceutical company UCB S.A., commenced in June 2013. This project will focus on the discovery and validation of new small-molecule compounds for the treatment of neurological disorders. Aided by the i2c platform, 4SC Discovery GmbH and CRELUX GmbH will work on identifying and optimising these compounds, with the ultimate aim of deriving high-quality drug candidates for UCB S.A.

In November 2013, 4SC Discovery GmbH and CRELUX also started a research collaboration with the Wuppertal-based biotech company AiCuris GmbH & Co. KG. The aim of this partnership is to identify, validate and optimise small-molecule drug candidates for a new therapeutic approach to the treatment of infectious diseases.

Patent transfer to Panoptes Pharma Ges.m.b.H

(ii) Anti-inflammatory compound discovered

In September 2013, 4SC Discovery GmbH agreed a patent transfer with the Austrian biotechnology start-up Panoptes Pharma Ges.m.b.H. for a new preclinical compound with anti-inflammatory properties identified by 4SC Discovery GmbH. Panoptes Pharma Ges.m.b.H. will develop this substance for therapeutic use in the field of inflammatory eye disease and will market the compound if development is successful. In return for transferring the patent, 4SC Discovery GmbH receives a 24.9% share in Panoptes Pharma Ges.m.b.H., as well as being entitled to later performance-based milestone payments and a share of the sales revenue generated by the compound. Furthermore, 4SC Discovery GmbH is also entitled to deploy the compound in the therapeutic fields of rheumatoid arthritis and inflammatory bowel disease.

2.3 Significant events at Group level

During the reporting year, the Group made key decisions as regards both staffing and strategy.

Change in top management at 4SC

(iii) Changes on the Management Board

The co-founder and long-time Chairman of the Management Board of 4SC AG, Dr Ulrich Dauer, stepped down from his position as Management Board member and CEO of the Company for personal reasons effective 31 March 2013. By way of a resolution of the Supervisory Board, CFO Enno Spillner was appointed the new Management Board Chairman with effect from 1 April 2013. Since that time, Mr Spillner has exercised both functions.

Notice of loss pursuant to section 92(1) German Stock Corporation Act

On 12 March 2013, the Company announced that, in accordance with the accounting principles of the German Commercial Code (HGB), 4SC AG had incurred a cumulative loss amounting to half of its share capital resulting from the planned operational losses from drug development. Pursuant to section 92(1) German Stock Corporation Act, this type of loss triggers a statutory obligation to convene a general meeting to disclose this circumstance to the shareholders and discuss the company's situation accordingly. The Management Board of 4SC AG met this obligation at the Company's Annual General Meeting, which took place on 2 May 2013.

AGM approves Supervisory Board

(i)
Supervisory Board meets with broad approval

At the Annual General Meeting of 4SC AG held on 2 May 2013, the shareholders approved all of the meeting's agenda items submitted to the vote by the Company with the required majority. One such item was the re-appointment of the Supervisory Board; all members were confirmed as proposed. In the subsequent inaugural Supervisory Board meeting, all of the Board's roles – including Chair (Dr Thomas Werner) and Deputy Chair (Klaus Kühn) – remained unchanged, as was also the case for the committees and their members.

Focusing of the development strategy and streamlining of the product pipeline completed

(ii)
Strategic focus on main value drivers

In May 2013, the management of 4SC narrowed the development strategy to concentrate on and allocate resources to the Company's products exhibiting the greatest overall potential for growing value for 4SC. Going forward, the highest priority will be further developing the lead compound resminostat in the indication of liver cancer (HCC). In order to narrow the focus of the strategy, other development activities were scaled back or terminated accordingly. For instance, the 4SC-203 and 4SC-207 development programmes and two early-stage research programmes were halted, which led to one-time, non-cash impairment losses of €718 thousand in the reporting year.

New development strategy necessitates structural adjustments

(iii)
Targeted measure for optimizing corporate and cost structures

In June 2013, measures to improve organisational and cost structures were announced in connection with the new, more specialised development strategy. They related predominantly to an adjustment in human resources capacity – especially in preclinical and clinical research and in administration – and the closing of the office in Überlingen-Bonndorf. During the year, the workforce was reduced by some 15% compared with the number as at the end of May 2013, which from financial year 2014 onward will reduce staff costs by a figure in the high six-digit euro range from the costs prior to the measures.

3. RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The 4SC Group, comprising 4SC AG and its wholly-owned subsidiary 4SC Discovery GmbH, reports consolidated figures for both the 2013 and 2012 financial year. 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 resminostat, 4SC-202 and 4SC-205 as well as vidofludimus. 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. Results of operations

Revenue

(i)
Consolidated revenue growth

Consolidated revenue rose to €4,904 thousand in financial year 2013, up 13% from the previous year (2012: €4,353 thousand). In the Development segment, revenue comprised the pro-rata reversal of the deferred income item relating to the partnership arranged in 2011 with Yakult Honsha Co., Ltd., Japan, for the development of resminostat amounting to €894 thousand (2012: €894 thousand) and revenue from costs allocated by 4SC AG to cooperation partners for developing and carrying out compound production totalling €707 thousand (2012: €502 thousand).

// **KEY FIGURES OF THE 4SC GROUP** (short version)

in € 000's

	2013	2012
Revenue	4,904	4,353
Operating expenses	15,530	17,749
Operating profit/loss	-10,592	-13,366
Consolidated net profit/loss	-10,525	-13,217
Earnings per share (in €)	-0.21	-0.29

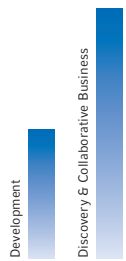
(ii)
Research partnerships as growth drivers

In its second year of operations, the Discovery & Collaborative Business segment contributed 67%, or €3,303 thousand (2012: €2,957 thousand), to consolidated revenue in 2013, a year-on-year increase of 12%. Adjusted for non-recurring revenue of €2,500 thousand from the licence agreement with Mainz-based BioNTech AG signed in the fourth quarter of 2012, revenue from research collaborations was increased nearly five-fold. This research collaboration generated revenue of €1,279 thousand in 2013. Another €1,772 thousand in segment revenue in 2013 stems from the licence agreement and research contract with LEO Pharma A/S of Denmark arranged in the first quarter of 2013. Of this amount, €569 thousand is attributable to the pro-rata reversal of the deferred income item set up for the upfront payment of €1 million. A total of €2,734 thousand in revenue from research collaborations was thus billed in 2013 compared with only €457 thousand in 2012.

// SEGMENT REVENUE

Revenue by segment in 2013

	in € 000's	in percent
Development	1,601	33
Discovery & Collaborative Business	3,303	67



(i)

Cost efficiency increased

Operating expenses

Operating expenses, comprising the cost of sales, distribution costs, research and development costs and administrative costs, fell to €15,530 thousand in 2013, a decrease of 13% on the prior-year figure (2012: €17,749 thousand). Of the total expenditure, €12,278 thousand (2012: €13,660 thousand) was attributable to the Development segment and €4,549 thousand (2012: €5,554 thousand) to the Discovery & Collaborative Business segment.

Research and development costs were trimmed by 21% in 2013 to €10,243 thousand (2012: €12,909 thousand), but at 66% (2012: 73%) still constitute the largest block of operating expenses. Research and development costs were lower mainly due to the year-on-year decrease in the number of ongoing clinical trials which led to a sharp decrease in outsourced services for some projects. In contrast, preparatory expenditure for the planned pivotal trial of resminostat in the indication of liver cancer was higher. One-off impairment losses of €718 thousand on capitalised patents resulting from the focusing of the development strategy decided in the second quarter of 2013 also contributed to this development.

Administrative costs amounted to €3,310 thousand in the reporting period, down by 15% year-on-year (2012: €3,916 thousand). This decline is mainly due to the implemented cost-cutting measures and structural adjustments.

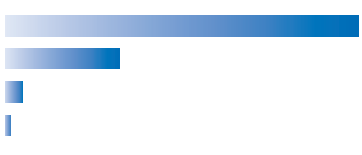
Distribution costs, which consist of the costs incurred by the Business Development and Strategic Planning & Marketing segments, were also reduced in 2013. This figure amounted to €503 thousand (2012: €597 thousand), down 16% year-on-year.

The cost of sales grew by 351% to €1,474 thousand (2012: €327 thousand), an increase stemming from continuation of the collaborative business consolidated in the Discovery & Collaborative Business segment, which in turn is also responsible for the considerable rise in revenue in that segment.

// OPERATING EXPENSES

in € 000's

	2013	2012
Research and development costs	10,243	12,909
Administrative costs	3,310	3,916
Distribution costs	503	597
Cost of sales	1,474	327
Total	15,530	17,749



Operating profit/loss

(i)

Operating result improved considerably

On the back of higher revenue and lower overall expenditure, 4SC's operating loss improved by 21% in 2013, receding to €10,592 thousand (2012: €13,366 thousand). The Development segment reported an operating loss of €9,457 thousand, while an operating loss of €1,135 thousand was recorded by the Discovery & Collaborative Business segment.

Net finance income/loss

Net finance income contracted by 58% to €67 thousand (2012: €159 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 €58 thousand (2012: €137 thousand). The share in the profit/loss of associates decreased by 18% year-on-year to €27 thousand (2012: €33 thousand). Exchange rate differences fell by 18% year-on-year, impacting net finance income by €9 thousand (2012: €11 thousand).

Taxes

In the reporting period, the 4SC Group incurred no expenses from current income taxes (2012: €10 thousand).

Consolidated net loss

(ii)

Loss reduced

The net loss fell by 20% to €10,525 thousand in 2013 on the basis of the developments described, particularly through significantly higher revenue and lower operating expenses (2012: €13,217 thousand).

Earnings per share

The average number of shares in the reporting period rose to 50,371,814 (2012: 46,170,059 shares) as a consequence of the capital increase implemented in mid-2012. The simultaneous drop in the consolidated net loss lowered the loss per share to €0.21 (2012: loss of €0.29).

3.2. Net assets

// STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION

in € 000's

	2013		2012	
	in € 000's	in percent	in € 000's	in percent
Non-current assets	11,591	65	13,326	46
Current assets	6,114	35	15,741	54
Total	17,705		29,067	

	2013		2012	
	in € 000's	in percent	in € 000's	in percent
Equity	11,282	64	21,813	74
Non-current liabilities	2,836	16	3,755	13
Current liabilities	3,587	20	3,499	13
Total	17,705		29,067	

Non-current assets

(i)
One-time impairment due to realignment

Non-current assets fell from €13,326 thousand as at 31 December 2012 to €11,591 thousand as at 31 December 2013. This was mainly due to the pro-rata amortisation of intangible assets and depreciation of tangible assets and one-time impairment losses on three patents in connection with the focusing of the development strategy in the amount of €718 thousand. At €10,651 thousand, intangible assets continued to be the largest non-current asset item (31 December 2012: €12,223 thousand), followed by property, plant and equipment at €602 thousand (31 December 2012: €787 thousand). The increase in financial assets from €154 thousand as at 31 December 2012 to €181 thousand at the reporting date is mainly due to the appreciation to the investment in quattro research GmbH. The 24.9% investment in the capital of Panoptes Pharma Ges.m.b.H., Vienna, Austria, acquired in September 2013, which had still been carried in the amount of the contribution paid (€8 thousand) at the end of the third quarter of 2013, was written down to €0 thousand at the end of 2013 in accordance with the accounting for the investment using the equity method. This was due to the planned start-up losses at Panoptes Pharma Ges.m.b.H., which are typical for a new biotech company and exceeded the initial contribution by 4SC.

Current assets

The decline in current assets to €6,114 thousand as at 31 December 2013 (31 December 2012: €15,741 thousand) as expected was largely due to the decrease in funds (comprising cash and cash equivalents and other financial assets) to €4,899 thousand (31 December 2012: €12,064 thousand). This is due to the outflow of funds as a result of the operating loss incurred by 4SC. The substantial decrease in trade accounts receivable to €346 thousand (31 December 2012: €3,084 thousand) is mainly attributable to the licence agreement concluded with BioNTech AG, Mainz, whose payment was not yet due at the 31 December 2012 reporting date.

Equity

(ii)
Equity down as a result of loss

The decrease in equity from €21,813 thousand as at 31 December 2012 to €11,281 thousand as at 31 December 2013 is mainly attributable to the consolidated net loss of €10,525 thousand (31 December 2012: €13,217 thousand). The accumulated deficit therefore rose to €119,260 thousand (31 December 2012: €108,735 thousand).

The equity ratio increased by 11.3 percentage points to 63.7% (31 December 2012: 75.0%).

Current and non-current liabilities

Non-current liabilities, which similar to 2012 mainly consisted of deferred income in connection with the partnership with Yakult Honsha Co., Ltd., Japan, decreased by 24% to €2,836 thousand as at 31 December 2013 (31 December 2012: €3,755 thousand). By contrast, current liabilities rose marginally by 3% to €3,587 thousand at the end of the reporting period (31 December 2012: € 3,499 thousand). These principally include other liabilities and deferred income totalling €2,884 thousand (31 December 2012: €2,905

thousand) and predominantly comprise unbilled external services as well as the current portion of the deferred income amounting to €1,324 thousand, of which €894 thousand also relate to the partnership with Yakult Honsha Co., Ltd., Japan. Trade accounts payable increased to €675 thousand (31 December 2012: €584 thousand).

Total assets/Total equity and liabilities

(i)
Total assets lower

Total assets/total equity and liabilities amounted to €17,705 thousand as at 31 December 2013, down 39% on 31 December 2012 (€29,067 thousand) as a consequence of the circumstances described.

3.3 Financial position

Cash flows from operating activities

(ii)
Cash outflow from operations reduced significantly

A total of €6,985 thousand was used for operating activities during the 2013 reporting period. The difference compared with the negative earnings before taxes of €10,525 thousand resulted from the following circumstances, which include non-cash expense items: adjustments for non-cash items in the statement of comprehensive income, principally due to straight-line depreciation and amortisation, impairment of patents acquired as part of the focusing of the development strategy decided in the second quarter, expenses arising from stock options and cash items in trade receivables. Cash flow-negative changes in liability-side items in the statement of financial position, particularly the reduction in the deferred income item and other liabilities, stand in contrast to the aforementioned items. In the prior-year period of 2012, cash outflows from operating activities came to €15,174 thousand with a pre-tax loss of €13,207 thousand.

Cash flows from investing activities

The cash inflows from investing activities in 2013 amounted to €4,868 thousand (2012: €3,063 thousand). The Company invested €21 thousand (2012: €51 thousand) in intangible assets and €99 thousand (2012: €50 thousand) in property, plant and equipment. Proceeds from sales of property, plant and equipment amounted to €9 thousand (2012: €152 thousand). An investment of €8 thousand was made by contributing this amount to the share capital of Vienna-based Panoptes Pharma Ges.m.b.H. The acquisition of financial instruments in the amount of €1,000 thousand (2012: €5,988 thousand) with a simultaneous cash inflow from the sale of financial instruments of €5,988 thousand (2012: €9,000 thousand) resulted in additional net cash inflows of €4,988 thousand (2012: €3,012 thousand).

Cash flows from financing activities

No financing activities were conducted in the period under review. However, in preparation for a financing agreement for the issuance of convertible notes signed after the reporting period with YA Global Master SPV Ltd. (“Yorkville”), an investment was made in legal advice. This is directly attributable to additions to capital reserves, and thus cash used in financing activities amounted to €-59 thousand. In the previous year, a capital increase was carried out in July with net proceeds of €11,367 thousand.

Funds

Cash and cash equivalents amounted to €3,899 thousand at the end of the reporting period (31 December 2012: €6,076 thousand). Additional funds in the amount of €1,000 thousand (31 December 2012: €5,988 thousand) were invested in short-term fixed-interest securities at the end of 2013. As at 31 December 2013, the Company had cash and securities totalling €4,899 thousand (31 December 2012: €12,064 thousand).

3.4 Overall assessment of economic position

(i)
Performance according to plan in challenging 2013 financial year

Expenses in 2013 were again significantly below those of the previous year especially due to the fact that 4SC cut costs in the reporting period as part of the narrowing of the focus of its development strategy and that development activities were scaled back further compared with the prior year due to the ending of clinical trials. In contrast, revenues increased. This increase is directly related to the successful collaborative business and the initiation of early-stage partnering deals in the Discovery & Collaborative Business segment established in the previous year. As a result, the net loss in 2013 was trimmed by 20% year-on-year. The Company had sufficient liquidity at all times during the 2013 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 the prior year.

The Group's economic development in the 2014 financial year again proceeded according to plan up until the preparation of this combined management report.

4. EMPLOYEES

As at 31 December 2013, the 4SC Group had 73 employees (31 December 2012: 86), including the Management Board of 4SC AG and executive management of 4SC Discovery GmbH, with female employees making up 53% of the total. The Development segment had 47 employees at the end of the year, while the Discovery & Collaborative Business segment had 26. In 2013, the 4SC Group had an average of 81 employees, nine individuals fewer than in the previous year (90).

(ii)
Large majority of employees work in R&D

Overall, the Company adheres to a balanced personnel policy and fills the relevant positions with the most qualified employees. 4SC offers flexible working arrangements that enable its employees to successfully balance career and family. As at 31 December 2013, 26% (31 December 2012: 22%) of the workforce were working part-time. Including part-time employees, employees on parental leave and employees released from work before the official expiry date of their employment contracts as part of the restructuring resolved in the second quarter of 2013, the resulting figure for full-time equivalent (FTE) staff at 4SC as at 31 December 2013 was 56 FTEs, compared with 74 FTEs as at 31 December 2012. As at the end of 2013, 72% (31 December 2012: 69%) of the FTEs worked in research and development, and 28% (31 December 2012: 31%) in sales and administration.

Since 2008, 4SC has acted as a vocational training provider and until February 2014 had one trainee chemical laboratory technician who was hired by the Company for a permanent position after passing the final exam.

// TOTAL NUMBER OF EMPLOYEES

by area, as at 31.12.

	2013	2012
Research & Development	47	62
Administration & Sales	24	21
IT	2	3
Total	73	86

(i)
Staff costs reduced

In 2013, 4SC cut staff costs by 5% from €6,118 thousand in 2012 to €5,826 thousand in 2013. This was possible mainly due to the shrinking of the workforce last year. As a result of the restructuring resolved in the second quarter of 2013 to adjust organisational and personnel structures to the focused development strategy, 13 members of staff were laid off for operational reasons. In 2013, special settlement payments totalled €144 thousand. The Company incurred a one-time expense from the premature termination of the contract with former Management Board Chairman Dr Ulrich Dauer. Non-cash expenses for stock option programmes added €53 thousand to staff costs in 2013 (2012: €130 thousand).

5. NON-FINANCIAL KEY PERFORMANCE INDICATORS

5.1 Industrial property rights

For a research-based biotechnology company such as 4SC having a strong portfolio of industrial property rights is crucial. It reinforces the competitive position of the Company's proprietary development programmes on route to marketability and thus supports their potential future market success. 4SC manages its patents efficiently, an effort that has further strengthened and strategically optimised the patent portfolio in 2013. At the same time, the Company decided last year to focus its development strategy on its main value drivers and to streamline the research and development portfolio overall. For this reason, the patent portfolio for research and development programmes actively pursued was expressly expanded, while in some cases the termination of certain programmes led to the intentional surrender of the corresponding patents. Furthermore, an extensive portfolio of patents for an ophthalmological treatment compound was transferred during the reporting year from 4SC Discovery GmbH to Panoptes Pharma Ges.m.b.H., Vienna, Austria.

(ii)
Well-protected product pipeline

The total number of patents issued worldwide increased sharply by 58% to 355 in 2013 as a result of the factors mentioned above (31 December 2012: 224). In contrast, the number of patent applications pending in 2013 was down slightly to 205 (31 December 2012: 235), and the number of patent families was reduced from 34 as at 31 December 2012 to 28. At the end of the reporting year, the patent portfolio in the

Development segment comprised 301 issued patents and 107 pending patent applications in a total of 18 patent families. The Discovery & Collaborative Business segment had 54 issued patents and 99 pending patent applications in a total of ten patent families.

Development segment

(i)
Patent protection strengthened for resminostat

4SC extended patent protection for its leading oncology compound resminostat in 2013. The key composition-of-matter patent for Europe was issued. In addition to the patents already issued in Europe and the USA, the patent in Japan important in terms of the collaboration with Yakult Honsha Co., Ltd. was obtained for the use of mesylate salt for which, if it is successful, application will be made for the clinical registration of resminostat. Currently, the Company holds a total of 156 patents relating to resminostat. Of these, 57 patents alone relate to the compound resminostat, with 37 composition-of-matter patents providing protection in individual Contracting and Extension States to the European Patent Convention. 4SC also holds important composition-of-matter patents for resminostat in the United States, China, South Korea, India and Russia. A total of 45 patents were issued for vidofludimus, the lead compound in autoimmune diseases, by end of 2013, including in the Contracting and Extension States to the European Patent Convention, as well as in the USA, China, South Korea, India and Russia. Patent protection was also expanded in important markets for the Company's newer clinical oncology compounds, 4SC-202 and 4SC-205, in 2013. During the reporting year, a patent was also issued in China and Japan for 4SC-202, 4SC's second epigenetic anti-cancer compound after resminostat, ensuring comprehensive patent protection for major markets such as the United States, Europe, India, Russia and South Korea. The patent portfolio for the oral cell division inhibitor 4SC-205 was also completed with the issuance of patents in Japan and China in 2013.

Discovery & Collaborative Business segment

Other new applications to obtain patent protection for promising Discovery & Collaborative Business projects in the early research phases were filed or are still in the examination phase at the World Intellectual Property Organization (WIPO). After the international examination phase was completed, the national/regional phase with a total of 58 patent applications in all of the relevant markets was initiated for patents covering the modulation of cytokines in the field of inflammatory skin diseases by the development and marketing partnership of 4SC Discovery GmbH and LEO Pharma A/S. A patent was issued in Europe during the reporting year for the cancer immunotherapy project begun at the end of 2012 with partner BioNTech AG, which is currently being validated in the Contracting and Extension States to the European Patent Convention.

(ii)
New partnerships result in large number of patent applications

At this time, the Company is preparing to file new patent applications for projects in the Discovery & Collaborative Business segment as well as for the purpose of further reinforcing the clinical application of resminostat and 4SC-202 in the Development segment. Besides its patents, 4SC also owns a variety of rights to strategically important word and word/picture marks.

4SC's extensive portfolio of intellectual property rights illustrates the Company's research and innovative strength, which is further bolstered by a forward-looking patent strategy for the development and later commercialisation of future drugs.

5.2 Corporate responsibility/sustainability

Employee safety and environmental protection

(i)

Employee safety is a top priority

For 4SC, corporate responsibility is an important mission. In this context, the greatest possible safety for employees and environmental protection are particularly high priorities. Steps taken to achieve these goals are implemented, reviewed and optimised continually in all processes.

The occupational health and safety committee was established to fulfil these tasks. It consists 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. Specifically, 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, which must be prepared in accordance with the German Occupational Health and Safety Act (Arbeitsschutzgesetz). All laboratory employees receive annual training on the handling of hazardous substances as stipulated in the applicable hazardous substance regulations.

In addition to the technical and structural requirements for the handling, storage and transport of hazardous substances and biomaterials, the personnel and organisational measures are carried out scrupulously. These include, for example, the safety-based design of laboratory equipment, personal protective gear, optimal 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. And finally, 4SC's waste disposal concept also helps to protect the environment. The professional and environmentally compatible disposal of hazardous waste is handled by a company specialising in this field.

Last year, a weighing enclosure was installed – this is a new technical solution comprising a self-contained system that serves to protect employees whose job it is to weigh chemicals. The focus here was on ensuring that exhaust streams do not adversely influence or disturb the precision of the weighing process.

The 4SC Group's occupational health and safety organisation includes all of 4SC Discovery GmbH as well. In 2013, the number of reportable accidents was again kept very low thanks to the consistent development and implementation of organisational and technical prevention measures.

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 replacing them to the extent possible with alternatives, such as cell culture testing. All experimental tests carried out on animals in 2013 were conducted exclusively within the scope of government-approved animal-testing projects and were continuously monitored by an external animal protection officer.

(i)
High ethical standards

Carefully selected contract research organisations were commissioned to perform 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

4SC organises procurement, logistics and warehousing processes through a central procurement department. These established processes are defined in concrete terms. 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 selects from a broad network of suppliers to avoid dependence on individual ones. The required goods are sourced based on quality, pricing and availability. Thanks to extensive negotiations, further improvement was achieved in delivery terms and individual prices – with the purchasing volume rising. In 2013, 4SC continued to participate in the purchasing association for the Munich biotech region so as to benefit from favourable purchasing terms.

(ii)
Optimised sourcing

4SC cooperates with a number of providers of research and development services especially in pharmacology, toxicology, metabolism, analytics, production, clinical development, pharmacovigilance and statistics. Partners are selected based on the specific requirements of the individual project. In addition to the mandatory regulatory parameters, the key selection criteria here are price, quality, the observance of deadlines and especially the service provider's experience in the respective field.

6. REPORT ON OPPORTUNITIES AND RISKS

6.1 Risk management system

4SC's risk management and internal control system

The 4SC Group pursues active, systematic risk management to eliminate risks with suitable measures or to minimise remaining risks. The business risks of 4SC 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 reviewed continually and, if appropriate, entered into in a controlled fashion to leverage the Company’s opportunities to their fullest.

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 a central component of corporate management and monitoring.

(i)
Identification of potential risks as the basis to avoid risks

Following a defined process, the risk officers from the different business units identify, analyse and asses the 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 4SC Group's internal control system (ICS) was set up to supplement the risk management system and ensures monitoring of the Company's activities by employing various rules such 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, self-inspections, employee training and emergency planning.

The application of these rules is obligatory for all operating units. Specifications are used in the course of 4SC's quality management activities. These are documents containing the requirements for the product on offer or instructions for tasks to be carried out, e.g. the creation of job and job function descriptions. Also used are verification documents, which are records or documents that document the achieved results or provide objective proof of activities carried out, e.g. in the form of an audit report.

Group-wide signatory powers define which employees are authorised to sign orders and invoices. These are assigned depending on 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.

(ii)
Strong team work for joint success

Preclinical and clinical projects are discussed in detail in regularly held project meetings, including Joint Project Coordination Meetings (jPCM). These ensure close coordination between the research and development departments as well as with the Management Board. The jPCM is usually held once every two weeks and it covers the presentation and discussion of one project each from the Discovery & Collaborative Business segment or 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.

Risk management and internal control system in the financial reporting process

In terms of the Group's financial reporting process, the internal control and risk management system ensures that the accounting is uniform and is conducted in accordance with statutory rules and generally accepted accounting principles as well as International Financial Reporting Standards (IFRSs). It includes work instructions, compliance with the two-person integrity principle, spot checks and emergency planning. Continual training allows the financial team to ensure that all statutory requirements relating to the Group are implemented securely and completely in the Company.

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

(i)
Strong criteria for management and control

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 key performance indicators. These management tools allow both the Management Board and Controlling to identify, assess and address opportunities and risks adequately.

The IFRS financial statements are 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 are defined in 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

4SC is exposed to different individual risks which 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 or prevent 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 results of operations, financial position and net assets to a significant degree. In a worst-case scenario, this could lead to a situation where the Company is forced to go into liquidation or file for insolvency.

6.2.1 Sector-specific risks

Competition

The defining characteristics of the biotech industry are short technology cycles, long development cycles and substantial investments in clinical research and development to achieve marketable products. 4SC is exposed to the risk that new technologies could appear on the market that could be used to successfully develop new products in the indications addressed by the Company faster or less expensively, and thus also possibly to bring them to market sooner, or prevent registration of 4SC's products in whole or in part.

(i)
Pharma industry is the most important potential partner

The pharmaceuticals industry has a considerable need for filling its own research and development pipelines by in-licensing or acquiring innovative projects from biotech companies. In this environment, 4SC competes with other companies specialising in drug research and development in the same or similar indications. 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 significant. 4SC assumes that this will intensify overall competition in the biotechnology industry.

There is a risk that regulators may approve competitors' products in the same indications ahead of those of 4SC, whether this is due to their possibly superior efficacy or tolerability. 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. This could make it impossible for 4SC to enter into licensing partnerships for its proprietary compounds or cause a cooperation or licensing partner to fail in its efforts to advance or market these. 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.

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, e.g. 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 results of operations, financial position and net assets.

Product development (general)

(ii)
Lengthy product development in a complex environment

The success of 4SC depends on the various 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 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, which could result in a delay in development or in relevant data not being usable.
- The responsible authorities do not grant the requisite approvals at all or only with restrictions or after a delay.

4SC has several drug candidates at present that are in early-stage and clinical development phases. The risks arising from and dependence on a single compound can be reduced by maintaining a diversified product pipeline, although all products cannot be weighted equally in terms of their value. 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 Company's results of operations, financial position and net assets and its stock exchange valuation.

Trends in healthcare policy

(i)
Major changes for the healthcare systems

In the medium to long term, the pharma and biotech industry is dependent to a certain degree on trends in national and international healthcare systems. It is increasingly the aim of healthcare policy to lower healthcare costs. More and more restrictive regulatory and reimbursement conditions could have an adverse effect on achievable drug prices and thus impact revenue from drug sales and royalties. 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. Health insurance funds and government institutions are increasing the pressure to reduce prices for medication. The benefit of medications is 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 such measures to continue 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 the German market. 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

(i)
Partnerships are an important contribution to project financing

The 4SC Group specialises in researching and developing small-molecule compounds for the treatment of cancer and autoimmune diseases. Achieving profitability and securing independent financing require 4SC to generate revenue, for instance from upfront payments, milestone payments or royalties under licence agreements with pharmaceutical and biotech companies as well as under research and cooperation agreements. The revenue generated to date is not yet sufficient for this purpose. 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 suitable agreements with the pharmaceutical industry or other biotechnology companies. The development of the respective products could be delayed and/or result in lower revenue and thus reduce the project's value 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. If 4SC were to be dependent on a partnership or financing for further clinical development of a product (e.g. for very resource-intensive clinical trials, such as the planned pivotal trial programme with resminostat in HCC), this could delay clinical development. The receipt of possible upfront payments, which the Company aims for at the start of such partnerships, could also be delayed. This in turn would adversely affect the financial and liquidity planning of the Company. 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 under this partnership, which, in turn, could further delay – or indeed prevent – the company's achievement of medium-term profitability.

Marketing risks (newly accrued risk)

(ii)
Strong partners as a prerequisite for successful marketing of compounds

4SC has marketed only a small number of products so far and does not possess a distribution or marketing structure. The Company must cooperate with other entities to market its drug and product candidates. Hence the revenue of 4SC will also depend on the performance of its cooperation partners. The extent to which the Company can influence the given entities is limited moreover. 4SC will generally participate in the revenue generated from its products through licence fees and payments contingent on reaching previously defined targets (milestone payments). The Company's net assets, financial position and results of operations might be negatively affected to a material extent if the Company fails to close the requisite distribution and marketing cooperation agreements at reasonable terms, if such cooperation agreements do not bring about the expected success or if existing cooperation agreements are terminated or if their terms are modified. A decision by 4SC to establish its own distribution and marketing organisation in certain regions would entail a substantial expenditure in terms of money

and time. The establishment of such entities can also run into unforeseen difficulties or fail altogether. In turn this could delay the market launch of the Company's products. This could also have a significantly negative impact on the Group's net assets, financial position and results of operations.

Cooperation partners

4SC currently generates most of its revenue from agreements with a few cooperation partners, with LEO Pharma A/S, Denmark, BioNTech AG, Mainz, and Yakult Honsha Co., Ltd., Japan, accounting for more than 90% of revenue in 2013. If one or more of these important partnerships were to be terminated, if payments were not made, or if planned new partnerships did not materialise, this would have an adverse effect on the Company's revenue and earnings. Since early 2012, 4SC has aimed to generate higher revenue from activities in the earlier stages of drug research, particularly through entry of the subsidiary 4SC Discovery GmbH into research and licensing partnerships with pharmaceutical and biotech firms in the areas of drug discovery and optimisation. Failure by 4SC to continue 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 results of operations and financial position.

(i)
4SC Discovery GmbH on right track to financial independence

Business activities of 4SC Discovery GmbH

Formed in 2012, the research subsidiary 4SC Discovery GmbH was able to generate a positive cash flow from operations and thus to boost the Group's financing for the first time in the 2013 financial year. 4SC Discovery GmbH's goal is to consolidate this success in the coming year and build an independent, growing business in the medium term that will continue to make a positive contribution to the Group's earnings. If the company were unable to generate sufficient income from existing collaborations and new business, 4SC Discovery GmbH would be forced to rely on support from 4SC AG, which in turn would negatively impact the financial situation of the Group as a whole.

Patents and trademarks

4SC protects its proprietary technologies and developments through 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. 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 formulate, optimise and produce the actual drug. 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 ongoing clinical studies or in the postponement or cancellation of individual clinical studies with the attendant consequences for the development of the respective drugs and/or losses in revenue.

(i)
Reliable service partners are key for the drug development process

4SC is also dependent on contract research organisations (CROs) in connection with preclinical and clinical development. Any failure on the part of a 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 start of the pivotal clinical test phase, a production process should 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. If such a process fails to be established or is delayed, this may delay or prevent 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

Another risk of drug development is the necessity to recruit a sufficient number of suitable subjects or patients for clinical studies. This can 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 or a centre’s internal organisational processes show sustained quality deficiencies. In turn, this could jeopardise the studies' timeline and execution and result in delays. To push forward with the studies, 4SC might thus 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, thereby narrowing its product pipeline. This could have a negative impact on the Company's competitive position and adversely effect its results of operations, financial position and net assets or even render it insolvent.

Based on the funds currently available to the Company and the currently forecast income and expense planning as well as the financing agreement for convertible notes signed after the reporting period with YA Global Master SPV Ltd. (Yorkville), the Company is now in the position to guarantee continued business activities for the next twelve months and beyond. Nonetheless, if the Company were unable to generate sufficient funds from outlicensing, collaborations or partnerships, it would continue to be dependent on the capital markets to raise equity and/or obtain borrowed capital. 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.

(i)
Additional funds for operational development activities required

Influence exerted by a few principal shareholders

As defined by section 21 of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) in conjunction with section 25 of the WpHG, 4SC 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

(i)
Conservative financial investments and hedges to minimise risk

The Company invests free cash in a way that generates 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. For this purpose, 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) 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 that are offset against equity. At such time that – despite the share premium from the issued shares – a loss is incurred amounting to half of the share capital under German commercial law, section 92(1) AktG requires the immediate convening of a general meeting. This risk already materialised upon publication of the ad-hoc announcement on 12 March 2013. The notice of loss and the holding of such a General Meeting resulted in organisational and financial expenditures for 4SC and had a negative impact on the price of its shares, among others because of the notice of loss. If 4SC AG were to increase its share capital again, for instance by way of a capital measure, and if its share capital were to again be halved within the meaning of section 92(1) AktG in the course of its business operations due sustained losses, the Company would again be exposed to this risk.

Overindebtedness

As described in the previous paragraph, the loss carryforward accumulated over time is offset against existing equity, which could be reduced repeatedly if the loss carryforwards are not decreased or if no new equity is added. In an extreme case, the cumulative losses could reduce the existing equity down to zero or cause it to be negative, which could lead de facto to the Company's overindebtedness in accounting terms and therefore to a mandatory insolvency filing if the prognosis for the Company's continued existence as a going concern were not positive.

Allowance of tax loss carryforwards

Pursuant to the last notification received concerning the separate determination of residual loss carryforwards as at 31 December 2012, 4SC has corporate tax loss carryforwards of €129,783 thousand and trade tax loss carryforwards of €128,954 thousand. In the period since 31 December 2012, which to date has not been subject to a tax assessment, considerable additional losses were incurred. As a result, the loss carryforwards for corporate income tax are expected to increase to approximately €141,094 thousand and the loss carryforwards for trade tax will likely rise to some €140,265 thousand as at 31 December 2013.

(i)
Uncertainty regarding taxes because of pending court cases

As at 1 January 2008, the application of section 8c of the German Corporate Income Tax Act (Körperschaftsteuergesetz - KStG) relating to the use of cumulative loss carryforwards, which is problematic for the industry, was introduced under 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, there continues to be 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. Section 8c of the KStG could have a negative impact on 4SC's future after-tax results and equity. 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 in connection with the impairment losses on capitalised assets in the case of discontinuation of certain development programmes

4SC's statement of financial position contains capitalised assets in the fixed assets item, for instance in the form of intangible assets and patents from acquired or transferred development programmes and goodwill, which are subject to an inherent risk of losing value. An impairment loss must be recognised if the regular impairment test reveals that there are objective indications of impairment which, in turn, arise from events that may have occurred after the initial measurement of the asset or if the termination of programmes is resolved. This would have a negative effect on the net assets, financial position and results of operations of 4SC because such impairment losses must be recognised in profit or loss.

6.2.6 Administrative and other risks

The success of 4SC largely depends on its senior management and qualified 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

(i)
Professionals and executives are key for corporate success

employment terms. However, if the Company were to lose key managerial, scientific or technical personnel who could not be replaced adequately, or could be replaced only after a considerable delay or by incurring substantial search and hiring costs, this could be detrimental to the Company's competitiveness and/or earnings situation.

Legal risks

In the course of its business activities, the Company is subject to a variety of risks relating to corporate law, labour and tax law, patent law and other types of law. In order to reduce these to a minimum and to additionally prevent the occurrence of legal errors, 4SC's management takes many of its decisions after consultation with experts in and outside of the Company, such as specialised lawyers.

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

From today's perspective, the Company perceives only a few factors that could jeopardise the existence of 4SC as a going concern in the 2014 financial year, taking all aforementioned risks into account. The Company is convinced that its opportunities outweigh any of the risks related especially to the development and financing of drug candidates. Thanks to its attractive and diversified pipeline, its technical expertise and existing early-stage research partnerships, 4SC is positioned well. The funds at 31 December 2013 in connection with the currently projected expense and revenue planning as well as the financing agreement for convertible notes signed after the reporting period will secure 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. If the assumptions underlying current planning regarding the cash accruing to the Company from collaborations and partnerships and from potential financing deals do not materialise to a sufficient degree, there is a risk that the Company's financing could be insufficient in view of the Company's current cash reach. This would mean that the Company's continued existence would be at risk if additional equity or borrowed capital cannot be secured.

(ii)
Liquidity risk meant to be reduced further through additional partnerships

6.3 Opportunities of 4SC

Project-related progress enhances the Company's enterprise value

Several of 4SC's products might reach important research and development 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 new clinical trials with compounds are started or such compounds successfully complete a study phase.

(i)
Potential by applying existing compounds in new indications

Single product candidates can generate several programmes

In the past, 4SC's research and development programmes have shown repeatedly that a single compound can be suitable for use in various indications. This can enlarge the product pipeline, increase the value of the respective project, and enable 4SC to achieve risk diversification. One such example is the oncological compound resminostat, which has been or is being evaluated by 4SC and its partner Yakult Honsha Co., Ltd. in clinical studies in a total of four indications to date: liver cancer (hepatocellular carcinoma – HCC), lymph node cancer (Hodgkin's lymphoma – HL), colon cancer (colorectal carcinoma – CRC), and non-small cell lung cancer (NSCLC).

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

(ii)
Potential partnerships meant to secure cash flow and boost product value

4SC is involved in intensive and regular discussions with potential partners in the pharmaceutical industry. These days, pharmaceutical companies are entering into cooperation agreements and licensing partnerships for new products at increasingly earlier development stages. 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 results of operations, financial position and net assets.

Additional marketing of research enhances the Company’s enterprise value

(iii)
Early-stage research with potential for commercialisation

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, 67% 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 results of operations, financial position and net assets.

Takeovers

In addition to the in-licensing of compounds, pharmaceutical and biotech companies are also increasingly interested in acquiring entire companies to obtain access to promising compounds and noteworthy technologies. This trend has been underscored by very lively M&A activity in this industry in recent years. 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, results of operations and net assets.

7. REPORT ON POST-BALANCE SHEET DATE EVENTS

(i)
Convertible bond provides financial relief

In February 2014, 4SC signed an agreement with YA Global Master SPV Ltd. (Yorkville) according to which Yorkville agreed to underwrite convertible bonds in the amount of €15 million at an issuing price of 95% of the nominal amount. According to this agreement, which runs until 31 December 2016, 4SC can issue convertible bonds in tranches of €500 thousand each at its discretion. The proceeds will contribute significantly to the short- and medium-term financing of the Company and financing of the operational preparations for the planned late-phase development of resminostat in the indication of liver cancer. The first tranche consisting of convertible bonds with a nominal amount of €500 thousand was successfully issued in early March 2014.

(ii)
Further change on the Management Board

Management Board member Dr Bernd Hentsch will step down from the Company when his contract expires on 31 March 2014. In the future, Dr Daniel Vitt, who has been the Management Board member in charge of research and technology up to now, will also take responsibility for development, which had been Dr Hentsch's remit to date. Plans are that Dr Hentsch will continue to make his development expertise available to 4SC as a consultant after 31 March 2014.

8. REPORT ON EXPECTED DEVELOPMENTS

The following paragraphs contain forecasts and expectations regarding future developments. Actual results might differ substantially from these estimates of likely developments if uncertainties were to arise or if the assumptions underlying the forward-looking statements turn out to be incorrect.

8.1 Macroeconomic and sector development

(iii)
Growth for global economy anticipated

After six consecutive downward revisions of its forecasts, the International Monetary Fund (IMF) revised its expectations for global economic performance upward again in January 2014. The organisation now anticipates global economic growth of 3.7% for 2014 (2013: 3.0%) due to various factors, especially an improved economic situation in the industrialised countries. However, the positive trend depends principally on the central banks not curtailing their economic support measures too quickly.

For the emerging economies, the IMF projects growth of 5.1% for the current year (2013: 4.7%), with China and India taking the top positions once again at 7.5% (2013: 7.7%) and 5.4% (2013: 4.4%), respectively. The IMF puts expansion in the industrialised countries at 2.2% (2013: 1.3%). The US economy is performing particularly well and is slated to grow by 2.8% (2013: 1.9%). An increase in economic output by 1.0% (2013: -0.4%)

is expected for the euro zone as well – after two years of recession. This rise is driven primarily by the German economy, which in turn is anticipated to grow by 1.6% (2013: 0.5%).

Experts believe that the chances are good for continued positive development of the biotechnology sector. After a record year in 2013 – both in terms of market approvals and clinical successes as well as on the capital markets – this trend could continue this year, as the initial weeks of 2014 have already demonstrated. In the United States in particular, where investments in biotech companies were strong in the past year, there is widespread agreement that the industry has fundamentally entered a new product cycle and has thus laid the foundation for further growth going forward.

(i)
Plenty of activity in late-stage development in the biotech market expected

In this context, the industry information service BioCentury determined that at least 46 decisions on market approval were pending at the beginning of the year. Pivotal milestones or Phase III trial results are additionally expected for a total of 104 drug candidates. On the capital market side, 24 biotech firms had already announced IPOs at the start of the year, 16 of which will take place on the NASDAQ technology exchange in the USA. For 2014 as a whole, capital market participants expect the number to fall between the total for 2012 (25 IPOs) and 2013 (59 IPOs).

However, in view of the high valuation levels of US biotech shares, investors anticipate a slowdown or even reverse in the capital market trend and are increasingly turning to undervalued international stocks – a development that could potentially benefit 4SC.

The outlook of the German biotechnology industry is also markedly more optimistic than in prior years. According to a survey published by industry association BIO Deutschland in mid-January 2014, the responding companies view both their current and future business situations more positively than they did before the new year. For the first time in three years, they also plan to hire additional staff. This positive mood has undoubtedly been buoyed by the fact that – despite a lack of IPOs – German biotech companies were able to raise capital totalling €360 million in 2013. Year-on-year, this represents an increase of around 20%. Nonetheless, the financing situation of many, particularly smaller, companies will remain strained again this year.

8.2 Company outlook

Further operating and strategic development

(ii)
Strong focus on resminostat

In the 2014 financial year, the 4SC Group will continue to pursue the re-focused research and development strategy adopted in 2013. Activities will be concentrated on the continued development of those projects that offer the Company the greatest potential for growing value.

4SC has a product with excellent therapeutic and financial potential: resminostat. The initial focus of further development work will be placed on combination therapy with the cancer drug sorafenib in the indication of liver cancer. Alongside the re-focusing of the

development strategy as completed in May 2013, the Company has also modified its goal – as communicated last year in its Annual Report – of starting a Phase III registration trial in 2013 in second-line therapy for liver cancer (HCC), with support and funding to be provided by a pharmaceutical partner. Instead, 4SC is now pursuing the development of resminostat in first-line therapy for HCC. Currently, the Company plans to conduct a Phase II/III trial programme to validate the biomarker ZFP64 and then to use it subsequently for more targeted selection of the patient population for the Phase III stage. This could additionally improve the meaningfulness of the data by means of biomarker-based patient stratification. Moreover, in this development scenario, particularly after analysis of the Phase II results, answers could be obtained based on randomised and controlled data to the question of the efficacy of the resminostat-sorafenib combination, which is important in terms of discussions with potential pharmaceutical partners. The initial focus here is on preparation of the Phase II stage. In parallel, 4SC will also incorporate findings from the ongoing, open, randomised Phase I/II trial in first-line therapy for HCC as conducted by its Japanese development partner Yakult Honsha Co., Ltd. in development planning for resminostat. In addition, 4SC will also consider the application of resminostat in second-line therapy for HCC as an appealing alternative development option.

(i)
Emphasis on study programme in HCC first-line therapy

4SC is currently working together with service partners on the creation of study protocols and on process optimisation work targeting the compound formulation for tablet production. The next step will then be to discuss the study plans with regulatory agencies to incorporate any amendments to the study protocol as desired by regulators and to then submit the application for performing the clinical trial programme.

(ii)
Secure financing for Phase II part with resminostat in liver cancer

Alongside these operational preparations, 4SC continues to engage in discussions with potential regional and global partners and investors with a view to securing funding for the planned study programme, and the Phase II stage of the HCC first-line scenario in particular. The study programme can commence only once all of these preconditions have been met. Assuming adequate funding is secured, the Company currently expects that it will be in a position to submit the study programme application before the end of the year.

Two other innovative anti-cancer compounds with major potential, 4SC-202 and 4SC-205, are currently in Phase I clinical trials. In 2013, the positive tolerability shown by the epigenetic compound 4SC-202 enabled a wide range of new doses and dosage regimes to be tested on patients with advance haematological tumours as part of the Phase I TOPAS trial. These activities accordingly delayed the release of initial study data originally planned for the end of 2013. Based on the current status of the trial, the Management Board expects initial findings to be announced in the second quarter of the current year. A similar situation applies to the ongoing Phase I AEGIS trial with the oral cell division inhibitor 4SC-205, which will now be investigated only in patients with a specific disease condition (lung tumours and/or metastases) and by applying an innovative dosage regime newly introduced in late 2012. While this is a promising disease focus from both a clinical and research perspective, it nonetheless involves a slowdown in recruitment in comparison to the original schedule, on account of the smaller population of available patients. In light of this fact, the Company expects to complete the enrolment of the last three patients now needed during the second quarter, and further assumes that the findings from this study can be announced during the third quarter.

(iii)
Complete Phase I trial with 4SC-202 swiftly

As regards vidofludimus, its lead compound for autoimmune diseases, the 4SC is currently engaged in close talks with potential external partners designed to facilitate the joint acquisition of investors. Their support will be used to drive the further development of this drug candidate, particularly as regards a Phase IIb trial in the indication of Crohn's disease.

Overall, 4SC is seeking to secure further licensing deals with companies from the pharmaceutical and biotech sectors, to both establish and advance the further clinical development of its products. The aim is to achieve a short-term flow of funds while optimally exploiting the development programmes' value creation potential over the long term.

(i)
4SC Discovery on the look-out for additional strong partners

In addition to expanding its existing partnerships with CRELUX GmbH, LEO Pharma A/S and BioNTech AG, Group subsidiary 4SC Discovery GmbH is also seeking to acquire further research partnerships with pharmaceutical and biotechnology companies. The aim of such activities is to achieve business growth compared to 2013 while continuing to contribute to 4SC Group financing. 4SC Discovery GmbH is also planning to enter into further early-stage partnering deals in relation to its own research programmes: this strategy generates short-term earnings from advance payments while targeting potential performance-related milestone payments and royalty payments with the aim of securing long-term potential value for 4SC.

Financial forecast

The 4SC Group had funds of €4,899 thousand at the end of the 2013 financial year. Based on current revenue and expense planning and the convertible note agreement signed with YA Global Master SPV Ltd. (Yorkville) after the end of the reporting period, it is expected that these funds will suffice to finance the Company's activities for the next twelve months and beyond, but this does not include the launch of additional clinical trials. This forecast is based on the assumption that the average monthly operating cash burn rate in 2014 will be reduced to approximately €400 thousand and that the Company's research and development programmes will continue to run according to plan. Currently, the Company is working intensively on a number of options – such as the financing agreement for convertible notes signed with YA Global Master SPV Ltd. (Yorkville) after the reporting period ended – to secure 4SC's financing in general and to ensure the further development of our key assets even beyond the next twelve months specifically.

(ii)
Financing secured for more than twelve months

4SC expects its loss situation to continue into the short to medium term, although research and development costs for 2014 are currently expected to be much lower than in the previous year, additional clinical trials not included. The consolidated operating loss for the year should also improve further year-on-year thanks to the expected contributions by 4SC Discovery GmbH's activities to earnings and savings in human resources resulting from the restructuring completed in 2013.

From the start of the planned pivotal study programme with resminostat in the indication of liver cancer, development costs can be anticipated to rise sharply due to the associated expenses, which would in turn cause the cash burn rate and operating loss to increase again.

The Company's Management Board forecasts at least a break-even in cash flow from operating activities for 4SC Discovery GmbH for financial year 2014 thanks to the subsidiary's good operating performance to date, which has continued into the current financial year so far.

After successful completion of its efforts to focus corporate strategy in the third quarter of 2013, 4SC believes that it is positioned well for 2014 and beyond both in terms of substance and operations, thanks to its promising clinical development programmes, the flow of positive clinical news that is expected to continue in the short and medium term and the strengths in the area of early-stage research consolidated in 4SC Discovery GmbH. The short- to medium-term challenge remains obtaining sufficient financing to secure the rapid and systematic advancement of development candidates and the overall existence of 4SC.

(i)
Main objective is medium- to long-term financing for the further development of the pipeline

9. COURSE OF BUSINESS OF 4SC AG

The management report of the Group's parent, 4SC AG, and the Group management report of 4SC for the 2013 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 therefore also includes all mandatory components for 4SC AG.

(ii)
Explanations regarding the course of business and HGB single-entity financial statements of the parent company 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 34% of consolidated revenue in this area of business in 2013. 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 2013, 4SC AG had 47 employees, including three 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 Results of operations of 4SC AG (HGB)

(i)
Explanations regarding the HGB single-entity financial statements of 4SC AG

Revenue

4SC AG's revenue amounted to €1,601 thousand in the financial year just ended, an increase 15% compared with the previous financial year (2012: €1,396 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 (2012: €894 thousand) as well as allocations of development costs and costs of compound deliveries to cooperation partners of 4SC AG in the amount of €707 thousand (2012: €502 thousand).

Other operating income

4SC AG's other operating income decreased by 23% to €1,541 thousand (2012: €2,002 thousand). This item mainly includes income from cost allocations to affiliated companies resulting from ongoing clearing transactions with 4SC Discovery GmbH, for example in the form of oncharged personnel expenses and project costs, as well as investment grants and income from the reversal of provisions.

Staff costs

4SC AG's staff costs amounted to €4,272 thousand, down 4% from the prior year (2012: €4,469 thousand). This decrease is attributable to the adjustment of the personnel structure in the second quarter of 2013.

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

The increase in amortisation/depreciation and write-downs of intangible fixed assets and tangible fixed assets to €1,618 thousand (2012: €1,473 thousand) was influenced by the impairment charge on three capitalised patents in the amount of €718 thousand as well as pro-rata amortisation and depreciation.

Other operating expenses

4SC AG's other operating expenses were down 35% to €6,655 thousand (2012: €10,248 thousand). The major items here are third-party services provided by external and affiliated companies, legal and consulting costs, occupancy costs and investor relations costs. This decline resulted mostly from the lower figure for purchased third-party services in the reporting year due to the smaller number of clinical trials underway than in the previous year and ongoing cost-cutting measures.

Net finance income/loss

4SC AG's net finance income decreased to €52 thousand (2012: €230 thousand) as a result of lower interest income.

Cost of loss absorption

A loss of €1,959 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 loss from ordinary activities was reduced to €-11,311 thousand. This represents an improvement of 26% compared with the previous year (2012: €-15,274 thousand).

Extraordinary result

No extraordinary result was posted during the reporting year. The extraordinary result in the amount of €9,064 thousand shown in the previous year resulted 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 pushed up 4SC AG's net loss for the year by €5,091 thousand to €11,311 thousand (2012: loss of €6,220 thousand). Together with the loss carried forward from the previous year in the amount of €104,406 thousand, the net accumulated losses thus amount to €115,717 thousand.

9.2 Net assets of 4SC AG (HGB)

(i)
Explanations regarding the HGB single-entity financial statements of 4SC AG

Fixed assets

4SC AG's fixed assets declined year-on-year to €18,708 thousand as at the balance sheet date (2012: €23,116 thousand). This reduction was mainly due to the pro-rata depreciation and amortisation of fixed assets, the write-off of three patents acquired and the low level of new investments.

Current assets

The fall in current assets to €4,928 thousand at the close of the financial year (31 December 2012: €14,176 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 €4,224 thousand (31 December 2012: €11,932 thousand) as a result of the operating loss incurred by 4SC AG.

Equity

At €16,322 thousand as at 31 December 2013 (31 December 2012: €27,634 thousand), the decrease in the equity item was attributable to the loss for the year of €11,311 thousand. The accumulated deficit therefore rose to €115,717 thousand (31 December 2012: €-104,406 thousand).

The equity ratio decreased by 5.0 percentage points to 68.7% as at the reporting date (31 December 2012: 73.7%).

Other provisions

Other provisions decreased by 18% to €955 thousand (2012: €1,171 thousand), largely due to the reduced use of outsourced scientific services.

Liabilities

Liabilities decreased to €6,464 thousand as at 31 December 2013 (31 December 2012: €8,685 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 €1,959 thousand (31 December 2012: €2,712 thousand) was absorbed; liabilities also include €126 thousand (31 December 2012: €161 thousand) resulting from ongoing clearing transactions with the subsidiary. Furthermore, liabilities from the deferred income item were attributable to the upfront payment made by Yakult Honsha Co., Ltd. in 2011 in the amount of €3,575 thousand (2012: €4,469 thousand) and trade payables of €505 thousand (2012: €419 thousand).

Total assets/Total equity and liabilities

The total assets/total equity and liabilities of 4SC AG amounted to €23,742 thousand as at 31 December 2013, down 37% on the end-of-year figure for the previous year (31 December 2012: €37,501 thousand) due to the facts described above.

9.3 Financial position of 4SC AG (HGB)

(i) Explanations regarding the HGB single-entity financial statements of 4SC AG

Cash flows from operating activities

A total of €10,497 thousand was used for the operating activities of 4SC AG during the 2013 reporting period (2012: €-13,616 thousand). The change compared to the loss from ordinary activities of €11,311 thousand (2012: €-15,274 thousand) resulted largely from two conflicting circumstances during the financial year: the non-cash write-down in the amount of €1,618 thousand for one and the change in net working capital by €805 thousand for another.

Cash flows from investing activities

The cash inflows from investing activities in the reporting year amounted to €2,788 thousand (2012: €-2,826 thousand). The sale of financial assets generated cash inflows of €2,825 thousand (2012: €3,012 thousand).

Cash flows from financing activities

No cash flows from financing activities were generated in the reporting period (2012: €12,605 thousand).

Funds

The cash funds amounted to €2,224 thousand at the reporting date. Since additional funds of €2,000 thousand were invested in securities, The total funds of 4SC AG amounted to €4,224 thousand as at 31 December 2013 (31 December 2012: €11,932 thousand).

9.4 General statement regarding the Company's economic position

A key reason other operating expenses declined was the end of clinical trials. The focus on clinical development and adjustment of personnel structures led to additional cutting of expenses compared with the prior 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 €1,959 thousand under the control and profit transfer agreement concluded with 4SC Discovery GmbH triggered additional expenses. If the previous year's result is adjusted for extraordinary income resulting from fair value adjustments in the amount of €9,064 thousand, the loss for the year would have been

significantly lower, by 26% or €3,973 thousand. The Company had sufficient liquidity at all times during the 2013 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 the prior year. The economic development of 4SC AG proceeded according to plan in the 2013 financial year and up until the preparation of the management report in the 2014 financial year.

9.5 Events after the reporting period

The events after the reporting period are described in section 7 of the combined management report of the 4SC Group.

9.6 Risks and opportunities

(i)
Explanations regarding the performance of the parent company 4SC AG (according to HGB)

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. 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 of this combined management report.

4SC AG is also exposed to the following two risks:

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. Their carrying amount as at the closing date is €6,474 thousand.

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 results of operations and financial position of 4SC AG according to HGB.

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' results of operations, financial position and net assets. The same applies if, for example, a new shareholder of 4SC Discovery GmbH does not accept a new control and profit transfer agreement.

9.7 Report on expected developments (outlook)

(i)
Explanations regarding the performance of the parent company 4SC AG (according to HGB)

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 8.2 of the 4SC Annual Report. 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. 4SC AG's research and development expenses will fall below those of the reporting year according to current planning for 2014 and 2105, not including additional clinical trials. The operating loss for 2014 and 2015 should also improve further year-on-year thanks to the expected savings in human resources resulting from the restructuring completed in 2013. From the start of the planned pivotal study programme with resminostat in the indication of liver cancer, development costs can be anticipated to rise sharply due to the associated expenses, which would in turn cause the cash burn rate and operating loss to increase again. Overall, 4SC AG is still forecasting a net loss for the year in the short and medium term, which might be slightly lower in 2014 and 2015 than in the reporting period.

4SC AG had funds of €4,224 thousand at the end of the 2013 financial year. Based on the statements in the Group's report on anticipated developments in section 8 and the control and profit transfer agreement with the wholly-owned subsidiary 4SC Discovery GmbH, the financing of the parent company, 4SC AG, is ensured for the next twelve months and beyond. 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 2014 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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FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS OF 4SC

for the financial year from 1 January to 31 December 2013

// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in €000's

	Consolidated notes	2013	2012
Revenue	4.1	4,904	4,353
Cost of sales	4.3	-1,474	-327
Gross profit		**3,430**	**4,026**
Distribution costs	4.4	-503	-597
Research and development costs	4.5	-10,243	-12,909
Administrative costs	4.6	-3,310	-3,916
Other income	4.7	34	30
Operating profit/loss		**-10,592**	**-13,366**
Net finance income/loss			
Share in the profit of equity-accounted investees	4.9	19	33
Finance income	4.9	58	137
Finance costs	4.9	-10	-11
Net finance income/loss		**67**	**159**
Earnings before taxes		**-10,525**	**-13,207**
Income tax expense	5.	0	-10
Profit/loss for the period = Consolidated comprehensive income/loss		**-10,525**	**-13,217**
Earnings per share (basic and diluted; in €)	6.	-0.21	-0.29

See the attached consolidated notes

// CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS

in €000's

	Consolidated notes	31.12.2013	31.12.2012
Non-current assets			
Intangible assets	7.1	10,651	12,223
Property, plant and equipment	7.2	602	787
Investments accounted for using the equity method	7.3	181	154
Other investments	7.4	0	0
Other assets	7.10	157	162
Non-current assets		**11,591**	**13,326**
Current assets			
Inventories	7.5	23	22
Trade accounts receivable	7.6	346	3,084
Other financial assets	7.7	1,000	5,988
Cash and cash equivalents	7.8	3,899	6,076
Current income tax assets	7.9	73	127
Other assets	7.10	773	444
Current assets		**6,114**	**15,741**
Total assets		**17,705**	**29,067**

See the attached consolidated notes

// CONSOLIDATED STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

in €000's

	Consolidated notes	31.12.2013	31.12.2012
Equity			
Subscribed capital		50,372	50,372
Share premium		78,355	78,414
Reserves		1,815	1,762
Accumulated deficit		-119,260	-108,735
Equity	7.11	**11,282**	**21,813**
Non-current liabilities			
Other liabilities	7.14	154	180
Deferred income	7.14	2,682	3,575
Non-current liabilities		**2,836**	**3,755**
Current liabilities			
Trade accounts payable	7.12	675	584
Accounts payable to associates	7.13	28	10
Other liabilities	7.14	1,561	2,011
Deferred income	7.14	1,323	894
Current liabilities		**3,587**	**3,499**
Total equity and liabilities		**17,705**	**29,067**

See the attached consolidated notes

// CONSOLIDATED STATEMENT OF CASH FLOWS

in €000's

	Consolidated notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before taxes		-10,525	-13,207
Adjustment for statement of comprehensive income items			
Depreciation and amortisation	4.8	1,873	1,714
Net finance income/loss		-67	-158
Stock options		53	130
Other non-cash items		-23	-31
Changes in statement of financial position items			
Inventories		-1	3
Trade accounts receivable		2,738	-2,969
Receivables from investees		0	2
Current income tax assets		54	-58
Other assets		-324	298
Trade accounts payable		91	-121
Accounts payable to associates		18	-19
Provisions		0	-45
Other liabilities		-477	28
Deferred income		-463	-894
Interest received		74	174
Interest paid		-8	-11
Income taxes paid		0	-10
CASH FLOWS FROM OPERATING ACTIVITIES	8.	**-6,987**	**-15,174**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		-21	-51
Purchase of property, plant and equipment		-99	-50
Sale of property, plant and equipment		10	10
Sale of equity investments		-9	142
Purchase of financial investments		-1,000	-5,988
Sale of financial investments		5,988	9,000
CASH FLOWS FROM INVESTING ACTIVITIES	8.	**4,869**	**3,063**
Cash flows from financing activities			
Payments to subscribed capital		0	8,404
Payments to share premium		-59	2,963
CASH FLOWS FROM FINANCING ACTIVITIES	8.	**-59**	**11,367**
NET CHANGE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS		**-2,177**	**-744**
+ Cash and cash equivalents at the beginning of the period		6,076	6,820
= CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**3,899**	**6,076**

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		Accumulated deficit	Total
				Reserves stock options	Retained earnings		
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	7.11	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**
Balance on 01.01.2013		**50,372**	**78,414**	**1,695**	**67**	**-108,735**	**21,813**
Options issued (ESOP 2009/2009)				47			47
Options issued (ESOP 2009/2010)				2			2
Options issued (ESOP 2009/2011)				4			4
Preparatory expenses for future capital increases			-59				-59
Consolidated comprehensive income/loss 2013						-10,525	-10,525
Consolidated profit/loss 2013						*-10,525*	*-10,525*
Balance on 31.12.2013		**50,372**	**78,355**	**1,748**	**67**	**-119,260**	**11,282**

See the attached consolidated notes

For more information on components and changes in equity, see item "7.11 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 28 January 2014, with the most recent entry dated 14 May 2013, has been made available. The Articles of Association as amended on 2 May 2013 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) as an affiliated in accordance with IAS 27.

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.

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

Company/Domicile	Measured as	Measured acc. to
Panoptes Pharma Ges.m.b.H., Vienna, Austria	Associate	IAS 28
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

Since July 2013, 4SC Discovery GmbH has held a 24.9% equity interest in Panoptes Pharma Ges.m.b.H based in Vienna, Austria. 4SC Discovery GmbH 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 Discovery GmbH and this associate.

1.4 Release of the financial statements

The Management Board approved the consolidated financial statements for release on 13 March 2014. 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 of the consolidated financial statements

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 intra-group 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

None of the standards amended or newly issued by the IASB which must be applied to the consolidated financial statements for the period ended 31 December 2013 affect the consolidated financial statements of 4SC.

Accounting standards issued, but not yet applied

The IASB recently issued the following new or amended standards relevant to 4SC from the current perspective. However, since these standards are not required to be applied or have not yet been adopted by the EU, they were not applied to the consolidated financial statements for the period ended 31 December 2013. The new standards or amendments to existing standards must be applied in financial years beginning on or after the date they enter into force. They are not usually applied earlier, even though some standards permit this.

Standard	Titel	Effective date*	Expected effect on future consolidated financial statements
IFRS 10	IFRS 10: Consolidated Financial Statements	01.01.2013	No material
IFRS 11	IFRS 11: Joint Arrangements	Mandatory	effects
IFRS 12	IFRS 12: Disclosures of Interests in Other Entities	application	
Amendments to	IAS 27: Separate Financial Statements	postponed to	
IAS 27		01.01.2014	
Amendments to	IAS 28: Investments in Associates and Joint Ventures		
IAS 28			
IFRS 9	IFRS 9: Financial instruments	01.01.2015	Cannot be
			reliably
			estimated

*: For financial years beginning on or after the date

Moreover, some additional standards and interpretations have been issued which are not relevant to the consolidated financial statements from today's perspective.

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 equity interests in two companies via 4SC AG and in one company via 4SC Discovery GmbH; 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

equity interest in the investee falls significantly short of the 20% limit and the Company has no business transactions with Quiescence Technologies LLC and is not part of the executive committee. The equity interest in Nexigen GmbH entails securities that must be classified as available for sale pursuant to IAS 39. They are measured at the fair value in accordance with IAS 39.46.

In early July 2013, 4SC Discovery GmbH sold the worldwide, exclusive rights to its substance SC53842 and its derivatives to Panoptes Pharma Ges.m.b.H., Vienna, Austria. This substance will be developed by Panoptes for eye diseases, but can also be used in other indications with the exception of inflammatory bowel disease (IBD) and rheumatoid arthritis (RA) for which 4SC Discovery GmbH retains the rights. In return, 4SC Discovery GmbH received a direct equity investment of 24.9% as well as claims to later performance-based milestone payments and royalties based on the sales revenue generated with the compound. It has no 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.

Inventories

Inventories of raw materials and consumables are recognised at the lower of cost and net realisable value in accordance with IAS 2.9. The FIFO method is applied for allocation purposes in accordance with IAS 2.27.

Trade accounts receivable

Trade accounts receivable are recognised at the original invoiced amount less allowances for bad debts. These allowances for bad debts are based on the management's assessment of the recoverability of specific customer accounts receivable and are made insofar as there are objective indications that the amounts due will not be paid in full in accordance with the invoice terms originally agreed.

Receivables from associates

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

Allowances for bad debts are based on the management's assessment of the recoverability of specific accounts receivable and are made insofar as there are objective indications that the amounts due will not be paid in full in accordance with the terms originally agreed.

Other financial assets

The other financial assets are financial instruments as defined by IAS 39. Depending on the individual case, the are classified as follows:

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

Classification of financial assets into measurement categories is made on initial recognition.

Financial instruments accounted for at fair value through profit or loss include securities which are allocated to the category "held for trading". Gains and losses from subsequent measurement are recognised in profit or loss in accordance with IAS 39.55a.

Financial instruments that are categorised as "available for sale" are measured at fair value. The resulting gains and losses from measurement at fair value - with the exception of impairment losses in accordance with IAS 39.67 ff - are recognised directly in equity under revaluation surplus as per IAS 39.55b until the financial asset is derecognised. At that point in time, the cumulative gain or loss previously recorded in equity is reclassified to profit or loss. However, the interest calculated using the effective interest method is recognised in profit or loss. This measurement also applies to the equity investments in Quiescence Technologies LLC, which are also classified as available for sale in accordance with IAS 39.

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

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

In accordance with IAS 1.60, financial instruments are classified as non-current or current assets, depending on their remaining life as of the reporting date. Financial

instruments with a remaining life of more than one year as of the reporting date are shown as other 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 remuneration 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 or the option period.

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.

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 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 the term of the contract, the expected development period or based on the terms of the agreed options.

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
– Prorated overheads

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

Development costs are defined as expenses incurred to put research results into technical and commercial practice. They are recognised as intangible assets if 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 2013 and neither entity had to be consolidated or recognised as an investment accounted for using the equity method.

Furthermore, an assessment had to be made whether 4SC Discovery GmbH exercises control over Panoptes Pharma Ges.m.b.H., 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 Panoptes Pharma Ges.m.b.H. 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.

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 resminostat, 4SC-202, 4SC-205 and vidofludimus.

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:

// SEGMENT RESULTS FOR 2013

in €000's

	Development		Discovery & Collaborative Business		Not allocated		Consolidation		Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue (total)	**1,601**	**1,396**	**3,303**	**2,957**	**0**	**0**	**0**	**0**	**4,904**	**4,353**
External revenue	1,601	1,396	3,303	2,957	0	0	0	0	4,904	4,353
Intersegment revenue	0	0	0	0	0	0	0	0	0	0
Other income	**1,220**	**1,331**	**111**	**164**	**0**	**0**	**-1,297**	**-1,465**	**34**	**30**
Operating expenses	**-12,278**	**-13,660**	**-4,549**	**-5,554**	**0**	**0**	**-1,297**	**-1,465**	**-15,530**	**-17,749**
of which research and development costs	-8,479	-9,290	-2,606	-4,618	0	0	842	999	-10,243	-12,909
of which cost of sales, distribution costs and administrative costs	-3,799	-4,370	-1,943	-936	0	0	455	466	-5,287	-4,840
Segment result	**-9,457**	**-10,933**	**-1,135**	**-2,433**	**0**	**0**	**0**	**0**	**-10,592**	**-13,366**
Net finance income/loss	**-5**	**-3**	**0**	**-1**	**72**	**163**	**0**	**0**	**67**	**159**
Earnings before taxes	**-9,462**	**-10,936**	**-1,135**	**-2,434**	**72**	**163**	**0**	**0**	**-10,525**	**-13,207**
Income tax expense	0	0	0	-10	0	0	0	0	0	-10
Net profit/loss for the year	**-9,462**	**-10,936**	**-1,135**	**-2,444**	**72**	**163**	**0**	**0**	**-10,525**	**-13,217**
Item of the statement of financial position & fixed assets										
Current assets	129	303	652	3,219	5,333	12,219	0	0	6,114	15,741
Non-current assets	10,785	12,437	468	575	338	314	0	0	11,591	13,326
Total segment assets	**10,914**	**12,740**	**1,120**	**3,794**	**5,671**	**12,533**	**0**	**0**	**17,705**	**29,067**
Current liabilities	2,432	3,025	1,127	474	28	0	0	0	3,587	3,499
Non-current liabilities	2,823	3,748	13	7	0	0	0	0	2,836	3,755
Equity	0	0	0	0	11,282	21,813	0	0	11,282	21,813
Total segment liabilities	**5,255**	**6,773**	**1,140**	**481**	**11,310**	**21,813**	**0**	**0**	**17,705**	**29,067**
Investments	38	88	73	13	0	0	0	0	111	101
Depreciation, amortisation and impairment losses	1,686	1,542	187	172	0	0	0	0	1,873	1,714

The Discovery & Collaborative Business segment generated 67% of external revenue. A total of 38% of total revenue was from licensing and research agreements in Europe (excluding Germany), mostly from Denmark-based LEO Pharma A/S. Germany was responsible for 29% of total revenue, mostly from Mainz-based BioNTech AG. Another 33% of total revenue was generated by the Development segment with Yakult Honsha Co., Ltd. in Asia.

The external revenue of €1,601 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. Thanks to the licensing and research collaboration business, Denmark-based LEO Pharma A/S has become the single customer generating the highest revenue in the Discovery & Collaborative Business segment at €1,772 thousand. Another €1,279 thousand in external revenue is attributable to the research collaboration business with Germany's BioNTech AG. Of the trade receivables reported as at 31 December 2013, €78 thousand is accounted for by LEO Pharma A/S. A further €268 thousand was attributable to research collaboration, of which €266 thousand was generated in German markets and €2 thousand in Asia.

All non-current assets are based in Germany.

The item, "Unallocated current assets" in the reporting period principally comprise cash and cash equivalents of €4,899 thousand.

4. DISCLOSURES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

4.1 Revenue

Consolidated revenue increased year-on-year to €4,904 thousand (2012: €4,353 thousand). The Discovery & Collaborative Business segment contributed €3,303 thousand to consolidated revenue (2012: €2,957 thousand). Of this figure, €569 thousand accounts for the pro-rata reversal of the deferred income item for the partnership with LEO Pharma A/S, Denmark, entered into in 2013. An additional €2,734 thousand stems from service revenue from research collaborations.

The revenue in the Development segment of €1,601 thousand (2012: €1,396 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 (2012: €894 thousand) as well as allocations of development costs and deliveries of drug compounds, also to Yakult Honsha Co. Ltd., Japan, in the amount of €707 thousand (2012: €502 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

	2013	2012	Change in %
Salaries	4,869	5,093	-4
Social security contributions	904	895	1
Stock options	53	130	-59
Staff costs	**5,826**	**6,118**	**-5**
Employees and Management Board (annual average)	81	90	-10

The Company's staff costs decreased by 5% in 2013 to €5,826 thousand (2012: €6,118 thousand). This change occurred largely against the backdrop of a workforce reduction during the year from an average of 90 in 2012 to an average of 81 in 2013, triggered by an adjustment in the staff structure in mid-June, although none of the jobs affected by this were terminated until the reporting date. This resulted in a one-time contract termination expense of €144 thousand. Furthermore, in many cases and 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.

In the previous 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 €204 thousand in the reporting year (2012: €128 thousand). Of this amount, €45 thousand (2012: €18 thousand) are attributable to Management Board members. In addition, a total of €667 thousand (2012: €727 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 €53 thousand in staff costs arose in the 2013 financial year from the options (2012: €130 thousand); of this amount, €27 thousand (2012: €79 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

	2013	2012	Change in %
Staff	687	82	738
External services	328	88	273
Material	287	37	676
Depreciation and amortisation	80	69	16
Patents	73	0	n/a
Commission	0	49	-100
Other	19	2	850
Cost of sales	**1,474**	**327**	**351**

The increase in the cost of sales from €327 thousand in 2012 to €1,474 thousand in the reporting period can be attributed to the execution of the collaborative business consolidated in the Discovery & Collaborative Business segment. This is also reflected in the external services, staff costs, material and patents items.

4.4 Distribution costs

in €000's

	2013	2012	Change in %
Legal and other consulting	220	262	-16
Staff	146	168	-13
Travel and conferences	56	94	-40
Other	81	73	11
Distribution costs	**503**	**597**	**-16**

Distribution costs, which consist of the costs incurred by the Business Development and Strategic Planning & Marketing units, decreased by 16% year-on-year to €503 thousand during the reporting period (previous year: €597 thousand).

4.5 Research and development costs

in €000's

	2013	2012	Change in %
Staff	3,379	4,001	-16
External services	3,129	5,107	-39
Depreciation, amortisation and impairment losses	1,687	1,503	12
Patents	824	839	-2
Rental costs including ancillary costs	701	740	-5
Material	224	382	-41
Software licences	208	202	3
Travel and conferences	94	182	-48
Other	390	389	0
Grants (EU and Ministry of Education and Research)	-394	-436	-10
Research and development costs	**10,243**	**12,909**	**-21**

Research and development costs declined by 21% to €10,243 thousand in 2013, from €12,909 thousand in 2012. 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 pivotal trial with resminostat in the liver cancer indication. One-off impairment losses of €718 thousand resulting from the focusing of the development strategy decided in mid-June also contributed to this development.

4.6 Administration costs

in €000's

	2013	2012	Change in %
Staff	1,614	1,869	-14
Investor Relations	427	513	-17
Legal and other consulting	369	459	-20
Rental costs including ancillary costs	222	214	4
Supervisory Board	154	141	9
Depreciation and amortisation	106	142	-25
Insurance, fees and contributions	95	125	-24
Travel and conferences	76	128	-41
External services	61	114	-46
Other	186	211	-12
Administrative costs	**3,310**	**3,916**	**-15**

Administrative costs amounted to €3,310 thousand in the reporting period, a reduction of 15% year-on-year (2012: €3,916 thousand). This was mainly due to the implemented cost-cutting measures and structural adjustments.

4.7 Other income

in €000's

	2013	2012	Change in %
Income from the sale of fixed assets	10	10	0
Insurance compensation payments	7	5	40
Other cost allocations	5	5	0
Cost allocations from research cooperation	0	3	-100
Sublease	4	0	n/a
Other	8	7	14
Other income	**34**	**30**	**13**

There was only a slight year-on-year increase in other income by 13% to €34 thousand in 2013 (2012: €30 thousand).

4.8 Depreciation, amortisation and impairment losses

in €000's

	2013	2012	Change in %
Amortisation of and impairment losses on intangible assets	1,593	1,403	14
Depreciation of property, plant and equipment	280	311	-10
Depreciation, amortisation and impairment losses	**1,873**	**1,714**	9

Depreciation, amortisation and impairment losses increased by 9%, from €1,714 thousand in 2012 to €1,872 thousand in 2013. 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 €718 thousand was recognised as a one-off impairment loss in connection with the focussing of activities resolved in mid-June. 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 investments in quattro research GmbH and Panoptes Pharma Ges.m.b.H. Further explanation can be found under item "7.3. Investments accounted for using the equity method".

in €000's

	2013	2012	Change in %
Share in the profit/loss of quattro research GmbH	27	33	-18
Share in the profit/loss of Panoptes Pharma Ges.m.b.H.	-8	n/a	n/a
Profit/loss from investments accounted for using the equity	**19**	33	**-42**

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

in €000's

	2013	2012	Change in %
Interest-bearing investment of cash and cash equivalents	53	129	-59
Income from exchange rate differences	4	6	-33
Securities measured through profit or loss	1	2	-50
Finance income	**58**	**137**	**-58**

The repeated decrease in finance income by more than 50% to €58 thousand in 2013 (2012: €137 thousand) was due 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

	2013	2012	Change in %
Expenses from exchange rate differences	9	10	-10
Other interest expense	1	1	0
Finance costs	**10**	**11**	**-9**

5. INCOME TAX, DEFERRED TAXES AND 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

	2013	2012	Change in %
Current tax expense	0	-10	-100
Deferred tax income	0	0	0
Income tax expense (-) / income (+)	**0**	**-10**	**-100**

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 2013 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 €83 thousand resulting from taxable temporary differences are set off against deferred tax assets in the same amount.

Deferred tax assets and liabilities as of 31 December 2013 and 31 December 2012 are distributed as follows across the statement of financial position:

in €000's

	2013	2012	Change in %
Deferred tax assets and liabilities			
Intangible assets	75	90	-17
Investments accounted for using the equity method	-2	2	50
Cash and cash equivalents	0	0	n/a
Other liabilities	10	10	0
Deferred tax assets	-83	-102	14
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:

in €000's

	2013	2012
Tax loss carryforward (in €000's)	139,742	128,870
Reduction for deferred tax liabilities (in €000's)	-315	-387
Effective tax rate (in %)	26.33	26.33
Value of the tax loss carryforwards (in €000's)	**36,711**	**33,830**

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

	2013	2012
Earnings before taxes	-10,525	-13,207
Expected tax income at a tax rate of 26.33% (2012: 26.33%)	2,771	3,477
Income (+)/expense (-) shown in the income statement	0	-10
Difference to be explained	**2,771**	**3,487**
Unrecognised tax loss carryforwards	2,648	3,696
Non-deductible expenses	23	20
Ineligible foreign withholding tax	0	7
Other differences	100	-236
Total reconciliation	**2,771**	**3,487**

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).

	2013	2012
Based on profit/loss for the year (in €000's)	-10,525	-13,217
Based on average number of shares (in thsd.)	50,372	46,170
Earnings per share (basic and diluted, in €)	**-0.21**	**-0.29**

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 "7.11 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

	Useful life from xx to xx Years	Cost				Amortisation and impairment losses				Carrying amounts	
		Balance on 01.01.2013	Additions 2013	Diposals 2013	Balance on 31.12.2013	Balance on 01.01.2013	Balance 2013	Diposals 2013	Balance on 31.12.2013	Balance on 31.12.2013	Balance on 31.12.2012
Intangible assets											
Software and patents	2-20	14,209	1	0	14,210	4,115	1,513	0	5,628	8,582	10,094
Customer loyalty	5.75	460	20	0	480	117	80	0	197	283	343
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**16,455**	**21**	**0**	**16,476**	**6,018**	**1,593**	**0**	**5,825**	**10,651**	**12,223**

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

In €000's

	Useful life from xx to xx Years	Cost				Amortisation and impairment losses				Carrying amounts	
		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**

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 €1,101 thousand and €5,694 thousand (previous year: €1,191 thousand to €6,200 thousand) whose residual amortisation period is between 11.25 years and 13.17 years (previous year: 12.25 to 14.17 years).

Additions in the reporting year essentially relate to an asset resulting from customer loyalty within the meaning of IAS 38. The disposal concerns three acquired patents which were impaired in the course of focussing operations on the Company's value drivers.

The amortisation and impairment 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

	2013	2012	Change in %
Cost of sales	80	69	16
Research and development costs	1,481	1,293	15
Administrative costs	32	41	-22
Amortisation of intangible assets	**1,593**	**1,403**	**14**

Goodwill

in €000's

	31.12.2013	31.12.2012	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 2013. 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 18.0% (previous year: 35.12%), 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 2033, 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 AG.

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

	Useful life from xx to xx Years	Cost				Amortisation and impairment losses				Carrying amounts	
		Balance on 01.01.2013	Additions 2013	Diposals 2013	Balance on 31.12.2013	Balance on 01.01.2013	Balance 2013	Diposals 2013	Balance on 31.12.2013	Balance on 31.12.2013	Balance on 31.12.2012
Property, plant and equipment											
Office equipment	8-14	167	0	3	164	121	10	0	131	33	46
Laboratory equipment	3-14	524	60	1	583	162	117	0	279	305	363
Leasehold improvements	3.5-14	526	0	0	9,526	270	63	0	333	193	256
Other operating and office equipment	3-13	155	0	0	155	122	14	0	136	19	34
IT equipment	3-13	405	19	0	424	332	41	0	373	51	73
Other	0-5	147	20	20	147	131	35	20	146	1	16
Property, plant and equipment		**1,924**	**99**	**24**	**1,999**	**1,138**	**280**	**20**	**1,398**	**602**	**787**

* The historical cost of the property, plant and equipment shown in the previous year contains assets that were transferred from 4SC AG to 4SC Discovery GmbH in the 2012 financial year. These were adjusted in the current financial year.

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

in €000's

	Useful life from xx to xx Years	Cost				Amortisation and impairment losses				Carrying amounts	
		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**

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

	2013	2012	Change in %
Research and development costs	206	210	-2
Administrative costs	74	101	-27
Depreciation of property, plant and equipment	**280**	**311**	-10

7.3 Investments accounted for using the equity method

Investments accounted for using the equity method concerns shares held in quattro research GmbH and Panoptes Pharma Ges.m.b.H. The respective key figures of quattro research GmbH as of 31 December 2013 are as follows:

in €000's

	2013	2012	Change in %
Revenue	1,252	1,254	0
Net loss for the year	56	68	-18
Total assets	801	669	20
Equity	502	446	13
Liabilities	299	223	34

The profit posted by quattro research GmbH raises the carrying amount of the shares held by 4SC to €181 thousand of the reporting date (31 December 2012: €154 thousand).

The respective key figures of Panoptes Pharma Ges.m.b.H., which was established on 1 July 2013, were as follows as of 31 December 2013:

in €000's

	2013	2012	Change in %
Revenue	0	0	n/a
Net loss for the year	-379	0	n/a
Total assets	142	0	n/a
Equity	83	0	n/a
Liabilities	59	0	n/a

The loss posted by Panoptes Pharma Ges.m.b.H. lowers the carrying amount of the shares held by 4SC Discovery GmbH to €0 thousand as of the reporting date.

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.

in €000's

	31.12.2013	31.12.2012	Change in %
Equity investment in Quiescence Technologies LLC	0	0	n/a
Other investments	**0**	**0**	**n/a**

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

	31.12.2013	31.12.2012	Change in %
Consumables	20	20	0
Solvents	3	2	50
Chemicals	0	0	n/a
Inventories	**23**	**22**	**5**

Inventories increased by €1 thousand year-on-year.

Material costs amounting to €520 thousand (2012: €424 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

	31.12.2013	31.12.2012	Change in %
Germany	267	3,029	-91
EU	78	55	42
Import/Export	1	0	n/a
Trade accounts receivable	**346**	**3,084**	**-89**

On 31 December 2013, 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 mainly result from research cooperation deals with BioNTech AG and LEO Pharma A/S. No trade accounts receivable were due on the reporting date; they were paid in January and February 2014, respectively, as contractually stipulated.

7.7 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

	31.12.2013	31.12.2012	Change in %
Financial instruments with a remaining life of less than one year	1,000	5,988	-83
Fixed deposits with a remaining life of less than one year	0	0	n/a
Other financial assets	**1,000**	**5,988**	**-83**

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

The terms and conditions of financial assets as at 31 December 2013 were as follows:

in €000's

	Carrying amount	Term in months	Interest rate in %
Financial instruments with a remaining life of less than one year			
Deutsche Bank AG, borrower's note loan	1,000	2	0.62

7.8 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

	31.12.2013	31.12.2012	Change in %
Financial instruments with an original term of less than three months calculated from the date of acquisition	1,002	0	n/a
Bank balances	2,896	6,075	-52
Cash on hand	1	1	0
Cash and cash equivalents	**3,899**	**6,076**	**-36**

7.9 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 2013 and 2012 financial years, it has a tax refund claim with regard to the taxes it has paid.

in €000's

	31.12.2013	31.12.2012	Change in %
Current income tax assets	**73**	**127**	**-43**

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

7.10 Other assets

in €000's

	31.12.2013	31.12.2012	Change in %
Prepaid expenses	135	235	-43
Current tax assets	207	0	n/a
Rent deposit IZB West	157	157	0
Advances paid for third-party services	34	95	-64
Government grants	244	87	180
Prepaid interest	1	17	-94
Receivables from cost allocations to research collaborations	143	0	n/a
Other	9	15	-40
Other assets	**930**	**606**	**53**

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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Prepaid expenses	135	235	0	2	135	233
Current tax assets	207	0	0	0	207	0
Rent deposit IZB West	157	157	157	157	0	0
Advances paid for third-party services	34	95	0	0	34	95
Government grants	244	87	0	0	244	87
Prepaid interest	1	17	0	0	1	17
Receivables from cost allocations to research collaborations	143	0	0	0	143	0
Other	9	15	0	3	9	12
Other assets	**930**	**606**	**157**	**162**	**773**	**444**

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.

7.11 Equity

Share capital and shares

The share capital of 4SC as at 31 December 2013 amounts to €50,371,814.00. It is composed of 50,371,814 no-par value bearer shares. Each share represents €1.00 4SC's share capital, entailing one vote at the Annual General Meeting. Share capital is fully paid-in at this time.

4SC shares are securitised under global non-coupon certificates held in custody by Clearstream Banking AG, Frankfurt am Main, a central securities depository. The shareholder's right to issuance of individual certificates is excluded pursuant to article 6(3) of the Articles of Association of 4SC AG.

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
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 2 May 2013 authorised the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 1 May 2018, once or repeatedly, by up to €25,185,907.00 in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 25,185,907 new no-par value bearer shares (Authorised Capital 2013/I).

Share premium

The share premium consists of premiums paid by shareholders in the course of capital increases executed in financing rounds. Pursuant to IAS 32.35, transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Reserves

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

The ESOP reserve amounting to €1,747 thousand (previous year: €1,695 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 2013 remained unchanged compared to the previous year.

Appropriation of earnings

The accumulated deficit of €119,260 thousand (previous year: €108,735 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. 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. Due mainly to the net loss posted for the year, equity fell from €21,813 thousand as at 31 December 2012 by €10,531 thousand to €11,282 thousand as at 31 December 2013.

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

7.12 Trade accounts payable

in €000's

	31.12.2013	31.12.2012	Change in %
Germany	551	436	26
EU	29	76	-62
Other countries	95	72	32
Trade accounts payable	**675**	**584**	**16**

Trade accounts payable increased by 16% year-on-year. They primarily result from outsourced scientific services and patent services, but also from legal and consulting services invoiced at the end of the year.

7.13 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 €28 thousand owed results from the December bill (31 December 2012: €10 thousand).

7.14 Other liabilities and deferred income

in €000's

	31.12.2013	31.12.2012	Change in %
Deferred income	4,005	4,469	-10
Accrued liabilities	1,418	1,667	-15
Tax liabilities (value-added tax)	0	286	-100
Advances received	175	114	54
Liabilities related to social security	122	103	18
Prepaid expenses	0	20	-100
Other payables	0	1	0
Other liabilities	**5,720**	**6,660**	**-14**

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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Deferred income	4,005	4,469	2,682	3,575	1,323	894
Accrued liabilities	1,418	1,667	154	180	1,264	1,487
Tax liabilities (value-added tax)	0	286	0	0	0	286
Advances received	175	114	0	0	175	114
Liabilities related to social security	122	103	0	0	122	103
Prepaid expenses	0	20	0	0	0	20
Other payables	0	1	0	0	0	1
Other liabilities	**5,720**	**6,660**	**2,.836**	**3,755**	**2,884**	**2,905**

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

in €000's

	31.12.2013	31.12.2012	Change in %
Invoices outstanding	846	908	-7
Bonus paid to Management Board & the executive management	166	272	-39
Remuneration of the Supervisory Board	154	141	9
Financial statements preparation and auditing costs	54	99	-45
Personnel liabilities	135	95	42
Renovation IZB West	40	38	5
Contribution to employer's liability insurance	9	21	-57
Other	14	93	-85
Accrued liabilities	**1,418**	**1,667**	**-15**

The non-current portion of deferred income item results from the 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 current portion of the deferred income item in the amount of €894 thousand resulted from the above-mentioned expenses relating to Yakult Honsha Co., Ltd. as well as expenses from the upfront payment in February 2013 from LEO Pharma A/S, Denmark, which is released as revenue over the option period. The non-current accrued liabilities result from long-term bonuses for the Management Board and the subsidiary's Managing Director as well as 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.

7.15 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 31.12.2013		Measurement as of 31.12.2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LAR	346	346	3,084	3,084
Receivables from investees	LAR	0	0	0	0
Current income tax assets	LAR	73	73	127	127
Other non-current assets	LAR	157	157	162	162
Other current assets	LAR	773	773	444	444
Fixed deposits and bank balances	LAR	3,899	3,899	6,076	6,076
Financial assets at fair value through profit and loss – held for trading	AFVPL	1,000	1,000	3,000	3,000
Financial assets held to maturity	HTM	0	0	2,988	2,988
Available-for-sale financial assets (equity investment in Nexigen)	AFS	0	0	0	0
Trade accounts payable	AC	-675	-675	-584	-584
Accounts payable to associates	AC	-28	-28	-10	-10
Other non-current liabilities	AC	-154	-154	-180	-180
Other current liabilities	AC	-2,682	-2,682	-2,011	-2,011
Total		**2,709**	**2,709**	**13,096**	**13,096**
Of which aggregated by IAS 39 measurement category					
Financial assets at fair value through profit or loss	AFVPL	1,000	1,000	3,000	3,000
Held-to-maturity investments	HTM	0	0	2,988	2,988
Loans and receivables	LAR	5,248	5,248	9,893	9,893
Available-for-sale financial assets	AFS	0	0	0	0
At amortised cost	AC	-3,539	-3,539	-2,785	-2,785

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 previous 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 13.76ff. No reclassifications of fair values from or into another hierarchy level were made in 2013.

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 2013
Financial assets at fair value through						
profit or loss held for trading	0	0	0	0	0	0
Held-to-maturity investments	52	1	0	0	0	53
Loans and receivables	0	0	3	0	0	3
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortised cost	0	0	-9	0	0	-9
Total	**52**	**1**	**-6**	**0**	**0**	**47**

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 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**

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, counterparty credit and interest rate risks related to liquid reserves

4SC possesses liquid reserves that are invested 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 counterparty credit 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 report on opportunities and risks 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 2013, 4SC had bank accounts in US dollars with a zero balance (31 December 2012: €0 thousand).

Liabilities denominated in foreign currencies as at 31 December 2013 were limited to the equivalent of €11 thousand in US dollars (US-$), the equivalent of €10 thousand in Swiss francs (CHF) and the equivalent of €1 thousand in British pounds (GBP).

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 2013:

in €000's

	31. December 2013		31. December 2012	
	Increase	Decrease	Increase	Decrease
Euro vs. US dollar	-1	1	-1	1
Euro vs. Swiss franc	-1	1	0	0
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 not have changed (2012: no change).

4. Counterparty credit 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 net assets, financial position and results of operations.

4SC's maximum counterparty credit risk in connection with receivables is equivalent to the carrying amount of the trade accounts receivable, i.e. €346 thousand as at the reporting date (31.12.2012: €3,084 thousand). To reduce the counterparty credit risk, the Company regularly runs its business relationships through different evaluation scenarios and fosters intensive customer relationships.

7.16 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 increased by €0.50/m² for 2013 and subsequently increases by a further €0.50/m² per year. The lease for the Überlingen-Bonndorf premises, which had been rented since January 2009, was terminated effective 31 December 2013.

There are no financial obligations under leases as at the reporting date.

There are no finance lease agreements.

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

in €000's

2014	855
2015	875
2016	896
from 2017	0
Total	2,626

The statement of comprehensive income for the reporting year contains expenses of €827 thousand from the leases (2012: €856 thousand). Expenses under leases in 2013 amounted to €51 thousand (2012: €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 €1,661 thousand (2012: €2,587 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

	2013	2012	Change in %
Cash flows from operating activities	-6,987	-15,174	54
Cash flows from investing activities	4,869	3,063	59
Cash flows from financing activities	-59	11,367	-101
Net change in cash and cash equivalents	**-2,177**	**-744**	**-193**
+ Cash and cash equivalents at the beginning of the period	6,076	6,820	-11
= Cash and cash equivalents at the end of the period	**3,899**	**6,076**	**-36**

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; as at 31 December 2012, these were borrower's note loans and bearer notes. Taken together, these items comprise the cash balance/funds:

In €000's

	31.12.2013	31.12.2012	Change in %
Cash and cash equivalents at the end of the period	3,899	6,076	-36
Other financial assets	1,000	5,988	-83
Cash balance/funds	**4,899**	**12,064**	**-59**

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 01.01.2013	Issue in 2013	Expired in 2013	Exercised in 2013	Outstanding on 31.12.2013	Exercisable on 31.12.2013	Max. number of shares available on 31.12.2013	Fair value	Cumulative staff costs[2]	Staff costs in 2012
Unit			€		€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	0	0	0	0	0	0	0	0.71	53	0
ESOP 2004	2006/1	30.05.06	4.53	2:1	26	26	0	26	0	0	0	0	0.74	19	0
ESOP 2006	2006/2	25.08.06	3.80	1:1	296	223	0	9	0	214	214	214	1.71	436	0
REPLACEMENT-ESOP 2001	2006/3	25.08.06	3.80	1:1	166	101	0	18	0	83	83	83	1.54	183	0
ESOP 2006	2007	26.11.07	3.65	1:1	9	9	0	1	0	8	8	8	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	0
ESOP 2009	2009	26.11.09	3.29	1:1	888	792	0	23	0	769	769	769	1.04	829	47
ESOP 2009	2010	26.11.10	3.09	1:1	18	14	0	2	0	12	10	12	0.77	12	1
ESOP 2009	2011	30.11.11	1.44	1:1	18	17	0	0	0	17	8	17	0.65	10	4
Total					**2,301**	**1,223**	**0**	**79**	**0**	**1,144**	**1,133**	**1,144**		**1,732**	**52**

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 5.04 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, €)

	2013	2012
Options outstanding as of 01.01.	3.43	3.47
Options issued in the reporting period	–	–
Options expired in the reporting period	3.87	3.93
Options outstanding as of 31.12.	3.40	3.43
Options exercisable as of 31.12.	3.42	3.50

10. REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

10.1 Management Board

The total remuneration paid to the members of the Management Board amounted to €951 thousand (2012: €928 thousand) in the reporting year. Of this total amount, €45 thousand (2012: €19 thousand) represents contributions to defined contribution plans according to IAS 19.7. Pro-rated staff costs attributable to options included in overall remuneration amounted to €27 thousand for the reporting year (2012: €79 thousand). However, these were non-cash expenses.

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

Remuneration in €000's

	Fixed		Variable		Staff costs arising from options		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Dr Ulrich Dauer	145	196	69	14	7	19	221	229
Dr Daniel Vitt	190	186	8	34	7	19	205	239
Dr Bernd Hentsch	218	194	16	28	7	22	241	244
Dipl.-Kfm. Enno Spillner	270	175	8	22	6	19	284	216
Remuneration of the Management Board	**823**	**751**	**101**	**98**	**27**	**79**	**951**	**928**

The following overviews show the shares and stock options held by members of the Management Board as at the 31 December 2013 reporting date.

Shares Number

	Shares 01.01.2013	Purchase	Sale	Shares 31.12.2013
Dr Daniel Vitt	416,803	0	0	416,803
Dr Bernd Hentsch	0	0	0	0
Dipl.-Kfm. Enno Spillner	73,800*	0	0	73,800
Shares held	**490,603**	**0**	**0**	**490,603**

* Of these, 3,800 shares resulting from a non-reportable purchase in Q4 2011 were reported subsequently in Q1 2013.

Stock options Number	Options 01.01.2013	Additions	Expired	Exercised	Options 31.12.2013	Maximum number of shares available
Dr Daniel Vitt	142,600	0	0	0	142,600	142,600
Dr Bernd Hentsch	152,720	0	0	0	152,720	152,720
Dipl.-Kfm. Enno Spillner	249,200	0	26,000	0	223,200	223,200
Stock options held	**544,520**	**0**	**26,000**	**0**	**518,520**	**518,520**

No stock options were issued to the members of the Management Board in the 2013 financial year.

In addition to the fixed remuneration, 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 remuneration totalled €33 thousand as at 31 December 2013.

For the Management Board members Enno Spillner, Dr Daniel Vitt and Dr Bernd Hentsch, an agreement was signed in 2010 in the context of rearranging the Management Board's directors' contracts, stipulating that in the event of a takeover by a third party and when the Management Board is to be dissolved as a result, their salaries (fixed salary plus Bonus I and II) 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 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 remuneration paid to the members of the Supervisory Board amounted to €154 thousand (2012: €141 thousand). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

in €000's

	Occupation	Compensation 2013	Compensation 2012
Dr Jörg Neermann (Chairman until 31.05.2012)	Partner of LSP Life Sciences Partners, Munich, Germany	0	12
Dr Thomas Werner (Deputy Chairman until 13.06.2012, Chairman since 13.06.2012)	Retired	40	34
Klaus Kühn (since 06.08.2012, Deputy Chairman)	Retired	29	12
Dr Irina Antonijevic (since 06.08.2012)	Director Clinical Research MS and Neurology at Genzyme (Sanofi Group), Cambridge, MA, USA	18	7
Dr Clemens Doppler	Partner & Managing Director of HeidelbergCapital Asset Management GmbH, Heidelberg, Germany Managing Director of HeidelbergCapital General Partner GmbH, Heidelberg	23	23
Günter Frankenne (until 06.08.2012)	Managing Proprietor of STRATCON Strategy Consultants, Berg bei Neumarkt, Germany	0	10
Helmut Jeggle	Head of Business Planning & Analyzing of Athos Service GmbH, Munich, Germany Managing Director of AT Impf GmbH, Munich Managing Director of AT Newtec GmbH, Munich Managing Director of Apceth GmbH & Co. KG, Munich Managing Director of Neuraxpharm Holding GmbH, Munich Managing Director of Santo Venture Capital GmbH, Holzkirchen	22	23
Dr Manfred Rüdiger (Deputy Chairman from 13.06.2012 to 06.08.2012)	Venture Partner of LSP Life Sciences Partners, Munich CEO of Kiadis Pharma B.V., Amsterdam, the Netherlands Managing Director of Kiadis Pharma Canada, Inc., Saint-Laurent, Quebec, Canada	22	20
Remuneration of the Supervisory Board		**154**	**141**

The following overview shows the shares held by members of the Supervisory Board as at the 31 December 2013 reporting date.

Shares held Number

	Shares 01.01.2013	Purchase	Sale	Shares 31.12.2013
Dr Manfred Rüdiger	20,000	0	15,000	5,000
Dr Clemens Doppler	18,593	0	0	18,593
Dr Thomas Werner	5,000	0	0	5,000
Shares held	**43,593**	**0**	**15,000**	**28,593**

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 Management Board
- Blackfield AG, Cologne, member of the Supervisory Board
- BSN medical GmbH, Hamburg, member of the Advisory Board
- SkyePharma PLC, London, United Kingdom, Non-Executive Director
- SuppreMol GmbH, Munich, Germany, 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

Dr Clemens Doppler
- Accovion GmbH, Eschborn, Germany, Chairman of the Advisory Board
- Merlion Pharmaceuticals Inc., Singapore, member of the Supervisory Board
- Nanogate AG, Quierschied-Göttelborn, Germany, member of the Supervisory Board
- Vasopharm GmbH, Würzburg, Germany, 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, Germany, Chairman of the Supervisory Board
- Ganymed Pharmaceuticals AG, Mainz, Germany, member of the Supervisory Board
- Sidroga AG, Zoffingen, Switzerland, President of the Management Board
- VANGUARD AG, Berlin, Germany, member of the Supervisory Board

Dr 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 2013 to 31 December 2013:

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 €144 thousand in the 2013 financial year (2012: €200 thousand). In the reporting period, a firewall was purchased from quattro research GmbH for €1 thousand. As of the reporting date, the liabilities toward quattro research GmbH resulting from this contract amounted to €28 thousand (31 December 2012: €10 thousand); they were repaid as contractually agreed by January 2014.

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

DRB advised 4SC between October 2008 and 31 March 2012 on optimising its relationships with private and institutional investors. Since 1 April 2012, DRB has been the Designated Sponsor of 4SC. As a result of this contract, 4SC incurred costs of €20 thousand in the reporting year (2012: €22 thousand). The contract signed in December 2005, under which DRB assumed the function of payment and depository agent for 4SC and which triggered an annual expenditure of €3 thousand (2012: €3 thousand) was terminated effective 31 October. No liabilities existed towards DRB as at 31 December 2013.

One of DRB's Management Board members, Marcus Vitt, is a brother of 4SC's Management Board member, Dr Daniel Vitt.

BioNTech AG and Ribological GmbH, Mainz (other related parties)

4SC Discovery GmbH maintains legal relations with BioNTech AG, Mainz, and its subsidiary Ribological GmbH, which both belong to the Santo Holding (Deutschland) GmbH Group, Holzkirchen. On 17 December 2012, a licensing agreement was concluded for TLR antagonists. Under the agreement, 4SC Discovery GmbH received an upfront payment of EUR 2.5 million from BioNTech AG and is entitled to subsequent performance-based payments on achievement of specific sales milestones and to royalties. Furthermore, at the start of the year, a service partnership was launched at standard market terms in which 4SC Discovery GmbH will identify new small-molecule, anti-cancer compounds for defined therapeutic targets and optimise these for BioNTech AG. In financial year 2013, this contract stipulated €1,184 thousand net (2012: €0 thousand) with respect to BioNTech AG and €95 thousand net (2012: €140 thousand from a previous collaboration) with respect to Ribological GmbH. At the reporting date, there were receivables from BioNTech AG amounting to €170 thousand (31 December 2012:

€2,500 thousand) and receivables from Ribological GmbH totalling €9 thousand (31 December 2012: €45 thousand), which were paid by February 2014.

AiCuris GmbH & Co. KG, Wuppertal (other related parties)

4SC Discovery GmbH maintains legal relations with AiCuris GmbH & Co. KG, Wuppertal, which also belongs to the Santo Holding (Deutschland) GmbH Group, Holzkirchen. In November 2013, a collaboration between 4SC Discovery GmbH and CRELUX GmbH (both in Planegg-Martinsried) on the one hand and AiCuris GmbH & Co. KG (Wuppertal) on the other was arranged at standard market terms. The objective of the collaboration is the identification and validation of innovative small-molecule compounds targeting pathogen-specific interactions in infectious diseases. This contract had a net volume of €104 thousand in the 2013 financial year (2012: €2 thousand from a previous collaboration). At the reporting date, there were no receivables from AiCuris GmbH & Co. KG.

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 2013.

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

On 25 February 2013 and 24 February 2014, 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 2013 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%[1]
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 2013 were as follows:
– HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich 5.86%
– Deutsche Bank Aktiengesellschaft (DVCG/VCG), Frankfurt am Main 6.13%
– Roland Oetker, Germany 4.19%
– First Capital Partner GmbH, Gräfelfing 9.57%
– Santo Holding (Deutschland) GmbH, Holzkirchen 48.10%

11.4 Auditor's fees pursuant to section 314(1) no. 9 HGB

On 2 May 2013, the Company's Annual General Meeting appointed Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft (formerly: RöhlfsPartner AG), Nymphenburgerstrasse 3b, 80335 Munich, to serve as the auditor of the 2013 financial statements. The previous year's figures were audited KPMG Wirtschaftsprüfungsgesellschaft AG.

in € 000's	31.12.2013	31.12.2012
Auditing services	60	106
Other verification services	16	51
Other services	3	9
Total fee billed by the auditor	**79**	**166**

In the 2013 financial year, a total of €60 thousand was recognised for financial statements auditing services (2012: €106 thousand).

Fees of €10 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 (2012: € 11 thousand). Furthermore, costs of €6 thousand were incurred for the means test in connection with the "Gums & Joints" project funded by the EU and the preparation of the corresponding audit certificates. In the previous year, the issue of the comfort letter in the context of the capital increase generated another €40 thousand in expenses. These expenses were recognised as transaction costs and subtracted directly from equity.

Other services in the amount of €3 thousand relating to written opinions in the context of various financing models were provided by Baker Tilly Roelfs in the reporting year.

11.5 Average number of employees pursuant to section 314(1) no. 4 HGB

The average number of employees (excluding the Management Board of 4SC AG, the executive management of 4SC Discovery GmbH and trainees) during 2013 was 76 (2012: 84).

Of these 76 employees (excluding the Management Board, executive management and trainees), 57 worked in research and development, 16 in sales and administration and three in information technology. Of the 84 employees in the previous year (excluding the Management Board and trainees), 60 worked in research and development, 21 in sales and administration and three in information technology.

The Group's workforce in 2013 also included an average of three Management Board members at 4SC AG (2012: 4), one managing director at 4SC Discovery GmbH (2012: 1) and one trainee (2012: 1) such that the total number of employees on average was 81 in 2013 and 90 in 2012. 4SC again had one trainee chemical laboratory technician in 2013.

12. EVENTS AFTER THE REPORTING PERIOD

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

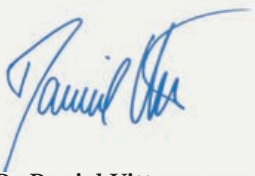
- In February 2014, 4SC signed an agreement with YA Global Master SPV Ltd. (Yorkville) according to which Yorkville agreed to underwrite convertible bonds in the amount of €15 million at an issuing price of 95% of the nominal amount. According to this agreement, which runs until 31 December 2016, 4SC can issue convertible bonds in tranches of €500 thousand each at its discretion. The proceeds will contribute substantially to the short- and medium-term financing of the Company. The first tranche consisting of convertible bonds with a nominal amount of €500 thousand was successfully issued in early March 2014.
- Management Board member Dr Bernd Hentsch will step down from the Company when his contract expires on 31 March 2014. In the future, Dr Daniel Vitt, who has been the Management Board member in charge of research and technology up to now, will also take responsibility for development, which had been Dr Hentsch's remit to date. Plans are that Dr Hentsch will continue to make his development expertise available to 4SC as a consultant after 31 March 2014.

There were no other events occurring after the end of the financial year which had a significant impact on the results of operations, financial position and net assets of 4SC.

Planegg-Martinsried, 13 March 2014
The Management Board:

Enno Spillner,
Chairman of the
Management Board

Dr Bernd Hentsch,
Member of the
Management Board



Dr Daniel Vitt,
Member of the
Management Board

AUDITOR'S REPORT

We issued an unqualified auditor's report for the consolidated financial statements and the combined management report of 4SC AG, Planegg-Martinsried, Germany, District of Munich, for the financial year from 1 January 2013 to 31 December 2013. This unqualified auditor's report was signed on 13 March 2014 in Munich and is represented here:

“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, notes to the consolidated financial statements and segment reporting, and the combined management report of 4SC AG for the financial year from 1 January to 31 December 2013. 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] and the supplementary provisions of the Company’s Articles of Association are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the combined 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 accordance with the principles of proper accounting in the consolidated financial statements in and in the combined 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 combined 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 the supplementary provisions of the Company’s Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the principles of proper accounting. 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 Management Board’s explanations in sections 6.2.4 “Capital market risks”, sub-section “Additional financing”; 6.2.7 “Overall assessment of the Company’s exposure to risk”; 8.2 “Company outlook”, sub-section “Financial forecast”; and 9.7 “Report on expected developments (outlook)” of the combined management report. Therein it is disclosed that the Company's ability to continue as a going concern is jeopardised if the assumptions regarding the cash accruing to the Company from collaborations and partner-

ships as well as from potential financing deals do not materialise to a sufficient degree and no additional funds in the form of equity capital or debt financing can be raised."

Any publication or disclosure of the annual financial statements and/or the combined management report in a version other than the one certified as well as translation into other languages requires a further opinion on our part if such publication, disclosure or translation quotes our auditor's opinion or makes reference to our audit of the annual financial statements. We also refer to the provision of section 328 HGB in this context.

Munich, 13 March 2014

Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft
(formerly: Rölfs RP AG Wirtschaftsprüfungsgesellschaft)

Stahl	Hund
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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, 13 März 2014

The Management Board:

Enno Spillner,
Chairman of the Management Board

Dr Bernd Hentsch,
Member of the Management Board

Dr Daniel Vitt,
Member of the Management Board

EXCERPT FROM THE ANNUAL FINANCIAL STATEMENTS OF 4SC AG (HGB)

// **Income statement** for the financial year from 1 January to 31 December 2013

in €000's

	2013	2012
Revenue	1,601	1,396
Other operating income	1,541	2,003
Total revenues and income	**3,142**	3,399
Staff costs	-4,272	-4,469
Depreciation, amortisation and write-downs	-1,618	-1,473
Other operating expenses	-6,656	-10,249
Total expenses	**-12,546**	-16,191
Other interest and similar income	53	231
Write-downs of long-term financial assets and securities	0	0
Interest and similar expenses	-1	-1
Total	**52**	**230**
Result from ordinary activities	**-9,352**	**-12,562**
Extraordinary income	0	9,064
Extraordinary result	**0**	**9,064**
Cost of loss absorption	-1,959	-2,712
Taxes on income	0	-10
Net loss for the financial year	**-11,311**	**-6,220**
Loss brought forward	-104,406	-98,186
Accumulated deficit	**-115,717**	**-104,406**

// **Balance sheet** for the financial year ended 31 December 2013

in €000's

	31.12.2013	31.12.2012
ASSETS		
Fixed assets		
Intangible assets	8,582	10,094
Tangible fixed assets	142	212
Long-term financial assets	9,984	12,810
Total fixed assets	**18,708**	**23,116**
Current assets		
Inventories	0	0
Receivables and other assets	704	2,244
Securities	2,000	6,000
Cash-in-hand and bank balances	2,224	5,932
Total current assets	**4,928**	**14,176**
Prepaid expenses	**106**	**209**
Total assets	**23,742**	**37,501**
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	50,372	50,372
Capital reserves	81,668	81,668
Accumulated deficit	-115,717	-104,406
Total equity	**16,322**	**27,634**
Provisions	**955**	**1,170**
Liabilities		
Trade payables	505	419
Other liabilities	5,959	8,266
Total liabilities	**6,464**	**8,685**
Deferred income	0	12
Total equity and liabilities	**23,742**	**37,501**

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 Baker Tilly Roelfs 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 costeffective, rapid discovery and optimisation of new compounds in pharma research.

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.

Anchor investor
Investor who holds a significant share in the company, usually at a relatively stable level over the long term.

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.

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, characterized by its own genetic material, energyproducing 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 (antiinfectious chemotherapy or antimicrobial chemotherapy).

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

CMO
Abbreviation for contract manufacturing organisation.

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.

Convertible note
A convertible note or bond is a company-issued instrument granting the bearer the right to exchange the note/bond for shares in accordance with conditions defined beforehand and within a specific conversion time frame. The convertible note/bond generally offers a nominal interest rate, but may also be issued as a zero-coupon note/bond.

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 organization 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).

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.

Early development candidate (EDC)
Compound that can be transitioned into formal preclinical development after successfully completing pharmaceutical early-stage research.

Early-stage research
The first stage of the pharmaceutical discovery and development process. Generally comprises the identification of a therapeutic target structure plus compound identification and optimisation. Concludes with the selection of a candidate compound suitable for formal preclinical development.

Eg5
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.

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.

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.

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.

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.

Hedgehog signalling pathway
Signal transduction pathway based on which cells can react to external signals. Blocking the hedgehog pathway is a novel therapeutic principle in the treatment of certain kinds of cancers – in relation to cancer stem cells, for example.

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.

i2c technology platform
The i2c (idea to candidate) technology platform has been established as a joint venture by the companies CRELUX GmbH und 4SC Discovery GmbH. In the context of early-stage research projects, its purpose is to offer solutions and technologies to biotechnology and pharmaceutical companies with the aim of guaranteeing the smoothest possible path from the concept for a new drug to the preclinical drug development candidate.

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.

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.

"Intention to Grant" notice
Notice given by the relevant authority that it intends to grant a patent. See "Notification of Allowance".

jPCM
Joint Project Coordination Meeting. Regular meeting during research projects for project management staff.

LaR
Abbreviation for loans and receivables.

Lymphoma
Collective term for lymph node enlargements or lymph node swellings and lymphatic tissue tumours.

Mesylate salt
Specific drug delivery form for the compound resminostat.

Metabolism
The entirety of life-sustaining chemical transformations in an organism.

Molecule
A particle composed of at least two atoms.

Monotherapy
Type of patient treatment using a drug containing only a single active substance.

Multiple sclerosis
Autoimmune disease of the central nervous system which results in degeneration of the nerve sheath; also called Encephalomyelitis disseminata (ED).

Neurological disease
A disorder of the nervous system.

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.

Patient population
A specific group of patients; typically, group members also share certain characteristics.

Pharmaceutical 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).

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.

Pivotal study
A clinical trial relevant for 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.

Prime Standard
Listing segment of Deutsche Börse with additional post-admission obligations and clearly defined transparency requirements.

Protein deacetylases
See "Histone deacetylases".

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.

Regulatory affairs
Matters related to the licensing of drugs.

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.

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

Signal pattern
Designates certain recurrent information/signal transduction pathways in cells.

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.

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.

Study programme
Sequence of clinical studies

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.

Taxol
Drug used in chemotherapy treatment regimes for solid tumours. It inhibits cell growth by attacking the spindle apparatus during cell division.

TLR-agonist
Toll-like receptor: a specialized 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. A TLR agonist is a compound that amplifies or supports the way in which the TLR functions.

Toxicology
Field of science examining the effects of toxic substances or the toxicity of substances.

Translational pharmacology
Research and development discipline whose task is to translate information and data obtained at the preclinical stage into a clinical prospect. This prospect influences the company's decision-making as regards selection of the clinical candidate and the design of the early clinical Phase I trials.

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

Uveitis
A serious and chronic inflammation of the eye affecting the uvea, the pigmented middle layer of the eye.

Venture capital financing
Financing using equity capital (also known as risk capital), generally sourced off-market.

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 2014

Annual Report 2013	26 March 2014
3-Month Consolidated Financial Report (Q1/2014)	8 May 2014
Annual General Shareholders' Meeting, Munich, Germany	9 May 2014
Consolidated Half-Year Financial Report (Q2/2014)	7 August 2014
9-Month Consolidated Financial Report (Q3/2014)	6 November 2014
Analyst Conference - German Equity Forum Frankfurt, Germany	24-26 November 2014

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