ANNUAL REPORT 4SC

START-UP PARTNERSHIPS NEW DRUGS GOING PUBLIC INVESTOR FOCUS ON VALUE DRIVERS

1997

2014

4SC

4SC AT A GLANCE

Headquartered in Planegg-Martinsried near Munich, 4SC is a highly innovative biotech company with a 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 medical need. In so doing, we wish to offer affected patients treatment options that are more effective and better tolerated to provide a better quality of life as well as create value for our shareholders, partners and employees.

Our product pipeline comprises promising therapeutic programmes at various stages of clinical development, as well as early-stage research projects.

We are focussing on attractive fields of research such as epigenetics, cancer stem cells, immune oncology and other, important molecular signalling patterns that contribute to the development and proliferation of cancer and autoimmune diseases.

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

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

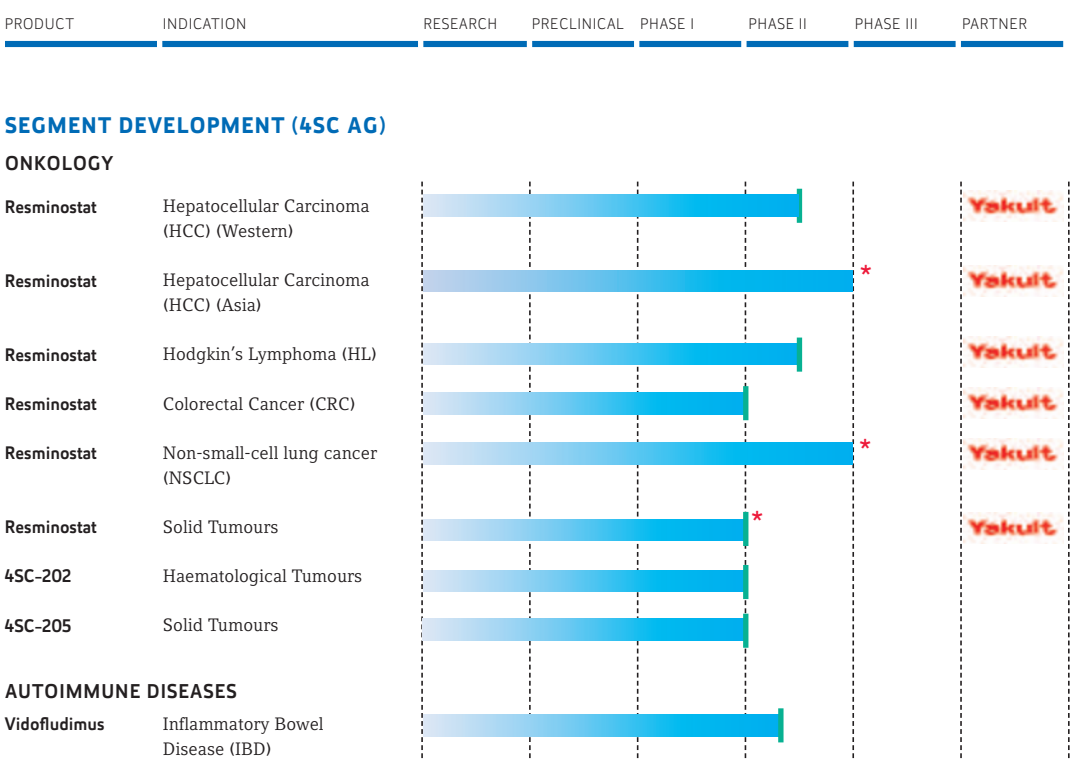
PRODUCT PIPELINE

As at 12 March 2015

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 therapeutic 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.



* Study by Yakult Honsha in Japan

Study completed and/or results published

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

in €000´s unless stated otherwise

	2014	2013	2012	2011	2010
Results of operations, financial position and net assets					
Revenue	7,055	4,904	4,353	780	989
Operating profit/loss	-9,437	-10,592	-13,366	-18,793	-20,271
Net profit/loss for the year	-9,696	-10,525	-13,217	-19,071	-20,075
Equity (at year-end)	2,050	11,282	21,813	23,533	31,210
Equity ratio (at year-end) (percent)	13.7	63.7	75.0	73.9	89.9
Total assets (at year-end)	14,934	17,705	29,067	31,838	34,731
Monthly use of cash from operations (average)	706	597	1,260	1,072	1,501
Capital measures (net)	778	0	11,367	11,080	0
Cash balance/funds (at year-end)	3,202	4,899	12,064	15,820	17,607

	2014	2013	2012	2011	2010
Staff					
Total number of employees (incl. Management Board) (at year-end)	66	73	86	96	94
Number of full-time employees (incl. Management Board) (at year-end)	57	56	74	80	81

	2014	2013	2012	2011	2010
The 4SC share					
Earnings per share (basic and diluted) (in €)	-0.19	-0.21	-0.29	-0.46	-0.52
Number of shares issued [1] (annual average, in 000's)	50,642	50,372	46,170	41,455	38,503
Free float on reporting date according to Deutsche Börse (percent)	35.3	30.3	30.0	26.4	19.4
Annual high (XETRA) (in €)	1.79	2.20	3.04	4.89	3.51
Annual low (XETRA) (in €)	0.80	1.57	1.26	1.20	2.67
Closing price on reporting date (XETRA) (in €)	0.82	1.60	2.03	1.23	3.51
Market capitalisation on reporting date (in €000's)	41,696	80,595	102,255	51,621	135,145
Average daily trading volume (all markets) (shares)	83,604	37,115	56,713	43,221	14,449

(1) The Extraordinary General Meeting held 11 March 2015 has resolved a capital reduction and consolidation of the shares issued in a 5:1 ratio. The reduction of the number of shares issued is not reflected in this table.

CONTENTS

TO OUR SHAREHOLDERS

Letter to the shareholders 2
Key events in 2014 6
Report of the Supervisory Board 8
17 Years of 4SC – The Story of 4SC since 1997 14

COMBINED MANAGEMENT REPORT

Business and operating environment 30
Overview of the course of business 34
Results of operations, financial position and net assets 46
Employees 52
Financial and non-financial key performance indicators 53
Report on post-balance sheet date events 57
Report on expected developments 58
Report on opportunities and risks 62
Corporate governance report 75
Course of business of 4SC AG (regarding the HGB single-entity financial statements) 88

FINANCIAL REPORT

Consolidated financial statements 96
Consolidated notes 100
Auditors' report 147
Responsibility statement 149
Excerpt from the annual financial statements of 4SC AG (regarding the HGB single-entity financial statements) 150

FURTHER INFORMATION

Glossary 152
Financial calendar 157
Publishing information 157

LETTER TO THE SHAREHOLDERS

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

Dr Daniel Vitt
Member of the Management Board
(Chief Scientific Officer/CSO & Chief Development Officer/CDO)

Doctor of chemistry, born 1968, founding member
Management Board member since 2000

Dear Shareholders, dear Friends and Partners of 4SC

In 2014, we experienced another eventful year at 4SC. Progress has been made at all levels of the Company. We have actively pursued our research and clinical development programmes while creating additional development options for the future. We have strengthened the Company's financial base. In personnel matters, we have made valuable additions to our operational management team and the Supervisory Board.

Yet the year was not without its challenges. Despite the intensity of our efforts and progress in many areas, some goals have not been achieved and we have had to accept the relevant set-backs. We still face a number of tasks in the future, such as the acquisition of additional partners for our development programmes as well as the long-term financing of both the Company and the further development of resminostat and our other clinical compounds. We are redoubling our efforts in these areas.

In light of the Company's challenging financial situation, one key point of focus in the reporting year was the generation of additional stability for 4SC and its business model, while also expanding the possible courses of action and strategies open to us in the future, to generally strengthen both the Company and its future prospects.

Our financial management activities in 2014 therefore involved taking action to fortify our liquidity. By February, we had already concluded a financing agreement with US investor Yorkville for convertible bonds in an amount of up to €15 million. In June, our long-standing anchor investor Santo Holding also underlined its commitment to 4SC by concluding a loan agreement for up to €10 million. These activities strengthened our short- to mid-term financial planning while extending the reach of the Company’s financing.

At the operational level, we continued to pursue our strategy of focusing on our main value drivers in the reporting year and generated additional development options for our therapeutic programmes.

The epigenetic oncology compound resminostat was the primary focus in 2014. Here, our team has achieved further progress in the preparations for a planned Phase II trial in the indication of liver cancer. Collaboration with our partner Yakult Honsha on the development of resminostat in Japan continues to return positive results. In spring 2014, Yakult Honsha concluded a clinical Phase I trial in Japanese cancer patients with positive results and made a milestone payment to 4SC. Yakult Honsha also obtained positive Phase I results from two clinical combination trials with resminostat in liver cancer and non-small-cell lung cancer. The Phase II parts were started in both indications during 2014. From these studies, we expect to obtain meaningful efficacy data that further increases the value of resminostat.

Resminostat has demonstrated an outstanding safety profile, promising signs of efficacy and further preclinical results to date, all of which increasingly point to the potential of this compound in a number of additional types of cancer. One such type could be that of haematological niche indications, in which clinical development towards market approval should be possible with a manageable degree of financial effort – not least because in Europe, unlike in the USA, not a single HDAC inhibitor has been approved to date.

Alongside resminostat, development milestones were also achieved by our compounds 4SC-202 and 4SC-205 in 2014. Both compounds continue to demonstrate increasing potential and in 2014 returned satisfying Phase I results for safety and efficacy. In June, the major focus of our presentations at ASCO, the world's foremost oncological event, was on our second epigenetic compound

4SC-202 and its highly promising clinical trial data in patients with haematological tumours. With resminostat, 4SC-202 and 4SC-205, 4SC thus has a portfolio of three oncology compounds that – assuming sufficient funding can be secured – definitely have the potential for being investigated in Phase II trials for their further efficacy in specific indications. All are characterised by their unique features and their innovative mechanisms of action, and have major commercial potential.

For vidofludimus, our clinical programme in the field of autoimmune diseases, the filing of new patents has also created an appealing set of alternative development prospects that we now wish to pursue with external partners.

Last but not least, 4SC Discovery GmbH continues to develop into a solid, autonomous pillar for the 4SC Group. A series of new research collaborations in 2014 – with CRELUX and the Universities of Heidelberg and Munich, for example – has further increased the expertise and public profile of our research subsidiary in the areas of drug discovery and optimisation.

4SC is on the right track with its drug development programmes. Our primary goal for 2015 is to safeguard the further clinical development of our value drivers. We are pursuing this goal by negotiating intensively with potential partners and investors, both for resminostat and for our compounds 4SC-202 and 4SC-205. We see enormous additional potential for 4SC-202 in particular.

Overall, our mission is to fully develop the medicinal and commercial potential of all of our compounds in the years to come in the most targeted, agile and economically feasible manner possible. For the above reasons, the Management Board appointed oncology expert Dr Erich Enghofer in the reporting year as our new Executive VP Oncology and Haematology. 4SC stands to gain immeasurably from Dr Enghofer's extensive network and his 35-plus years of experience in the pharma industry.

Our efforts have been supported from the start of this financial year by a Supervisory Board that once again is at its former strength. Following the resignations of Dr Thomas Werner and Klaus Kühn from the Supervisory Board for personal reasons – whom we warmly thank for their dedicated work – we are proud to welcome Professor Helga Rübsamen-Schaeff and Joerg von Petrikowsky, two distinguished and experienced experts from the biotech and pharma sector. I am certain our two new Supervisory Board members will assist 4SC's further progress and I look forward to working with them.

Ladies and gentlemen, I know that 2014 and the first months of 2015 have been difficult for you as 4SC shareholders. Despite demonstrable progress in research and development and a strengthening of the Company's financial base, our share

price performance has been disappointing. The markets are now waiting for us to take a visible step towards securing further progress in our development programmes and at the same time present details of a solid financial base for the Company. In this context, the resolution passed by our Extraordinary General Meeting on 11 March 2015 concerning a reduction in share capital and a reverse split in a 5:1 ratio was a key decision that grants our Management Board a greater degree of flexibility in terms of potential financing options. This does not affect our negotiations with potential pharmaceutical partners.

Together with my Management Board colleague Dr Daniel Vitt and our entire team, I can assure you that we will be investing a great deal of energy and conviction in exploiting the considerable potential present in our research and development programmes. We want to leverage the strong position held by our Company in the enthralling field of epigenetics to make a key contribution to patient welfare and the advancement of medical science. I am convinced that we can succeed in this endeavour.

I offer my heartfelt thanks to you, our shareholders, business partners and employees, for your continuing loyalty to the goals of our Company. Another exciting year now lies before us. Let us work together for the future success of 4SC!

Yours sincerely
Plannegg-Martinsried, March 2015

Enno Spillner
Chairman of the Management Board

KEY EVENTS IN 2014

IN 2014, 4SC PROGRESSED FURTHER WITH THE RESEARCH AND DEVELOPMENT OF ITS THERAPEUTIC PROGRAMMES WHILE STRENGTHENING THE COMPANY'S FINANCIAL BASE. 4SC'S JAPANESE PARTNER YAKULT HONSHA ALSO WAS SUCCESSFUL IN CLINICAL TRIALS WITH RESMINOSTAT. THE MOST SIGNIFICANT EVENTS OF THE YEAR AT A GLANCE:

FEBRUARY:

4SC AG: Convertible bond strengthens financial base

4SC signs a financing agreement with US investor Yorkville for convertible bonds in an amount of up to €15 million to strengthen the Company's short- to medium-term financial base.

MARCH:

4SC AG: First tranche of convertible notes issued

The first tranche of the financing generated gross proceeds of €500 thousand for the Company.

4SC Discovery GmbH: Grant received for partnership with University of Heidelberg

4SC's research subsidiary is assured of €1.3 million in public grants to fund further research into a new malaria drug conducted in partnership with the University of Heidelberg.

4SC AG: Streamlining of the Management Board

Management Board member Dr Bernd Hentsch leaves the Company upon expiration of his contract effective 31 March 2014. Chief Scientific Officer Dr Daniel Vitt assumes his responsibilities.

APRIL:

4SC Discovery GmbH: Research collaboration with the Medical Clinic of the University of Munich receives EU grant

4SC's research subsidiary receives a €450 thousand grant from the EU for research into new epigenetic compounds targeting cardiovascular diseases.

MAY:

Resminostat: Good levels of safety and tolerability demonstrated in Japan

4SC's partner Yakult Honsha successfully concludes a clinical Phase I trial in Japanese patients with solid tumours and makes a contractually agreed milestone payment to 4SC.

JUNE:

4SC-202: Positive Phase I results for haematological tumours

4SC presents positive top-line data from a Phase I trial in patients with advanced haematological tumours at the ASCO Annual Meeting. The data reveals promising indications of efficacy for the epigenetic compound 4SC-202 while showing it to be safe and well-tolerated.

4SC AG: Shareholder loan received from principal shareholder Santo Holding

4SC AG signs an agreement for a loan of up to €10 million. The funds will be used to finance operational preparations for the planned further clinical development of resminostat, among others.

4SC AG: Reallocation of shares to institutional investors successfully completed

A block of shares held by former shareholder VCG Venture Capital Gesellschaft mbH & Co. Fonds III KG i.L., now in liquidation and therefore forced to cease its involvement in 4SC AG, is reallocated in full to a number of institutional investors. The free float of the 4SC share increases to 35%.

4SC AG: Company benefits from experienced oncology expert
Dr Erich Enghofer joins 4SC as its new Executive Vice President Oncology and Haematology. The experienced pharmaceutical manager and oncology expert will primarily advance the strategic marketing of resminostat and expand 4SC's partner network.

JULY:

4SC Discovery GmbH: Funding received for partnership with CRELUX
4SC's research subsidiary will work with its partner CRELUX to research new epigenetic oncology compounds.

AUGUST:

4SC AG: Changes on the Supervisory Board
Dr Thomas Werner and Klaus Kühn step down as members of the Supervisory Board of 4SC AG for personal reasons effective at the end of the day on 18 September 2014. Dr Clemens Doppler becomes the new Chairman of the control body. Joerg von Petrikowsky and Professor Helga Rübsamen-Schaeff are appointed to the Supervisory Board of 4SC AG in late October 2014 and early January 2015.

SEPTEMBER:

4SC AG: Draw-down of further financing contributions from Yorkville
As part of the financing agreement, 4SC is issuing the second tranche of convertible bonds with gross proceeds of €500 thousand.

Resminostat: Yakult Honsha successfully completes Phase I part in liver cancer and starts Phase II in Asia
The safety and tolerability of the trialled resminostat-sorafenib combination is confirmed in Asian patients. In the Phase II part of the trial, Yakult Honsha compares the efficacy of the resminostat-sorafenib combination to the standard monotherapy with sorafenib in the first-line treatment of liver cancer.

OCTOBER:

Resminostat: Yakult Honsha confirms good safety profile in clinical Phase I in lung cancer in Asia and starts Phase II
The study tests resminostat in combination with the cancer drug docetaxel in non-small-cell lung cancer in Asia. The Phase II part compares the efficacy of the combination therapy with a docetaxel monotherapy in up to 100 patients.

Resminostat: Patent granted for the manufacturing process in the USA
The US Patent Office grants 4SC the patent for resminostat's manufacturing method. The manufacturing process is thus protected in almost all key global markets.

DECEMBER:

4SC-205: Positive results reported from Phase I AEGIS study
The oral Eg5 inhibitor 4SC-205 becomes the first compound in its class to be investigated in a continuous dosing scheme in cancer patients. At the calculated dosage, the compound showed encouraging signs of clinical efficacy and a comprehensive safety profile.

REPORT OF THE SUPERVISORY BOARD

Dr Clemens Doppler
Chairman of the Supervisory Board

Dear Shareholders,
Ladies and Gentlemen,

In the 2014 financial year, 4SC continued to push its research and development activities in the Group's two segments, Development and Discovery & Collaborative Business, and strengthened the Company's financing.

Close cooperation and dialogue between the Supervisory Board and Management Board is the foundation for efficient operation of the Supervisory Board. Once again, the cooperation with the Management Board was open and constructive in 2014. All issues relevant to the Company, decisions requiring approval and strategic decisions were always discussed extensively and agreed upon by the Boards. The Supervisory Board advised the Management Board in its management of the Company and conscientiously monitored this as we are required to do under law, the Company's Articles of Association and our rules of procedure. In the report that follows, the Supervisory Board explains the focal points of its activities in the financial year just ended.

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 as well as on risks and opportunities 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 2014 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 2014

In the 2014 financial year, the Supervisory Board worked very closely with the Management Board in what were challenging times for the Company. The Supervisory Board held a total of eleven meetings, six of which in the form of conference calls. Five meetings were attended by all members of the Supervisory Board. None of the members attended less than half of the meetings. Whenever not all Supervisory Board members were present at meetings, the Board was quorate at all times. The Supervisory Board members who were not in attendance were informed in detail before and after the respective meetings.

At the Supervisory Board meetings we dedicated a considerable amount of time to the progress being made in the planned clinical development of the resminostat compound by 4SC and its possible financing. Additional topics discussed were the advances in the clinical trials with resminostat being conducted by 4SC's Japanese partner Yakult, the Phase I trials of the two cancer compounds 4SC-202 and 4SC-205 conducted in the 2014 financial year as well as the opportunities for further development of vidofludimus and the business of 4SC's research subsidiary 4SC Discovery GmbH. The status quo and strategies for the intended licensing of existing 4SC products were also a regular part of the discussions.

Other key issues included safeguarding the Company's continued existence as a going concern as well as its long-term financing and strategic development. To strengthen the Company's short- and medium-term financing, both the agreement to subscribe for convertible notes of up to €15 million entered into with the US investor Yorkville plus the issuance of the first two tranches from these and the acceptance of the loan from Santo Holding (Deutschland) GmbH were discussed at length in the Supervisory Board and a resolution was subsequently adopted.

Other topics discussed in detail at individual meetings of the Supervisory Board were as follows:

At the Supervisory Board's first meeting on 24 January 2014, the Supervisory Board authorised the Management Board to enter into further negotiations with Yorkville on the implementation of the convertible notes. The second meeting on 12 February 2014, which was held by telephone, concerned the Supervisory Board's efficiency review for 2013 and the achievement of targets by the Management Board for the years 2011 to 2013. In the meeting on 13 March 2014, the Supervisory Board focused on the adoption of the Company's annual financial statements for 2013 and approval of the consolidated financial statements. Another topic was the division of responsibilities in the Management Board following the departure of Dr Bernd Hentsch with effect from 31 March 2014.

At the conference call held by the Supervisory Board on 10 April 2014, various strategic alliances and partnerships were discussed in addition to the Company's risk reporting. At the fifth meeting on 9 May 2014, which took place after the Company's Annual General Meeting, the Supervisory Board reviewed the items discussed at the AGM and amended the updated rules of procedure for the Management Board, which it then adopted. The main topics at the sixth meeting on 5 June 2014 were the development of business at the research subsidiary 4SC Discovery GmbH as well as in-depth discussion of and agreement on the loan agreement with the shareholder Santo Holding (Deutschland) GmbH.

The seventh meeting on 18 July 2014 addressed strategic issues as well as possible options for securing additional funding. This discussion was continued in a conference call on 29 July 2014.

At the meeting on 18 September 2014, in the wake of the resignations of the two Supervisory Board members Dr Thomas Werner and Klaus Kühn, the Supervisory Board mainly discussed the election of the new Supervisory Board Chairman and Deputy Chairman as well as the appointment of new members. During its conference call on 23 October 2014, the Supervisory Board discussed the financial statements for the third quarter, a task of the Audit Committee, which was not active at this time, however. At its last meeting on 16 December 2014, the Supervisory Board approved the budgets for the years 2015 to 2017 after discussing them at length. The future organisation of the Supervisory Board committees was also discussed.

Focus of committee work

In order to further increase the efficiency of the Supervisory Board work, we established Supervisory Board committees at 4SC AG.

The Audit Committee met twice in person and four times via conference call in 2014, in part in the presence of Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, the auditor. The committee members primarily discussed accounting issues, the annual financial statements and the consolidated interim reports in these meetings during the reporting period.

Of the Audit Committee members, Klaus Kühn, Chairman until his resignation from the Supervisory Board on 18 September 2014, and Joerg von Petrikowsky, Chairman since 10 November 2014, in particular are to be qualified as independent financial experts as defined by section 100(5) and section 107(4) of the German Stock Corporation Act (Aktiengesetz – AktG). Klaus Kühn has the relevant expertise on the basis of his qualifications and professional experience as the former CFO of Bayer AG, as does Joerg von Petrikowsky, who has over 30 years of experience in auditing and tax consultancy.

The Human Resources Committee met twice via conference call and twice in person prior to Supervisory Board meetings, discussing topics of remuneration and in connection with the departure of Dr Bernd Hentsch from the Management Board. The Research & Development Committee convened eight times in 2014 for conference calls. Discussion focused on research and development activities, especially the opportunities for development of the two oncology compounds resminostat and
4SC-202, as well as the opportunities for the further development of vidofludimus. The Business Development Committee met twice in 2014 via conference calls. The key issues discussed were the status of the business development activities for the Company's drug development programmes, particularly for resminostat and 4SC-202, as well as the research subsidiary 4SC Discovery GmbH. After Dr Thomas Werner and Klaus Kühn had stepped down from the Supervisory Board, no further members were appointed to the Business Development Committee, which is not active for the time being.

Following the departure of Dr Thomas Werner and Klaus Kühn from the Supervisory Board, the committees were inactive for a time. The Audit Committee was re-constituted on 10 November 2014 and elected Joerg von Petrikowsky as its Chairman. The Human Resources Committee and the R&D Committee were reconstituted at the end of January 2015.

In our view, a Nomination Committee, which is recommended under the German Corporate Governance Code, does not further enhance our efficiency, which is why several years ago we decided not to establish it and carry out this function in the full Supervisory Board.

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. The chairmen of the respective committees regularly provided summarized reports to the Supervisory Board at its meetings on matters that had been discussed only in the committees.

Personnel changes in the Management Board and Supervisory Board

Management Board member and Chief Development Officer (CDO) Dr Bernd Hentsch left the Company as at 31 March 2014 when his contract expired and continued to be available to the Company as an advisor during the course of the year whenever the need arose. His responsibility was added to the portfolio of the Chief Scientific Officer (CSO) in the Management Board, Dr Daniel Vitt, with effect from 1 April 2014. On behalf of the Supervisory Board, I would like to thank Dr Hentsch for his many years of dedication and service to the Company.

In August 2014, Dr Thomas Werner and Klaus Kühn both stepped down from their positions for personal reasons with effect from the close of 18 September 2014. On behalf of the Supervisory Board, I would like to thank both gentlemen for their commitment as Chairman and Deputy Chairman of the Supervisory Board of 4SC AG. At its meeting on 18 September 2014, the remaining Supervisory Board elected Dr Clemens Doppler as its new Chairman and Dr Manfred Rüdiger as its new Deputy Chairman.

In a ruling on 28 October 2014, the Munich District Court (registration court) appointed Joerg von Petrikowsky as a member of the Supervisory Board. Mr von Petrikowsky is an experienced auditor and tax adviser for companies in the biotechnology and pharmaceutical industry. At the beginning of January 2015, Professor Helga Rübsamen-Schaeff was appointed to the Supervisory Board of 4SC AG by order of the Munich District Court (registration court). Professor Rübsamen-Schaeff is an experienced biotechnology and pharmaceutical manager. The appointments were made by the competent registration court on the Company's application. In both cases, in accordance with the application, the appointment will run until the end of the Annual General Meeting that resolves on formally approving the actions of the Supervisory Board of 4SC AG for financial year 2014.

The Supervisory Board is very pleased to have added two highly renowned, high-calibre individuals – Professor Rübsamen-Schaeff and Mr von Petrikowsky – to the Supervisory Board of 4SC AG.

Approved annual financial statements for 2014

The Company's Annual General Meeting on 9 May 2014 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 2014 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 2014 consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), as well as the combined management report, issuing an unqualified Auditors' report. The Management Board made these financial statements and the combined management report as well as the audit reports available to us in due time ahead of our meeting on 13 March 2015. 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 during two meetings on 28 January 2015 and 13 March 2015 as well as in a conference call on 23 February 2015, and subsequently reported its deliberations to the Supervisory Board during its meeting on 13 March 2015. During this meeting, the Supervisory Board carried out its discussion and examination of the financial statements and the combined management report. The assessments made by the Management Board in the combined management report were consistent both with those previously communicated in its reports to the Supervisory Board and our own assessments. The auditor reported to the Audit Committee and the full Supervisory Board on the key findings of its audit and was available to answer further questions. After this thorough examination and based on the recommendation of the Audit Committee, the Supervisory Board did not raise any objections to the financial statements and the combined management report. 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 2015 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

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 23 February 2015, the Management Board and Supervisory Board therefore

// COMMITTEES OF THE SUPERVISORY BOARD OF 4SC AG SINCE 1 JANUARY 2014 (as at 12 March 2015)

	Supervisory Board	Audit Committee*/**	Human Resources Committee*/***	Business-Development Committee*/****	Research & Development Committee*/***
Dr Thomas Werner	C until 18.09.2014		C until 18.09.2014	C until 18.09.2014	M until 18.09.2014
Klaus Kühn	DC until 18.09.2014	C until 18.09.2015		M until 18.09.2014	
Dr Irina Antonijevic	M				C
Dr Clemens Doppler	M until 18.09.2014	M	M until 18.09.2014		
	C since 19.09.2014		C since 26.01.2015		
Helmut Jeggle	M		M		
Dr Manfred Rüdiger	M until 18.09.2014	M		M	M
	DC since 19.09.2014				
Joerg von Petrikowsky	M since 28.10.2014	C since 10.11.2014			
Prof Dr Helga Rübsamen-Schaeff	M since 02.01.2015		M since 26.01.2015		M since 26.01.2015

* Following the departure of Dr Thomas Werner and Klaus Kühn from the Supervisory Board, the committees were inactive for a time.
** The Audit Committee was reconstituted on 10 November 2014.
*** The Human Resources Committee and the R&D Committee were reconstituted on 26 January 2015.
**** No new appointments will be made to the Business Development Committee for the time being.

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.

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 9 of the Company's combined management report for 2014. 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 session. Due to a possible conflict of interest in the case of the Supervisory Board member Helmut Jeggle, who is employed by 4SC's major shareholder Santo, concerning a shareholder loan from Santo Holding (Deutschland) GmbH, Mr Jeggle abstained in the corresponding vote in the Supervisory Board.

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. The results were discussed at the Supervisory Board meeting on 13 March 2015 and the efficiency review for 2014 was finally approved.

The Supervisory Board would like to thank the Management Board team and all employees for their high level of commitment and dedicated work.

Planegg-Martinsried, March 2015

Dr Clemens Doppler
Chairman of the Supervisory Board

17 YEARS OF 4SC
THE STORY OF 4SC SINCE 1997

START-UP PARTNERSHIPS
NEW DRUGS
GOING PUBLIC
INVESTORS
FOCUS ON VALUE DRIVERS

17 YEARS OF 4SC (1997–2014)

THE EARLY YEARS

1997 | **FORMATION OF 4SC GMBH** by four graduate chemists at the University of Würzburg, Germany.
Company motto: **FOR SMART CHEMISTRY**
Business proposition: Leveraging a patented computerised **TECHNOLOGY PLATFORM** to optimise drug discovery with the ultimate goal of **RESEARCHING AND DEVELOPING INNOVATIVE DRUGS** while providing high-quality research services to other companies in the biotech/pharmaceutical sectors.

An incurable illness is a dramatic event for patients, their families and friends. Time and again, people ask themselves why medical science is unable to develop new and successful methods of treatment more quickly. Together with my friends and colleagues from the University of Würzburg, I wanted to tackle this problem. In 1997, we established 4SC to do just that. True to our name – "For Smart Chemistry" (4SC) – our goal was to use modern computer simulation to improve the drug development process. The progress we have achieved to date gives me great satisfaction and I am very pleased to be part of our Company's history. Today, 4SC is a highly dynamic biotech company whose clinical pipeline features a series of attractive compounds – resminostat, 4SC-202, 4SC-205 and vidofludimus – targeting the fields of oncology and autoimmune diseases. Our employees put their hearts and minds to work on transforming innovations into marketable medications. In the field of epigenetics, we want to put our expertise to work in achieving an important milestone in the treatment of cancer. In particular our compounds resminostat and 4SC-202 offer a real hope of helping people win the fight against cancer.

1998 | RELOCATION TO MARTINSRIED NEAR MUNICH

1999 | START OF BUSINESS OPERATIONS at the Biotech Innovation and Start-Up Centre (**IZB**) in Martinsried near Munich # **INITIAL VENTURE CAPITAL FUNDING** enables further development and expansion of the technology platform.

17 YEARS OF 4SC (1997–2014)

INITIAL PARTNERSHIPS AND IN-HOUSE DRUG DEVELOPMENT

2000 | **CONVERSION** to a stock corporation (4SC AG) # **2nd VC FUNDING ROUND** accelerates commercialisation of the technology platform and launch of in-house drug discovery and development.

2001 | **RESEARCH COLLABORATION** started with **WILEX**.

2002 | **RESEARCH COLLABORATIONS** initiated with **SCHERING** and **RECORDATI**.

At 4SC, I have had the fascinating experience of creating something brand new. I remember the feeling of pure pleasure the first time I was involved in the discovery of a new compound. Post-discovery, I was then responsible for managing this oncology compound from early-stage research into preclinical work and onwards into Phase I of clinical development. I joined 4SC in 2001 as a medicinal chemist. The Company was in its infancy and had just begun to bolster its existing service business with in-house research into proprietory therapeutic compounds. Today, 4SC is an international company. We have advanced our compounds – for example our product resminostat – as part of a broad development pipeline. The solid progress we have made is also the result of 4SC's many partnerships: no one can win the battle against cancer alone. As the contact person for Yakult, the Japanese partner we brought on board in 2011 for resminostat, I'm reminded just how beneficial this shared research and development is for us on a daily basis. The Asian market will become even more important for 4SC in the future. Asia not only has many more people affected with liver cancer but is also looking to pioneering treatments for other indications. That's what truly motivates me in my work.

2003 | **RESEARCH COLLABORATIONS** initiated with **BOEHRINGER INGELHEIM** and **ESTEVE**. # 4SC starts **CLINICAL DEVELOPMENT** with its first in-house compound SC12267 (later renamed to 4SC-101 and then **VIDOFLUDIMUS**).

2004 | **RESEARCH COLLABORATIONS** signed with **SCHWARZ PHARMA** and **SANOFI**.

17 YEARS OF 4SC (1997–2014)

GOING PUBLIC AND STRONG INVESTORS

2005 | **ENNO SPILLNER** joins 4SC as Chief Financial Officer. # Pre-listing capital increase with new institutional and existing investors and **SUCCESSFUL GOING PUBLIC:** Initial listing of the 4SC share on the Frankfurt Stock Exchange's Prime Standard.

2006 | **RESEARCH COLLABORATION** expanded with Japanese pharmaceutical Group **SKK** and partnership launched with Belgian pharmaceutical company **SOLVAY**.

The development of innovative therapies is important for the future of humanity. For me, working on such an assignment is both an appeal and a commitment. As a VC investor, I had heard about 4SC as early as 1999. I was deeply impressed by the novel approach taken by the burgeoning company. Starting out as a provider of pharma research services, 4SC rapidly transformed itself into an innovative developer of new cancer drugs. I signed on to the Company's mission in 2005 as its CFO. One of my most important tasks here was to organise resources for achieving our goals from the capital markets and ensure their efficient deployment. Today, as CEO of 4SC, I can safely say that we have made solid progress over the years and have also stood up to a host of challenges. 4SC is now focused squarely on its value drivers and has taken the right path for the commercialisation of its compounds. We have a highly-motivated team, reliable anchor investors and a dedicated partner in the form of the Japanese pharma company Yakult. A series of important tasks lies ahead of us. Together, we want to secure the further financing of our mission and lead 4SC to commercial success.

2007 | **SUCCESSFUL COMPLETION** of a clinical Phase IIa trial of SC12267 (vidofludimus) in the indication of rheumatoid arthritis
SANTO HOLDING joins as new principal shareholder and anchor investor.

17 YEARS OF 4SC (1997–2014)

BROAD CLINICAL PIPELINE AND STRENGTHENING OF EPIGENETICS

2008 | Strengthening of the **4SC DEVELOPMENT PIPELINE** by acquiring the oncological projects from **NYCOMED**, including the epigenetic compounds **RESMINOSTAT** and **4SC-202**.

2009 | 4SC presents clinical **PHASE I DATA** with resminostat at the ASCO Annual Meeting and **STARTS PHASE IIA TRIAL** in liver cancer (HCC).

2010 | **CLINICAL PHASE IIA TRIAL** started with resminostat in Hodgkin's lymphoma (HL). # 4SC starts **PHASE I DEVELOPMENT** with the oncology compounds **4SC-203** and **4SC-205**.

Fighting cancers by switching genes on and off like a light in the living room! This simple yet highly complex mechanism fascinates me as much today as it did during my doctoral degree work. Epigenetics controls the reading and processing of the genetic information stored in the genes and its interpretation in human cells. Accordingly, it also plays a key role in the genesis and growth of cancers. Today, the epigenetic reprogramming of tumour cells and their signalling pathways is one of the most exciting areas in cancer research. And at 4SC, it's our starting-point: we keep pace with the scientific times and continue to expand our expertise. Helped as always by 4SC's flat organisation, short lines of communication and rapid decision-making. When I joined 4SC in 2008, we had just taken over the oncology pipeline from pharma company Nycomed – including our current epigenetic flagship products resminostat and 4SC-202. This helped us strengthen our own product portfolio. Today my job at 4SC is to coordinate the development of clinical programmes, especially of 4SC-202 and resminostat. Maybe one day I'll be able to say that we developed a drug that has really helped cancer patients – that continues to be my motivation, day after day.

2011 | Japanese development and commercialisation partner **YAKULT HONSHA** acquired for **RESMINOSTAT**. # **VIDOFLUDIMUS** achieves Phase IIa study goal in IBD, but fails to meet efficacy endpoint in Phase IIb trial in rheumatoid arthritis. Thanks to its broad-based pipeline, 4SC can accommodate the set-back. Development focus now shifted to oncology # **PHASE I TRIAL** started with resminostat in colorectal cancer # **RESMINOSTAT** concludes Phase IIa trial in Hodgkin's lymphoma with a good safety profile and evidence of efficacy (proof of concept).

17 YEARS OF 4SC (1997–2014)

FOCUSING ON VALUE DRIVERS AND STRENGTHENING OF THE BUSINESS MODEL

2012 | Research subsidiary spin-off **4SC DISCOVERY GMBH** commences business operations and initiates partnerships with **HENKEL**, **CRELUX** and **RIBOLOGICAL**. # **RESMINOSTAT** demonstrates good safety and efficacy in combination with sorafenib for **LIVER CANCER** in Phase IIa. # 4SC's partner **YAKULT HONSHA** starts clinical development with resminostat in Japan. # **PHASE I TRIAL** of resminostat in colorectal cancer successfully concluded.

I've been part of 4SC for 14 years now. What began as a highly innovative start-up is now a well-established biotechnology company. The family-like atmosphere of the first few years can still be felt even today – as can the fairness and pleasant working atmosphere. Today, I'm responsible for business at 4SC's 'research engine', 4SC Discovery. My career has therefore taken me right back to the Company's origins. At the time, I was part of a small team of researchers who were using our technology platform to perform drug discovery work. At the end of 2011, this unit was spun off by 4SC to generate additional income and increase transparency for research conducted in-house. Today, the 4SC business model is strengthened by the revenue earned by 4SC Discovery from service provision and research collaborations. We also market our own research projects by means of early-stage partnering deals. In the years to come, we will be casting our net even wider intending to discover new pearls like resminostat or 4SC-202. With the trend for outsourcing research activities becoming increasingly prevalent at major pharma companies, I am confident that 4SC Discovery can look forward to a successful future.

2013 | Following the departure of 4SC's co-founder and CEO **DR ULRICH DAUER**, the management team headed by new CEO **ENNO SPILLNER**, resolves to **REFOCUS** the Company's development strategy and concentrate on **MAIN VALUE DRIVERS**. # **4SC DISCOVERY GMBH** starts research and licensing deals with **LEO PHARMA**, **BIONTECH**, **UCB**, **PANOPTES PHARMA** and **AICURIS**. # **4SC DISCOVERY GMBH** reports **POSITIVE CASH FLOW** for the financial year. # Potentially predictive **BIOMARKER ZFP64** for resminostat correlates in Phase IIa studies with patient survival in liver cancer and in Hodgkin's lymphoma, and is scheduled to be used in the further development of resminostat as a personalised therapy. # **YAKULT HONSHA** expands resminostat development in Japan into the indications of liver and non-small-cell lung cancer.

17 YEARS OF 4SC (1997–2014)

CONTINUING THE PATH TO MARKET MATURITY

2014 | Experienced oncology expert and pharma manager **DR ERICH ENGHOFER** joins 4SC. # **YAKULT HONSHA** pushes forward with resminostat development in Japan: Phase I completed in solid tumours; Phase II study parts started in HCC and non-small-cell lung cancer following positive Phase I data. # **GROUP FINANCING** further strengthened. # Continued preparations for planned **PHASE II DEVELOPMENT** of **RESMINOSTAT**. # Phase I trials with **4SC-202** and **4SC-205** in cancer patients return positive results. # **JOERG VON PETRIKOWSKY** joins the Supervisory Board.

My interest in 4SC was awakened by news of the positive results from the study investigating resminostat as a combination therapy with the Bayer drug sorafenib in liver cancer patients. As a molecular biologist and head of the German oncology division at Bayer HealthCare, I immediately recognised the huge potential of resminostat and 4SC's other oncology compounds. I have already brought over ten cancer drugs to market approval in the course of my professional career. I believe resminostat and 4SC-202 have a good chance of being the next in line. After my departure from Bayer, I therefore wasted no time in accepting the offer made by 4SC. No one is expecting an overnight success, of course. Yet 4SC is ideally positioned to successfully complete this difficult undertaking. A highly motivated and professional team of colleagues awaited me at 4SC. Although a small unit compared to big pharma, it is one that is bursting with dynamism and energy. I am pleased to be able to place my network of researchers, clinics and companies at 4SC's disposal to help it secure its first approved drug. Above all, this achievement will enable cancer patients to enjoy a better and longer life.

OUTLOOK

4SC SECURES A PROMISING POSITION

With **RESMINOSTAT, 4SC-202, 4SC-205** and **VIDOFLUDIMUS**, 4SC has several attractive compounds in the clinical pipeline. Japanese partner **YAKULT HONSHA** is making every effort to drive the development of resminostat in Japan. 4SC is also well-positioned for future early-stage research, thanks to the various collaborations pursued by subsidiary **4SC DISCOVERY GMBH**. In the medium term, ensuring adequate financing to enable timely and targeted **FURTHER DEVELOPMENT** of clinical value drivers remains the key objective. Thus the Company aims at creating **VALUE** for its shareholders, partners and employees – while, at the same time, providing a **STRONG CLINICAL BENEFIT** to patients.

2015 | **PROFESSOR HELGA RÜBSAMEN-SCHAEFF** joins Supervisory Board. # **4SC DISCOVERY GMBH** starts additional collaboration with **CRELUX**. # 4SC's shareholder meeting approves capital reduction and reverse share split to strengthen the Company's future **FINANCING OPTIONS**..

CONTENTS
COMBINED MANAGEMENT REPORT

1. BUSINESS AND OPERATING ENVIRONMENT 30
1.1 Group structure and business activities 30
1.2 Corporate strategy and objectives 31
1.3 Internal management system 32
1.4 Research and development process 32

2. OVERVIEW OF THE COURSE OF BUSINESS 34
2.1 Macroeconomic development and developments in the pharma and biotechnology industry 34
2.2 Significant events related to the Company's research and development activities 36
2.2.1 Development segment 36
2.2.2 Discovery & Collaborative Business segment 40
2.3 Significant events at Group level 41
2.4 4SC's shares 42

3. RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS 46
3.1. Results of operations 46
3.2. Net assets 49
3.3 Financial position 51
3.4 Summary of economic position 51

4. EMPLOYEES 52

5. FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS 53
5.1 Financial key performance indicators 53
5.2 Non-financial key performance indicators 53
5.2.1 Industrial property rights 53
5.2.2 Corporate responsibility and sustainability 55
5.2.3 Procurement 56
5.2.4 Quality assurance 56

6. REPORT ON POST-BALANCE SHEET DATE EVENTS 57

7. REPORT ON EXPECTED DEVELOPMENTS 58
7.1 Macroeconomic and sector development 58
7.2 Company outlook 59

8. REPORT ON OPPORTUNITIES AND RISKS 62
8.1 Risk management system 62
8.2 4SC's exposure to risk 64
8.2.1 Sector-specific risks 64
8.2.2 Risks from the Company's business activities 66
8.2.3 Product development risks 68
8.2.4 Capital market risks 69
8.2.5 Financial risks and balance sheet risks 71
8.2.6 Administrative and other risks 73
8.2.7 Overall assessment of the Company's exposure to risk 73
8.3 Opportunities of 4SC 74

9. CORPORATE GOVERNANCE REPORT 75
9.1 Statement on corporate governance pursuant to section 289a of the German Commercial Code 75
9.2 Directors' dealings, shareholders, disclosure and communication 79
9.3 Remuneration report of 4SC AG 81
9.4 Disclosures under section 289 (4) and 315 (4) German Commercial Code as well as explanatory report 84

10. COURSE OF BUSINESS OF 4SC AG (REGARDING THE HGB SINGLE-ENTITY FINANCIAL STATEMENTS) 88
10.1 Results of operations of 4SC AG (HGB) 88
10.2 Net assets of 4SC AG (HGB) 89
10.3 Financial position of 4SC AG (HGB) 91
10.4 Summary of economic position 91
10.5 Events after the reporting period 92
10.6 Risks and opportunities 92
10.7 Report on expected developments (outlook) 93
10.8 Publication 93

COMBINED MANAGEMENT REPORT

1. BUSINESS AND OPERATING ENVIRONMENT

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 the Group parent 4SC AG as well as 4SC Discovery GmbH, which is wholly owned by 4SC AG.

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

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

Where information provided in this report does not refer to the Group but to the individual entities, 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 Daniel Vitt (Member of the Management Board; Chief Scientific Officer/CSO & Chief Development Officer/CDO)

Strategy:

– Clinical development of attractive drugs for the treatment of cancer and autoimmune diseases on the path to market maturity

– Growth through development and marketing partnerships

– Broad-based medical and pharmacological expertise

4SC DISCOVERY GMBH

DISCOVERY & COLLABORATIVE BUSINESS SEGMENT

Management:

Dr Daniel Vitt | Dr Stefan Strobl

Strategy:

– Generating revenue from research services and collaborative ventures to strengthen 4SC's business model

– Marketing the Company's own drug programmes at an early stage of development through partnerships

– Replenishing the 4SC Group's clinical development pipeline

* As at 12 March 2015

Business activities and organisation

4SC is a biotechnology company that researches and develops small molecule drugs with a targeted mechanism of action for the treatment of cancer and autoimmune diseases. The business focus is on indications with a high medical need. 4SC's compounds aim to enable new therapeutic methods that offer improved efficacy and tolerability compared to the treatments available to date. This approach is intended to enhance treatment benefits for affected patients, coupled with improvements to their quality of life.

(i)

EXTENSIVE PATENT PROTECTION

The Group's product pipeline, which is protected by a comprehensive portfolio of patents, comprises several drug programmes, whose maturity ranges from early-stage research to the various phases of later clinical development. In this context, 4SC is focussing on attractive fields of research such as epigenetics, cancer stem cells, cancer immunotherapy and other, important molecular signalling patterns that contribute to the development and proliferation of cancer and autoimmune diseases. Details of the individual products and progress made in their development during the 2014 financial year, are presented in the section 1.4 (Research and Development Process) and section 2.2. (Significant Events Related to the Company’s Research and Development Activities) of this combined management report.

In addition, 4SC also owns an in-house technology platform (4SCan®), to enable the identification and optimisation of new compounds based on computerised virtual screening methods. The platform offers a more efficient means of discovering new drug candidates. Furthermore, 4SC can utilise this technology platform to act as a business partner for other companies and support them in the course of their drug research activities.

The Group operates in the two complementary segments of Development and Discovery & Collaborative Business. The Discovery & Collaborative Business segment, which is represented by 4SC Discovery GmbH, consolidates 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 STRATEGY AND OBJECTIVES

4SC's objective is to actively pursue the research and development of its drug programmes to create product value and, in turn, increase the value of the Company as a whole. Revenue from partnerships in drug discovery and development should be steadily increased in order to enable the Company to finance its medium- to long-term business operations and ultimately transition to sustainable profitability.

The Development segment is working to secure development and marketing partnerships with strong players in the pharmaceutical and biotechnology industry to systematically develop the individual clinical programmes towards market maturity and generate cash flows for the Group. This approach is designed to both strengthen development work and reduce development risks. The plan is to achieve sustained cash flows by means of upfront and milestone payments from collaboration partners, complemented by revenue from license fees and royalties, thus making a key contribution to the Company’s financing and growth.

The primary focus of Discovery & Collaborative Business is on drug discovery, where the segment aims to generate continuous inflows to revenue, earnings and financing from its work as both a service provider and research partner of pharmaceutical and biotechnology companies.

A further objective is to transfer 4SC's own in-house programmes currently in early-stage research to partnerships with pharmaceutical/biotechnology companies to accelerate further development of these programmes and generate additional cash inflows for 4SC, as well as potential to add value over the long term.

1.3 INTERNAL MANAGEMENT SYSTEM

(i)

GROUP-WIDE REPORT AND PLANNING SYSTEM

To facilitate sustainable company growth, 4SC uses a uniform Group reporting and planning system from which it derives financial and non-financial key performance indicators that are continuously monitored. The Group's principal financial control variables are revenue and operating expenses, with one important indicator tracking the expenses incurred for project research and development activities in particular. This is why these are reviewed particularly carefully and compared with the projected figures.

In addition, the course of business is influenced by factors such as available liquidity, milestone payments and working capital, the main focus being on consistent cash management. One key financial indicator in this connection is the average monthly cash burn rate. The ratio of cash funds to the planned average cash burn rate per month makes it possible to estimate for which period the cash balance/funds are expected to suffice.

Company strategy also involves the consultation of additional key performance indicators related to research and development. For instance, patient-related indicators include clinical findings regarding the safety, tolerance and efficacy of the drug candidates being developed. 4SC measures the efficiency and success of these processes using, for example, the parameters “observance of schedules and budgets” and “success of clinical trials”. Further details of non-financial key performance indicators can be found in section 5.2.

1.4 RESEARCH AND DEVELOPMENT PROCESS

Early-stage research and preclinical development

(ii)

EFFICIENCY GAINS FROM IT-BASED SCREENING TECHNOLOGY

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 screening technology. In enables efficient research in databases and substance libraries to discover suitable pharmaceutically active compounds that can influence the target molecule's activity or function.

Following the identification and multi-stage chemical, biological and pharmacological optimisation of a suitable drug candidate, the "early-stage research" phase is then complete. In preclinical tests, including tests using cell cultures (in vitro) and animal testing prescribed by regulatory legislation (in vivo), the future drug candidate is then 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. Phase I concludes with 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 (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 on a relatively small selection of patients. This phase has a twofold aim: first, to furnish initial proof of the medical efficacy of the compound; 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 tested using a larger and statistically significant patient population. Phase III is intended to supply the decisive data for the drug's 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.

The entire research and development process – from identification of the target molecule to market approval of the drug – generally takes considerably more than ten years. In the course of the research and development process, 4SC actively pursues partnerships with pharmaceutical and biotechnology companies to drive the research and development of its drug candidates towards market approval while safeguarding their commercial success.

Product pipeline

(i)

FOUR PROMISING COMPOUNDS IN THE PIPELINE

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

Resminostat, an oral epigenetic agent from the class of compounds known as HDAC inhibitors, is the most mature drug candidate in the Group's product pipeline. In developing resminostat, 4SC is now focusing on its use as a first-line therapy in the indication of liver cancer (hepatocellular carcinoma, HCC), following the Company's successful completion of a Phase IIa trial with resminostat as a second-line therapy in this indication. In this field of application, both the medical need and the market potential are regarded as particularly high. Furthermore, 4SC has successfully completed clinical trials with resminostat in the indications of Hodgkin's lymphoma (Phase IIa) 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 (HCC) and non-small-cell lung cancer (NSCLC) in Asia. On the terms of this 2011 licensing deal agreed with Yakult Honsha Co. Ltd. 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.

Alongside resminostat, 4SC's clinical development pipeline also features two other oral oncology compounds. In 2014, both compounds returned initial positive results from clinical Phase I trials. The epigenetic compound 4SC-202 was assessed for safety in the treatment of haematological tumours, while the Eg5 inhibitor 4SC-205 was evaluated in the treatment of solid tumours.

In the field of autoimmune diseases, the Company's compound vidofludimus has already completed a successful Phase IIa trial assessing its use in the treatment of inflammatory bowel disease (IBD). In line with the decision to refocus 4SC's development strategy, the Company is currently not investing primary resources in the further development of vidofludimus and will pursue the project solely is a collaboration with external project/financing partners.

(i)

OTHER INTERESTING DRUG PROGRAMMES AT 4SC DISCOVERY

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, cancer immunotherapy and cellular signalling pathways 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. The novel TLR agonists for cancer immunotherapy programme was licensed out to Mainz-based BioNTech AG. 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 licensed to the Austrian company Panoptes Pharma Ges.m.b.H. for the purposes of further research and development in the field of inflammatory eye disorders such as uveitis.

2.OVERVIEW OF THE COURSE OF BUSINESS

2.1 MACROECONOMIC DEVELOPMENT AND DEVELOPMENTS IN THE PHARMA AND BIOTECHNOLOGY INDUSTRY

Macroeconomic development

In the course of 2014, the International Monetary Fund (IMF) revised its forecast for the development of the global economy downwards on several occasions as a result of the geopolitical tensions and growing economic risks, for which even the sharp drop in oil prices in the second half of the year failed to compensate. On the whole, the pace of global growth remained unchanged year-on-year at 3.3%, with considerable disparity in the rate of development of the individual countries and regions. The advanced economies expanded from 1.3% to 1.8%, primarily on the back of stability in North America and an upturn in Europe. The momentum in emerging market and developing countries slackened somewhat to just 4.4% (2013: 4.7%), while a virtually stable increase of 6.5% was achieved in Asia (2013: 6.6%). Following a slight dip of 0.5% in 2013, the euro zone grew again by 0.8% in the reporting year. Germany's economic output rose to 1.5% (2013: 0.2%) despite being impacted by the Russia-Ukraine crisis for the first time. In the United States, economic growth was marginally higher than in the previous year at 2.4% (2013: 2.2%).

Developments in the pharma and biotechnology industry

The capital market and financing environment for biotech companies continued to develop satisfactorily in 2014, especially in North America, where the leading indices posted strong price gains for the third consecutive year. After the valuation of biotechnology companies fell for a time in March 2014, the capital market environment recovered and the NASDAQ Biotechnology Index rose by 34% in the course of the year. Germany's DAXsubsector Biotechnology Index closed 2014 up 23%.

According to industry analysts BioCentury, the number of IPOs in the reporting period reached a new record of 112 (2013: 60 IPOs), generating total issue proceeds of US-$9 billion (2013: US-$3.9 billion). An additional US-$11 billion was raised in 150 capital increases (follow-on financing). This, too, is a new record over the previous year with 139 follow-on financing arrangements and proceeds of US-$10 billion.

In Germany, financing conditions improved further in 2014, albeit at a significantly lower level than in North America. The positive trend can be seen, for instance, in the successful capital increases of the Aachen-based biotechnology company Paion AG in July 2014 with an issue volume of €46 million. Medigene AG also implemented a capital increase in July 2014 through the issue of new shares and convertible bonds, generating gross proceeds of €15.9 million from the issue. Onxeo, which was formed in August 2014 from the merger of the Danish epigenetics company Topotarget and the liver cancer drug development company BioAlliance, completed a €40.7 million capital increase with preferential subscription rights in December 2014. However, these positive developments in Europe should not close our eyes to the fact that in terms of momentum, volume and valuation the US capital market is in an entirely different league. This is also the reason why European biotechnology companies increasingly look first to the United States for funding and a listing. The more favourable financing terms in North America were used, for example, by the Heidelberg-based biotechnology company Affimed, which after obtaining a listing in the United States in September 2014 procured US-$56 million through its IPO on NASDAQ.

(i)

IMPROVED FUNDING ENVIRONMENT FOR BIOTECH STOCKS

In 4SC's industry and competitive sphere, the following relevant news was reported in the 2014 financial year:

In the first quarter of 2014, pharmaceutical company Bayer experienced a setback in the further development of sorafenib, its drug for treatment of liver cancer, in a Phase III trial. The trial was unable to confirm that in adjuvant therapy the drug delays recurrence of liver cancer as assumed.

In July 2014, the HDAC inhibitor belinostat was approved by the FDA for use in the United States in the haematological tumour indication of peripheral T-cell lymphoma. This drug had originally been developed by the Danish company Topotarget (now: Onxeo) and was licensed to the US-based Spectrum Pharmaceuticals. In November, Novartis's HDAC inhibitor panobinostat failed to win FDA panel support on account of the compound's unfavourable safety profile. In June 2014, following good Phase III efficacy data, Novartis had filed an application to have panobinostat approved in the United States in the haematological indication of multiple myeloma. However, the FDA panel does not consider the compound's safety and tolerability profile as a whole to be favourable. In December 2014, US company MEI Pharma achieved a milestone in a Phase II trial which tested the HDAC inhibitor pracinostat in the haematological tumour indication of acute myeloid leukaemia (AML) in combination with a conventional cancer drug. The clinical efficacy of pracinostat was demonstrated in the trial. With resminostat and 4SC-202, 4SC likewise has two compounds in its portfolio that inhibit certain HDAC molecules, among other things.

2.2 SIGNIFICANT EVENTS RELATED TO THE COMPANY'S RESEARCH AND DEVELOPMENT ACTIVITIES

(i)

DEVELOPMENT STRATEGY FOCUSED ON VALUE DRIVERS

4SC's core competencies lie in the research and development of new drugs in the primary indications of cancer and autoimmune diseases. As a consequence, the Company's business success is crucially dependent on material progress in the R&D activities involving its own compounds. For this reason, the Company pursues a development strategy focused on its main value drivers. Attention is currently being devoted to the planned clinical development of the oncology compound resminostat. Yet promising study results were also returned in the reporting year by the next oncology compounds in 4SC's product pipeline, namely 4SC-202 and 4SC-205.

In the reporting year, the Company continued to implement its development strategy, further pursuing its research and development activities in the Group segments "Development" and "Discovery & Collaborative Business".

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.

RESMINOSTAT

The HDAC inhibitor resminostat is the Company's lead compound in oncology. Administered in tablet form, the compound possesses an innovative, epigenetic mechanism of action that is designed to both halt tumour growth while causing tumour regression. Due to the compound's epigenetic mechanism of action, resminostat is expected to achieve its full therapeutic potential not merely when used as a monotherapy but especially when combined with other cancer drugs. Resminostat is or has been the subject of studies conducted by 4SC and its Japanese development partner Yakult Honsha Co., Ltd. in Europe and Asia as part of a broad-based Phase I/II development programme for the indications of liver cancer (hepatocellular carcinoma, HCC), colon cancer (colorectal carcinoma, CRC), Hodgkin's lymphoma (HL) and non-small-cell lung cancer (NSCLC). These studies have (or will have) examined resminostat in combination therapy with the cancer drugs sorafenib (for HCC), FOLFIRI (for CRC) and docetaxel (for NSCLC), and as a monotherapy (for HL).

(ii)

ZFP64 BIOMARKER CORRELATES WITH LONGER SURVIVAL

Clinical Phase II trial in preparation

In the open-label Phase IIa SHELTER study, now complete, resminostat delivered positive results from its deployment in combination with the cancer drug sorafenib as a second-line therapy for patients with advanced liver cancer (HCC). In addition, a biomarker analysis conducted ex-post revealed that, when treated with resminostat, survival for patients with an elevated serum level of the ZFP64 biomarker at trial entry was significantly higher than for patients with lower levels of ZFP64.

Building on these promising results, 4SC plans to develop resminostat towards market approval as a first-line therapy for HCC in combination with sorafenib.

Important data is now being contributed by the drug's Phase II trial as a first-line therapy for HCC, a study conducted by 4SC's partner Yakult Honsha Co., Ltd. The study has been designed as a

randomised two-armed trial comparing the efficacy of resminostat when combined with sorafenib to a sorafenib-only arm. The next step is for 4SC to conduct a similar study – namely a double-blind, randomised controlled Phase II trial – in Europe and the USA. In the course of this trial, resminostat will once again be tested in combination with sorafenib as a first-line therapy for HCC patients, compared to the current standard treatment, i.e. the administration of sorafenib as a monotherapy. The purpose of this trial is to demonstrate the superiority of the resminostat/sorafenib combination therapy under randomised study conditions. The above study also aims to further qualify the potential predictive biomarker ZFP64. The data generated in this trial are intended to form the basis for carrying out a subsequent Phase III registration trial in this indication.

As a first step in preparation for the planned Phase II trial, a study protocol was drafted in the reporting year, and then optimised by a process of consultation with both internal and external experts. Talks were also held with potential partners and investors to address the question of trial funding, which has not yet been finally settled.

Improvements to the manufacturing process and production of the resminostat compound for clinical trials by Yakult Honsha in Asia

Preparations for the planned Phase II trial have included further enhancements to the resminostat manufacturing process. 4SC's Japanese development partner Yakult Honsha Co., Ltd. is planning to use the optimised production process for the contract manufacturing of the resminostat compound.

(i)

PARTNER YAKULT REPORTS DEVELOPMENT SUCCESSES WITH RESMINOSTAT

Yakult Honsha concludes clinical Phase I trial in Japan

In May 2014, 4SC's Japanese development partner Yakult Honsha Co., Ltd. successfully completed a clinical Phase I trial with resminostat in Japanese patients with solid tumours. This study was able to demonstrate that resminostat is safe and well-tolerated at all doses tested, which is a key preconditions for the further clinical development of resminostat in Japan. The successful completion of this study was associated with a contractually agreed milestone payment to 4SC from Yakult Honsha Co., Ltd.

Yakult Honsha starts the Phase II parts of two clinical Phase I/II trials in Asia

In September 2014, it was announced that Yakult Honsha Co., Ltd. had successfully completed the Phase I part of a Phase I/II trial with resminostat that started in May 2013. This study investigated the safety and efficacy of resminostat in combination with sorafenib as a first-line therapy in Asian patients with advanced hepatocellular carcinoma (HCC). Once data from the Phase I part (dose-finding part) had shown that the resminostat/sorafenib combination therapy was safe and well-tolerated, Yakult Honsha Co., Ltd. followed this by starting the randomised Phase II part, which will include up to 140 Asian patients. This phase will compare the efficacy of the resminostat/sorafenib combination to the standard monotherapy with sorafenib.

Positive results were also reported from a clinical Phase I/II trial conducted by Yakult Honsha Co., Ltd. in the indication of non-small-cell lung cancer (NSCLC). This study is testing the safety and efficacy of resminostat in combination with the cancer drug docetaxel as a potential new second- or third-line therapy in Asian patients with advanced NSCLC. In the Phase I part of the study, which was successfully concluded in October 2014, this combination therapy demonstrated its safety and tolerability at all doses investigated. The randomised Phase II part, which is already underway, is now comparing the efficacy of the resminostat/docetaxel combination with the current standard treatment, monotherapy with docetaxel, in up to 100 Asian patients.

Patent protection further expanded

In October, 4SC AG reported that it had been granted the patent for resminostat's manufacturing method by the US Patent Office. The patent protects the chemical process that is used in the production of the compound and the patent term runs until the year 2029. After securing the composition-of-matter patent for its lead compound in all of the world's key pharmaceutical markets by 2013, 4SC has since protected the manufacturing method in almost all of the key markets – including the USA, Europe, Japan, China, Russia, Hong Kong, Singapore and Australia.

4SC-202

(i)

4SC-202 IS SECOND ATTRACTIVE EPIGENETIC COMPOUND

4SC-202 is the second epigenetic anti-cancer compound in 4SC's clinical development portfolio. This drug candidate is an orally available, selective inhibitor of the epigenetic targets LSD 1 as well as HDAC 1, 2 and 3. The compound uses epigenetic modifications to influence two key signal transduction pathways used by cells: hedgehog and WNT. Both pathways play a key role in the development, growth and proliferation of cancer cells and are also present in cancer stem 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.

Positive top-line data for haematological tumours

In early June 2014, 4SC published positive top-line results from a clinical Phase I trial (TOPAS study) with 4SC-202 in patients with advanced haematological tumours at the ASCO Annual Meeting in Chicago. Following the conclusion of the main part of this trial, study data not only showed 4SC-202 to be safe and well-tolerated but also revealed promising indications of the compound's anti-tumour efficacy, both in terms of long-term stabilisation of the disease and in terms of shrinking the actual tumours themselves.

The TOPAS study investigated the safety, tolerability and efficacy of 4SC-202 in 24 heavily pre-treated patients, with a range of doses and dosage regimens being tested. The treatment resulted in the complete remission (CR) of tumorous lesions in one patient, while a partial remission (PR) was also observed in one further patient. Overall, 83% of patients benefited from the treatment, with 75% of them also continuing to receive treatment after the primary six-week treatment period. It proved possible to stabilise the disease for a period of over 100 days for half of the study participants, with 13% achieving stabilisation for a period of over a year. Treatment for a period of more than two years proved possible for two of these patients, with one patient achieving long-term stabilisation of the disease and the other patient experiencing complete remission of the tumorous lesions. The latter patient continues to be treated with 4SC-202.

(ii)

PROMISING TRIAL DATA RETURNED BY 4SC-202

4SC used these positive study results as the basis for initiating discussions with potential partners in the second half of 2014, in order to sound out options for subsequent clinical development of the compound.

4SC-205

4SC-205 is the third oncology compound in clinical development at the Company. 4SC-205 is an oral compound that inhibits the human kinesin spindle protein, also termed Eg5. This protein plays a crucial role in cell division and thus also for tumour growth. 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 special mechanism of action prevents these from occurring. To the best of the Company's knowledge, 4SC-205 is the only oral Eg5 inhibitor currently in clinical development anywhere in the world.

Successful conclusion for second part of AEGIS study

In early December 2014, 4SC reported positive top-line results from the Phase I trial (AEGIS study) with 4SC-205 in patients with advanced solid tumours.

The open-label dose-finding trial was an initial investigation (first-in-man study) of 4SC-205 in 59 patients with advanced solid tumours. This involved the testing of two separate dosing schemes. As already reported at the end of 2012, the first part of the study involved treating 46 cancer patients with a conventional dosage regimen, i.e. with higher single doses but longer breaks between treatments. This first part yielded promising initial results as regards pharmacokinetics, biomarkers and the tolerability profile.

Part two of the study was completed in the reporting year. In this study amendment, 4SC-205 was evaluated using a continuous dosage regimen in 13 patients with advanced solid tumours. Patients received the compound in smaller single doses daily without breaks between treatment days. This regimen aims to achieve and maintain permanent therapeutically active levels of the drug in patients while keeping side effects tolerable at the same time. To the best of the Company's knowledge, 4SC-205 is the first Eg5 inhibitor to be clinically trialled in patients with this dosage regimen.

(i)
DISCUSSION OF POSITIVE TRIAL DATA

All primary objectives of the study amendment have been achieved. Alongside very good linear pharmacokinetic parameters, a comprehensive safety and tolerability profile was established for 4SC-205. The continuous daily dosage of 20 mg of the compound showed promising initial signs of efficacy and is recommended as the dosage regimen for potential Phase II development. Currently one patient whose previously strongly pronounced and highly aggressive cancer has been stabilised for about eight months now after taking 4SC-205 is still continuing study treatment. 4SC will now proceed to discuss the results with external clinical key opinion leaders and potential partners to assess further development options for 4SC-205 - such as a clinical Phase II trial.

VIDOFLUDIMUS

Vidofludimus is 4SC's lead compound for treating autoimmune diseases. This oral, small-molecule drug candidate has exhibited promising results in an initial clinical Phase IIa trial in the field of inflammatory bowel disease (IBD). In line with its refocusing strategy, 4SC is not investing any appreciable company resources in the further development of this compound at this time. That said, the Company is making every effort to facilitate the clinical development of this compound – in the indication of Crohn's disease, for example – with external partners and investors. In this context, 4SC reformulated the vidofludimus active ingredient as a specific salt form in the reporting year.

Compared to the previous form of the compound, the Company believes that the salt form offers considerable pharmacological advantages while also strengthening the patent position with new patents as well as patents with longer terms.

2.2.2 DISCOVERY & COLLABORATIVE BUSINESS SEGMENT

The Discovery & Collaborative Business segment, comprising the activities of Group subsidiary 4SC Discovery GmbH in drug discovery and early-stage research, plus subsequent commercialisation, maintained its successful trajectory in 2014. As a result of earnings from research collaborations and partnerships with biotechnology and pharmaceutical businesses, 4SC Discovery GmbH largely achieved break-even in terms of its average cash flow from operations in 2014.

(i)

POSITIVE DEVELOPMENT OF RESEARCH COLLABORATIONS

Our existing research collaborations and partnerships continued to perform positively in the reporting period. Among others, 4SC Discovery GmbH collaborates with Mainz-based BioNTech AG, the Danish pharmaceutical company LEO Pharma S/A and AiCuris GmbH, Wuppertal. 4SC Discovery GmbH also maintains a strategic technology and sales partnership with CRELUX GmbH; this partnership was further strengthened in the reporting period.

New research collaborations

In March 2014, 4SC Discovery GmbH announced a collaboration with Heidelberg University Hospital. This two-year period of cooperation will focus on the research and pre-clinical development of a compound targeting resistant strains of malaria. Organised as a project run by the German Centre for Infection Research, this research work is being funded by a government grant of €1.3 million. Since malaria is not one of 4SC's core therapeutic areas, the aim is to out-license the active ingredient to a commercial development partner following the successful conclusion of the project.

(ii)

4SC DISCOVERY RECEIVES EU FUNDING

In April 2014, it was announced that 4SC Discovery GmbH had received a €450 thousand grant from the EU, to be used to fund research and discovery work targeting new epigenetic compounds capable of treating cardiovascular diseases such as stroke. The project, which involves 4SC Discovery GmbH working closely with the Medical Clinic of the University of Munich as well as other companies and partners in higher education, will run for around three years. The 4SC subsidiary will retain the rights to the identified substances. This project grant will enable 4SC to deploy the epigenetic research expertise previously focused primarily on oncological disorders to the field of cardiovascular disease for the first time.

Funds for researching new epigenetic cancer drugs

In the context of the Munich m4 biotech cluster programme, 4SC Discovery GmbH and its strategic collaboration partner CRELUX received a grant in July 2014 for a research project initially scheduled to run for eleven months. This project, which has been set up to research new epigenetic oncology compounds, will leverage the i2c joint research platform operated by CRELUX and 4SC Discovery GmbH to identify "bromodomain" inhibitors and conduct research on their potential future use in the field of personalised medicine. Bromodomain proteins are considered promising targets for new drugs. Their specific blocking mechanism aims to influence tumour in such a way that these are either identified and destroyed by the immune system or driven to programmed cell death (apoptosis).

2.3 SIGNIFICANT EVENTS AT GROUP LEVEL

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

New sources of funding accessed

(i)

4SC STRENGTHENS SHORT-/ MEDIUM-TERM FINANCIAL BASE

In February 2014, 4SC signed an agreement with US investor YA Global Masters SPV Ltd. (Yorkville) for strengthening the Company's funding in the short and medium term, especially financing the costs of preparing for the planned clinical development of resminostat. Under this agreement, which runs until 31 December 2016, Yorkville pledged to subscribe for convertible notes in an amount of up to €15 million at an issue price corresponding to 95% of the nominal amount. 4SC can issue these convertible notes, which carry no interest and have a term of up to nine months, in tranches of €500 thousand (gross) at its own discretion. The first two tranches were issued in March and September 2014, generating a net €0.95 million for the Company from Yorkville after deduction of a 5% discount.

In June 2014, 4SC AG agreed a loan of up to €10 million with its principal shareholder, Santo Holding (Deutschland) GmbH. This is earmarked for financing the costs of preparing for the planned clinical trial of resminostat in the liver cancer indication and for covering part of the Company's ongoing administrative costs. The loan, which carries interest of 8% p.a., runs until the end of 2016 (maturity date) and can be drawn down in tranches up to 31 December 2015. Both early repayment and a reduction in the available loan amounts are possible under certain conditions. If the loan is not repaid until the end of its term, 4SC will grant Santo Holding (Deutschland) GmbH options for acquiring 4SC Discovery GmbH or certain assets of this subsidiary. This financing arrangement generated €6 million for 4SC in the 2014 financial year.

Change at Management Board level

Effective 31 March 2014, Dr Bernd Hentsch, the Management Board member responsible for the Development Board department, left the Company when his contract expired. Dr Hentsch continued to be available to 4SC as a consultant in the reporting period as required. Dr Daniel Vitt, who has been the Management Board member in charge of research and technology up to now, also assumed responsibility for Development.

Experienced pharmaceutical managers strengthen the 4SC team

Dr Erich Enghofer, a pharmaceutical manager and oncology expert, joined 4SC in June 2014 in the newly created position of Executive Vice President Oncology and Haematology. In this function, Dr Enghofer's main task is to build up the strategic marketing of resminostat and assist the Company's Management Board in expanding the partner network to potential pharmaceutical partners, strategic and clinical opinion leaders, and investors, among others. Dr Enghofer has more than 30 years of management experience in the pharmaceutical industry with a focus on oncology. Until May 2014, for instance, he was head of the Haematology & Oncology unit at Bayer HealthCare in Leverkusen and in this capacity played a key role in the successful regulatory approval and market launch of the liver cancer drug sorafenib in Germany, among other things.

To provide support to the strategic and operational management of the clinical development programmes, 4SC worked temporarily with the external pharmaceutical manager and oncologist Dr Samson Fung in the reporting period. Using his expertise in the clinical development of cancer drugs, Dr Fung assisted 4SC in reviewing the development strategy for the planned clinical development of resminostat.

Higher free float following reallocation of shares

At the beginning of July 2014, 4SC AG announced that a substantial package of 4SC shares had been placed with various institutional investors in a reallocation of shares. These had previously been held by VCG Venture Capital Gesellschaft mbH & Co. Fonds III KG i.L., which was in liquidation at this time and was therefore required to end its long-standing involvement with 4SC AG. As a result of this transaction, the free float of 4SC's shares increased from 30.3% to around 35%.

Change on the Supervisory Board

Effective at the end of 18 September 2014, the Chairman of the Supervisory Board Dr Thomas Werner and the Deputy Chairman Klaus Kühn stepped down from the Supervisory Board for personal reasons. The Supervisory Board's now four-person team with its new Chairman Dr Clemens Doppler and new Deputy Chairman Dr Manfred Rüdiger was both quorate and capable of acting at all times. At the end of October 2014, the competent registration court appointed auditor and tax adviser Joerg von Petrikowsky as a new member of 4SC's Supervisory Board on the Company's application. Mr von Petrikowsky worked as an auditor for over 30 years, primarily auditing and advising multinational life science and pharmaceutical companies. On the Supervisory Board of 4SC AG, he will act as Chairman of the Audit Committee and as an independent financial expert. His term of office will initially run until the end of the Annual General Meeting that resolves on formally approving the actions of the Supervisory Board of 4SC AG for financial year 2014.

(i)

FINANCE EXPERT JOINS THE SUPERVISORY BOARD

2.4 4SC'S SHARES

In spite of achievements in the research and development programmes and success in strengthening the Company's financing in the short and medium term, 4SC's shares lost ground in the reporting year. The trading volume developed positively, however. 4SC still has a solid shareholder base with strong anchor investors.

Capital markets volatile on the whole, biotechnology sector on the rise

The international capital markets ended 2014 slightly higher after experiencing volatility over the course of the year. Once again, the driving forces were the high liquidity generated by the expansionary monetary policy of the leading central banks and the lack of opportunities for investment. Germany's leading share index, the DAX, closed 2014 with slight gains of 3%. Biotech shares outperformed this index on the strength of good fundamentals in conjunction with an increasingly positive mood in the sector: the German DAXsubsector Biotechnology (German SIN: 723801) gained 23% in the reporting period. The US NASDAQ Biotechnology Index (German SIN: 617026) improved by as much as 34%.

4SC's shares fail to benefit from the positive market trend

4SC's shares lost 49% of their value in 2014 in what was on the whole a volatile year for the stock, in contrast to the trend in the biotechnology sector. While positive corporate announcements such as good Phase I study data with 4SC compounds or the issuance of a patent for resminostat's manufacturing method repeatedly lifted the Company's share price for short periods of time, they did not have a lasting effect on 4SC's share price performance. The Management Board believes that above all the lack of a pharmaceutical partnership anticipated by some market participants and the still unresolved issue of financing the planned clinical development of resminostat were determining factors for the negative share price performance overall.

After an opening price of €1.60 on 2 January 2014, 4SC's shares reached their high for the year of €1.79 in mid-January 2014 before sliding to €1.36 by the end of the first quarter. In the second quarter, particularly a large block of shares held by the former investor VCG Venture Capital Gesellschaft mbH & Co. Fonds III KG i.L. (VCG Fonds III), which was in liquidation in 2014 and therefore had to relinquish its investment in 4SC, triggered substantial over-supply on the stock markets. 4SC's shares accordingly slid to €0.97 by mid-year in spite of positive company news. The successful reallocation of VCG's remaining package of shares to existing and new institutional investors coupled with positive corporate announcements and media reports gave the stock a strong boost in July 2014 to €1.45. Several attempts to top this mark failed, however, and some investors used the higher share prices as an exit opportunity. The deterioration in the share price was also exacerbated by the announcement in August that two Supervisory Board members of 4SC AG had resigned and by a downward correction on the global stock markets in autumn 2014. 4SC's shares reached their low for the year of €0.80 in October 2014. In the fourth quarter, 4SC's share price stabilised at a low level between €0.80 and €1.00. With a closing price of €0.82, 4SC's market capitalisation at year-end was €41.7 million.

Strong anchor investors; number of shares and trading volume up

(i)

TRADING VOLUME MORE THAN DOUBLED

The trading volume of 4SC shares developed positively during the year. The average daily trading volume across all stock exchanges, including Tradegate, totalled 83,604 shares in 2014, compared with 37,115 shares in the previous year. 4SC still has a solid shareholder base with strong anchor investors. In addition to the principal shareholder Santo Holding with its stake of around 49.2%, First Capital Partners (FCP), Heidelberg Capital and Roland Oetker still held more than 3% of 4SC at the end of the reporting period. At year-end, the Management Board and Supervisory Board held 1.02% of 4SC's shares. As far as the management of 4SC is aware, Santo's and FCP's shareholdings even increased slightly during the reporting period. In connection with the complete reallocation of VCG's block of shares to new and existing institutional shareholders mid-year, the free float of 4SC's shares as defined by Deutsche Börse rose to approximately 35%. The total number of shares increased during the reporting year to 50,849,206 as at 31 December 2014 (31 December 2013: 50,371,814) as a result of conversions by the US investor Yorkville in connection with the framework agreement concluded in February 2014 on the issue of convertible notes totalling up to €15 million to strengthen 4SC's short- and medium-term financing. In the reporting year, Yorkville converted notes into a total of 477,392 4SC shares. At the end of the 2014 financial year, there were still unconverted notes of €450 thousand in total.

Active investor relations work continued

In the 2014 financial year, 4SC continued its active investor relations work aimed at keeping investors, financial analysts and the business media abreast of developments in the Company. 4SC's management attended a large number of capital market conferences and road shows at major European and US financial centres, promoting the Company's capital market story among institutional investors. There was also very regular dialogue between the Company and retail investors, financial analysts and the financial and specialised media.

4SC presented itself to investors and analysts in 2014, among others during the following investor and capital market conferences:

– JP Morgan Healthcare Conference, San Francisco, USA
– BioCapital Europe, Amsterdam, the Netherlands
– Kempen & Co Annual Healthcare Conference, Amsterdam, the Netherlands
– Baader Investment Conference, Munich, Germany
– BioEurope, Frankfurt/Main, Germany
– Cleveland Clinic's Medical Innovation Summit, Cleveland, USA
– German Equity Forum, Frankfurt, Germany

Analysts from the following banks and brokers covered and analysed the shares of 4SC AG in 2014: Edison Research, London, UK; equinet, Frankfurt/Main; Kempen, Amsterdam, the Netherlands; Warburg Research, Hamburg.

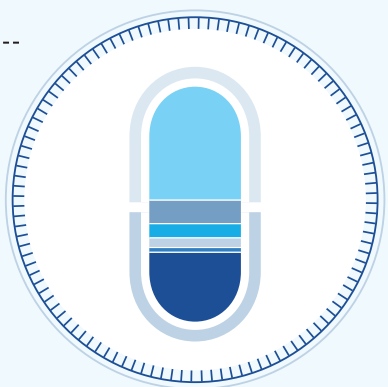
Convening of an Extraordinary General Meeting in the first quarter of 2015

On 23 January 2015, 4SC AG announced in an ad hoc disclosure that it would hold an Extraordinary General Meeting on 11 March 2015 to adopt a resolution to reduce the Company's share capital to €10,169,841.00 by consolidating the no-par value shares issued in a 5:1 ratio to 10,169,841. The aim

// SHAREHOLDER STRUCTURE as at 31.12.2014

Based on an estimate by 4SC's management

STRONG ANCHOR INVESTORS



	in Percent
Santo Holding	49.2
FCP	9.7
HeidelbergCapital	5.8
Roland Oetker (ROI)	4.2
Founders & management	1.0
Other	30.1
Total	100.0

of the capital reduction is to raise the Company's share price in a sustained manner above the notional value of €1.00 per share and to give 4SC AG the flexibility to undertake any future capitalisation measures (see section 6, Report on post-balance sheet events). This measure will not change the Company's equity structure.

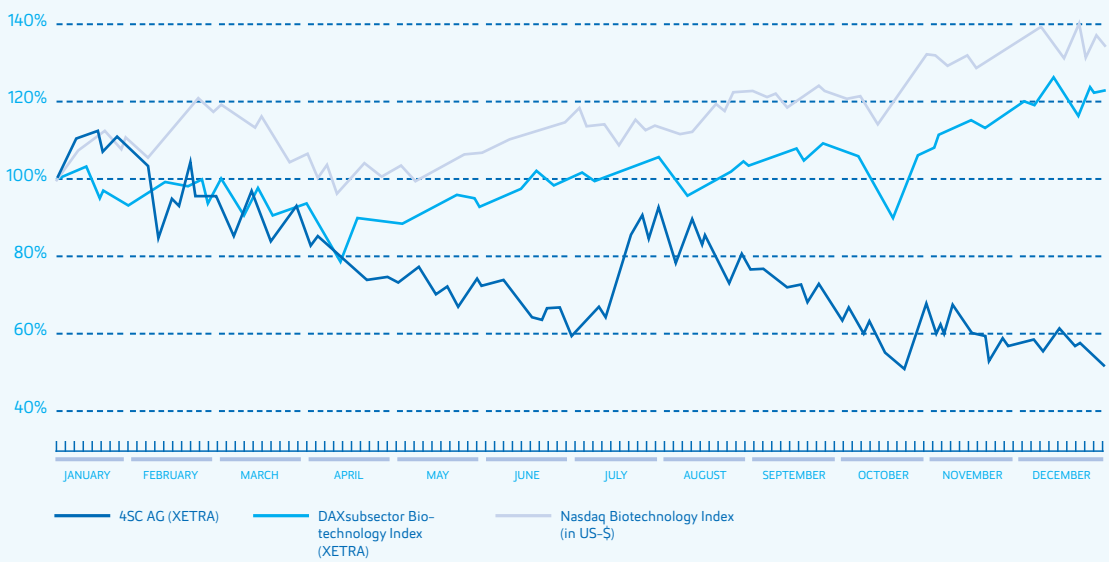
// KEY FIGURES OF THE 4SC SHARE as at 31.12.2014

WKN (German SIN)*	575381
ISIN*	DE0005753818
Stock exchange symbol	VSC
Type of shares	Bearer shares
Number of shares*	50,849,206
Market segment	Prime Standard
Marketplace	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 €)	–0.19
Number of shares issued (annual average)*	50,642,249
Free float***	35.3%
Annual high (XETRA) (in €)	1.79
Annual low (XETRA) (in €)	0.80
Closing price on reporting date (XETRA) (in €)	0.82
Daily trading volume (all trading venues, annual average)	83,604

* Upon completion of the capital reduction and consolidation of shares in a 5:1 ratio, as resolved by the Extraordinary General Meeting held 11 March 2015, the total number of shares issued is expected to be reduced to 10,169,841. In addition, the 4SC shares will get a new WKN (German SIN) and ISIN.
** until 30 September 2014
*** as defined by Deutsche Börse

// SHARE PRICE

in %, indexed on 4SC AG in 2014



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 2014 and 2013 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 clinical drug development programmes resminostat, 4SC-202, 4SC-205 and 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)

REVENUE RISES SIGNIFICANTLY

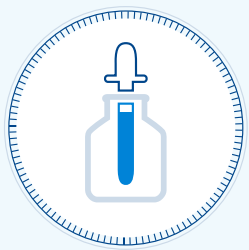
Consolidated revenue rose to €7,055 thousand in financial year 2014, up 44% from the previous year (2013: €4,904 thousand).

In the Development segment, revenue of €3,778 thousand (2013: €1,601 thousand) was generated, corresponding to 54% of consolidated revenue. This segment revenue comprised the proportional reversal of the deferred income recognised in connection with the partnership entered into with Yakult Honsha Co., Ltd. in 2011 for the development of resminostat in the amount of €894 thousand (2013: €894 thousand) as well as a contractually agreed milestone payment and allocations to Yakult Honsha Co., Ltd. of the costs to produce the resminostat compound totalling €2,884 thousand (2013: €707 thousand).

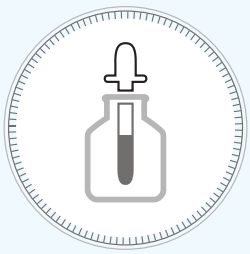
The Discovery & Collaborative Business segment contributed 46% to consolidated revenue in the reporting year. At €3,277 thousand, segment revenue was therefore just shy of the prior-year level (2013: €3,303 thousand). Revenue of €1,108 thousand from the research collaboration with Mainz-based BioNTech AG and its subsidiary was recognised in the reporting period (2013: €1,279

// KEY FIGURES OF THE 4SC GROUP

(Short version) in € 000's



Revenue 2014



Revenue 2013

GROUP REVENUE: +44%

	2014	2013
Revenue	7,055	4,904
Operating expenses	16,550	15,530
Operating profit/loss	-9,437	-10,592
Consolidated net profit/loss	-9,696	-10,525
Earnings per share (in €)	-0.19	-0.21

thousand). Another €1,624 thousand in segment revenue in 2014 (2013: €1,772 thousand) stems from the licence agreement and research partnership with LEO Pharma A/S of Denmark arranged in the first quarter of 2013. Of this figure, €431 thousand (2013: €569 thousand) is attributable to the proportional reversal of the deferred income item set up for the upfront payment of €1 million. After adjusting for this amount recognised in connection with a one-off payment, the Discovery & Collaborative Business segment generated revenue from research collaborations of €2,846 thousand in the 2014 financial year, an increase of 4% on the previous year (2013: €2,734 thousand).

Operating expenses

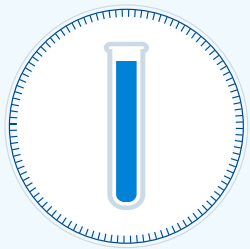
Operating expenses, comprising the cost of sales, distribution costs, research and development costs and administrative costs, rose to €16,550 thousand in 2014, an increase of 7% on the prior-year figure (2013: €15,530 thousand). Of the total expenditure, €13,420 thousand (2013: €12,278 thousand) was attributable to the Development segment and €4,338 thousand (2013: €4,549 thousand) to the Discovery & Collaborative Business segment.

The increase in operating expenses is primarily attributable to the substantial rise in the cost of sales, which climbed 177% in the reporting period to €4,080 thousand (2013: €1,474 thousand). The increase is due mainly to expenses incurred in 2014 in connection with the production of the resminostat compound for clinical trials in Japan, most of which were passed on to 4SC's partner, Yakult Honsha Co., Ltd. Other components of the cost of sales were incurred in the Discovery & Collaborative Business segment under the ongoing research collaborations with BioNTech AG and LEO Pharma A/S, Denmark.

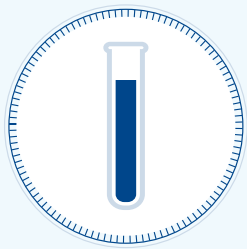
Research and development costs were down 17% in 2014 to €8,504 thousand (2013: €10,243 thousand), but at 51% (2013: 66%) still constitute the largest block of operating expenses. Research and development costs were lower mainly due to the year-on-year decrease in the

// SEGMENT REVENUE

Revenue by segment 2014



Revenue 2014
Development



Revenue 2014
Discovery & Collaborative Business

REVENUE DEVELOPMENT SEGMENT: +136%

	in € 000's	in Percent
Development	3,778	54
Discovery & Collaborative Business	3,277	46

number of ongoing clinical trials which led to a sharp decrease in outsourced services for some projects.

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FURTHER SAVINGS ACHIEVED IN ADMINISTRATIVE COSTS

Administrative costs amounted to €3,120 thousand in the 2014 financial year, down slightly by 6% year-on-year (2013: €3,310 thousand). This decline is mainly due to cost-cutting measures and the structural adjustments adopted in mid-2013.

Distribution costs, which consist of the costs incurred by business development and strategic planning & marketing activities, rose by 68% in 2014. They amounted to €846 thousand (2013: €503 thousand). The increase is due to an expansion of business development activities.

Operating profit/loss

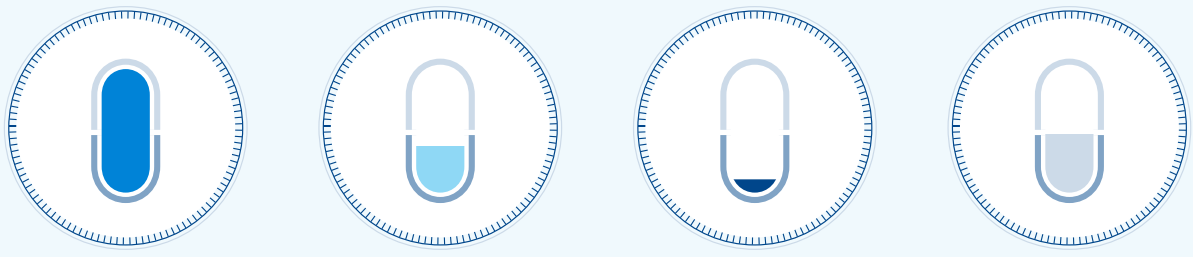
On the back of substantially higher revenue and a disproportionally lower increase in operating costs, 4SC's operating loss improved by 11% in 2014, receding to €-9,437 thousand (2013: €-10,592 thousand). The Development segment reported an operating loss of €8,554 thousand (2013: €9,457 thousand), while an operating loss of €883 thousand (2013: €1,135 thousand) was recorded by the Discovery & Collaborative Business segment.

Net finance income/loss

Compared with the previous year, net finance income fell significantly in 2014 to €-189 thousand (2013: €67 thousand), mainly due to the surge in interest expense to €234 thousand in the reporting period (2013: €10 thousand). Interest expense was incurred primarily in connection with the draw-down of initial tranches of the loan from Santo Holding (Deutschland) GmbH and from the convertible note agreement signed with Yorkville. The development of net finance income was also due to falling interest rates on the capital markets and the decrease in available funds, which reduced finance

// OPERATING EXPENSES

in € 000's



Research and development costs 2014 | Administrative costs 2014 | Distribution costs 2014 | Cost of sales 2014

	2014	2013
Research and development costs	8,504	10,243
Administrative costs	3,120	3,310
Distribution costs	846	503
Cost of sales	4,080	1,474
Total	**16,550**	**15,530**

income to €6 thousand (2013: €58 thousand). The share in the profit/loss of associates increased by 44% year-on-year to €39 thousand (2013: €27 thousand).

Taxes

In the reporting period, the 4SC Group incurred expense of €70 thousand from current income taxes in the form of a non-creditable, merely deductible Japanese withholding tax (2013: €0 thousand).

Consolidated net loss

The net loss fell by 8% to €9,696 thousand in 2014 on the basis of the developments described, particularly through significantly higher revenue (2013: €10,525 thousand).

Earnings per share

The average number of shares rose to 50,642,249 in the financial year (2013: 50,371,814 shares) as a result of the conversion of convertible notes issued to Yorkville in March and September 2014. The simultaneous drop in the consolidated net loss lowered the loss per share to €0.19 (2013: loss of €0.21).

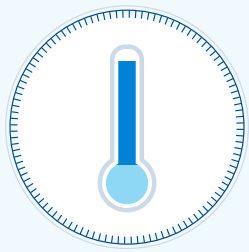
3.2 NET ASSETS

Non-current assets

Non-current assets fell from €11,591 thousand as at 31 December 2013 to €10,639 thousand as at 31 December 2014. This was mainly due to the pro-rata amortisation of intangible assets and depreciation of tangible assets. At €9,836 thousand, intangible assets continued to be the largest

// STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION

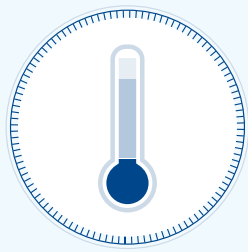
in € 000's



Non-current assets

Current assets

Assets 2014



Equity

Non-current liabilities

Current liabilities

Equity and Liabilities 2014

	2014 in € 000's	2014 in percent	2013 in € 000's	2013 in percent
Non-current assets	10,639	71	11,591	65
Current assets	4,295	29	6,114	35
Total	**14,934**		**17,705**	

	2014 in € 000's	2014 in percent	2013 in € 000's	2013 in percent
Equity	2,050	14	11,282	65
Non-current liabilities	8,042	54	2,836	16
Current liabilities	4,842	32	3,587	20
Total	**14,934**		**17,705**	

non-current asset item (31 December 2013: €10,651 thousand), followed by property, plant and equipment at €425 thousand (31 December 2013: €602 thousand). The increase in financial assets from €181 thousand as at 31 December 2013 to €220 thousand as at 31 December 2014 is due to the write-up on the equity interest in quattro research GmbH recognised using the equity method, which achieved a positive contribution to earnings in the reporting year.

Current assets

The decline in current assets to €4,295 thousand as at 31 December 2014 (31 December 2013: €6,114 thousand) was largely due to the decrease in funds to €3,202 thousand (31 December 2013: €4,899 thousand). This is due to the outflow of funds as a result of the operating loss incurred by 4SC. The significant increase in trade accounts receivable to €652 thousand (31 December 2013: €346 thousand) resulted from collaboration projects with BioNTech AG and LEO Pharma A/S.

Equity

The considerable decrease in equity from €11,282 thousand as at 31 December 2013 to €2,050 thousand as at 31 December 2014 is mainly attributable to the consolidated net loss of €9,696 thousand (31 December 2013: €10,525 thousand). The accumulated deficit therefore rose to €128,956 thousand (31 December 2013: €119,260 thousand). Yorkville's conversion of convertible notes into shares increased the Company's share capital in the reporting period by €477 thousand to €50,849 thousand at the reporting date (31 December 2013: €50,372 thousand). After having already decreased by €59 thousand in the previous year, the share premium receded by €16 thousand in the reporting year on account of higher expenses for the conversion plus low conversion rates.

Particularly the increase in debt in 2014 resulting from the shareholder loan from Santo Holding (Deutschland) GmbH and the loss incurred lowered the equity ratio by a total of 50.0 percentage points to 13.7% at the reporting date (31 December 2013: 63.7%).

Current and non-current liabilities

Non-current liabilities were up 184% compared with the 2013 reporting date (31 December 2013: €2,836 thousand) to €8,042 thousand as at 31 December 2014. The majority was attributable to liabilities to shareholders in the amount of €6,131 thousand (31 December 2013: €0 thousand). This amount reflects the three tranches of €2,000 thousand each drawn down from the Santo Holding (Deutschland) GmbH shareholder loan of up to € 10 million agreed in June 2014. The other non-current liabilities continue to consist largely of deferred income in connection with the partnership with Yakult Honsha Co., Ltd. amounting to €1,788 thousand as at 31 September 2014 (31 December 2013: €2,682 thousand).

Current liabilities increased by 35% to €4,842 thousand (31 December 2013: €3,587 thousand). These primarily consist of other liabilities and deferred income of €3,526 thousand (31 December 2013: €2,884 thousand). Advances received for subsidies from the Federal government and the EU rose by €284 thousand to €458 thousand (31 December 2013: €174 thousand). Current liabilities also comprise trade accounts payable of €993 thousand (31 December 2013: €675 thousand), mainly stemming from the production of the resminostat compound for Yakult Honsha Co., Ltd. At the reporting date, this item additionally included liabilities of €317 thousand for convertible notes issued to Yorkville (31 December 2013: €0 thousand).

Total assets/Total equity and liabilities

Total assets/total equity and liabilities amounted to €14,934 thousand as at 31 December 2014, down 16% on 31 December 2013 (€17,705 thousand). Two opposing factors essentially brought about the change in total assets/total equity and liabilities: firstly, the reduction in equity caused by the loss incurred and, secondly, the increase in borrowed capital attributable to the shareholder loan in particular.

3.3 FINANCIAL POSITION

Cash flows from operating activities

A total of €8,372 thousand was used for operating activities in the 2014 financial year. The difference compared with the negative earnings before taxes of €9,696 thousand resulted in particular from non-cash expense items such as straight-line depreciation and amortisation as well as from cash items such as the increase in trade accounts receivable. Cash flow-negative changes in liability-side items in the statement of financial position, especially the reduction in the deferred income item and other liabilities, stand in contrast to the aforementioned items, though to a much lesser extent. In the prior-year period of 2013, cash outflows from operating activities came to €-6,987 thousand with a pre-tax loss of €10,525 thousand.

Cash flows from investing activities

The cash inflows from investing activities in financial year 2014 amounted to €897 thousand (2013: €4,868 thousand). The sale of financial instruments generated a cash inflow of €1,000 thousand (2013: €4,988 thousand).In contrast, the Company invested €3 thousand (2013: €21 thousand) in intangible assets and €100 thousand (2013: €99 thousand) in property, plant and equipment.

Cash flows from financing activities

Due to the draw-down of €6,000 thousand from the loan provided by Santo Holding (Deutschland) GmbH, the conversion of issued convertible notes in the amount of €461 thousand and the convertible notes that had not yet been converted into shares amounting to €317 thousand, there was a cash inflow from financing activities of €6,778 thousand in the 2014 financial year.

Funds

As at 31 December 2014, the Company had cash and securities totalling €3,202 thousand (31 December 2013: €3,899 thousand). Additional funds in the amount of €1,000 thousand were invested in short-term fixed-interest securities in the previous year.

3.4 SUMMARY OF ECONOMIC POSITION

Compared with the previous year, operating expenses rose in the 2014 financial year owing to the costs incurred to produce the resminostat compound for the clinical trials being conducted by Yakult Honsha Co., Ltd. in Asia. Additional development costs were incurred due to the increased length of the clinical studies with the 4SC-202 and 4SC-205 drug candidates over the original estimates and the optimisation of the production process for resminostat during preparations for the planned Phase II trial. At the same time, revenue was significantly boosted in particular by the allocation of the production costs to Yakult Honsha Co., Ltd., with the research collaboration

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BUSINESS DEVELOPMENT PROCEEDING ACCORDING TO PLAN

business of 4SC Discovery GmbH proceeding according to plan. As a result, the net loss in 2014 was trimmed by a total of 8% year-on-year. The Company had sufficient liquidity at all times during the 2014 financial year. The financing of the ongoing programmes was not in jeopardy at any time. This was ensured in particular by the cash inflows from the agreements on convertible notes of up to €15 million entered into with Yorkville in the calendar year as well as by a shareholder loan with Santo Holding (Deutschland) GmbH of up to €10 million.

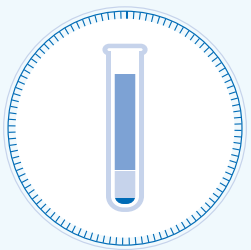
The Group's economic development in the 2015 financial year again proceeded according to plan up until the preparation of this combined management report.

4. EMPLOYEES

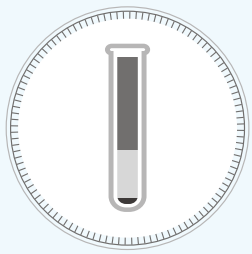
At the end of the reporting period, the 4SC Group had 66 employees (including the Management Board of 4SC AG and executive management of 4SC Discovery GmbH) (31 December 2013: 73), with female employees making up 55% (31 December 2013: 53%) of the total. The Development segment had 40 employees at year-end (31 December 2013: 47), while the Discovery & Collaborative Business segment had 26 (31 December 2013: 26). At Group level, the average number of employees in 2014 was 65, a decrease of 20% on the previous year (2013: 81).

4SC adheres to a balanced personnel policy, filling the relevant positions with the most qualified employees. Furthermore, the Company offers flexible working arrangements that enable its employees with children in particular to balance career and family. As at the 31 December 2014 reporting date, 29% (31 December 2013: 26%) of the workforce were working part-time. Including part-time employees and employees on parental leave, the Company had 57 full-time employees (full-time equivalents, FTEs) at the end of 2014 (31 December 2013: 56 FTEs). Of these FTEs, 71% (31 December 2013: 72%) worked in research and development, and 29% (31 December 2013: 28%) in sales and administration.

// TOTAL NUMBER OF EMPLOYEES



Total number of employees 2014



Total number of employees 2013

	2014	2013
Research & Development	50	47
Administration & Sales	14	24
IT	2	2
Total	**66**	**73**

Until February 2014, 4SC also had trained one chemical laboratory technician who was hired by the Company for a permanent position after passing the final exam. The Company is not training any chemical laboratory technicians at present.

Staff costs amounted to €4,882 thousand in the reporting period, a reduction of 16% year-on-year (€5,826 thousand). This decrease is primarily attributable to the lower number of employees following the restructuring in 2013. Staff costs include €3 thousand (2013: €52 thousand) arising from non-cash expenses for stock option programmes.

5. FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

5.1 FINANCIAL KEY PERFORMANCE INDICATORS

4SC's primary objective is to advance the research and development process of its own compound programmes to generate product value and thereby increase the value of the Company as a whole. To achieve this goal, a variety of key performance indicators are determined for the planning, management and control of business development. The key control variables in operations that are generally used in the industry are revenue and operating expenses. These are calculated for both of 4SC's segments on a monthly basis and compared with the projected figures. In the process, the expenses for research and development of the individual projects above all are analysed in depth and monitored carefully.

With regard to the Group's financial planning and management, 4SC is especially mindful of its average monthly cash burn rate. The ratio of this indicator to the existing cash balance/funds and expected milestones makes it possible to estimate for which period the cash balance/funds are expected to suffice and by when new liquid funds are needed at the latest. Further details of financial key performance indicators can be found in section 1.4.

5.2 NON-FINANCIAL KEY PERFORMANCE INDICATORS

5.2.1 INDUSTRIAL PROPERTY RIGHTS

For a research-based biotechnology company such as 4SC having a solid portfolio of industrial property rights is crucial. It both strengthens the competitive position of the Company's proprietary development programmes on route to marketability and supports their potential future market success. 4SC has established an efficient patent management, which has further strengthened and strategically optimised the patent portfolio.

Overall, the total number of patents issued worldwide remained stable at 357 in 2014 (31 December 2013: 355). In contrast, the number of patent applications pending in 2014 was down to 173 (31 December 2013: 205), and the number of patent families was reduced from 28 as at 31 December 2013 to 26 for reasons of efficiency.

Development segment

In the Development segment, the Group held 300 patents and had 70 patent applications pending in a total of 15 patent families as at the close of 2014. Year-on-year, the overall total of patents held remained virtually unchanged in this segment. The number of pending patent applications decreased by 35%. The decline results from a streamlining of the patent portfolio designed to improve efficiency, focusing in particular on ancillary and backup projects no longer pursued due to the Company's strategic refocusing.

For resminostat, 4SC's lead compound in oncology, the Company holds a total of 152 patents, including 59 composition-of-matter patents. The resminostat compound is protected in all of the world's key pharmaceutical markets, such as those in the USA, Europe, Japan, China, South Korea, India and Russia. 4SC expanded this patent protection in the reporting year. One example is the Company's receipt of the patent covering the manufacturing method for resminostat in the USA and Japan. This patent protects the chemical process used to manufacture the compound. As of this writing, the resminostat manufacturing process is now protected until 2029 in almost all of the world's key markets, including Europe, China, Russia, Hong Kong, Singapore and Australia.

Patent protection was also expanded in the reporting year for 4SC-202 and 4SC-205, the Company's newer clinical oncology compounds. For 4SC-202, 4SC's second epigenetic oncology compound alongside resminostat, and the oral cell division inhibitor 4SC-205, patent protection is either already in place in key markets such as USA, Japan, Europe, India, Russia and South Korea, or the Company has been notified of the imminent granting of a patent in these markets by the relevant patent offices.

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NEW PATENT STRENGTHENS VIDOFLUDIMUS

For vidofludimus, the Company's lead compound in the treatment of autoimmune diseases, 50 patents had been granted as at the end of 2014 by patent offices in the USA, Europe, China, South Korea, India and Russia. Such patents also include the granting in 2014 of a new patent for the calcium salt of vidofludimus in the USA; the granting of this patent in Europe is also imminent. These patents will work to considerably extend – and thus generally strengthen – the patent protection for vidofludimus.

Segment „Discovery & Collaborative Business"

At the end of the reporting year, the Discovery & Collaborative Business segment patent portfolio comprised 57 patents held and 103 patent applications pending, in ten patent families. Year-on-year, the overall total of patents held in this segment has therefore increased by 5%, with the number of patent applications pending rising by 4%.

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). The Japanese patent office has informed 4SC that the granting of a patent is imminent for a programme in the field of cancer immunotherapy licensed to BioNTech since the end of 2012. A research programme working on cancer stem cells has resulted in the filing of international patent applications (pursuant to PCT, the international Patent Cooperation Treaty) for new compounds.

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. Overall,

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.

5.2.2 CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Employee safety and environmental protection

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

The occupational health and safety committee serves as a core instrument to fulfil these tasks. It is comprised of two safety officers, the biological safety officer, the company medical officer and the safety specialist. The positions of company doctor and occupational safety officer are held by qualified external persons who also advise 4SC in a professional capacity. 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.

The risk assessments required by the German Occupational Health and Safety Act are performed on a regular basis by a specialist company. Furthermore, all laboratory employees receive annual training on the handling of hazardous substances in accordance with applicable hazardous substance regulations. All new members of staff also receive safety training, which is tailored to their place of work – laboratory or office – as appropriate.

Alongside these personnel and organisational measures, the technical and structural requirements for the handling, storage and transport of hazardous substances and biomaterials are meticulously observed. These include the provision of personal protective equipment, effective fire safety mechanisms, biological safety areas and systems for laboratory facilities such as safety weighing cabinets where the air extraction system does not adversely affect instrument accuracy. All relevant mechanisms and apparatus have received the prescribed regulatory permits, and are inspected and serviced on a regular basis. Last but not least, 4SC's waste disposal policy – requiring the professional and ecologically sound disposal of hazardous waste by a waste management company – also helps to protect the environment.

4SC Discovery GmbH is fully integrated into the 4SC Group's occupational health and safety structure. Due to the systematic implementation and observance of occupational safety measures, not a single notifiable incident occurred in the reporting year.

Ethical responsibility

4SC also relies on data derived from animal testing in order to research and develop new drugs. This serves both to achieve the requisite goals in scientific terms and satisfy statutory requirements. The Company is committed to reducing tests involving animals to the minimum and replace them to the extent possible with alternatives, such as cell culture testing. All experiments involving animal subjects conducted by 4SC in the reporting year were performed only after obtaining regulatory approval and were monitored on a continuous basis by an external animal welfare officer.

Contract research organisations, which are carefully selected, are commissioned to perform several 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.

5.2.3 PROCUREMENT

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

The Group has a broad network of suppliers in order to ensure that it is not dependent on any one supplier. The required goods are generally sourced based on quality, pricing and availability. In 2014, persistent renegotiation once again brought improvements to delivery terms and prices with several suppliers while keeping purchasing volumes unchanged. The Company continued to play an active role in the purchasing consortium for the Munich biotech region.

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

5.2.4 QUALITY ASSURANCE

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SOPHISTICATED QUALITY MANAGEMENT SYSTEM

The research and clinical development of new drugs requires the observance of the very highest standards of safety and quality. This practice aims to reduce the risks to the safety of humans and the environment while also minimising threats to the Company's economic position.

In light of the above, 4SC has installed a quality management system according to "GxP" guidelines. The abbreviation GxP is an umbrella term referring to guidelines that codify quality standards used in an industry. Such guidelines include Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practice (GMP). This quality management system ensures that internal processes, workflows and company policy can be formulated and monitored in accordance with national and international law, resolutions, directives and statutory orders.

4SC's quality assurance work also includes drawing up an annual audit programme. This involves taking a risk-based approach to assessing which of the many external companies and service providers to which 4SC entrusts work – such as CROs (for performing clinical studies) or contract manufacturers (for producing compounds and investigational medicinal products) – are to be audited for compliance with the required quality standards in the course of ongoing clinical trials.

The head of the Company's Quality Unit reports to the CEO and works closely with the latter to coordinate all of the actions to be taken. This approach ensures risks can be minimised while achieving a high standard of quality. This is reflected in the quality of the investigational medicinal products while guaranteeing reliable and accurate data collection and analysis to achieve an optimum level of safety for patients and volunteers.

Further details of non-financial key performance indicators can be found in section 1.3.

6. REPORT ON POST-BALANCE SHEET DATE EVENTS

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DISTINGUISHED EXPERT JOINS THE SUPERVISORY BOARD

At the beginning of January 2015, Professor Helga Rübsamen-Schaeff was appointed as a new member of the Supervisory Board by the responsible registration court on the Company's application. Her term of office will initially run until the end of the Annual General Meeting that resolves on formally approving the actions of the Supervisory Board of 4SC AG for financial year 2014. The six-person Supervisory Board is now complete once more. From 2006 until 1 March 2015, Professor Rübsamen-Schaeff acted as Managing Director and CEO of the Wuppertal-based biopharma company that she founded, AiCuris GmbH, and since 1 March 2015 has been Chairwoman of the Advisory Board of AiCuris GmbH. From 1994 to 2006, she held various managerial positions in Antiviral and Anti-infective Research at Bayer AG. After stints as a guest researcher at various universities including Harvard and Cornell in the United States, the chemist held the post of Managing Director of the Chemotherapeutic Research Institute Georg-Speyer-Haus in Frankfurt, now the Institute for Tumor Biology, for six years and has been Professor of Biochemistry and Virology at the University of Frankfurt since 1988. She is also a member of the Board of Partners and of the Supervisory Board of the German pharmaceutical and chemical group Merck KGaA, Darmstadt, as well as Chair of the Research Council of Merck KGaA.

In mid-January 2015, 4SC AG reported that the BEYOND RESEARCH initiative of its research subsidiary 4SC Discovery together with its partner CRELUX GmbH had reached the first milestone in a drug discovery project for Helmholtz Zentrum München. The first stage of the collaboration with the RQScue Therapeutics working group for researching new compounds for treatment of degenerative diseases was successfully completed. The second stage of the project has been started now. In the BEYOND RESEARCH initiative, the companies are using their joint i2c (idea to candidate) technology platform to generate from several compounds one pharmaceutical development candidate that can subsequently be developed further into an effective therapy for degenerative diseases. The work is funded by the Bavarian Ministry of Economic Affairs and Helmholtz Zentrum München.

On 23 January 2015, 4SC AG announced in an ad hoc disclosure that it would hold an Extraordinary General Meeting on 11 March 2015. The notice of the Extraordinary General Meeting was published in the Federal Gazette on 29 January 2015. The main objective of the Extraordinary General Meeting is to adopt a resolution to reduce the Company's share capital through a reverse split of shares in accordance with sections 222 ff. of the German Stock Corporation Act (AktG). The capital reduction is to be effected such that the share capital is lowered from €50,849,205.00 by €40,679,364.00 to €10,169,841.00 by consolidating the no-par value shares issued in a 5:1 ratio from 50,849,205 to 10,169,841. This measure will not change the Company's equity structure and enterprise value. No distribution will be made to shareholders. The aim of the capital reduction is to raise the Company's share price in a sustained manner above the notional value of €1.00 per share and to give 4SC AG more flexibility to undertake any future capitalisation measures. The resolution on the capital reduction will be preceded by a resolution to cancel one share of the Company surrendered to the Company by a shareholder free of charge. This is necessary to be able to implement the capital reduction through consolidation of shares in an even share consolidation ratio.

At the Extraordinary General Meeting of 4SC AG held on 11 March 2015, the shareholders adopted all agenda items with the required majority and resolved to reduce the Company's share capital to €10,169,841.00 by consolidating the no-par value shares issued in a 5:1 ratio.

In February 2015, 4SC's Austrian investee Panoptes Pharma Ges.m.b.H, Vienna, concluded a licence agreement with Mediolanum Laboratoires Leurquin S.A., the French subsidiary of the Italian company Mediolanum Farmaceutici S.p.A. (Mediolanum). Under the terms of the agreement, Mediolanum will acquire marketing rights to Panoptes's small-molecule compound PP-001 in two key European countries. Panoptes received an upfront payment and is eligible for later developmental and sales milestones and royalties on net sales of the compound. PP-001 is currently in preclinical development as a potential next-generation treatment for serious inflammatory eye diseases such as non-infectious uveitis. PP-001 was originally discovered by 4SC Discovery GmbH. In 2013, 4SC Discovery GmbH transferred the patents for PP-001 to Panoptes Pharma Ges.m.b.H and received a 24.9% equity stake in Panoptes Pharma Ges.m.b.H in return. In addition, 4SC Discovery GmbH is entitled to subsequent performance-based milestone payments from Panoptes Pharma Ges.m.b.H and royalties based on the sales revenue generated with PP-001.

7. 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.

7.1 MACROECONOMIC AND SECTOR DEVELOPMENT

According to its January 2015 forecast, the International Monetary Fund (IMF) expects to see the global economy expand by 3.5% in 2015, thus marking a slight rise year-on-year (2014: 3.3%). Low oil prices constitute one significant economic driver in this respect. That said, this effect is being balanced out by negative factors, particularly China's less dynamic economic growth, uncertainties affecting the international finance markets and persistent geopolitical tensions.

The IMF envisages growth of 1.2% for the euro zone, a figure that reflects the positive effects of recovery in crisis-hit Spain and Italy. For Germany, the figure is 1.3%, indicating slightly weaker growth than that posted for 2014. Analysts are optimistic about the US economy, predicting a rise of 3.6% in economic output. Asia's economy is forecast to expand by 6.4%, although a change of gear is predicted for China, with the world's largest economy slowing to 6.8%.

Following the record year of 2014, which saw the approval of no less than 41 new drugs, analysts from industry information service BioCentury expect this trend to lose something of its momentum in 2015 in the sector of biotechnology companies focused on drug development. The year is bound to be marked in particular by the results from a large number of clinical trials still in progress, with cancer immunotherapy remaining one of the most highly regarded areas of research. BioCentury reports that – as of the beginning of 2015 – market approval decisions were pending for 30 drugs in the current financial year.

As regards the performance of biotech companies on the capital markets, analysts surveyed by BioCentury expect developments in the primary and secondary markets to remain positive, although unlikely to match the performance seen in the previous year. By early 2015, a total of 31 companies had announced plans for an IPO; 25 of these are looking to become listed on the US tech stock market NASDAQ.

According to estimates by industry association BIO Deutschland, major differences in the financing environment continue to exist between German biotech firms and those based in the USA. Analysts at Independent Research report a persistently difficult financing environment for the German biotech industry, which is why more and more local sector companies look abroad for financing options.

7.2 COMPANY OUTLOOK

Further operating and strategic development

The 4SC Group remains committed to pursuing its focused research and development strategy. This strategy concentrates in particular on the clinical development of those projects that offer the greatest potential to increase value for the Group. To this end, 4SC streamlined its own development pipeline in 2013 and resolved to invest no further internal resources in the clinical development of the anti-inflammatory compound vidofludimus at this time.

The Company continues to focus the development of the oncology compound resminostat, with the emphasis being the indication of advanced hepatocellular carcinoma (HCC). Looking to the future, 4SC has also identified a number of other attractive development targets for resminostat in other indications – and particularly in certain haematological niche indications. In addition, the Management Board further believes that the promising Phase I study data generated in 2014 by the two oncology compounds 4SC-202 and 4SC-205 also offer additional development options for the future.

(i)

ADDITIONAL DEVELOPMENT OPTIONS FOR 4SC-202 AND 4SC-205

For resminostat, 4SC reviews the conduct of a double-blind, randomised controlled Phase II trial in the indication of liver cancer (HCC) as a next potential step on the path to the desired goal of market approval. In this trial, resminostat is to be tested in combination with the anti-cancer drug sorafenib as a first-line therapy for patients with advanced liver cancer (HCC) in comparison with the current standard treatment of HCC, namely monotherapy with sorafenib. The trial will also further qualify the potential predictive biomarker ZFP64. ZFP64 could possibly be deployed to improve the quality of patient population pre-selection for a subsequent Phase III trial to further enrich the meaningfulness of the data by leveraging biomarker-based patient stratification. A successful outcome of this planned Phase II trial could then result in licensing to a pharmaceutical company, as well as a Phase III registration trial in the indication of HCC.

The Company will continue to make preparations for this study. These preparations include the finalisation of the study protocol, the conclusion of optimisation work on the manufacturing method for the resminostat trial medication, and the preparation of the regulatory documentation to be submitted to drug regulators in Europe when applying for permission to commence the study and to regulators in the USA as part of an IND (Investigational New Drug Application). However, 4SC will not start the study until long-term financing has been secured. The Company is currently conducting talks with potential partners, investors and financial market players about the options available for trial financing.

Our 2014 Report communicated the end-of-year goal of securing funding and applying to the relevant healthcare regulators for the start of the Phase II part of a Phase II/III study programme as a HCC first-line therapy. This goal has not been achieved. This stems partly from the interim modifications to the strategy for resminostat's further development in the HCC indication. After consulting with regulatory agencies, potential pharma partners and clinical key opinion leaders, the Management Board decided in the second quarter of 2014 to first pursue its own Phase II trial in

this indication. The option favoured earlier was a combined Phase II/III trial with an adaptive study design. In contrast to the latter – and assuming positive Phase II results are obtained – this new approach should achieve a significant and clearly-defined addition to value while considerably reducing capital expenditure. Secondly, the start of the Phase II study pursued for 2014 has not yet taken place due to the fact that trial funding has yet to be secured. 4SC still expects to be able to commence the study in a timely manner once financing has been obtained.

4SC is also reviewing additional future development options for resminostat in other indications on a regular basis. One particularly attractive option is offered by haematological niche indications. Since efficacy for these indications has already been shown by the class of HDAC inhibitor compounds, the positive clinical safety and efficacy profile demonstrated by resminostat to date appears to offer an accelerated route to market approval with a comparably modest level of capital outlay.

(i)

YAKULT EXPECTED TO PRESS FORWARD WITH RESMINOSTAT DEVELOPMENT IN ASIA

4SC also expects its Japanese development partner Yakult Honsha Co., Ltd. to maintain its high level of commitment in proceeding with the two ongoing Asian Phase II trials investigating resminostat in the indications of advanced liver cancer (HCC) and non-small-cell lung cancer (NSCLC). Each of these studies is testing the safety and efficacy of resminostat as a combination therapy with the established cancer drugs sorafenib (in HCC) and docetaxel (in NSCLC), compared to the respective monotherapy – sorafenib or docetaxel – for these indications.

As previously reported, 4SC announced positive top-line results from the Phase I TOPAS trial in patients with haematological tumours for its second epigenetic oncology compound 4SC-202 in the second quarter of 2014. The Company is presently preparing the trial data for the final study report, which is expected to be published mid-year 2015. One trial patient, who is in complete remission, is still receiving treatment. He has been responding to treatment for more than two years now. 4SC is currently evaluating various options for the further clinical development of 4SC-202 and has initiated negotiations with potential partners to this end.

(ii)

FURTHER CLINICAL DEVELOPMENT OF 4SC-202

In December 2014, 4SC published positive top-line results from the Phase I AEGIS trial investigating 4SC-205, its third oncology compound. The publication of these results had originally been announced for the third quarter of 2014. In the case of one patient, whose cancer was stabilised by treatment with 4SC-205, her condition remains stable and she continues to be treated within the study. She has now been in the study for about eight months. The Company expects to publish the final study data, including findings from the biomarker analysis at a scientific conference in 2015 after completing the study report. 4SC will now proceed to discuss the results with external clinical key opinion leaders and potential partners to assess further development options for 4SC-205.

As regards vidofludimus, the Company's clinical compound in the field of autoimmune diseases, 4SC remains committed to negotiating with investors and industry partners to enable the further development of this drug candidate by an external party. To improve development prospects for vidofludimus, 4SC reformulated the active ingredient as a specific salt form in the reporting year. Compared to the previous form of the compound, the Company believes that the salt form offers considerable pharmacological advantages while also strengthening the patent position with new patents as well as patents with longer terms. In accordance with its refocusing strategy, however, 4SC will not allocate any appreciable company funds to the further clinical development of vidofludimus at this time.

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

(i)

NEW PARTNERSHIPS BEING PURSUED

In the Discovery & Collaborative Business segment, 4SC Discovery GmbH wants to further expand existing partnerships while entering into new research collaborations with companies in the pharmaceutical/biotech sectors or higher education partners to generate income from service provision and maximise internal capacity utilisation. 4SC Discovery GmbH is also focusing its efforts on securing licensing deals for its own research programmes (early-stage partnering deals) with pharmaceutical and biotech companies. 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 that contributes to the Company’s sustainability.

Financial forecast

4SC had funds of €3,202 thousand at the end of the financial year. In view of short- and medium-term revenue and expense planning and utilisation of the existing convertible note agreement with Yorkville as well as the further opportunity to draw down tranches from the loan agreement with Santo Holding (Deutschland) GmbH, 4SC believes that these funds are sufficient to finance the Company's operations probably beyond the first quarter of 2016.

The average monthly operating cash burn rate forecast this time one year ago for the 2014 financial year increased substantially to €706 thousand compared with the original planning of €400 thousand. On the expense side, this was due to the increased length of the two clinical studies with the 4SC-202 and 4SC-205 drug candidates over the original estimates and the additional development costs in the production process for resminostat incurred during preparations for the planned clinical development of resminostat. What is more, on the revenue side, the incoming payments the Company originally assumed would be received in 2014 are now expected to be delayed until 2015. 4SC therefore believes that the average monthly operating cash burn rate in 2015 will be significantly lower than in 2014, amounting to less than €200 thousand. This forecast does not include the launch of new clinical trials.

For 2015, the Management Board anticipates a further decrease in research and development costs and a further reduction in the consolidated net loss from operations as against 2014 as a result of a renewed drop in operating expenses and a rise in the contributions made by 4SC Discovery GmbH’s activities to earnings at the same time. This is, however, contingent on the Company’s research and development programmes and partnerships continuing to exist and running according to plan.

In the event of funding being secured and the start of further clinical trials – for instance a Phase II liver cancer study with resminostat – the Company's cost structure will change markedly, with significant rises in both development expenses and the cash burn rate. 4SC expects to post annual net losses in the short to medium term.

4SC Discovery GmbH almost broke even in terms of its operating cash flow in the 2014 financial year, falling only marginally short of the forecast issued that it would at least break even in its cash flow from operations. For 2015, the Management Board expects 4SC's research subsidiary to generate a positive cash flow from operations.

(i)

POSITIVE OPERATING CASH FLOW EXPECTED FOR 4SC DISCOVERY

4SC is well positioned for 2015 and beyond. This assessment is based on the Company's attractive development programmes – mainly for the compound resminostat, but also for the other compounds 4SC-202 and 4SC-205, for which positive clinical results were reported in 2014. Moreover, 4SC also expects the ongoing clinical trials being conducted by the Company's Japanese partner Yakult Honsha Co., Ltd. with resminostat to inject positive momentum. Finally, the Company with its subsidiary 4SC Discovery GmbH and its collaborations is also well positioned in the field of early-stage pharmaceutical research. The short- to medium-term challenge will remain obtaining sufficient financing to ensure the rapid and systematic advancement of the programmes, especially for resminostat, and the continued existence of the 4SC Group as a whole.

8. REPORT ON OPPORTUNITIES AND RISKS

8.1 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 sufficient 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.

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.

(i)

EFFICIENT DECISION-MAKING

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 employee or project manager, or a Management Board or executive management member.

4SC's research and development programmes are discussed at regular meetings such as the project manager meeting. These ensure close coordination between the research and development departments as well as with the Management Board. At project manager meetings, which are normally held on a weekly basis, advances in the Company's clinical development programmes are presented and discussed. Project manager meetings are attended by the Management Board member responsible for research and development, the project managers of the clinical development programmes for resminostat, 4SC-202, 4SC-205 and vidofludimus, and the alliance managers for the resminostat partnership with Yakult Honsha Co., Ltd.

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.

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, business development 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 (ERP) 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.

8.2 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.

8.2.1 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.

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. 4SC assumes that competition in the biotechnology industry will intensify overall, especially given that in recent times many young, innovative companies, particularly in the United States, are very well financed.

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HIGHLY COMPETITIVE MARKET

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 in a way that makes sense economically. 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 the Company's 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)

The success of 4SC depends on the various research and development programmes. 4SC 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 the clinical development pipeline are safe to use and well-tolerated, 4SC cannot rule out that in on-going or pending clinical studies they may turn out not to be sufficiently efficacious in treating patients, or side effects may emerge which are classed as relevant to safety. This is also true for findings from ongoing clinical trials being conducted by the Company's licence partners, such as Yakult Honsha Co., Ltd. in Asia. Any negative or unclear findings from their clinical trials could have a similar effect for 4SC as findings from 4SC's own clinical trials. 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

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GROWING INFLUENCE OF HEALTHCARE POLICY

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 remains 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.

8.2.2 RISKS FROM THE COMPANY'S BUSINESS ACTIVITIES

Development and licensing deals

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 risk. If 4SC were to be dependent on a partnership or financing for further clinical development of a product, 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

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.

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BUSINESS STRATEGY LEVERAGES PARTNERSHIPS AND COLLABORATIONS

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 2014. 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 once again increased its focus on generating 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 existing collaborations or find new 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.

Business activities of 4SC Discovery GmbH

The research subsidiary 4SC Discovery GmbH, which has been in operation since the beginning of the 2012 financial year, was able to generate a positive cash flow from operations and thus make a contribution to the Group's financing in the 2013 financial year for the first time. In 2014, the average monthly operating cash flow was slightly negative. 4SC Discovery GmbH's goal is to successively evolve into a company with a positive cash flow in the coming years and build an independent, growing business in the medium term that will have a positive effect on 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 present 4SC AG with considerable challenges, putting the financial situation of the entire Group in jeopardy.

Patents and trademarks

4SC and its various legal entities protect their 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. Even imminent or actual proceedings could have a material adverse effect on the Company's economic situation and market capitalisation. No such objections have been raised or are known to 4SC at this time.

8.2.3 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, formulate and optimise product preparation and ultimately produce the 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. The consequence would be losses in revenue. 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.

8.2.4 CAPITAL MARKET RISKS

Additional financing

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CAPITAL REQUIREMENTS REMAIN HIGH

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 and the Company's reserves no longer suffice – as is the case now –, the Company would have to raise additional equity or borrowings. 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, the Company is now in the position to ensure continued business activities beyond the first quarter of 2016. However, 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 insolvency of 4SC AG and/or 4SC Discovery GmbH. If the Company raises additional capital by issuing new shares, existing shareholders could see a potentially significant dilution of their shares.

In addition, the Company points out that if 4SC's share price falls additional capital measures such as a capital increase and the conversion of convertible bonds issued to Yorkville might be ruled out in the event that the share price drops to €1.00 or below (as was the case temporarily in the 2014 financial year and for most of the first quarter of 2015), because €1.00 is the lower legal limit for par value in the issue of new shares. A share price that is only slightly above €1.00 could

also make it much more difficult to implement a capital increase because it might prove impossible to offer the subscribing shareholders the customary discount on the current price. In this case, shares would first have to be combined prior to a corresponding capital increase so that the share price is high enough. In order to reduce this risk, the Company decided in late January 2015 to hold an Extraordinary General Meeting on 11 March 2015 to adopt a resolution to reduce the Company's share capital to €10,169,841.00 by consolidating the no-par value shares issued in a 5:1 ratio.

Shareholder loan from Santo Holding (Deutschland) GmbH

To implement its short- and medium-term business and development objectives, 4SC AG constantly needs high volumes of capital. In order to finance the operational preparations for the planned clinical development of resminostat and to cover the Company's ongoing costs, 4SC AG agreed a loan of up to €10 million with Santo Holding (Deutschland) GmbH in June 2014. As per its financial planning, 4SC AG can draw down the credit lines in tranches until 31 December 2015. The loan carries interest of 8% p.a. (maturity date) and runs until the end of 2016. On the terms of the credit agreement, partial early settlement of the loan may be required if 4SC stands to receive funding on the terms of newly-signed licensing deals; this could potentially place a cap on the maximum sum available for draw-down from the loan. 4SC AG has undertaken to coordinate the underlying financial planning regularly with the lender. In the event of certain deviations, there may be delays in or freezing of the loan disbursements, leading to a funding shortfall in the Company that could jeopardise its future as a going concern. This could also have a significantly negative impact on the Group’s net assets, financial position and results of operations.

The loan agreement contains the usual rights of Santo to terminate the agreement for cause as well as certain obligations that limit 4SC’s ability to obtain additional borrowings (with the exception of standard supplier loans, among others) and require approval for larger investments. This limitation can jeopardise development and thus result in a funding shortfall in the Company that could jeopardise its future as a going concern.

The loan is secured by way of assignment as security of the proceeds from the sale of certain intangible assets of 4SC, with 4SC AG still entitled to make decisions about the use and sale of such assets during the term until one month after the loan receivables have become due under the agreement. If the loan is not repaid until the end of its term, 4SC AG will grant Santo options at market values for acquiring 4SC Discovery GmbH or certain assets of the company at market value. The sales proceeds would be used to repay the loan.

Influence by few principal shareholders

(i)

STRONG 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 four principal shareholders which have exceeded notification thresholds at time this Group management report has been prepared. Together, these shareholders hold just under 70% of the share capital and voting rights. Certain principal shareholders taken together could control resolutions passed by Annual General Meetings when other shareholders are present in fewer numbers and thus, regardless of the voting behaviour of the remaining shareholders, decisively influence material decisions taken by 4SC AG. This could influence 4SC's future business transactions as well as the future membership of the Supervisory Board and thus, indirectly, the Management Board. Future sales of shares by the principal shareholders on a large scale over the stock exchange, for example in the event that one principal shareholder wishes to divest itself of all or part of its 4SC shares, could also have a material adverse effect on the market price of 4SC shares on account of the comparatively low liquidity of the 4SC shares traded on the stock exchange, which in turn would reflect negatively on the Company's market capitalisation.

8.2.5 FINANCIAL RISKS AND BALANCE SHEET RISKS

Cash investments

The Company invests available free cash in a way that generates interest if possible. All of these funds are invested safely (investment grade) in overnight and term deposits 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.

Overindebtedness

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. 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 terms of its balance sheet and therefore to a mandatory insolvency filing if the prognosis for 4SC'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 €149,086 thousand and the loss carryforwards for trade tax will likely rise to some €148,044 thousand as at 31 December 2014.

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, legal situation continues to be uncertain 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 future profits. 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 or the continued development of the programmes no longer appears to be realistic due to a lack of funding. 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.

8.2.6 ADMINISTRATIVE AND OTHER RISKS

(i)

HIGHLY-QUALIFIED EMPLOYEES

The success of 4SC largely depends on its senior management and qualified key scientific and technical personnel. Many of these employees have many years 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 usually succeeded in filling the most important positions with suitable staff on reasonable 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, capital market law, stock market 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. Here, 4SC has taken organisational precautions in order to fulfil the requirements in question and control the internal processes.

8.2.7 OVERALL ASSESSMENT OF THE COMPANY'S EXPOSURE TO RISK

(ii)

OPPORTUNITIES OUTWEIGH RISKS

From today's perspective, the Company perceives only a few factors that could jeopardise the existence of 4SC as a going concern in the 2015 financial year, taking all aforementioned risks into account. The Company's management 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 2014 in connection with the currently projected expense and revenue planning as well as the financing agreement signed for convertible notes and the shareholder loan will secure the financing of the Company's business activities 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 regarding the cash accruing to the Company from collaborations and partnerships and from potential financing deals do not materialise or cannot be implemented in the next months, 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.

8.3 OPPORTUNITIES OF 4SC

Project-related progress enhances the Company's enterprise value

(i)

POSITIVE EFFECTS OF SUCCESSFUL PROJECTS

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.

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 and increase the value of the respective project, which would result in risk diversification at 4SC. 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 (HCC), Hodgkin's lymphoma (HL), colon cancer (CRC), and non-small cell lung cancer (NSCLC).

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

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

(ii)

4SC DISCOVERY BOOSTS GROUP REVENUE

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, 46% 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.

9. CORPORATE GOVERNANCE REPORT

(i)

4SC PRIORITISES COMPLIANCE WITH GERMAN CORPORATE GOVERNANCE CODE

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 4SC, 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 2014 consolidated financial statements, the Management Board and Supervisory Board again considered the recommendations of the Code's most recent version from 24 June 2014.

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).

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

The statement on corporate governance pursuant to section 289a of the German Commercial Code has also been published on the Company's website at www.4sc.de under Investors > Corporate Governance.

"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 24 February 2014. This declaration was based on the version of the German Corporate Governance Code dated 13 May 2013. The currently applicable version of the German Corporate Governance Code is dated 24 June 2014.

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 24 June 2014 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. No 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.

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):
The director's contracts specify caps both for the overall Management Board remuneration stipulated in the contracts and for individual bonus provisions.

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):
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, especially since in recent years the number of Management Board members was reduced to two, who are usually given three-year contracts. 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 24 February 2014, 4SC AG has complied with the recommendations of the German Corporate Governance Code in its previous version dated 13 May 2013, with the exception of the above-mentioned items 3.8 (3) D&O insurance for Supervisory Board members, 4.2.3 (3) sentence 6 and 7 Stock Option Programme for the Management Board, 5.5.3 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. After two of the six members of the Supervisory Board had left the Board in September 2014, work in the committees was suspended because continuing work would not have meant an increase in efficiency. Before successors were appointed (in October 2014 and January 2015), the respective tasks were temporarily assumed by the full Supervisory Board. Purely as a precaution, the Company therefore declares that it deviates from items 5.3.1 and 5.3.2 of the Code in this context.

Planegg-Martinsried, 23 February 2015

Enno Spillner
for the Management Board

Dr Clemens Doppler
for the Supervisory Board“

Disclosures on corporate governance practices

(i)

FAIR AND RESPECTFUL CONDUCT TOWARDS ONE ANOTHER

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 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

(ii)

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.

(i)

TARGETS ARE STABLE BUSINESS DEVELOPMENT AND LONG-TERM IMPROVEMENT OF THE COMPANY'S VALUE

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) and Dr Daniel Vitt (Chief Scientific Officer/CSO and Chief Development Officer/CDO), 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 two 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 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. Effective 1 April 2013, Mr Spillner was also appointed Management Board chairman (and CEO). His current term of office runs until 31 March 2016. Mr Spillner's responsibilities include Strategy and Business Development, Finance and Controlling, Legal Affairs, Quality Assurance, Human Resources, Purchasing, Investor Relations and Public Relations, Internal Services, IT and representing the Management Board vis-à-vis the Supervisory Board.

Dr Daniel Vitt is one of the founders of 4SC and was first appointed to the Company's Management Board as CSO in 2000. After the former Management Board member and Chief Development Officer (CDO) Dr Bernd Hentsch stepped down with effect from 31 March 2014, Dr Vitt additionally took over the function of Chief Development Officer (CDO) in the Management Board from 1 April 2014. He has also been Managing Director of 4SC Discovery GmbH since 2012. His current term of office runs until 30 September 2016. Dr Vitt's responsibilities comprise Product Research, Translational Pharmacology, Industrial Property Rights as well as Product Development, Regulatory Affairs and Compound Production (CMC and GMP).

Dr Bernd Hentsch left the Company on the expiry of his appointment to the Management Board as at 31 March 2014. He continued to be available to the Company as a consultant in 2014 as required.

The Management Board members 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.

Supervisory Board

As at 31 December 2014, the Supervisory Board comprised five members: Dr Clemens Doppler (Chairman since 19 September 2014), Dr Manfred Rüdiger (Deputy Chairman since 19 September 2014), Dr Irina Antonijevic, Helmut Jeggle and Joerg von Petrikowsky. Professor Helga Rübsamen-Schaeff was appointed as the sixth member of the Supervisory Board at the beginning of January 2015. Dr Antonijevic, Dr Doppler, Mr Jeggle and Dr Rüdiger were confirmed as members by the 2013 Annual General Meeting; Professor Rübsamen-Schaeff (in January 2015) and Mr von Petrikowsky (in October 2014) were appointed to the Supervisory Board by the competent registration court at the Company's proposal after Dr Thomas Werner and Klaus Kühn had both stepped down from the Supervisory Board with effect from 18 September 2014 for personal reasons.

Committees

In order to make the Supervisory Board more efficient in its work, four committees existed in the reporting period: an Audit Committee, Human Resources Committee, Business Development (BD) Committee and R&D Committee. All committees regularly reported to the full Supervisory Board on their work. For more information on this matter, please see the report of the Supervisory Board in the 2014 Annual Report of 4SC.

Other disclosures on corporate governance

Objectives of the Supervisory Board with regard to its composition

The Supervisory Board last stipulated specific objectives for its future composition in February 2013.

When making candidate proposals, care must 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 shall preferably 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. The 4SC Supervisory Board currently has two experienced female scientists, Dr Antonijevic (since August 2012) and Professor Rübsamen-Schaeff (since January 2015) as members. Mr von Petrikowsky, an auditor and tax adviser who has worked in the pharmaceutical and biotechnology industry for many years and has a strong track record as an independent financial expert, was also appointed to the Supervisory Board.

(i)

RENOWNED FEMALE SCIENTISTS ON THE SUPERVISORY BOARD

Furthermore, 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 drug development to experience in initiating business on an international level and licensing of compounds 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 must also continue to be taken into account. In order to ensure this, the Supervisory Board must permanently have at least three independent members. This objective has also been achieved already.

The age limit of 75 years laid down in the rules of procedure was observed on election. The proposals made by the Supervisory Board on the election of Supervisory Board members are focused on the interests of the Company.

The Supervisory Board considers that its self-imposed objectives are implemented at the present time.

9.2 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 was not notified of any reportable securities transactions for the 2014 financial year.

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.

(i)

FOCUSED ON SERVICE TO OUR SHAREHOLDERS

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 Annual General Meetings, the Company will 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 2014 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 2014 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.

The lead auditor of the annual financial statements in financial year 2014 was Mr Siegfried Hund from Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft (formerly: Rölfs RP AG Wirtschaftsprüfungsgesellschaft), 80335 Munich.

Communicating with the public

(ii)

TRANSPARENT AND OPEN 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.

9.3 REMUNERATION REPORT OF 4SC AG

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

(i)

REMUNERATION STRUCTURE FOR THE MANAGEMENT BOARD

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 Management Board remuneration stipulated in the director's contracts and for the individual bonuses.

The existing remuneration system was approved by the Annual General Meeting on 9 May 2014.

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.

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.

(i)

SPECIFIC AND GENERAL CORPORATE GOALS SERVE AS A YARDSTICK

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 as a second bonus that is measured over three years and serves to promote sustainable business development. Bonus II is based on personal and company-specific goals that the Management Board and Supervisory Boards define together at the start of each financial year. Whether a Management Board member is entitled to payment of bonus II depends on whether these goals have been achieved during a pre-defined three-year period. 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

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 which entitle their holders to acquire 4SC shares were last issued to the

members of the Management Board in 2009. For more detailed information on the current options holdings, please see section 10.1 of the 2014 consolidated IFRS notes.

Regarding compliance with the Code recommendations on management remuneration, please see the disclosures in the section entitled "Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act", which is part of the statement on corporate governance in this combined management report (section 9.1).

Management Board remuneration for 2014

The total remuneration paid to the members of the Management Board of 4SC AG in the reporting period amounted to €601 thousand, of which 95% were attributable to fixed and 5% to variable remuneration. A detailed breakdown of the Management Board members' individual salaries can be found in section 10.1 of the 2014 consolidated IFRS notes in the 4SC annual report.

// BENEFITS GRANTED

in € 000's

	Enno Spillner Chairman of the Management Board (CEO/CFO)				Dr Daniel Vitt Member of the Management Board (CSO)				Dr Bernd Hentsch Member of the Management Board (CDO) Left effective 31.03.2014			
	2013	2014	2014 (min)	2014 (max)	2013	2014	2014 (min)	2014 (max)	2013	2014	2014 (min)	2014 (max)
Fixed remuneration	234	260	260	260	185	196	196	196	215	60	60	60
Incidental benefits	0	0	0	0	0	0	0	0	0	0	0	0
Total	**234**	**260**	**260**	**260**	**185**	196	**196**	**196**	**215**	**60**	**60**	**60**
One-year variable remuneration	9	13	0	25	9	13	0	25	9	0	0	6
Multi-year variable remuneration												
2009 Stock Option Plan (term: 3 years)	7	0	0	0	7	0	0	0	7	0	0	0
Long-term bonuses, 2013 (term: 3 years)	30	0	0	0	30	0	0	0	30	0	0	0
Long-term bonuses, 2014 (term: 3 years)	0	8	0	37	0	8	0	37	0	0	0	3
Total	**280**	**281**	**260**	**322**	**231**	**216**	**196**	**258**	**261**	**60**	**60**	**69**
Cost of benefits	36	41	41	41	5	5	5	5	3	3	3	1
Total remuneration	**316**	**322**	**301**	**363**	**236**	**221**	**201**	**263**	**264**	**63**	**63**	**70**

// ALLOCATION FOR THE FINANCIAL YEAR

in € 000's

	Enno Spillner Chairman of the Management Board (CEO/CFO)		Dr Daniel Vitt Member of the Management Board (CSO)		Dr Bernd Hentsch Member of the Management Board (CDO) Left effective 31.03.2014	
	2013	2014	2013	2014	2013	2014
Fixed remuneration	234	260	185	196	215	60
Incidental benefits	0	0	0	0	0	0
Total	**234**	**260**	**185**	**196**	**215**	**60**
One-year variable remuneration	6	3	7	3	7	3
Multi-year variable remuneration						
2009 Stock Option Plan (term: 3 years)	7	0	7	0	7	0
Long-term bonuses, 2013 (term: 3 years)	17	6	27	6	28	6
Long-term bonuses, 2014 (term: 3 years)	0	0	0	0	0	0
Total	**264**	**269**	**226**	**205**	**257**	**69**
Cost of benefits	36	41	5	5	3	3
Total remuneration	**300**	**310**	**231**	**210**	**260**	**72**

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 Stock Corporation Act”, which is part of the statement on corporate governance in this combined management report (section 9.1).

Shareholdings of the Management Board members

As of 31 December 2014 the members of 4SC AG's Management Board held a total of 365,800 stock options, entitling them to 661,120 shares. Furthermore, they held 490,603 shares, which represent 0.96% of the Company's total shares.

Remuneration of the Supervisory Board

The Supervisory Board is paid fixed remuneration because the Company believes that this results in the Supervisory Board carrying out its tasks focused on the Company’s sustainable and successful long-term development.

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 2014

In financial year 2014, remuneration paid to the members of the Supervisory Board totalled €134 thousand. A breakdown of the remuneration of individual Supervisory Board members is provided in section 10.2 of the 2014 consolidated IFRS notes in the 4SC annual report.

Shareholdings of the Supervisory Board members

As at 31 December 2014, the members of 4SC's Supervisory Board held a total of 26,093 shares equivalent to an interest of 0.05% in the Company.

9.4 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 2014 comprised 50,849,206 no-par value bearer shares which do not entail other rights nor do they have a preferred status.

Restrictions on voting rights or on the transfer of shares

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

Equity interests exceeding 10% of voting rights

(i)

ANCHOR SHAREHOLDER SANTO HOLDING

According to information currently available to the Company, Santo Holding (Deutschland) GmbH, Holzkirchen, with an equity stake of approx. 49.2% (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 28 January 2015, the Management Board of 4SC AG shall consist of at least one person, whereby the Supervisory Board shall stipulate the precise number of members according to legal requirements and may appoint one Management Board member to be Chairman. Pursuant to article 7 (1) of the Articles of Association, the Supervisory Board shall appoint the members of the Management Board for a maximum of five years. The appointment of members of the Management Board may be renewed, or the term of office extended, provided that the term of each such renewal or extension does not exceed five years. This shall require a further resolution by the Supervisory Board, which may be adopted at the earliest one year before a member's current term of office expires. A member's term of office may only be extended without a new resolution by the Supervisory Board if the member has been appointed for less than five years, provided that, as a result of the extension, the total term of office does not exceed five years. Pursuant to article 7 (3) of the Articles of Association, the Supervisory Board is responsible for concluding, amending or terminating the employment agreement of the Management Board member in question as well as withdrawing his or her appointment.

As a rule, any change in the Articles of Association requires a corresponding resolution on the part of the Annual General Meeting, pursuant to section 179 German Stock Corporation Act (Aktiengesetz - AktG). Pursuant to article 13 of the Articles of Association, the Supervisory Board of 4SC AG is authorised, however, to amend the Articles of Association in ways which only affect their wording.

Authority of the Management Board to issue and buy back shares

The issue of new shares by the Management Board requires resolutions by the Annual General Meeting.

Authorised Capital 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.

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 7,022,608 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 €7,022,608.00 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.

Conditional Capital VII

On 9 May 2014, the Annual General Meeting authorised the Management Board to issue, once or repeatedly, until 8 August 2019, 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 VII, article 5(8) of the Articles of Association). In this context, shareholders' subscription rights to the new bonds can be excluded with the approval of the Supervisory Board in certain cases as described in more detail in the authorisation by the Annual General Meeting.

Other conditional capital in connection with stock option programmes

Conditional Capital II

The Company's share capital has been conditionally increased by up to €114,000.00 through the issue of up to 114,000 new shares (Conditional Capital II, article 5 (2a) of the Articles of Association). The conditional capital increase serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 28 June 2006 to grant stock options to members of the Management Board and employees of the Company in accordance with the terms of this authorisation.

Conditional Capital III

The Company's share capital has been conditionally increased by up to €88,314.00 through the issue of up to 88,314 new shares (Conditional Capital III, article 5 (3) of the Articles of Association).

The conditional capital increase serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 28 July 2004 to grant stock options to members of the Management Board and employees of the Company in accordance with the terms of this authorisation.

Conditional Capital IV

The Company's share capital has been conditionally increased by up to €305,133.00 through the issue of up to 305,133 new shares (Conditional Capital IV, article 5 (3a) of the Articles of Association). The conditional capital increase serves the exclusive purpose of exercising options issued on the basis of the authorisation granted by the Annual General Meeting on 28 June 2006 to grant stock options to members of the Management Board and employees of the Company as well as employees of affiliated companies in accordance with the terms of this authorisation.

Conditional Capital VI

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

There are no authorisations to purchase treasury shares and the Company does not have any treasury shares.

Key agreements entered into by the Company providing for a change of control following a takeover bid

The Company has not entered into 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.

10. COURSE OF BUSINESS OF 4SC AG (REGARDING THE HGB SINGLE-ENTITY FINANCIAL STATEMENTS)

The management report of the Group's parent, 4SC AG, and the Group management report of 4SC for the 2014 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.

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 54% of consolidated revenue in this area of business in 2014. 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 2014, 4SC AG had 40 employees, including two 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).

10.1 RESULTS OF OPERATIONS OF 4SC AG (HGB)

Revenue

(i)

REVENUE RISES SIGNIFICANTLY FOR 4SC AG

4SC AG's revenue amounted to €3,778 thousand in the 2014 financial year, an increase 136% compared with the previous financial year (2013: €1,601 thousand).

Revenue comprised the proportional reversal of the deferred income recognised in connection with the partnership entered into with Yakult Honsha Co., Ltd. in 2011 for resminostat in the amount of €894 thousand (2013: €894 thousand) as well as a contractually agreed milestone payment and allocations to Yakult Honsha Co., Ltd. of the costs to produce the resminostat compound totalling €2,884 thousand (2013: €707 thousand).

Other operating income

4SC AG's other operating income decreased by 27% to €1,119 thousand (2013: €1,541 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 income from sub-letting to CRELUX GmbH since June 2014, investment grants and the reversal of provisions.

Cost of materials

The cost of materials grew by 119% to €1,903 thousand (2013: €870 thousand) and is associated with the production of the resminostat compound for Yakult Honsha Co. Ltd. It mainly contains expenses for purchased services in the amount of €1,897 thousand (2013: €870 thousand).

Staff costs

4SC AG's staff costs amounted to €3,332 thousand, down 22% from the prior year (2013: €4,272 thousand). This decrease is attributable to the adjustment of the personnel structure in the previous year and to the downsizing of the Management Board.

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

After adjusting for the impairment charge of €718 thousand from the previous year, amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets decreased by 9% to €822 thousand (2013: €1,618 thousand).

Other operating expenses

4SC AG's other operating expenses climbed 31% to €7,585 thousand (2013: €5,785 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.

Net finance income/loss

4SC AG's net finance income decreased to €-137 thousand (2013: €52 thousand) due on the one hand to lower interest income and, on the other, to interest expense for the shareholder loan received from Santo Holding (Deutschland) GmbH in 2014 plus the unconverted components of a tranche of the convertible note agreement issued to Yorkville.

Cost of loss absorption

A loss of €1,475 thousand arose in 2014 from the control and profit transfer agreement based on which 4SC AG has absorbed the losses of 4SC Discovery GmbH since 2012 (2013: loss of €1,959 thousand).

Result from ordinary activities

The result from ordinary activities improved to €-10,357 thousand. This represents an improvement of 8% compared with the previous year (2013: €-11,311 thousand).

Net profit/loss for the year

The developments described reduced 4SC AG's net loss for the year by €884 thousand to €10,427 thousand (2013: €11,311 thousand). Together with the loss carried forward from the previous year in the amount of €115,717 thousand, the net accumulated losses thus amount to €126,144 thousand.

10.2 NET ASSETS OF 4SC AG (HGB)

Fixed assets

4SC AG's fixed assets declined year-on-year to €17,918 thousand as at the reporting date (31 December 2013: €18,708 thousand). This reduction was mainly due to the pro-rata depreciation and amortisation of fixed assets and the low level of new investments.

Current assets

The fall in current assets to €3,165 thousand at the close of the 2014 financial year (31 December 2013: €4,928 thousand) 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 €2,803 thousand (31 December 2013: €4,224 thousand) as a result of the operating loss incurred by 4SC AG and the addition of borrowed capital mainly through the shareholder loan.

Equity

At €6,418 thousand as at 31 December 2014 (31 December 2013: €16,322 thousand), the decrease in the equity item was attributable to the loss for the year of €10,427 thousand. The accumulated deficit therefore rose to €126,144 thousand (31 December 2013: €115,717 thousand).

The equity ratio decreased by 38.5 percentage points to 30.2% as at the reporting date (31 December 2013: 68.7%) due to the net loss for the year and the increase in borrowed capital in connection with the shareholder loan granted in 2014.

Other provisions

The other provisions increased by 45% to €1,382 thousand (31 December 2013: €955 thousand) largely due to the increase in consulting services and an increased use of outsourced scientific services.

Liabilities

Liabilities rose significantly to €13,425 thousand as at 31 December 2014 (31 December 2013: €6,464 thousand). The shareholder loan from Santo Holding (Deutschland) GmbH of €6,131 thousand accounts for the largest share of liabilities. 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 €1,475 thousand (31 December 2013: €1,959 thousand) was absorbed; added to this are €1,089 thousand (31 December 2013: €126 thousand) resulting from ongoing clearing transactions with this 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 €2,682 thousand (31 December 2013: €3,575 thousand) and trade payables of €871 thousand (31 December 2013: €505 thousand).

Total assets/Total equity and liabilities

Total assets/total equity and liabilities of 4SC AG amounted to €21,225 thousand as at 31 December 2014, down 11% on the end-of-year figure for the previous year (31 December 2013: €23,742 thousand). Two opposing factors essentially brought about the change in total assets/total equity and liabilities: firstly, the reduction in equity caused by the loss incurred and, secondly, the increase in borrowed capital attributable to the shareholder loan in particular.

10.3 FINANCIAL POSITION OF 4SC AG (HGB)

Cash flows from operating activities

A total of €8,361 thousand was used for the operating activities of 4SC AG during the 2014 reporting period (2013: €10,497 thousand). The difference compared with the loss from ordinary activities of €10,357 thousand (2013: €11,311 thousand) resulted largely from two circumstances during the 2014 financial year: the non-cash write-down in the amount of €822 thousand for one and the change in net working capital by €1,135 thousand for another.

Cash flows from investing activities

The cash inflows from investing activities in the reporting year amounted to €968 thousand (2013: €-2,788 thousand).

The sale of financial assets generated cash inflows of €1,000 thousand (2013: €2,825 thousand).

Cash flows from financing activities

The cash inflows from financing activities in the reporting year amounted to €6,973 thousand (2013: €0 thousand). These comprised the €6 million shareholder loan as well as both converted and issued convertible notes amounting to €950 thousand.

Funds

The cash funds amounted to €2,688 thousand at the reporting date. Since additional funds of €115 thousand were invested in securities, the total funds of 4SC AG amounted to €2,803 thousand as at 31 December 2014 (31 December 2013: €3,224 thousand). In the previous year, additional funds in the amount of €1,000 thousand were invested in short-term fixed-interest securities.

10.4 SUMMARY OF ECONOMIC POSITION

A key contributory factor to the increase in cost of materials was the costs incurred to produce the resminostat compound for 4SC's cooperation partner, Yakult Honsha Co., Ltd. However, the focus on clinical development and adjustment of personnel structures enabled the Company to reduce expenses compared with the prior year. The milestone payment by Yakult Honsha Co., Ltd., the allocations of the costs of production to Yakult Honsha Co., Ltd. and the other income also had a positive effect. However, the absorption of a loss in the amount of €1,475 thousand (2013: €1,959 thousand) under the control and profit transfer agreement concluded with 4SC Discovery GmbH triggered additional expenses. The Company had sufficient liquidity at all times during the 2014 financial year. The financing of the programmes was not in jeopardy at any time. This was ensured in particular by the cash inflows from the agreements on convertible notes of up to €15 million entered into with Yorkville in the reporting period as well as by a shareholder loan from Santo Holding (Deutschland) GmbH of up to €10 million. The economic development of 4SC AG proceeded according to plan in the 2014 financial year and up until the preparation of the combined management report in the 2015 financial year.

(i)

EXPENSES REDUCED AS PLANNED

10.5 EVENTS AFTER THE REPORTING PERIOD

The events after the reporting period are described in section 6 of the combined management report of the 4SC Group.

10.6 RISKS AND OPPORTUNITIES

The performance of 4SC AG is essentially subject to the same risks and opportunities as that of the 4SC Group. 4SC AG generally shares in the risks to which its equity investments and subsidiaries are exposed, corresponding to its stake in these companies. On account of statutory and contractual contingencies, the relationships to the equity investments and subsidiaries can also put pressure on 4SC AG. 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 8.1 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 8.1.

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 measured and 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 was €5,188 thousand.

If it is foreseeable that the Company will not succeed in providing sufficient liquidity for the further development of these products 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.

10.7 REPORT ON EXPECTED DEVELOPMENTS (OUTLOOK)

Expectations concerning 4SC AG's continued performance in the next two years are virtually identical to the outlook for the 4SC Group, which is described in detail in the report on anticipated developments for the Group in section 7.2. 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. Due to the fact that all ongoing clinical trials have ended, 4SC AG's research and development expenses will fall below the figure for the reporting year according to current projections for 2015 and 2016 – not including any other clinical trials. As a consequence, the Company expects that the net loss for 2015 and 2016 will be lower than in the previous year. From the start of further clinical trials such as a Phase-II trial with resminostat in the indication of liver cancer, development costs can be anticipated to rise sharply, 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 2015 and 2016 than in the 2014 financial year.

(i)

POSITIVE DEVELOPMENT EXPECTED

4SC AG had funds of €2,803 thousand at the end of the 2014 financial year. Based on the statements in the Group's report on anticipated developments in section 7 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 beyond the first quarter of 2016. 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 income of 4SC AG or 4SC Discovery GmbH, especially 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 assumed positive development of the 4SC Group in 2015 and beyond.

10.8 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.

CONTENTS
FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS 96
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 96
CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS 97
CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES 97
CONSOLIDATED STATEMENT OF CASH FLOWS 98
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 99

CONSOLIDATED NOTES 100
1. GENERAL DISCLOSURES 100
1.1 Parent company 100
1.2 Companies included in the consolidated financial statements 100
1.3 Changes in the group of consolidated companies 101
1.4 Release of the financial statements 101

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 101
2.1 Basis of preparation 101
2.2. Principles of consolidation 102
2.3 Effects of the application of new standards 102
2.4 Key accounting policies 103
2.5 Use of estimates 111

3. SEGMENT REPORTING 112

4. DISCLOSURES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 114
4.1 Revenue 114
4.2 Staff costs 115
4.3 Cost of sales 115
4.4 Distribution costs 116
4.5 Research and development costs 116
4.6 Administrative costs 117
4.7. Other income 117
4.8 Depreciation, amortisation and impairment losses 117
4.9 Net finance income/loss 118

5. INCOME TAX, DEFERRED TAXES AND WITHHOLDING TAX 119

6. EARNINGS PER SHARE 121

7. DISCLOSURES ON THE STATEMENT OF FINANCIAL POSITION 122
7.1 Intangible assets 122
7.2 Property, plant and equipment 124
7.3 Investments accounted for using the equity method 125
7.4 Other investments 125
7.5 Inventories 126
7.6 Trade accounts receivable 126
7.7 Receivables from associates 126
7.8 Other financial assets 127
7.9 Cash and cash equivalents 127
7.10 Current income tax assets 127
7.11 Other assets 128
7.12. Equity 128
7.13 Trade accounts payable 130
7.14 Accounts payable to associates 131
7.15 Other liabilities and deferred income 131
7.16 Other disclosures on financial instruments 132
7.17. Other financial obligations 136

8. DISCLOSURES ON THE STATEMENT OF CASH FLOWS 137

9. STOCK OPTION PROGRAMME 137

10. REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD 138
10.1 Management Board 138
10.2. Supervisory Board 140

11. OTHER INFORMATION 141
11.1 Related party transactions 141
11.2 Corporate Governance Code pursuant to section 285 no. 16 German Commercial Code 143
11.3 Reportable equity investment pursuant to section 160(1) no. 8 German Stock Corporation Act 143
11.4 Auditor's fees pursuant to section 314(1) no. 9 German Commercial Code 144
11.5 Average number of employees pursuant to section 314(1) no. 4 HGB 145

12. EVENTS AFTER THE REPORTING PERIOD 145

AUDITORS' REPORT 147

RESPONSIBILITY STATEMENT 149

EXCERPT FROM THE ANNUAL FINANCIAL STATEMENTS OF 4SC AG (REGARDING THE HGB SINGLE-ENTITY FINANCIAL STATEMENTS) 150
INCOME STATEMENT 150
BALANCE SHEET 151

GLOSSARY 152

CONSOLIDATED FINANCIAL STATEMENTS

for the financial year from 1 January to 31 December 2014

// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in € 000's

	Notes	2014	2013
Revenue	4.1	7,055	4,904
Cost of sales	4.3	-4,080	-1,474
Gross profit		**2,975**	**3,430**
Distribution costs	4.4	-846	-503
Research and development costs	4.5	-8,504	-10,243
Administrative costs	4.6	-3,120	-3,310
Other income	4.7	58	34
Operating profit/loss		**-9,437**	**-10,592**
Net finance income/loss			
Share in the profit of equity-accounted investees	4.9	39	19
Finance income	4.9	6	58
Finance costs	4.9	-234	-10
Net finance income/loss		**-189**	**67**
Earnings before taxes		**-9,626**	**-10,525**
Income tax expense	5.	-70	0
Profit/loss for the period = Consolidated comprehensive income/loss		**-9,696**	**-10,525**
Earnings per share (basic and diluted; in €)	6.	-0.19	-0.21

See the attached consolidated notes

// CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

in € 000's

	Consolidated notes	31.12.2014	31.12.2013
Non-current assets			
Intangible assets	7.1	9,836	10,651
Property, plant and equipment	7.2	425	602
Investments accounted for using the equity method	7.3	220	181
Other investments	7.4	0	0
Other assets	7.11	158	157
Total non-current assets		**10,639**	**11,591**
Current assets			
Inventories	7.5	25	23
Trade accounts receivable	7.6	652	346
Receivables from associates	7.7	23	0
Other financial assets	7.8	0	1,000
Cash and cash equivalents	7.9	3,202	3,899
Current income tax assets	7.10	18	73
Other assets	7.11	375	773
Total current assets		**4,295**	**6,114**
Total assets		**14,934**	**17,705**

See the attached consolidated notes

// CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

in € 000's

	Consolidated notes	31.12.2014	31.12.2013
Equity			
Subscribed capital		50,849	50,372
Share premium		78,339	78,355
Reserves		1,818	1,815
Accumulated deficit		-128,956	-119,260
Total equity	7.12	**2,050**	**11,282**
Non-current liabilities			
Liabilities to shareholders	7.15	6,131	0
Other liabilities	7.15	123	154
Deferred income	7.15	1,788	2,682
Total non-current liabilities		**8,042**	**2,836**
Current liabilities			
Trade accounts payable	7.13	993	675
Accounts payable to associates	7.14	6	28
Convertible bond issued	7.15	317	0
Other liabilities	7.15	2,632	1,561
Deferred income	7.15	894	1,323
Total current liabilities		**4,842**	**3,587**
Total equity and liabilities		**14,934**	**17,705**

See the attached consolidated notes

// CONSOLIDATED STATEMENT OF CASH FLOWS

in € 000's

	Consolidated notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before taxes		-9,626	-10,525
Adjustment for statement of comprehensive income items			
Depreciation, amortisation and impairment losses	4.8	1,095	1,873
Net finance income/loss		189	-67
Stock options		3	53
Other non-cash items		-97	-22
Changes in statement of financial position items			
Inventories		-2	-1
Trade accounts receivable		-306	2,738
Receivables from associates		-23	0
Current income tax assets		55	54
Other assets		397	-324
Trade accounts payable		318	91
Accounts payable to associates		-22	18
Other liabilities		1,041	-477
Deferred income		-1,324	-463
Interest received		5	74
Interest paid		-5	-8
Income taxes paid		-70	0
CASH FLOWS FROM OPERATING ACTIVITIES	8.	**-8,372**	**-6,986**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets		-3	-21
Purchase of property, plant and equipment		-100	-99
Sale of property, plant and equipment		0	10
Sale of equity investments		0	-9
Purchase of financial investments		0	-1,000
Sale of financial investments		1,000	5,988
CASH FLOWS FROM INVESTING ACTIVITIES	8.	**897**	**4,869**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to subscribed capital		477	0
Payments to share premium		-16	-60
Payments from the issuance of convertible bonds		317	0
Payments of shareholder loans		6,000	0
CASH FLOWS FROM FINANCING ACTIVITIES	8.	**6,778**	**-60**
NET CHANGE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS		**-697**	**-2,177**
+ Cash and cash equivalents at the beginning of the period		3,899	6,076
= CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**3,202**	**3,899**

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 01.01.2013		**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
Consolidated comprehensive income/loss 2013			-59			-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**
Balance on 01.01.2014		**50,372**	**78,355**	**1,748**	**67**	**-119,260**	**11,282**
Options issued (ESOP 2009/2009)				0			0
Options issued (ESOP 2009/2010)				2			2
Options issued (ESOP 2009/2011)				1			1
Capital increase from the conversion of convertible bonds	7.12	477	-16				461
Consolidated comprehensive income/loss 2014						-9,696	-9,696
Consolidated profit/loss 2014						*-9,696*	*-9,696*
Balance on 31.12.2014		**50,849**	**78,339**	**1,751**	**67**	**-128,956**	**2,050**

See the attached consolidated notes

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

1. GENERAL DISCLOSURES

1.1 PARENT COMPANY

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

– 4SC Discovery GmbH, Planegg-Martinsried, Germany

An excerpt from the Commercial Register dated 13 February 2015, with the most recent entry dated 11 February 2015, has been made available. The Articles of Association as amended on 28 January 2015 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

In 2014, there were no changes in the group of consolidated companies compares with the previous year.

1.4 RELEASE OF THE FINANCIAL STATEMENTS

The Management Board approved the consolidated financial statements for release on 12 March 2015. The Supervisory Board is authorised to revise the consolidated financial statements after approval by the Management Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These consolidated financial statements were prepared pursuant to section 315a of the German Commercial Code (Handelsgesetzbuch - HGB) and in accordance with the accounting principles of the International Financial Reporting Standards (IFRS) - as adopted by the EU - and pursuant to the requirements of the International Accounting Standards Board (IASB). The recommendations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) have been taken into account. All of the IFRSs and IFRICs adopted by the European Commission have been taken into account; IFRS and IFRIC not yet adopted, however, have not yet been taken into account. New standards issued by the IASB and adopted by the European Commission are applied without exception starting in the financial year in which their application becomes mandatory.

Due to the factors explained under 8.2.7 in the combined management report, 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

The following standards amended or newly issued by the IASB which must be applied to the consolidated financial statements for the period ended 31 December 2014 affect the consolidated financial statements of 4SC.

Standard	Title	Published by the EU on	Effect on these consolidated financial statements
IFRS 10	IFRS 10: Consolidated Financial Statements	18.12.2014	No material
IFRS 11	IRFS 11: Joint Arrangements	18.12.2014	effects
IFRS 12	IFRS 12 Disclosure of Interests in Other Entities	18.12.2014	
Amendments	IAS 27: Separate Financial Statements	12.08.2014	
to IAS 27			
Amendments	IAS 28: Investments in Associates and Joint Ventures	18.12.2014	
to IAS 28			

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 2014. 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	Title	Effective date*	Expected effect on future consolidated financial statements
DRS 21	GAS 21: Cash Flow Statements	01.01.2015	No material effects
IFRS 9	IFRS 9 Financial Instruments:	01.01.2018	Cannot be reliably estimated
IFRS 15	IFRS 15: Revenue from Contracts with Customers	01.01.2017	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 possible 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, market potential 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. If quattro research GmbH posts losses, the carrying amount of this equity investment could fall to €0 thousand.

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. The carrying amount of the equity investment takes account of all risks as at the reporting date.

Inventories

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

Trade accounts receivable

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

Receivables from associates

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.

Convertible notes issued

4SC entered into an agreement with YA Global Master SPV Ltd. ("Yorkville") in which Yorkville undertakes to subscribe to convertible notes in the amount of up to €15 million.

Under the terms of the agreement, Yorkville is obligated until 31 December 2016 to purchase convertible notes in a total nominal amount of €15 million at an issue price corresponding to 95% of the nominal amount if 4SC AG so requests. 4SC AG may issue the convertible notes in tranches of €500 thousand each at its discretion. Each tranche comprises 500 bearer notes carrying equal rights, each with a nominal value of €1 thousand, which may be transferred without the Company's approval. The convertible notes will only be issued and may only be traded in lots with a total nominal value of at least €125 thousand.

The convertible bonds carry no interest, have a term of up to nine months and may be converted into shares of 4SC by the bearer at any time. The conversion price equals the volume-weighted average trading price of 4SC shares during a five-day period prior to the time of conversion, less a 5% discount, but it cannot be lower than 80% of the closing price of 4SC shares during the five-day period prior to the Management Board's resolution to issue the convertible notes.

The convertible notes will be issued without pre-emptive rights of the existing shareholders.

The proceeds from the issuance of these convertible notes provides key support for ensuring the Company's funding in the short and medium term.

The first two tranches of €500 thousand each were issued exclusively to Yorkville in March and September disapplying the pre-emptive rights of existing shareholders at a subscription price of 95% of the nominal amount. These generated aggregate proceeds of €0.95 million for 4SC after deducting a 5% discount for Yorkville. A total of 477,392 new no-par value bearer shares of the Company were converted from the two tranches in the reporting period.

In principle, the convertible notes are compound financial instruments that are divided into a repayment obligation (debt component) and a conversion right (equity component). The convertible note has been classified as a debt component only because the conversion rate was not determined beforehand. Transaction costs of €285 thousand incurred when the convertible note was issued were deducted and recognised as interest expense over the term of the bond. In the reporting year, interest expense of €85 thousand was recognised in profit or loss for the individual notes. The difference between the carrying amount of the financial liability reported under current liabilities and the amount to be paid to the noteholders by the Company under the terms of the agreement if the noteholders do not exercise their conversion rights is €133 thousand.

Loan agreement with Santo Holding (Deutschland) GmbH

In June 2014, 4SC AG agreed a loan of up to €10 million with its main shareholder, Santo Holding (Deutschland) GmbH. This is earmarked for financing the costs of preparing for the planned clinical development of resminostat and for covering part of the Company's ongoing administrative costs. The loan, which carries interest of 8% p.a., runs until the end of 2016 (maturity date) and can be drawn down in tranches up to 31 December 2015. Both early repayment and a reduction in the available loan amounts are possible under certain conditions. If the loan is not repaid until the end of its term, 4SC will grant Santo Holding (Deutschland) GmbH options for acquiring 4SC Discovery GmbH or certain assets of this subsidiary. Under certain circumstances, there is also a possibility that a loan repayment could be made by issuing new shares as part of a potential capital increase. This financing arrangement generated €6 million for 4SC in the 2014 financial year.

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, mile - stone 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 development 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 (full-time equivalent – 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 comprises staff, material, consulting and other costs incurred directly attributable to the generation of revenue as well as commission.

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 a previously agreed 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. Different 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.

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 2014

in € 000's

	Development		Discovery & Collaborative Business		Not allocated		Consolidation		Group	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue (total)	**3,778**	**1,601**	**3,277**	**3,303**	**0**	**0**	**0**	**0**	**7,055**	**4,904**
External revenue	3,778	1,601	3,277	3,303	0	0	0	0	7,055	4,904
Intersegment revenue	0	0	0	0	0	0	0	0	0	0
Other income	**1,088**	**1,220**	**178**	**111**	**0**	**0**	**–1,208**	**–1,297**	**58**	**34**
Operating expenses	**–13,420**	**–12,278**	**–4,338**	**–4,549**	**0**	**0**	**1,208**	**1,297**	**–16,550**	**–15,530**
of which research and development costs	–7,212	–8,479	–2,067	–2,606	0	0	775	842	–8,504	–10,243
of which cost of sales, distribution costs and administrative costs	–6,208	–3,799	–2,271	–1,943	0	0	433	455	–8,046	–5,287
Segment result	**–8,554**	**–9,457**	**–883**	**–1,135**	**0**	**0**	**0**	**0**	**–9,437**	**–10,592**
Net finance income/loss	**–2**	**–5**	**–2**	**0**	**–185**	**72**	**0**	**0**	**–189**	**67**
Earnings before taxes	**–8,556**	**–9,462**	**–885**	**–1,135**	**–185**	**72**	**0**	**0**	**–9,626**	**–10,525**
Income tax expense	–70	0	0	0	0	0	0	0	–70	0
Net profit/loss for the year	**–8,626**	**–9,462**	**–885**	**–1,135**	**–185**	**72**	**0**	**0**	**–9,696**	**–10,525**
Item of the statement of financial position & fixed assets										
Current assets	128	129	892	652	3,275	5.333	0	0	4,295	6,114
Non-current assets	9,926	10,785	336	468	377	338	0	0	10,639	11,591
Total segment assets	**10,054**	**10,914**	**1,228**	**1,120**	**3,652**	**5.671**	**0**	**0**	**14,934**	**17,705**
Current liabilities	3,703	2,432	816	1,127	323	28	0	0	4,842	3,587
Non-current liabilities	1,787	2,823	0	13	6,255	0	0	0	8,042	2,836
Equity	0	0	0	0	2,050	11.282	0	0	2,050	11,282
Total segment liabilities	**5,490**	**5,255**	**816**	**1,140**	**8,628**	**11.310**	**0**	**0**	**14,934**	**17,705**
Capital expenditure	32	38	71	73	0	0	0	0	103	111
Depreciation, amortisation and impairment losses	891	1,686	204	187	0	0	0	0	1,095	1,873

The Discovery & Collaborative Business segment generated 46% of external revenue. A total of 23% 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 23% of total revenue, mostly from Mainz-based BioNTech AG. Another 54% of total revenue was generated by the Development segment with Yakult Honsha Co., Ltd. in Asia.

The external revenue of €3,778 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 €1,624 thousand. Another €1,108 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 2014, €301 thousand is accounted for by LEO Pharma A/S. A further €375 thousand was attributable to additional collaboration agreements and research collaborations, of which €351 thousand was generated in German markets.

All non-current assets are based in Germany.

The item, "Unallocated current assets" in the reporting period principally comprise cash and cash equivalents of €3,202 thousand.

4. DISCLOSURES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

4.1 REVENUE

Consolidated revenue increased year-on-year to €7,055 thousand (2013: €4,904 thousand). The Discovery & Collaborative Business segment contributed €3,277 thousand to consolidated revenue (2013: €3,303 thousand). Of this figure, €431 thousand (2013: €569 thousand) is attributable to the proportional reversal of the deferred income item for the partnership with LEO Pharma A/S, Denmark, entered into in 2013. An additional €2,846 thousand (2013: €2,734 thousand) stems from service revenue from research collaborations.

Revenue in the Development segment of €3,778 thousand (2013: €1,601 thousand) comprised the proportional reversal of the deferred income recognised in connection with the partnership entered into with Yakult Honsha Co. Ltd. in 2011 for resminostat in the amount of €894 thousand, a contractually agreed milestone payment and allocations to Yakult Honsha Co., Ltd. of the costs to produce the resminostat compound totalling €2,884 thousand (2013: €707 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

	2014	2013	Change in %
Salaries	4,102	4,869	-16
Social security contributions	777	904	-16
Stock options	3	53	-94
Staff costs	**4,882**	**5,826**	**-16**
Employees and Management Board (annual average)	65	81	-19

The Company's staff costs decreased by 16% in 2014 to €4,882 thousand (2013: €5,826 thousand). This is mainly due to the downsizing of the Management Board from three to two members during the reporting year and the reduction in the workforce following the adjustment of the personnel structure resolved in June 2013. 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 €168 thousand in the reporting year (2013: €204 thousand). Of this amount, €47 thousand (2013: €45 thousand) are attributable to Management Board members. In addition, a total of €576 thousand (2013: €667 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 €3 thousand in staff costs arose in the 2014 financial year from the options (2013: €53 thousand).

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

	2014	2013	Change in %
Staff	773	687	13
External services	2,466	328	652
Material	327	287	14
Amortisation	77	80	-4
Patents	412	73	464
Commission	9	0	n/a
Other	16	19	-16
Cost of sales	**4,080**	**1,474**	**177**

The increase in the cost of sales from €1,474 thousand in 2013 to €4,080 thousand in the reporting period can be attributed in particular to the production costs incurred in the

Development segment to produce the resminostat compound for Yakult Honsha Co., Ltd. This is clearly reflected in the external services, staff costs, material and patents items. The cost of sales also includes expenses in connection with the execution of the collaborative business consolidated in the Discovery & Collaborative Business segment. The increased patent costs are charged on in connection with revenue.

4.4 DISTRIBUTION COSTS

in € 000's

	2014	2013	Change in %
Legal and other consulting	522	220	137
Staff	149	146	2
Travel and conferences	73	56	30
Other	102	81	26
Distribution costs	**846**	**503**	**68**

Distribution costs, which consist of the costs incurred by the Business Development and Strategic Planning & Marketing units, increased by 68% year-on-year to €846 thousand during the reporting period (previous year: €503 thousand). The rise in legal and other consulting costs results from the increase in activities to initiate collaboration projects.

4.5 RESEARCH AND DEVELOPMENT COSTS

in € 000's

	2014	2013	Change in %
Staff	2,713	3,379	-20
External services	2,879	3,129	-8
Amortisation	951	1,687	-44
Patents	229	824	-72
Rental costs including ancillary costs	749	701	7
Material	274	224	22
Software licences	237	208	14
Travel and conferences	137	94	46
Other	567	390	45
Grants (EU and Ministry of Education and Research)	-233	-394	-41
Research and development costs	**8,504**	**10,243**	**-17**

Research and development costs declined by 17% to €8,504 thousand in 2014, from €10,243 thousand in 2013. The year-on-year decline in research and development costs was mainly due to the smaller number of ongoing clinical trials despite both the increase in preparatory expenditure for a planned pivotal trial with resminostat in the liver cancer indication and the increase in expenses for optimising the resminostat production process.

4.6 ADMINISTRATIVE COSTS

in € 000's

	2014	2013	Change in %
Staff	1,246	1,614	-23
Investor Relations	403	427	-6
Legal and other consulting	594	369	61
Rental costs including ancillary costs	199	222	-10
Supervisory Board	154	154	0
Amortisation	66	106	-38
Insurance, fees and contributions	104	95	9
Travel and conferences	76	76	0
External services	99	61	62
Other	179	186	-4
Administrative costs	**3,120**	**3,310**	**-6**

Administrative costs amounted to €3,120 thousand in the reporting period – a reduction of 6% year-on-year (2013: €3,310 thousand). This was mainly due to the implemented cost-cutting measures and structural adjustments.

4.7 OTHER INCOME

in € 000's

	2014	2013	Change in %
Sublease	54	4	1,250
Income from the sale of fixed assets	0	10	-100
Insurance compensation payments	0	7	-100
Other cost allocations	0	5	-100
Other	4	8	50
Other income	**58**	**34**	**71**

There was a year-on-year increase in other income by 71% to €58 thousand in 2014 (2013: €34 thousand) due to the higher income from the sub-letting of premises.

4.8 DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

in € 000's

	2014	2013	Change in %
Amortisation of and impairment losses on intangible assets	819	1,593	-49
Depreciation of property, plant and equipment	276	280	-1
Depreciation, amortisation and impairment losses	**1,095**	**1,873**	**-42**

Depreciation, amortisation and impairment losses decreased by 42%, from €1,873 thousand in 2013 to €1,095 thousand in 2014. Amortisation of and impairment losses on intangible assets – which mainly stemmed 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 – was affected in the previous year by the recognition of €718 thousand as a one-off impairment loss in connection with the

focussing of activities resolved by the Company. 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

	2014	2013	Change in %
Share in the profit/loss of quattro research GmbH	39	27	44
Share in the profit/loss of Panoptes Pharma Ges.m.b.H.	0	-8	-100
Profit/loss from investments accounted for using the equity method	**39**	**19**	**105**

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

in € 000's

	2014	2013	Change in %
Interest-bearing investment of cash and cash equivalents	3	53	-94
Income from exchange rate differences	1	4	-75
Securities measured through profit or loss	2	1	100
Finance income	**6**	**58**	**-90**

The repeated decrease in finance income by more than 90% to €6 thousand in 2014 (2013: €58 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

	2014	2013	Change in %
Expenses from exchange rate differences	6	9	-33
Interest on the convertible note/bond	84	0	n/a
Interest on the shareholder loan	143	0	n/a
Other interest expense	1	1	0
Finance costs	**234**	**10**	**2,240**

The increase in interest expense results from the substantial increase in borrowed capital in 2014 in connection with the shareholder loan from Santo Holding (Deutschland) GmbH and the convertible notes issued to Yorkville. For the convertible note, an effective interest rate is assumed for the period in which the note is not converted.

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

	2014	2013	Change in %
Current tax expense	–70	0	n/a
Deferred tax income	0	0	0
Income tax expense (–) / income (+)	**–70**	**0**	**n/a**

The determination of the effective tax rate for the purpose of calculating deferred taxes is based on the following assumptions: In Germany, taxes on 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 2014 is therefore 26.33%.

As in the previous year, at 31 December 2014 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 2014 and 31 December 2013 are distributed as follows across the statement of financial position:

in € 000's

	2014	2013	Change in %
Deferred tax assets and liabilities			
Intangible assets	54	75	–28
Investments accounted for using the equity method	–3	–2	50
Other liabilities	32	10	220
Deferred tax assets	–83	–83	0
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

	2014	2013
Tax loss carryforward	148,565	139,742
Reduction for deferred tax liabilities	-315	-315
Effective tax rate (in %)	26.33	26.33
Value of the tax loss carryforwards	**39,034**	**36,711**

This calculation is based on the assumption that the tax rates applicable after 1 January 2014 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 section 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

	2014	2013
Earnings before taxes	-9,626	-10,525
Expected tax income at a tax rate of 26.33% (2013: 26.33%)	2,535	2,771
Income (+)/expense (-) shown in the income statement	-70	0
Difference to be explained	**2,605**	**2,771**
Unrecognised tax loss carryforwards	2,539	2,648
Non-deductible expenses	21	23
Ineligible foreign withholding tax	52	0
Other differences	-7	100
Total reconciliation	**2,605**	**2,771**

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).

	2014	2013
Based on net profit/loss for the year (in €000's)	-9,696	-10,525
Based on average number of shares (in thsd.)	50,642	50,372
Earnings per share (basic and diluted, in €)	**-0.19**	**-0.21**

Given 4SC's loss and the fact that the share price has currently dropped below the exercise price of the stock options, i.e. all of 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 28 June 2006, 29 June 2007, 5 June 2008, 15 June 2009, 21 June 2010, 6 August 2012 and 9 May 2014 decided to increase the Company's share capital conditionally. These resolutions could mean that undiluted earnings per share could potentially be diluted in future if option rights are granted to members of the Management Board and employees of the Company or shares are granted to the owners or creditors of convertible bonds to be issued, participation rights and/or warrants. Details about the conditional capital can be found under items "7.12 Equity" and "9. Stock option programme".

7. DISCLOSURES ON THE STATEMENT OF FINANCIAL POSITION

7.1 INTANGIBLE ASSETS

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

In €000's

	Useful life from 1 to 19 Years	Cost				Amortisation and impairment losses				Carrying amounts	
		Balance on 01.01.2014	Additions 2014	Diposals 2014	Balance on 31.12.2014	Balance on 01.01.2014	Balance 2014	Diposals 2014	Balance on 31.12.2013	Balance on 31.12.2014	Balance on 31.12.2013
Intangible assets											
Software and patents	1–19	14,210	4	0	14,214	5,628	741	0	6,370	7,844	8,582
Customer loyalty	5,75	480	0	0	480	197	77	0	274	206	283
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**16,476**	**4**	**0**	**16,480**	**5,825**	**819**	**0**	**6,644**	**9,836**	**10,651**

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

In €000's

	Useful life from 2 to 20 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	6,75	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**

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 €1,011 thousand and €5,188 thousand (2013: €1,101 thousand to €5,694 thousand) whose residual amortisation period is between 10.25 years and 12.17 years (2013: 11.25 to 13.17 years).

Additions in the reporting year relate to software.

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

	2014	2013	Change in %
Cost of sales	77	80	-4
Research and development costs	732	1,481	-51
Administrative costs	10	32	-69
Amortisation of intangible assets	**819**	**1,593**	**-49**

Goodwill

in € 000's

	31.12.2014	31.12.2013	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 2014. For the impairment test, the value in use of the vidofludimus programme was compared with the carrying amount of goodwill. The result was that the value in use turned out to be higher than the carrying amount. The value in use is determined essentially by means of the following factors: The discount factor is 10.87% (2013: 14%) and determines at which interest rate future cash flows will be discounted. The probability of a market entry, assumed to be 13.7% (2013: 18.0%), depends on the development phase that the project is in. The maximum anticipated sales are based on an estimate by 4SC and depend primarily on expected market shares, future patent numbers and anticipated revenue per patient. The expected cash flows have been calculated for the period up to 2038, on the basis of corresponding patent terms in addition to taking a commercialisation phase following the expiration of patent protection and a growth rate of 1% of the perpetual annuity into account.

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

The sensitivity analysis showed a €6.1 million reduction in the value in use if the discount rate increased by 10% and a €4.4 million reduction if the market overall contracted by 10%. Both scenarios would not result in a need to recognise an impairment loss on the goodwill.

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 0 to 13 Years	Cost				Amortisation and impairment losses				Carrying amounts	
		Balance on 01.01.2014	Additions 2014	Diposals 2014	Balance on 31.12.2014	Balance on 01.01.2014	Balance 2014	Diposals 2014	Balance on 31.12.2013	Balance on 31.12.2014	Balance on 31.12.2013
Property, plant and equipment											
Office equipment	7–13	164	0	0	164	131	9	0	140	24	33
Laboratory equipment	2–13	583	63	0	646	279	134	0	413	233	305
Leasehold improvements	2,5–13	526	0	0	526	333	63	0	396	130	193
Other operating and office equipment	2–12	155	0	0	155	136	10	0	146	9	19
IT equipment	2–12	424	12	0	436	373	34	0	407	29	51
Other	0–4	147	25	25	147	146	26	25	147	0	1
Property, plant and equipment		**1,999**	**100**	**25**	**2,074**	**1,398**	**276**	**25**	**1,649**	**425**	**602**

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

in € 000's

	Useful life from 0 to 14 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	9526	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.

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

	2014	2013	Change in %
Research and development costs	220	206	7
Administrative costs	56	74	–24
Depreciation of property, plant and equipment	**276**	**280**	**–1**

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 2014 are as follows:

in € 000's

	2014	2013	Change in %
Revenue	1,348	1,252	8
Net profit/loss for the year	79	56	41
Total assets	1,094	801	37
Equity	581	502	16
Liabilities	513	299	72

The profit posted by quattro research GmbH raises the carrying amount of the shares held by 4SC to €220 thousand of the reporting date (31 December 2013: €181 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 2014:

in € 000's

	2014	2013	Change in %
Revenue	0	0	n/a
Net profit/loss for the year	–383	–354	–8
Total assets	1,356	172	688
Equity	–354	–196	–81
Liabilities	1,710	368	365

The loss posted by Panoptes Pharma Ges.m.b.H. lowered the carrying amount of the shares held by 4SC Discovery GmbH in the previous year; as of the reporting date it remained at €0 thousand.

7.4 OTHER INVESTMENTS

This item in the statement of financial position reflects financial instruments within the meaning of IAS 39 with a remaining life of more than one year as of the reporting date. This includes the equity investment in Quiescence Technologies LLC.

in € 000's

	2014	2013	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

	31.12.2014	31.12.2013	Change in %
Consumables	22	20	10
Solvents	3	3	0
Chemicals	0	0	0
Inventories	**25**	**23**	**9**

Inventories increased by €2 thousand year-on-year.

Material costs amounting to €625 thousand (2013: €520 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

	31.12.2014	31.12.2013	Change in %
Germany	351	267	31
EU	301	78	286
Import/Export	0	1	-100
Trade accounts receivable	**652**	**346**	**88**

On 31 December 2014, 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, LEO Pharma A/S and Yakult Honsha Co. Ltd. No trade accounts receivable were due on the reporting date; they were paid by early March 2015, as contractually stipulated.

7.7 RECEIVABLES FROM ASSOCIATES

The accounts receivable from associates as of the reporting date concerned Panoptes Pharma Ges.m.b.H., Vienna, Austria. The receivable shown amounts to €23 thousand (31 December 2013: €0 thousand). The receivable was not yet due on the reporting date and was paid in January 2015, as contractually stipulated.

7.8 OTHER FINANCIAL ASSETS

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

in € 000's

	31.12.2014	31.12.2013	Change in %
Financial instruments with a remaining life of less than one year	0	1,000	100
Fixed deposits with a remaining life of less than one year	0	0	n/a
Other financial assets	**0**	**1,000**	**-100**

As at the reporting date, 4SC had no other financial assets.

7.9 CASH AND CASH EQUIVALENTS

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

in € 000's

	31.12.2014	31.12.2013	Change in %
Financial instruments with an original term of less than			
three months calculated from the date of acquisition	116	1,002	-88
Bank balances	3,085	2,896	7
Cash on hand	1	1	0
Cash and cash equivalents	**3,202**	**3,899**	**-18**

7.10 CURRENT INCOME TAX ASSETS

4SC receives interest from its fixed deposits, money market funds and securities. Financial institutions are required to withhold tax and solidarity surcharge on such interest income. Because the Company posted a net loss for the 2014 and 2013 financial years, it has a tax refund claim with regard to the taxes it has paid.

in € 000's

	31.12.2014	31.12.2013	Change in %
Current income tax assets	**18**	**73**	**-75**

The current income tax assets as at 31 December 2014 comprise claims for withholding tax on investment income for the 2013 and 2014 financial years that the tax office have not yet refunded. The prior-year figure included refund claims for 2012.

7.11 OTHER ASSETS

in € 000's

	31.12.2014	31.12.2013	Change in %
Prepaid expenses	157	135	16
Current tax assets	52	207	-75
Rent deposit IZB West	157	157	0
Advances paid for third-party services	10	34	-71
Government grants	155	244	-36
Prepaid interest	0	1	-100
Receivables from cost allocations to research collaborations	0	143	-100
Other	2	9	-78
Other assets	**533**	**930**	**-43**

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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Prepaid expenses	157	135	1	0	156	135
Current tax assets	52	207	0	0	52	207
Rent deposit IZB West	157	157	157	157	0	0
Advances paid for third-party services	10	34	0	0	10	34
Government grants	155	244	0	0	155	244
Prepaid interest	0	1	0	0	0	1
Receivables from cost allocations to research collaborations	0	143	0	0	0	143
Other	2	9	0	0	2	9
Other assets	**533**	**930**	**158**	**157**	**375**	**773**

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

Prepaid expenses primarily comprise prepaid invoices under maintenance contracts, online research and licences. The advances paid for third-party services comprise payments for external services that were made before the service in question was rendered.

7.12 EQUITY

Share capital and shares

The share capital of 4SC as at 31 December 2014 amounts to €50,849,206.00. It is composed of 50,849,206 no-par value bearer shares. Each share represents €1.00 of 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	7,023	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")
VII	7,500	09.05.2014	Granting of shares to owners and/or creditors of still to be issued convertible bonds and/or warrants, income debentures and/or participation rights (or a combination of these instruments)

Authorised capital

The Annual General Meeting on 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 €1,751 thousand (2013: €1,747 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 2014 remained unchanged compared to the previous year.

Appropriation of earnings

The accumulated deficit of €128,956 thousand (2013: €119,260 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 re-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 usually the only action that can be taken in this context. The loan from Santo is rather an exception 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 €11,282 thousand as at 31 December 2013 by €9,232 thousand to €2,050 thousand as at 31 December 2014.

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

7.13 TRADE ACCOUNTS PAYABLE

in € 000's

	31.12.2014	31.12.2013	Change in %
Germany	577	551	5
EU	284	29	879
Other countries	132	95	39
Trade accounts payable	**993**	**675**	**47**

Trade accounts payable increased by 47% 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.

7.14 ACCOUNTS PAYABLE TO ASSOCIATES

The accounts payable to associates as of the reporting date concerned quattro research GmbH. One agreement is in place regarding the development, servicing and maintenance of software. The liability of €6 thousand that is shown results from the December bill (31 December 2013: €28 thousand).

7.15 OTHER LIABILITIES AND DEFERRED INCOME

in € 000's

	31.12.2014	31.12.2013	Changein %
Deferred income	2,682	4,005	-33
Accrued liabilities	1,894	1,418	34
Tax liabilities (wage & church tax)	85	122	-30
Advances received	764	175	337
Liabilities to shareholders	6,131	0	n/a
Bonds issued	317	0	n/a
Deposits received	10	0	n/a
Other payables	2	0	n/a
Other liabilities	**11,885**	**5,720**	**108**

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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Deferred income	2,682	4,005	1,788	2,682	894	1,323
Accrued liabilities	1,894	1,418	114	154	1,780	1,264
Tax liabilities (wage & church tax)	85	122	0	0	85	122
Advances received	764	175	0	0	764	175
Liabilities to shareholders	6,131	0	6,131	0	0	0
Bonds issued	317	0	0	0	317	0
Deposits received	10	0	10	0	0	0
Other payables	2	0	0	0	2	0
Other liabilities	**11,885**	**5,720**	**8,043**	**2,836**	**3,842**	**2,884**

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

in € 000's

	31.12.2014	31.12.2013	Change in %
Invoices outstanding	781	846	-8
Bonus paid to Management Board & the executive management	156	166	-6
Remuneration of the Supervisory Board	154	154	0
Legal consulting	285	0	n/a
Financial statements preparation and auditing costs	150	54	177
Personnel liabilities	306	135	127
Renovation IZB West	41	40	3
Contribution to employer's liability insurance	11	9	22
Other	10	14	-28
Accrued liabilities	**1,894**	**1,418**	**34**

The non-current portion of deferred income item results from the liabilities relating to the upfront payment made by Yakult Honsha Co., Ltd. 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 results from the above-mentioned liabilities relating to Yakult Honsha Co., Ltd. The non-current accrued liabilities result from long-term Management Board bonuses and outstanding invoices.

All other accrued liabilities are of a current nature. A total of €4,148 thousand were added, €3,652 thousand were used, and €20 thousand were reversed. There is only insignificant insecurity regarding the amount of actual utilisation. There are no claims for reimbursement against third parties.

7.16 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 31.12.2014		Measurement as of 31.12.2013	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LaR	652	652	346	346
Receivables from investees	LaR	23	23	0	0
Current income tax assets	LaR	18	18	73	73
Other non-current assets	LaR	157	157	157	157
Other current assets	LaR	375	375	773	773
Fixed deposits and bank balances	LaR	3,202	3,202	3,899	3,899
Financial assets at fair value through profit and loss –					
held for trading	AFVPL	0	0	1,000	1,000
Held-to-maturity financial assets	Htm	0	0	0	0
Available-for-sale financial assets	AfS	0	0	0	0
Accounts payable to shareholders	AC	-6,131	-6,131	0	0
Trade accounts payable	AC	-993	-993	-675	-675
Accounts payable to associates	AC	-6	-6	-28	-28
Other non-current liabilities	AC	-114	-114	-154	-154
Other current liabilities	AC	-1,558	-1,558	-2,682	-2,682
Total		**-4,375**	**-4,375**	**2,709**	**2,709**
Of which aggregated by IAS 39 measurement category					
Financial assets at fair value through profit or loss	AFVPL	0	0	1,000	1,000
Held-to-maturity investments	Htm	0	0	0	0
Loans and receivables ("Loans and receivables")	LaR	4,427	4,427	5,248	5,248
Available-for-sale financial assets	AfS	0	0	0	0
At amortised cost	AC	-8,802	-8,802	-3,539	-3,539

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 Quiescence Technologies LLC, which 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 2014
Financial assets at fair value through profit or loss						
held for trading	0	0	0	0	0	0
Held-to-maturity investments	2	2	0	0	0	4
Loans and receivables („Loans and receivables")	1	0	1	0	0	2
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortised cost	0	0	–6	0	0	–6
Total	**3**	**2**	**–5**	**0**	**0**	**0**

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 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 („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**

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 reserve

4SC currently does not have sufficient cash reserves to invest significant amounts of money, which is why it currently does not invest any money. Any funds would be invested in safe forms of investment – with a good or very good credit rating – such as borrower's note loans and bearer notes that entail only insignificant liquidity and default risks. These securities do not expose the Company to an interest rate risk. As at the reporting date, all the invested funds had short maturities and thus would not be sensitive to changes in interest rates.

More information is contained in the report on opportunities and risks in section 8 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 2014, 4SC had bank accounts in US dollars worth €0 thousand (31 December 2013: €0 thousand).

Liabilities denominated in foreign currencies as at 31 December 2014 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 2014:

in € 000's

	31. December 2014		31. December 2013	
	Increase	Decrease	Increase	Decrease
Euro vs. US dollar	–2	2	–1	1
Euro vs. Swiss franc	0	0	–1	1
Euro vs. British pound	–2	2	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 (2013: 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. €675 thousand as at the reporting date (2013: €346 thousand). To reduce the counterparty credit risk, the Company regularly runs its business relationships through different evaluation scenarios and fosters intensive customer relationships.

7.17 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 2014 and subsequently increases by a further €0.50/m² per year.

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	
2015	875
2016	896
from 2017	0
Total	**1,771**

The statement of comprehensive income for the reporting year contains expenses of €828 thousand from the leases (2013: €827 thousand). 4SC did not have any expenses under leases in 2014 (2013: €51 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 €1,266 thousand (2013: €1,661 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.

in € 000's

	2014	2013	Change in %
Cash flows from operating activities	-8,372	-6,986	-20
Cash flows from investing activities	897	4,869	-82
Cash flows from financing activities	6,778	-60	11,367
Net change in cash and cash equivalents	**-697**	**-2,177**	**68**
+ Cash and cash equivalents at the beginning of the period	3,899	6,076	-36
= Cash and cash equivalents at the end of the period	**3,202**	**3,899**	**-18**

In addition to cash and cash equivalents, 4SC had no other financial assets, borrower's note loans and bearer notes as at the reporting date. Taken together, these items comprise the cash balance/funds:

in € 000's

	31.12.2014	31.12.2013	Change in %
Cash and cash equivalents at the end of the period	3,202	3,899	-18
Other financial assets	0	1,000	-100
Cash balance/funds	**3,202**	**4,899**	**-35**

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 01.01.01.20	Issued in 2014	Expired in 2014	Exercised in 2014	Outstanding on 31.12.2014	Exercisable on 31.12.2014	Max. number of shares available on 31.12.2014	Fair value	Cumulative staff costs[2]	Staff costs in 2014
Unit			€		in 000's.	in 000's	in 000's	in 000's	in 000's	in 000's	in 000's	in 000's	€	€	€
ESOP 2001	2001/1	31.03.01	9,60	2:1	74	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2001/2	10.10.01	9,60	2:1	110	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2002	30.06.02	12,00	2:1	120	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2003	30.09.03	5,08	2:1	318	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	0	0	0	0	0	0	0	0,74	19	0
ESOP 2006	2006/2	25.08.06	3,80	1:1	296	214	0	15	0	199	199	199	1,71	436	0
REPLACEMENT-ESOP 2001	2006/3	25.08.06	3,80	1:1	166	83	0	3	0	80	80	80	1,54	183	0
ESOP 2006	2007	26.11.07	3,65	1:1	9	8	0	0	0	8	8	8	1,49	14	0
ESOP 2006	2008	22.08.08	3,45	1:1	43	41	0	37	0	4	4	4	1,50	62	0
ESOP 2009	2009	26.11.09	3,29	1:1	888	769	0	202	0	567	567	567	1,04	829	0
ESOP 2009	2010	26.11.10	3,09	1:1	18	12	0	6	0	6	6	6	0,77	12	2
ESOP 2009	2011	30.11.11	1,44	1:1	18	17	0	0	0	17	12	17	0,65	10	1
Total					**2,301**	**1.144**	**0**	**263**	**0**	**881**	**876**	**881**		**1,732**	**3**

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 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 3.90 years. The exercise prices of all outstanding tranches range from €1.44 and €3.80.

An overview of weighted average exercise prices is given below:

Exercise prices (weighted, €)

	2014	2013
Options outstanding as of 01.01.	3.42	3.43
Options issued in the reporting period	---	---
Options expired in the reporting period	3.34	3.87
Options outstanding as of 31.12.	3.42	3.40
Options exercisable as of 31.12.	3.43	3.42

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 €601 thousand (2013: €951 thousand) in the reporting year. Of this total amount, €47 thousand (2013: €45 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 €0 thousand for the reporting year (2013: €27 thousand).

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

Remuneration in € 000's

	Fix		Variabele		Staff costs arising from options		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Dr Daniel Vitt	201	190	18	8	0	7	219	205
Dr Bernd Hentsch	63	218	0	16	0	7	63	241
Enno Spillner	301	270	18	8	0	6	319	284
Remuneration of the Management Board	**565**	**678**	**36**	**101**	**0**	**27**	**601**	**730**

The following overviews show the shares and stock options held by members of the Management Board as at the 31 December 2014 reporting date.

Shares Number

	Shares 01.01.2014	Purchase	Sale	Shares 31.12.2014
Dr Daniel Vitt	416,803	0	0	416,803
Enno Spillner	73,800	0	0	73,800
Shares held	**490,603**	**0**	**0**	**490,603**

Stock options Number

	Options 01.01.2014	Additions	Expired	Exercised	Options 31.12.2014	Maximum number of shares available
Dr Daniel Vitt	142,600	0	0	0	142,600	142,600
Enno Spillner	223,200	0	0	0	223,200	223,200
Stock options held	**365,800**	**0**	**0**	**0**	**365,800**	**365,800**

No stock options were issued to the members of the Management Board in the 2014 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 €36 thousand as at 31 December 2014.

For the Management Board members Enno Spillner and Dr Daniel Vitt, 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)

Enno Spillner

– Member of the Supervisory Board and Chairman of the Audit Committee of Nanobiotix S.A., Paris, France (since June 2014)
– Member of the Advisory Board of Faculty Club G2B, Planegg-Martinsried (since November 2014)

10.2 SUPERVISORY BOARD

The total remuneration paid to the members of the Supervisory Board amounted to €134 thousand (2013: €154 thousand). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

in € 000's

	Occupation	Remuneration 2014	Remuneration 2013
Dr Thomas Werner	Retired		
(Chairman until 18.09.2014)		29	40
Klaus Kühn	Retired		
(Deputy Chairman until 18.09.2014)		20	29
Dr Irina Antonijevic	Director Clinical Research at Genzyme		
	(Sanofi Group), Cambridge, MA, USA	16	18
Dr Clemens Doppler	Partner & Managing Director of Heidelberg		
(Chairman since 19.09.2014)	Capital Asset Management GmbH,		
	Heidelberg, Germany		
	Managing Director of HeidelbergCapital	24	23
	General Partner GmbH, Heidelberg;		
Helmut Jeggle	COO/Managing Director of Athos Service		
	GmbH, Munich;		
	Managing Director of AT Impf GmbH, Munich;		
	Managing Director of AT Newtec GmbH, Munich;		
	CFO / Managing Director of Apceth GmbH &		
	Co. KG, Munich;		
	Managing Director of Neuraxpharm Holding		
	GmbH, Munich;		
	Managing Director of Santo Venture Capital		
	GmbH, Holzkirchen;		
	Managing Director of Salvia GmbH, Holzkirchen;		
	CFO / Managing Director of NX Biotech		
	GmbH, Holzkirchen;		
	Managing Director of Santo International		
	Holding GmbH, Holzkirchen;		
	Prokurist of Santo Holding (Deutschland)		
	GmbH, Holzkirchen;	20	22
Dr Manfred Rüdiger	Venture Partner of LSP Life Sciences Partners,		
(Deputy Chairman since 19.09.2014)	Munich		
	CEO of Kiadis Pharma B.V., Amsterdam,		
	the Netherlands		
	Managing Director of Kiadis Pharma Canada,		
	Inc., Saint-Laurent, Quebec, Canada;		
	Managing Director of Kiadis Pharma		
	Deutschland GmbH, Munich	22	22
Joerg von Petrikowsky (since 28.10.2014)	German public auditor and tax consultant	3	0
Remuneration of the Supervisory Board		**134**	**154**

The following overview shows the shares held by members of the Supervisory Board as at the 31 December 2014 reporting date.

Shares held Number

	Shares 01.01.2014	Purchase	Sale	Shares 31.12.2014
Dr Manfred Rüdiger	5,000	2,500	0	7,500
Dr Clemens Doppler	18,593	0	0	18,593
Shares held	**23,593**	**2,500**	**0**	**26,093**

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 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
– Glycotope GmbH, Berlin, member of the Advisory Board
– Sidroga AG, Zoffingen, Switzerland, President of the Management Board
– VANGUARD AG, Berlin, Germany, member of the Supervisory Board

Dr Irina Antonijevic, Dr Manfred Rüdiger and Joerg von Petrikowsky 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 2014 to 31 December 2014.

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 €151 thousand in the 2014 financial year (2013: €144 thousand). As of the reporting date, the liabilities toward quattro research GmbH amounted to €6 thousand (31 December 2013: €28 thousand); they were repaid in January 2015.

Panoptes Pharma Ges.m.b.H., Vienna, Austria (associate)

4SC Discovery GmbH maintains legal relations with Panoptes Pharma Ges.m.b.H., in which it has held a 24.9% stake of the share capital since its founding in July 2013. In the 2014 financial year, 4SC Discovery GmbH billed a net amount of €22 thousand for contract services (2013: €0 thousand). As of the reporting date, the liabilities toward Panoptes Pharma Ges.m.b.H. amounted to €23 thousand (31 December 2013: €0 thousand); they were repaid in January 2015.

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. From 1 April 2012 to 30 September 2014, DRB was acting as the Designated Sponsor of 4SC. As a result of this contract, 4SC incurred costs of €15 thousand in the reporting year (2013: €20 thousand). No liabilities existed towards DRB as at 31 December 2014, nor are there currently any joint activities.

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

Santo Holding (Deutschland) GmbH, Holzkirchen (other related parties)

4SC AG maintains legal relations with Santo Holding (Deutschland) GmbH, Holzkirchen. In June 2014, 4SC AG agreed a loan of up to €10 million with its main shareholder, Santo Holding (Deutschland) GmbH. This is earmarked for financing the costs of preparing for the planned clinical development of resminostat and for covering part of the Company's ongoing administrative costs. The loan, which carries interest of 8% p.a., runs until the end of 2016 (maturity date) and can be drawn down in tranches up to 31 December 2015. This financing arrangement generated €6 million for 4SC in the 2014 financial year. As of the reporting date, there were liabilities to Santo Holding (Deutschland) GmbH in the amount of €6,131 thousand (2013: €0 thousand).

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

4SC Discovery GmbH maintains legal relations with BioNTech AG, Mainz, and its subsidiary RNA Pharmaceuticals 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 €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 2013, 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 2014, this contract had a net volume of €1,092 thousand (2013: €1,184 thousand) with respect to BioNTech AG and €44 thousand net (2013: €95 thousand) with respect to RNA Pharmaceuticals GmbH. At the reporting date, there were receivables from BioNTech AG amounting to €212 thousand (31 December 2013: €170 thousand) and receivables from BioNTech RNA Pharmaceuticals GmbH totalling €14 thousand (31 December 2013: €9 thousand), which were paid by February 2015.

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 €12 thousand in the 2014 financial year (2013: €104 thousand). As of the reporting date, the receivables from AiCuris GmbH & Co.KG amounted to €3 thousand (31 December 2013: €0 thousand); they were repaid in January 2015.

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 2014.

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

On 24 February 2014 and 23 February 2015, 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.de.

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 2014 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]
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 2014 were as follows:
– HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich 5.8%
– Roland Oetker, Germany 4.2%
– First Capital Partner GmbH, Gräfelfing 9.7%
– Santo Holding (Deutschland) GmbH, Holzkirchen 49.2%

11.4 AUDITOR'S FEES PURSUANT TO SECTION 314(1) NO. 9 GERMAN COMMERCIAL CODE

On 9 May 2014, the Company's Annual General Meeting appointed Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft (formerly: RölfsPartner AG), Nymphenburger Straße 3b, 80335 Munich, to serve as the auditor of the 2014 financial statements.

in € 000's

	31.12.2014	31.12.2013
Auditing services	64	60
Other verification services	10	16
Other services	33	3
Total fee billed by the auditor	**107**	**79**

In the 2014 financial year, a total of €64 thousand was recognised for financial statements auditing services (2013: €60 thousand). Fees of €10 thousand for other verification services concerned reviews of the interim financial statements in the reporting year (2013: €10 thousand). Other services in the amount of €33 thousand (2013: €3 thousand) relating to oral and written opinions in the context of various financing models and internal reports 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 2014 was 62 (2013: 76).

Of these 62 employees (excluding the Management Board and the executive management), 47 worked in research and development, 13 in sales and administration and two in information technology. Of the 76 employees in the previous year (excluding the Management Board and trainees), 57 worked in research and development, 16 in sales and administration and three in information technology.

The Group's workforce in 2014 also included an average of two Management Board members at 4SC AG (2013: 3) and one managing director at 4SC Discovery GmbH (2013: 1) such that the total number of employees on average was 65 in 2014 and 81 in 2013. Until February 2014, 4SC had trained one chemical laboratory technician who was hired by the Company for a permanent position after passing the final exam.

12. EVENTS AFTER THE REPORTING PERIOD

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

- At the beginning of January 2015, Professor Helga Rübsamen-Schaeff was appointed as a new member of the Supervisory Board of 4SC AG by the responsible registration court on the Company's application. Her term of office will initially run until the end of the Annual General Meeting that resolves on formally approving the actions of the Supervisory Board of 4SC AG for financial year 2014. The six-person Supervisory Board is now complete once more. From 2006 until 1 March 2015, Professor Rübsamen-Schaeff acted as Managing Director and CEO of the Wuppertal-based biopharma company that she founded, AiCuris GmbH, and since this date has been Chairwoman of the Advisory Board of AiCuris GmbH. From 1994 to 2006, she held various managerial positions in Antiviral and Anti-infective Research at Bayer AG.
- In mid-January 2015, 4SC AG reported that the BEYOND RESEARCH initiative of its research subsidiary 4SC Discovery together with its partner CRELUX GmbH had reached the first milestone in a drug discovery project in the area of degenerative diseases for Helmholtz Zentrum München. The first stage of the collaboration with the RQScue Therapeutics working group for researching new compounds for treatment of degenerative diseases was successfully completed. The second stage of the project has been started now. The work is funded by the Bavarian Ministry of Economic Affairs and Helmholtz Zentrum München.
- On 23 January 2015, 4SC AG announced in an ad hoc disclosure that it would hold an Extraordinary General Meeting on 11 March 2015. The main objective of the Extraordinary General Meeting is to adopt a resolution to reduce the Company's share capital through a reverse split of shares in accordance with sections 222 ff. of the German Stock Corporation Act (AktG). The capital reduction is to be effected such that the share capital is lowered from €50,849,205.00 by €40,679,364.00 to €10,169,841.00 by consolidating the no-par value shares issued in a 5:1 ratio from 50,849,205 to 10,169,841. This measure will not change the Company's equity structure and

enterprise value. No distribution will be made to shareholders. The aim of the capital reduction is to raise the Company's share price in a sustained manner above the notional value of €1.00 per share, thus giving 4SC AG more flexibility to undertake any future capitalisation measures. The resolution on the capital reduction will be preceded by a resolution to cancel one share of the Company surrendered to the Company by a shareholder free of charge. This is necessary to be able to implement the capital reduction through consolidation of shares in an even share consolidation ratio.
At the Extraordinary General Meeting of 4SC AG held on 11 March 2015, the shareholders adopted all agenda items with the required majority and resolved to reduce the Company's share capital to €10,169,841.00 by consolidating the no-par value shares issued in a 5:1 ratio.

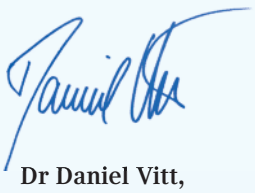
– On 10 February 2015, 4SC announced that its Austrian associate Panoptes Pharma Ges.m.b.H, Vienna, had concluded a licence agreement for the compound PP-001 with Mediolanum Laboratoires Leurquin S.A., the French subsidiary of the Italian company Mediolanum Farmaceutici S.p.A. (Mediolanum). Under the terms of the agreement, Mediolanum acquired marketing rights to PP-001 in two European countries. Panoptes Pharma Ges.m.b.H received an upfront payment and is eligible for later developmental and sales milestones and royalties on net sales of the compound. PP-001 was originally discovered by 4SC Discovery GmbH. In 2013, 4SC Discovery GmbH transferred the patents for PP-001 to Panoptes Pharma Ges.m.b.H and received a 24.9% equity stake in Panoptes Pharma Ges.m.b.H in return. In addition, 4SC Discovery GmbH is entitled to subsequent performance-based milestone payments from Panoptes Pharma Ges.m.b.H and royalties based on the sales revenue generated with PP-001.

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, 12 March 2015

The Management Board:

Enno Spillner,
Chairman of the Management Board



Dr Daniel Vitt,
Member of the Management Board

AUDITORS' 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 2014 to 31 December 2014. This unqua - lified auditor's report was signed on 13 March 2015 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 the combined management report of 4SC AG for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and combined management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 (1) HGB [Handelsgesetzbuch: German Commercial Code] are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the 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 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 7.2 "Company outlook", sub-section "Financial forecast", 8.2.4 "Capital market risks", sub-section "Additional financing"; 8.2.7 "Overall assessment of the Company's exposure to risk";" and 10.7 "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 partnerships 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 2015

Baker Tilly Roelfs 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, 12 March 2015

The Management Board:

Enno Spillner
Chairman 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 2014

in € 000's

	2014	2013
Revenue	3,778	1,601
Other operating income	1,119	1,541
Total revenues and income	**4,897**	**3,142**
Cost of materials		
Cost of raw materials, consumables and supplies	-6	0
Cost of purchased services	-1,897	-870
Personnel expenses	-3,332	-4,272
Depreciation, amortisation and write-downs	-822	-1,618
Other operating expenses	-7,585	-5,786
Total expenses	**-13,642**	**-12,546**
Other interest and similar income	6	53
Interest and similar expenses	-143	-1
Net finance income/loss	**-137**	**52**
Result from ordinary activities	**-8,882**	**-9,352**
Cost of loss absorption	-1,475	-1,959
Taxes on income	-70	0
Net loss for the financial year	**-10,427**	**-11,311**
Loss brought forward	-115,717	-104,406
Accumulated deficit	**-126,144**	**-115,717**

// BALANCE SHEET for the financial year ended 31 December 2014

in € 000's

	31.12.2014	31.12.2013
ASSETS		
Fixed assets		
Intangible assets	7,842	8,582
Tangible fixed assets	92	142
Long-term financial assets	9,984	9,984
Total fixed assets	**17,918**	**18,708**
Current assets		
Receivables and other assets	362	704
Securities	115	2,000
Cash-in-hand and bank balances	2,688	2,224
Total current assets	**3,165**	**4,928**
Prepaid expenses	**142**	**106**
Total assets	**21,225**	**23,742**
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	50,849	50,372
Capital reserves	81,713	81,668
Accumulated deficit	-126,144	-115,717
Total equity	**6,418**	**16,323**
Provisions	**1,382**	**955**
Liabilities		
Trade payables	871	505
Other liabilities	12,554	5,959
Total liabilities	**13,425**	**6,464**
Total equity and liabilities	**21,225**	**23,742**

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 a company, usually at a relatively stable level over the long term.

APOPTOSIS
Programmed cell death.

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

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

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.

BROMODOMAIN INHIBITORS
Bromodomains allow epigenetic enzymes to attach to DNA complexes, thus regulating the reading of the genetic information (DNA) in the cells. Bromodomains are considered promising targets for new drugs. By specifically inhibiting these bromodomains, it is intended to influence tumour cells in such a way that they are either identified and destroyed by the body's immune system or driven into programmed cell death (apoptosis).

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.

CR
Complete remission (of tumour tissue).

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 a 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.

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.

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".

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.

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.

PHARMACOVIGILANCE
Continual and systematic monitoring of the safety of drugs or of compounds examined in clinical trials.

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.

PR
Partial remission (of tumour tissue).

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 HDAC.

RA
Abbreviation for rheumatoid arthritis (see entry).

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.

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 2015

Consolidated Annual Financial Report 2014	25 March 2015
3-Month Consolidated Financial Report (Q1/2015)	7 May 2015
Annual General Shareholders' Meeting, Munich, Germany	29 June 2015
Consolidated Half-Year Financial Report (Q2/2015)	6 August 2015
9-Month Consolidated Financial Report (Q3/2015)	11 November 2015
Analyst Conference – German Equity Forum Frankfurt, Germany	23–25 November 2015

PUBLISHING INFORMATION

EDITOR

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

CORPORATE COMMUNICATIONS & INVESTOR RELATIONS

Jochen Orlowski
Mail: jochen.orlowski@4sc.com
Telefon: +49-89-7007-630

CONCEPT, DESIGN

Hardy Lahn (Lahn Consultants, Landsberg am Lech, Germany)
www.lahnconsultants.com

CONCEPT, TEXT

Anke Banaschewski (GFD – Gesellschaft für Finanzkommunikation mbH, Frankfurt am Main and Munich, Germany)
www.gfd-finanzkommunikation.de

PHOTOGRAPHY

Frank Widmann (Frank Widmann Fotodesign, Wiesbaden, Germany)
www.frank-widmann.de

4SC AG
Am Klopferspitz 19a
82152 Planegg-Martinsried
Germany
Phone: +49-89-7007-630
Fax: +49-89-7007-63-29
www.4sc.com