Annual Report 2017

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4SC IN 2017

About 4SC

4SC is a clinical-stage biopharmaceutical company developing small-molecule drugs that can target key indications in cancer with high unmet medical needs. Such drugs are intended to provide patients with innovative treatment options that are more tolerable and efficacious than existing therapies and provide a better quality of life.

4SC's pipeline is protected by a comprehensive portfolio of patents and currently comprises three key drug candidates in various stages of development: resminostat, 4SC-202 and 4SC-208.

4SC aims to generate future growth and enhance its enterprise value by entering into partnerships with pharmaceutical and biotech companies and/or the eventual marketing and sales of approved drugs in select territories by 4SC itself.

4SC is headquartered in Planegg-Martinsried near Munich, Germany. The Company had 48 employees as of 31 December 2017 and is listed on the Prime Standard of the Frankfurt Stock Exchange (FSE Prime Standard: VSC; ISIN: DE000A14KL72).

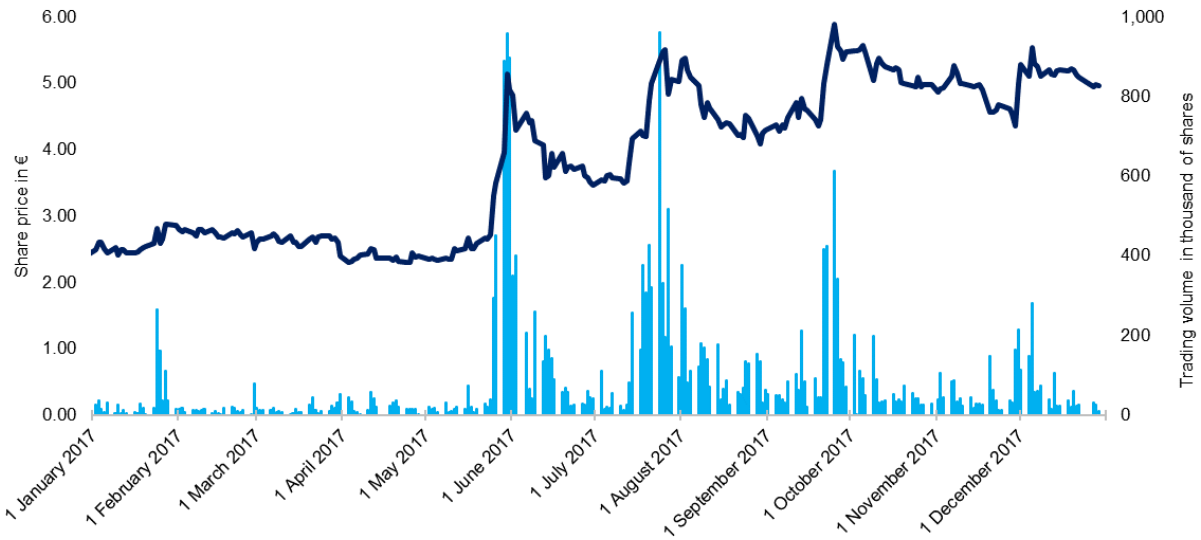
Highlights in 2017

2017 marked a year of significant progress for 4SC. Details about the information summarized below can be found in respective ad hoc announcements or press releases and in section 1 "Overview of the course of business" starting on page 9.

- Defined new strategic plan and communicated it to the market
- Raised gross €41 / net €40 million from successful capital increase, operations now funded into 2020
- Recruited one third of patients for pivotal RESMAIN study of resminostat in cutaneous T-cell lymphoma (CTCL)
- Initiated Phase Ib/II study SENSITIZE of 4SC-202 in combination with pembrolizumab in melanoma
- Started formal preclinical testing for 4SC-208 and secured fundamental composition of matter patent for the substance in the U.S.
- Entered into new licensing agreements with partners for non-core assets and received upfront and milestone payments from such agreements

4SC SHARE PRICE (LHS) AND TRADING VOLUME (RHS)

2017, XETRA closing prices, trading volume data on all German exchanges combined (XETRA, German regional exchanges, Tradegate, Quotrix)



REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,
Ladies and Gentlemen,

In the financial year 2017, 4SC AG achieved some important milestones in the clinical development of its drug candidates and a successful capital increase in July 2017 – generating gross proceeds of circa gross €41 / net €40 million – provided the necessary financing for advancing the ambitious development program for 4SC's key drug candidates resminostat, 4SC-202 and 4SC-208. Both existing and new investors demonstrated their confidence in the Company's development strategy and in its Management Board and executive management team by participating in this capital increase.

For the pivotal RESMAIN study of resminostat as maintenance treatment for advanced CTCL, launched back in 2016, more than 50 study centers were opened in all participating countries and over one third of the patients required were recruited for the study by the end of 2017, as planned. A further key milestone was reached for the second compound in clinical development, 4SC-202, with the start of the Phase Ib/II SENSITIZE trial and enrollment of the first patient. The preclinical work with 4SC-208, as required by regulators, was also running according to plan.

In the 2017 financial year, the Management Board and Supervisory Board of 4SC AG again focused on the Company's continuing development. The Supervisory Board advised the Management Board in its management of the Company and conscientiously monitored its work as it is required to do under law, according to the Company's Articles of Association and its rules of procedure. All issues relevant to the Company, as well as decisions requiring approval or strategic decisions, were discussed extensively and resolved by mutual agreement. In the report that follows, the Supervisory Board expands on the focal points of its activities.

CLOSE COOPERATION WITH THE MANAGEMENT BOARD

The Supervisory Board and Management Board had a close working relationship and frequently exchanged information and opinions. The Management Board regularly submitted written and oral reports to the Supervisory Board on the Company's business performance. Accordingly, the Supervisory Board always was informed well in advance with regard to all significant decisions of relevance to the Company. In each Supervisory Board meeting the Management Board reported on the Company's current performance as well as on existing risks and opportunities. The Management Board also provided information about any deviations from current plans and or targets. Where individual items of business or actions proposed by the Management Board required consent, the Supervisory Board adopted the necessary resolutions. The Management Board used monthly written financial reports, phone calls and emails on a regular basis to keep the Supervisory Board informed outside of scheduled meetings. The Chairman of the Supervisory Board regularly exchanged information with the Management Board. When necessary, resolutions were adopted by circular memorandum, i.e. in writing, without meeting face to face.

MEETINGS OF THE SUPERVISORY BOARD IN 2017

The Supervisory Board convened for a total of four regular and one extraordinary in-person meetings in the 2017 financial year. In its meetings, the Supervisory Board intensely discussed the Company's strategy and positioning. The strategic assessment of the development pipeline and its financing was another key point of discussion in all meetings.

OTHER TOPICS OF THE SUPERVISORY BOARD MEETINGS

The first Supervisory Board meeting of the year on 17 March 2017 focused on adopting the 4SC AG annual financial statements for 2016, approving the consolidated financial statements and discussing possible corporate actions. The Management Board also reported on the status of development of resminostat, 4SC-202 and 4SC-208. In addition, the new 2017 stock option plan was discussed, and an update was given on preparations for the 2017 Annual General Meeting. Moreover, Dr. Manfred Rüdiger was

named as an additional member of the R&D Committee effective 1 April 2017.

In the meeting on 26 June 2017, the Management Board informed the Supervisory Board about the current status of the RESMAIN study of resminostat and the SENSITIZE and EMERGE studies of 4SC-202. The development status of 4SC-208 was another item on the agenda at this meeting. Furthermore, a presentation was given on the company's quality management system with a view to risk management, and an update was provided on preparations for the 2017 Annual General Meeting.

An extraordinary Supervisory Board meeting was held on 25 August 2017, focusing on the strategic and operational direction of the Company after the capital increase in early July 2017. The revised budget for the period from 2017 to 2020 was discussed and approved.

On 5 October 2017, the third regular Supervisory Board meeting concentrated on the Company's business development activities and finance topics. Also on the agenda was an update on the status of clinical development.

In the fourth and last regular meeting of the Supervisory Board on 7 December 2017, the Management Board gave an overview of the 2017 financial year and an outlook for operations in 2018. In addition, progress on the development of the 4SC drug candidates and preparations for the 2017 annual report were discussed.

MEETINGS OF THE COMMITTEES IN 2017 – FOCAL TOPICS OF COMMITTEE WORK

In order to further increase the efficiency of its work, the Supervisory Board of 4SC AG established three committees:

The Audit Committee, chaired by Joerg von Petrikowsky, German public auditor and tax consultant, met three times in person and three times via conference calls during the reporting year, on occasion in the presence of the auditor.

In sessions held by the Audit Committee, its members primarily discussed accounting issues, the annual financial statements, the quarterly reporting and the budgeting. In each case, the current figures and developments were discussed with the Management Board prior to publication. Another key agenda item for meetings was the mid- to long term financing of the business.

The R&D Committee, chaired by Irina Antonijevic, M.D., Ph.D., met five times in person and held two conference calls. In addition, committee chairperson and members regularly exchanged views with the Management Board outside these meetings and over the phone.

The R&D Committee supported 4SC researchers and management regarding strategy and implementation of the pivotal RESMAIN study of resminostat in CTCL. As regards 4SC-202, the focus was on preparing and implementing the Phase Ib/II SENSIZITE study and on preparing the planned Phase II EMERGE study.

The Human Resources Committee, chaired by Clemens Doppler, Ph.D., Chairperson of the Supervisory Board, met once. In addition, the members of the committee frequently exchanged views during the year by phone, by email, in bilateral discussions and when Supervisory Board meetings were held.

The Human Resources Committee discussed the variable remuneration for the Management Board and the new stock option plan for employees.

The work of the committees was supplemented with numerous telephone calls among committee members and bilateral discussions between the Management Board and the respective committee chairperson. The chairpersons of the committees regularly reported to the plenary Supervisory Board at its meetings on matters that had only been discussed in the committees.

In the 2017 financial year, no Supervisory Board member attended less than half of the sessions of the Supervisory Board and the committees of which they were a member. Supervisory Board members who were unable to attend a Supervisory Board or committee meeting were subsequently informed comprehensively of the matters discussed in the respective meeting.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Jason Loveridge, Ph.D., has been managing 4SC AG as CEO and sole member of the Management Board since 1 January 2017.

The composition of the Supervisory Board remained unchanged in the reporting period. The term of office of all Supervisory Board members will end at the close of the Annual General Meeting that resolves on formally approving the actions for financial year 2018.

APPROVED ANNUAL FINANCIAL STATEMENTS FOR 2017

The Annual General Meeting of 4SC AG on 25 August 2017 elected Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Baker Tilly), Munich, Germany, to serve as the auditor of the annual financial statements for the 2017 financial year. Baker Tilly and its responsible senior financial auditor Mr. Siegfried Hund were first appointed auditors for the 2013

financial year. Due to the December 2017 merger of its only subsidiary, 4SC Discovery GmbH, into 4SC AG, the Company will now only prepare single-entity financial statements starting with the 2017 reporting year. The auditing firm audited the single-entity financial statements of 4SC AG prepared in accordance with requirements of the German Commercial Code (Handelsgesetzbuch, HGB) and the International Financial Reporting Standards (IFRSs), as well as the combined management report, issuing an unqualified Auditors' Report. The financial statements, the combined management report and the audit reports were made available to the Supervisory Board by the Management Board in due time ahead of the meeting held on 13 March 2018. The Audit Committee discussed details of the single-entity and separate financial statements with the auditor and Management Board in advance during three meetings (on 31 January 2018, on 23 February 2018 and at one meeting held on 13 March 2018). The entire Supervisory Board was also briefed in the course of its meeting held on 13 March 2018. During this meeting, the Supervisory Board also discussed and examined the financial statements and the combined management report. The assessments made by the Management Board as contained in the combined management report were consistent with those previously communicated in its reports to the Supervisory Board and with the Supervisory Board's own assessments. The auditor reported to the Audit Committee and the members of the Supervisory Board on the key findings of the audit including the key audit matters and was also available to answer further questions. After this thorough examination, the Supervisory Board accepted the recommendation of the Audit Committee and raised no objections to the financial statements and the combined management report, which in the view of the Supervisory Board comply with all legal requirements. Therefore, the Supervisory Board agreed with the auditor's findings on the audit of the annual financial statements, and on 13 March 2018 approved the annual financial statements as prepared by the Management Board. The annual financial statements of 4SC AG in accordance with the HGB are thereby adopted.

CORPORATE GOVERNANCE AT 4SC

The Supervisory Board again in detail addressed the current priorities of the German Corporate Governance Code (GCGC) during the 2017 financial year. Management Board and Supervisory Board take the recommendations of this Code very seriously, and the Company is compliant barring a few exceptions. In the most recent Declaration of Compliance dated 16 February 2018, Management Board and Supervisory Board therefore stated that the Company has complied, currently complies, and in the future aims to comply with the recommendations of the GCGC, as amended, with the exceptions listed in the Declaration.

The efficiency review carried out this year has shown that the Supervisory Board works effectively. Since the Supervisory Board has decided to routinely review its efficiency every two years, a repeat efficiency review will therefore be performed in 2019.

For more information, also with regard to the details of the Declaration of Compliance, please refer to "Corporate Governance" in the "Investors & Media" section of the Company's website at www.4sc.com. 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 Supervisory Board meeting. No conflicts of interest arose in financial year 2017.

The Supervisory Board thanks the Management Board and all employees for their excellent contribution and their high level of commitment.

Planegg-Martinsried, March 2018

Clemens Doppler, Ph.D.
Chairperson of the Supervisory Board

THE SUPERVISORY BOARD OF 4SC AND ITS COMMITTEES SINCE 1 APRIL 2017

	Supervisory Board	Audit Committee	Human Resources Committee	R&D Committee
Clemens Doppler, Ph.D.	C	M	C	
Joerg von Petrikowsky	VC	C	M	
Irina Antonijevic, M.D., Ph.D.	M			C
Helmut Jeggle	M			
Prof. Helga Rübsamen-Schaeff, Ph.D.	M		M	M
Manfred Rüdiger, Ph.D.	M	M		M

C = Chairperson; VC = Vice Chairperson; M = Member

COMBINED MANAGEMENT REPORT

1 Overview of the course of business

1.1 BUSINESS ACTIVITIES AND STRATEGY

The business of 4SC focuses on the development of small molecule drugs for the treatment of cancer in indications with a high unmet medical need. Such drugs are intended to provide patients with innovative treatment options that are more tolerable and efficacious than existing therapies and provide a better quality of life. 4SC's goal is to advance its own drug development programs in order to increase the value of the Company as a whole and to enter into valuable partnerships with pharmaceutical and biotechnology companies for the further development or commercialization of 4SC's drug candidates, and/or the eventual marketing and sales of approved drugs in select territories by 4SC itself.

4SC's core product pipeline currently comprises three small-molecule compounds that are in various stages of development and have major economic potential:

- Resminostat is 4SC's most advanced drug in terms of development and is currently being tested in the pivotal study RESMAIN in CTCL
- 4SC-202 is currently being investigated in the Phase Ib/II SENSITIZE study in combination with the checkpoint inhibitor pembrolizumab in anti-PD-1 refractory or non-responding melanoma patients
- 4SC-208 is in preclinical development

In addition, 4SC aims to continue to secure the licensing or sale of non-core assets, such as it has already completed for 4SC-205, the Company's portfolio of immunology and Kv1.3 inhibitors, in order to ensure further development of these drug candidates and to achieve an earlier inflow of non-dilutive funds while exploiting the development programs' value creation potential over the long term.

1.2 SIGNIFICANT EVENTS RELATED TO 4SC'S RESEARCH AND DEVELOPMENT ACTIVITIES

1.2.1 RESMINOSTAT

Resminostat is an orally administered broad spectrum histone deacetylase (HDAC) inhibitor that potentially offers a novel approach to treating cancer, both as monotherapy and in combination with other anti-cancer drugs. Resminostat demonstrated that it can inhibit tumor growth and proliferation, cause tumor regression, and strengthen the body's immune response to cancer. The drug candidate has been shown to be well tolerated in several clinical trials.

Pivotal RESMAIN study in CTCL on track

4SC aims to obtain a first market approval for resminostat as soon as possible. In 2016, 4SC started the pivotal RESMAIN study – a randomized, double-blind, placebo-controlled clinical Phase II study with resminostat in a total of 150 CTCL patients.

4SC finalized the study design in early 2016, following scientific advice provided by the European Medicines Agency (EMA), and enrolled the first patient in December 2016. The study is being conducted in more than 50 study centers across 11 European countries. By the end of November 2017, one third of patients had been enrolled according to 4SC's execution plan.

The RESMAIN study is focused on patients with advanced-stage CTCL. Such patients suffer from painful and itchy skin lesions resulting in disfigurement and a severely impaired quality of life. Lymph nodes, blood or visceral organ can also be involved. None of the current therapeutic options achieve sustainable stable disease, with most patients progressing within six months on average.

Resminostat is being evaluated as maintenance treatment – prolonging the period patients are stable and not progressing. 4SC underlined the potential of resminostat as maintenance treatment in preclinical data presented in March 2017. Further preclinical data published in October 2017 suggests that resminostat also has the potential to alleviate the itching in CTCL patients, thereby additionally improving the quality of life for patients.

In December 2017 4SC received a Pediatric Investigation Plan waiver from the EMA for resminostat in advanced-stage CTCL as the disease is extremely rare in children and if present, is usually at an early stage that can be controlled with existing therapies. This waiver will allow 4SC to submit a Marketing Authorization Application for resminostat to the EMA following successful completion of the RESMAIN study without the requirement to conduct additional clinical studies in children before or after approval.

Preclinical research on the activity of resminostat as an immuno-modulator

In May 2017, 4SC presented further preclinical data on how resminostat affects the interplay between our body's own immune system and cancer. Resminostat influences the anti-cancer response of natural killer (NK) cells – a subset of immune cells. Resminostat increases both cancer cell sensitivity towards NK cell-

mediated killing and the direct killing activity of NK cells.

Other developments

In September 2017, 4SC's development partner in Japan – Yakult Honsha Co., Ltd. (Yakult Honsha) – presented promising results from a Phase I study of resminostat in combination with S-1 chemotherapy in 27 Japanese patients with pre-treated biliary tract or pancreatic cancer at the ESMO 2017 Congress.

1.2.2 4SC-202

4SC-202 is an orally administered small molecule Class I selective HDAC inhibitor with a unique mode of action that strengthens the body's own anti-tumor immune response. 4SC-202 also influences the tumor microenvironment facilitating infiltration of immune cells into the tumor and making it more visible to the immune system.

4SC-202 has been investigated in a Phase I study with 24 heavily pretreated patients with several types of advanced hematologic cancers and was well tolerated. Positive signs of anti-tumor efficacy were also observed; with one complete remission (28 months) and one partial responder (8 months).

Start of the Phase Ib/II study SENSITIZE in melanoma

Preclinical data published in March 2017 strongly suggests that 4SC-202 strengthens the anti-tumor immune response and that the combination of 4SC-202 with checkpoint inhibitors results in better anti-tumor activity than treatment with checkpoint inhibitors alone. On this basis, 4SC is evaluating 4SC-202's capacity as a partner in combination therapies, specifically in the immuno-oncology area.

To this end, 4SC initiated the Phase Ib/II study SENSITIZE of 4SC-202 in combination with the anti-PD-1 checkpoint inhibitor pembrolizumab in patients with advanced-stage melanoma who are refractory or non-responding to prior treatment with checkpoint inhibitors. In September 2017 the first study center opened and in November 2017 the first patient was enrolled in the study. Three cohorts of up to 10 patients each will initially be treated at different dose levels of 4SC-202 in combination with pembrolizumab, and then additional patients could be treated with the recommended dosing regimen defined in the first part of the study.

The primary goal of the study is to determine the safety and tolerability of 4SC-202 in combination with pembrolizumab and key secondary endpoints aim to assess the anti-tumor activity of the combination treatment. Additionally, the study will investigate changes in key immunological biomarkers to better understand how 4SC-202 renders patients more susceptible to treatment with checkpoint inhibitors.

Preclinical research on 4SC-202 in combination with immuno-oncology drugs

In addition to the clinical development of 4SC-202 the Company – both independently and in collaboration with potential partners – continues to conduct preclinical research with 4SC-202 to better define its utility and mechanism of action, particularly in combination with other immuno-oncology drugs.

1.2.3 4SC-208

Data from several preclinical studies in well recognized *in vivo* models has established the efficacy of 4SC-208 in inhibiting the Hedgehog/GLI signaling. Inhibition of this signaling pathway is emerging as a highly effective strategy in obstructing the tumorigenic capacity of cancer stem cells, as well as tumor development, proliferation and survival.

Available inhibitors of Hedgehog signaling all target the pathway upstream of the transcription factor GLI, whereas 4SC-208 inhibits several kinases associated with GLI and is thus potentially able to avoid the tumor recurrence and relapse observed in response to currently available inhibitors.

In August 2017, 4SC obtained a U.S. composition-of-matter patent for a group of molecules including 4SC-208. The patent provides 4SC with U.S. market exclusivity until 2033.

4SC believes that 4SC-208 is a promising drug candidate and started formal preclinical testing in 2017 in order to be able to initiate a first Phase I/II clinical study in 2019.

1.2.4 OUT-LICENSED PROGRAMS

In line with 4SC's stated strategy to monetize non-core assets, 4SC signed an exclusive worldwide licensing agreement in July 2017 with Maruho Co., Ltd. (Maruho) for preclinical compounds inhibiting the ion channel Kv1.3. Under the agreement, 4SC received an upfront payment and is eligible for development and commercial milestone payments totaling up to €208 million as well as single-digit royalties on commercial sales.

In December 2017, 4SC received a single digit million Euro milestone payment from Immunic AG (Immunic) as part of the agreement concluded in September 2016 to sell 4SC's non-core immunology portfolio.

1.3 SIGNIFICANT CORPORATE EVENTS

1.3.1 SUCCESSFUL CAPITAL INCREASE

From the end of June until the beginning of July 2017, 4SC implemented a capital increase from authorized capital, obtaining gross proceeds of circa gross €41 / net €40 million. 11,681,867 offer shares were issued at a subscription price of €3.50 per share to existing shareholders as well as to a number of new institutional investors. As a result of the transaction, share capital increased to €30,648,513 or 30,648,513 shares, up from €18,966,646 or 18,966,646 shares before.

1.3.2 ESTABLISHMENT OF A CMC/REGULATORY DEPARTMENT – ORIENTATION TOWARDS MARKET ACCESS

Over the past few years, 4SC has considerably expanded its senior management team, particularly in the areas of clinical development, regulatory and Chemistry, Manufacturing, and Controls (CMC).

The management team's key responsibilities include delivering on the Company's 3-year business plan as well as evaluating the potential market for 4SC's drug candidates, the evolution of the competitive, the scientific and clinical literature in order to execute efficiently and to identify new potential partners and applications for 4SC's drug candidates.

In line with 4SC's stated goal of bringing its drug candidates to the market rapidly, in 2017 4SC established a new CMC/Regulatory department headed by Brita Schulze, Ph.D.

Brita joined 4SC in 2010 as Head of Pharmaceutical Development and Drug Supply. In 2016, she also assumed responsibility for Regulatory Affairs. Since September 2017, she has acted as Executive Director CMC and Regulatory Affairs. Brita has long-standing experience in formulation development, analytics and synthesis of small molecules and drug delivery systems. Prior to 4SC, she developed her expertise in CMC at several leading companies and holds a Ph.D. in chemistry from the University of Miami, Florida, USA, an M.Sc. in chemistry from McMaster University, Hamilton, Ontario, Canada and a Master of Drug Regulatory Affairs from the Rheinische Friedrich-Wilhelms-Universität Bonn, Germany.

1.3.3 IMPLEMENTATION OF SOCIAL MEDIA ACTIVITY

In April 2017, 4SC initiated activity on several social media channels, mainly Twitter and LinkedIn, in order to better communicate the Company's activities to interested stakeholders. Since then, 4SC has built a strong community of followers amongst key institutional and retail investors, analysts, journalists, financial and scientific news magazines, patients, patient organizations, physicians, employees and others interested in 4SC.

1.3.4 GROUP RESTRUCTURING

In December 2017, 4SC merged its legal entity 4SC Discovery GmbH with 4SC AG after all key operating assets of 4SC Discovery GmbH had been sold in 2016.

1.4 MACROECONOMIC DEVELOPMENT

The global upswing in economic activity continued in 2017. In its forecast issued in October 2017, the International Monetary Fund projected a rise in global growth of 3.6% for 2017 (2016: 3.2%).

Compared to 2016, the industrialized economies registered a significant upturn, with economic growth rising half a percentage point to 2.2% (2016: 1.7%).

Overall, the euro zone economy grew by 2.1% in the reporting year (2016: 1.8%). Germany's growth rate rose subtly to 2.0% from 1.9% in the previous year. In the U.S., growth rate expanded to 2.2% (2016: 1.5%).

Growth in emerging markets and developing economies in 2017 climbed to 4.6% (2016: 4.3%). The persistently above-average growth in China rose slightly from 6.7% in 2016 to 6.8%, while growth in India experienced a significant slowing to 6.7% (2016: 7.1%).

1.4.1 DEVELOPMENTS IN THE PHARMA AND BIOTECHNOLOGY INDUSTRY

2017 was a banner year for the biotech space. The NASDAQ Biotechnology Index was up 21% for the year and the German DAXsubsector Biotechnology increased by 15%.

GlobalData deals database reveals that in 2017, there were a total of 97 IPO's in the pharma sector with 30 completed by companies with oncology assets.

According to BIOCOM's latest stock market analysis, the European biotech sector witnessed a volume increase of IPO's and follow-on financings in 2017. The 233 Europe based biotech companies raised €5.1 billion in 2017, 54% more than in 2016 (€3.3 billion). 19 European biotech IPOs took place in 2017, raising a total amount of €815 million – an increase of 47% compared to 2016 (€556 million). In Germany only one IPO was completed – by InflaRx – a company whose primary focus is inflammatory diseases.

In 2017, 46 new molecular entities (NMEs) were approved by the U.S. Food and Drug Administration (FDA) as compared to just 22 NMEs approved in 2016 and 45 in 2015.

Finally, a series of significant deals were closed last year in oncology and in general, 2017 was a positive year overall in term of deals and financial rounds.

1.4.2 CUTANEOUS T-CELL LYMPHOMA (CTCL)

To the best of 4SC's knowledge resminostat is the only drug candidate being developed as maintenance therapy in CTCL, with other companies focusing on patients with either early stage or progressive disease, for example:

In April 2017, Medivir (Huddinge, Sweden) completed its Phase II trial with remetinostat (topical HDAC inhibitor) and reported positive data for CTCL patients with early stage disease.

In April 2017, Kyowa Hakko Kirin (Tokyo, Japan) reported topline data from a 372-patient study, which showed that mogamulizumab (antibody against CC chemokine receptor-4) significantly improved progression-free survival in patients with relapsed or refractory CTCL compared with vorinostat.

In October 2017, Kyowa Hakko Kirin added that its marketing authorization application (MAA) for mogamulizumab has been validated by the EMA and is now under review. This MAA is based on the data from the MAVORIC study (Mogamulizumab anti-CCR4 Antibody Versus ComparatOR in CTCL), the largest global randomized clinical trial of systemic therapy in CTCL.

In October 2017, Innate Pharma (Marseille, France) published the results from its Phase I/II study with IPH4102 (antibody targeting the KIR3DL2 receptor) in patients with relapsed/refractory CTCL. The study investigated the safety profile of IPH4102 and revealed first hints of activity in the patients.

In November 2017, Takeda Pharmaceutical Co., Ltd. announced that the EMA has adopted a positive opinion for the extension of the marketing authorization of ADCETRIS® (brentuximab vedotin, an antibody against CD30) and recommended its approval for the treatment of adult patients with CD30-positive CTCL after at least one prior systemic therapy.

1.4.3 MOST RELEVANT FINANCIAL EVENTS

According to GlobalData deals database, in 2017 there were a total of 138 deals announced and completed (M&A, strategic alliances or capital risings) involving at least one company with immuno-oncology pipeline interest, for a total value (not disclosed for all deals) of at least US-$10 billion. Several of these deals involved at least one German mid- to small-size biotech company. Some examples of this activity are given below:

On 5 January 2017, Pieris Pharmaceuticals (Boston, USA) and Servier (Neuilly-sur-Seine, France) formed a strategic immuno-oncology co-development alliance to pursue several therapeutic programs including Pieris' proprietary dual checkpoint inhibitor PRS-332. Pieris is to receive €30 million (US-$31.3 million) upfront, up to €324 million (US-$338 million) in success-based payments for PRS-332, up to €193 million (US-$201 million) in success-based payments for each of the other programs and up to double-digit royalties.

On 24 February 2017, Xynomic Pharma (Cheyenne, USA) acquired worldwide rights to develop abexinostat, an HDAC inhibitor targeting hematological and solid tumors.

On 4 April 2017, NantKwest (Los Angeles, USA) and Viracta Therapeutics (Cardiff, USA) announced a series B financing and immunotherapy partnership. Concurrent with the financing, Viracta agreed to the terms of an exclusive license of its Phase II drug candidate, VRx-3996 (tractinostat), to NantKwest for use in combination with NantKwest's platform of natural killer (NK) cell therapies. VRx-3996 is a Class 1 HDAC inhibitor.

On 9 June 2017, Midatech (Oxfordshire, United Kingdom) signed a global licensing agreement with Novartis for the oncology compound panobinostat. Panobinostat, a pan-HDAC inhibitor, will be developed by Midatech for the treatment of Diffuse Intrinsic Pontine Glioma as a continuation of its existing MTX110 program, and potentially for Glioblastoma.

On 6 September 2017, Merck & Co. (MSD, Darmstadt) acquired Rigontec, a Martinsried-based biotech company. Under the terms of the agreement, MSD, made an upfront cash payment of €115 million to Rigontec's shareholders; based on the attainment of certain clinical, development, regulatory and commercial milestones, MSD may make additional contingent payments of up to €349 million.

On 18 October 2017, Eli Lilly (Indianapolis, USA) and CureVac (Tübingen) have entered into a global immuno-oncology partnership focused on the development and commercialization of up to five potential cancer vaccine products based on CureVac's proprietary RNActive technology. Under the terms of the agreement, CureVac will receive an upfront payment of US-$50 million and an equity investment of €45 million (US-$52.97 million). CureVac is also eligible to receive more than US-$1.7 billion in development and commercialization milestones if all five vaccines are successfully developed, plus tiered royalties on product sales.

On 26 October 2017, Evotec (Hamburg) and Tesaro (Waltham, USA) have entered a strategic partnership to discover and develop novel small molecule product candidates against an undisclosed immuno-oncology target.

On 30 November 2017, Morphosys (Planegg) signed a regional license agreement for antibody MOR202 (anti-CD38 antibody) with I-Mab. MorphoSys received a US-$20 million upfront payment and entitled to tiered, double digit royalties on net sales of MOR202 plus milestone payments of up to US-$100 million from I-Mab.

On the whole, these and other transactions show that 4SC continues to operate in a highly competitive and dynamic environment.

1.5 4SC SHARES AND THE CAPITAL MARKETS

In the 2017 financial year, 4SC´s shares clearly outperformed the two most relevant sector indexes, the NASDAQ Biotechnology and the DAXsubsector Biotechnology. The shares climbed from €2.41 at the end of 2016 to €4.96 in the reporting period, an increase of 106%. In the same period the NASDAQ Biotechnology climbed by 21% whereas the DAXsubsector Biotechnology increased by 15%.

Until mid-May 2017 4SC´s shares performed approximately in line with the two sector indices when the Company announced its new strategic plan and an intention to raise new equity to fund the further development of 4SC's lead drug candidates resminostat, 4SC-202 and 4SC-208. Since publishing its strategic overhaul, 4SC's shares have outperformed the sector indices significantly.

On 6 July, the Company announced the successful completion of its capital increase. The proceeds of circa gross €41 / net €40 million will finance 4SC's main goals through into 2020 and facilitate the Company's accelerated development strategy for resminostat, 4SC-202 and 4SC-208. In the second half of 2017 4SC´s shares fluctuated between €3.49 and their high for the year of €5.88 which they reached at 25 September 2017.

The average daily trading volume of 4SC shares across all German stock exchanges, including Tradegate and Quotrix, more than tripled to 88,864 shares compared to 27,196 in 2016. The share of stocks in free float – as defined by Deutsche Börse AG – was 35.6% as of 31 December 2017, compared with 38.2% at the end of 2016.

RESEARCH

Institute	Place	Analyst	Date of publication	Share price one day ahead of publication (in €)	Target price per share (in €)	Analyst recommen-dation
Baader Helvea	Zurich, Switzerland	Bruno Bulic, Ph.D.	24 Jan 2017	2.58	2.60	Hold
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	25 Jan 2017	2.58	3.50	Buy
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	29 Mar 2017	2.65	3.50	Buy
Edison Investment Research	London, United Kingdom	Linda Pomeroy, Ph.D.	30 Mar 2017	2.60	6.50	-
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	27 Apr 2017	2.44	3.50	Buy
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	17 May 2017	2.50	3.50	Buy
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	13 Jun 2017	4.07	3.50	Buy
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	10 Jul 2017	3.63	3.50	Buy
Equinet	Frankfurt am Main, Germany	Marietta Miemietz	18 Jul 2017	4.28	3.50	Buy
Edison Investment Research	London, United Kingdom	Jonas Peciulis, Ph.D.	30 Oct 2017	4.97	11.20	-
goetzpartners	London, United Kingdom	Chris Redhead, Ph.D.	11 Dec 2017	5.05	7.50	Outperform

SHAREHOLDER STRUCTURE

As estimated by management, in percent	31 Dec 2017	31 Dec 2016
Santo Holding (Deutschland)	37.5	47.8
ATS Beteiligungsverwaltung	20.9	0.0
First Capital Partner	6.0	7.4
Wellington Partners	4.5	6.6
Other	31.1	38.2
Total	**100.0**	**100.0**

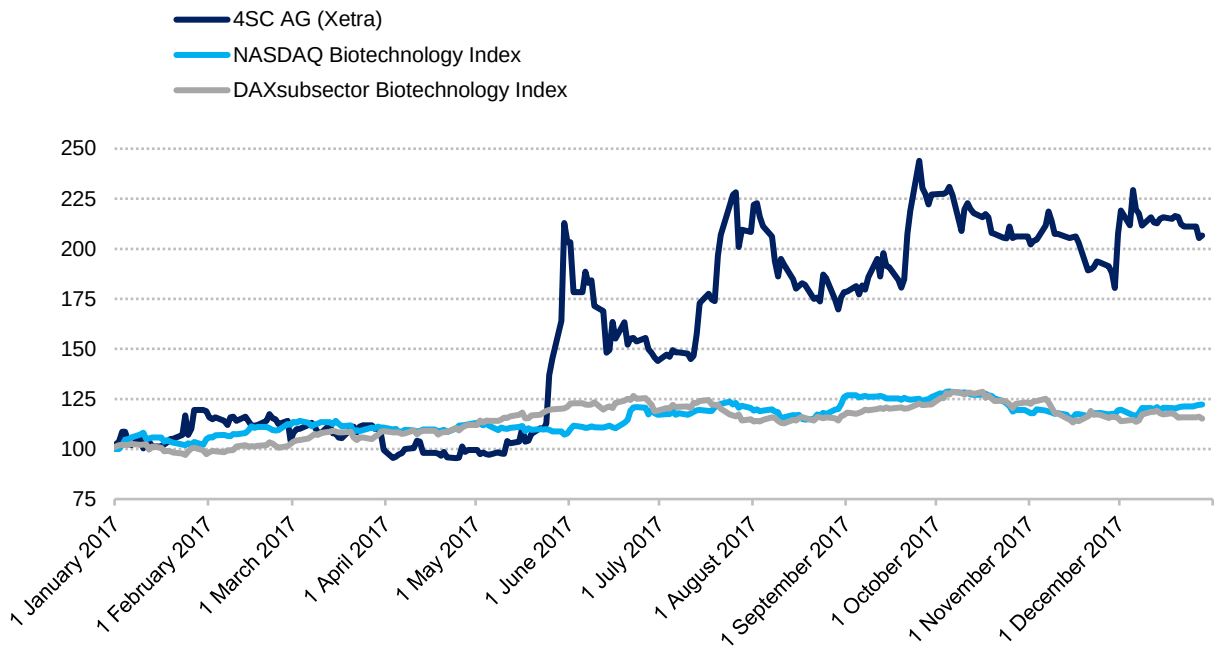
KEY FIGURES FOR 4SC SHARES

As of 31 December 2017

Securities identification number (SIN)	A14KL7
International securities identification number (ISIN)	DE000A14KL72
Stock exchange symbol	VSC
Type of shares	Bearer shares
Number of shares	30,648,513
Market segment	Prime Standard
Marketplace	XETRA and all other German stock exchanges
Designated sponsor	Oddo Seydler Bank AG
First day of trading	15 December 2005
Earnings per share (basic and diluted; in €)	-0.45
Number of shares issued (annual average)	24,535,536
Free float as defined by Deutsche Börse AG	35.6%
Annual high (XETRA; in €)	5.88
Annual low (XETRA; in €)	2.30
Closing price on reporting date (XETRA; in €)	4.96
Daily trading volume (all trading venues, annual average)	88,864

SHARE PRICE OF 4SC AG VS. BIOTECHNOLOGY INDEXES

2017, beginning of the year = 100%



2 Results of operations, financial position and net assets

4SC reports figures for both the 2017 and 2016 financial year. The in the previous year sold operations was presented separately in the consolidated annual financial statements for 2016 as discontinued operations in accordance with the provisions of IFRS 5.

2.1 RESULTS OF OPERATIONS

2.1.1 REVENUE

Revenue rose up to €4,197 thousand in financial year 2017, up 104% from the previous year (2016: €2,060 thousand). In the reporting year, revenue comprised the proportional reversal of the deferred income recognized in connection with development partnerships and also the calculation of milestones and services for partners. Deferred income from the development partnerships for resminostat and 4SC-205 amounted to €992 thousand (2016: €1,762 thousand). In addition, the contribution to revenue stemming from the calculation of milestones (2017: €2,850 thousand; 2016: €100 thousand) and services for the partners Guangzhou LingSheng Pharma Tech Co. Ltd. (Link Health), Immunic, Yakult Honsha, BioNTech AG (BioNTech) and Maruho for a total of €355 thousand (2016: €298 thousand).

2.1.2 OPERATING EXPENSES

Operating expenses, comprising the cost of sales, distribution costs, research and development costs and administrative costs, rose to €15,192 thousand in 2017, an increase of 5% on the prior-year figure (2016: €14,467 thousand). The large increase in the cost of sales by 655% (2017: €574 thousand; 2016: €76 thousand) was mainly due to the new cooperation partnership with Maruho and consists of patent costs, commissions and external services.

Research and development costs continued to account for the majority of expenses, which rose by 8% year-on-year to €11,475 thousand in 2017 (2016: €10,601 thousand). This increase largely stems from out-sourced services in connection with the ongoing RESMAIN study of resminostat in CTCL and the intensive preparations and the commencement in the SENSITIZE study.

Administrative costs amounted to €2,792 thousand in the 2017 financial year, down 17% year-on-year (2016: €3,380 thousand). This decrease is mainly attributable to lower legal and consulting costs as a consequence of financing preparations and personnel changes in the previous year.

Distribution costs, which consist of the costs incurred by business development and corporate communications & investor relations, declined by 15% in 2016 due to the reorganization of the personnel structure. These amounted to €351 thousand (2016: €410 thousand).

Other operating income decreased substantially to €59 thousand (2016: €615 thousand), primarily as a one-time effect on operating income in 2016 from subletting and sale of the immunology portfolio to Immunic.

2.1.3 OPERATING PROFIT/LOSS

On the back of doubled revenue, but also higher operating costs, 4SC's operating loss decreased moderately by 7% in 2017 to €10,936 thousand (2016: €11,792 thousand).

2.1.4 NET FINANCE INCOME/LOSS

Net finance income reduced appreciably year-on-year to €9 thousand in 2017 (2016: €508 thousand). The effect in the previous year was substantially influenced by the sale of shares in quattro research GmbH (quattro research), which gave rise to an accounting profit of €387 thousand.

2.1.5 TAXES

In the reporting period, 4SC incurred expenses of €33 thousand from current income taxes in the form of a non-creditable, deductible Chinese withholding tax (2016: €71 thousand).

2.1.6 NET LOSS

The net loss decreased slightly by 2% to €10,960 thousand in 2017 (2016: €11,166 thousand).

2.1.7 EARNINGS PER SHARE

Due to the increase in the average number of shares resulting from the capital measure implemented in the current year, the loss per share narrowed to €0.45 in the 2017 financial year (2016: loss of €0.59).

2.2 NET ASSETS

2.2.1 NON-CURRENT ASSETS

Non-current assets fell from €7,096 thousand as of 31 December 2016 to €6,365 thousand as of 31 December 2017. This decrease is due in particular to depreciation and amortization.

In the previous year, the following were additionally responsible for the changes: the sale of 4SC Discovery's property, plant and equipment to BioNTech Small Molecules GmbH (BioNTech Small Molecules), the sale of the immunology portfolio to Immunic and the sale of the equity interest in quattro research to the company itself, as well as to the reclassification of a borrower's note loan of €1,285 thousand from other non-current assets to other current assets on account of its remaining term. At €5,694 thousand, intangible assets continued to be the largest non-current asset item (31 December 2016: €6,499 thousand), followed by property, plant and equipment at €570 thousand (31 December 2016: €497 thousand).

2.2.2 CURRENT ASSETS

The sizable rise in current assets to €41,548 thousand as of 31 December 2016 (31 December 2016: €11,959 thousand) resulted from an increase in cash and cash equivalents to €41,327 thousand (31 December 2016: €10,048 thousand), due to the successful capital increase in the financial year.

2.2.3 EQUITY

The strong increase in equity from €15,273 thousand as of 31 December 2016 to €44,693 thousand as of 31 December 2017 is primarily attributable to the successful capital increase completed in July 2017. Equity was reduced by the net accumulated deficit that rose to €160,310 thousand as of 31 December 2017 (31 December 2016: €149,350 thousand) as a consequence of the net loss for the period of €10,960 thousand.

The equity ratio rose by 13.1 percentage points from 80.2% as of 31 December 2016 to 93.3% as of 31 December 2017 as a consequence of the increase in equity.

2.2.4 CURRENT AND NON-CURRENT LIABILITIES

Non-current liabilities were down 12% to €461 thousand as of 31 December 2017 (31 December 2016: €525 thousand). The other non-current liabilities consist largely of deferred income in connection with the partnerships entered into with Yakult Honsha and Link Health amounting to €394 thousand as of 31 December 2017 (31 December 2016: €493 thousand).

Current liabilities decreased by 15% to €2,759 thousand (31 December 2016: €3,257 thousand). These primarily consist of other liabilities and deferred income of €1,584 thousand (31 December 2016: €2,423 thousand). Advances received for subsidies from the federal government of Germany and the EU

decreased by 85% to €58 thousand (31 December 2016: €393 thousand). Current liabilities also include trade accounts payable in the amount of €1,175 thousand (31 December 2016: €834 thousand).

2.2.5 TOTAL ASSETS/TOTAL EQUITY AND LIABILITIES

Total assets/total equity and liabilities increased to €47,913 thousand as of 31 December 2017 (31 December 2016: €19,055 thousand), mainly as a result of the capital increase.

2.3 FINANCIAL POSITIONS

2.3.1 CASH FLOWS FROM OPERATING ACTIVITIES

A total of €8,541 thousand was used for operating activities in the 2017 financial year. The difference compared with the pre-tax loss of €10,927 thousand resulted in particular from non-cash expense items such as straight-line depreciation and amortization and ESOP, on the income side, the expansion in the other current assets. In the 2016 prior-year period, cash flows from operating activities came to €-12,922 thousand, with a pre-tax loss of €11,284 thousand.

2.3.2 CASH FLOWS FROM INVESTING ACTIVITIES

The cash outflows from investing activities in financial year 2017 amounted to €133 thousand (2016: cash inflow of €2,994 thousand). The sale of current assets generated a cash inflow of €39 thousand (2016: cash inflow of €2,808 thousand). In addition, the Company invested €4 thousand (2016: €60 thousand) in intangible assets and €168 thousand (2016: €404 thousand) in property, plant and equipment.

2.3.3 CASH FLOWS FROM FINANCING ACTIVITIES

The cash flows of €39,953 thousand from financing activities in the reporting period resulted from the cash capital increase of €40,887 thousand (gross) that was completed in July 2017, with transaction costs of €934 thousand to be deducted, having a negative effect. In the previous year the cash flows of €-1,500 thousand from financing activities are due to the repayment of the shareholder loan from Santo Holding.

2.3.4 CASH AND CASH EQUIVALENTS

As of 31 December 2017, the Company had cash and cash equivalents totaling €41,327 thousand (31 December 2016: €10,048 thousand). The average monthly outflow of cash from operating activities was €723 thousand in 2017 (2016: €827 thousand).

2.4 OVERALL ASSESSMENT OF ECONOMIC POSITION

Revenue doubled in 2017 due to one-time payments (milestones and upfront payments). Whereas other income declined significantly due to one-time effects in the previous year. Expenses for the ongoing RESMAIN study of resminostat in CTCL remained stable. The net loss in 2017 decreased slightly by a total of 2% year-on-year. The Company had sufficient liquidity at all times during the 2017 financial year. Liquidity was strengthened in particular by the inflow of funds from the capital measure successfully carried out in 2017 and the one-off income described above. The financing of ongoing development programs was not in jeopardy at any time. The BREXIT had not had or does not have an impact on the results of operations, financial positions and net assets of 4SC.

4SC's economic development in the 2018 financial year again continues to proceed to plan as of the preparation of this combined management report.

3 Employees

As of 31 December 2017, 4SC AG had 48 employees, including the Management Board (31 December 2016: 49). The average number of employees in 2017 was 47, a decrease of 15% on the previous year (2016: 55).

The share of female employees increased year-on-year, reaching 67% as of 31 December 2017 (31 December 2016: 63%). As of the 31 December 2017 reporting date, 31% (31 December 2016: 35%) of 4SC's workforce were working part-time. Including part-time employees and employees on parental leave, the Company had 43 full-time equivalents (FTEs) at the end of 2017 (31 December 2016: 44 FTEs). Of these FTEs, 71% (31 December 2016: 70%) worked in research and development, and 29% (31 December 2016: 30%) in business development, administration and IT. The Company currently has no trainees.

Staff costs slightly decreased to €4,475 thousand in the 2017 financial year (2016: €4,577 thousand) due to a lower number of employees. Staff costs include €427 thousand (2016: €11 thousand) arising from non-cash expenses for stock option plans.

In head count	31 December 2017	31 December 2016
Research & Development	34	34
Business Development, Administration, IT	14	15
Total	**48**	**49**

4 Financial and non-financial key performance indicators

4.1 INTERNAL MANAGEMENT SYSTEM AND FINANCIAL KEY PERFORMANCE INDICATORS

4SC uses a uniform reporting and planning system from which it derives financial and non-financial key performance indicators that are continuously monitored. 4SC's principal financial control variables are its liquidity status and operating expenses, particularly expenses incurred for research and development activities.

Factors such as available liquidity, milestone payments and working capital all influence the course of 4SC's business. For this reason, systematic cash management is pivotal for 4SC. One key financial indicator is the average monthly cash burn rate. The ratio of cash funds to the planned average cash burn rate per month allows the estimation of the period the cash balance/funds are expected to suffice.

4SC's management system also includes performance indicators for development activities, including: patient-related indicators such as 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, such parameters as "observance of schedules and budgets" and "success of clinical studies". Key performance indicators are used for purposes of optimal planning, management and control of business development.

4.2 NON-FINANCIAL KEY PERFORMANCE INDICATORS

4.2.1 INTELLECTUAL PROPERTY RIGHTS

Having a strong portfolio of intellectual property rights is crucial for a biotechnology company focused on drug development. It enhances the competitive position of the Company's development programs on route to marketability and supports commercialization once market entry is achieved. 4SC's patent management activities aim to optimize the company's existing patent portfolio over the reporting period.

As of the close of 2017, 4SC's granted patent portfolio increased to 328 patents (31 December 2016: 316) and 125 new patent applications were filed which were still pending at year end (31 December 2016: 102). As a result, the total number of patents issued and patent applications increased year-on-year, which resulted mainly from new inventions based on 4SC's drug development program.

For resminostat the Company held a total of 153 patents at the end of 2017, including 61 composition-of-matter patents. The resminostat compound is protected in all of the world's key pharmaceutical markets, including the U.S., Europe, Japan, China, South Korea, India and Russia. Moreover, 4SC holds additional patents on resminostat's mesylate salt used in formulating the compound as well as patents on the compound's manufacturing process.

At the end of 2017, 4SC also held an extensive portfolio of 76 issued patents, including 60 composition-of-matter patents, for 4SC-202 in the world's major markets.

At the end of 2017, most of the patent applications for 4SC-208 were still at the early stages of the examination process carried out by the respective national patent offices. The U.S. Patent Office, and the patent offices in Singapore and New Zealand granted a patent for 4SC-208, while the Chinese Patent Office had issued a notice of allowance (patent grant was expected in early 2018).

In addition, at the end of 2017 4SC held a series of patents and patent applications in early-stage projects, for which licensing deals either already exist or are in discussion.

Besides its patents, 4SC also owns rights to strategically important trademarks, including word marks and word/picture marks, the latter of which have recently been updated to cover 4SC's newly adopted logo.

Overall, 4SC's extensive portfolio of intellectual property rights illustrates the Company's innovative strength, which is further bolstered by a forward-looking patent strategy for the development and commercialization of its drug candidates.

4.2.2 CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Employee safety and environmental protection

4SC places a high value on ensuring the maximum possible safety of its employees and on protecting the environment. Appropriate measures are therefore continuously implemented, reviewed and optimized in all processes.

The occupational health and safety committee serves as a core instrument to fulfill these tasks. It is comprised of a safety officer, a biological safety officer, an external Company medical officer and a safety specialist. 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 regular risk assessments required by the German Occupational Health and Safety Act are conducted by the responsible supervisor or laboratory manager, aided by the Company's own occupational safety professional. A psychological stress risk assessment was prepared in 2015 and 2016 and has been regularly updated since then. Furthermore, all employees of 4SC receive annual general training on occupational safety and all laboratory employees receive training on the handling of hazardous substances and genetically modified organisms 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.

Alongside these personnel and organizational 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. All relevant mechanisms and apparatus have received the prescribed regulatory permits and are inspected and serviced on a regular basis.

4SC's waste disposal concept aims to help protect the environment. The professional and environmentally compatible disposal of hazardous waste is carried out by a specialist company.

Due to the systematic implementation and observance of occupational safety measures, no notifiable incidents occurred in the reporting year.

Ethical responsibility

In order to develop new drugs, among other things 4SC relies on data derived from animal testing. This serves both to achieve the requisite goals in scientific terms and to satisfy statutory requirements. However, 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.

4SC commissions carefully selected contract research organizations (CROs) to perform animal studies and clinical studies on people. In this context, 4SC places particular emphasis on compliance with official requirements as well as ethical and scientific quality standards.

4.2.3 PROCUREMENT

Procurement, logistics processes and warehousing at 4SC are organized and handled by a procurement department. These processes are defined and fixed. Coordination between purchasing, accounting and development departments ensures that all processes – from obtaining orders to paying the invoice – run smoothly and cost-efficiently.

The Company has a broad supplier base in order to ensure, where possible, that it is not dependent on any one supplier. The required goods are generally sourced based on quality, pricing and availability. Despite a decrease in purchasing volume, delivery terms and prices with several suppliers were maintained in the reporting year due to intensive negotiations. 4SC cooperates with various service providers, for example 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.

4.2.4 QUALITY ASSURANCE

The preclinical 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, animals and the environment while also minimizing threats to 4SC's economic position. The head of 4SC's Quality Unit reports to the CEO and works closely with him to coordinate all of the actions to be taken.

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 policies can be formulated and monitored in accordance with national and international law, resolutions, directives and statutory orders.

4SC's quality assurance work also includes devising an annual audit program. This involves taking a risk-based approach to determining which of the external companies and service providers to which 4SC contracts work – such as CROs or contract manufacturers (for producing active pharmaceutical ingredients and investigational medicinal products) – are to be audited for compliance with the required quality standards in the course of ongoing work to achieve an optimum level of quality, data integrity and safety, especially for volunteers and patients in clinical trials.

5 Report of expected development

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 forecasts turn out to be incorrect.

5.1 MACROECONOMIC AND SECTOR DEVELOPMENT

Despite political concerns over the markets in general, analysts and industry commentators think the biotech industry seems poised to build on a strong 2017.

Industry information service BioCentury reports that given the smaller number of large cap catalysts forecast for 2018, buy-siders are planning to invest more funds in smaller companies that have the potential to become the next generation of big biotechs. In particular, investors in cancer companies continue to focus on identifying competitive and innovative immuno-oncology programs.

The upward momentum seen in the pharma and biotech sectors during 2017 is expected to continue into 2018, with more novel medicines ready to enter the market and investor support for the industry remaining strong. According to EP Vantage, the editorial arm of Evaluate Ltd., the current business friendly stance at the FDA is unlikely to change in 2018, while M&A could increase, driven by big pharma and big biotech's need to re-populate pipelines and additional cash derived from U.S. tax reforms.

In its latest monthly edition of biotech monitor (end December 2017), Suntrust reveals that U.S. small and mid-cap companies had a robust 2017 with a performance YTD of approximately 70% versus large cap company stock performance YTD of 13%. According to the report small- and mid-cap biotechs had ample access to capital in 2017 and Suntrust experts believe this will continue in 2018 as valuations remain strong and thus dilution and balance sheet overhang less of a concern.

5.2 COMPANY OUTLOOK

5.2.1 RESMINOSTAT

Resminostat is currently being evaluated as maintenance therapy in advanced-stage CTCL patients in the pivotal RESMAIN study. 4SC expects top-line results to be available in the first half of 2019 and, if positive, plans to submit resminostat for market approval in Europe and potentially the U.S. If approved, resminostat would be the first HDAC inhibitor approved for CTCL in Europe and the first and only drug approved for maintenance therapy in this indication in either Europe or the U.S.

Yakult Honsha, 4SC's development partner for resminostat in Japan, confirmed it will conduct further clinical investigations of the resminostat/S-1 chemotherapy combination treatment in Japanese second line biliary tract cancer patients in a Phase II study to commence in H1 2018.

4SC will also continue to conduct preclinical studies with resminostat to support regulatory submissions and commercialization.

5.2.2 4SC-202

4SC initiated the Phase Ib/II SENSITIZE study of 4SC-202 in combination with the anti-PD-1 checkpoint inhibitor pembrolizumab in patients with advanced-stage melanoma. In September 2017 the first study center opened and in November 2017 the first patient was enrolled. 4SC expects top-line results from the first cohorts of patients to be available in H2 2018. The study is expected to complete in H1 2019.

In a second Phase II study EMERGE, 4SC-202 will also be tested in combination with another checkpoint inhibitor, the anti-PD-L1 antibody avelumab, for treating gastrointestinal tumors. 4SC expects safety data in H2 2018 and top-line results in H2 2019.

Taking the data from these two studies, 4SC aims to initiate a pivotal clinical trial with 4SC-202 as soon as possible thereafter in the rare skin cancer Merkel-cell carcinoma (MCC).

Finally, in 2017 4SC-202 was investigated by potential partner companies in combination with their own drugs and data from these studies are expected to be published at relevant conferences in 2018. 4SC expects to advance 4SC-202 into additional clinical studies in collaboration with these companies in 2018.

5.2.3 4SC-208

The formal preclinical testing for the Hedgehog/GLI signaling inhibitor 4SC-208 is well on track and 4SC expects it to be completed in 2018, after which the Company plans to initiate a Phase I/II clinical study. Cancer indications that are particularly promising are those where resistance to therapies targeting the Hedgehog/GLI pathway are emerging, such as in advanced metastatic basal cell carcinoma, a kind of skin cancer.

5.2.4 FURTHER DEVELOPMENT PROGRAMS

4SC will continue to try and secure further licensing deals with companies from the pharmaceutical and biotech sectors to ensure the further clinical development of its non-core assets and boost its enterprise value. The partnerships are intended to achieve a short-term inflow of funds while optimally exploiting these development programs' value creation potential over the longer term.

5.3 FINANCIAL FORECAST

4SC AG generated gross proceeds of circa €41,000 thousand from the cash capital increase completed successfully at the beginning of the third quarter of 2017. 4SC's cash balance/funds were at €41,327 thousand on 31 December 2017. The average monthly operating cash burn rate in 2017 was €723 thousand, which is 28% below the level of €1,000 and €1,400 thousand forecast in the previous half-year's report. The discrepancy in the forecast is largely due to the deferral of clinical expenses for the RESMAIN and SENTISIZE studies into 2018.

Taking into account the current financial planning and the intended operating activities, the Management Board estimates that the funds realized from the Company's financing should be sufficient to finance 4SC into 2020. For 2018, 4SC is expecting an average monthly use of cash from operations of between €1,800 thousand and €2,000 thousand. For 2018, 4SC expects the net loss to nearly double as compared to 2017 as it plans to increase significantly its clinical activities in accordance with its business plan. 4SC projects continued annual net losses in the short to medium term as well.

6 Report on opportunities and risks

6.1 RISK MANAGEMENT SYSTEM

6.1.1 4SC'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

4SC pursues active, systematic risk management to eliminate risks with suitable measures or to minimize remaining risks. The business risks of 4SC mainly relate to the development of drugs, the protection of intellectual property, cooperation with partners and the provision of sufficient medium- and long-term capital. These risks must be reviewed continually and, if appropriate, addressed to preserve the Company's economic potential.

As early as 2002, 4SC implemented a comprehensive computer-aided risk management system in compliance with the German Control and Transparency in Business Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich, KonTraG). This system is an important part of its corporate management and monitoring.

Following a defined process, the responsible person of each different business unit identifies, analyzes and assesses individual risks with regard to the following criteria: probability of occurrence, potential loss, time period to which the risks relate, and the existing and planned countermeasures. At regular intervals, these responsible persons inform 4SC's risk management officer, who in turn informs the Management Board of the status of these risks. Risks with the potential to endanger the Company's existence as a going concern are required to be reported immediately. Based on this, the Management Board and the Supervisory Board decide how the Company handles the identified risks.

4SC's internal control system (ICS) was set up to supplement the risk management system. It ensures monitoring of the Company's activities by employing various rules such as signatory powers, controlled specification and verification documents, policies, standard operating procedures (SOPs), work instructions, the two-person integrity principle, spot checks, self-inspections, employee training and emergency planning.

The application of these rules is obligatory for all operating units. 4SC's quality management activities are based on specifications containing the requirements for the product on offer or instructions for tasks to be carried out, for example, the creation of job descriptions. Also verification documents are used, 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.

Signatory powers define which employees are authorized 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. In 4SC's view, it is ensured that payment instructions are only executed if compliant with the provisions mentioned above.

The development programs are discussed in detail at regular meetings under the direction of the Chief Development Officer (CDO). These meetings ensure close coordination between the development teams and senior management. At the meetings, which are normally held at two-week intervals, advances in the Company's key preclinical and clinical development programs are presented and discussed. The meetings are attended by the CDO as well as the project managers of resminostat, 4SC-202, and 4SC-208 as well as the alliance manager. The meetings are also attended by representatives of Chemistry, CMC, Quality, Medical, Business Development, Patents, and Corporate Communications & Investor Relations departments so that the project activities can be organized and managed taking all relevant aspects into account.

6.1.2 RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM IN THE FINANCIAL REPORTING PROCESS

In terms of 4SC's financial reporting process, the internal control and risk management system ensures that accounting is consistent and 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 for the financial team contributes substantially to ensuring that all statutory requirements relating to 4SC are implemented securely and competently. The controls for ensuring the regularity and reliability of 4SC'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. In addition, the key financial indicators are discussed and analyzed regularly with the operating units.

4SC's controlling system rests on four pillars: planning, preventing, monitoring and reporting. 4SC prepares three-year budget plans for internal steering and controlling purposes, taking the strategic planning into account. The necessary data related to steering and controlling is 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 development programs, the activities in human resources, corporate communications and investor relations, business development as well as on patents and non-financial key performance indicators. These management tools allow the Management Board to identify, assess and address opportunities and risks adequately. These reports are also made available to the Supervisory Board.

The IFRS financial statements are prepared in accordance with the rules and regulations. The manageable size of the bookkeeping team helps ensure consistent 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 Management Board. This ensures the security of all postings and the respective separation of functions in the system as a whole. The quality of 4SC's financial reporting has been validated through an audit conducted by the German Financial Reporting Enforcement Panel (DPR e. V.) for the 2015 financial year, which confirmed the Company's accounting correctness.

6.2 4SC'S EXPOSURE TO RISK

4SC is exposed to different individual and interactive risks. 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 and/or share price to a significant degree. In a worst-case scenario, this could lead to a situation where the Company is forced into liquidation or file for insolvency due to illiquidity.

6.2.1 SECTOR SPECIFIC RISKS

Competition

The defining characteristics of the biotech industry are rapid technology redundancy and long development times requiring substantial investment in clinical 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. 4SC assumes it operates in an environment of increasing competition.

Furthermore, 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. As a result, the products that 4SC is developing and or 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 might not generate any milestone payments or royalties in future under existing or planned licensing agreements with pharmaceutical and biotech companies.

Product development (general)

The success of 4SC depends on the success of its drug development programs. As a product-focused biotechnology company, 4SC is exposed to drug development risks, which are high due to a compound's long development period.

Typical risks include the following:

- Individual products are ineffective, have side effects that are severe or intolerable, or cannot be formulated or produced such that they cannot be successfully advanced.
- Developed products are not or no longer competitive because better therapy approaches have established themselves in the market.
- External service providers become insolvent, which could result in a delay in development or in relevant data not being usable.
- External service providers are unable to meet the quality requirements applicable to an ongoing project.
- The responsible authorities do not grant the requisite approvals at all or only with restrictions or after a delay.

The Company currently has several low molecular weight compounds for treating cancer, which are in preclinical and clinical development stages. 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 Company's 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 clinical trials being conducted by the Company's license partners. Any negative or unclear findings from their clinical studies could have a similar effect for 4SC as corresponding findings from the Company's own clinical studies. Such findings might delay the development of a compound or cause its development to be terminated, which could have a negative impact on 4SC's results of operations, financial position and net assets and its stock exchange valuation.

Trends in 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. Increasingly restrictive regulatory and reimbursement conditions could have an adverse effect on achievable drug prices and thus impact revenue from drug sales and royalties.

The difficult economic conditions in many healthcare systems mean that healthcare policy has a growing influence on the remuneration of new drugs, and indirectly on the business rationale of companies seeking regulatory approval, which could have an adverse effect on the industry overall. Furthermore, health insurance funds and government institutions are increasing pressure to reduce prices for medication. The benefit of medications is being measured through complex tools and 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. It could therefore become financially unattractive for pharmaceutical companies to pursue product approval in certain markets. In addition, this may even prevent products from being approved for commercialization at all due to tougher approval conditions.

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 to operate its own facilities for carrying out its development work. The loss, expiry or withdrawal of such approval can lead to delays or cancellation of 4SC's projects.

6.2.2 RISKS ARISING FROM THE COMPANY'S BUSINESS ACTIVITIES

Development and licensing partnerships

4SC specializes in developing innovative low molecular weight anti-cancer drugs. Achieving profitability and securing independent financing both require 4SC to generate corresponding revenue, for instance from upfront payments, milestone payments or royalties under license agreements with pharmaceutical and biotech companies. 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 development expenses, the Company is likely to continue to post negative operating results for the foreseeable future. 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 on economically unfavorable terms. Any delay in negotiations concerning development and licensing deals with respect to the Company's proprietary drug programs also presents a risk. If 4SC were to be dependent on a partnership not yet finalized or financing for further clinical development of a product, this could delay clinical development. The same is true for the receipt of upfront payments, which the Company aims for at the start of such partnerships. This in turn would adversely affect the financial and liquidity planning of the Company.

Furthermore, should a new or existing cooperation or licensing partner fail in its attempts to progress, to license or to market a compound, e.g. because of negative data from its own clinical studies, this could result in 4SC failing to receive milestone payments or royalties under this partnership, and possibly to the partnership being discontinued. Moreover, possible clinical studies planned by 4SC itself for the same compound could be hampered or prevented entirely, and the overall value of the product could be impaired significantly with the corresponding negative consequences for 4SC's financial and liquidity planning, refinancing and/or share price. Profitability, which the Company plans to achieve in the medium term, could be delayed further or even forestalled entirely.

Marketing risks

4SC does not yet possess a distribution or marketing structure. To date, the Company must cooperate with other entities to market its drug candidates after approval. Since it can only exert limited influence on these companies, 4SC's revenue also depends on the performance of its partners. 4SC will generally participate in the revenue generated from its products through license 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 on reasonable terms or if such cooperation agreements do not bring about the expected success. The same is true when cooperation agreements are terminated prematurely, options are not exercised, or individual terms and conditions in existing contracts are amended. A decision by 4SC to establish its own distribution and marketing organization in certain regions could 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, which could have a significantly negative effect on the Group's net assets, financial position and results of operations.

Cooperation partners

4SC currently generates most of its revenue from agreements with a few cooperation partners. In the 2017 financial year, the partnerships with: Yakult Honsha (Japan), Link Health (China), and Maruho (Japan), together contributed 74% of revenue. If one or more of these important partnerships were to be terminated, if payments were not made, or if planned new partnerships did not materialize, this could have an adverse effect on 4SC's revenue and earnings.

Patents and trademarks

Proprietary technologies and developments are protected by 4SC through industrial property rights as well as through comprehensive patenting and licensing strategies. However, 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 capitalization. No such objections have been raised or are known to 4SC at this time.

6.2.3 RISKS ARISING FROM PRODUCT DEVELOPMENT

Collaboration with external development service providers

4SC currently does not own or operate any facilities to manufacture pharmaceutical products. Because it does not have the requisite governmental permit, the Company depends on subcontractors (Contract Manufacturing Organizations, CMOs). These organizations furnish the pharmaceutical substances for 4SC's products, manufacture them in clinical and commercial quantities, formulate and optimize 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.

4SC is also dependent on CROs in connection with preclinical and clinical development. Any failure on the part of a cooperation partner in question to exercise due care could jeopardize the development of 4SC's compounds and possibly even cause the respective study to be discontinued. Moreover, the CROs must fulfill governmental requirements and quality assurance standards that 4SC can only influence to a limited degree even though the CROs are carefully selected and regularly monitored and audited.

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, inclusion criteria, competitive situation, patient population, locations). In addition, clinical study centers might be unable to recruit a sufficiently large number of patients for the clinical study in question or generate evaluable data because other clinical studies are being conducted concurrently or a center's internal organizational processes show sustained quality deficiencies. In turn, this could jeopardize the studies' timeline and execution and result in delays. To push forward with the studies, 4SC might thus be forced to include additional clinical centers in the ongoing

studies, which in turn would involve significant additional costs.

6.2.4 CAPITAL MARKET RISKS

Additional financing

4SC will continue to require a large amount of capital in the short, medium and long term if it is to realize its corporate and development goals. Meeting this need requires the Company to generate enough revenue from licenses or cooperation deals. However, if product development costs exceed such income – as is the case at current – and the Company's reserves no longer suffice, the Company would have to raise additional funds in the form of equity or borrowings. In this regard, 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 prevent the Company from making important investments, particularly in product development. Furthermore, 4SC could be forced to stop developing one or more products and therefore shrink its product pipeline. This could weaken the Company's competitive position and negatively affect 4SC's net assets, financial position and results of operations.

4SC's cash balance/funds were at €41,327 thousand on 31 December 2017. At the beginning of the third quarter of 2017, 4SC AG generated net proceeds of circa €40 million from a capital increase. Based on current financial planning, the Management Board estimates that these funds will be sufficient to finance the company into the year 2020. 4SC could be forced to rely on prematurely raising additional funds on the capital markets, for example due to additional clinical studies, the failure of cooperation partners to reach anticipated milestones, the termination of cooperation partnerships or changes in planning assumptions. In this connection, planned corporate actions might partly fail, or fail entirely, for example, due to a difficult market environment. If the Company raises additional capital by issuing new shares, existing shareholders could see a significant dilution of their shareholding.

Influence by a few principal shareholders

As defined by Section 21 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) in conjunction with Section 25 of the WpHG, 4SC has four principal shareholders which have exceeded notification thresholds at time this management report has been prepared. Together, these shareholders hold approximately 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 behavior of the remaining shareholders, decisively influence material decisions taken by 4SC. This could influence 4SC's future business transactions as well as the future composition of the Supervisory Board and thus, indirectly, the Management Board. On account of the comparatively low liquidity of 4SC's shares traded on the stock exchange, future sales of shares by the principal shareholders on a large scale over the stock exchange could also have a material adverse effect on the price of 4SC shares which in turn would reflect negatively on the Company's market capitalization.

6.2.5 FINANCIAL RISKS AND BALANCE

Cash investments

As a rule, 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 also endeavors to settle its own obligations in foreign currencies, primarily US dollars, British pounds and Swiss francs, thereby mitigating the risk of exchange rate fluctuations.

Notice of loss pursuant to Section 92(1) German Stock Cooperation Act (Aktiengesetz, AktG)

4SC is a company which has yet to achieve profitability and has posted operating losses in all of the past financial years. Given the scope of its research and development expenses, over time these losses have accumulated into large loss carryforwards. These loss carryforwards are offset against equity and could result in a loss amounting to half the Company's share capital under German commercial law - despite the share premium from the issued shares. In this case, Section 92(1) of the AktG requires the Company to immediately convene a General Meeting, as was the case in 2007 and 2013. The notice of loss in an ad-hoc disclosure and the holding of such a General Meeting would result in organizational and financial expenditures for 4SC and could have a negative impact on the price of its shares, among other items, because of the notice of loss.

Allowance of tax loss carryforwards

Pursuant to the last notification received concerning the separate determination of residual loss carryforwards as of 31 December 2016, 4SC has corporate tax loss carryforwards of €169,481 thousand and trade tax loss carryforwards of €168,266 thousand. This

notification is subject to a review by the taxation authority. In the period since 31 December 2016, 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 €180,325 thousand and the loss carryforwards for trade tax will likely rise to some €179,040 thousand as of 31 December 2017. The risks resulting from this are described in the second next paragraph.

As of 1 January 2008, the application of Section 8c of the German Corporate Income Tax Act (Körperschaftssteuergesetz, 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 more than 25% to 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, the 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 remains likely 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, result in premature income tax payments and have a negative influence on liquidity. 4SC will, however, continue to advocate the creditability of its loss carryforwards if necessary.

Risks in connection with the impairment losses on capitalized assets in the case of discontinueation of certain development programs

4SC's statement of financial position contains capitalized assets in the fixed assets item, for instance in the form of intangible assets and patents from acquired or transferred development programs, which are subject to an inherent risk of losing value. An impairment loss must be recognized 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 programs is resolved or the continued development of the programs 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 recognized in profit or loss.

6.2.6 ADMINISTRATIVE AND OTHER RISKS

Key personnel and holders of know-how

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, labor 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 specialized 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 organizational precautions in order to fulfill the requirements in question and control the internal processes.

6.2.7 OVERALL ASSESSMENT OF THE COMPANY'S EXPOSURE TO RISK

From today's perspective, aside from its liquidity risk, the Company perceives only a few factors that could jeopardize the existence of 4SC as a going concern in the 2018 financial year, taking all aforementioned risks into account. However, the value of individual products

or 4SC's overall capital market valuation could be significantly adversely affected by negative clinical data from ongoing studies and/or unfulfilled expectations from partnerships. The Company's senior management is convinced that its opportunities outweigh the risks, especially for the further development and financing of drug candidates. Thanks to its attractive and diversified pipeline, its technical expertise and existing partnerships, 4SC is positioned well overall.

The Management Board believes that the funds available at 31 December 2017, in connection with the currently projected expense and revenue planning, should be sufficient to finance the Company into 2020.

6.3 OPPORTUNITIES FOR 4SC

6.3.1 HDAC INHIBITORS AND IMMUNE PRIMING

HDAC inhibitors are considered to be potentially valuable in oncology because of their promise in combination approaches with immuno-oncology drugs and other therapeutic agents.

Both resminostat and 4SC-202 are HDAC inhibitors and thus drug candidates with an epigenetic mechanism of action. According to the December 2017 publication of Stratistics MRC, the Global Epigenetics Market is accounted for US-$752.8 million in 2016 and expected to grow at a compound annual growth rate of 14% to reach approximately US-$1.9 billion by 2023. Growing prevalence of cancer and other chronic diseases are helping the market to compete across the globe.

There are significant opportunities for the Company's drug candidates, like 4SC-202, that positively impact "immune priming". Activation and improvement of cancer patients' immune systems is currently one of the most important issues in the biotechnology industry, and while this therapeutic approach is still in its infancy, the combination of epigenetic drugs such as 4SC-202 with immunotherapies is already considered to be very promising.

The research team of 4SC has established that 4SC-202 both strengthens the endogenous immune response to cancer cells and can modify cancer cells by altering their gene expression, making them more visible to the body's own immune system and more responsive to drug treatment.

6.3.2 COMBINATION THERAPIES IN THE IMMUNO-ONCOLOGY FIELD

During the last few years, immuno-oncology treatment options such as checkpoint inhibitors have become standard-of-care in many different solid tumor indications, predominantly in advanced-stage diseases. While many patients are being treated very successfully, the majority of patients are either unresponsive or refractory to treatment with checkpoint inhibitors. These patients currently have very few efficacious therapeutic options and thus are the group with the greatest medical need.

As a result, it is widely expected that multi-agent sequential and combination therapies will be the next wave in immuno-oncology clinical development and in this regard the key issues will be safety and tolerability. 4SC believes that given 4SC-202's good tolerability and flexible dosing schedule it is well positioned with respect to competing drugs, which could result in it achieving a best-in-class position amongst selective class I HDAC inhibitors.

6.3.3 PROJECT-RELATED PROGRESS ENHANCES THE COMPANY'S ENTERPRISE VALUE

Several of 4SC's core drug candidates might reach important milestones in the short and medium term, which could have a positive impact on both the value of individual programs and the Company's aggregate value. This is true in particular if new clinical studies with compounds are started or such compounds successfully complete a study phase.

6.3.4 SINGLE DRUG CANDIDATES CAN GENERATE MULTIPLE PROGRAMS

4SC's research and development programs have shown that a single compound can have utility in different clinical indications. This has the benefit of enlarging the Company's product pipeline, as well as increasing the value of the respective project and reducing the overall risk at 4SC. One such example is resminostat, which has been or is being evaluated by 4SC and its partner Yakult Honsha in clinical studies in a total of seven different indications to date: CTCL, liver cancer, Hodgkin's lymphoma, colorectal cancer, non-small cell lung cancer as well as pancreatic and biliary tract cancer.

6.3.5 EXTERNAL PARTNERSHIPS AND LICENSING AGREEMENTS ENHANCE THE COMPANY'S ENTERPRISE VALUE

4SC continues to hold discussions with potential partners in the pharmaceutical industry, and increasingly, pharmaceutical companies are entering into cooperation and licensing partnerships for new drug candidates at earlier development stages and being structured with significant benefits to the biotech partner.

A number of factors contribute to this trend, including for example, the expiry of patents for existing products at larger companies.

4SC has benefited from this trend as seen by the licensing deals it has signed with: Yakult Honsha (for resminostat), Panoptes Pharma Ges.m.b.H (Panoptes, for PP-001), Maruho (for Kv1.3 inhibitors), Link Health (for 4SC-205) and BioNTech (for TLR drug candidates).

Such partnerships help to validate 4SC's programs, generate non-dilutive cash – from licensing revenue, upfront payments and milestone payments and royalties – and attest to the utility of the Company's business model.

6.3.6 TAKEOVERS

In addition to the in-licensing of compounds, pharmaceutical and biotech companies are also increasingly interested in acquiring entire companies to obtain unencumbered access to promising compounds and technologies. This trend has been underscored by very lively M&A activity in this industry over recent years, where the premiums paid over such companies' current market capitalizations are usually significant.

6.3.7 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 net assets, financial position and results of operations.

6.3.8 HUMAN RESOURCES

Since the biotechnology and pharmaceutical industry is very dependent on highly qualified personnel, employees are a critical asset for companies in this industry. 4SC believes that its success is to a large part attributable to its key personnel. Thus, retaining employees who have outstanding expertise and skills in the long term could have a positive impact on the Company's business.

Furthermore, employees with new ideas, expertise in key indication areas and knowledge of market access are essential in both drug development and marketing. 4SC sees itself as well positioned to attract key personnel.

6.3.9 NEW BRANDING

In March 2016, 4SC relaunched its branding and since then has been using a new appearance externally. The branding reflects 4SC's transformation into a late-stage biopharmaceutical company. Through this step, 4SC continues to increase its recognition value which can lead to new business opportunities and stronger recognition amongst potential clinical and scientific collaborators.

7 Corporate Governance Report

4SC's Corporate Governance Report has been published on the Company's website www.4sc.com under Corporate Governance in the Investors & Media section. The following information can be found there:

- The Statement on Corporate Governance pursuant to Section 289a of the German Commercial Code (Handelsgesetzbuch, HGB), containing the Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 German Stock Corporation Act (Aktiengesetz, AktG), as issued by the Management Board and the Supervisory Board. Further the Statement on Corporate Governance includes disclosures on corporate governance practices, and the statement also lists the working practices of the Management Board and the Supervisory Board, describes Committees, and provides information on the composition of the Management Board and the Supervisory Board.
- The Remuneration Report pursuant to Sections 289(2) No. 5 and 315(2) No. 4 HGB, which is also included in section 9 (page 69) of the notes to the financial statements.
- The Takeover-related Disclosures pursuant to Sections 289(4) and 315(4) HGB, which are also included in section 6.9 (page 60) of the notes to the financial statements.

8 Course of business of 4SC AG (regarding the HGB single-entity financial statements)

The management report of 4SC AG for the 2017 financial year has been combined in accordance with Section 315(3) German Commercial Code (HGB) in conjunction with Section 298(2) HGB. In addition to the reporting on 4SC (IFRS), the development of 4SC AG is outlined. As a rule, the combined management report therefore also includes all mandatory components for 4SC AG.

4SC AG is headquartered in Planegg-Martinsried, Germany, where its operations are focused on the clinical development of new drug candidates. Management of the company is the responsibility of 4SC AG's Management Board. Among other things, the Management Board defines the strategy, allocates resources such as investment funds and is responsible for managing the senior team and finances of 4SC AG. The Management Board of 4SC AG also makes decisions about communication with the capital markets as well as with the company's main stakeholders, particularly shareholders and business partners.

4SC AG's economic environment is described in section 1 of the combined management report (page 9). As of 31 December 2017, 4SC AG had 48 employees, including one Management Board member. The annual financial statements of 4SC AG have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) under consideration of the German Accounting Directive Implementation Act (Bilanzrichtinie-Umsetzungsgesetz, BilRUG) and the German Stock Corporation Act (Aktiengesetz, AktG).

8.1 RESULTS OF OPERATIONS OF 4SC AG (HGB)

8.1.1 REVENUE

4SC AG's revenue amounted to €2,630 thousand in the 2017 financial year, a decrease of 6% compared with the previous year (2016: €2,799 thousand). Revenue comprised the proportional reversal of the deferred income recognized in connection with the partnerships entered into with Yakult Honsha and Link Health in 2011 and 2016, respectively, totaling €992 thousand (2016: €1,762 thousand). License and sales revenue of €1,350 thousand was generated (2016: €100 thousand) as a consequence of milestones being reached by Immunic and Link Health. Through the application of the new definition of Section 277(1) of the German Commercial Code (HGB), in contrast to the previous year income from subletting as well as allocations of costs for staff, external services and materials to the affiliated companies were now presented under revenue. The income from cost allocations to affiliated companies in the amount of €42 thousand resulted from ongoing clearing transactions for example in the form of allocated staff and project costs. In addition, income of €228 thousand was generated from cost allocations and services rendered. Income from subletting, due to 4SC's relocation until further notice incurred for the last time, in the amount of €18 thousand relates to the contracts with Crelux GmbH, and BioNTech Small Molecules.

8.1.2 OTHER OPERATING INCOME

4SC AG's other operating income decreased by 89% to €313 thousand (2016: €2,813 thousand). This item primarily comprises non-recurring income from the sales of fixed assets amounting to €39 thousand income from receivables written off of €31 thousand, as well as income from investment grants of €225 thousand.

8.1.3 COST OF MATERIALS

The cost of materials fell by 62% to €247 thousand (2016: €654 thousand) and is associated with cost allocations to subtenants and business partners. It mainly contains expenses for purchased services in the amount of €245 thousand (2016: €648 thousand).

8.1.4 STAFF COSTS

4SC AG's staff costs amounted to €4,053 thousand, and have remained relatively constant as compared to the previous year (2016: €4,029 thousand).

8.1.5 AMORTIZATION AND WRITE-DOWNS OF INTANGIBLE FIXED ASSETS AND DEPRECIATION AND WRITE-DOWNS OF TANGIBLE FIXED ASSETS

Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets decreased by 1% to €822 thousand (2016: €833 thousand).

8.1.6 OTHER OPERATING EXPENSES

4SC AG's other operating expenses rose by 18% to €10,485 thousand (2016: €8,920 thousand). The major items here are third-party services provided by external and affiliated companies in connection with the

RESMAIN study of resminostat in CTCL, followed by legal and consulting costs, occupancy costs, as well as corporate communications and investor relations costs.

8.1.7 NET FINANCE INCOME/LOSS

4SC AG posted net finance income of €26 thousand, (2016: net finance income of €60 thousand). This is mainly attributable to the drop in interest income.

8.1.8 COST OR INCOME FROM THE PROFIT TRANSFER AGREEMENT

A gain of €1,217 thousand arose on 30 September 2017 from the control and profit transfer agreement based on which 4SC AG has absorbed the losses of 4SC Discovery GmbH since 2012 (2016: loss of €1,274 thousand).

8.1.9 NET PROFIT/LOSS FOR THE YEAR

The developments described increased 4SC AG's net loss for the year by €1,344 thousand to €-11,453 thousand (2016: €-10,109 thousand). Together with the loss carried forward from the previous year in the amount of €152,077 thousand, the net accumulated losses thus amount to €163,530 thousand.

8.2 NET ASSETS OF 4SC AG (HGB)

8.2.1 FIXED ASSETS

4SC AG's fixed assets declined year-on-year to €6,374 thousand as of the reporting date (31 December 2016: €16,845 thousand). This reduction was mainly due to the merger of the subsidiary therefore the financial investments in affiliated companies were reduced to €9 thousand (31 December 2016: 9,972 thousand) and pro-rata depreciation and amortization of fixed assets and a low level of new investments.

8.2.2 CURRENT ASSETS

The growth in current assets to €41,939 thousand at the close of the 2017 financial year (31 December 2016: €11,954 thousand) was primarily attributable to the rise in the cash funds based on the capital raise in July 2017.

8.2.3 EQUITY

Equity rose considerably by €29,434 thousand to €45,147 thousand as of 31 December 2017 (31 December 2016: €15,713 thousand) due to the capital increase in July 2017.

The equity ratio increased by 38.8 percentage points, from 54,4% as of 31 December 2016 to 93,2% as of 31 December 2017.

8.2.4 OTHER PROVISIONS

The other provisions increased by 76% to €1,434 thousand (31 December 2016: €816 thousand), largely due to the rise of outsourced scientific services.

8.2.5 LIABILITIES

Liabilities decreased by 85% to €1,841 thousand as of 31 December 2016 (31 December 2016: €12,355 thousand). Based on the merger of the subsidiary company the liabilities to affiliated companies were reduced to €null (31 December 2016: €9,899 thousand). Furthermore, liabilities from the deferred income items were attributable to the upfront payments made by Yakult Honsha in 2011 and Link Health in 2016 decreased to €493 thousand (31 December 2016: €1,485 thousand) and trade accounts payable caused by increased outsourced services to €1,175 thousand (31 December 2016: €702 thousand).

8.2.6 TOTAL ASSETS / TOTAL EQUITY AND LIABILITIES

Total assets/total equity and liabilities of 4SC AG amounted to €48,422 thousand as of 31 December 2017, up 68% on the end-of-year figure for the previous year (31 December 2016: €28,884 thousand). This increase was mainly due to the increase of equity triggered by the capital raise in July 2017.

8.3 FINANCIAL POSITIONS OF 4SC AG (HGB)

8.3.1 CASH FLOWS FROM OPERATING ACTIVITIES

The cash outflows from operating activities in financial year 2017 increased to €19,306 thousand (2016: outflows of €11,914 thousand) mainly caused by the reduction of liabilities due to affiliated companies due to the merger of the subsidiary referring to section 8.3.4 "Funds".

8.3.2 CASH FLOWS FROM INVESTING ACTIVITIES

The cash outflows from investing activities in the financial year 2017 amounted to €133 thousand (2016: inflows of €2,301 thousand). The Company invested €168 thousand (2016: €483 thousand) in property, plant and equipment. Investments in intangible assets totaled €4 thousand (2016: €28 thousand).

8.3.3 CASH FLOWS FROM FINANCING ACTIVITIES

The cash inflows from financing activities in the reporting year amounted to €39,953 thousand (2016: cash outflows of €1,500 thousand). This is caused by the capital raise in July 2017.

8.3.4 FUNDS

As a result of the merger there was a cash inflow of €10,631 thousand. Cash funds amounted to €41,317 thousand as of 31 December 2017 (31 December 2016: €10,045 thousand).

8.4 GENERAL STATEMENT REGARDING THE COMPANY'S POSITION

Through the application in the previous year of the new definition of Section 285 No. 4 HGB in the context of the BilRUG enactment, income from subletting as well as allocations of costs for staff, external services and materials to the affiliated companies were presented under revenue, which had a positive effect. 4SC's focus on the development of advanced anticancer drugs led to one-off additional income being generated in 2017. This was reduced by the expenses of the RESMAIN study with resminostat in CTCL and first cost in the SENSITIZE study with 4SC-202 in melanoma. The Company had sufficient liquidity at all times during the 2017 financial year. The cash capital increase gave a significant and sustainable boost to the Company's liquidity. The financing of the programs was not in jeopardy at any time. This was ensured in particular by the gross cash inflows of gross €40,887 / net €39,953 thousand from the corporate action carried out successfully in July 2017. The operational economic development of 4SC AG proceeded according to plan in the 2017 financial year and up until the preparation of the combined management report in the 2018 financial year.

8.5 EVENTS AFTER THE REPORTING PERIOD

The events after the reporting period are described in section 11 (page 74) of the notes of 4SC.

8.6 RISKS AND OPPORTUNITIES

In general, 4SC AG shares similar risks to those described in section 6 (page 22) of the combined management report. A description of the internal control system for 4SC AG required by Section 289 (4) HGB is also provided in section 6 (page 22).

8.7 REPORT ON EXPECTED DEVELOPMENTS (OUTLOOK)

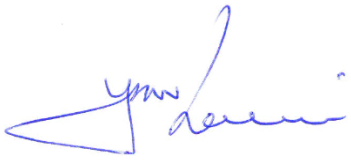
Expectations concerning 4SC AG's continued performance in the next two years are similar to those described already in detail in the report on anticipated developments for 4SC in section 5 (page 20). 4SC AG aims to generate cash inflows and increasing revenue by forging alliances in the form of cooperation and licensing agreements for drug candidates. The planned increase, especially in research and development expenses, is predominantly due to the costs of performing the RESMAIN study of resminostat in CTCL, the SENSITIZE study of 4SC-202 in melanoma and higher staff costs, particularly as a result of the strengthening of the clinical operations and CMC teams.

4SC AG had funds of €41,317 thousand at the end of the 2017 financial year. Based on the statements in 4SC's report on anticipated developments in section 5 (page 20), the financing of 4SC AG, is ensured for the next twelve months and into 2020. The Management Board of 4SC AG is careful to point out the risk associated with such a forecast and highlight that it may be necessary to raise further equity and/or borrowings to ensure the Company's continued existence in the longer term.

8.8 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.

Planegg-Martinsried, 12 March 2018



Jason Loveridge, Ph.D.
Sole Managing Director

FINANCIAL REPORT

IFRS FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

STATEMENT OF COMPREHENSIVE INCOME

(In € 000's, unless stated otherwise)	Notes	2017	2016
Revenue	3.1, page 50	4,197	2,060
Cost of sales	3.3, page 50	-574	-76
Gross profit		**3,623**	**1,984**
Distribution costs	3.4, page 51	-351	-410
Research and development costs	3.5, page 51	-11,475	-10,601
Administrative costs	3.6, page 52	-2,792	-3,380
Other income	3.7, page 52	59	615
Operating profit/loss		**-10,936**	**-11,792**
Share in the profit of equity-accounted investments	3.9, page 53	0	522
Finance income	3.9, page 53	19	51
Finance costs	3.9, page 53	-10	-65
Net finance income/loss		**9**	**508**
Earnings before taxes		**-10,927**	**-11,284**
Income tax expense	4, page 54	-33	-71
Profit/loss from continuing operations		**-10,960**	**-11,355**
Profit/loss from discontinued operations		0	189
Profit/loss for the period = Comprehensive income/loss		**-10,960**	**-11,166**
Earnings per share from continuing operations (basic and diluted, in €)	5, page 55	**-0.45**	**-0.60**
Earnings per share from discontinued operations (basic and diluted, in €)	5, page 55	0.00	0.01
Earnings per share (basic and diluted, in €)		**-0.45**	**-0.59**

See the attached notes to the financial statements.

STATEMENT OF FINANCIAL POSITIONS – ASSETS

(In € 000's)	Notes	31 Dec 2017	31 Dec 2016
Non-current assets			
Intangible assets	6.1, page 56	5,694	6,499
Property, plant and equipment	6.2, page 57	570	222
Payments on account for property, plant and equipment	6.2, page 57	0	275
Investments accounted for using the equity method	6.3, page 58	0	0
Other investments	6.4, page 59	0	0
Other assets	6.8, page 60	101	100
Total non-current assets		**6,365**	**7,096**
Current assets			
Trade accounts receivable	6.5, page 59	30	95
Other investments		0	1,285
Cash and cash equivalents	6.6, page 59	41,327	10,048
Current income tax assets	6.7, page 59	23	13
Other assets	6.8, page 60	168	518
Total current assets		**41,548**	**11,959**
Total assets		**47,913**	**19,055**

See the attached notes to the financial statements.

STATEMENT OF FINANCIAL POSITIONS – EQUITY AND LIABILITIES

(In € 000's)	Notes	31 Dec 2017	31 Dec 2016
Equity			
Subscribed capital		30,649	18,967
Share premium		172,100	143,829
Reserves		2,254	1,827
Accumulated deficit		-160,310	-149,350
Total equity	6.9, page 60	**44,693**	**15,273**
Non-current liabilities			
Other liabilities	6.11, page 62	67	32
Deferred income	6.11, page 62	394	493
Total non-current liabilities		**461**	**525**
Current liabilities			
Trade accounts payable	6.10, page 62	1,175	834
Liabilities to shareholders		0	0
Other liabilities	6.11, page 62	1,485	1,431
Deferred income	6.11, page 62	99	992
Total current liabilities		**2,759**	**3,257**
Total equity and liabilities		**47,913**	**19,055**

See the attached notes to the financial statements.

STATEMENT OF CASH FLOWS

(In € 000's)	Notes	2017	2016
Cash flows from operating activities			
Earnings before taxes		-10,927	-11,284
Adjustment for statement of comprehensive income items			
Depreciation, amortization and impairment losses	3.8, page 52	899	892
Net finance income/loss		-9	-508
Stock options	8, page 68	427	11
Other non-cash items		-25	275
Changes in statement of financial position items			
Trade accounts receivable		65	-36
Current income tax assets		-10	-12
Other assets		1,634	232
Trade accounts payable		341	145
Other liabilities		89	-353
Deferred income		-992	-1,112
Interest received		4	8
Interest paid		-4	-539
Income taxes paid		-33	-71
Cash flows from operating activities, continuing operations		**-8,541**	**-12,352**
Cash flows from operating activities, discontinued operations		0	-570
Total cash flows from operating activities		**-8,541**	**-12,922**

To be continued on the following page.

STATEMENT OF CASH FLOWS

(In € 000's)	Notes	2017	2016
Cash flows from investing activities			
Purchase of intangible assets	6.1, page 56	-4	-60
Purchase of property, plant and equipment	6.2, page 57	-168	-404
Purchase of financial investments		0	0
Proceeds from sales of intangible assets		0	2,000
Proceeds from sales of property, plant and equipment		39	8
Proceeds from sales of current assets		0	0
Proceeds from sales of equity investments		0	800
Cash flows from investing activities, continuing operations		**-133**	**2,344**
Cash flows from investing activities, discontinued operations		0	650
Total cash flows from investing activities		**-133**	**2,994**
Cash flows from financing activities			
Payments to subscribed capital		11,682	0
Payments to share premium		28,271	0
Payments for the repayment of shareholder loans		0	-1,500
Total cash flows from financing activities		**39,953**	**-1,500**
Net change in cash and cash equivalents		**31,279**	**-11,428**
+ Cash and cash equivalents at the beginning of the period		10,048	21,476
= Cash and cash equivalents at the end of the period		**41,327**	**10,048**

See the attached notes to the financial statements.
The statement of cash flows was prepared in accordance with the provisions of IAS 7.

STATEMENT OF CHANGES IN EQUITY

(In € 000's)			Reserves			
	Subscribed capital	**Share premium**	**Reserves stock options**	**Retained earnings**	**Accumulated deficit**	**Total**
Balance on 1 Jan 2016	**18,967**	**143,829**	**1,749**	**67**	**-138,184**	**26,428**
Options issued (ESOP 2009/2010)*			0			0
Options issued (ESOP 2009/2011)*			0			0
Options issued (ESOP 2016)*			11			11
Consolidated comprehensive income/loss 2016					-11,166	-11,166
Consolidated profit/loss 2016					*-11,166*	*-11,166*
Balance on 31 Dec 2016	**18,967**	**143,829**	**1,760**	**67**	**-149,350**	**15,273**
Balance on 1 Jan 2017	**18,967**	**143,829**	**1,760**	**67**	**-149,350**	**15,273**
Options issued (ESOP 2006/2008)*			-1			-1
Options issued (ESOP 2009/2009)*			-3			-3
Options issued (ESOP 2016/2016)*			387			387
Options issued (ESOP 2016/2017)*			5			5
Options issued (ESOP 2017/2017)*			39			39
Capital increase 11 July 2017	11,682	28,271				39,953
Comprehensive income/loss 2017					-10,960	-10,960
Profit/loss 2017					*-10,960*	*-10,960*
Balance on 31 Dec 2017	**30,649**	**172,100**	**2,187**	**67**	**-160,310**	**44,693**

* ESOP: Employee Share Option Program.

For more information on components and changes in equity, see note 6.9 (page 60).

NOTES TO THE IFRS FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

1 General disclosures

1.1 DISCLOSURES ABOUT THE COMPANY

4SC AG is headquartered at 82152 Planegg-Martinsried, Germany, Fraunhoferstrasse 22, and has been recorded in the Commercial Register of the Munich District Court under HRB no. 132917.

The business of 4SC AG focuses on the development of novel small molecule drugs that can target key indications in cancer with high unmet medical needs. Such drugs are intended to provide patients with innovative treatment options that are more tolerable and efficacious than existing therapies and provide a better quality of life.

4SC AG is authorized 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.

In December 2017, the previously wholly owned and fully consolidated subsidiary 4SC Discovery GmbH, Planegg-Martinsried, Germany, has been merged with its parent company.

The merged company 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 was the identification, investigation and optimization 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 shared 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 comprised all those projects and products including the related intellectual property (IP) rights, for which no early development candidate has been defined yet, as well as 4SC's proprietary technology platforms for modeling, screening and drug discovery and optimization. In the previous year, at the end of April 2016, the operations, material assets and technology platform were sold to BioNTech Small Molecules GmbH, Mainz, Germany. The merger with 4SC AG was a consequence of the divesture of the operational business of 4SC Discovery GmbH.

The following company was also taken into account in these financial statements:

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

1.2 RELEASE OF THE FINANCIAL STATEMENTS

The Management Board approved the financial statements for release on 12 March 2018. The Supervisory Board is authorized to revise the financial statements after approval by the Management Board.

2 Summary of significant accounting policies

2.1 BASIS OF PREPARATION

These financial statements were prepared pursuant to Section 315 (2)a 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; IFRSs and IFRICs 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 laid out under 6.2.7 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 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.

As described under section 1.1, 4SC AG and its previously wholly owned and fully consolidated subsidiary 4SC Discovery GmbH have merged on 19 December 2017 on the basis of the figures as of 30 September 2017. To ensure comparability of the financial statements of the current reporting unit with the financial statements of the previous year, the previous year's figures present the consolidated financial statements of 4SC AG and 4SC Discovery GmbH (the Group). All intra-group transactions were eliminated; revenue, expenses, and earnings, as well as receivables and liabilities between the Group companies were offset against each other.

The 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 statement of financial position and in the statement of comprehensive income are summarized 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 EFFECTS OF THE APPLICATION OF NEW STANDARDS

2.2.1 INITIAL MANDATORY APPLICATION

The following standards amended or newly issued by the IASB must be applied to the financial statements for the period ended 31 December 2017 and affect the financial statements of 4SC as follows:

Standard / interpretation*	Title	Effective date for annual periods beginning on	Adopted by the EU	Effects on 4SC**
IAS 12 (A)	Recognition of Deferred Tax Assets for Unrealized Losses	1 Jan 2017	Yes	None
IAS 7 (A)	Disclosure Initiatives	1 Jan 2017	Yes	None
Improvements IFRS 2014-2016	Amendments IFRS 12	1 Jan 2017	No	None

* (A) Amendment to Standard.

** Standards marked "Yes" are considered likely to affect the consolidated financial statements and are currently being reviewed by the Company. No material effects on the financial statements are expected from those marked "None".

2.2.2 ACCOUNTING STANDARDS ISSUED, BUT NOT YET APPLIED

The IASB recently issued the following new or amended standards. However, since these standards are not required to be applied and have not yet been adopted by the EU, they were not applied to the financial statements for the period ended 31 December 2017. The new standards or amendments to existing standards must be applied in annual periods beginning on or after their effective date. They are not usually applied earlier, even though some standards permit this.

Standard / interpretation*	Title	Effective date for annual periods beginning on***	Adopted by the EU	Effects on 4SC**
IFRS 9	Financial Instruments	01.01.2018	Yes	None
IFRS 15	Revenues from Contracts with Customers	01.01.2018	Yes	None
IFRS 16	Leases	01.01.2019	Yes	None
IFRS 17	Insurance Contracts	01.01.2021	No	None
IFRS 10 and IAS 28 (A)	Sales or Contributions of Assets between an Investor and its Associate / Joint Venture	Delayed until further notice	No	None
IFRS 15 (A)	Clarifications on IFRS 15	01.01.2018	Yes	None
IFRS 2 (A)	Classification and Measurement of Share Based Payment Transactions	01.01.2018	No	None
IFRS 4 (A)	Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts	01.01.2018	Yes	None
Improvements IFRS 2014-2016	Amendments to IFRS 1 and IAS 28	01.01.2017 or 01.01.2018	No	None
IAS 40 (A)	Transfers of Investment Property	01.01.2018	No	None
IAS 28 (A)	Investments in Associates and Joint Ventures	01.01.2019	No	None
IFRS 9 (A)	Notice Agreements with negative compensation	01.01.2019	No	None
Improvements IFRS 2015-2017		01.01.2019	No	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01.01.2018	No	None
IFRIC 23	Borrowing costs	01.01.2019	No	Yes

* (A) Amendment to Standard.
** Standards marked “Yes” are considered likely to affect the financial statements and are currently being reviewed by the Company. No material effects on the financial statements are expected from those marked “None”.
*** For annual periods beginning on or after the date.

IFRS 9, Financial Instruments. Covers the classification and measurement of financial assets and liabilities that have previously been accounted for under IAS 39. In November 2013, the IASB published amendments to IFRS 9 with regard to hedge accounting, which are intended to replace the previous regulations of IAS 39. The new regulations contain a model for the representation of hedging relationships, which extends the range of potentially relevant underlying transactions and hedging instruments. In addition, the recognition and valuation rules for financial assets, including hybrid contracts, are amended by IFRS 9. In general and with regard to its current business model, 4SC does not expect any change from the previous practice in accordance with IAS 39.

IFRS 15, Revenue Recognition. The key principle of IFRS 15 is the recognition of revenue from the supply of goods or the provision of services to the customer in a figure representing the amount as revenue, which corresponds to the amount that the Company is expected to receive as consideration from the customer. Revenue is realized when the customer receives the goods or services. In addition, IFRS 15 contains provisions for recognizing performance surpluses or other performance obligations at the reporting level. In addition, IFRS 15 contains further disclosures regarding performance obligations or additional performance obligations as agreed contractually. With the existing contracts with customers in place, there is currently no impact of the IFRS 15 applications on the financial statements. Future contracts will be reviewed on a case by case basis as revenue recognition requires the individual evaluation of underlying contractual terms.

IFRS 16 introduces a uniform accounting model whereby leases are to be recognized in the lessee's balance sheet. A lessee captures a right of appreciation, which represents his right to use the underlying asset, and a liability arising from the lease, which is his obligation to lease payments. There are derogations for short-term leases and leases for low-value assets. The accounting at the lessor is comparable to the current standard - that is, the lessor continues to classify leases as finance or operating leases. IFRS 16 replaces the current guidelines on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. At current there are no leasing contracts with 4SC which will lead to changes in the current evaluation of underlying assets.

IFRIC 23 clarifies the provisions of IAS 12 "Income Taxes" with regard to the recognition and measurement of actual income taxes, deferred tax liabilities and deferred tax assets if there is uncertainty regarding the income tax treatment. As part of the assessment of uncertainty, an enterprise must assess whether it is likely that the tax jurisdiction will accept the income tax treatment. 4SC is currently examining the effects of the application of the interpretation on the financial statements.

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

2.2.3 DISCONTINUED OPERATIONS

In 2017, there were no discontinued operations to be classified and reported. If not stated otherwise, comparable figures for the previous reporting year are representing the continuing part of operations only. Parts of the Group's business, whose business activities and cash flows could be clearly distinguished from the rest of the Group for operational and accounting purposes, is reported as discontinued operations if it was sold or classified as held for sale, and if it

- represents or represented a separate essential business area,
- is part of a single agreed plan for the sale of a separate core business area, or
- is a subsidiary which was acquired exclusively with the intention of a resale.

If a business area is classified as discontinued operations, the consolidated statement of comprehensive income and the consolidated statement of cash flows for the comparison year are adjusted as if the business area had been discontinued from the beginning of the year.

At the end of April 2016, key components of what was until then the Discovery & Collaborative Business business area, in particular the material assets and technology platform, were sold to BioNTech Small Molecules GmbH, Mainz, Germany, and reported as discontinued operations in the previous reporting year.

2.3 KEY ACCOUNTING POLICIES

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

2.3.1 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 or loss in the period in which they arise in accordance with IAS 21.28. They are shown under net finance income/loss.

2.3.2 ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The assumptions and estimates principally relate to the assessment of the recoverability of the carrying amount of intangible assets, the determination of useful lives of material assets, recognition of liabilities and the measurement and recognition of provisions. Assumptions and estimates are based on premises derived from knowledge at the time.

The applied economic lives of non-current assets are based on estimates of the management. The company reviews the estimated economic useful lives of property, plant and equipment and intangible assets at the end of every financial year.

2.3.3 INTANGIBLE ASSETS

Intangible assets acquired are recognized in accordance with IAS 38. They are initially recognized at cost, if the recognition requirements of IAS 38.18 are met. Intangible assets are subsequently recognized at cost less accumulated amortization 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 recognized if the criteria in accordance with IAS 38.57 are met. Given the risks existing until commercialization, 4SC does not fully meet the requirements of IAS 38.57 for recognizing internally generated intangible assets. Development 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. The development of the intangible assets is shown in the fixed assets table in note 6.1 “Intangible assets”.

2.3.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognized 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 recognized. Gains resulting from the sale or retirement of fixed assets are recognized in other operating income, losses from the sale of retirement of fixed assets are recognized 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 note 6.2 “Property, plant and equipment".

2.3.5 ADVANCES PAID FOR PROPERTY, PLANT AND EQUIPMENT

Advances paid for property, plant and equipment are measured at cost. No depreciation is recognized because the depreciation generally only begins when the asset is ready for operation, and the fair value can thus be reliably determined. Upon completion, the item is reversed and reclassified to completed property, plant and equipment, as long as the cumulative recognition criteria of IAS 16.7 are fulfilled.

The development of advances paid for property, plant and equipment is shown in the statement of changes in non-current assets under note 6.2 “Property, plant and equipment".

2.3.6 EQUITY INVESTMENTS

As of the reporting date, 4SC has equity interests in one company.

With the merger of 4SC AG and 4SC Discovery in December 2017, the company Panoptes, Vienna, Austria, previously held by 4SC Discovery, is now a direct equity investment of 4SC AG and recognized as an associated company in accordance with IAS 28 as defined by the degree of influence 4SC AG has in it.

In early July 2013, 4SC Discovery GmbH sold the worldwide exclusive rights to its substance SC53842 and its derivatives to Panoptes. 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 and rheumatoid arthritis for which 4SC Discovery (and now its rightful successor 4SC AG) retains the rights. In return, 4SC Discovery 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. In October 2015 financing at Panoptes, in which 4SC Discovery did not participate, diluted its interest to 22.1%. 4SC AG has no controlling influence on the company's business policy as it is not represented on the company’s Advisory Board. The stake held in the entity is thus recognized 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 AG and this associate. The carrying amount of the equity investment takes account of all risks as of the reporting date.

2.3.7 INVENTORIES

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

2.3.8 TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are recognized 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.

2.3.9 RECEIVABLES FROM ASSOCIATES

Accounts receivable from associates are recognized 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.

2.3.10 OTHER FINANCIAL ASSETS

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

- Financial assets at fair value through profit or loss
- Available-for-sale financial assets
- Held-to-maturity financial assets

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

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

Financial instruments that are categorized 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 recognized directly in equity under revaluation surplus as per IAS 39.55b until the financial asset is derecognized. 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 recognized in profit or loss. This measurement also applies to the equity investments in Quiescence Technologies LLC (Quiescence), which are also classified as available for sale in accordance with IAS 39. Since 2008, the company has ceased to pursue any business activity and is consequently no longer consolidated.

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 amortized 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 IFRS 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 IFRS 7.7, they are shown as cash equivalents.

2.3.11 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.

2.3.12 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 are recognized at their nominal value.

2.3.13 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.

2.3.14 TRADE ACCOUNTS PAYABLE / 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 derecognized when the underlying obligation has been discharged or expires.

2.3.15 PROVISIONS AND ACCRUALS

Provisions and accruals are recognized in accordance with IAS 37.14 whenever current legal or factual obligations exist arising from a historical event, an outflow of resources is probable, a reliable estimate of the obligation is possible and the measures in question are not expected to result in future inflows of economic benefits.

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 recognized accordingly 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.

2.3.16 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.

2.3.17 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 recognized in profit or loss over the probable development life of the products or the option period. The revenue is recognized in full when the stipulated contractual condition is met and the cooperation deal is terminated.

2.3.18 INCOME TAX

The actual tax liabilities arising from income taxes for the current and previous periods are to be recognized 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 recognized 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 recognized 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 realize the claim. In accordance with IAS 1.56, deferred tax assets and liabilities must not be not shown as current assets and liabilities.

2.3.19 REVENUE RECOGNITION

The business model of 4SC is aimed at generating revenue from a combination of licensing agreements (depending on the design of the given contract in the form of upfront payments, milestone payments, cost reimbursements under a development cooperation and royalties) and product sales.

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. Provided that all conditions in IAS 18.14 ff. have been satisfied, revenue is recognized 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 recognized 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 pursuant to cooperation agreements. Royalties are recognized as revenue as of the date upon which the cooperation partner generates external sales that result in royalties. Income from licenses granted for specific, contractually-defined periods is deferred and recognized 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 development 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 service billed (FTE). Settlement for the services rendered is recognized as trade accounts receivable until payment by the customers. Amounts received prior to the rendering of services are recognized 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.

2.3.20 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.

2.3.21 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, amortization and impairment losses
- 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 recognized as intangible assets if the criteria pursuant to IAS 38.57 are met. At 4SC, the risks involved up until the commercialization 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.

2.3.22 GOVERNMENT GRANTS

In accordance with IAS 20.12, government grants are recognized in profit or loss on a systematic basis in the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. As funding

represents the reimbursement of development expenditures, such amounts offset research and development costs for the relevant period; specific explanations are provided in the notes.

2.3.23 OTHER INCOME

Other income includes all income from operating activities which is not shown as finance income or does not represent the reimbursement of development 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.

2.4 USE OF ESTIMATES

In preparing these 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 could 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:

2.4.1 IMPAIRMENT LOSSES

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.

2.4.2 MEASUREMENT OF EQUITY INVESTMENTS

An assessment had to be made whether 4SC AG exercises control over Panoptes, in which case the company would have to be consolidated in accordance with IFRS 10. The Management Board determined that Panoptes does not influence 4SC AG’s activities and cash flows but that conditions which would constitute control of Panoptes do not exist, either. 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 IFRS 12.

2.4.3 RESERVES ESOP / EXPENDITURE FROM STOCK OPTIONS

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

2.4.4 REVENUE RECOGNITION

Prepaid expenses are recorded in profit or loss over the estimated development period. If the assumptions change as a result of modification of the development plan, the recognition scheme should be adjusted accordingly.

3 Disclosures on the statement of comprehensive income

3.1 REVENUE

Revenue increased year-on-year to €4,197 thousand (2016: €2,060 thousand). The achievement of milestones by licensing partners contributed a total of €2,850 thousand (2016: €100 thousand). Furthermore, the proportional reversals of the deferred income recognized in connection with the partnerships entered into with Yakult Honsha for resminostat, and with Link Health for 4SC-205, added €992 thousand (2016: €1,762 thousand) to revenues. Additional revenues were achieved for services and cost reimbursements charged to business partners.

3.2 STAFF COSTS

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Salaries	3,428	3,731	-8
Social security contributions	620	594	4
Stock options	427	11	3,779
Total	**4,475**	**4,336**	**3**
Employees and Management Board (annual average)	46	48	-4

The Company's staff costs increased by 3% in 2017 to €4,475 thousand (2016: €4,336 thousand), whereas the average number of employees declined by 4%.

In 2017, funds accruing through salary waiver were appropriated for direct insurance for the benefit of Company staff. These contributions are classified as defined contribution plans and are recognized and measured in accordance with IAS 19.44. Total expenditures in connection with defined contribution plans amounted to €120 thousand in the reporting year (2016: €128 thousand). In addition, a total of €470 thousand (2016: €532 thousand) was paid to statutory social security funds.

The stock options granted to staff and Management Board members were shown as staff costs in accordance with IFRS 2. Previous years' stock options programs were adjusted accordingly, adding €383 thousand (2016: €11 thousand) to total staff costs. New stock options granted to staff in the reporting year contributed further costs of €44 thousand.

Staff costs are shown in the income statement under the items cost of sales, distribution costs, research and development costs as well as administrative costs in accordance with their functional classification.

3.3 COST OF SALES

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Staff	31	5	520
Patents	208	0	-
Provisions	120	0	-
External services	112	0	-
Material	34	2	1,600
Depreciation, amortization and impairment losses	69	69	0
Total	**574**	**76**	**655**

The significant increase in the cost of sales from €76 thousand in 2016 to €574 thousand in the reporting period mainly reflects costs for the Kv1.3 inhibitors licensed to Maruho in the reporting year, but also increased costs for other compounds sold (TLR drug candidates to BioNTech) or licensed (4SC-205 to LinkHealth) to business partners. The main part of patent, external service and other costs was reimbursed by 4SC's partners (€355 thousand). The provision payment is related to the license agreement with Maruho.

3.4 DISTRIBUTION COSTS

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Staff	168	117	44
Legal and other consulting, travel and conferences	85	131	-35
License fees and software, literature and databases	87	91	-5
Rental costs including ancillary costs	12	26	-54
Other	-1	45	-102
Total	**351**	**410**	**-14**

Distribution costs, which consist of the costs incurred by the Business Development and Strategic Planning & Marketing units, decreased by 14% year-on-year to €351 thousand during the reporting period (2016: €410 thousand). The change in staff cost is mainly a result of the ESOP programs for stock options granted in 2016 and 2017. Legal and consulting as well as travel costs are project driven and were €46 thousand below the level of the previous reporting year.

A conference for scientific exchange organized by 4SC in previous years ("Symposium") was no longer hosted, reducing the position "Other" accordingly.

3.5 RESEARCH AND DEVELOPMENT COSTS

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Staff	2,620	2,940	-11
External services	7,509	5,893	27
Amortization and impairment losses	803	796	1
Patents	266	342	-22
Rental costs including ancillary costs	340	651	-48
Material	142	211	-33
Software licenses, literature and online inquiries	123	165	-26
Travel and conferences	126	199	-37
Asset disposals	5	134	-96
Other	73	150	-51
Grants (EU, BFS* and BMBF**)	-532	-880	-40
Total	**11,475**	**10,601**	**8**

* BFS: Bayerische Forschungsstiftung, the Bavarian research foundation.
** BMBF: Bundesministerium für Bildung und Forschung, the German Federal Ministry of Education and Research.

Research and development costs increased by 8% to €11,475 thousand in 2017 (2016: €10,601 thousand). External services basically reflect the development activities in the Company's three main products: Resminostat, 4SC-202 and 4SC-208, the major part of which was spent on the execution of the pivotal clinical study RESMAIN for resminostat in CTCL, started in 2016 and was proceeding in 2017.

3.6 ADMINISTRATIVE COSTS

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Staff	1,656	1,273	30
Investor relations	229	380	-40
Supervisory Board	194	205	-5
Insurance, fees and contributions	147	119	24
Legal and other consulting	138	727	-81
Rental costs including ancillary costs	109	174	-37
Travel and conferences	92	149	-38
Staff recruitment	53	117	-55
Other	147	209	-30
Depreciation, amortization and impairment losses	27	27	0
Total	**2,792**	**3,380**	**-17**

Administrative costs amounted to €2,792 thousand in the reporting period, a decrease of 17% year-on-year (2016: €3,380 thousand). The most significant change was in legal and other costs for consultancy which decreased by €589 thousand, mainly because of strategic projects being executed and completed in the previous reporting period.

3.7 OTHER INCOME

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Sublease	18	349	-95
Income from sales of assets	39	259	-85
Income from bankruptcies	0	2	-100
Other	2	5	-60
Total	**59**	**615**	**-90**

There was a year-on-year decrease in other income by 90% to €59 thousand in 2017 (2016: €615 thousand). With the move to new headquarters by the end of 2016, contracts for the sub-letting of laboratory facilities at the previous location expired.

The income from sales of assets in the previous reporting period mainly reflect the asset deals with BioNTech for the sale of key components of the Discovery & Collaborative Business and Immunic for the sale of the immunology portfolio.

3.8 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Amortization of and impairment losses on intangible assets	809	836	-3
Depreciation of and impairment losses on property, plant and equipment	90	56	60
Total	**899**	**892**	**1**

At €899 thousand, depreciation, amortization and impairment losses in 2017 were virtually unchanged year-on-year (2016: €892 thousand). Amortization of and impairment losses on intangible assets – which mainly stemmed from the capitalization of the rights acquired from Nycomed and the recognition of an asset for customer loyalty as defined by IAS 38 plus the corresponding amortization – decreased slightly, whereas depreciation of and impairment losses on property, plant and equipment increased because of new investments. Depreciation, amortization and impairment

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

3.9 NET FINANCE INCOME/LOSS

Net finance income/loss includes the result derived from the accounting of the shares held in associates using the equity method and their sale, among others. In 2017, this concerns the measurement of the equity investment in Panoptes. In 2016, the position also included proceeds from the sale of quattro research shares. Further explanation can be found under note 6.3 “Investments accounted for using the equity method“.

(In € 000’s, unless stated otherwise)	2017	2016	Change in %
Proceeds from the sale of the 48.8% share in Quattro research GmbH	0	522	-100
Total	**0**	**522**	**-100**

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

(In € 000’s, unless stated otherwise)	2017	2016	Change in %
Interest-bearing investment of cash and cash equivalents	14	43	-66
Income from exchange rate differences	5	8	-37
Total	**19**	**51**	**-63**

The financial investment in a borrower’s note became due and was repaid in full in April 2017. The capital increase in July 2017 provided additional cash to 4SC’s bank accounts. The main investing strategy for these funds was to avoid negative interests in the reporting year.

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

(In € 000’s, unless stated otherwise)	2017	2016	Change in %
Expenses from exchange rate differences	2	8	-75
Interest on the shareholder loan	0	21	-100
Interest on upfront payment from Yakult Honsha Co., Ltd.	0	2	-100
Securities measured through profit or loss	7	33	-78
Other interest expense	1	1	0
Total	**10**	**65**	**-85**

With the full repayment of the shareholder loan granted by Santo Holding (Deutschland) GmbH in 2016, there were no interest expenses to be considered in the reporting year.

4 Income tax, deferred taxes and withholding tax

The income taxes recognized in the income statement are made up as follows:

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Current expenses	-33	-71	-54
Deferred tax income	0	0	-
Income tax expense (-) / income (+)	**-33**	**-71**	**-54**

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 2017 is therefore 26.33%.

As in the previous year, at 31 December 2017 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 €26 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 2017 and 31 December 2016 are distributed as follows across the statement of financial position:

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Intangible assets	12	18	-33
Investments accounted for using the equity method	0	0	-
Other financial assets	0	-15	-100
Other liabilities	14	13	7
Deferred tax assets	-26	-16	63
Deferred tax assets and liabilities	**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 programs recognized in accordance with IFRSs. In the other liabilities they arise from different recognition criteria applicable to deferred liabilities under IFRS and tax law.

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

(In € 000's, unless stated otherwise)	2017	2016
Tax loss carryforward	179,683	168,339
Reduction for deferred tax liabilities	-99	-61
Effective tax rate (in %)	26.33	26.33
Value of the tax loss carryforwards	**47,284**	**44,308**

This calculation is based on the assumption that the tax rates applicable after 1 January 2017 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 utilized 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 – various shareholder changes, capital increases, the addition of new shareholders and a significant infusion of new operating assets – could result in a pro-rated elimination of tax loss carryforwards, applied to 4SC during previous years. Because of the 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)	2017	2016
Earnings before taxes (including income/loss from discontinued operations)	-10,927	-11,095
Expected tax income at a tax rate of 26.33% (2016: 26.33%)	2,877	2,921
Income (+) / expense (-) shown in the statement of comprehensive income	-33	-71
Difference to be explained	**2,910**	**2,992**
Unrecognized tax loss carryforwards	2,961	2,387
Non-deductible expenses	25	24
Ineligible foreign withholding tax	24	52
Sale of goodwill	0	414
Sale of the equity investment	0	137
Other differences	-100	-22
Total reconciliation	**2,910**	**2,992**

5 Earnings per share

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

	2017*	2016
Based on net profit/loss for the year of continuing operations (in € 000's)	-10,960	-11,184
Based on average number of shares (in thousand)	24,536	18,967
Earnings per share from continuing operations (basic and diluted, in €)	**-0.45**	**-0.60**
Earnings per share from discontinued operations (basic and diluted, in €)	0.00	0.01

* No discontinued business in 2017.

Given 4SC's loss, all of the stock options exercisable are currently "out of money", thus the options exercisable 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, 9 May 2014, 17 June 2016 and 25 August 2017 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 notes 6.9 "Equity" and 8 "Stock option plan".

6 Disclosures on the statement of financial position

6.1 INTANGIBLE ASSETS

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

(In € 000's)		Cost				Amortization and impairment losses				Carrying amounts	
	Useful life from 1 to 16 years	Balance on 1 Jan 2017	Additions 2017	Disposals 2017	Balance on 31 Dec 2017	Balance on Jan 2017	Additions 2017	Disposals 2017	Balance on 31 Dec 2017	Balance on 31 Dec 2017	Balance on 31 Dec 2016
Software and patents	1-16	14,071	4	0	14,075	7,695	732	0	8,427	5,648	6,376
Customer loyalty	5	520	0	0	520	397	77	0	474	46	123
Intangible assets		**14,591**	**4**	**0**	**14,595**	**8,092**	**809**	**0**	**8,901**	**5,694**	**6,499**

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

(In € 000's)		Cost				Amortization and impairment losses				Carrying amounts	
	Useful life from 1 to 17 years	Balance on 1 Jan 2016	Additions 2016	Disposals 2016	Balance on 31 Dec 2016	Balance on 1 Jan 2016	Additions 2016	Disposals 2016	Balance on 31 Dec 2016	Balance on 31 Dec 2016	Balance on 31 Dec 2015
Software and patents	1-17	14,214	0	143	14,071	7,107	731	143	7,695	6,376	7,107
Customer loyalty	3.75	594	60	134	520	364	105	72	397	123	230
Goodwill	n/a	1,786	0	1,786	0	0	0	0	0	0	1,786
Intangible assets		**16,594**	**60**	**2,063**	**14,591**	**7,471**	**836**	**215**	**8,092**	**6,499**	**9,123**

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 carryforward amounts of between €741 thousand and €3,669 thousand (2016: €831 thousand to €4,175 thousand) and whose residual amortization period is between 7.25 years and 9.17 years (2016: between 8.25 and 10.17 years).

Additions in the previous reporting year relate to customer loyalty items with regard to the collaboration with Link Health.

The amortization 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, unless stated otherwise)	2017	2016	Change in %
Cost of sales and administrative costs	69	54	27
Research and development costs	740	782	-5
Amortization of / impairment losses on intangible assets	**809**	**836**	**-3**

6.2 PROPERTY, PLANT AND EQUIPMENT

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

(In € 000's)		Cost				Amortization and impairment losses				Carrying amounts	
	Useful life from 0 to 10 years	Balance on 1 Jan 2017	Additions 2017	Disposals 2017	Balance on 31 Dec 2017	Balance on 1 Jan 2017	Additions 2017	Disposals 2017	Balance on 31 Dec 2017	Balance on 31 Dec 2017	Balance on 31 Dec 2016
Office equipment	5-10	165	0	48	117	147	3	46	104	13	18
Laboratory equipment	1-10	190	113	5	298	46	29	1	74	224	144
Installations in third party buildings	1-10	0	310	0	310	0	31	0	31	279	0
Other operating and office equipment	1-9	17	0	0	17	16	0	0	16	1	1
IT equipment	1-9	377	14	175	216	318	20	174	164	53	59
Advances paid for property, plant and equipment	n/a	275	4	279	0	0	0	0	0	0	275
Other	0-1	108	7	8	107	108	7	8	107	0	0
Property, plant and equipment		**1,132**	**448**	**515**	**1,065**	**635**	**90**	**229**	**496**	**570**	**497**

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

(In € 000's)		Cost				Amortization and impairment losses				Carrying amounts	
	Useful life from 0 to 11 years	Balance on 1 Jan 2016	Additions 2016	Disposals 2016	Balance on 31 Dec 2016	Balance on 1 Jan 2016	Additions 2016	Disposals 2016	Balance on 31 Dec 2016	Balance on 31 Dec 2016	Balance on 31 Dec 2015
Office equipment	6-11	165	1	1	165	145	3	1	147	18	20
Laboratory equipment	1-11	702	61	573	190	467	40	461	46	144	235
Leasehold improvements	1.5-11	526	0	526	0	459	29	488	0	0	67
Other operating and office equipment	1-10	155	0	138	17	149	4	137	16	1	6
IT equipment	1-10	457	58	138	377	428	17	127	318	59	29
Advances paid for property, plant and equipment	n/a	0	275	0	275	0	0	0	0	275	0
Other	0-2	147	9	48	108	147	9	48	108	0	0
Property, plant and equipment		**2,152**	**404**	**1,424**	**1,132**	**1,795**	**102**	**1,262**	**635**	**497**	**357**

Additions in laboratory equipment during the reporting year primarily relate to investments for the replacement or enhancement of equipment. The additions to laboratory installations in third party buildings in 2017 correlate with the advances paid for property plant and equipment in the previous reporting period. This investment is a result of the move of the laboratories to the new headquarters finalized in 2017.

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

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Research and development costs	63	74	-15
Administrative costs	27	28	-4
Depreciation of / impairment losses on property, plant and equipment	**90**	**102**	**-12**

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method concern shares held in Panoptes. The respective key figures of Panoptes as of 31 December 2017 are as follows:

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Revenue	0	157	-100
Net profit/loss for the year	-1,244	-1,029	21
Total assets	933	1,162	-20
Equity	-1,472	-1,168	26
Liabilities	2,406	2,330	3

The loss posted by Panoptes lowered the carryforward amount of the shares held by 4SC Discovery in 2013; as of the reporting date it remained at €0.

6.4 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. In the reporting year this includes the equity investment in Quiescence. The 10% stake in Quiescence was acquired in December 2006. But its carrying amount is still €0 due to a lack of clarity with regard to Quiescence's financial situation.

In 2016, the position also included a borrower's note loan held for the purpose of achieving higher interest income. It was classified as a held-to-maturity financial asset in accordance with IAS 39. As such, it was measured at amortized cost by applying the effective interest method.

Since amortized cost and the carrying amounts shown are suitable approximations of the fair values, the Company refrained from reporting fair values in accordance with IFRS 7.29 (a).

After reaching final maturity in 2017 the investment in a borrower's note loan was repaid in full.

6.5 TRADE ACCOUNTS RECEIVABLE

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Germany	22	95	-77
Import / export	8	0	-
Trade accounts receivable	**30**	**95**	**-68**

On 31 December 2017, 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 cooperation deals and service agreements with BioNTech, BioNTech Small Molecules und Maruho. No trade accounts receivable were due on the reporting date; they were paid by February 2018, as contractually stipulated.

6.6 CASH AND CASH EQUIVALENTS

This item in the statement of financial position comprises cash on hand and bank balances.

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Bank balances	41,327	10,047	311
Cash on hand	0	1	-100
Cash and cash equivalents	**41,327**	**10,048**	**311**

Of the amounts shown under "Bank balances", €10 thousand were invested in short term rental deposit.

6.7 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 reported a net loss for the 2017 financial year, it has a tax refund claim with regard to the taxes it has paid.

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Current income tax assets	**23**	**13**	**77**

6.8 OTHER ASSETS

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Prepaid expenses	109	85	28
Current tax assets	0	152	-100
Rent deposits	101	267	-62
Advances paid for third party services	0	7	-100
Government grants EU, BMBF*, BFS**	53	94	-44
Other	6	13	-54
Other assets	**269**	**618**	**-56**

* BMBF: Bundesministerium für Bildung und Forschung, the German Federal Ministry of Education and Research.
** BFS: Bayrische Forschungsstiftung, the bavarian research foundation.

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 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Prepaid expenses	109	85	0	0	109	85
Current tax	0	152	0	0	0	152
Rent deposits	101	267	101	100	0	167
Advances paid for third-party services	0	7	0	0	0	7
Government grants EU, BMBF*, BFS**	53	94	0	0	53	94
Other	6	13	0	0	6	13
Other assets	**269**	618	**101**	**100**	**168**	**518**

* BMBF: Bundesministerium für Bildung und Forschung, the German Federal Ministry of Education and Research.
** BFS: Bayrische Forschungsstiftung, the bavarian research foundation.

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

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

6.9 EQUITY

6.9.1 SHARE CAPITAL AND SHARES

As a result of the capital increase in July 2017 the share capital of 4SC AG rose to €30,648,513 compared to €18,966,646 as of 31 December 2016. All shares are no-par value bearer shares each of which represents €1.00 of 4SC AG's share capital, entailing one vote at the Annual General Meeting. Share capital is fully paid-in.

4SC AG shares are securitized under global non-coupon certificates held in custody by Clearstream Banking AG, Frankfurt am Main, Germany, 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.

6.9.2 CONDITIONAL CAPITAL

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

Conditional capital	Amount (€ 000's)	AGM resolution dated	Purpose
IV	38	28 Jun 2006/ 21 Jun 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")
VI	110	15 Jun 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")
VIII	1,600	17 Jun 2016	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 2016")
IX	800	25 Aug 2017	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 2017")

6.9.3 AUTHORIZED CAPITAL

The Annual General Meeting on 25 August 2017 authorized the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 24 August 2022, once or repeatedly, by up to 15,324,256 € in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 15,324,256 new no-par value bearer shares (Authorized Capital 2017/I).

6.9.4 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. With the capital increase in July 2017 a total of €934 thousand were attributed to this position.

6.9.5 RESERVES

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

The ESOP reserve increased to €2,187 thousand (2016: €1,760 thousand) year-on-year and 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 note 8 "Stock option plan".

The retained earnings of €67 thousand as of 31 December 2017 remained unchanged compared to the previous year.

6.9.6 APPROPRIATION OF EARNINGS

The accumulated deficit of €160,310 thousand (2016: €149,350 thousand) is carried forward to new account.

6.9.7 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 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 minimized to the extent possible without compromising the programs' 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 realizing 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 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 continuous management of equity and loss carryforwards. The capital increase in 2017 resulted in an overall higher total equity, though this effect was reduced by the net loss posted for the

year. In total, equity rose from €15,273 thousand as of 31 December 2016 by €29,420 thousand to €44,693 thousand as of 31 December 2017.

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

6.10 TRADE ACCOUNTS PAYABLE

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Germany	781	510	53
EU	370	273	36
Other countries	25	51	-51
Trade accounts payable	**1,175**	**834**	**41**

Trade accounts payable increased by 41% year-on-year. They primarily result from outsourced clinical and scientific services invoiced at the end of the year.

6.11 OTHER LIABILITIES AND DEFERRED INCOME

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Deferred income	493	1,485	-67
Accrued liabilities	1,428	967	48
Tax liabilities (VAT, wage & church tax)	59	93	-37
Advances received	58	393	-85
Deposits received	0	10	-100
Other liabilities	7	0	-
Other liabilities and deferred income	**2,045**	**2,948**	**-31**

Other liabilities 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 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Deferred income	493	1,485	394	493	99	992
Accrued liabilities	1,428	967	67	32	1,361	935
Tax liabilities (wage & church tax)	59	93	0	0	59	93
Advances received	58	393	0	0	58	393
Deposits received	0	10	0	0	0	10
Other liabilities	7	0	0	0	7	0
Other liabilities and deferred income	**2,045**	**2,948**	**461**	**525**	**1,584**	**2,423**

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

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Invoices outstanding	984	471	109
Bonus paid to Management Board and the executive management	76	55	38
Legal consulting	3	72	-96
Financial statements preparation and auditing costs	68	77	-12
Personnel liabilities	259	220	18
Renovation obligation	4	45	-91
Contribution to employer's liability insurance	4	3	33
Other	30	24	25
Accrued liabilities	**1,428**	**967**	**48**

The non-current portion of the deferred income results from the liabilities relating to the upfront payment made by Link Health in May 2016. It is released as revenue on a pro rata basis over the entire assumed development period for 4SC-205. Of the current portion of the deferred income, €99 thousand result from the above-mentioned liabilities relating to Link Health. In the previous year, the position also included the advance payment made by Yakult Honsha in April 2011, which was dissolved in full during the current reporting period. 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 €2,075 thousand were added, €1,407 thousand were used, and €54 thousand were reversed. There is only insignificant insecurity regarding the amount of actual utilization. There are no claims for reimbursement against third parties.

6.12 OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

6.12.1 CARRYING AMOUNTS AND FAIR VALUES ACCORDING TO MEASUREMENT CATEGORIES

(In € 000's)	Measurement category pursuant to IAS 39	Measurement as of 31 Dec 2017		Measurement as of 31 Dec 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LaR	30	30	95	95
Receivables from associates	LaR	0	0	0	0
Current income tax assets	LaR	23	23	13	13
Other non-current assets	LaR	101	101	100	100
Other current assets	LaR	168	168	518	518
Fixed deposits and bank balances	LaR	41,327	41,327	10,048	10,048
Financial assets at fair value through profit and loss – held for trading	AFVPL	0	0	0	0
Held-to-maturity financial assets	HtM	0	0	1,285	1,285
Available-for-sale financial assets	AfS	0	0	0	0
Accounts payable to shareholders	AC	0	0	0	0
Trade accounts payable	AC	-1,175	-1,175	-834	-834
Accounts payable to associates	AC	-461	-461	-525	-525
Other current liabilities	AC	-1,584	-1,584	-2,423	-2,423
Total		**38,429**	**38,429**	**8,277**	**8,277**
Of which aggregated by IAS 39 measurement category					
Financial assets at fair value through profit or loss	AFVPL	0	0	0	0
Held-to-maturity investments	HTM	0	0	1,285	1,285
Loans and receivables	LaR	41,649	41,649	10,774	10,774
Available-for-sale financial assets	AfS	0	0	0	0
At amortized cost	AC	-3,220	-3,220	-3,782	-3,782

6.12.2 VALUATION METHODS

Trade accounts receivable and other assets mainly have short remaining terms. The values recognized represent the approximate fair value. The majority of the non-current other assets were guarantee deposits (deposits) lodged with the landlord. The bank balances are not interest-bearing; carrying amount and fair value are therefore also identical.

The primary financial instruments existing as of 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 recognized in profit or loss. Bank statements and other bank confirmations serve to verify the fair value as of year's end. In accordance with IAS 39.46 b, financial instruments classified as held to maturity are subsequently measured at amortized cost using the effective interest method. Bank statements and other bank confirmations also serve to verify the value as of year's end.

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.

6.12.3 FAIR VALUE HIERARCHY

Both the primary financial instruments that are recognized at fair value through profit or loss as of 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 13.76 ff. No reclassifications of fair values from or into another hierarchy level were made in 2017.

6.12.4 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 2017
Financial assets at fair value through profit or loss held for trading	0	0	0	0	0	0
Held-to-maturity investments	12	-7	0	0	0	5
Loans and receivables	-1	0	-2	0	0	-3
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortized cost	0	0	0	0	0	0
Total	**11**	**-7**	**-2**	**0**	**0**	**2**

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 2016
Financial assets at fair value through profit or loss held for trading	0	0	0	0	0	0
Held-to-maturity investments	43	-33	0	0	0	10
Loans and receivables	-1	0	8	0	0	7
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortized cost	0	0	-8	-15	0	-23
Total	**42**	**-33**	**0**	**-15**	**0**	**-6**

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.

6.12.5 RISKS FROM FINANCIAL INSTRUMENTS

Liquidity, counterparty credit and interest rate risks related to liquid reserves

4SC possesses liquid reserves that are invested in order to earn interest as long as these funds are not needed. Currently, all of these funds are invested by 4SC in safe forms of investment – with a good or very good credit rating. These securities do not expose the Company to an interest rate risk.

More information is contained in the report on opportunities and risks in section 6 of the combined management report.

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 to associates and other liabilities. Because most of the financial liabilities are current, they are not subject to liquidity risk.

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 amortized 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 endeavors 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 favorable. As of 31 December 2017, 4SC had bank accounts in US dollars worth €null (31 December 2016: €null).

Liabilities denominated in foreign currencies as of 31 December 2017 were limited to the equivalent of €7 thousand in US dollars (US-$) and the equivalent of €16 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 2017:

	31 Dec 2017		31 Dec 2016	
(In € 000's)	Increase	Decrease	Increase	Decrease
Euro vs. US dollar	-1	1	-4	4
Euro vs. British pound	-2	2	-1	1

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 (2016: no change).

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. 4SC has receivables on its books, all or some of which may be settled with a delay or may not be settled at all. This would lead to valuation allowances being made on such receivables, and would thus have a negative impact on the Company's 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. €30 thousand as of the reporting date (2016: €95 thousand). To reduce the counterparty credit risk, the Company regularly runs its business relationships through different evaluation scenarios and fosters intensive customer relationships.

6.13 OTHER FINANCIAL OBLIGATIONS

Other financial obligations for the years subsequent to the reporting date stem from leases for the facilities and office space as well as the basement space rented by 4SC. These agreements were signed on 19 May 2016 for a period of ten years and run until 30 November 2026. Purchase options do not exist. The leases contain escalation clauses that are linked to the consumer price index for Germany compiled by the Federal Statistical Office. In the event of a change of more than 5% in the index, the rent is adjusted accordingly by a ratio (converted to a percentage), which may be applied no sooner than 1 December 2018.

Other financial obligations result from a fixture lease for the facilities and office space of 4SC. This agreement was also signed on 19 May 2016 for a period of ten years and runs until 30 November 2026. Purchase options do not exist. The lease contract on plant and equipment contains an escalation clause determining that the monthly rent will be reduced by 80% for the first time as of 1 December 2021.

There are no financial obligations under leases as of the reporting date. There are no finance lease agreements.

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

(In € 000's)	2017
2018	373
From 2019	2,826
Total	**3,199**

The statement of comprehensive income for the reporting year contains expenses of €461 thousand for the rented facilities (2016: €825 thousand). 4SC did not have any further expenses under leases in 2017 and the previous year.

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 €14,926 thousand (2016: €12,319 thousand).

7 Disclosures on the statement of cash flows

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

(In € 000's, unless stated otherwise)	2017	2016	Change in %
Total cash flows from operating activities, continuing operations	-8,541	-12,352	31
Total cash flows from investing activities, continuing operations	-133	2,344	-106
Total cash flows from financing activities, continuing operations	39,953	-1,500	2,764
Total cash flows from discontinued operations	0	80	-100
Net change in cash and cash equivalents	**31,279**	**-11,428**	**374**
+ Cash and cash equivalents at the beginning of the period	10,048	21,476	-53
= Cash and cash equivalents at the end of the period	**41,327**	**10,048**	**311**

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

(In € 000's, unless stated otherwise)	31 Dec 2017	31 Dec 2016	Change in %
Cash and cash equivalents at the end of the period	41,327	10,048	311
Other investments	0	1,285	-100
Cash balance/funds	**41,327**	**11,333**	**265**

8 Stock option plan

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

Option plan	Tranche	Issue	Subscription price	Subscription ratio[1]	Issued	Outstanding on 1 Jan 2017	Issued in 2017	Expired in 2017	Exercised in 2017	Outstanding on 31 Dec 2017	Exercisable on 31 Dec 2017	Max. number of shares available on 31 Dec 2017	Fair value	Cumulative staff costs[2]	Staff costs in 2017
Tranche			€		000's	€ 000's	€ 000's	€ 000's	€ 000's	€ 000's	€ 000's	€ 000's	€	€ 000's	€ 000's
ESOP 2001	2001/1	31 Mar 2001	48.00	2:1	74	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2001/2	10 Oct 2001	48.00	2:1	110	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2002	30 Jun 2002	60.00	2:1	120	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2003	30 Sep 2003	25.40	2:1	318	0	0	0	0	0	0	0	3.7	52	0
ESOP 2004	2004	30 Sep 2004	21.20	2:1	122	0	0	0	0	0	0	0	3.6	62	0
ESOP 2004	2005	30 Sep 2005	21.20	2:1	93	0	0	0	0	0	0	0	3.55	53	0
ESOP 2004	2006/1	30 May 2006	22.65	2:1	26	0	0	0	0	0	0	0	3.7	19	0
ESOP 2006	2006/2	25 Aug 2006	19.00	1:1	296	0	0	0	0	0	0	0	8.55	436	0
Replace-ment ESOP 2001	2006/3	25 Aug 2006	19.00	1:1	166	0	0	0	0	0	0	0	7.7	183	0
ESOP 2006	2007	26 Nov 2007	18.25	1:1	9	1	0	1	0	0	0	0	7.45	14	0
ESOP 2006	2008	22 Aug 2008	17.25	1:1	43	0	0	0	0	0	0	0	7.5	62	-1
ESOP 2009	2009	26 Nov 2009	16.45	1:1	888	87	0	5	0	82	82	82	5.2	829	-3
ESOP 2009	2010	26 Nov 2010	15.45	1:1	18	0	0	0	0	0	0	0	3.85	10	0
ESOP 2009	2011	30 Nov 2011	7.20	1:1	18	3	0	0	0	3	3	3	3.25	11	0
ESOP 2016	2016	22 Dec 2016	2.34	1:1	1,019	1,019	0	96	0	923	0	923	1.15	950	387
ESOP 2016	2017	7 Nov 2017	4.97	1:1	40	0	40	0	0	40	0	40	2.64	82	5
ESOP 2017	2017	7 Nov 2017	4.97	1:1	334	0	334	0	0	334	0	334	2.64	685	39
Total					3,694	1,110	374	102	0	1,382	85	1,382	64.47	3,448	427

[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. Authorized Capital I through IV and VI, and Conditional Capital VIII were adopted to fulfill 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" plans 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. All options since the "ESOP 2016" and "ESOP 2017" plan may be exercised a minimum of four years after issuance. The subscription rights may be exercised on condition that the applicable reference price exceeds the exercise price by more than 1/240th per month for the number of full months 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 9.79 years. The exercise prices of all outstanding tranches range from €2.34 and €17.25.

An overview of weighted average exercise prices is given below:

Exercise price (weighted, in €)	2017	2016
Options outstanding as of 1 Jan	3.48	17.11
Options issued in the reporting period	4.97	2.34
Options expired in the reporting period	2.89	18.22
Options outstanding as of 31 Dec	3.5	3.48
Options exercisable as of 31 Dec	5.39	3.48

All tranches issued since 30 September 2003 are valued in accordance with the requirements of IFRS 2. When determining the fair value of these options, assumptions must be made. 4SC AG uses the "Black and Scholes model" for option valuation. The following assumptions were made for the new options issued during the reporting year and in previous years:

Tranche	Expected duration (years)	Market price (€)	Volatility in %	Risk-free interest rate in %
2017	3.75	4.96	62.96	-0.54
2016	3.75	2.41	68.98	-0.71
2011	3.75	6.80	67.89	0.81
2009	3.75	16.30	40.17	1.89
2007	3.75	17.00	52.46	3.79

The market price is the closing price of a 4SC share in the XETRA system of the Frankfurt Stock Exchange. The volatility is the 250-day volatility of 4SC shares as it is expected to reflect the actual share price performance better than market volatility. The risk-free interest rate is the one for government bonds with a comparable residual maturity. There are no dividend payments to be expected. All assumptions were valid on the day of the respective option issue.

9 Remuneration of the Management Board and the Supervisory Board

9.1 MANAGEMENT BOARD

The total remuneration paid to the members of the Management Board amounted to €539 thousand (2016: €501 thousand) in the reporting year. Of this total amount, € null (2016: €26 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 €126 thousand for the reporting year (2016: €3 thousand).

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

	Fixed		Variable		Staff costs arising from options		Total	
(In € 000's)	2017	2016	2017	2016	2017	2016	2017	2016
Jason Loveridge, Ph.D.	340	95	73	21	126	3	539	119*
Daniel Vitt, Ph.D.	0	279	0	-22	0	0	0	257
Enno Spillner	0	180	0	-55	0	0	0	125**
	340	**554**	**73**	**-56**	**126**	**3**	**539**	**501**

* From 21 September to 31 December 2016.
** From 1 January to 30 June 2016.

The following overviews show the stock options held by members of the Management Board as of the 31 December 2017 reporting date.

Number of stock options	1 Jan 2017	Additions	Expired	Exercised	31 Dec 2017 (= maximum number of shares available)
Jason Loveridge, Ph.D.	300,000	0	0	0	300,000
Total	**300,000**	**0**	**0**	**0**	**300,000**

In 2017, no stock options were issued to the members of the Management Board. A total of 300,000 stock options were issued to the members of the Management Board in the 2016 financial year under the "ESOP 2016" stock option plan.

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 totaled €31 thousand as of 31 December 2017 (2016: €11 thousand).

For the Management Board member Jason Loveridge, Ph.D., an agreement was included in his directors' contracts in the context of his appointment, stipulating that in the event of a takeover by a third party and if the Management Board is to be dissolved as a result, his salary (fixed salary plus Bonus I and II) would be fully paid out for the remaining term of his contract, but for a minimum mathematical remaining period of 6 months. Furthermore, in the event that a controlling interest is acquired in the Company and for the contractual termination of the employment relationship the regulations on the expiry of stock options for the Management Board member are rescinded, i.e. all stock options issued to the member of the Management Board up to the contingent termination date would remain with the Management Board member regardless of the termination of his employment. Apart from this, there are no post-employment or termination benefits owed to the Management Board member.

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

Jason Loveridge, Ph.D.

- Non-Executive Director at Actinogen Medical Ltd., Sydney, Australia
- Member of the Supervisory Board of JDS BioPharma Pty Ltd., Perth, Australia
- Managing Director of Warambi Sarl, Paris, France
- Managing Director of Warambi Ltd., Swansea, United Kingdom

9.2 SUPERVISORY BOARD

The total remuneration paid to the members of the Supervisory Board amounted to €186 thousand (2016: €160 thousand). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

(In € 000's)	Main occupational activity	Remuneration 2017	Remuneration 2016
Clemens Doppler, Ph.D. (Chairman since 19 Sep 2014)	• Partner & Managing Director of HeidelbergCapital Asset Management GmbH, Heidelberg, Germany • Managing Director of HeidelbergCapital General Partner GmbH, Heidelberg, Germany	48	42
Joerg von Petrikowsky (Deputy Chairman since 18 Jun 2016)	• German public auditor and tax consultant	40	30
Irina Antonijevic, M.D., Ph.D.	• VP Translational Medicine, Wave Life Sciences, Cambridge, MA, USA	25	21
Helmut Jeggle	• Managing Director of Apceth Biopharma GmbH, Ottobrunn, Germany • Managing Director of Apceth Biopharma Manufacturing Company GmbH, Munich, Germany • Managing Director of Apceth Verwaltungs GmbH, Munich, Germany • COO / Managing Director of Athos Service GmbH, Munich, Germany • Managing Director of AT Impf GmbH, Munich, Germany • Managing Director of AT Newtec GmbH, Munich, Germany • Managing Director of Klinge Pharma GmbH, Holzkirchen, Germany • Managing Director of Neula Holding GmbH, Munich, Germany • Managing Director of Salvia GmbH, Holzkirchen, Germany • Authorized Officer of Santo Holding (Deutschland) GmbH, Holzkirchen, Germany • Managing Director of Santo International Holding GmbH, Holzkirchen, Germany • Managing Director of Santo Venture Capital GmbH, Holzkirchen, Germany	18	17
Prof. Helga Rübsamen-Schaeff, Ph.D.	• Chair of the Scientific Advisory Board of AiCuris GmbH & Co. KG, Wuppertal, Germany	28	25
Manfred Rüdiger, Ph.D. (Deputy Chairman until 17 Jun 2016)	• Managing Director/CEO of catalYm GmbH, Munich, Germany	27	25
Remuneration of the Supervisory Board		**186**	**160**

The following overview shows the shares held by members of the Supervisory Board as of the 31 December 2017 reporting date.

Number of shares	1 Jan 2017	Purchase	Sale	31 Dec 2017
Clemens Doppler, Ph.D.	3,719	4,204	0	7,923
Prof. Helga Rübsamen-Schaeff, Ph.D.	2,000	1,700	0	3,700
Manfred Rüdiger, Ph.D.	1,500	1,000	0	2,500
Total	**7,219**	**6,904**	**0**	**14,123**

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

Clemens Doppler, Ph.D.

- Merlion Pharmaceuticals Inc., Berlin, Germany / 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, Germany, member of the Supervisory Board
- BioNTech AG, Mainz, Germany, Chairman of the Supervisory Board
- Glycotope GmbH, Berlin, Germany, member of the Advisory Board
- Movinga GmbH, Berlin, Germany, member of the Advisory Board
- Sidroga AG, Zoffingen, Switzerland, President of the Administrative Board
- SiO2 Medical Products Inc., Auburn, Alabama, USA, member of the Supervisory Board
- VANGUARD AG, Berlin, Germany, member of the Supervisory Board

Prof. Helga Rübsamen-Schaeff, Ph.D.

- AiCuris GmbH & Co. KG, Wuppertal, Germany, Chairman of the Scientific Advisory Board
- E. Merck KG, Darmstadt, Germany, member of the Board of Partners
- Merck KGaA, Darmstadt, Germany, member of the Supervisory Board
- Bonn University Clinic, Bonn, Germany, member of the Supervisory Board

Manfred Rüdiger, Ph.D.

- Apceth GmbH & Co. KG, Munich, Germany, Chairman of the Advisory Board

Irina Antonijevic, M.D., Ph.D.

- Paion AG, Aachen, Germany, member of the Supervisory Board

Joerg von Petrikowsky did not hold any positions in other control bodies or Supervisory Boards as of the reporting date.

10 Other information

10.1 RELATED PARTY TRANSACTIONS

4SC was engaged in the following significant business transactions with related parties in the period from 1 January to 31 December 2017:

10.1.1 BIONTECH AND BIONTECH SMALL MOLECULES (OTHER RELATED PARTIES)

4SC maintains legal relations with BioNTech and its subsidiary BioNTech Small Molecules, which are both members of the Santo Holding (Deutschland) GmbH Group, Holzkirchen, Germany. On 17 December 2012, a licensing agreement was concluded for TLR drug candidates. Under the agreement, 4SC Discovery received an upfront payment of €2,500 thousand from BioNTech and was granted the right to receive 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 was to identify new small-molecule, anti-cancer compounds for defined therapeutic targets on behalf of BioNTech and optimize these further for BioNTech.

The operations of 4SC Discovery were sold to BioNTech Small Molecules for €650 thousand as of 29 April 2016. In addition and without financial compensation, 4SC is granted the right to temporarily utilize research services provided by BioNTech Small Molecules worth a person year. In this context, a sub-lease (for €230 thousand, net) and a service and materials agreement as of 1 May 2016 (for €29 thousand, net) were signed with BioNTech Small Molecules.

In 2017, the transaction volume with BioNTech was at €87 thousand (2016: €107 thousand) and with BioNTech Small Molecules at €52 thousand (2016: €0). There were no receivables as of the reporting date with BioNTech (31 December 2016: €Null). With BioNTech Small Molecules, receivables on 31 December 2017 were at €13 thousand (31 December 2016: €50 thousand). The outstanding receivables from BioNTech Small Molecules as of the reporting date were paid in January and February 2018.

10.1.2 OTHER RELATED PARTY TRANSACTIONS

Beyond this, there were no further business transactions with related parties in the reporting period, thus no liabilities existed from these transactions as of 31 December 2017.

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

On 16 February 2017, the Company's Management Board and Supervisory Board declared in accordance with Section 161 German Stock Corporation Act (Aktiengesetz, AktG) that they are in compliance, with a few exceptions, with the recommendations of the "Government Commission on the German Corporate Governance Code" issued by the Federal Ministry of Justice. The declarations of compliance were made permanently available to the public on the same day on the website www.4sc.com.

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

The following table shows the principal shareholders of 4SC AG who – on the basis of the notifications received by the Company in accordance with Sections 21 ff. of the German Securities Trading Act (Wertpapierhandelsgesetz, 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 2017 may differ from these amounts, however.

Notifying entity	Date of notification	Voting share
Santo Holding (Deutschland) GmbH, Holzkirchen, Germany	9 Jul 2012	41.48%[1]
ATS Beteiligungsverwaltung GmbH, Munich, Germany	13 Jul 2017	19.58%[1]
Wellington Partners Advisory AG, Zurich, Switzerland, Wellington Partners Management Limited, St. Helier, Jersey, United Kingdom, Wellington Partners Ventures IV Life Science Fund L.P., Edinburgh, United Kingdom	14 Jul 2017	4.54%[1]
First Capital Partner GmbH, Gräfelfing, Germany WE Vermögensverwaltungs GmbH & Co. KG, Gräfelfing, Germany, WE Verwaltung GmbH, Gräfelfing, Germany, Wolfgang Egger, Germany	19 Dec 2017	6.05%[1]

[1] Based on an estimate of the management, the shares as of 31 December 2017 were as follows:

Wellington Partners Ventures IV Life Science Fund L.P., Edinburgh, United Kingdom	4.5%
First Capital Partner GmbH, Gräfelfing, Germany	6.0%
ATS Beteiligungsverwaltung GmbH, Munich, Germany	20.9%
Santo Holding (Deutschland) GmbH, Holzkirchen, Germany	37.5%

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

On 25 August 2017, the Company's Annual General Meeting appointed Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Nymphenburgerstrasse 3b, 80335 Munich, Germany, to serve as the auditor of the 2017 financial statements.

(In € 000's)	2017	2016
Auditing services	88	75
Other verification services	4	14
Other services	66	15
Total fee billed	**158**	**104**

10.5 AVERAGE NUMBER OF EMPLOYEES

The average number of employees developed as follows:

(Average number of employees, excluding Management Board and executive management)	2017	2016
Annual average – continuing operations	46	46
Annual average – discontinued operations (until 30 Apr 2016)	0	22

The number of employees working in continuing operations (excluding the Management Board of 4SC AG) during 2017 was 46 (2016: 46).

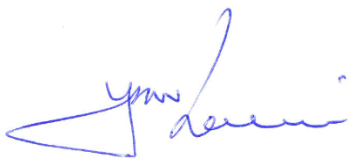
Of these 46 employees (excluding the Management Board and the executive management), 33 worked in research and development (2016: 31), 12 in sales and administration (2016:13) and 1 information technology (2016: 2).

11 Events after the reporting period

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

- In January 2018, 4SC strengthened the patent protection for 4SC-208. Composition of matter patents for a group of molecules including 4SC‑208 were granted in further geographic regions. The patents now not only provide 4SC with market exclusivity until 2033 in the U.S. but also in China, Japan, Singapore, Australia and New Zealand.
- In January 2018, the Data Safety Monitoring Board, an independent committee of clinical and drug safety experts, positively reviewed the safety data of the pivotal RESMAIN study. The committee recommends continuation of the ongoing study without modification of the study protocol.

Planegg-Martinsried, Germany, 12 March 2018



Jason Loveridge, Ph.D.
Sole Managing Director

INDEPENDENT AUDITOR'S REPORT

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

To 4SC AG, Planegg-Martinsried, Munich County

REPORT ON THE AUDIT OF THE STANDALONE FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of 4SC AG, Planegg-Martinsried, Munich County, comprising the balance sheet as of December 31, 2017, the income statement for the fiscal year from January 1, 2017 through December 31, 2017, the cash flow statement and the statement of changes in equity for the fiscal year from January 1, 2017 through December 31, 2017 as well as the notes to the annual financial statements, including a summary of significant accounting and valuation methods. In addition, we have audited 4SC AG's management report for the financial year from January 1, 2017 through December 31, 2017.

In our opinion, on the basis of the knowledge obtained during the audit,

- the attached standalone financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Art. 325 Sec. 2a HGB (German Commercial Code) and provides, in compliance with these requirements, a true and fair view of the Company's assets, liabilities, and financial position as of December 31, 2017, and of its profit situation for the fiscal year from January 1, 2017 through December 31, 2017; and
- the attached management report as a whole provides a true and fair view of the Company's position. In all material respects, this management report is consistent with the standalone financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of the Company's future development.

Pursuant to Art. 322 Sec. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the standalone financial statements' and the management report's legal compliance.

Basis for the audit opinions

We conducted our audit of the standalone financial statements and of the management report in accordance with Art. 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter referred to as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany; "IDW"). Our responsibilities under those requirements and principles are further described in the sections "Auditor's Responsibilities for the Audit of the Standalone Financial Statements and of the Management Report" in our auditor's report. We are independent from the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. Furthermore, we declare in accordance with Article 10 Sec. 2 lit. f) of the EU Audit Regulation, that we have not provided any non-audit services prohibited under Article 5 Sec. 1 of the EU Audit Regulation. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the standalone financial statements and on the management report.

Key Audit Matters in the Audit of the Standalone Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements for the fiscal year from January 1, 2017 through December 31, 2017. These matters have been taken into account in connection with our audit of the standalone financial statements as a whole, and in forming our audit opinion related herewith; we do not provide a separate audit opinion on these matters.

We have structured our presentation of these key audit matters as follows:

1. Facts and problems
2. Audit approach and findings
3. Reference to further information

I. Realization of sales revenues from license agreements

1. 4SC AG's business model aims to generate revenue from license agreements (depending on the contract structure in the form of advance payments, milestone payments, reimbursements of costs within the scope of a development cooperation and participation in sales) and the sale of products. 4SC AG's standalone financial statements show, in the income statement, sales revenues in the amount of EUR 4.2 million; license revenues account for EUR 2.9 million of such amount. Date and scope of the realization of sales revenues can be seen from complex, not standardized contracts. Against this background, the appropriate application of accounting standards – in particular the determination of performance components and the date or period of the realization of sales – can be considered as complex. Therefore, there is an increased risk of incorrect statements in the accounting records.

2. We have assessed the processes and controls implemented by the Company in connection with the revenue recognition. Our further audit approach contained an audit of controls and substantial audit procedures. We examined the correct revenue recognition on the basis of contractual agreements and gained an understanding of the transactions by means of relevant documents and explanations by 4SC AG's employees. Furthermore, we audited contract interpretations and the legal representatives' discretionary decisions resulting therefrom with an effect on the amount and date of the revenue recognition. Our audit procedures did not result in any objections as to the revenue recognition.

3. The Company's statements on the particularities regarding the sales revenues' disclosure in 4SC AG's standalone financial statements are contained in the notes on accounting and valuation methods in sections 2.3.19 "Revenue recognition" and 3.1 "Sales revenues" in the notes.

II. Capital increase

1. In order to realize its corporate and development objectives, 4SC AG has persistently high capital requirements in the short term, the medium term and the long term. Due to its business model, 4SC AG has (so far) not been able to generate a positive annual result; therefore, the Company is required to obtain additional funds in the form of equity or borrowed capital.

   In June 2017, the Company's share capital was increased by utilizing the approved capital 2013/I and by granting the shareholders' subscription rights against contribution in cash. During such capital increase, a total number of 11,681,867 shares were placed with existing and new investors. Liquid funds in the total amount of EUR 40.887 million (gross issuing proceeds) or EUR 39.953 million net were achieved. In the Company's standalone financial statements the balance sheet item "cash and cash equivalents" with now EUR 41.327 million accounts for ca. 92% of equity. The cash flow statement item "cash flow from financing activities" and the related change of the balance sheet item "cash and cash equivalents" are also significantly influenced by the capital increase and the generated issuing proceeds. Due to such transaction's dimension, we have determined such facts as key audit matter within the scope of our audit.

2. We have taken into account the legal effects in connection with such capital increase to the extent they were of importance for the financial reporting. Within the scope of our audit of equity, liquid funds and the cash flow statement, we have obtained, inter alia, evidence on the issuing proceeds, the transaction costs and, thus, the effect on equity. We have based our assessment of the capital increase's accounting and valuation on bank statements and excerpts from the commercial register as well as the Company's supervisory and management board's resolutions. With regard hereto, we also made sure that the costs in the amount of EUR 0.934 million for the capital increase have been correctly reported in accordance with IAS 32.35. Our audit procedures did not result in any objections as to the capital increase's recognition in the balance sheet.

3. The Company's disclosures on the capital increase's effects are contained in the notes, Section 6.6 "Cash and cash equivalents", 6.9 "Equity" and 7. "Notes on the cash flow statement".

Other information

The legal representatives are responsible for other information:

- Responsibility statement by the legal representatives.
- Compliance statement in Section 7 of the 2017 management report.

- Declaration on the management in Section 7 of the 2017 management report.
- Supervisory board's letter to the shareholders.

Our audit opinions on the standalone financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to assess whether the other information

- is materially inconsistent with the standalone financial statements, with the management report or our knowledge obtained during the audit; or
- otherwise seem to have been materially misstated.

Responsibilities of the Legal Representatives and the Supervisory Board for the Standalone Financial Statements and the Management Report

The legal representatives are responsible for the preparation of the standalone financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 325 Sec. 2a HGB and that the standalone financial statements, in compliance with these requirements, provide a true and fair view of the Company's assets, liabilities, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have determined, in accordance with German Generally Accepted Accounting Principles (German GAAP), as being necessary in order to provide for the preparation of standalone financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the standalone financial statements, the legal representatives are responsible to assess the Company's ability to continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the continuation as a going concern. Furthermore, they are responsible for financial reporting based on the going concern principle unless otherwise required by actual or legal circumstances.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides a true and fair view of the Company's position and is, in all material respects, consistent with the standalone financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) they have deemed necessary in order to provide for the preparation of a management report that is in accordance with applicable German legal requirements, and in order to provide sufficiently appropriate evidence for the assertions in the management report.

The supervisory board is responsible to monitor the Company's financial reporting process for the preparation of the standalone financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements and of the Management Report

Our objective is to obtain reasonable assurance as to whether the standalone financial statements as a whole are free from any material misstatements, whether due to fraud or error, and whether the management report as a whole presents a true and fair view of the Company's position and is, in all material respects, consistent with the standalone financial statements and the knowledge obtained during the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the standalone financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Art. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW will always detect any material misstatement. Misstatements can arise from fraud or error and are considered material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements and the management report.

Throughout the entire audit, we exercise professional judgment and maintain professional scepticism. We also:

- identify and assess the risks of material misstatements in the standalone financial statements and the management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting any material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- obtain an understanding of the internal control system relevant for the audit of the standalone financial statements and of arrangements and

measures relevant for the audit of the management report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the Company's systems;

- evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives as well as the related disclosures;
- draw conclusions on the appropriateness of the legal representatives' application of the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists in connection with events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the standalone financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements present the underlying transactions and events in a manner that the standalone financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit situation in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 325 Sec. 2a HGB;
- obtain sufficiently appropriate audit evidence regarding the financial information of the entities or business activities within the Company in order to express audit opinions on the standalone financial statements and on the management report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinions;
- evaluate the consistency of the management report with the standalone financial statements, its conformity with German law, and its presentation of the Company's position;
- perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficiently appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ significantly from the prospective information.

We discuss with those charged with governance, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system we identify during our audit.

We also provide those charged with governance with a declaration that we have complied with the relevant independence requirements, and discuss with them all relationships and other circumstances that may reasonably be expected to affect our independence, as well as the related protective measures taken in this regard.

From the circumstances discussed with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current reporting period and therefore constitute key audit matters. We describe these circumstances in our auditor's report unless any law or other regulation precludes the circumstance's public disclosure.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on August 25, 2017. We were engaged by the supervisory board on November 16, 2017. We have been the auditor of 4SC AG, Planegg-Martinsried, Munich County, without interruption since the fiscal year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

We have rendered the following services which have not been disclosed in the audited Company's standalone financial statements or the management report in addition to the audit of the relevant company or the entities controlled by such company:

- Preparation of a letter of comfort.

RESPONSIBLE AUDITOR

The German Public Accountant responsible for the audit is Mr. Siegfried Hund (German CPA, Tax Advisor).

Munich, dated 12 March 2018

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft (Düsseldorf)

Stahl	Hund
German CPA	German CPA

RESPONSIBILITY STATEMENT

„To the best of my 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 and 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, Germany, 12 March 2018

Jason Loveridge, Ph.D.
Sole Managing Director

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

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

INCOME STATEMENT

(In € 000's)	2017	2016
Revenue	2,630	2,799
Other operating income	313	2,813
Total revenue and income	**2,943**	**5,612**
Cost of materials		
Cost of raw materials, consumables and supplies	-2	-6
Cost of purchased services	-245	-648
Personnel expenses	-4,053	-4,029
Depreciation, amortization and write-downs	-822	-833
Other operating expenses	-10,485	-8,920
Total expenses	**-15,607**	**-14,436**
Other interest and similar income	27	84
Interest and similar expenses	-1	-24
Net finance income/tax	**26**	**60**
Cost of loss absorption	1,217	-1,274
Taxes on income	-33	-71
Profit/loss after taxes = Net loss for the year	**-11,453**	**-10,109**
Loss brought forward	-152,077	-141,968
Accumulated deficit	**-163,530**	**-152,077**

BALANCE SHEET

(In € 000's)	31 Dec 2017	31 Dec 2016
Assets		
Fixed assets		
Intangible assets	5,795	6,376
Tangible fixed assets	570	497
Long-term financial assets	9	9,972
Total fixed assets	**6,374**	**16,845**
Current assets		
Receivables and other assets	622	567
Securities	0	1,342
Cash-in-hand and bank balance	41,317	10,045
Total current assets	**41,939**	**11,954**
Prepaid expenses	**109**	**85**
Total assets	**48,422**	**28,884**
Equity and liabilities		
Equity		
Subscribed capital	30,649	18,967
Capital reserves	178,028	148,823
Accumulated deficit	-163,530	-152,077
Total equity	**45,147**	**15,713**
Provisions	**1,434**	**816**
Liabilities		
Trade accounts payable	1,175	702
Other liabilities	666	11,653
Total liabilities	**1,841**	**12,355**
Total equity and liabilities	**48,422**	**28,884**

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 GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Munich, Germany, and issued with an unqualified auditor's report.

The full annual financial statements of 4SC AG are disclosed in the German Federal Gazette. The full annual financial statements can also be solicited from 4SC AG, Corporate Communications & Investor Relations, Fraunhoferstrasse 22, 82152 Planegg-Martinsried, Germany.

GLOSSARY

CANCER STEM CELLS

Can form the basis of new tumors and thereby cause a resurgence of the disease or the formation of metastases.

CHECKPOINT INHIBITOR

The immune system has a series of mechanisms to prevent excessive defense reactions. Cancer cells misuse these so-called checkpoints (such as PD-1 and PD-L1) to override the immune defense set up against them. This is where checkpoint inhibitors come in. They inhibit signaling pathways and enable the immune system to attack cancer cells.

CLINICAL DEVELOPMENT

The performance of studies on patients in order to advance a drug candidate to market approval.

COMBINATION THERAPY

Use of two or more compounds to treat an illness.

CTCL

Cutaneous T-cell lymphoma, specific type of blood cancer in which certain white blood cells (T cells) multiply uncontrollably, primarily affecting the skin.

EPIGENETICS

Regulation of when and to what degree genes in the cells are switched on and off. The same genetic information is contained in both skin and heart cells, for example, but different genes are active, ensuring that the cells perform different functions.

FIRST-LINE THERAPY

The first therapy used to treat the patient following diagnosis.

HDAC

Histone deacetylase. HDACs are epigenetically active enzymes that among other things modify histones by removing acetyl groups from them. The HDACs thereby enable a greater or lesser degree of expression of certain genes. The development of HDAC inhibitors holds enormous potential in the fight against cancer.

HEDGEHOG/GLI SIGNALING PATHWAY

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

HISTONES

“Packaging” proteins around which DNA is wrapped in the cell nucleus.

IMMUNE PRIMING

Activation of immune cells to fulfill their function.

IMMUNOTHERAPY

Form of treatment in which the immune system is targeted, e.g. for the therapy of cancer.

INDICATION

Medical field of application for a compound.

INHIBITOR

A blocking substance.

KINASE

Enzyme adding a phosphate group to a target molecule.

MAINTENANCE THERAPY

Therapy prolonging the period patients are stable and not progressing after successful prior treatment.

MELANOMA

Malign type of cancer that develops from pigment-containing skin cells.

MERKEL-CELL CARCINOMA

Rare type of malign skin cancer.

MONOTHERAPY

Patient treatment using a drug containing only a single active substance.

ONCOLOGY

The scientific study of cancer.

PD-1 / PD-L1

Cell surface receptors acting as an immune checkpoint with an important role in down-regulating the immune system.

SECOND-LINE THERAPY

Treatment that is given when the initial treatment (first-line therapy) doesn't work or stops working.

SMALL-MOLECULE COMPOUNDS

Compounds with a low molecular weight. In some cases, their small size enables these compounds to penetrate directly into cells and take effect there. The vast majority of currently approved drugs are small-molecule compounds.

5-YEAR OVERVIEW 4SC – KEY FIGURES AT A GLANCE

RESULTS OF OPERATIONS AND CASH FLOWS

(In € 000's, unless stated otherwise)	2017	2016	2015	2014	2013
Revenue	4,197	2,338	3,266	7,055	4,904
*From continuing operations**	*4,197*	*2,060*	*2,296*	*3,778*	*1,601*
*From discontinued operations**	*0*	*278*	*970*	*3,277*	*3,303*
Operating profit/loss	-10,936	-11,603	-8,915	-9,437	-10,592
From continuing operations	*-10,936*	*-11,792*	*-7,915*	*-8,554*	*-9,457*
From discontinued operations	*0*	*189*	*-1,000*	*-883*	*-1,135*
Net profit for the year	*-10,960*	-11,166	-9,228	-9,696	-10,525
Earnings per share (basic and diluted) in €**	-0.45	-0.59	-0.64	-0.95	-1.05
Monthly use of cash from operations (average)	712	827	767	706	597
Cash flows from financing activity	39,953	-1,500	28,773	6,778	-60

* The Discovery & Collaborative Business activities were discontinued due to the sale of the key operating assets of 4SC Discovery in April 2016.
** Adjusted for the reverse stock split carried out in April 2015.

FINANCIAL POSITION AND NET ASSETS, STAFF (at year-end)

(In € 000's, unless stated otherwise)	2017	2016	2015	2014	2013
Equity	44,693	15,273	26,428	2,050	11,282
Equity ratio in %	93.3	80.2	78.9	13.7	63.7
Total assets	47,913	19,055	33,492	14,934	17,705
Cash balance/funds	41,327	11,333	22,794	3,202	4,899
Number of employees (incl. Management Board)	48	49	67	66	73
Number of full-time equivalents (incl. Management Board)	43	44	58	57	56

FINANCIAL CALENDAR

2018

Annual Report 2017	21 March 2018
Q1 Announcement 2018	26 April 2018
Annual General Meeting 2018	17 May 2018
Half-Year Report 2018	9 August 2018
Q3 Announcement 2018	25 October 2018

PUBLISHING INFORMATION

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4SC ON THE INTERNET

More information about 4SC, its products and development programs, is available on the Company's website, www.4sc.com, as well as the following information:

- Previous reports on 4SC's progress and outlook
- Audio recordings of conference calls
- Presentations
- General investor information

CORPORATE COMMUNICATIONS & INVESTOR RELATIONS

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DISCLAIMER

This document contains certain forward-looking statements that are subject to risks and uncertainties that are described, with no claim to be exhaustive, in the section entitled "Report on opportunities and risks" in the combined management report. In many cases, these risks and uncertainties are outside of 4SC's control and may cause actual results to differ materially from those contemplated in these forward-looking statements. 4SC expressly does not assume any obligation for updating or revising forward-looking statements to reflect any changes in expectations or in events, conditions or circumstances on which such statements are based.


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