Annual Report 2019

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4SC IN 2019

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.

4SC's pipeline is protected by a comprehensive portfolio of patents and currently comprises two drug candidates in clinical development: resminostat and domatinostat.

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 44 employees as of 31 December 2019 and is listed on the Prime Standard of the Frankfurt Stock Exchange (FSE Prime Standard: VSC; ISIN: DE000A14KL72).

Highlights in 2019

2019 saw 4SC make steady progress towards its stated goals. More detail about the information summarized below can be found in respective press releases and in section 1 "Course of business and outlook" starting on page 8.

- Recruited 150 patients for pivotal RESMAIN study of resminostat in cutaneous T-cell lymphoma (CTCL)
- Completed the first three cohorts of the Phase Ib/II study SENSITIZE of domatinostat in combination with pembrolizumab in melanoma and presented positive safety and efficacy data at the ESMO Congress 2019 (of the European Society for Medical Oncology)
- Completed two of three cohorts of the EMERGE study of domatinostat in micro-satellite stable gastrointestinal cancer patients
- Initiated the DONIMI study of domatinostat in the neoadjuvant setting in stage III melanoma patients
- Raised a total of €33.4 million in new equity capital
- Received milestone payments from partnering agreements.

REPORT OF THE SUPERVISORY BOARD

In the 2019 financial year, the Management Board and Supervisory Board of 4SC AG focused on the Company's status and continuing development. The Supervisory Board duly performed its duties in accordance with the law, the Company's Articles of Association and its rules of procedure. In particular, the Supervisory Board continuously monitored the work of the Management Board and advised it on the management and strategic development of the Company and on significant decisions. 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 about 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 plans and 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 meetings. The Chairman of the Supervisory Board regularly exchanged information with the Management Board. When necessary, resolutions were adopted by phone or written procedure.

MEETINGS OF THE SUPERVISORY BOARD IN 2019

The Supervisory Board convened at a total of five regular in-person meetings in the 2019 financial year. In its meetings, the Supervisory Board thoroughly addressed the Company's strategy and positioning, especially in connection with the development of the drug candidates resminostat and domatinostat in clinical studies. The future financing of the Company was another key point of discussion in all meetings. Several conference calls were held in connection with the capital increases implemented in July and November.

OTHER TOPICS OF THE SUPERVISORY BOARD MEETINGS

The first Supervisory Board meeting of the year on 12 March 2019 focused on adopting and approving the 4SC AG annual financial statements in accordance with German (HGB) and international (IFRS) accounting standards. The Management Board also reported on the status of development and the strategic positioning of the compounds resminostat and domatinostat, the respective clinical trials as well as financing options. On the occasion of the forthcoming Supervisory Board elections, the Supervisory Board in this meeting reviewed the objectives for the composition of the Supervisory Board and the profile of skills for the entire body, made selective adjustments and discussed the proposed resolutions to be submitted to the Annual General Meeting. These were subsequently adopted by written circular.

At the meeting on 24 May 2019, which took place following the Annual General Meeting, Clemens Doppler, Ph.D., and Jörg von Petrikowsky were re-elected as Chairman and Deputy Chairman, respectively, of the Supervisory Board. The committees held their inaugural meetings without any changes in personnel. The Management Board also informed the Supervisory Board about the current progress of the RESMAIN, SENSITIZE and EMERGE clinical trials and presented its plans for a planned corporate action.

The third Supervisory Board meeting on 15 July 2019 focused on the update on the development status of the 4SC programs, a discussion of their strategic positioning and potential as well as further financing options.

At the fourth meeting on 7 October 2019, the Management Board provided a status update on the additional capital increase, for which Santo and ATS committed to subscribing to new shares. The Supervisory Board gave its approval for the implementation of this capital increase. The current status of the ongoing clinical studies RESMAIN, SENSITIZE and EMERGE as well as the clinical studies DONIMI and MERKLIN, which were being prepared at this time, were also discussed. For the DONIMI and MERKLIN trials, the Supervisory Board decided to approve the conclusion of a supply agreement with Merck and Pfizer for the provision of avelumab.

The fifth and final Supervisory Board meeting on 9 December 2019 focused on the Management Board's review of 2019 and an operational outlook for 2020. Other items on the agenda included the adoption of the budget through 2022, and an update on ongoing clinical studies and business development activities. The procedure for the upcoming efficiency review of the Supervisory Board was also discussed at this meeting.

MEETINGS OF THE COMMITTEES IN 2019 – 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 met twice in person and three times via conference call in the reporting year, on some occasions 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 reports 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 were financing measures of the Company.

The R&D Committee met three times in person and once during a conference call. 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 domatinostat, the focus was on supporting the implementation of the Phase Ib/II SENSIZITE study and the investigator-initiated Phase II EMERGE study, preparing the investor-initiated DONIMI trial, and the potentially pivotal trials in Merkel cell carcinoma, MERKLIN 1 and 2. A large number of new study concepts were also discussed.

The Human Resources Committee did not meet outside of Supervisory Board meetings in the 2019 financial year. However, 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 of the Management Board and set the targets for the 2019 financial year.

The work of the committees was supplemented with numerous telephone calls among committee members and bilateral discussions between the Management Board, the respective committee chairperson and the chairman of the Supervisory Board. 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 2019 financial year, all Supervisory Board members attended more 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 UND 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 term of office of all Supervisory Board members ended at the close of the Annual General Meeting held on 24 May 2019. All members of the Supervisory Board were re-elected, so that the composition of the Supervisory Board remained unchanged in the reporting period.

APPROVED ANNUAL FINANCIAL STATEMENTS FOR 2019

The Annual General Meeting of 4SC AG on 24 May 2019 elected Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Düsseldorf) (Baker Tilly), Munich, Germany, to serve as the auditor of the annual financial statements for the 2019 financial year. Baker Tilly and its responsible senior financial auditor Siegfried Hund were first appointed auditors for the 2013 financial 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 separate financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs), as well as the combined management report, issuing an unqualified Auditors' Report in each case. The financial statements, the combined management report and the audit reports were made available to all members of the Supervisory Board in due time ahead of the meeting held on 13 March 2020. The Audit Committee discussed details of the single-entity and separate financial statements and the combined management report with the auditor and Management Board in advance during three meetings (on 28 January 2020, on 20 February 2020 and at one meeting held on 13 March 2020 immediately prior to the financials meeting of the Supervisory Board). The entire Supervisory Board was also briefed in the course of its meeting held on 13 March 2020. 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 2020 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 2019 financial year. The Management Board and the Supervisory Board take the recommendations of this Code very seriously, and the Company is compliant barring a few exceptions. In its most recent Declaration of Compliance dated 28 January 2020, the Management Board and the 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 by means of a structured questionnaire in early 2020 had shown that the Supervisory Board works efficiently. Since the Supervisory Board has decided to routinely review its efficiency every two years, a repeat efficiency review will therefore be performed in 2022.

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 of the members of the Supervisory Board was reviewed in every Supervisory Board meeting. No conflicts of interest arose in financial year 2019. As a precautionary measure, Helmut Jeggle abstained from voting on the resolution on the capital increase in November given the involvement of Santo in connection with the subscription agreement.

Planegg-Martinsried, March 2019

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 Course of business and outlook

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.

1.1 BUSINESS ACTIVITIES AND STRATEGY

4SC is a clinical-stage biopharmaceutical company developing small-molecule drugs that can target key indications in cancer with high unmet medical needs. 4SC's goal is to advance its own drug development programs in order to increase the value of the Company as a whole. In addition, 4SC enters into valuable partnerships with pharmaceutical and biotechnology companies for the further development or commercialization of its drug candidates. 4SC aims to eventually market and sell its approved drugs in select territories.

4SC's core product pipeline currently comprises two small-molecule compounds that are in clinical development and have major economic potential:

- Resminostat is 4SC's most advanced drug in terms of development and is currently being evaluated in the pivotal RESMAIN study in advanced-stage CTCL.
- Domatinostat is being investigated in combination with different checkpoint inhibitors in a number of ongoing clinical studies, including advanced-stage checkpoint inhibitor refractory or non-responsive melanoma (Phase Ib/II SENSITIZE study), stage III melanoma (Phase Ib DONIMI study), advanced-stage gastrointestinal cancer (investigator-sponsored Phase Ib/II EMERGE study), and the soon to be started advanced-stage checkpoint inhibitor relapsed or refractory Merkel cell carcinoma (Phase Ib/II MERKLIN 2 study).

In addition, 4SC aims to continue to secure the licensing or sale of non-core assets 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 class I, IIb and IV histone deacetylase (HDAC) inhibitor that is well tolerated and can inhibit tumor growth and proliferation, cause tumor regression, and strengthen the body's immune response to cancer.

Pivotal RESMAIN study in CTCL

4SC is nearing completion of recruitment for the pivotal RESMAIN study – a randomized, double-blind, placebo-controlled clinical Phase II study of resminostat in cutaneous T-cell lymphoma (CTCL).

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. None of the current therapeutic options achieve sustainable clinical benefit, with most patients progressing within six months (on average). Resminostat is being evaluated as a maintenance treatment – prolonging the period patients are stable and not progressing combined with a beneficial decrease of disease-related itching.

The design of the RESMAIN study is based on the advice of external experts and the European Medicines Agency (EMA). The study will likely include up to 190 patients. It is currently being conducted at more than 50 centers across 11 European countries, and at 5 centers in Japan where Yakult Honsha Co., Ltd. (Yakult Honsha), 4SC's Japanese development partner for resminostat, is responsible for the conduct of the study.

The Data Safety Monitoring Board, an independent committee of clinical and drug safety experts, evaluated data after 50 and 100 patients have been treated in the study and observed no safety issues. The committee recommended continuation without modification of the study protocol.

By the end of 2019 150 patients had been enrolled in the RESMAIN study and 4SC expects that sufficient patients (up to 190) will be enrolled during 2020 to accumulate the 125 events – i.e. patients experiencing disease progression. Top-line results from the study will be available as soon as possible thereafter.

If the study results are positive, 4SC plans to submit an application for marketing approval of resminostat in CTCL in Europe and seek scientific advice in the U.S. Yakult Honsha will submit in Japan. 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.

Phase II study in biliary tract cancer

In April 2018, Yakult Honsha initiated a randomized, double-blind, placebo-controlled, multi-center Phase II study evaluating the combination of resminostat and S-1 chemotherapy versus S-1 chemotherapy plus placebo as second-line treatment in 100 Japanese patients with unresectable or recurrent biliary tract cancer. The study design was based on a positive Phase I clinical study completed in September 2017, but in January 2020 Yakult Honsha informed 4SC that it would discontinue this Phase II study in Japan.

1.2.2 DOMATINOSTAT

Domatinostat is an orally administered small-molecule class I selective HDAC inhibitor. It strengthens the body's own anti-tumor immune response, influences the tumor microenvironment, makes the tumor more visible to the immune system and facilitates the infiltration of immune cells into the tumor.

Domatinostat has been investigated in a Phase I study in 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).

Domatinostat in combination with checkpoint inhibitors

In order to evaluate domatinostat's combination potential, two Phase Ib/II clinical trials were initiated, in 2017 and 2019 respectively, with domatinostat in combination with a checkpoint inhibitor.

The Phase Ib/II SENSITIZE study is a dose escalation/dose expansion study of domatinostat in combination with the checkpoint inhibitor pembrolizumab – an anti-PD-1 antibody approved as a cancer immunotherapy against melanoma - in patients with advanced-stage melanoma who are refractory to anti-PD-1 antibody treatment.

The SENSITIZE Safety Review Committee – consisting of clinical and drug safety experts – positively evaluated the safety data from the three initial dose cohorts. Data from the first part of the SENSITIZE study was published at the ESMO Congress of the European Society of Medical Oncology in September 2019, where three patient cohorts were treated at three different dose levels of domatinostat in combination with pembrolizumab. At the time of data cut-off (15 July 2019, study is still ongoing) a total of 23 patients were enrolled into the study. The main observations were:

- Domatinostat in combination with pembrolizumab was safe and well tolerated
  - no increase in frequency or intensity of immune-related adverse events (AEs) observed
- Signs of efficacy were observed, including one patient with a confirmed partial response and seven patients with stable disease (four confirmed)
  - indication of dose-dependency for domatinostat, with best results at the highest dose,
- Preliminary biomarker analyses indicate a domatinostat-induced change in immunological tumor patterns.

The Phase Ib/II EMERGE study, initiated in January 2019, is also a dose escalation/dose expansion study, conducted initially in up to 15 patients with microsatellite-stable gastrointestinal cancer. The study will evaluate domatinostat in combination with the checkpoint inhibitor avelumab (an anti-PD-L1 antibody) as part of an investigator sponsored trial (IST) conducted by Professor David Cunningham at The Royal Marsden NHS Foundation Trust (London, UK). In July and December 2019, 4SC received a positive safety review for the safety of the combination of domatinostat + avelumab in the first and second dose cohorts in EMERGE.

The third and final dose cohort will start enrolling patients in January 2020 and 4SC expects to publish results from the dose escalation Phase Ib part of this trial around the middle of 2020 and begin enrolling patients in the Phase II expansion part of the study.

Domatinostat in Merkel cell carcinoma

In addition, it is also 4SC's intention - based on preclinical investigations and data from the SENSITIZE and EMERGE Phase Ib/II studies outlined above - to advance domatinostat into additional Phase II clinical studies in patients with Merkel cell carcinoma (MCC).

MCC is a highly immunogenic, orphan type of non-melanoma skin cancer. In 2017, avelumab was approved in both the EU and U.S. for advanced metastatic MCC followed in December 2018 by pembrolizumab which was approved in the U.S. for the same indication. Although PD-1 and PD-L1 inhibitors are now standard of care in metastatic MCC, around half of all such patients still progress and currently lack any effective therapeutic options and suffer from high mortality.

To address the unmet medical need in advanced-stage MCC, 4SC intends to initially evaluate domatinostat in combination with checkpoint inhibition in checkpoint naïve MCC patients (MERKLIN 1 study), as well as in up to 40 MCC patients progressed on treatment with checkpoint inhibitors (MERKLIN 2 study).

With the start of 2020, 4SC announced that it signed a Clinical Trial Collaboration and Supply Agreement with Merck KGaA (via Ares Trading S.A.) and Pfizer Inc. The agreement provides for the supply of avelumab to 4SC's MERKLIN 2 study in MCC, which is expected to start enrolling patients in Q2 2020 and provide initial top-line data in the first half of 2021.

Domatinostat as neoadjuvant therapy in melanoma

In addition to the studies described above for MCC, it is also 4SC's intention to advance domatinostat into additional clinical studies in patients with earlier stage cutaneous melanoma as it is becoming clear that for cancer immunotherapy, the earlier treatment is given the higher the probability the patient will experience a durable response.

The term "neoadjuvant therapy" refers to an approach in which a form of therapy is given as a first step to shrink a tumor before the main treatment, which is usually surgery. Neoadjuvant therapy is already an approved clinical strategy in breast cancer and is rapidly gaining support in melanoma.

Alongside addressing later stage patients (as in the SENSITIZE, EMERGE and MERKLIN 2 studies), 4SC believes that utilizing domatinostat in combination with immunotherapy as neoadjuvant therapy is a novel and strategically important positioning for the drug and as such, the Company entered into a collaboration with the Netherlands Cancer Institute (Stichting Het Nederlands Kanker Instituut (NKI) – Antoni van Leeuwenhoek Ziekenhuis) in Amsterdam to support a Phase II clinical study (DONIMI) in 45 resectable stage III melanoma patients. The study will evaluate combining domatinostat and checkpoint blockade as neoadjuvant therapy in biomarker-selected sub-groups of such patients and successfully enrolled the first patient in Q1 2020. Top-line data from this neoadjuvant study could be available in H1 2021.

1.2.3 OUT-LICENSED PROGRAMS

4SC continues to explore partnering opportunities in line with its strategy to monetize non-core assets.

In April 2019, Immunic, Inc. (Immunic) completed a merger with Vital Therapies, Inc. leading to a NASDAQ listing (ticker symbol: IMUX). Following such merger and as part of the agreement concluded in September 2016 to sell 4SC's non-core immunology portfolio to Immunic, 4SC became a minority shareholder of the listed entity and continues to be entitled to receive royalties.

In Q3 2019, 4SC received milestone payments from its cooperation partners Guangzhou Link Health Pharma Co., Ltd. (Link Health) and Maruho Co., Ltd. (Maruho) in accordance with license and development agreements entered into in 2016, respectively 2017.

1.3 SIGNIFICANT CORPORATE EVENTS

In July 2019, 4SC implemented a cash capital increase from authorized capital. A total of 4,676,703 offered shares were placed at a subscription price of €2.37 resulting in gross proceeds of circa €11 million. As a result of the transaction, share capital increased to €35,325,216 or 35,325,216 shares, up from €30,648,513 or 30,648,513 shares previously. The 4,676,703 new shares were registered with the Commercial Register on 2 July 2019, and trading of the new shares on the Frankfurt Stock Exchange commenced on 4 July 2019.

In November 2019, 4SC completed a further capital increase with the aim to raise funds to continue to advance its drug development program for its second drug candidate domatinostat. In this context, 4SC's share capital, through the utilization of authorized capital, was increased from €35,325,216 by €10,647,553 to €45,972,769 by issuing 10,647,553 new shares, against cash contribution. With a subscription price of €2.10 per offered share, 4SC secured gross proceeds of circa €22.4 million from the capital increase. The existing shareholders of the Company, Santo Holding (Deutschland) GmbH and ATS Beteiligungsverwaltung GmbH have each exercised their respective subscription rights in full and have been allocated a substantial part of the remaining new shares. Trading of the new shares on the Frankfurt Stock Exchange commenced on 19 November 2019 after registration of the implementation of the capital increase with the Commercial Register on 14 November 2019.

1.4 MACROECONOMIC DEVELOPMENT

In its forecast issued in January 2020, the International Monetary Fund projected a rise in global growth of 2.9% for 2019 (2018: 3.6%).

Compared to 2018, the advanced economies registered a slight downturn of economic growth to 1.7% (2018: 2.2%). Overall, the euro zone economy grew by 1.2% in the reporting year (2018: 1.9%). Germany's growth rate decreased to 0.5% from 1.5% in the previous year. In the U.S., the growth rate experienced a downturn to 2.3% (2018: 2.9%).

Growth in emerging markets and developing economies in 2019 was 3.7% (2018: 4.5%). The persistently above-average growth in China slowed down from 6.6% in 2018 to 6.1%, and more significantly in India to 4.8% (2018: 6.8%).

1.4.1 DEVELOPMENTS IN THE PHARMA AND BIOTECHNOLOGY INDUSTRY

2019 was a year filled with acquisitions and substantial investments in promising technologies.

Bristol-Myers Squibb paid US-$74 billion to acquire Celgene in a deal designed to create a leader in cancer and immunology, areas where the companies have complementary drug portfolios. That deal led to another sizable one: in August, Celgene agreed to sell its psoriasis treatment Otezla to Amgen for US-$13.4 billion, an arrangement intended to satisfy the U.S. Federal Trade Commission's concerns about the dominance of Bristol-Myers Squibb's and Celgene's combined immunology franchise.

The second big merger in 2019 is AbbVie's pending US-$63-billion acquisition of Allergan, a deal that was announced in June 2019 and is expected to close in early 2020. Once the deal closes, the combined company would have 2019 annual combined revenue of approximately US-$48 billion and consist of several franchises in immunology, hematologic oncology, medical aesthetics, neuroscience, women's health, eye care and virology.

Other notable deals include Amgen paying US-$2.7 billion for a roughly 20% stake in the Chinese biopharma firm BeiGene and Gilead Sciences paying Galapagos US-$5.1 billion as part of a 10-year research pact.

Smaller and medium biotech companies were also featured in several acquisition deals meant to add technologies or to bolster the therapeutic portfolio of larger pharma companies. Examples include Eli Lilly acquiring Loxo Oncology for approximately US-$8.0 billion to broaden the scope of its oncology portfolio into precision medicine, Pfizer acquiring Array Biopharma for US-$10.64 billion in cash to beef up its small-molecules cancer portfolio, and Merck & Co. acquiring ArQule for an equity value of about US-$2.7 billion to boost its oncology pipeline.

Finally, few deals in the past year involved companies with marketed HDAC inhibitors. In January, Spectrum Pharmaceuticals announced that it entered into a definitive agreement to sell its portfolio of seven FDA-approved hematology/oncology products, including the marketed HDAC inhibitor Belodaq®, to Acrotech Biopharma. Spectrum received US-$160 million in an upfront cash payment and will receive up to US-$140 million in regulatory and sales-based milestones. In March, Secura Bio announced that it acquired the global rights to Farydak® (HDAC inhibitor panobinostat) from Novartis. No financials were disclosed.

Overall, according to GlobalData Deals Database, in 2019, worldwide, a total of 228 merger & acquisitions or strategic alliances involving companies with interest in the oncology therapeutic area were announced and the correspondent transaction value was reported. The total value exceeded US-$250 billion.

In the oncology pharma subsector in 2019 there have been more than 1,000 capital raising worldwide with 909 completed in North America and Europe (according to GlobalData Deal Database). The total capital raised in North America and Europe was more than US-$140 billion. There were in total 30 initial public offerings (IPOs) completed for about US-$3 billion.

In Germany, the most relevant IPO from an oncology company was performed by BioNTech SE (BioNTech), located in Mainz, which raised US-$150 million in its U.S. IPO in October.

1.4.2 DRUG APPROVALS

The U.S. Food and Drug Administration (FDA) approved 48 new medicines, down from 59 approvals in 2018, but higher than the industry's average productivity over the past decade.

Although technologies like gene and cell therapies are filling the pipeline, small molecules continue to dominate approvals, accounting for 69% of the FDA's new molecular entities.

Oncology treatments, which in recent years have comprised at least a quarter of new drugs, were less dominant in 2019, representing 23% of approvals Three of the eleven new cancer drugs were antibody-drug conjugates, while all but one of the remaining oncology approvals were targeted small molecules.

The European Medicines Agency (EMA) recommended 66 medicines for marketing authorization in the EU in 2019. Of these, 30 had a new active substance which had never been authorized in the EU before. Six drugs were approved for cancer indications, three of them obtained the so-called conditional marketing authorization. As the regulatory body enters 2020, it will "continuously monitor its quality and benefit-risk balance" of approved drugs to ensure that patients remain safe, while improving treatment options even further with more new approvals.

This environment is important in the context of 4SC's focus on the development of small molecules targeting cancer indications such as CTCL, MCC and melanoma.

1.5 4SC SHARES AND THE CAPITAL MARKETS

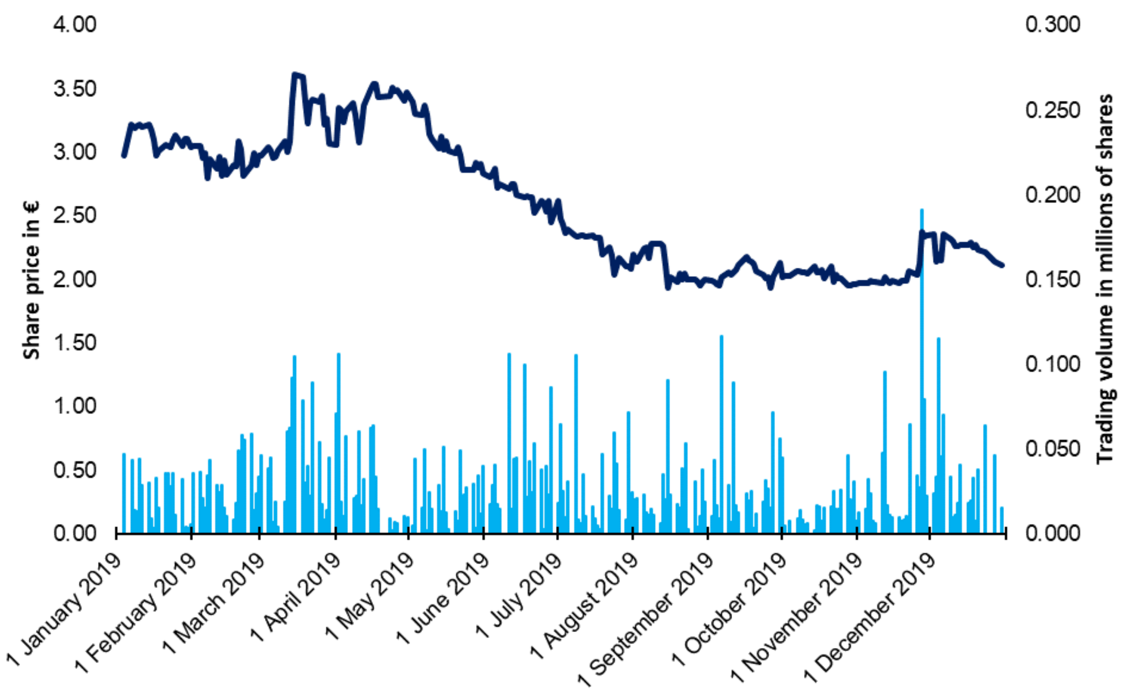
In the 2019 financial year, 4SC´s shares under-performed the two most relevant sector indexes, the NASDAQ Biotechnology and the DAXsubsector Biotechnology. 4SC´s shares fell from €2.79 at the end of 2018 to €2.11 at the end of the reporting period which is a decrease of 24 percent points year-on-year. In the same period the NASDAQ Biotechnology increased by 24% in value and the DAXsubsector Biotechnology by 37%.

In the first months of the year 2019, 4SC's shares performed broadly in line with the two sector indices, but from mid-April to mid-August the share price significantly lost value, to a minimum of €1.91, recovering slightly towards the end of the year.

The average daily trading volume of 4SC shares across all German stock exchanges, including Tradegate and Quotrix, was down to 29,631 shares compared to 64,748 in 2018. The share of stocks in the free float – as defined by Deutsche Börse AG – was 30% as of 31 December 2019, compared with 32.9% at the end of 2018.

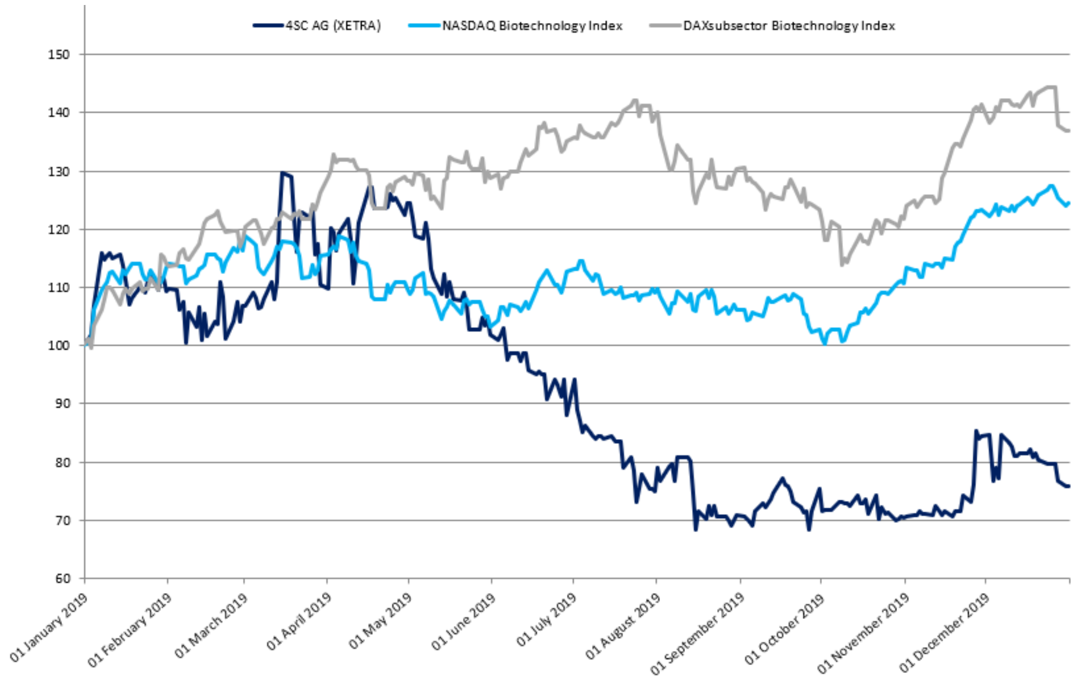
4SC SHARE PRICE (LHS) AND TRADING VOLUME (RHS)

2019, XETRA closing prices, trading volume data on all German exchanges combined (XETRA, German regional exchanges, Tradegate, Quotrix)



SHARE PRICE OF 4SC AG VS. BIOTECHNOLOGY INDEXES

2019, beginning of the year = 100%



KEY FIGURES FOR 4SC SHARES

As of 31 December 2019

Securities identification number (SIN)	**A14KL7**
International securities identification number (ISIN)	DE000A14KL72
Stock exchange symbol	VSC
Type of shares	Bearer shares
Number of shares	45,972,769
Market segment	Prime Standard
Marketplace	XETRA and all other German stock exchanges
Designated sponsor	Oddo Seydler Bank AG (until 31 December 2019) MainFirst Bank AG (starting 01 December 2019)
First day of trading	15 December 2005
Earnings per share (basic and diluted; in €)	-0.41
Free float as defined by Deutsche Börse AG	30.0%
Annual high (XETRA; in €)	3.62
Annual low (XETRA; in €)	1.91
Closing price on reporting date (XETRA; in €)	2.11
Daily trading volume (all trading venues, annual average)	29,631

SHAREHOLDER STRUCTURE

(As estimated by management, in percent)	31 Dec 2019	31 Dec 2018
Santo Holding (Deutschland)	45.9	37.5
ATS Beteiligungsverwaltung	24.1	20.9
First Capital Partner	4.0	6.0
Wellington Partners	3.0	4.5
Other	23.0	31.1
Total	**100.0**	**100.0**

RESEARCH

Institute	Place	Analyst	Date of publication	Share price one day ahead of publication (in €)	Target price per share (in €)	Analyst recommen-dation
LifeSci Capital	New York, USA	Sam Slutsky, Nicole Bezuevsky	14 Jan 2019	3.20	-	-
Stifel	London, United Kingdom	James Mainwaring	15 Jan 2019	3.22	6.30	Buy
Stifel	London, United Kingdom	James Mainwaring	20 Mar 2019	3.40	6.30	Buy
LifeSci Capital	New York, USA	Sam Slutsky, Nicole Bezuevsky	20 Mar 2019	3.40	-	-
LifeSci Capital	New York, USA	Sam Slutsky, Jacques Villefranc, Ph.D., Nicole Bezuevsky	3 Apr 2019	3.35	-	-
Stifel	London, United Kingdom	James Mainwaring	18 Apr 2019	3.54	6.30	Buy
LifeSci Capital	New York, USA	Sam Slutsky, Nicole Bezuevsky	18 Apr 2019	3.54	-	-
Stifel	London, United Kingdom	James Mainwaring	8 Aug 2019	2.14	5.70	Buy
LifeSci Capital	New York, USA	Sam Slutsky, Nicole Bezuevsky	8 Aug 2019	2.14	-	-
Stifel	London, United Kingdom	James Mainwaring	14 Aug 2019	2.23	5.70	Buy
Stifel	London, United Kingdom	James Mainwaring	30 Sep 2019	1.99	5.70	Buy
Stifel	London, United Kingdom	James Mainwaring	22 Oct 2019	2.07	5.15	Buy

2 Results of operations, financial position and net assets

4SC herein reports figures for both the 2019 and 2018 financial years.

2.1 RESULTS OF OPERATIONS

2.1.1 REVENUE

Revenue decreased to €2,196 thousand in financial year 2019, down 47% from the previous year (2018: €4,173 thousand). In the reporting year, revenues mainly comprised license revenue from agreed milestones achieved by its cooperation partners (2019: €1,875 thousand; 2018: €4,000 thousand) and services charged to the partners Link Health, Yakult Honsha and Maruho in total of €321 thousand (2018: €173 thousand).

2.1.2 OPERATING EXPENSES

Operating expenses, comprising the cost of sales, distribution costs, research and development costs and administrative costs, decreased to €17,067 thousand in 2019 (2018: €21,730 thousand). Operating expenses were thus 21% below levels seen in the previous year which is mainly a result of the lower external services for clinical activities attributed to research and development costs.

Cost of sales in 2019 remained on the same level as in the previous reporting year (2019: €345 thousand; 2018: €343 thousand). Commission was due in connection with the achievement of a milestone from the cooperation partnership with Maruho. Additional costs include patent costs and external services and were charged to business partners.

Research and development costs continue to account for the majority of expenses. These costs decreased by 26% year-on-year to €13,585 thousand (2018: €18,263 thousand). The decrease largely stems from outsourced services in connection with the ongoing RESMAIN study of resminostat in CTCL and the SENSITIZE study of domatinostat in patients with melanoma.

Administrative costs amounted to €2,729 thousand in the 2019 financial year (2018: €2,716 thousand). Although total administrative cost year-on-year remained almost unchanged, the decline in expenses for some areas like investor relations activities, was offset by higher expenses for other areas like for staff and recruitment.

Distribution costs which mainly consist of the costs incurred in business development and corporate communications were stable amounting again to €408 thousand as in the previous year.

Other operating income increased significantly to €1,007 thousand (2018: €3 thousand) as 4SC became a minority shareholder of Immunic, a NASDAQ listed company.

2.1.3 OPERATING PROFIT/LOSS

Lower revenues as compared to 2018, but also lower operating costs, decreased 4SC's operating loss by 21% in 2019 to €-13,864 thousand (2018: €-17,554 thousand).

2.1.4 NET FINANCE INCOME/LOSS

Net finance income/loss in 2019 mainly reflects changes in the evaluation of shares held in Immunic which are revalued at their fair value on a quarterly basis (net effect: €44 thousand). Additionally, finance expenses include interest for the liability representing finance lease obligations according to IFRS 16. In total the financial result amounts to €8 thousand (2018: €-11 thousand)

2.1.5 TAXES

In the reporting period, 4SC incurred expenses of €106 thousand from current income taxes in the form of a non-deductible Chinese withholding tax (2018: €94 thousand).

2.1.6 NET LOSS

The net loss declined by 21% to €13,962 thousand in 2019 (2018: €-17,659 thousand).

2.1.7 EARNINGS PER SHARE

Due to a lower net loss for the period and a higher average number of shares as a result of the capital measures in 2019, the loss per share decreased to a loss of €0.41 in the 2019 financial year (2018: loss of €0.58).

2.2 NET ASSETS

2.2.1 NON-CURRENT ASSETS

Non-current assets rose from €5,645 thousand as of 31 December 2018 to €6,723 thousand as of 31 December 2019. This increase is a result of the initial adoption of IFRS 16 which required the Company to create a right-of-use asset representing the lease of its office and laboratory space. This right-of-use asset is assigned to property, plant and equipment.

At €4,214 thousand, intangible assets continued to be the largest non-current asset item (31 December 2018:

€4,955 thousand), followed by property, plant and equipment at €2,409 thousand (31 December 2018: €589 thousand).

2.2.2 CURRENT ASSETS

The increase in current assets to €46,230 thousand as of 31 December 2019 (31 December 2018: €25,611 thousand) resulted primarily from the capital increases in the 2019 financial year, contributing gross proceeds of €33,444 thousand to 4SC's bank accounts. By the end of the fiscal year, and reduced by operating costs, cash balances/funds were at €45,765 thousand (31 December 2018: €25,036 thousand).

2.2.3 EQUITY

The increase in equity from €28,452 thousand as of 31 December 2018 to €48,190 thousand as of 31 December 2019 is mainly the result of the capital measures in the fiscal year, reduced by the net loss for the period of €13,962 thousand which increased the accumulated deficit to €191,438 thousand as of 31 December 2019 (31 December 2018: €177,476 thousand). The equity ratio remained at 91.0% year-on-year.

2.2.4 CURRENT AND NON-CURRENT LIABILITIES

Non-current liabilities increased significantly to €1,605 thousand as of 31 December 2019 (31 December 2018: €82 thousand) due to the creation of a lease liability with the initial adoption of IFRS 16. Non-current liabilities other than the long-term part of the lease liability amounted to €43 thousand as of 31 December 2019 (31 December 2018: €60 thousand) and consisted of provisions for archiving charges and bonus.

Current liabilities increased to €3,158 thousand (31 December 2018: €2,722 thousand). These consist of trade accounts payable in the amount of €1,494 thousand (31 December 2018: €1,120 thousand) and other liabilities of €1,664 thousand (31 December 2018: €1,602 thousand), including the short-term part of the lease liability of €247 thousand.

2.2.5 TOTAL ASSETS/TOTAL EQUITY AND LIABILITIES

Total assets/total equity and liabilities increased to €52,953 thousand as of 31 December 2019 (31 December 2018: €31,256 thousand), mainly as a result of the capital increases in the fiscal year, reduced by the net loss of the reporting period.

2.3 FINANCIAL POSITIONS

2.3.1 CASH FLOWS FROM OPERATING ACTIVITIES

€-12,698 thousand was used for operating activities in the 2019 financial year. The difference compared with the pre-tax loss of €13,856 thousand resulted in particular from non-cash expense items such as straight-line depreciation and amortization and the Employee Stock Option Programs (ESOP). In 2018, cash flows from operating activities came to €-16,162 thousand, with a pre-tax loss of €17,565 thousand.

2.3.2 CASH FLOWS FROM INVESTING ACTIVITIES

The cash outflow from investing activities in the financial year 2019 amounted to €13,134 thousand (2018: cash outflow of €121 thousand). Following the capital increase in November, 4SC invested €13,000 thousand in fixed-term deposits, mainly to avoid negative interest due for positive balances on its bank accounts. Moreover, the Company invested €1 thousand (2018: €2 thousand) in intangible assets and €133 thousand (2018: €120 thousand) in property, plant and equipment.

2.3.3 CASH FLOWS FROM FINANCING ACTIVITIES

The cash capital increases in the 2019 financial year added €15,324 thousand to the Company's subscribed capital and €17,479 thousand to the share premium. The cash flows from financing activities also include cash outflows totaling €280 thousand for the repayment of as well as the interest on the lease liability. These outflows reflect the rent payments for the office and laboratory space and were included for the first time in the cash flows from financing activities in accordance with IFRS 16 which was adopted in January 2019. In 2018, the cash outflows were at a total of €8 thousand.

2.3.4 CASH AND CASH EQUIVALENTS

As of 31 December 2019, the Company had cash and cash equivalents totaling €31,727 thousand (31 December 2018: €25,036 thousand). The average monthly outflow of cash funds from operating activities was €1,093 thousand in 2019 (2018: €1,357 thousand).

2.4 OVERALL ASSESSMENT OF ECONOMIC POSITION

Expenses, mainly for the ongoing RESMAIN study of resminostat in CTCL and the SENSITIZE study of domatinostat in patients with melanoma, decreased by 21% compared to the previous year. The net loss in

2019 also decreased overall by a total of 21% year-on-year. The Company had sufficient liquidity at all times during the 2019 financial year, particularly since the implementation of two capital increases added gross proceeds of €33,4 million to its accounts. The financing of ongoing development programs was not in jeopardy at any time.

BREXIT is unlikely to have a significant impact on the results of operations, financial positions and net assets of 4SC.

At present, 4SC cannot estimate or exclude an impact of a possible overburdening of global health systems due to pan- or epidemics (CoVID-19) on the conduct of ongoing clinical studies.

4SC's economic development in the 2020 financial year continued as planned up until finalization of the combined management report.

3 Employees

As of 31 December 2019, 4SC AG had 44 employees, including the Management Board, which is a decrease of 6% on the previous year (31 December 2018: 47). The average number of employees was 47 which roughly corresponds to the level of the previous year (2018: 46).

The share of female employees decreased year-on-year, reaching 61% as of 31 December 2019 (31 December 2018: 66%). As of the 31 December 2019 reporting date, 30% (31 December 2018: 32%) of 4SC's workforce were working part-time. Including part-time employees and employees on parental leave, the Company had 39 full-time equivalents (FTEs) at the end of 2019 (31 December 2018: 42 FTEs). Of these FTEs, 77% (31 December 2018: 74%) worked in research and development, and 23% (31 December 2018: 26%) in business development, administration and IT. The Company currently has no trainees.

Staff costs increased by 1% to €5,162 thousand in the 2019 financial year (2018: €5,083 thousand), including €1,068 thousand (2018: €933 thousand) arising from non-cash expenses for stock option plans.

In head count	31 December 2019	31 December 2018
Research & Development	32	34
Business Development, Administration, IT	12	13
Total	**44**	**47**

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

A strong intellectual property portfolio is crucial for value creation in a company focused on drug development. It enhances the competitive position of the 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 2019, 4SC’s portfolio comprised 274 issued patents (31 December 2018: 265) and 106 patent applications were pending at year end (31 December 2018: 111). The total number of patents and patent applications therefore remained essentially unchanged over 2018.

For resminostat, the Company held a total of 155 issued patents at the end of 2019, including 62 composition-of-matter patents in all of the world's major pharmaceutical markets. Additional patents and patent applications cover the mesylate salt (used in resminostat’s pharmaceutical formulation), the manufacturing process and specific medical uses and combinations of resminostat.

4SC also held an extensive portfolio of 76 issued patents, including 60 composition-of-matter patents, for domatinostat in the world’s major markets. Additional patents and patent applications cover the tosylate salt (used in domatinostat’s pharmaceutical formulation) and specific medical uses and combinations of domatinostat.

Besides its patents, 4SC also owns rights to strategically important trademarks, including word marks and word/picture marks.

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 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. The risk assessment and the psychological stress risk assessment were regularly updated during the last years. 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 the accounting department. These processes are defined and fixed. Coordination between 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

At the J.P.Morgan Healthcare Conference 2020 in San Francisco, biotech and pharma leaders expressed their expectation that immuno-oncology, cell therapy, and gene therapy would continue to be exciting areas in 2020, as they have been for the past two years, according to Ryan Cross, Megha Satyanarayana, Chemical & Engineering News, Vol 98, Issue 3, 20 January 2020. A report released during the meeting by the consulting firm Ernst & Young stated that the forces driving 2019 M&A activity would continue to be major drivers of deals in 2020 as well, and that the M&A focus on cell and gene therapy would continue in 2020.

The global epigenetics market is projected to reach US-$1.60 billion by 2022 from US-$0.85 billion in 2016, at a CAGR (Compound Annual Growth Rate) of 13.3% from 2017 to 2022. The growth in this market is primarily attributed to decreasing sequencing costs, increased research activity, and funding for epigenetics research, rising prevalence of cancer and growing applications of epigenetics in non-oncology diseases.

5.2 COMPANY OUTLOOK

4SC's future development plans are included in section 1.1 "Business activities and strategy" starting on page 8.

5.3 FINANCIAL FORECAST

4SC's cash balance/funds were at €45,765 thousand on 31 December 2019. The average monthly operating cash burn rate in 2019 was €1,093 thousand, which was lower than the €1,300 to €1,600 thousand forecasted in the previous Q3 announcement as a result of later expenses related to the start of new clinical studies.

Taking into account the current financial planning and the intended operating activities, the Management Board estimates that current funds should be sufficient to finance 4SC into the second half of 2021. For 2020, 4SC is expecting an average monthly use of cash from operations of between €2,200 thousand and €2,600 thousand. For 2020, 4SC estimates the net loss to nearly double compared to 2019 as it plans to increase clinical activities for its main drug candidates significantly in accordance with its business plan. 4SC expects to continue to report annual net losses, with almost identical functional cost allocations, in the short to medium term future.

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 should handle the identified risks.

4SC's internal control system 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. Verification documents are used to record the achieved results or provide objective proof of activities carried out.

Signatory powers define which employees are authorized to sign orders and invoices, the principle of dual control applies. 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 member. In 4SC's view, this approach ensures 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, advances in the Company's key preclinical and clinical development programs are presented and discussed.

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 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 as well as manual checks. In addition, the key financial indicators are discussed and analyzed regularly with the operating units.

4SC's controlling system rests on four pillars: planning, prevention, monitoring and reporting. 4SC prepares three-year budget plans for internal steering and controlling purposes, taking the overall strategic plan into account. The necessary data required for 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, activities in human resources, corporate communications and investor relations, business development as well as on intellectual property 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. Specific access rules are defined in the 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 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 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 and as a product-focused biotechnology company, 4SC is therefore exposed to drug development risks.

Typical risks include, but are not limited to, the following:

- Discontinuation of development of individual products due to ineffectiveness, severe or intolerable side effects or problems with formulation or production.

- Lack of competitiveness of products due to better therapy approaches of the competition.
- External service providers become insolvent, which could result in either a delay in development or in relevant data not being usable or lost.
- 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 clinical development stages. The risks arising from dependence on a small number of compounds 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 well-tolerated, 4SC cannot rule out that in ongoing or pending clinical studies they may turn out not to be sufficiently efficacious in treating patients, or side effects may emerge which are 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 operations, financial position, net assets or 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 most countries healthcare policies to increase quality but lower healthcare costs. Increasingly restrictive regulatory and reimbursement conditions could have an adverse effect on expected 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 cost 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 and 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 regulatory 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 requires 4SC to generate corresponding sales revenue, and or revenues from upfront payments, milestone payments or royalties under license agreements with pharmaceutical and biotech companies. Revenue generated to date is not yet sufficient for this purpose. In light of this, 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 product's value if 4SC fails to gain such partners or if it can only do so on 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 – 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, this could result in 4SC failing to receive milestone payments or royalties under this partnership, and possibly in 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 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 distribution or marketing infrastructure. To date, the Company must cooperate with other entities to market its drug candidates after approval and 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) or eventually through royalties on sales. 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 Company'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 2019 financial year, the partnerships with Yakult Honsha, Maruho and Link Health together contributed to revenues. 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 adversely affect 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 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, although no such objections 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, the Company therefore depends on subcontractors (Contract Manufacturing Organizations). 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 by 4SC.

Patient recruitment

Another significant risk for 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. In addition, clinical study centers might, for numerous reasons, be unable to recruit a sufficiently large number of patients for the clinical study in question or generate evaluable data. 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 large amounts of capital 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 present – 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 shrink its product pipeline, which 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 €45,765 thousand on 31 December 2019. In July and November 2019, 4SC generated gross proceeds of approximately €33.4 million from two capital increases which were mainly financed by 4SC's largest investors. Based on current financial planning, the Management Board estimates that these funds will be sufficient to finance the company into the second half of 2021. Due to unpredictable events 4SC can be forced to rely on prematurely raising additional funds on the capital markets. In this connection, planned corporate actions might partly fail, or fail entirely. Should the Company have no access to additional funding this could impede or entirely prevent it from continuing as a going concern and result in the insolvency of 4SC AG. 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 combined management report has been prepared. Together, these shareholders hold approximately 77% 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 in turn could influence the possibility of influencing 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 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. For this purpose, 4SC does not engage in hedging transactions but instead also endeavors to settle its own obligations in foreign currencies, primarily U.S. dollars, British pounds and Swiss francs.

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. The 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. Based on internal planning, 4SC expects this to happen again in Q3 2020. The notice of loss in an ad-hoc disclosure and the holding of such a General Meeting will 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

As of 31 December 2019, corporate tax loss carryforwards are expected to increase to approximately €211,247 thousand (of which €149,062 thousand have been confirmed by tax authorities) and trade tax loss carryforwards will likely rise to circa €209,988 thousand (of which €148,077 thousand have been confirmed by tax authorities). As a result of the tax audit completed by the tax authorities in 2018, subject to review for corporate tax and respectively trade tax loss carryforwards were waived up to financial year 2014. In the periods after 31 December 2014, of which the periods 2015 to 2018 have already been subject to a tax assessment to date, significant further losses have incurred. These losses are still subject to a final tax review. The risk arising from this is described in the second next paragraph.

Since the introduction of Section 8 (4) German Corporation Tax Act (Körperschaftssteuergesetz, KStG) with the Tax Reform Act 1990 of 26 July 1998, provisions have been in place to restrict the loss deduction of corporations. As of 1 January 2008, Section 8c KStG replaced the previous provisions. Following various amendments to Section 8c KStG, Section 8d KStG also introduced a further provision for a so-called continuation-linked loss carryforward with effect from 1 January 2016. This provision is intended to prevent the elimination of losses provided for in Section 8c KStG if the previous business operations are continued by the new shareholders. In its decision of 29 March 2017, the Federal Constitutional Court declared the provisions of Section 8c KStG in the version 2008 to 2015 regarding an employment rate of between 25% and 50% unconstitutional. With regard to an employment rate of more than 50%, proceedings are pending before the Federal Fiscal Court. It is also unclear whether the new provisions of Section 8d KStG can influence the constitutionality of Section 8c KStG.

In recent years, 4SC has seen changes among its shareholders, capital increases and investments from new shareholders. Changes in ownership below certain thresholds do not have to be disclosed to the Company. Changes in the number and nature of shareholders are still possible in the future. To this extent, the prerequisites for a limitation of loss deduction in respect of a harmful change of shareholding may have occurred or may still occur. Uncertainty could arise as to whether, in the opinion of the tax authorities, the requirements for sufficient hidden reserves or the continuation of the loss-causing business operation are met.

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.

The loss deduction restrictions could have a negative impact on the future after-tax result and thus on 4SC's equity. If the profitability limit is reached, this would lead to premature income tax payments and thus have a negative impact on the development of liquidity.

Risks in connection with the impairment losses on capitalized assets in the case of discontinuation 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. Although competition for highly skilled personnel in the biotechnology and pharmaceutical sector is very intense, 4SC has so far 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 additional factors that could jeopardize the existence of 4SC as a going concern in the 2020 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 pipeline, technical expertise and existing partnerships, 4SC believes it is well positioned overall.

The Management Board believes that the funds available at 31 December 2019, in connection with the currently projected expense and revenue planning, should be sufficient to finance the Company into the second half of 2021. If the assumptions underlying current planning regarding the cash accruing to the Company from collaborations and partnerships and from potential financing deals do not materialize to a sufficient degree, there is a risk that the Company's financing could be insufficient in view of the Company's current cash reach. This would mean that the Company's continued existence would be at risk if additional equity or debt cannot be secured.

6.3 OPPORTUNITIES FOR 4SC

6.3.1 HDAC INHIBITORS AND IMMUNE PRIMING

HDAC inhibitors are able to modify the proteins that for example limit access to the DNA, but they do not change the genetic information itself (epigenetic modification). The capability of HDAC inhibitors to regulate the growth of cancer cells has opened up new treatment possibilities.

The Company's drug candidates can positively impact the activation and modulation of the immune system and the combination of epigenetic drugs – such as domatinostat – with immunotherapies is considered to be very promising. To this end, the research team at 4SC has shown that domatinostat can act synergistically with immunotherapies to strengthen the endogenous immune response to cancer cells and modify cancer cells to make them more visible to the body's own immune system and more responsive to drug treatment.

6.3.2 COMBINATION THERAPIES – THE FUTURE FOR IMMUNO-ONCOLOGY

During the last few years, immunotherapy has become standard-of-care in many different solid tumor indications, particularly in more advanced-stage patients. While some patients respond successfully, the majority of patients progress and are either unresponsive or become refractory to treatment with existing immunotherapy options such as checkpoint inhibitors. These patients currently have very few therapeutic options and comprise those with the greatest unmet medical need.

As a result, it is widely expected that multi-agent sequential and combination therapies will be the next wave in cancer treatment and in this regard the combined efficacy, safety and tolerability of such approaches will be critical differentiators for success. Based on the available data, 4SC believes that domatinostat's efficacy, favorable safety profile and flexible dosing schedule differentiate it from competing drugs and underpin a potential best-in-class position amongst HDAC inhibitors in oncology.

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

Several of 4SC's core drug candidates might reach important milestones within the next few years, 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 domatinostat, which is being evaluated by 4SC in clinical studies in three different indications: melanoma, microsatellite-stable gastrointestinal cancer and MCC.

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 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), Immunic (for Vidofludimus) 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.

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 289f of the German Commercial Code (Handelsgesetzbuch, HGB), containing the Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 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 Section 289a(2) HGB, which is also included in section 9 (starting on page 64) of the notes to the financial statements.
- The additional disclosures for certain stock corporations pursuant to Section 289a(1) HGB, which are also included in section 6.9 (page 56) 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 2019 financial year has been combined in accordance with Section 289 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, which among other things, defines the strategy, allocates resources such as investment funds and is responsible for managing the senior management 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 (starting on page 8). As of 31 December 2019, 4SC AG had 44 employees, including one Management Board member. The annual financial statements of 4SC AG have been prepared in accordance with the provisions of the 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 €2,294 thousand in the 2019 financial year, a decrease of 46% compared with the previous year (2018: €4,272 thousand). Revenue comprised license revenue of €1,875 thousand as a consequence of milestones achieved by its cooperation partners Maruho and Link Health (2018: €4,000 thousand) and the deferred income of €98 thousand recognized in connection with the partnership with Link Health initiated in 2016 (2018: €99 thousand). Furthermore, services for partners Link Health, Yakult Honsha and Maruho amounted to a total of €321 thousand (2018: €173 thousand).

8.1.2 OTHER OPERATING INCOME

4SC AG's other operating income increased significantly to €1,194 thousand (2018: €292 thousand), mainly as a result of 4SC becoming a minority shareholder of Immunic, in April 2019, a company listed at the NASDAQ, as part of the agreement concluded in September 2016 with Immunic to sell 4SC's non-core immunology portfolio to Immunic. The shares received were valued at €994 thousand.

8.1.3 COST OF MATERIALS

The cost of materials, consisting entirely of expenses for purchased services, rose by 85% to €318 thousand (2018: €172 thousand) and is associated with cost allocations to business partners.

8.1.4 STAFF COSTS

4SC AG's staff costs rose by 1% and amounted to €4,209 thousand (2018: €4,150 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 increased by 1% to €850 thousand (2018: €840 thousand).

8.1.6 OTHER OPERATING EXPENSES

4SC AG's other operating expenses decreased by 25% to €12,030 thousand (2018: €15,941 thousand). The major items are third-party services provided by external companies in connection with the RESMAIN and SENSITIZE studies, followed by legal and consulting costs and occupancy costs.

8.1.7 NET FINANCE INCOME/LOSS

4SC AG posted net finance income of € null thousand (2018: net finance income of € null). This is in line with 4SC's strategy of avoiding or reducing negative interest on its cash funds in the current financial environment.

8.1.8 NET PROFIT/LOSS FOR THE YEAR

The developments described result in a net loss of €-14,025 thousand (2018: €-16,634 thousand) for 4SC

AG in 2019. Together with the loss carried forward from the previous year in the amount of €180,164 thousand, the net accumulated losses thus amount to €194,189 thousand.

8.2 NET ASSETS OF 4SC AG (HGB)

8.2.1 FIXED ASSETS

4SC AG's fixed assets declined year-on-year to €4,940 thousand as of the reporting date (31 December 2018: €5,656 thousand). This reduction was mainly due to pro-rata depreciation and amortization of fixed assets and a low level of new investments.

8.2.2 CURRENT ASSETS

The increase in current assets to €46,176 thousand at the close of the 2019 financial year (31 December 2018: €25,928 thousand) was primarily attributable to the two capital raises in 2019 which added gross proceeds of €33.4 million to 4SC's bank accounts. On the other hand, there was ongoing cash consumption for operating activities, mainly for the execution of the clinical programs.

8.2.3 EQUITY

Equity increased by €19,418 thousand to €47,931 thousand as of 31 December 2019 (31 December 2018: €28,513 thousand), mainly due to the capital measures executed in the reporting year.

The equity ratio increased by 3.7 percentage points, from 89,8% as of 31 December 2018 to 93,5% as of 31 December 2019.

8.2.4 OTHER PROVISIONS

Other provisions decreased by 14% to €1,401 thousand (31 December 2018: €1,620 thousand), largely due to lower outsourced scientific services at the end of the fiscal year.

8.2.5 LIABILITIES

Liabilities increased by 17% to €1,906 thousand as of 31 December 2019 (31 December 2018: €1,633 thousand), due to higher Trade accounts payable amounting to €1,494 thousand (31 December 2018: €1,120 thousand), which consisted mainly of outsourced services.

8.2.6 TOTAL ASSETS / TOTAL EQUITY AND LIABILITIES

Total assets/total equity and liabilities of 4SC AG amounted to €51,238 thousand as of 31 December 2019, up 61% on the end-of-year figure for the previous year (31 December 2018: €31,766 thousand). The rise is primarily attributable to the two capital raises in 2019.

8.3 FINANCIAL POSITIONS OF 4SC AG (HGB)

8.3.1 CASH FLOWS FROM OPERATING ACTIVITIES

Cash outflows from operating activities in the financial year 2019 decreased to €13,618 thousand (2018: outflows of €16,162 thousand) mainly due to the net loss for the 2019 financial year.

8.3.2 CASH FLOWS FROM INVESTING ACTIVITIES

The cash outflows from investing activities in the financial year 2019 amounted to €134 thousand (2018: outflows of €121 thousand). The Company invested €133 thousand (2018: €120 thousand) in property, plant and equipment. Investments in intangible assets totaled €1 thousand (2018: €2 thousand).

8.3.3 CASH FLOWS FROM FINANCING ACTIVITIES

As a result of the capital increases in July and November 2019, there were cash inflows from financing activities of €33,444 thousand in the reporting year (2018: cash outflows of €8 thousand).

8.3.4 FUNDS

Cash funds amounted to €44,727 thousand as of 31 December 2019, including liquid funds of €13,000 thousand which were invested in fixed-term deposits. The shares in Immunic received in the reporting year were valued at 1.006 T €. Total funds of the Company amounted thus to €45,733 thousand (31 December 2018: €25,036 thousand).

8.4 GENERAL STATEMENT REGARDING THE COMPANY'S POSITION

In 2019, two cooperation partners paid one-time licensing milestones. On the other side, ongoing costs mainly for the RESMAIN study evaluating resminostat in CTCL and the SENSITIZE study assessing domatinostat in melanoma reduced the Company's financial resources. The cash capital increases gave a significant boost to the Company's liquidity.

Liquidity was sufficiently secured at all times during the fiscal year and the financing of the Company's programs was not in jeopardy at any time. The operational development of 4SC AG continued to proceed according to plan in the 2019 financial year and up until the finalization of the combined management report in the 2020 financial year.

8.5 EVENTS AFTER THE REPORTING PERIOD

The events after the reporting period are described in section 11 (page 69) of the notes of 4SC.

8.6 RISKS AND OPPORTUNITIES

4SC AG is subject to the risks described in section 6 (starting on page 20) 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 (starting on page 20).

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 the course of business and outlook in section 1 (starting on page 8) and expected development for 4SC in section 5 (page 19). 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 and SENSITIZE as well as the MERKLIN studies, and higher staff costs, particularly as a result of the strengthening of the clinical operations team.

4SC AG had funds of €45,733 thousand at the end of the 2019 financial year. Based on the statements in 4SC's report on expected development in section 5 (page 19), the financing of 4SC AG is ensured into the second half of 2021. The Management Board of 4SC AG is careful to point out the risks associated with such a forecast and highlights 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.

Declaration on the dependence report according to Section 312(3) 1 AktG

"With regard to the legal transactions and measures listed in the report on relations with affiliated companies, according to the circumstances known to us at the time when the legal transactions were carried to us or the measures were taken or omitted, our company received appropriate consideration for each legal transaction and has not been disadvantaged by the fact that the measures were taken or omitted."

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, 12 March 2020

Jason Loveridge, Ph.D.
Sole Managing Director

FINANCIAL REPORT

IFRS FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2019

STATEMENT OF COMPREHENSIVE INCOME

(In € 000's, unless stated otherwise)	Notes	2019	2018
Revenue	3.1 (page 45)	2,196	4,173
Cost of sales	3.3 (page 46)	-345	-343
Gross profit		**1,851**	**3,830**
Distribution costs	3.4 (page 47)	-408	-408
Research and development costs	3.5 (page 47)	-13,585	-18,263
Administrative costs	3.6 (page 48)	-2,729	-2,716
Other income	3.7 (page 48)	1,007	3
Operating profit/loss		**-13,864**	**-17,554**
Share in the profit of equity-accounted investments	3.9 (page 49)	0	0
Finance income	3.9 (page 49)	186	5
Finance costs	3.9 (page 49)	-178	-16
Net finance income/loss		**8**	**-11**
Earnings before taxes		**-13,856**	**-17,565**
Income tax expense	4 (page 50)	-106	-94
Profit/loss for the period = Comprehensive income/loss		**-13,962**	**-17,659**
Earnings per share (basic and diluted, in €)		**-0.41**	**-0.58**

See the attached notes to the financial statements.

STATEMENT OF FINANCIAL POSITIONS – ASSETS

(In € 000's)	Notes	31 Dec 2019	31 Dec 2018
Non-current assets			
Intangible assets	6.1 (page 52)	4,214	4,955
Property, plant and equipment	6.2 (page 53)	2,409	589
Investments accounted for using the equity method	6.3 (page 54)	0	0
Other investments	6.4 (page 54)	0	0
Other financial assets	6.8 (page 55)	100	100
Other assets	6.8 (page 55)	0	1
Total non-current assets		**6,723**	**5,645**
Current assets			
Trade accounts receivable	6.5 (page 55)	46	14
Other financial assets	6.8 (page 55)	14,038	0
Cash and cash equivalents	6.6 (page 55)	31,727	25,036
Current income tax assets	6.7 (page 55)	0	12
Other assets	6.8 (page 55)	419	549
Total current assets		**46,230**	**25,611**
Total assets		**52,953**	**31,256**

See the attached notes to the financial statements.

STATEMENT OF FINANCIAL POSITIONS – EQUITY AND LIABILITIES

(In € 000's)	Notes	31 Dec 2019	31 Dec 2018
Equity			
Share capital		45,973	30,649
Share premium		189,400	172,092
Reserves		4,255	3,187
Accumulated deficit		-191,438	-177,476
Total equity	6.9 (page 56)	**48,190**	**28,452**
Non-current liabilities			
Other financial liabilities	6.11 (page 58)	1,562	0
Other liabilities	6.11 (page 58)	43	82
Total non-current liabilities		**1,605**	**82**
Current liabilities			
Trade accounts payable	6.10 (page 58)	1,494	1,120
Other financial liabilities	6.11 (page 58)	1,051	1,096
Other liabilities	6.11 (page 58)	613	506
Total current liabilities		**3,158**	**2,722**
Total equity and liabilities		**52,953**	**31,256**

See the attached notes to the financial statements.

STATEMENT OF CASH FLOWS

(In € 000's)	Notes	2019	2018
Cash flows from operating activities			
Earnings before taxes		-13,856	-17,565
Adjustment for statement of comprehensive income items			
Depreciation, amortization and impairment losses	3.8 (page 48)	1,111	841
Net finance income/loss		-8	11
Stock options	8 (page 63)	1,068	933
Other non-cash items		-944	493
Changes in statement of financial position items			
Trade accounts receivable		-32	16
Current income tax assets		12	11
Other assets		131	-381
Trade accounts payable		374	-55
Other liabilities		-396	132
Deferred income		0	-493
Interest received		1	5
Interest paid		-3	-16
Income taxes paid		-106	-94
Total cash flows from operating activities		**-12,698**	**-16,162**
Cash flows from investing activities			
Purchase of intangible assets	6.1 (page 52)	-1	-2
Purchase of property, plant and equipment	6.2 (page 53)	-133	-120
Investments in financial assets	6.8 (page 55)	-13,000	0
Proceeds from sales of property, plant and equipment		0	1
Total cash flows from investing activities		**-13,134**	**-121**
Cash flows from financing activities			
Payments to share capital		15,324	0
Payments to share premium		18,120	0
Payments incurred for the capital increases from the share premium		-641	-8
Repayment of lease liabilities		-246	0
Interest on lease liabilities		-34	0
Total cash flows from financing activities		**32,523**	**-8**
Net change in cash and cash equivalents		**6,691**	**-16,291**
+ Cash and cash equivalents at the beginning of the period		25,036	41,327
= Cash and cash equivalents at the end of the period		**31,727**	**25,036**

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 2018 as reported 31 Dec 2017	**30,649**	**172,100**	**2,187**	**67**	**-160,310**	**44,693**
Effect of initial application of IFRS 15					493	493
Balance on 1 Jan 2018	**30,649**	**172,100**	**2,187**	**67**	**-159,817**	**45,186**
Options issued (ESOP 2016/2016)*			417			417
Options issued (ESOP 2016/2017)*			80			80
Options issued (ESOP 2016/2018)*			118			118
Options issued (ESOP 2017/2017)*			289			289
Options issued (ESOP 2017/2018)*			29			29
Expenses incurred for the capital increase 11 Jul 2017		-8				-8
Comprehensive income/loss 2018					-17,659	-17,659
Profit/loss 2018					*-17,659*	*-17,659*
Balance on 31 Dec 2018	**30,649**	**172,092**	**3,120**	**67**	**-177,476**	**28,452**
Balance on 1 Jan 2019	**30,649**	**172,092**	**3,120**	**67**	**-177,476**	**28,452**
Options issued (ESOP 2016/2016)*			98			98
Options issued (ESOP 2016/2017)*			-13			-13
Options issued (ESOP 2016/2018)*			426			426
Options issued (ESOP 2017/2017)*			305			305
Options issued (ESOP 2017/2018)*			252			252
Capital increase 4 Jul 2019	4,677	6,408				11,085
Expenses incurred for the capital increase 4 Jul 2019		-532				-532
Capital increase 18 Nov 2019	10,647	11,712				22,359
Expenses incurred for the capital increase 18 Nov 2019		-280				-280
Comprehensive income/loss 2019					-13,962	-13,962
Profit/loss 2019					*-13,962*	*13,962*
Balance on 31 Dec 2019	**45,973**	**189,400**	**4,188**	**67**	**-191,438**	**48,190**

* ESOP: Employee Stock Option Program.

For more information on components and changes in equity, see note 6.9 (page 56).

NOTES TO THE IFRS FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2019

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.

4SC AG is a clinical-stage biopharmaceutical company that focuses on the development of small-molecule drugs that can target key indications in cancer with high unmet medical needs. 4SC AG's goal is to advance its own drug development programs in order to increase the value of the Company as a whole. In addition, 4SC AG enters into valuable partnerships with pharmaceutical and biotech companies for the further development or commercialization of its drug candidates. 4SC AG aims to eventually market and sell its approved drugs in select territories.

4SC AG is authorized to engage in all transactions that are expedient to and foster the achievement of its corporate purpose. In this respect the Company is also permitted to found, acquire or obtain equity interests in and assume the management of other enterprises domestically and abroad, lease companies or business operations, enter into intercompany agreements, particularly profit transfer and control agreements, and establish branch offices and other outlets domestically and abroad.

The 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	Financial Instrument (in 2018: Associate)	IFRS 9 (in 2018: IAS 28)

1.2 RELEASE OF THE FINANCIAL STATEMENTS

The Management Board approved the financial statements for release on 12 March 2020. 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 325(2a) with regard to Section 315e 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 (page 26) 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 the rounding of exact figures.

The statement of the 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 2019 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**
IFRS 16	Leases	1 Jan 2019	Yes	Yes
IFRS 9 (A)	Financial Instruments / Notice agreements with negative compensation	1 Jan 2019	Yes	None
IAS 19 (A)	Employee benefits / Plan amendment, curtailment or settlement	1 Jan 2019	Yes	None
IAS 28 (A)	Investments in associates / Long term interest in associates and joint ventures	1 Jan 2019	Yes	Yes
Improvements IFRS 2015-2017	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 Jan 2019	Yes	None
IFRIC 23	Uncertainty over income tax treatments	1 Jan 2019	Yes	None

* (A) Amendment to Standard.
** Standards marked "Yes" affect the consolidated financial statements of the Company. Standard with no material effects on the financial statements are marked "None".

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 former standard – that is, the lessor continues to classify leases as finance or operating leases. IFRS 16 replaces the former 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. IFRS 16 is initially applied on 1 January 2019 using the modified retrospective approach.

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 in part, they were not applied to the financial statements for the period ended 31 December 2019. 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.

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

Standard / interpretation*	**Title**	**Effective date for annual periods beginning on****	**Adopted by the EU**	**Effects on 4SC*****
IFRS 17	Insurance Contracts	1 Jan 2022	No	None
IFRS 3 (A)	Business Combination / Definition of a business	1 Jan 2020	No	None
IAS 1 (A) IAS 8 (A)	Presentation of financial statements / Definition of material accounting policies, changes in accounting estimates and errors / Definition of material	1 Jan 2020	No	None
Conceptual Framework (A)	Amendments to the conceptual framework	1 Jan 2020	No	None
IFRS 9 (A) IAS 39 (A) IFRS 7 (A)	Changes in hedge accounting policies / Interest rate benchmark reform	1 Jan 2020	No	None

* (A) Amendment to Standard.
** For annual periods beginning on or after the date.
*** 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".

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 recognized 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” (page 52).

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.

Concerning the rental contract of the office building and laboratories entered to until 30 November 2026 (including two options to extend for three years each), IFRS 16 “Leases” is initially applied on 1 January 2019, using the modified retrospective approach. The cumulative effect of adopting IFRS 16 is therefore recognized as an adjustment to the opening balance at 1 January 2019 with no restatement of comparative information (IFRS 16.C3). The definition of a lease on transition is also adopted. This means, IFRS 16 is applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. At the date of transition, a lease liability of €2.055 thousand is recognized as a liability, which is offset by a capitalized value in use of the same amount. Due to the straight-line depreciation of the right-of-use and the application of the effective interest rate to the lease liability, it results into a higher charge in the first years and to declining expenses towards the end of the term. However, there is no substantial effects on profit and loss. With regard to low value leases, 4SC elected not to apply the requirements of IFRS 16 (Recognition exemption IFRS 16.5b). Instead, it continues to account for them as expenses (IFRS 16.6).

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" (page 53). The development of the right-of-use asset and the corresponding lease liability in accordance with IFRS16 is also presented under this note.

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" (page 53).

2.3.6 EQUITY INVESTMENTS

With the merger of 4SC AG and 4SC Discovery GmbH (4SC Discovery) in December 2017, the company Panoptes previously held by 4SC Discovery, turned to a direct equity investment of 4SC AG and was recognized as an associated company in accordance with IAS 28 as defined by the degree of influence 4SC AG had in it (“at equity”). Due to a capital increase of Panoptes in May 2019, the investment was diluted to below 20% resulting in a loss of significant influence. The “at equity” stake was therefore reclassified to other financial assets (other investments) and recognized according to IFRS 9.

2.3.7 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.

2.3.8 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.

2.3.9 OTHER FINANCIAL ASSETS

The other financial assets are financial instruments as defined by IFRS 9. Depending on the individual case, they are classified as follows:

- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial assets at amortized cost

Classification of financial assets into measurement categories is made on initial recognition. Financial assets in the Company’s financial statements comprise equity instruments, debt instruments such as trade receivables and other financial assets such as fixed-term deposits and a rental deposit.

The business model as well as the SPPI conditions (solely payments of principal and interest) were assessed at 1 January 2019. In general, financial assets held by 4SC to collect contractual cash flows and give rise to cash flows representing solely redemption and interest, are measured at amortized cost in accordance with IFRS 9. Financial assets at amortized cost are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The new impairment model is a forward-looking expected credit loss model (ECL).

Equity instruments such as the investment in Quiescence Technologies LCC (Quiescence), Panoptes and Immunic do not fulfil the SPPI test and are therefore classified at fair value through profit and loss. 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 on the reporting date. Financial instruments with a remaining life of more than one year on the reporting date are shown as other investments among non-current assets. Financial instruments with a remaining life on the reporting date of less than one year are shown as other financial assets among current assets, insofar as they do not meet the recognition criteria as defined by IAS 7.7. Analogous to the financial instruments as defined by IFRS 9, fixed deposits that have a term of more than three months calculated from the date of acquisition are shown as other financial assets. If other financial assets meet the recognition criteria as defined by IAS 7.7, they are shown as cash equivalents.

Equity instruments are classified into current or non-current assets depending on the strategic objective for which they are held. It is also taken into account whether there is a reliable market for the equity instrument in the event of an intended sale. In consequence, 4SC classifies the shares held in Immunic to be current financial assets, the equity stakes in Quiescence and Panoptes are regarded non-current.

2.3.10 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.

2.3.11 CASH AND CASH EQUIVALENTS

Cash consists of cash on hand and bank balances. 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, as well as other financial assets if they meet the recognition criteria as defined by IAS 7.7.

2.3.12 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.

2.3.13 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.

2.3.14 OTHER LIABILITIES AND FINANCIAL LIABILITIES

Other liabilities and financial liabilities include accruals and provisions and all other payment obligations of the Company that are not shown as separate items in the statement of financial position.

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. 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.

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.

In general, accruals, other liabilities and financial liabilities are carried at their settlement amount. The lease liability was measured at the present value of the lease payments that were not paid at the date of initial measurement (1 January 2019), in accordance with IFRS 16.

2.3.15 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 shown as current assets and liabilities.

2.3.16 REVENUE RECOGNITION

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

According to IFRS 15, the licensing agreements are assessed applying the 5-step model. All license agreements are evaluated, whether the criteria of identification as a contract according to IFRS 15.9. are fulfilled. This includes the assessment of the contractual period in which the parties to the contract have present enforceable rights and obligations. It was generally concluded that 4SC acts as the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. At contract inception, the promised goods or services in the contracts to customers are assessed in order to identify performance obligations. A performance obligation is a promise to transfer to the customer a good or service that is distinct or a series of distinct goods or services (IFRS 15.22). If the grant of a license is bundled together with the rendering of services, it is evaluated whether these agreements comprise of more than one performance obligation.

Within existing license agreements, the granting of the license establishes a customer’s right to the intellectual property of 4SC (IFRS 15.B52) and is classified to be a separate performance obligation (IFRS 15.26i). For each promise to grant a license which is a separate performance obligation it needs to be determined, whether control is transferred to the customer either at a point in time or over time. If a contract with a customer contains more than one performance obligation the transaction price is allocated to each performance obligation on a relative-stand-alone selling price basis.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer (IFRS 15.47) and comprises fixed amounts, variable amounts or both. If an agreement includes a variable component, the amount of consideration to which 4SC is entitled to in exchange for transferring goods or services to the customer is estimated.

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 each relevant contract. As the license agreements transfer a right to use the 4SC's intellectual property as it exists at the point in time at which the license is granted, the performance obligation is satisfied at grant date (IFRS 15.B56b). Upfront payments are thus recognized as revenue at grant date.

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 previously agreed, confirmed by the business partner. Such variable considerations are estimated at contract inception based on the most likely amount of consideration expected from the transaction. They are constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved (IFRS 15.56/57). Payment should then have been made within a period of a maximum of 30 days. The estimated transaction price is updated at each reporting date to reflect the current facts and circumstances. In case of termination clauses, the contractual period in which the parties to the contract have enforceable rights and obligations is taken into consideration.

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 generates subsequent external sales that result in royalties to 4SC (IFRS 15.B63).

Irrevocably sold licenses are posted as revenue for the full amount as of the date of transfer of usage rights (IFRS 15.B56b) if no further obligations exist for 4SC.

2.3.17 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.

2.3.18 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. Development costs are therefore also expensed in the period in which they are incurred.

2.3.19 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 the related costs for which the grants are intended to compensate as expenses. 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.

2.3.20 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.

2.4 USE OF ESTIMATES

In preparing these financial statements, it was necessary for the Management Board to make estimates and discretionary decisions which can 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

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

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

2.4.2 RESERVES ESOP / EXPENDITURE FROM STOCK OPTIONS

The accounting for stock options granted to employees and the Management Board (as part of 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.

3 Disclosures on the statement of comprehensive income

3.1 REVENUE

Revenue decreased year-on-year to €2,196 thousand (2018: €4,173 thousand). The achievement of milestones by licensing partners contributed a total of €1,875 thousand (2018: €4,000 thousand), and were paid by 4SC’s cooperation partners Link Health and Maruho in accordance with license and development agreements entered into in 2016, respectively 2017. Additional revenues were received for services and cost reimbursements charged to business partners.

(In € 000’s, unless stated otherwise)	2019	2018	Change in %
Germany	0	25	-100
EU (without Germany)	0	0	-
Other countries	2,196	4,148	-47
Total Revenue	**2,196**	**4,173**	**-47**

3.2 STAFF COSTS

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Salaries	3,429	3,525	-3
Social security contributions	665	625	6
Stock options	1,068	933	14
Total	**5,162**	**5,083**	**2**
Employees and Management Board (annual average)	47	46	2

The Company's staff costs increased slightly by 2% in 2019 to €5,162 thousand (2018: €5,083 thousand). The average number of employees rose by 1 to 47 headcounts.

In 2019, 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 €118 thousand in the reporting year (2018: €120 thousand). In addition, a total of €503 thousand (2018: €483 thousand) was paid to statutory social security funds.

Stock options granted to staff and Management Board members were shown as staff costs in accordance with IFRS 2. Previous years' stock option programs were valued accordingly, adding €1,068 thousand (2018: €933 thousand) to total staff costs. There were no new stock option programs issued in 2019.

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)	2019	2018	Change in %
External services	147	76	93
Patents	66	52	27
Commission	60	210	-71
Other	72	5	1,340
Total	**345**	**343**	**1**

Year-on-year, total Cost of sales remained on the same level. The commission payment in 2019 is related to the achievement of a development milestone under the license agreement concluded with Maruho in 2017. In the prior year, a commission was due for the milestone payment from Yakult Honsha, with whom a license agreement was closed in 2011. Costs for patents, external services and other costs were reimbursed by 4SC's business partners.

3.4 DISTRIBUTION COSTS

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Staff	251	254	-1
License fees and software, literature and databases	81	82	-1
External services	43	0	-
Travel and conferences	14	39	-64
Rental costs including ancillary costs	11	13	-15
Legal and consulting	0	20	-100
Other	8	0	-
Total	**408**	**408**	**0**

Distribution costs mainly consist of the costs incurred by the Business Development and Strategic Planning & Marketing units, for which project driven costs, mainly for legal and consulting expenses as well as travel costs decreased. External services incurred for the professional conduct of an advisory board meeting that discussed the future positioning of resminostat in the market. Year-on-year, total Distribution costs remained at the same level as in the previous year (2019: €408; 2018: €408 thousand).

3.5 RESEARCH AND DEVELOPMENT COSTS

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Staff	3,316	3,289	1
External services	8,605	13,448	-36
Depreciation, amortization and impairment losses	1,030	815	26
Patents	301	204	48
Material	151	110	37
Travel and conferences	104	116	-10
Rental costs including ancillary costs	79	341	-77
Software licenses, literature and online inquiries	37	70	-47
Other	27	153	-82
EU Grants	-65	-283	-77
Total	**13,585**	**18,263**	**-26**

Research and development costs decreased by 26% to €13,585 thousand in 2019 (2018: €18,263 thousand) due to time shifts. External services basically reflect the development activities in the Company's two main products: Resminostat and domatinostat, the major part of which was spent on the execution of the pivotal RESMAIN study for resminostat in CTCL and the SENSITIZE study for domatinostat in melanoma.

With the initial application of IFRS 16 "Leases" in January 2019, a right-of-use asset representing the use of the building for the fixed term of the rental contract was created and is subsequently depreciated over time. Depreciations in 2019 include an additional €215 thousand, while rental costs decreased accordingly.

3.6 ADMINISTRATIVE COSTS

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Staff	1,595	1,540	4
Supervisory Board	207	207	0
Legal and other consulting	176	207	-15
Insurance, fees and contributions	130	106	23
Investor relations	126	241	-48
IT, software and license fees	85	88	-3
Rental costs including ancillary costs	81	92	-12
Staff recruitment	81	37	119
Travel and conferences	74	86	-14
Depreciation, amortization and impairment losses	74	26	185
Other	100	86	16
Total	**2,729**	**2,716**	**0**

Administrative costs amounted to €2,729 thousand in 2019, and hence remained relatively stable year-on-year (2018: €2,716 thousand). Lower costs for investor relations services relate to the termination of contracts with investor relations agencies during the reporting year. The rise in expenses for staff recruitment mainly relate to the expansion of clinical programs. The increase in depreciation relates to the initial application of IFRS 16 "Leases", with corresponding lower expenses classified as rental costs.

3.7 OTHER INCOME

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Income from sales of assets	0	2	-100
Insurance compensations	13	0	-
Other	994	1	99,300
Total	**1,007**	**3**	**33,467**

In April 2019, Immunic, completed a merger with Vital Therapies, Inc. leading to a NASDAQ listing (ticker symbol: IMUX). Following such merger and as part of the agreement concluded in September 2016 with Immunic to sell 4SC's non-core immunology portfolio to Immunic, 4SC became a minority shareholder. The shares were initially evaluated at a fair value of €994 thousand on effective date.

The Insurance compensation relates to the delivery of clinical medication.

3.8 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Amortization of and impairment losses on intangible assets	742	741	0
Depreciation of and impairment losses on property, plant and equipment	109	100	9
Depreciation of right-of-use asset	260	0	-
Total	**1,111**	**841**	**32**

Amortization of and impairment losses on intangible assets – which mainly stemmed from the capitalization of the rights acquired from Nycomed – were virtually unchanged year-on-year. Depreciation of and impairment losses on property, plant and equipment increased, because of new investments mainly for laboratory equipment.

With the initial application of IFRS 16 "Leases" in January 2019, a right-of-use asset representing the use of the rented building for the term of the rental contract was created and is subsequently depreciated straight-line over its initial term.

Depreciation, amortization and impairment losses are shown in the income statement under the items research and development costs as well as distribution and administrative costs.

3.9 NET FINANCE INCOME/LOSS

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

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Financial instruments measured at fair value through profit and loss	184	0	-
Interest-bearing investment of cash balances/funds	1	0	-
Income from exchange rate differences	1	5	-80
Total	**186**	**5**	**3,620**

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

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Financial instruments measured at fair value through profit and loss	140	0	-
Interest from finance lease	34	0	-
Expenses from exchange rate differences	3	15	-80
Other interest expense	1	1	0
Total	**178**	**16**	**1,013**

In accordance with IFRS 9 "Financial Instruments", the shares held in Immunic are revalued quarterly at their fair value, which corresponds to the share price according to their NASDAQ quotation on the reporting date. The change in the fair value is reported through profit and loss and allocated to finance income or loss.

Interest from finance lease is a result of the application of IFRS 16 "Leases" which requires companies to show a liability representing the obligation for rental payments during the term of the rental contract in its financial statements. This liability is subject to interest, which is recognized accordingly in the financial result.

The capital increases closed in July 2019 and November 2019 provided additional cash to 4SC's bank accounts. The main investing strategy for these funds was to avoid negative interests 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)	2019	2018	Change in %
Current expenses	-106	-94	13
Deferred tax income	0	0	-
Income tax expense (-) / income (+)	**-106**	**-94**	**13**

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 (Unternehmensteuerreformgesetz) 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 10.85% was applied for trade tax. As was the case for the previous year, the total tax rate as of 1 January 2019 is therefore 26.68%.

As in the previous year, at 31 December 2019 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 €110 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 2019 and 31 December 2018 were distributed as follows across the statement of financial position:

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Intangible assets	7	10	-30
Investments accounted for using the equity method	0	0	-
Other financial assets	9	0	-
Other liabilities	15	14	7
Deferred income	79	104	-24
Deferred tax assets	-110	-128	-14
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 IFRS. 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:

(In € 000's, unless stated otherwise)	2019	2018
Tax loss carryforward	210,618	197,172
Reduction for deferred tax liabilities	-412	-486
Effective tax rate (in %)	26.68	26.68
Value of the tax loss carryforwards	**56,083**	**52,476**

This calculation is based on the assumption that the tax rates applicable after 1 January 2019 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 Sections 8c and 8d of the German Corporate Income Tax Act (Körperschaftsteuergesetz, KStG). The criteria mentioned – various shareholder changes, capital increases, the addition of new shareholders – could result in a (pro-rated) elimination of tax loss carryforwards, applied to 4SC during previous years. Because of the legal uncertainty, which has arisen in connection with the interpretation of the provisions applicable in this context, and the attitude the competent tax 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.

Similar regulations exist for trade tax as for corporate income tax.

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

(In € 000's)	**2019**	**2018**
Earnings before taxes	-13,855	-17,565
Expected tax income at a tax rate of 26.68% (2018: 26.68%)	3,697	4,686
Income (+) / expense (-) shown in the statement of comprehensive income	-106	-94
Difference to be explained	**3,803**	**4,780**
Unrecognized tax loss carryforwards	3,603	4,281
Non-deductible expenses	25	25
Ineligible foreign withholding tax	78	69
Release of deferred income due to first-time application of IFRS 15	79	105
Other differences	18	300
Total reconciliation	**3,803**	**4,780**

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).

	2019	**2018**
Based on net profit/loss for the year (in € 000's)	-13,962	-17,659
Based on average number of shares (in thousand)	34,251	30,649
Earnings per share (basic and diluted, in €)	**-0.41**	**-0.58**

Given 4SC's loss, the stock options outstanding (potential ordinary shares) are currently "anti-dilutive" as their conversion to ordinary shares would not increase loss per share. 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 section 6.9 “Equity” starting (page 56) and section 8 “Stock option plan“ (page 63).

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, unless stated otherwise)		Cost				Amortization and impairment losses				Carrying amounts	
	Remaining useful life in years	Balance on 1 Jan 2019	Additions 2019	Disposals 2019	Balance on 31 Dec 2019	Balance on 1 Jan 2019	Additions 2019	Disposals 2019	Balance on 31 Dec 2019	Balance on 31 Dec 2019	Balance on 31 Dec 2018
Software and patents	1-14	14,077	1	0	14,078	9,159	733	0	9,892	4,186	4,918
Other	3	520	0	0	520	483	9	0	492	28	37
Intangible Assets		**14,597**	**1**	**0**	**14,598**	**9,642**	**742**	**0**	**10,384**	**4,214**	**4,955**

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

(In € 000's, unless stated otherwise)		Cost				Amortization and impairment losses				Carrying amounts	
	Remaining useful life in years	Balance on 1 Jan 2018	Additions 2018	Disposals 2018	Balance on 31 Dec 2018	Balance on 1 Jan 2018	Additions 2018	Disposals 2018	Balance on 31 Dec 2018	Balance on 31 Dec 2018	Balance on 31 Dec 2017
Software and patents	1-15	14,075	2	0	14,077	8,427	732	0	9,159	4,918	5,648
Other	4	520	0	0	520	474	9	0	483	37	46
Intangible Assets		**14,595**	**2**	**0**	**14,597**	**8,901**	**741**	**0**	**9,642**	**4,955**	**5,694**

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 €562 thousand and €2,657 thousand (2018: €651 thousand to €3,163 thousand) and whose residual amortization period is between 5.25 years and 7.17 years (2018: between 6.25 and 8.17 years).

The amortization and impairment of intangible assets is shown in the statement of comprehensive income mainly under research and development costs.

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Cost of sales and administrative costs	2	1	100
Research and development costs	740	740	0
Amortization of / impairment losses on intangible assets	**742**	**741**	**0**

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, unless stated otherwise)		Cost				Amortization and impairment losses				Carrying amounts	
	Remaining useful life in years	Balance on 1 Jan 2019	Additions 2019	Disposals 2019	Balance on 31 Dec 2019	Balance on 1 Jan 2019	Additions 2019	Disposals 2019	Balance on 31 Dec 2019	Balance on 31 Dec 2019	Balance on 31 Dec 2018
Right-of-use asset	7	0	2,055	0	2,055	0	260	0	260	1,795	0
Office equipment	4-9	117	0	0	117	107	2	0	109	8	10
Laboratory equipment	1-8	403	116	0	519	116	50	0	166	353	287
Installations in third party buildings	1-9	310	3	0	313	62	31	0	93	220	248
Other operating and office equipment	1-5	17	0	0	17	16	0	0	16	1	1
IT equipment	1-8	226	8	25	209	183	19	25	177	32	43
Other	0-1	107	0	0	107	107	0	0	107	0	0
Property, plant and equipment		**1,180**	**2,182**	**25**	**3,337**	**591**	**362**	**25**	**928**	**2,409**	**589**

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

(In € 000's, unless stated otherwise)		Cost				Amortization and impairment losses				Carrying amounts	
	Remaining useful life in years	Balance on 1 Jan 2018	Additions 2018	Disposals 2018	Balance on 31 Dec 2018	Balance on 1 Jan 2018	Additions 2018	Disposals 2018	Balance on 31 Dec 2018	Balance on 31 Dec 2018	Balance on 31 Dec 2017
Office equipment	4-10	117	0	0	117	104	3	0	107	10	13
Laboratory equipment	1-10	298	105	0	403	74	42	0	116	287	224
Installations in third party buildings	1-9	310	0	0	310	31	31	0	62	248	279
Other operating and office equipment	1-8	17	0	0	17	16	0	0	16	1	1
IT equipment	1-8	216	10	0	226	164	19	0	183	43	53
Other	0-1	107	5	5	107	107	5	5	107	0	0
Property, plant and equipment		**1,065**	**120**	**5**	**1,180**	**496**	**100**	**5**	**591**	**589**	**570**

With the initial adoption of IFRS 16 on 1 January 2019, a right-of-use asset (and a corresponding lease liability) is created. This asset represents the discounted present value of the rental contract of the office building / laboratories and is depreciated straight-line over the remaining contract period of 7.9 years as of the date of initial adoption. The development of the asset and the corresponding liability were as follows:

(In € 000's)	2019	2018
Right-of-use asset on 1 January	2,055	0
Depreciation	-260	0
Right-of-use asset on 31 December	**1,795**	**0**
Lease Liability on 1 January	2,055	0
Cash outflow	-280	0
Interest expense	34	0
Lease Liability on 31 December	**1,809**	**0**

4SC elected not to apply the requirements of IFRS 16 to leases of low value assets (recognition exemption in accordance with IFRS 16.5b), but recognizes associated lease payments as expenses. In the reporting period, these expenses totaled €32 thousand, and related to fixture leases for the facilities and office space of 4SC (further described in section 6.13 Other financial obligations, page 61) and to office equipment. There were no short-term leases in 2019.

Additions in laboratory equipment during the reporting year primarily relate to investments for the replacement or enhancement of equipment.

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

(In € 000's, unless stated otherwise)	2019	2018	Change in %
Research and development costs	290	75	287
Distribution and administrative costs	79	25	216
Depreciation of / impairment losses on property, plant and equipment	**369**	**100**	**269**

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In early July 2013, 4SC Discovery sold the worldwide exclusive rights to its drug candidate PP-001 and its derivatives to Panoptes. This drug candidate will be developed by Panoptes for eye diseases but can also potentially 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, July 2018 and May 2019 financings at Panoptes, in which 4SC did not participate, diluted its interest to 17.82%. 4SC AG has no controlling influence on the company's business policy and is not represented on the company's Advisory Board.

The stake held in the entity was thus reclassified as a financial instrument in accordance with IFRS 9.

6.4 OTHER INVESTMENTS

This item in the statement of financial position reflects financial instruments within the meaning of IFRS 9 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 and in Panoptes.

The 10% stake in Quiescence was acquired in December 2006, however its fair value is still € null due to a lack of clarity with regard to Quiescence's financial situation.

With the dilution of its interest to 17.82% and its loss of controlling influence, 4SC reclassified the equity investment in Panoptes as a financial instrument with a fair value of € null in accordance with IFRS 9. The fair value of the financial asset in 2019 corresponds to the value of the asset when it was accounted for using the at equity method in 2018, and is € null.

6.5 TRADE ACCOUNTS RECEIVABLE

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Germany	0	1	-100
EU (without Germany)	0	0	0
Other countries	46	13	254
Trade accounts receivable	**46**	**14**	**229**

On 31 December 2019, as on the reporting date of the previous year, there were no bad debt allowances for trade accounts receivable in accordance with IFRS 9.

Trade accounts receivable mainly result from cooperation agreements with Maruho and Yakult Honsha. No trade accounts receivable were due on the reporting date; but paid in February 2020, as contractually stipulated.

6.6 CASH AND CASH EQUIVALENTS

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

As of 31 December 2019 cash and cash equivalents comprise the following positions:

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Bank balances	31,727	25,035	27
Cash on hand	0	1	-100
Cash and cash equivalents	**31,727**	**25,036**	**31**

6.7 CURRENT INCOME TAX ASSETS

4SC may receive interest from its fixed-term deposits, money market funds and securities. Financial institutions are required to withhold tax and solidarity surcharge on such interest income. In general, 4SC is eligible to a tax refund claim for taxes paid if it reports a net loss in the respective financial period.

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Current income tax assets	**0**	**12**	**-100**

6.8 OTHER ASSETS AND OTHER FINANCIAL ASSETS

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Prepaid expenses	122	183	-33
Current tax assets	221	127	74
Advances paid for third party services	0	173	-100
EU government grants	75	67	12
Other	1	0	-
Other assets	**419**	**550**	**-24**

According to IAS 1.60, other assets are separately classified into current and non-current assets as follows.

(In € 000's)	Total receivables		Thereof non-current		Thereof current	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Prepaid expenses	122	183	0	1	122	182
Current tax	221	127	0	0	221	127
Advances paid for third-party services	0	173	0	0	0	173
EU government grants	75	67	0	0	75	67
Other	1	0	0	0	1	0
Other assets	**419**	**550**	**0**	**1**	**419**	**549**

Based on the information available today, there are no indications giving rise to doubts regarding grant funding.

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.

Other financial assets reflect fixed-term deposits which are not allocated to cash equivalents according to their agreed term. In addition, this position includes the shares in Immunic, listed at the NASDAQ, of which 4SC became minority shareholder in 2019. Total other financial assets comprise the following items:

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Financial instruments with a remaining life of less than one year	13,000	0	-
Financial instruments with a remaining life of more than one year	0	0	0
Equity instruments	1,038	0	-
Rent deposit	100	100	0
Other financial assets	**14,138**	**100**	**14,138**

The increase in other financial assets results from investments of cash and cash equivalents in fixed-term deposits. The main goal for these investments is to reduce or avoid negative interest on 4SC's bank accounts. The shares in Immunic are not held for strategic purposes. Rent deposits serve to safeguard landlords' claims.

Terms and conditions of the fixed-term deposits as of 31 December 2019 were as follows:

(In € 000's, unless stated otherwise)	Carrying amount	Term in months	Interest rate in %
Greensill Bank, fixed-term deposits	4,000	6 - 12	0.12 – 0.22
Bank of China, fixed-term deposits	9,000	6 - 12	0.01 – 0.06

6.9 EQUITY

6.9.1 SHARE CAPITAL AND SHARES

As a result of the two capital increases in July and November 2019 the share capital of 4SC AG rose to €45,972,769 compared to €30,648,513 as of 31 December 2018. 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	Number of shares	Amount (€ 000's)	AGM resolution dated	Purpose
VI	86.000	86	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	1,600,000	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	800,000	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")
2019/I	7,500,000	7,500	24 May 2019	Granting of shares to owners and/or creditors of still to be issued convertible bonds and/or warrants, income debentures and/or participation rights (or a combination of these instruments)

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). It was fully utilized by 15,324,256 shares with the capital measures implemented in July and November 2019.

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, direct transaction costs of an equity transaction are accounted for as a deduction from the share premium, net of any related income tax benefit.

6.9.5 RESERVES

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

The ESOP reserve increased to €4,187 thousand (2018: €3,120 thousand) year-on-year and corresponds to the number of share options granted in previous years to employees and the Management Board and outstanding at the end of the reporting year. The ESOP programs are measured in accordance with the provisions of IFRS 2. The calculation is explained under note 8 "Stock option plan" (page 63).

Retained earnings of €67 thousand as of 31 December 2019 have not changed year-on-year.

6.9.6 APPROPRIATION OF EARNINGS

The accumulated deficit of €191,438 thousand (2018: €177,476 thousand) is carried forward.

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 company's development 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 includes the continuous monitoring of equity, including loss carryforwards. The capital increases in 2019 resulted in an overall higher total equity, though this effect was reduced by the net loss posted for the year. In total, equity increased from €28,452 thousand as of 31 December 2018 by €19,738 thousand to €48,190 thousand as of 31 December 2019.

No changes were made in the strategy or objectives concerning capital management during the reporting year.

6.10 TRADE ACCOUNTS PAYABLE

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Germany	1,015	649	56
EU (without Germany)	399	285	40
Other countries	80	186	-57
Trade accounts payable	**1,494**	**1,120**	**33**

The short-term trade accounts payable increased by 33% year-on-year. They primarily result from outsourced clinical and scientific services invoiced by the end of the year. Furthermore, legal expenses with regard to the capital increase in November were invoiced at the end of the year and paid in January 2020.

6.11 OTHER LIABILITIES AND OTHER FINANCIAL LIABILITIES

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Accrued liabilities	3,201	1,613	98
Tax liabilities (wage & church tax)	68	71	-4
Other liabilities	**3,269**	**1,684**	**94**

According to IAS 1.60, other liabilities are separately classified into current and non-current as follows:

(In € 000's)	Total liabilities		Thereof non-current		Thereof current	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Lease liability*	1,809	0	1,562	0	247	0
Invoices outstanding*	804	1,096	0	0	804	1,096
Tax liabilities	68	71	0	0	68	71
Advances received	0	0	0	0	0	0
Other liabilities	588	517	43	82	545	435
Other liabilities	**3,269**	**1,684**	**1,605**	**82**	**1,664**	**1,602**

*financial liabilities

The non-current accrued liabilities comprise the long-term part of the lease liability and Management Board bonus as well as the archiving costs and the renovation obligation. All other liabilities are of current nature.

With the initial adoption of IFRS 16 “Leases” on 1 January 2019, a finance lease liability (as well as a corresponding right-of-use asset) is created. This liability represents the discounted present value of the rental contract of the office building / laboratories. The repayment of the liability as well as an interest charge is spread over the remaining contract period of 7.9 years. The initial value of the lease liability was €2,055 thousand on 1 January 2019 of which €246 thousand were repaid by 31 December 2019.

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

(In € 000's, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Lease liability	1,809	0	-
Invoices outstanding	804	1,096	-27
Personnel liabilities	211	247	-15
Liabilities for expenses arising from capital increases	172	0	-
Financial statements preparation and auditing costs	59	69	-14
Bonus paid to Management Board and the executive management	45	130	-65
Other	101	71	42
Accrued liabilities	**3,201**	**1,613**	**98**

In 2019, a total of €3,111 thousand were added to accrued liabilities (thereof €1.809 thousand lease liability), €1,404 thousand were used, and €120 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 IFRS 9	Measurement as of 31 Dec 2019		Measurement as of 31 Dec 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Other investments	FVTPL	0	0	0	0
Trade accounts receivable	AC	46	46	14	14
Other non-current financial assets	AC	100	100	100	100
Fixed deposits	AC	13,000	13,000	0	0
Bank balances	AC	31,727	31,727	25,036	25,036
Equity instruments	FVTPL	1,038	1,038	0	0
Trade accounts payable	AC	-1,494	-1,494	-1,120	-1,120
Other liabilities	AC	-588	-588	-517	-517
Other financial liabilities	AC	-804	-804	-1,096	-1,096
Total		**43,025**	**43,025**	**22,934**	**22,934**
Of which aggregated by IFRS 9 measurement category					
Fair value through profit or loss	FVTPL	1,038	1,038	0	0
At amortized cost	AC	41,987	41,987	22,934	22,934

6.12.2 VALUATION METHODS

Other investments and equity instruments existing as of the reporting date are classified as financial assets at fair value through profit or loss in accordance with IFRS 9. Gains and losses from subsequent measurement are recognized in profit or loss.

Trade accounts receivable have short remaining terms. The values recognized represent the approximate fair value.

The other non-current financial assets are guarantee deposits (deposits) lodged with the landlord. The bank balances are not interest-bearing; carrying amount and fair value are therefore identical. Fixed deposits are interest-bearing. Due to insignificant interest rates and short remaining terms, values recognized represent the approximate fair value. Bank statements and other bank confirmations serve to verify the fair value as of year's end.

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

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

6.12.3 FAIR VALUE HIERARCHY

The financial instruments (equity instruments) that are recognized at fair value through profit or loss as of the reporting date are categorized into Level 1 inputs (prices in active markets); other investments are categorized into Level 2 (observable inputs) in accordance with IFRS 13.76 ff. No reclassifications of fair values from or into another hierarchy level were made in 2019.

6.12.4 NET RESULTS ACCORDING TO MEASUREMENT CATEGORIES

The net result of the financial instruments in the reporting year, in accordance with IFRS 9 is composed of the following:

(In € 000's)	Subsequent measurement					
	Interest result	At fair value	Currency translation	Impairment loss	Disposal	Net result 2019
Financial assets at fair value through profit or loss	0	44	0	0	0	44
Liabilities at amortized cost	0	0	-2	0	0	-2
Total	**0**	**44**	**-2**	**0**	**0**	**42**

In the previous year, the net result of the financial instruments as defined in IFRS 9 was comprised as follows:

(In € 000's)	Subsequent measurement					
	Interest result	At fair value	Currency translation	Impairment loss	Disposal	Net result 2018
Debt instruments at amortized cost	0	0	-16	0	0	-16
Liabilities at amortized cost	0	0	5	0	0	5
Total	**0**	**0**	**-11**	**0**	**0**	**-11**

The net results of financial instruments as defined in IFRS 9 are shown in the financial result. The €44 thousand revaluation income result from the subsequent fair value measurement through profit and loss for the shares of Immunic, of which 4SC is a minority shareholder.

6.12.5 RISKS FROM FINANCIAL INSTRUMENTS

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

4SC possesses cash and cash equivalents as well as further liquid funds that are invested in order to earn interest or to avoid negative interest on current bank accounts as long as these funds are not needed. Currently, all of these funds are invested at different bank institutions, each with a credit rating of A- or better. In addition, the respective invested amounts are covered by the combination of the German statutory deposit insurance (up to €100 thousand) and the voluntary deposit insurance (from €100 thousand up to the respective protection limit).

The amounts invested in fixed-term deposits do not exceed an amount of €10 million per bank institution and do not expose the Company to an interest rate risk.

More information is contained in the report on opportunities and risks in section 6 (starting on page 20) 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, other liabilities and other financial liabilities. Because most of these liabilities are current, they are not subject to liquidity risk.

Market risks

In 2019, 4SC became minority shareholder in Immunic, a clinical-stage biopharmaceutical company listed at the NASDAQ. Equity instruments allocated to the biotechnology sector can be subject to strong fluctuations in the share price and as such bear high risks for their shareholders. In a worst-case scenario, the carrying amount of the shares in 4SC's financial statements could be at risk, especially if Immunic does not reach its corporate goals or is not able to raise additional funds if necessary.

Currency risks

4SC partially 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 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-$) are bought when the exchange rate is favorable. As of 31 December 2019, 4SC had bank accounts in US-$ worth € null (31 December 2018: € null).

Assets denominated in foreign currencies as of 31 December 2019 amount to the equivalent of €1,038 thousands in US-$ and reflect the carrying amount of the shares held in Immunic. Liabilities were limited to the equivalent of €20 thousand in 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 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 2019:

	31 Dec 2019		31 Dec 2018	
(In € 000's)	**Increase**	**Decrease**	**Increase**	**Decrease**
Euro vs. US dollar	-94	94	-1	1
Euro vs. British pound	-2	2	-1	1

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 receivables. 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 result 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. €46 thousand as of the reporting date (2018: €14 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. There are no purchase options, but the lease can be extended twice for three years at a time. Following expiry of the fixed rental period or the option periods, the rental agreement is extended by a further two years if it is not terminated in due time. 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). Such an adjustment was first permitted on 1 December 2018, but has not yet been applied.

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.

With the initial application of IFRS 16 “Leases” the obligation with regard to leases for the facilities and office space as well as the basement space is reported as a lease liability in the Company’s financial statements and is therefore no longer included in “Other financial obligations”. Future payments for the fixture lease break down as follows:

(In € 000’s)	2019
2020	30
2021 – 2024	46
From 2025	12
Total	**88**

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 €17,256 thousand (2018: €9,706 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)	2019	2018	Change in %
Total cash flows from operating activities	-12,698	-16,162	30
Total cash flows from investing activities	-13,134	-121	108
Total cash flows from financing activities	32,523	-8	-4,024
Net change in cash and cash equivalents	**6,691**	**-16,291**	**-147**
+ Cash and cash equivalents at the beginning of the period	25,036	41,327	-39
= Cash and cash equivalents at the end of the period	**31,727**	**25,036**	**31**

In addition to cash and cash equivalents, 4SC has liquid funds that are predominantly invested to avoid negative interest on bank accounts. Furthermore, liquid funds include the shares in Immunic, listed at the NASDAQ, which the Company holds as a minority shareholder. As of the reporting date, these items comprise the cash balance/funds:

(In € 000’s, unless stated otherwise)	31 Dec 2019	31 Dec 2018	Change in %
Cash and cash equivalents at the end of the period	31,727	25,036	31
Other financial investments	14,038	0	-
Cash balance/funds	**45,765**	**25,036**	**83**

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	Date of Issue	Exercise price	Exercise ratio[1]	Max. options granted	Outstanding on 1 Jan 2019	Granted in 2019	Forfeited in 2019	Exercised in 2019	Expired in 2019	Outstanding on 31 Dec 2019	Exercisable on 31 Dec 2019	Max. number of shares available on 31 Dec 2019	Fair value	Cumulative staff costs[2]	Staff costs in 2019
			€		000's	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	0	n/a	0	0
ESOP 2001	2001/2	10 Oct 2001	48.00	2:1	110	0	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	0	n/a	0	0
ESOP 2001	2003	30 Sep 2003	25.40	2:1	318	0	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	0	3.6	62	0
ESOP 2004	2005	30 Sep 2005	21.20	2:1	93	0	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	0	3.7	19	0
ESOP 2006	2006/2	25 Aug 2006	19.00	1:1	296	0	0	0	0	0	0	0	0	8.55	436	0
Replacement ESOP 2001	2006/3	25 Aug 2006	19.00	1:1	166	0	0	0	0	0	0	0	0	7.7	183	0
ESOP 2006	2007	26 Nov 2007	18.25	1:1	9	0	0	0	0	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	0	7.5	62	0
ESOP 2009	2009	26 Nov 2009	16.45	1:1	888	78	0	0	0	78	0	0	0	5,2	829	0
ESOP 2009	2010	26 Nov 2010	15.45	1:1	18	0	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	0	3	0	3	3,25	11	0
ESOP 2016	2016	22 Dec 2016	2.34	1:1	1,019	871	0	13	0	0	858	0	858	1,15	967	98
ESOP 2016	2017	7 Nov 2017	4.97	1:1	40	40	0	0	0	0	40	0	40	2,64	99	-13
ESOP 2017	2017	7 Nov 2017	4.97	1:1	334	321	0	17	0	0	304	0	304	2,64	749	305
ESOP 2016	2018/1	19 Nov 2018	3.10	1:1	500	500	0	0	0	0	500	0	500	1,42	712	340
ESOP 2016	2018/2	19 Nov 2018	3.10	1:1	187	183	0	24	0	0	159	0	159	1,59	214	85
ESOP 2017	2018	19 Nov 2018	3.10	1:1	478	478	0	14	0	0	464	0	464	1,59	622	253
Total					**4,859**	**2,474**	**0**	**68**	**0**	**78**	**2,328**	**0**	**2,328**		**5,094**	**1,068**

[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 2009” plan 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 options of the “ESOP 2016” and “ESOP 2017” plans 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 8.03 years. The exercise prices of all outstanding tranches range from €2.34 to €15.45.

An overview of weighted average exercise prices is given below:

(Exercise price, weighted, in €)	2019	2018
Options outstanding as of 1 Jan	3.53	3.90
Options granted in the reporting period	-	3.10
Options forfeited in the reporting period	3.42	3.55
Options expired in the reporting period	16.45	17.25
Options exercised in the reporting period	-	-
Options outstanding as of 31 Dec	3.10	3.53
Options exercisable as of 31 Dec	-	-

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 %
2018/1	2.90	3.17	69.76%	-0.56%
2018/2	3.75	3.17	69.76%	-0.43%
2017	3.75	5.27	68.06%	-0.54%
2016	3.75	2.34	68.98%	-0.71%
2011	3.75	6.80	67.89%	0.81%
2010	3.75	15.48	29.98%	1.37%
2009	3.75	16.15	40.17%	1.89%

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 German 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 €679 thousand (2018: €669 thousand) in the reporting year. Of this total amount, € null (2018: € null) represents contributions to defined contribution plans according to IAS 19.7. Pro-rated staff costs attributable to options included in overall remuneration amounted to €374 thousand for the reporting year (2018: €244 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)	2019	2018	2019	2018	2019	2018	2019	2018
Jason Loveridge, Ph.D.	377	340	-72	85	374	244	679	669

The following overview shows the stock options held by the member of the Management Board as of the 31 December 2019 reporting date.

(Number of stock options)	1 Jan 2019	Additions	Expired	Exercised	31 Dec 2019 (= maximum number of shares available)
Jason Loveridge, Ph.D.	800,000	0	0	0	800,000

In addition to 300,000 stock options that were issued to the member of the Management Board under the "ESOP 2016" stock option program in the 2016 financial year, a total of 500,000 stock options were issued to the member of the Management Board under the "ESOP 2016" stock option program in the 2018 financial year.

In addition to the fixed remuneration, of which a percentage is paid out at the end of each month, current benefits owed to the member of the Management Board resulting from a portion of the variable remuneration totaled €25 thousand as of 31 December 2019 (2018: €25 thousand).

For the Management Board member Jason Loveridge, Ph.D., an agreement was included in his directors' contract in the context of his appointment in 2016, 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 member of the Company's Management Board was also member of the following bodies and supervisory boards:

Jason Loveridge, Ph.D.

- Member of the Supervisory Board of JDS BioPharma Pty Ltd., Perth, Australia
- Member of the Supervisory Board of Invex Therapeutics 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 €188 thousand (2018: €188 thousand). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

(In € 000's)	Main occupational activity	Remuneration 2019	Remuneration 2018
Clemens Doppler, Ph.D. (Chairman since 19 Sep 2014)	• Partner and Managing Director of HeidelbergCapital Asset Management GmbH, Heidelberg, Germany	48	48
Joerg von Petrikowsky (Deputy Chairman since 18 Jun 2016)	• German public auditor and tax consultant	40	40
Irina Antonijevic, M.D., Ph.D.	• Senior Vice President Development of Triplet Therapeutics Inc., Cambridge, MA, USA	26	26
Helmut Jeggle	• Managing Director / CEO of ATHOS KG, Munich, Germany	18	18
Prof. Helga Rübsamen-Schaeff, Ph.D.	• Chair of the Scientific Advisory Board of AiCuris Anti-Infective Cures GmbH, Wuppertal, Germany	28	28
Manfred Rüdiger, Ph.D.	• Managing Director / CEO of catalYm GmbH, Munich, Germany	28	28
Remuneration of the Supervisory Board		**188**	**188**

The following overview shows the shares held by members of the Supervisory Board as of the 31 December 2019 reporting date.

Number of shares	1 Jan 2019	Purchase	Sale	31 Dec 2019
Clemens Doppler, Ph.D.	7,923	0	0	7,923
Prof. Helga Rübsamen-Schaeff, Ph.D.	3,700	0	0	3,700
Manfred Rüdiger, Ph.D.	2,500	0	0	2,500
Total	**14,123**	**0**	**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, Chairman 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 SE, Mainz, Germany, Chairman of the Supervisory Board
- Sidroga AG, Zoffingen, Switzerland, President of the Administrative Board
- SiO2 Medical Products Inc., Auburn, Alabama, USA, member of the Supervisory Board
- Solaris Pharma Corporation, Bridgewater, New Jersey, USA, member of the Supervisory Board

Prof. Helga Rübsamen-Schaeff, Ph.D.

- E. Merck KG, Darmstadt, Germany, External member of the Board of Partners, Chairman of the Research Council
- Merck KGaA, Darmstadt, Germany, member of the Supervisory Board

Manfred Rüdiger, Ph.D.

- ALS Investment Fund, Amsterdam, The Netherlands, Member 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 2019:

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 was granted the right to utilize research services provided by BioNTech Small Molecules worth a person year and in this context, a service and materials agreement as of 1 May 2016 was signed with BioNTech Small Molecules.

In 2019, the transaction volume with BioNTech (2018: €22 thousand) and BioNTech Small Molecules (2018: €3 thousand) was at € null.

In January 2018, a further service partnership was agreed between 4SC and BioNTech Small Molecules at standard market conditions, with net expenses in 2019 of €8 thousand (2018: €34 thousand).

There were no receivables from or liabilities to BioNTech on the reporting date (31 December 2018: € null). Also, there were no receivables from BioNTech Small Molecules (31 December 2018: €3 thousand), but there were liabilities of €1 thousand net (December 31, 2018: €1 thousand), which were paid on time in January 2020.

10.1.2 OTHER RELATED PARTY TRANSACTIONS

Beyond this, there were no further business transactions with related parties in the reporting period.

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

On 28 January 2020, 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 2019 may differ from these amounts, however.

Notifying entity	Date of notification	Voting share
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 July 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	20 November 2019	4.03%[1]
ATS Beteiligungsverwaltung GmbH, Munich, Germany, ATHOS KG, Munich, Germany	19 December 2019	24.13%[1]
Santo Holding (Deutschland) GmbH, Holzkirchen, Germany, Santo Holding AG, Zug, Switzerland, ATHOS KG, Munich, Germany	19 December 2019	45.85%[1]

[1] Based on an estimate of the management, the shares as of 31 December 2019 were as follows:

Wellington Partners Ventures IV Life Science Fund L.P., Edinburgh, United Kingdom	3.0%
First Capital Partner GmbH, Gräfelfing, Germany	4.0%
ATS Beteiligungsverwaltung GmbH, Munich, Germany	24.1%
Santo Holding (Deutschland) GmbH, Holzkirchen, Germany	45.9%

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

On 24 May 2019, the Company's Annual General Meeting appointed Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Düsseldorf), Nymphenburgerstrasse 3b, 80335 Munich, Germany, to serve as the auditor of the 2019 financial statements.

(In € 000's)	2019	2018
Auditing services	75	76
Other verification services	4	4
Other services	74	0
Total fee billed	**153**	**80**

10.5 AVERAGE NUMBER OF EMPLOYEES

The average number of employees developed as follows:

(In head count)	2019	2018
Annual average number of employees, excluding Management Board and executive management	46	45

The average number of employees (excluding the Management Board of 4SC AG) during 2019 was 46 (2018: 45).

Of these 46 employees (excluding the Management Board and the executive management), 35 worked in research and development (2018: 34), 10 in sales and administration (2018:10) and 1 in information technology (2018: 1).

11 Events after the reporting period

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

- 4SC entered into a Clinical Trial Collaboration and Supply Agreement with Merck KGaA, Darmstadt, Germany (via Ares Trading S.A.) and Pfizer Inc. for the supply of avelumab for the clinical combination study with domatinostat in Merkel cell carcinoma (MCC);
- In January 2020, the first patient was enrolled in the DOMINI study, an investigator-sponsored Phase Ib study, evaluating dominostat in the neoadjuvant setting in melanoma;
- 4SC gave an update on resminostat and the RESMAIN study:
    - The independent Data Safety Monitoring Board recommended continuation of the RESMAIN study without modification following a review of cumulative safety data from the first 150 patients enrolled;
    - Additionally, the patient number of the RESMAIN study was increased in order to try and minimize the time expected to achieve 125 events (i.e. disease progression) and allow unblinding of the study. Top-line results are now expected around the middle of 2021; and
    - Yakult Honsha discontinued the Phase II study with resminostat in biliary tract cancer in Japan with no monetary impact for 4SC.

Planegg-Martinsried, Germany, 12 March 2020

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 ANNUAL FINANCIAL STATEMENTS AND THE COMBINED 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, 2019, the income statement for the fiscal year from January 1, 2019 through December 31, 2019, the cash flow statement and the statement of changes in equity for the fiscal year from January 1, 2019 through December 31, 2019 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 combined management report for the financial year from January 1, 2019 through December 31, 2019. We have not checked the content of the declarations made by the legal representative in accordance with section 264 (2) 3 HGB and on corporate management in accordance with section 289f HGB in accordance with the German statutory provisions.

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

- the attached 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 Section 325(2a) HGB (German Commercial Code) in conjunction with Section 315e(1) HGB 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, 2019, and of its profit situation for the fiscal year from January 1, 2019 through December 31, 2019; and
- the attached combined management report as a whole provides a true and fair view of the Company's position. In all material respects, this combined management report is consistent with the financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of the Company's future development. Our audit opinion on the combined management report does not extend to the content of the legal representative's declaration (in accordance with section 264 (2) 3 HGB) or the declaration on corporate governance in accordance with section 289f HGB..

Pursuant to Section 322(3) 1 HGB, we declare that our audit has not led to any reservations relating to the financial statements' and the combined management report's legal compliance.

Basis for the audit opinions

We conducted our audit of the financial statements and of the combined management report in accordance with Section 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 Financial Statements and of the Combined 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 Section 2 lit. f) of the EU Audit Regulation, that we have not provided any non-audit services prohibited under Article 5 Section 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 financial statements and on the combined management report.

Key Audit Matters in the Audit of the Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the fiscal year from January 1, 2019 through December 31, 2019. These matters have been taken into account in connection with our audit of the financial statements as a whole, and in forming our audit opinion related herewith; we do not provide a separate audit opinion on these matters.

From our perspective, the following matters were of most significance during our audit:

- Revenue recognition for license agreements
- Implementation of capital increases

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

In the following, we will present these key audit matters:

I. Revenue recognition for 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 development cooperation and sales participation) and the sale of products. In 4SC AG's financial statements, the statement of comprehensive income shows sales revenues in the amount of EUR 2.2 million, whereas EUR 1.9 million is attributable to license revenues. Date and scope of the revenue recognition are based upon complex, not standardized contracts. Furthermore, there have been effects from the first-time application of the new revenue recognition standard “IFRS 15 – revenues from contracts with customers”. In light of this, the correct application of the accounting standard – in particular the determination of contractual obligations, the evaluation of the type of a confirmed license and the date or period of revenue recognition – can be considered as complex. Hence, there is an increased risk of misstatements in the accounting records.

2. We have reviewed the reporting of revenues recognized based on statements by the Company. Our further audit approach included substantial audit procedures. We have convinced ourselves from the correct recognition of revenues by means of the contractual agreements and obtained an understanding of the transactions by means of relevant documents and explanations provided by 4SC AG's staff. Furthermore, we reviewed the interpretation of contracts and the legal representatives' discretionary decisions resulting therefrom which affect the amount and date of revenue recognition. Our audit procedures did not result in any objections as to revenue recognition.

3. The Company's statements on the revenue recognition's particularities in 4SC AG's financial statements are contained in the notes on accounting and valuation methods in sections 2.3.16 “Revenue recognition” and 3.1 “Revenue”.

II. Implementation of capital increases

1. To realize its corporate and development objectives, 4SC AG continues to have high capital requirements in the short, medium and 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 financial funds in the form of equity or borrowed capital.

   In July 2019 and November 2019, the Company's share capital was increased by utilizing the approved capital 2017/I and by granting the shareholders' subscription rights against contribution in cash. During such capital increases, a total number of 15,324,256 shares were placed with existing and new investors. Gross proceeds from the capital increases in the total amount of €33.4 million were added to liquid funds. In the Company's financial statement the balance sheet item “cash and cash equivalents” with now €31.7 million accounts for ca. 60% of total assets. The related changes to the cash funds are also significantly influenced by the gross proceeds raised by the capital increases. Due to their dimension, these transactions were of key audit matter within the scope of our audit.

2. We have taken into account the legal effects in connection with the capital increases to the extent they were of importance for the financial reporting. Within the scope of our audit of equity and cash funds, we have obtained, inter alia, evidence on the amount of proceeds and, thus, the effects on the equity. We have based our assessment of the accounting and valuation of the capital increases on bank statements and excerpts from the commercial register as well as on resolutions by the Company's supervisory and management boards. With regard hereto, we also made sure that the costs in the amount of €0.812 million for the capital increases have

been correctly reported. Our audit procedures did not result in any objectives as to the recognition of the capital increases recognition in the balance sheet.

3. The Company's disclosures on the capital increases are contained in the notes to the financial statements, in section 6.9 “Equity”.

Other information

The legal representatives and the supervisory board are responsible for other information. Other information comprises:

- the following parts of the annual report:
    - 4SC IN 2019
    - REPORT OF THE SUPERVISORY BOARD
    - FURTHER INFORMATION,
- declaration on corporate governance pursuant to Section 289f HGB,
- declaration of the legal representatives pursuant to Section 264(2) 3 HGB.

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

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

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

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

The legal representatives are responsible for the preparation of the financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of Section 325(2a) HGB in conjunction with Section 315e(1) HGB and that the financial statements, in compliance with these requirements, provide a true and fair view of the Company's assets, liabilities, financial position, and profit and loss situation. Furthermore, the legal representatives are responsible for internal controls which they have determined to be necessary to comply with German Generally Accepted Accounting Principles (German GAAP) in order to prepare financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the 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 they intend to liquidate the Company or to discontinue business operations or in case there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the combined 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 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 combined management report that is in accordance with applicable German legal requirements, and in order to provide sufficiently appropriate evidence for the assertions in the combined management report.

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

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

Our objective is to obtain reasonable assurance as to whether the financial statements as a whole are free from any material misstatements, whether due to fraud or error, and whether the combined 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 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 financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 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 addressees taken on the basis of these financial statements and the combined management report.

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

- identify and assess the risks of material misstatements in the financial statements and the combined 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 financial statements and of arrangements and measures relevant for the audit of the combined 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 applied 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 financial statements and in the combined 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 financial statements, including the disclosures, and whether the financial statements present the underlying transactions and events in a manner that the financial statements provide a true and fair view of the Company's assets, liabilities, financial position and profit and loss situation in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 325(2a) HGB;
- obtain sufficient appropriate audit evidence regarding the Company's accounting information or business activities in order to express audit opinions on the financial statements and on the combined 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 combined management report with the 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 combined 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 in charge, 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 in charge 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 in charge, we determine those matters that were of most significance in the audit of the 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 24 May 2019. We were engaged by the supervisory board on 9 December 2019. 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).

RESPONSIBLE AUDITOR

The German Public Accountant responsible for the audit is Siegfried Hund.

Munich, dated 13 March 2020

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft (Düsseldorf)

Abel	Hund
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2019

INCOME STATEMENT

(In € 000's)	2019	2018
Revenue	2,294	4,272
Other operating income	1,194	292
Total revenue and income	**3,488**	**4,564**
Cost of materials		
Cost of purchased services	-318	-172
Personnel expenses	-4,209	-4,150
Depreciation, amortization and write-downs	-850	-840
Other operating expenses	-12,030	-15,941
Total expenses	**-17,407**	**-21,103**
Other interest and similar income	1	0
Interest and similar expenses	-1	-1
Net finance income/loss	**0**	**-1**
Taxes on income	-106	-94
Profit/loss after taxes = Net loss for the year	**-14,025**	**-16,634**
Loss brought forward	-180,164	-163,530
Accumulated deficit	**-194,189**	**-180,164**

BALANCE SHEET

(In € 000's)	31 Dec 2019	31 Dec 2018
Assets		
Fixed assets		
Intangible assets	4,316	5,057
Tangible fixed assets	615	590
Long-term financial assets	9	9
Total fixed assets	**4,940**	**5,656**
Current assets		
Receivables and other assets	443	892
Securities	14,006	0
Cash-in-hand and bank balance	31,727	25,036
Total current assets	**46,176**	**25,928**
Prepaid expenses	**122**	**182**
Total assets	**51,238**	**31,766**
Equity and liabilities		
Equity		
Subscribed capital	45,973	30,649
Capital reserves	196,147	178,028
Accumulated deficit	-194,189	-180,164
Total equity	**47,931**	**28,513**
Provisions	**1,401**	**1,620**
Liabilities		
Trade accounts payable	1,494	1,120
Other liabilities	412	513
Total liabilities	**1,906**	**1,633**
Total equity and liabilities	**51,238**	**31,766**

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 (Düsseldorf), 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

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.

HISTONES

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

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.

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 / MCC

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)	2019	2018	2017	2016	2015
Revenue	2,196	4,173	4,197	2,060	3,266
*From continuing operations**	*2,196*	*4,173*	*4,197*	*2,060*	*2,296*
*From discontinued operations**	*0*	*0*	*0*	*278*	*970*
Operating profit/loss	-13,864	-17,554	-10,936	-11,603	-8,915
From continuing operations	*-13,864*	*-17,554*	*-10,936*	*-11,792*	*-7,915*
From discontinued operations	*0*	*0*	*0*	*189*	*-1,000*
Net profit for the year	*-13,962*	*-17,659*	-10,960	-11,166	-9,228
Earnings per share (basic and diluted) in €**	-0.41	-0.58	-0.45	-0.59	-0.64
Monthly use of cash from operations (average)	1,093	1,357	723	827	767
Cash flows from financing activity	32,523	-8	39,953	-1,500	28,773

* 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)	2019	2018	2017	2016	2015
Equity	48,190	28,452	44,693	15,273	26,428
Equity ratio in %	91.0	91.0	93.3	80.2	78.9
Total assets	52,953	31,256	47,913	19,055	33,492
Cash balance/funds	45,765	25,036	41,327	11,333	22,794
Number of employees (incl. Management Board)	44	47	48	49	67
Number of full-time equivalents (incl. Management Board)	39	42	43	44	58

FINANCIAL CALENDAR

2020

Annual Report 2019	**25 March 2020**
Q1 Announcement 2020	21 April 2020
Annual General Meeting 2020	8 May 2020
Half-Year Report 2020	11 August 2020
Q3 Announcement 2020	20 October 2020

PUBLISHING INFORMATION

EDITOR

4SC AG, Fraunhoferstrasse 22, 82152 Planegg-Martinsried, Germany

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

4SC