4SC
EpiScience for Life

Annual Report 2016

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 through epigenetic mechanisms. Such drugs are intended to provide patients with innovative treatment options that are more tolerable and efficacious than existing therapies and provide a better quality of life.

4SC's pipeline is protected by a comprehensive portfolio of patents and comprises promising products that are in various stages of preclinical and clinical development.

4SC's aim is 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. Founded in 1997, 4SC had 49 employees as of 31 December 2016. 4SC has been listed on the Prime Standard of the Frankfurt Stock Exchange since December 2005.

Headquartered in
Planegg-Martinsried near Munich,
Germany

44 FTEs*

Prime standard listing
(FSE: VSC)

Market cap € 46m*

Cash balance / funds
amounting to € 11.3m*

For more information
visit 4SC.com.

* As of 31 December 2016.

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CEO INTERVIEW

Interview with Jason Loveridge, Ph.D.

4SC'S NEW CEO SINCE SEPTEMBER 2016

Dr. Loveridge, you started your career as a scientist, but for more than 20 years you've been a highly successful life sciences manager and investor. One could say that you live and breathe biotech...

Absolutely. I have a technical background – my initial degree was in Biochemistry / Microbiology and I worked as a research scientist at Oxford (in the UK) for a couple of years. However, I could see even then that the biotech space was beginning to evolve and I wanted to become an investor and an entrepreneur – to build companies. I started in a small seed capital fund and my first investment, way back in 1991, was providing the founding capital for Morphosys. Since then, I have invested in over 30 companies in Europe and the US, both as a venture investor and as an entrepreneur, and immediately prior to joining 4SC I was CEO of Genable Technologies, an Irish biotech company that was sold to Spark Therapeutics – a US listed gene therapy specialist – in March 2016.

Which of the three roles – scientist, entrepreneur, investor – is your favorite one?

Entrepreneur for sure – because it really requires a bit of everything to succeed. You need an understanding of the science and an ability to communicate the value proposition in order to raise the money and attract the talent that's required to build a successful business. I joined 4SC as CEO because I feel we already have an experienced team in place, validated science and solid, supportive investors – in short, we have all the basic ingredients for success.

Apart from your own position as CEO, there have been more changes within the management team: Daniel Vitt, Ph.D., stepped down as CDO/CSO at the end of 2016, Frank Hermann, M.D., was promoted to CDO and Roland Baumgartner, Ph.D., to CSO. Is this the management team that will lead 4SC into this new phase?

Biotechnology is a fast moving space and companies need to evolve, and match resources with their stage of development. Daniel is one of the founders of 4SC and has been integral to the Company's success to date. Going forward, our focus is now firmly on the clinical development of our core epigenetic drug portfolio and for this next part of the journey we need – and have – a team with experience in late stage drug development learned at big pharma. And as data becomes available from the pivotal studies with resminostat, I have no doubt that we will expand the current team again as new skills are needed to take 4SC forward and continue to build value.

What are 4SC's priorities for 2017 and beyond?

We have two primary goals for 2017. Firstly, given the positive data generated in clinical studies of resminostat and 4SC-202 to date, we aim to advance resminostat toward market approval in both cutaneous T-cell lymphoma and advanced liver cancer, as well as initiate a number of clinical studies with 4SC-202 that will establish its place as an innovative, efficacious therapeutic option alongside other successful immuno-oncology drugs such as the newly established immune checkpoint inhibitors. Secondly, as we achieve these goals, we believe the Company's true value will be much more accurately reflected in our market valuation.

Beyond resminostat, what is 4SC's strategy for advancing your other anti-cancer compounds?

Our strategy for 4SC-202 is to focus on commercially significant niches in which we believe, based on our preclinical work, that the substance will add benefit and where current therapies are failing and patients don´t have any real alternative. One such example are the new checkpoint inhibitors, which have rapidly become the new standard of care in a number of cancer types, but where there are still significant numbers of patients that either become refractory to such treatment or do not respond. In 2017, we intent to initiate two phase I/II clinical studies in these types of patients suffering from melanoma and gastrointestinal cancers in order to see if the immune priming and immune modifying properties of 4SC-202, in combination with checkpoint inhibitors, can be of benefit to these patients.

And finally, in the case of 4SC-208 we have an innovative preclinical program targeting cancer stem cells. These stem cells play a critical role in the emergence and the spreading of cancer as well as when it comes to resistance to targeted, chemo and radio therapy. 4SC-208's mechanism of action is applicable across multiple cancer indications and has the potential to overcome resistance to other cancer therapies.

Dr. Loveridge, thank you very much.

KEY EVENTS IN 2016

2016 marks a year of significant change and major progress for 4SC. The Company sharpened its focus on the clinical development of epigenetic cancer therapies and achieved significant milestones in bringing its compounds toward market approval.

Details about the information summarized below can be found in respective ad hoc announcements or press releases and in the course-of-business section of 4SC's combined management report for 2016.

January

Resminostat

4SC RECEIVES SCIENTIFIC ADVICE FROM EMA FOR THE EXECUTION OF THE PIVOTAL RESMAIN STUDY OF RESMINOSTAT IN CTCL

Following very constructive discussions, 4SC receives scientific advice from the European Medicines Agency (EMA) for the execution of the pivotal RESMAIN study of resminostat in advanced-stage cutaneous T-cell lymphoma (CTCL).

February

Resminostat

FDA APPROVES IND APPLICATION FOR RESMINOSTAT IN LIVER CANCER

4SC receives "investigational new drug" (IND) approval from the US Food and Drug Administration (FDA) to carry out a clinical trial with resminostat in combination with sorafenib, the standard first-line therapy for patients with advanced liver cancer (hepatocellular carcinoma, HCC).

March

4SC-202

EPIGENETIC COMPOUND 4SC-202 STRENGTHENS ENDOGENOUS IMMUNE RESPONSE TO CANCER

4SC has undertaken an in-depth analysis of the efficacy spectrum for its promising drug candidate 4SC-202 as part of comprehensive preparation for a clinical Phase II study. The research team involved discovered that 4SC-202 strengthens the endogenous immune response to cancer cells.

April

Corporate

4SC SELLS OPERATIONS OF DISCOVERY DIVISION TO FOCUS ON DEVELOPMENT OF EPIGENETICS CLINICAL PROGRAMS

4SC sells the operations of its subsidiary 4SC Discovery GmbH (4SC Discovery) to BioNTech. All 22 4SC Discovery employees are taken over by BioNTech, and 4SC will continue using the epigenetic schemes of the Discovery division and the underlying intellectual property for itself.

May

Resminostat

4SC PROVIDES HEADLINE RESULTS FROM YAKULT HONSHA'S PHASE II STUDY OF RESMINOSTAT IN LIVER CANCER (HCC)

Yakult Honsha completed the Phase II part of a clinical Phase I/II study in 170 Asian patients with advanced HCC. Resminostat in combination with sorafenib as first-line therapy in HCC did not meet the primary endpoint of statistically significant prolonged time to disease progression (TTP) compared to sorafenib monotherapy.

4SC-205

4SC ENTERS INTO LICENSING AND DEVELOPMENT PARTNERSHIP WITH LINK HEALTH FOR CANCER COMPOUND 4SC-205 IN CHINA

Link Health receives exclusive licensing rights for the development and marketing of 4SC-205 in China, Hong Kong, Taiwan and Macao. The company is responsible for performing and financing the clinical development of 4SC-205 for these countries. In exchange, 4SC receives upfront and milestone payments as well as double-digit royalties on future sales.

June

4SC-202

4SC-202'S EPIGENETIC MECHANISM OF ACTION MAKES TUMORS RECEPTIVE TO TREATMENT WITH CHECKPOINT INHIBITORS

Preclinical *in vivo* data suggests that 4SC-202's epigenetic mechanism of action makes tumors receptive to treatment with checkpoint inhibitors to which the tumors would otherwise be resistant.

Resminostat

RESMINOSTAT BOOSTS CANCER IMMUNOTHERAPY

Promising preclinical *in vitro* data shows that resminostat not only supports the body's own immune system in its fight against cancer but also substantially enhances the effect of immunotherapeutic anti-cancer compounds such as rituximab.

Corporate

ENNO SPILLNER STEPS DOWN AS CHIEF EXECUTIVE OFFICER

Enno Spillner, Chief Executive Officer and Chairman of the Management Board, leaves 4SC after more than 10 years of valuable Management Board service at month-end. Daniel Vitt, Ph.D., Chief Development Officer & Chief Scientific Officer and Member of the Management Board, for the time being, assumes responsibility as sole Managing Director.

July

Corporate

4SC FORMS INTERNATIONAL SCIENTIFIC EXPERT PANEL (iSEP)

Renowned experts in the fields of epigenetics and oncology make themselves available to provide 4SC with guidance on preclinical and clinical development. For current members and their backgrounds, see the iSEP chapter on pages 12 and 13.

September

Corporate

JASON LOVERIDGE, PH.D., APPOINTED NEW CHIEF EXECUTIVE OFFICER

Internationally experienced life sciences manager and investment professional is appointed Chief Executive Officer to lead 4SC. Jason Loveridge brings substantial transactional experience in the sale and partnering of biotechnology assets to the Company.

Corporate

4SC SELLS IMMUNOLOGY PORTFOLIO TO IMMUNIC

4SC continues its focus on epigenetic cancer therapeutics and sells its immunology portfolio to Immunic. Immunic continues the research and development activities for these drug development programs and 4SC receives a one-time upfront payment as well as future milestone payments and royalties.

Corporate

4SC HOSTS ITS 11TH SCIENTIFIC SYMPOSIUM ON EPIGENETICS: REPROGRAMMING CANCER – OVERCOMING DRUG RESISTANCE

Internationally renowned experts present and discuss recent developments in the field of epigenetic cancer research and therapy.

October

Resminostat

SUBGROUP ANALYSIS OF PHASE II STUDY OF RESMINOSTAT IN LIVER CANCER (HCC) SUGGESTS A SURVIVAL BENEFIT

In the multi-center study conducted in Japan and South Korea, treatment with resminostat in combination with sorafenib demonstrated a substantial overall survival benefit compared with sorafenib monotherapy in a large subgroup comprised of 84 patients (50% of all patients in the study) with a greater than median platelet count at study entry.

Corporate

FRANK HERMANN, M.D., PROMOTED TO CHIEF DEVELOPMENT OFFICER, ROLAND BAUMGARTNER, PH.D., PROMOTED TO CHIEF SCIENTIFIC OFFICER

With the announcement of Daniel Vitt, Ph.D., to step down as Chief Development Officer & Chief Scientific Officer, Frank Hermann, who recently joined from Bristol-Myers Squibb, is promoted to Chief Development Officer and Roland Baumgartner, who has been with 4SC for 14 years in translational pharmacology, is promoted to Chief Scientific Officer.

December

Resminostat

FIRST PATIENT ENROLLED IN PIVOTAL RESMAIN STUDY OF RESMINOSTAT IN CTCL

The European multicenter, double blind, randomized, placebo-controlled study evaluates the epigenetic cancer drug resminostat for maintenance treatment of patients suffering from CTCL.

Corporate

DANIEL VITT, PH.D., CO-FOUNDER AND MEMBER OF THE MANAGEMENT BOARD, LEAVES 4SC

After nearly 20 years of valuable general management service and contributions to 4SC, Daniel Vitt leaves 4SC at year-end to pursue new opportunities. He handed his areas of responsibility as Chief Development Officer & Chief Scientific Officer to two functional successors already in October.

SENIOR MANAGEMENT

4SC is led by a team of highly qualified executives with complementary skill sets.

Jason Loveridge, Ph.D.

Chief Executive Officer, Managing Director

Jason Loveridge joined 4SC as CEO in September 2016. He has more than 20 years of international experience across Europe, Asia and the US in senior management positions in life sciences companies and as an investment professional dealing in both privately held and publicly traded companies. Additionally, he has substantial transactional experience in the sale and partnering of biotechnology assets.

Jason Loveridge graduated in Biochemistry and Microbiology from the University of New South Wales (Australia), and holds a Ph.D. in Biochemistry from the University of Adelaide (Australia).

Roland Baumgartner, Ph.D.

Chief Scientific Officer

Roland Baumgartner has been with 4SC since 2002, advancing the Company's preclinical and clinical development programs in positions of increasing responsibility. He joined 4SC as a Senior Scientist, became Manager Customer Relations & New Projects in 2007 and was eventually named Senior Director of the Translational Pharmacology Department in 2011. At the end of 2016, Roland Baumgartner was promoted to CSO of 4SC.

Roland Baumgartner earned his Ph.D. from the Max Planck Institute for Biochemistry in Munich (Germany) and Diploma in Biology from the University of Regensburg (Germany).

Susanne Danhauser-Riedl, M.D.

Chief Medical Officer

Susanne Danhauser-Riedl has strengthened the management team of 4SC since April 2015 as CMO. She has long-standing experience in the areas hematology and oncology and is responsible for the clinical development of the 4SC oncology pipeline, especially for the preparation and implementation of the RESMAIN study, a Phase II study with resminostat in CTCL.

Susanne Danhauser-Riedl has more than 20 years of experience in leading positions, in scientific and clinical practice and in the pharmaceutical industry, in medical affairs and clinical development. In her last role, she was in charge of medical affairs for the hematology / oncology products at GlaxoSmithKline, from clinical development to commercialization in Germany.

Frank Hermann, M.D.

Chief Development Officer

Frank Hermann became CDO of 4SC at the end of 2016. He has a strong background in clinical research, development and medical affairs in oncology. Frank Hermann joined 4SC in June 2016 as Medical Director Clinical Development after several years in medical affairs and clinical research at Bristol-Myers Squibb, most recently as Associate Medical Director Immuno-Oncology. During his tenure at Bristol-Myers Squibb, he shared responsibility for several successful launches of nivolumab, an antibody, in various tumor indications in Germany.

Frank Hermann is a pediatrician by training and earned his medical degree from the Johannes Gutenberg University of Mainz (Germany).

INTERNATIONAL SCIENTIFIC EXPERT PANEL

In 2016, 4SC established an international Scientific Expert Panel (iSEP). The panel supports 4SC in further developing its innovatve anti-cancer therapies. The members of the iSEP are internationally recognized experts in the fields of epigenetics and oncology and are responsible for providing 4SC with advice on preclinical and clinical development.

Prof. Thomas Jenuwein, Ph.D.

Director and Senior Group Leader, Max Planck Institute of Immunobiology and Epigenetics

„During the last 20 years breakthrough discoveries in epigenetic research have transformed our knowledge of normal and perturbed development. Translating these insights from the bench to the clinic will improve human health and offer novel avenues to combat disease."

Thomas Jenuwein earned his Ph.D. in 1987 from the European Molecular Biology Laboratory in Heidelberg (Germany). He performed postdoctoral studies on the IgH enhancer at the University of California, San Francisco (USA). As an independent group leader at the Institute of Molecular Pathology in Vienna (Austria) from 1993 to 2008, he focused his research on chromatin regulation. In 2000, he discovered the first histone lysine methyltransferase. Currently, he serves as the Director of the Department of Epigenetics at the Max Planck Institute of Immunobiology and Epigenetics in Freiburg (Germany).

Charles B. Epstein, Ph.D.

Senior Group Leader, Broad Institute of MIT and Harvard

„4SC's compounds have the potential to have a positive impact in the areas of CTCL and advanced hematological cancer. I'm excited to have the opportunity to contribute my expertise to the realization of this potential."

Charles B. Epstein studied Biology at the Swarthmore College and the University of Chicago (USA). He completed his Ph.D. in Cellular and Molecular Biology at The Rockefeller University in New York (USA) in 1993 and conducted postdoctoral research as a Damon-Runyon Fellow at the Princeton University (USA) and the Southwestern Medical Center, Dallas (USA). After becoming Assistant Professor at the Southwestern Medical Center in 1999, Charles B. Epstein joined the pharmaceutical industry and worked until 2008 as principal research investigator focused on transcript profiling for biomarker discovery with Sanofi-Aventis Pharmaceuticals. Returning to academia, he became Program Manager for Epigenomics in 2008 and, since 2014, has served as Senior Group Leader at the Broad Institute of Harvard and MIT in Cambridge (USA).

Prof. Wolff Schmiegel, M.D.

Head of the Department of Medicine, Knappschaftskrankenhaus Bochum GmbH, Ruhr-Universität Bochum and Head of the Department of Gastroenterology / Hepatology, Berufsgenossenschaftliches Klinikum Bergmannsheil, Ruhr-Universität Bochum

„Epigenetic mechanisms are crucial for a better understanding of tumor biology. Gene regulation as well as mechanisms of primary or secondary resistance are important to identify druggable targets also at the epigenetic level. This ultimately can be part of a substantial improvement in personalized medicine."

Wolff Schmiegel studied Medicine at the University of Leuven (Belgium), the Ruhr-Universität Bochum (Germany) and the University of Bonn (Germany). He completed his M.D. in 1978 at the University of Essen (Germany) and obtained a license to practice medicine. From 1978, he worked as Scientific Assistant at the University Medical Center Hamburg-Eppendorf (Germany), specialized in the fields of internal medicine, gastroenterology, endocrinology, hematology and medical oncology, qualified as a professor for internal medicine in 1988, and became Senior Physician in 1990. In 1993, he became professor for internal medicine, gastroenterology, hepatology and gastroenterological oncology. Also in 1993, he was appointed Professor and Director of the Knappschaftskrankenhaus Bochum GmbH, Ruhr-Universität Bochum (Germany) and, since 2002, has served as Head of the Department of Gastroenterology / Hepatology at the Berufsgenossenschaftliches Klinikum Bergmannsheil, Ruhr-Universität Bochum (Germany).

REPORT OF THE SUPERVISORY BOARD

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

Dear Shareholders, Ladies and Gentlemen,

In 2016, 4SC AG advanced significantly on its way to market entry of its drug candidates currently in development. The Supervisory Board is also looking back to a remarkably active year.

The Company increasingly sharpened its focus on the development of its epigenetic oncology compounds, driven by the promising results of its clinical activities. The Supervisory Board closely collaborated with management in the execution of the strategic plan. 4SC advanced very well in the clinical development of its drugs. Among other items, the Company initiated a new clinical study of resminostat in cutaneous T-cell lymphoma (CTCL) in December. Should results be positive, these data will serve as the basis for filing for market approval. Additionally, the clinical development for resminostat in liver cancer (hepatocellular carcinoma, HCC) is being advanced further. In HCC, the Company is in discussions for the further development of the drug jointly with its Japanese partner Yakult Hosha.

4SC separated from some business activities no longer core and strengthened its focus on developing epigenetic drugs in oncology. In April, the Company sold the operational part of its affiliate 4SC Discovery GmbH, which was dedicated to early stage development of compounds and other services, to the BioNTech group based in Mainz, Germany. In the course of this transaction, the Company also separated from the minority share 4SC Discovery GmbH over time had taken in quattro research GmbH. Over the course of the year, the Company signed license agreements for several of its early-stage development candidates which are not being developed in-house anymore. 4SC's partners are taking responsibility for future development activities in exchange for participation in their future success. In 2016, 4SC licensed

the non-epigenetic oncology compound 4SC-205 for the Greater China region (China, Hong Kong, Taiwan und Macao) to a local partner in May, and sold its immunology portfolio to newly founded Immunic AG in September.

Beyond the changes in strategy and related new operational tasks there were also changes in the management team. Former Chief Executive Officer and Chief Financial Officer Enno Spillner left the Company of his own volition at the end of June, following termination of his management contract. In September, Jason Loveridge, Ph.D., was appointed as Chief Executive Officer. Jason Loveridge is a very experienced life sciences executive. He brings over 20 years of experience as manager and professional investor in Europe, the U.S., Australia and Japan. Jason Loveridge holds a Ph.D. in Biochemistry and was a postdoctoral scientist at the University of Oxford, United Kingdom. In the third quarter, co-founder and Chief Development Officer & Chief Scientific Officer Daniel Vitt, Ph.D. resigned and stepped down from the Management Board at year-end. Currently, the management team of 4SC AG consists of medical doctors and scientists, all of them with many years of experience in the pharmaceutical industry and very broad knowledge of clinical drug development. Jason Loveridge, Ph.D., leads the Company as Chief Executive Officer (CEO, sole Managing Director). Roland Baumgartner, Ph.D. serves as the Company's Chief Scientific Officer (CSO), Susanne Danhauser-Riedl, M.D., as Chief Medical Officer (CMO) and Frank Hermann, M.D., as Chief Development Officer (CDO). I would like to thank the two former Management Board members, Enno Spillner and Daniel Vitt, Ph.D., for their long-standing commitment and successful work for the Company, personally and on behalf of all members of the Supervisory Board.

At year-end, the Company moved offices and laboratories, since the former rental agreement with the Innovations- und Gründerzentrum Biotechnologie Martinsried could not be extended anymore. The new premises fit very well with the future requirements of the Company.

In the reporting period, the Management Board and Supervisory Board of 4SC AG focused on the Company's status and continued development. Collaboration between the Boards was consistently open, constructive and goal-oriented. The Supervisory Board advised the Management Board in its management of the Company and conscientiously monitored its work as it is required to do under law, the Company's Articles of Association and its rules of procedure. All issues relevant to the Company, as well as decisions requiring approval or strategic decisions were discussed extensively and resolved by mutual agreement. In the report that follows, the Supervisory Board explains the focal points of its activities in the 2016 financial year.

CLOSE COOPERATION WITH THE MANAGEMENT BOARD

The Supervisory Board received regular, timely and detailed reports from the Management Board. Accordingly, the Supervisory Board always was informed well in advance about all significant decisions of relevance to the Company. In the Supervisory Board meetings, at any one time the Management Board reported on the Company's performance as well as on current risks and opportunities. The Management Board also informed about deviations from plans and targets. The Supervisory Board closely examined all topics presented and discussed these with the Management Board and within the Supervisory Board at the required level of detail, at times quite controversially. Where individual items of business or actions proposed by the Management Board required consent, the Supervisory Board was involved at an early stage and adopted the necessary resolutions. In the context of the negotiations concerning the management contract for Jason Loveridge, Ph.D., the Supervisory Board commissioned an expert opinion regarding remuneration and collected information on typical compensation structures in the market. In the 2016 financial year, the Supervisory Board believed that there was no reason to conduct additional examinations, such as inspecting the Company's documentation or commissioning experts. The Management Board used monthly

written financial reports, phone calls and e-mails on a regular basis to keep the Supervisory Board informed in between meetings. When necessary, resolutions were adopted by circular memorandum, i.e. in writing, without meeting face to face.

MEETINGS OF THE SUPERVISORY BOARD IN 2016

The Supervisory Board convened at a total of seven in-person meetings in the 2016 financial year. The Board was quorate for all sessions. In its meetings, the Supervisory Board intensely addressed the Company's strategy, its focus on the competitive international market as well as long-term going concern management. Existing partnerships and the search for new partners made part of the discussions as well. When useful, the opinions from external subject-matter experts were obtained. Another focal point was the strategic evaluation of the development pipeline. Comprehensive strategic prioritization and financing of the pipeline were of relevance in all meetings. The Supervisory Board formed its view on this matter under consideration of the expertise of the R&D Committee and the assessment of external scientific advisors to the Company. The strategic decision to increase focus on epigenetic oncology compounds was supported by advancements in the clinical development and finally drove the Company's full focus on the development of the compounds resminostat and 4SC-202 in particular. In this field, steady part of the discussion was the debate about the pivotal RESMAIN study for resminostat in CTCL, which kicked off with the enrollment of the first patient in December, as well as the cooperation for resminostat in HCC, in particular with Yakult Honsha. The Supervisory Board also spent a considerable amount of time with the CEO search and future staffing of the Management Board.

OTHER TOPICS OF THE SUPERVISORY BOARD MEETINGS

Key agenda items for the first Supervisory Board meeting of the year on 14 March 2016 were the adoption of the 4SC AG annual financial statements for 2015 and the approval of the consolidated financial statements. The Supervisory Board also deliberated on the planned sale of the operations of 4SC Discovery GmbH to the BioNTech group. Another focal issue at the meeting was the specific obligations of Supervisory Board members and the liability risks to which they are exposed. Respective training was provided.

In a strategy meeting on 11 April 2016, the Supervisory Board discussed the status of the ongoing projects as well as the search for a new CEO and the future composition of the management team.

In a further strategy meeting on 22 April 2016, the Supervisory Board mainly examined potential options for the Company's orientation in the United States.

The search for a new CEO was the main item on the agenda of the Supervisory Board meeting on 16 June 2016.

At an extraordinary meeting following the Company's Annual General Meeting on 17 June 2016, the Supervisory Board newly elected its chairperson and deputy chairperson, and reconstituted its committees.

The principal agenda item in the meeting on 13 October 2016 was the report from the Management Board. The report specifically addressed the resminostat and 4SC-202 drug candidates and the ongoing RESMAIN study, the presentation of the corporate strategy through to 2020, as well as financial and administrative matters.

The Supervisory Board meeting on 6 December 2016 also centered on the report from the Management Board. In addition to the status of the compound projects resminostat and 4SC-202, the Supervisory Board once more discussed the corporate strategy for the coming years as well as other financial and administrative topics such as the finalization of the budget for 2017, aspects of risk management and changes to 4SC's company structure. The Supervisory Board also addressed current corporate governance issues.

MEETINGS OF THE COMMITTEES IN 2016 – FOCAL TOPICS OF COMMITTEE WORK

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

The Audit Committee, chaired by Joerg von Petrikowsky, German public auditor and tax consultant, met twice in person and eight times via conference call during the reporting year, occasionally in the presence of Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, the auditor.

In sessions held by the Audit Committee, during the reporting period its members primarily discussed accounting issues, the annual financial statements, the consolidated half-year report, the 3-month and 9-month Group communications, and the budgeting. In this context, the Audit Committee organized quarterly meetings with the CEO to discuss current figures and developments well in advance of publication. Another key agenda item for meetings was the mid- to long-term financing of the business.

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

The R&D Committee monitored and supported 4SC researchers and management regarding strategy and content in the preparation and implementation of the pivotal RESMAIN study of resminostat in CTCL. Furthermore, the R&D Committee deliberated at length on the potential design of a pivotal trial of resminostat in HCC, which is currently under discussion with long-term collaborator Yakult Honsha. Another emphasis was the further clinical development of 4SC-202, especially the selection of the indications and the relevant study designs, for rapid decision-making as well as the evaluation of potential partners for this substance.

R&D Committee and Supervisory Board members also participated in the Company-organized scientific symposium, which featured speeches from numerous international key opinion leaders in the field of epigenetics.

The Human Resources Committee, chaired by Clemens Doppler, Ph.D., Chairperson of the Supervisory Board, met six times, frequently in the course of Supervisory Board meetings. In addition, the members of the committee frequently exchanged views during the year through four conference calls, by e-mail and in bilateral discussions.

The Human Resources Committee led the CEO search process. The search was supported by an HR consultancy specialized on this segment. The consultant was selected in a consideration process conducted in the German-speaking countries and the United Kingdom. He presented a very broad range of interesting and highly qualified candidates. The Supervisory Board commissioned an expert opinion regarding CEO remuneration in the biotechnology sector. In addition, the committee members, via their individual networks, informed themselves on compensation structures typical in the industry. Following an intense selection process, the Human Resources Committee proposed Jason Loveridge, Ph.D., as CEO to the Supervisory Board.

The Human Resources Committee also discussed the contract extension and remuneration for Management Board members, as well as the new stock option plan for Management Board and employees.

In the view of the Supervisory Board, a Nomination Committee, as recommended under the German Corporate Governance Code (GCGC), does not further enhance efficiency, which is why several years ago the Supervisory Board decided not to establish such committee, but to carry out this function in the plenary Supervisory Board.

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

In the 2016 financial year, no Supervisory Board member attended less than half of the sessions of the Supervisory Board and the committees of which they were a member. Absent members were briefed comprehensively both before and after each Supervisory Board and committee session.

PERSONNEL CHANGES IN THE MANAGEMENT BOARD, CONTINUITY IN THE SUPERVISORY BOARD

After ten years in the Management Board of 4SC AG, most recently as Chief Executive Officer and Chief Financial Officer, Enno Spillner of his own volition left the Company as of 30 June 2016 when his contract expired. On 21 September 2016, the Supervisory Board appointed Jason Loveridge, Ph.D., as the new CEO.

Co-founder and former Chief Development Officer and Chief Scientific Officer Daniel Vitt, Ph.D., resigned after 19 years from his position on the Management Board effective as of year-end and left 4SC of his own volition.

The composition of the Supervisory Board remained unchanged in the reporting period. The term of office of all Supervisory Board members ended at the close of the Annual General Meeting on 17 June 2016. All Supervisory Board members were reelected for three more years.

APPROVED ANNUAL FINANCIAL STATEMENTS FOR 2016

The Annual General Meeting of 4SC AG on 17 June 2016 elected Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Munich, Germany, to serve as the auditor of the annual and consolidated financial statements for the 2016 financial year. Baker Tilly Roelfs and its responsible senior financial auditor Siegfried Hund were first appointed auditors for the 2013 financial year. The auditing firm audited the 2016 single-entity financial statements of 4SC AG prepared in accordance with requirements of the German Commercial Code (Handelsgesetzbuch, HGB) and the 2016 consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs), as well as the combined management report, issuing an unqualified Auditors' Report. The financial statements, the combined management report and the audit reports were made available to the Supervisory Board by the Management Board in due time ahead of the meeting held on 17 March 2017. The Audit Committee discussed details of the single-entity and consolidated financial statements with the auditor and Management Board in advance during three meetings (two conference calls held on 13 December 2016 and 25 January 2017 and one meeting held on 17 March 2017). The Supervisory Board was also briefed in the course of its meeting held on 17 March 2017. 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 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 17 March 2017 approved the annual financial statements as prepared by the Management Board. The annual financial statements of 4SC AG are thereby adopted and the consolidated financial statements of 4SC are thereby approved.

CORPORATE GOVERNANCE AT 4SC

The Supervisory Board again in detail addressed the current priorities of the GCGC during the 2016 financial year. Management Board and Supervisory Board take the recommendations of this Code very seriously, and the Company is very compliant barring a few exceptions. In the most recent Declaration of Compliance dated 17 February 2017, Management Board and Supervisory Board therefore stated that the Company has complied, currently complies, and in the future aims to comply with the recommendations of the GCGC, as amended, with the exceptions listed in the Declaration.

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 Supervisory Board reviewed the question of potential conflicts of interest in every session. The CEO led the process of selling the operational part of 4SC Discovery GmbH and of closing various license selling agreements. In all cases, multiple potential partners showed interest. Due to a possible conflict of interest in the sale of the operations of 4SC Discovery GmbH to BioNTech Small Molecules GmbH, Supervisory Board member Helmut Jeggle did not participate in the discussions concerning this matter. As he is also a member of the Supervisory Board of the Molecules' parent company BioNTech Small Molecules GmbH, he left the respective meetings and abstained in the corresponding vote in 4SC's Supervisory Board.

For the efficiency review of the Supervisory Board members' work as recommended by the GCGC, a two-year interval was adopted. This means that the next efficiency review will be conducted during the first half of 2017.

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

Planegg-Martinsried, March 2017

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

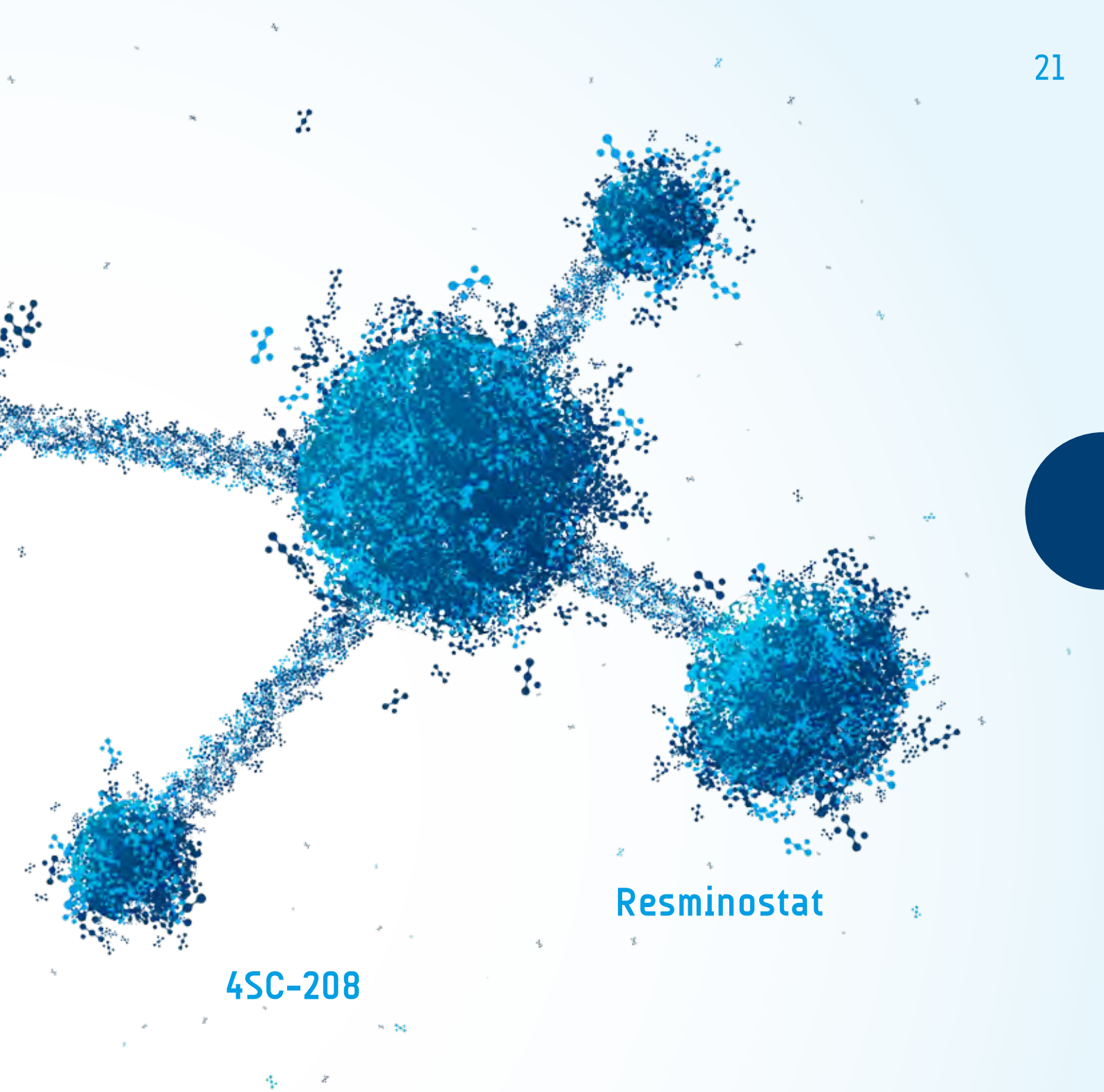
THE SUPERVISORY BOARD OF 4SC AG AND ITS COMMITTEES SINCE 17 JUNE 2016

	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		

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

COMBINED MANAGEMENT REPORT

4SC-202



WELL-BALANCED ONCOLOGY PIPELINE

Resminostat	• Pivotal study for CTCL in Europe initiated • Global pivotal HCC study under discussion
4SC-202	• Phase II immuno-oncology combination studies in refractory melanoma and gastrointestinal cancers* planned for 2017
4SC-208	• Preclinical program targeting cancer stem cells

For more information visit 4SC.com.

* Study conducted by an internationally renowned academic institution.

1. Business and economic environment

1.1 GROUP STRUCTURE AND BUSINESS ACTIVITIES

Legal structure of the Group

The 4SC Group – hereinafter referred to as "4SC", "the Company" or "the Group" – comprises the Group parent 4SC AG as well as 4SC Discovery GmbH, which is wholly owned by 4SC AG.

4SC AG is a publicly listed company under German law. The Company is domiciled in Planegg-Martinsried in the district of Munich, Germany. The shares of 4SC AG have been listed in the Prime Standard segment of the Frankfurt Stock Exchange since 15 December 2005. 4SC Discovery GmbH is also domiciled in Planegg-Martinsried, Germany.

Where information provided in this report does not refer to the Group but to the individual entities, these will be explicitly referred to as "4SC AG" or "4SC Discovery GmbH".

Business activities and organization

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

The Group's product pipeline, which is protected by a comprehensive portfolio of patents, includes several anti-cancer drugs – most of them with an epigenetic mechanism of action – which are in various stages of preclinical and clinical development. 4SC addresses attractive fields such as the modulation of the immune system and cancer stem cells. Details of the individual products and progress made in their development during the 2016 financial year are presented in section 1.4 ("Development process") and section 2.2 ("Significant events related to the Company's research and development activities") of this combined management report.

Beginning with the 2012 consolidated annual financial statements, 4SC had reported on two segments. The Development segment had covered the operations of 4SC AG, which comprise the preclinical and clinical development of 4SC products to market approval. Up until April 2016, the ancillary Discovery & Collaborative Business segment had handled activities involved with early-stage drug research (drug discovery and optimization) and early-stage commercialization of these compounds by 4SC Discovery GmbH (4SC Discovery). In April, 4SC sold all key operating assets of 4SC Discovery to the Mainz, Germany-based BioNTech group. Since then, as a result of the subsequent concentration of the Company's activities on the Development segment, the Management Board has measured 4SC's development against the historical reporting for this segment. There are thus no longer any reportable segments, and beginning with these consolidated annual financial statements 4SC for the time being

will not report segment information. Starting in the 2016 reporting period, the operations sold are presented separately in the consolidated annual financial statements for 2016, as discontinued operations, in accordance with the provisions of IFRS 5. The quantitative implications are described in section 3 ("Results of operations, financial position and net assets") of this combined management report.

1.2 CORPORATE STRATEGY AND OBJECTIVES

4SC concentrates on developing anti-cancer therapies. Its goal is to achieve a sustained increase in the value of the individual drug programs and develop the products to market maturity quickly. Alongside in-house development and the continuation of existing partnerships, 4SC is also working to secure development and marketing partnerships with strong players in the pharmaceutical and biotech industry to generate cash inflows for the Group. This approach is designed to reduce development risks. The goal is for revenue from existing and future partnerships to be increased further so that the Company itself can increasingly finance its medium to long-term business operations and transition 4SC to sustainable profitability. The plan is to achieve sustained cash flows by means of upfront and milestone payments from collaborating partners, complemented by revenue from license fees, royalties and product sales, thus all making contributions to the Company's financing and growth.

1.3 INTERNAL MANAGEMENT SYSTEM

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

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

Of course, the Company's management system also includes performance indicators from development activities. For instance, patient-related indicators include clinical findings regarding the safety, tolerance and efficacy of the drug candidates being developed. 4SC measures the efficiency and success of these processes using, for example, the parameters "observance of schedules and budgets" and "success of clinical studies". Further details of non-financial key performance indicators can be found in section 5.2.

1.4 DEVELOPMENT PROCESS

Preclinical development

Preclinical tests serve to examine future drug candidates for efficacy and safety. These tests include both cell culture models (*in vitro*) and ethical animal testing prescribed by regulators (*in vivo*). Only then can clinical development – i.e. testing the compound in human subjects – finally commence.

Clinical development

In Phase I clinical drug development, the compound is first given to a small group of typically healthy volunteers (test subjects). In cancer medicine, however, most initial studies are conducted with actual patients. Phase I concludes with an initial assessment of how the human body responds to the new drug. Such an assessment comprises an estimate of the drug's safety and tolerability, as well as its pharmacokinetics. These include the drug's absorption and distribution in the body, as well as its biochemical metabolism and excretion.

In the Phase II that follows, the compound is tested on a relatively small number of patients for a set of predefined indications. This phase has a twofold aim: first, to furnish initial proof of the medical efficacy of the compound; second, to enable the determination of a safe and potentially active treatment dose.

In Phase III, the efficacy of the drug is tested using a larger patient population. Phase III is intended to supply the decisive data for the drug's efficacy in a specific indication and thus establish the basis for an application for market approval. In parallel, work in this phase also evaluates risk-benefit considerations, drug safety aspects and the drug's potential interactions with other medicines.

After market approval (Phase IV), rare side effects or drug interactions that are detectable only by studying large patient populations are identified and investigated, for example.

An application for approval of the drug can usually be submitted only after the successful conclusion of Phases I through III. In case of niche indications with a high medical need, such an application ideally may even be submitted based on Phase II data.

The entire development process of a drug – from preclinical tests to market approval – generally takes about ten years and involves substantial costs. In the course of this process, 4SC actively pursues partnerships with pharmaceutical and biotechnology companies to drive the development of its drug candidates toward market approval while safeguarding its commercial success.

Product pipeline

The 4SC product pipeline currently comprises a total of three small-molecule anti-cancer drugs that have major economic potential:

- Resminostat. This is 4SC's most advanced drug in terms of development and is currently being tested in a pivotal European study in cutaneous T-cell lymphoma (CTCL). 4SC is in discussions to start a global pivotal study in advanced hepatocellular carcinoma (HCC) in early 2018 together with Yakult Honsha Co., Ltd. (Yakult Honsha).

- 4SC-202. 4SC expects to start two Phase II studies in 2017 investigating this drug candidate in combination therapy with immuno-oncology drugs for the treatment of skin cancer and gastrointestinal cancer.

- 4SC-208. This compound will be investigated in preclinical experiments to a point where the first clinical studies can be subsequently started.

4SC-205 is 4SC's third anti-cancer compound in clinical development. However, 4SC-205 has no epigenetic mechanism of action, and 4SC is using partnerships to further advance the development of this substance.

Details of individual compounds are presented in section 2.2, "Significant events related to the Company's research and development activities".

2. Overview of the course of business

2.1 MACROECONOMIC DEVELOPMENT AND DEVELOPMENTS IN THE PHARMA AND BIOTECHNOLOGY INDUSTRY

Macroeconomic development

The pace of the global economy slowed slightly during 2016. In its forecast issued in January 2017, the International Monetary Fund (IMF) anticipates global economic growth of 3.1% for 2016 (2015: 3.2%).

The trends differed in key countries and regions. Compared with 2015, the industrialized economies experienced a significant downturn, with economic growth slipping half a percentage point to 1.6% after 2.1% in 2015. The IMF considers this to be the result of weak development in a number of euro zone countries. Overall, the euro zone economy grew by just 1.7% in the reporting year (2015: 2.0%), although Germany's growth rate rose slightly to 1.7% from 1.5% in the previous year. In the UK, the economy expanded by 2.0% (2015: 2.2%) to beat the IMF's most recent outlook for the United Kingdom, which was published in October 2016. At the time, the IMF's experts had expected to see a more pronounced weakening of economic development following the UK's decision to leave the EU ("Brexit"). In the US, growth slowed to 1.6% (2015: 2.6%), although it gathered pace again in the second half of the year.

Growth in emerging markets and developing economies in 2016 was stable year-on-year at 4.1%. The primary driver for this stability was the persistently above-average growth in a number of major emerging economies, such as China (6.7%; 6.9% in 2015) and India (6.6%; 7.6% in 2015).

Developments in the pharma and biotechnology industry

Development in the capital markets and financing environment for biotech companies was uneven in 2016. In North America, the benchmark NASDAQ Biotechnology Index by the end of June had lost almost 25% from its high at the start of the year. The index recovered only slightly in the second half of 2016 and closed the year with a final loss of 22%. In contrast, the German DAXsubsector All Biotechnology Index closed 2016 up 5%.

In 2016, German biotech companies acquired new capital of €505 million – 8% less than in the previous year. According to BIOCOM's latest stock market analysis, German biotech companies received a total of €216 million in new investments from venture capital providers, marking a 17% downturn compared to the record year of 2015, in which companies acquired €260 million. The IPO market remained slow: after the IPO of diagnostics business Curetis in 2015, the past year again saw just one German biotech company obtain a public listing – Zwingenberg-based BRAIN AG, which works in the field of industrial biotechnology. For the stock exchange center in Frankfurt, this was also the first biotech IPO since 2007.

In contrast to the generally positive trend in Germany, the outlook is considerably bleaker for the European capital market. Figures from BIOCOM reveal that European biotech companies gained a total of €3.3 billion from the stock market in the reporting year – only half the amount raised in 2015 (€6.2 billion). In 2016, 17 European biotechnology companies went public (2015: 25), of which the vast majority (14) chose a European stock exchange for their IPO. Only three companies opted instead for the US NASDAQ exchange. BIOCOM summarizes this, at least relating to the market, as "considerable disillusion", following the boom year of 2015.

Industry information service BioCentury reports that 65 companies went public in the year under review – a decline of nearly 22% compared to the previous year, which saw 83 IPOs. Issue proceeds totaled US-$7.2 billion (2015: US-$8.2 billion). An additional US-$10.3 billion was obtained from capital increases – around a third of the previous year's figure (2015: US-$29.6 billion).

In 4SC's industry and competitive sphere, the following relevant news was published in the 2016 financial year: The US Food and Drug Administration (FDA) says that it approved a total of 22 new drugs, only around half as many as in 2015 (45), which was a record year for approvals.

Once again, a series of significant deals were closed last year in the fields of epigenetics and immuno-oncology. One such deal saw Japan's Eisai signing an exclusive license agreement with the US HUYA Bioscience International (HUYA) for HBI-8000 in early February. HBI-8000 is an orally available Class I-selective histone deacetylase (HDAC) inhibitor for the treatment of non-Hodgkin's lymphoma (NHL) and solid tumors. The deal covers rights for the compound in Japan, South Korea, Thailand, Malaysia, Indonesia, the Philippines, Vietnam and Singapore. In March, HUYA signed an exclusive license agreement with Fudan University in China to secure worldwide rights (with the exception of China) to a series of novel immuno-oncology candidate compounds. These compounds comprise an entire panel of indoleamine 2,3-dioxygenase (IDO) inhibitors. In May, US biopharmaceuticals company Epizyme signed a cooperation agreement with the Lymphoma Study Association (LYSA), which is based in France. The goal is to research the combination of tazemetostat with R-CHOP as an initial treatment for patients with diffuse large B-cell lymphoma (DLBCL). In June, Epizyme also signed an agreement to run a joint clinical study with Genentech (a US subsidiary of the Swiss pharmaceuticals group Roche). The research goal here is to establish the anti-cancer effectiveness of Epizyme's EZH2 inhibitor tazemetostat in combination therapy with Genentech's recently approved anti-PD-L1 cancer immunotherapy Tecentriq (atezolizumab) for the treatment of patients with relapsed or refractory DLBCL, the most common form of non-Hodgkin's lymphoma. Further, in the US, pharmaceuticals maker Celgene acquired competitor Acetylon in December. Celgene's gains from the deal include worldwide rights to Acetylon's HDAC-6 inhibitors, such as citarinostat (ACY-241) and ricolinostat (ACY-1215) for the treatment of cancers, neurodegeneration and autoimmune diseases.

In Germany, Mainz-based BioNTech AG (BioNTech) announced a strategic partnership with Genentech from the US in September 2016 for the development of individualized cancer vaccines based on messenger RNA. Under the terms of the partnership agreement, Genentech has agreed to pay BioNTech US-$310 million in upfront and near-term milestone payments. Also in September 2016, immuno-oncology specialist iOmx from Planegg-Martinsried near Munich was able to secure €40 million in funding – an unusually large sum for Series A funding in Germany. iOmx will use the funds to develop checkpoint inhibitors for multiple tumor immunomodulatory proteins identified with the company's own screening technology. Proteros Biostructures (Proteros), also headquartered in Planegg-Martinsried, signed a second research agreement with Merck Sharp & Dohme (MSD) in November. The focus here will be the development of small-molecule compounds against an additional epigenetic target to treat various cancers. If successful, Proteros can look forward to milestone payments of up to US-$167 million, plus royalty payments.

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

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

The objective and core expertise of 4SC is to develop new anti-cancer drugs. As a consequence, the Company's business success is crucially dependent on material progress in the development activities involving its own compounds.

2.2.1 DEVELOPMENT ACTIVITIES

As of 31 December 2016, the development activities comprised the anti-cancer compounds resminostat, 4SC-202 and 4SC-208. Furthermore, the anti-cancer compound 4SC-205 is included here, although it is not epigenetic by mechanism of action. The autoimmune candidate vidofludimus was out-licensed to Planegg-Martinsried, Germany-based Immunic AG (Immunic) in September 2016.

ONCOLOGY

4SC's focus on anti-cancer therapies

In oncology, 4SC is working on the development of innovative modes of action that are intended in particular to improve survival and quality of life for cancer patients. A key point of focus for oncology research at 4SC is the class of small-molecule compounds that address epigenetic target proteins controlling gene activation and deactivation – or, more accurately, their transcription ("reading"). One of the most common causes of cancer diseases is the fact that genes can be influenced by certain factors that impact the gene transcription process. Apart from genetic mutations, this is also a key reason why previously healthy cells can become cancerous. Epigenetics is the scientific study of these regulatory mechanisms, and offers a promising starting point for new anti-cancer therapies.

Resminostat

Resminostat is an orally administered histone deacetylase (HDAC) inhibitor with an epigenetic mechanism of action that potentially offers a novel approach to treating a wide variety of cancers, both as monotherapy and – in particular – in combination therapy with other anti-cancer drugs. As an inhibitor that blocks HDAC classes I, IIB and IV, resminostat can potentially offer benefit to patients as it inhibits tumor growth and proliferation, causes tumor regression, and strengthens the body's own immune response to cancer.

Resminostat has been shown to be well tolerated in patients with advanced cancers in Phase I studies. Its use in the treatment of CTCL, Hodgkin's lymphoma and liver, lung, colon, pancreatic and biliary tract cancers has been and is being investigated in further clinical studies. Initial positive efficacy results for resminostat in monotherapy have already been observed in patients with Hodgkin's lymphoma and in combination with the standard medication sorafenib in selected patients with advanced liver cancer (HCC).

Start of a pivotal study in CTCL

4SC aims to obtain a first market approval for its candidate compound resminostat as soon as possible. In 2016, the Company started the pivotal RESMAIN study – a randomized, double-blind, placebo-controlled pan-European clinical Phase II study with resminostat in CTCL. This study will be conducted in Europe to examine the potential of resminostat as maintenance therapy intended to delay or prevent the progression of disease in patients with advanced CTCL who have benefitted from prior systemic therapy. 4SC had finalized the study design in the first quarter of 2016, following scientific advice provided by the European Medicines Agency (EMA). In December 2016, 4SC was able to enroll the first patient in the RESMAIN study. The goal is to conduct the study with a total of 150 patients from around 50 study centers located in eleven countries. 4SC expects top-line results to be available in 2019. If these results are positive, 4SC will immediately submit an application for approval of the drug.

Completion and evaluation of a clinical Phase II study in HCC conducted by Yakult Honsha in Japan

Yakult Honsha, 4SC's Japanese development partner for resminostat in Japan, has continued to make solid progress in the clinical development of resminostat. In May 2016, 4SC announced headline results from Yakult Honsha's Phase II study of resminostat in combination with the standard-of-care drug sorafenib as first-line therapy in Asian patients in Japan and South Korea with HCC. While the primary endpoint of statistically significant prolonged time to disease progression (TTP) compared to sorafenib monotherapy was not reached in the all-comer patient population, 4SC announced in October 2016 that subgroup analysis indicated a relevant survival benefit in patients with higher than median platelet count – i.e. a count within the normal range – at study entry. These findings, which were published at the Gastrointestinal Cancers Symposium in January 2017, have resulted in 4SC and Yakult Honsha entering into intense discussions concerning the further development of resminostat in HCC, most likely through the conduct of a global pivotal study.

Preclinical research on the activity of resminostat as an immunomodulator

As a result of its epigenetic mechanism of action, resminostat has the potential to mobilize the immune system, enabling the patient's body to attack the cancer itself ("immune priming"). By altering the genetic activity of cancer cells, resminostat increases their recognition by the host's immune system. In 2016, 4SC presented promising preclinical data indicating resminostat's ability not only to support the body's own immune system in its fight against cancer but also to substantially enhance the effect of immunotherapy anti-cancer drugs.

Other developments

Yakult Honsha has informed 4SC about the completion of a Phase II study started in 2014, in which resminostat was investigated in combination with docetaxel as a second- and third-line therapy for Asian patients with advanced non-small-cell lung cancer (NSCLC). The primary endpoint, which was defined as statistically significant prolonged progression-free survival (PFS) in comparison to monotherapy with docetaxel, was not achieved, and Yakult Honsha will not be conducting any further studies in this indication. As there is very strong market competition for second- and third-line therapies in NSCLC, further development of resminostat in this indication is also not a priority for 4SC. Accordingly, the Company is not substantially affected by these NSCLC study results.

Following the announcement of the subgroup analysis from the Phase II study with resminostat in HCC completed by Yakult Honsha in 2016 (see above), 4SC has been in intense discussions with its long-time partner on the further development of resminostat in HCC worldwide, and an outcome is expected in the second quarter of 2017.

4SC-202

4SC-202 is an orally administered small molecule for the treatment of cancer. The compound is an epigenetic modulator with a unique mechanism of action that inhibits both the lysine-specific demethylase (LSD1) protein and certain histone deacetylase proteins (HDAC1, 2, 3), which play significant roles in the regulation of signaling pathways in degenerated cancer cells.

4SC-202 has been investigated in a Phase I study with 24 intensively pretreated patients with several types of highly advanced hematologic cancers, and has proven to be tolerated. Positive signs of anti-tumor efficacy were observed with one complete remission for 28 months and one partial responder for 8 months.

Data from preclinical investigations presented for the first time in March 2016 showed that 4SC-202 strengthens the anti-tumor immune response. Treatment with 4SC-202 alters the tumor microenvironment and increases infiltration of immune cells into the tumor. In June 2016, data announced from further preclinical investigations showed that the combination of 4SC-202 with checkpoint inhibitors resulted in better anti-tumor activity than treatment with checkpoint inhibitors alone, suggesting a very promising clinical development path for 4SC-202 in both refractory and non-responding patients to treatment with checkpoint inhibitors.

4SC-208

4SC-208 is a small molecule specifically targeting two kinases crucial for Hedgehog/GLI signaling, which is primarily controlled by epigenetic mechanisms. Inhibition of this signaling pathway has emerged as a highly effective strategy in obstructing the tumorigenic capacity of cancer stem cells, responsible for metastases and recurrence of tumors.

The Hedgehog/GLI signaling pathway is critical for tumor development, proliferation and survival. To date in the industry, clinically tested Hedgehog inhibitors target the Hedgehog pathway upstream of the transcription factor GLI at the level of the SMO protein. However, Hedgehog signaling in CSCs is mostly activated downstream at GLI level. 4SC-208 aims to inhibit at GLI level and thus potentially to overcome resistance to the Hedgehog inhibitors available so far.

4SC strongly believes that 4SC-208 is a promising drug candidate and intends to advance the compound into initial clinical studies in relevant cancer indications. Cancer indications that are particularly promising are those where resistance to therapies targeting the Hedgehog/GLI pathway is emerging.

In 2016, 4SC-208 was examined in preclinical *in vivo* models to document the intended mode of action. As a next step, 4SC-208 will enter into regulatory preclinical testing in order to initiate Phase I clinical evaluation.

4SC-205

4SC-205 is an anti-cancer compound that inhibits the kinesin spindle protein Eg5 (KIF11) which plays a key role in cancer cell division and growth. Cell division inhibitors are effective against cancers but have serious side effects on the peripheral nervous system. This type of adverse reactions does not play a significant role with 4SC-205 however.

To the best of 4SC's knowledge, 4SC-205 is the only orally available Eg5 inhibitor currently in clinical development. 4SC-205 is administered daily in low oral doses to ensure the substance is steadily available in the body and can have a continuous effect. The effectiveness of 4SC-205 against cancer cells has been confirmed in various preclinical studies. In the Phase I AEGIS study, the substance was shown to be tolerated; initial indications of efficacy have crystallized in this study as well.

In May 2016, 4SC and Guangzhou LingSheng Pharma Tech Co., Ltd. (Link Health) signed a licensing and development agreement for the further development of 4SC-205. On the terms of this agreement, Link Health is responsible for the clinical development and approval process for 4SC-205 in China, Hong Kong, Taiwan and Macao. In return, 4SC receives upfront, milestone and royalty payments from Link Health. 4SC can use Link Health's findings to pursue the further development of 4SC-205 in other parts of the world as well, potentially also through additional independent partnerships.

AUTOIMMUNE DISEASES

In September 2016, 4SC out-licensed its immunology portfolio (consisting of two development programs as well as intellectual property rights), including the compound vidofludimus, to Immunic. This move was in line with 4SC's strategy of focusing the Company's activities on modes of action based on epigenetic mechanisms. On the terms agreed, 4SC is eligible to an immediate one-time payment as well as milestone and royalty payments.

2.2.2 RESEARCH ACTIVITIES

Up until April 2016, research activities had involved early-stage drug research (drug discovery and optimization) and early-stage commercialization by 4SC Discovery. In April 2016, 4SC sold all key operating assets of 4SC Discovery to BioNTech Small Molecules GmbH (BioNTech Small Molecules), a subsidiary of Mainz, Germany-based BioNTech AG. The purchase price was €650 thousand. In addition and without financial compensation, 4SC was granted the right to temporarily utilize research services provided by BioNTech Small Molecules worth the equivalent of one person year. The assets transferred included the 4SCan® software developed in-house for compound discovery and optimization, 4SC Discovery's tangible fixed assets and its substance libraries. Furthermore, as of 1 May 2016 all 22 employees of 4SC Discovery were transferred to BioNTech Small Molecules. In contrast, 4SC Discovery retained its preclinical projects and 4SC continues to use the epigenetic schemes and the underlying intellectual property itself as the basis for its own development work, and is also planning to sell other projects that are unrelated to epigenetic anti-cancer therapies.

2.3 SIGNIFICANT EVENTS AT GROUP LEVEL

Personnel matters

On 30 June 2016, 4SC's CEO Enno Spillner retired from the Company at his own request. On 21 September, the Supervisory Board of 4SC AG appointed Jason Loveridge, Ph.D. as the Company's new CEO with immediate effect. Jason Loveridge graduated in Biochemistry and Microbiology, and has more than 20 years of international

experience in senior management positions in life sciences companies and as an investment professional dealing in both privately held and publicly traded companies across Europe, Asia and the US.

Daniel Vitt, Ph.D. also resigned from the Management Board and departed the Company at his own request at the end of 2016. He had previously stepped down from his position as Chief Development Officer and Chief Scientific Officer (CDO/CSO) in October 2016. The new CDO is Frank Hermann, M.D., who had moved from Bristol-Myers Squibb in June 2016 to become 4SC's Medical Director Clinical Development. Roland Baumgartner, Ph.D., who has spent 14 years at 4SC in translational pharmacology, became the new CSO. Together with Chief Medical Officer (CMO) Susanne Danhauser-Riedl, M.D., the CDO and CSO are part of the Company's senior management, without being members of the 4SC Management Board though.

Consulting

In July 2016, 4SC announced the formation of an international Scientific Expert Panel (iSEP). The panel supports 4SC in further developing its innovative anti-cancer therapies. The members of the iSEP are internationally recognized epigenetics and oncology experts who will consult 4SC on preclinical and clinical product development.

2.4 THE 4SC SHARE AND CAPITAL MARKETS

The key indexes for biotechnology stocks turned in a mixed performance in 2016. While the US NASDAQ Biotechnology Index lost 22% during the year, Germany's DAXsubsector Biotechnology Index posted a gain of 5% in the same period. 4SC AG's share price was down 37% and trailed benchmark indexes considerably.

After reaching a high level at the end of 2015, the major indexes began the new year with marked declines amid weak economic data from China. In the first six weeks of the year, Germany's leading share index, the DAX, shed around 19% of its value, reaching its low for the year in mid-February. Even the subsequent uptrend, which lasted well into April, did not take the DAX back into positive territory. Dampened by the imminent Brexit referendum, the index continued well below the number of points achieved on 30 December 2015. It was not until August that the DAX reached its base value again, though here it met with resistance and hovered marginally short of positive territory during the months that followed. The breakout was finally achieved at the beginning of December when the DAX climbed again until the end of the 2016 trading year, which it closed up nearly 7%.

4SC share price performance and trading volume

Starting from a year-end price of €3.83 on 30 December 2015, 4SC's shares reached their high for the year of €4.19 as early as 11 January 2016 and spent the first four months of 2016 fluctuating between €3 and €4. By the end of May, 4SC's share price performance was tracking that of the two sector indexes, the NASDAQ Biotechnology and the DAXsubsector Biotechnology. As a consequence of the Company's announcement on 27 May 2016 on the headline results from Yakult Honsha's Phase II study of resminostat in liver cancer, in which resminostat did not meet the primary endpoint of statistically significant prolonged time to disease progression (TTP) in combination with sorafenib as first-line therapy compared to sorafenib monotherapy, 4SC's shares became increasingly detached from the performance of these indexes and recorded a disproportionately strong fall in value.

4SC's shares reached their lowest level for the year (€2.05) on 1 August 2016, and following a sideways movement, another Company announcement on 5 October caused the share price to rally to €2.82. According to this announcement, the retrospective analysis of the data generated by the mentioned study conducted by Yakult Honsha suggested a survival benefit in patients with advanced liver cancer treated with resminostat with a greater than median platelet count at study entry.

The year-end closing price stood at €2.41 on 30 December 2016, down 37% on the closing price for the previous year.

The average daily trading volume of 4SC shares across all German stock exchanges, including Tradegate and Quotrix, of 27,196 shares was 8% lower than the prior-year figure of 29,668 shares. The share of stocks in free float was 38.2% as of 31 December 2016 compared with 38.1% at the end of 2015.

Active investor relations work

In the 2016 financial year, 4SC AG continued its active and transparent dialog with the different capital market participants and regularly kept institutional investors, financial analysts, retail investors and the business media abreast of developments in the Company.

During 2016, 4SC's senior management and investor relations team again took part in numerous individual and group discussions at roadshows in San Francisco, Munich, Paris, New York and Boston and gave presentations at many capital market conferences. These included:

- Kempen Life Sciences Conference, Amsterdam, The Netherlands
- BioEquity, Copenhagen, Denmark
- BIO International Convention, San Francisco, USA
- Citi European Healthcare Conference, London, United Kingdom
- Rodman & Renshaw Global Investment Conference, New York, USA
- Baader Investment Conference, Munich, Germany
- German Equity Forum, Frankfurt am Main, Germany

RESEARCH Analysts from the following banks and brokerage firms regularly covered the shares of 4SC AG in 2016:

Institute	Place	Analyst
Baader Helvea	Zurich, Switzerland	Bruno Bulic, Ph.D.
Edison Investment Research	London, United Kingdom	Linda Pomeroy, Ph.D.
Equinet	Frankfurt am Main, Germany	Marietta Miemietz

SHAREHOLDER STRUCTURE

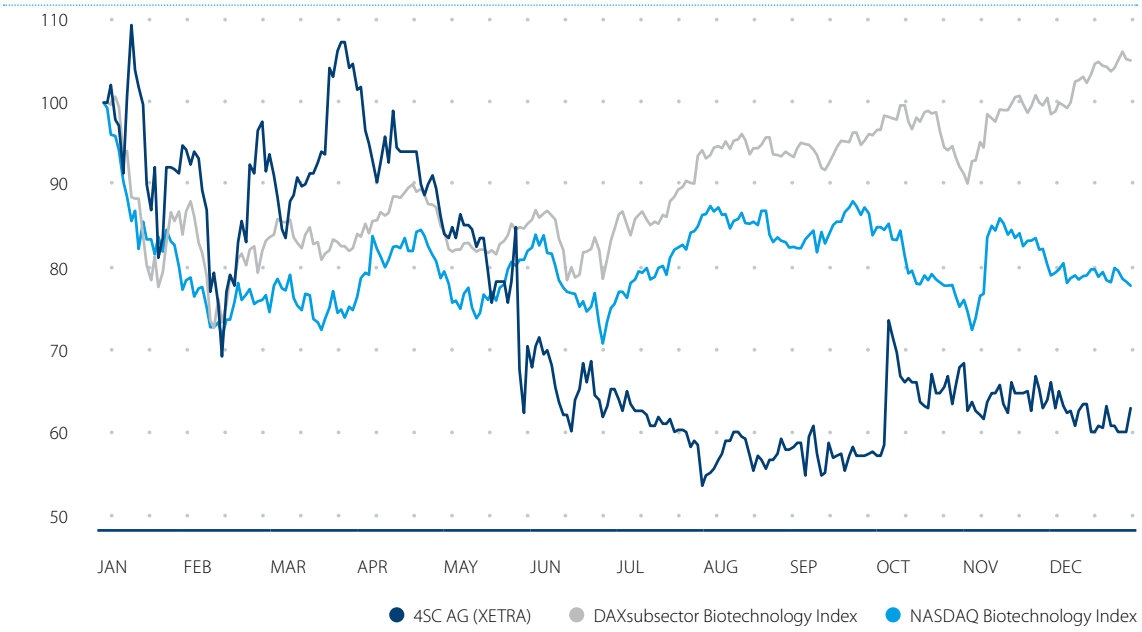
As estimated by management, in percent	31 Dec. 2016	31 Dec. 2015
Santo Holding	47.8	48.1
FCP	7.4	7.2
Wellington Partners	6.6	6.6
Roland Oetker	3.9	3.5
Founders and management	0.0	0.7
Other	34.3	33.9
Total	**100.0**	**100.0**

KEY FIGURES OF THE 4SC SHARE as of 31 December 2016

Securities identification number (SIN)	A14KL7
International securities identification number (ISIN)	DE000A14KL72
Stock exchange symbol	VSC
Type of shares	Bearer shares
Number of shares	18,966,646
Market segment	Prime Standard
Marketplace	Xetra and all other German stock exchanges
Designated sponsors	Oddo Seydler Bank AG Baader Bank AG
First day of trading	15 December 2005
Earnings per share (basic and diluted; in €)	-0.59
Number of shares issued (annual average)	18,966,646
Free float*	38.2%
Annual high (Xetra) (in €)	4.19
Annual low (Xetra) (in €)	2.05
Closing price on reporting date (Xetra) (in €)	2.41
Daily trading volume (all trading venues, annual average)	27,196

* As defined by Deutsche Börse.

SHARE PRICE OF 4SC AG VS. BIOTECHNOLOGY INDEXES 2016, beginning of the year = 100%



3. Results of operations, financial position and net assets

The 4SC Group reports consolidated figures for both the 2016 and 2015 financial year. Previous years' segment reporting was discontinued as a result of the sale of operations in one division. Starting in the 2016 reporting period, the operations sold are presented separately in the consolidated annual financial statements for 2016 as discontinued operations in accordance with the provisions of IFRS 5. For more information on this, see section 1.1 ("Group structure and business activities") under "Business activities and organization".

3.1 RESULTS OF OPERATIONS

Revenue

Consolidated revenue from continuing operations fell to €2,060 thousand in financial year 2016, down 11% from the previous year (2015: €2,296 thousand). The decrease in revenue year-on-year is a result of the fact that in 2015 non-recurring costs of €1,195 thousand associated with the production of the resminostat compound were passed on to 4SC's partner Yakult Honsha.

In the reporting year, revenue comprised the proportional reversal of the deferred income recognized in connection with development partnerships and also the calculation of milestones and services for partners. Deferred income from the development partnerships for resminostat and 4SC-205 amounted to €1,762 thousand (2015: €1,085 thousand). The contribution to revenue stemming from the calculation of milestones and services for the partners Link Health, Immunic, Yakult Honsha and Crelux GmbH (Crelux) totaled €298 thousand (2015: allocations to Yakult Honsha and Menarini of the costs to produce the resminostat compound totaling €1,222 thousand).

Operating expenses

Operating expenses, comprising the cost of sales, distribution costs, research and development costs and administrative costs, in continuing operations rose to €14,467 thousand in 2016, an increase of 39% on the prior-year figure (2015: €10,395 thousand). The large increase in the cost of sales in the previous year was connected with the production of the resminostat compound for clinical trials in Japan, though almost all of these costs were passed on to 4SC's partner, Yakult Honsha.

Research and development costs in continuing operations continued to account for the majority of expenses, which rose by 75% year-on-year to €10,601 thousand in 2016 (2015: €6,060 thousand). This significant increase largely stems from outsourced services in connection with the intensive preparations and the commencement of the RESMAIN study with resminostat in CTCL.

Administrative costs in continuing operations amounted to €3,380 thousand in the 2016 financial year, up 17% year-on-year (2015: €2,879 thousand). This increase is mainly attributable to higher legal and consulting costs as a consequence of financing preparations and personnel changes.

Distribution costs in continuing operations, which consist of the costs incurred by business development and corporate communications & investor relations, rose by 18% in 2016 due to the reorganization of the personnel structure. They amounted to €410 thousand (2015: €348 thousand).

Other operating income in continuing operations increased substantially to €615 thousand (2015: €184 thousand), primarily as a result of income from subletting and from out-licensing the immunology portfolio to Immunic.

Operating profit/loss

On the back of substantially lower revenue and considerably higher operating costs, 4SC's operating loss from continuing operations increased by 49% in 2016 to €11,792 thousand (2015: €7,915 thousand).

Net finance income/loss

Net finance income rose appreciably year-on-year to €508 thousand in 2016 (2015: €-273 thousand). This was mainly a result of the drop in interest expense to €65 thousand in the reporting period (2015: €355 thousand), primarily in connection with the draw-down of the shareholder loan from Santo Holding (Deutschland) GmbH (Santo Holding) that was repaid in full in March 2016. However, net finance income also improved substantially due to the sale of the shares in quattro research GmbH (quattro research), which gave rise to accounting profits of €387 thousand.

Taxes

In the reporting period, the 4SC Group incurred expenses of €71 thousand from current income taxes in the form of a non-creditable, merely deductible Chinese withholding tax (2015: €40 thousand).

Profit/loss from discontinued operations

At the end of April 2016, key components of the former Discovery & Collaborative Business segment were sold to BioNTech Small Molecules, in particular the material assets and the technology platform. Profit/loss from these discontinued operations is presented as a separate line item in the consolidated statement of comprehensive income. The consolidated statement of comprehensive income for the previous year was adjusted accordingly. A profit of €189 thousand from discontinued operations was reported in 2016 (2015: loss of €1,000 thousand).

Consolidated net loss

The consolidated net loss increased by 21% to €11,166 thousand in 2016 on the basis of the developments described (2015: €9,228 thousand).

Earnings per share

Due to the higher net loss for the period amid an increase in the average number of shares compared with the previous year, the loss per share narrowed to €0.59 in the 2016 financial year (2015: loss of €0.64).

3.2 NET ASSETS

Non-current assets

Non-current assets fell from €11,077 thousand as of 31 December 2015 to €7,096 thousand as of 31 December 2016. This decrease is due in particular to depreciation and amortization, the sale of 4SC Discovery's property, plant and equipment to BioNTech Small Molecules, the out-licensing of the immunology portfolio to Immunic and the sale of the equity interest in quattro research to the company itself, as well as to the reclassification of a borrower's note loan of €1,285 thousand (31 December 2015: €1,318 thousand) from other non-current assets to other current assets on account of its remaining term. At €6,499 thousand, intangible assets continued to be the largest non-current asset item (31 December 2015: €9,123 thousand), followed by property, plant and equipment at €497 thousand (31 December 2015: €357 thousand).

Current assets

The sizable drop in current assets to €11,959 thousand as of 31 December 2016 (31 December 2015: €22,415 thousand) resulted from a decrease in cash and cash equivalents to €10,048 thousand (31 December 2015: €21,476 thousand). Other current assets rose as a result of the reclassification (for more information see the explanation under "Non-current assets" in the above paragraph).

Equity

The decline in equity from €26,428 thousand as of 31 December 2015 to €15,273 thousand as of 31 December 2016 is attributable to the net accumulated deficit that rose to €149,350 thousand as of 31 December 2016 (31 December 2015: €138,184 thousand) as a consequence of the net loss for the period of €11,166 thousand.

The full repayment of the liabilities to the main shareholder Santo Holding (31 December 2015: €1,962 thousand) raised the equity ratio slightly by 1.3 percentage points from 78.9% as of 31 December 2015 to 80.2% as of 31 December 2016.

Current and non-current liabilities

Non-current liabilities were down 64% to €525 thousand as of 31 December 2016 (31 December 2015: €1,471 thousand). The other non-current liabilities consist largely of deferred income in connection with the partnerships entered into with Yakult Honsha and Link Health amounting to €493 thousand as of 31 December 2016 (31 December 2015: €1,433 thousand).

Current liabilities decreased by 42% to €3,257 thousand (31 December 2015: €5,593 thousand). These primarily consist of other liabilities and deferred income of €2,423 thousand (31 December 2015: €2,943 thousand). Advances received for subsidies from the federal government of Germany and the EU rose by 28% to €393 thousand (31 December 2015: €307 thousand). Current liabilities also include trade accounts payable in the amount of €834 thousand (31 December 2015: €688 thousand).

Total assets/Total equity and liabilities

Total assets/total equity and liabilities decreased to €19,055 thousand as of 31 December 2016 (31 December 2015: €33,492 thousand), mainly as a result of the accumulated deficit.

3.3 FINANCIAL POSITION

Cash flows from operating activities

A total of €12,922 thousand was used for operating activities in the 2016 financial year. Of this figure, €570 thousand was attributable to discontinued operations, while €12,352 thousand was used for continuing operations. The difference compared with the pre-tax loss of €11,284 thousand resulted in particular from non-cash expense items such as straight-line depreciation and amortization and, on the income side, the reduction in the deferred income item, as well as from cash items such as the disposals of property, plant and equipment and current assets in connection with the out-licensing of the immunology portfolio. In the 2015 prior-year period, cash flows from operating activities came to €-8,958 thousand, broken down into €-8,004 thousand for continuing operations and €-954 thousand for discontinued operations, with a pre-tax loss of €8,188 thousand.

Cash flows from investing activities

The cash inflows from investing activities in financial year 2016 amounted to €2,994 thousand, with €2,344 thousand attributable to continuing operations and €650 thousand to discontinued operations (2015: cash outflow of €1,541 thousand). The sale of non-current and current assets generated a cash inflow of €2,808 thousand (2015: cash outflow of €1,318 thousand). In addition, the Company invested €60 thousand (2015: €114 thousand) in intangible assets and €404 thousand (2015: €109 thousand) in property, plant and equipment.

Cash flows from financing activities

The cash flows of €-1,500 thousand from financing activities in the reporting period (2015: €28,773 thousand) are due to the repayment of the shareholder loan from Santo Holding.

Cash and cash equivalents

As of 31 December 2016, the Company had cash and cash equivalents totaling €10,048 thousand (31 December 2015: €21,476 thousand). The average monthly outflow of cash from operating activities was €827 thousand in 2016 (2015: €767 thousand).

3.4 OVERALL ASSESSMENT OF ECONOMIC POSITION

Revenue declined on account of the reduction in the production costs allocated to Yakult Honsha. However, revenue from the allocation of costs for services rendered also decreased sharply due to the discontinuation of the research division. 4SC's focus on advanced anti-cancer drugs led to one-off additional income being generated in 2016. This was reduced by the expenses for the intensive preparations and the commencement of the RESMAIN study with resminostat in CTCL, which drove up research and development costs by 75%. The net loss in 2016 rose by a total of 21% year-on-year. The Company had sufficient liquidity at all times during the 2016 financial year. The one-off income explained above gave a boost to the Company's liquidity. The financing of ongoing development programs was not in jeopardy at any time. This was ensured in particular by the proceeds from the capital increase that was successfully implemented in the prior year.

The Group's economic development in the 2017 financial year again proceeded according to plan up until the preparation of this combined management report.

4. Employees

As of 31 December 2016, the 4SC Group had 49 employees (including the Management Board of 4SC AG and executive management of 4SC Discovery GmbH) (31 December 2015: 67). At Group level, the average number of employees in 2016 was 55, a decrease of 19% on the previous year (2015: 68).

4SC adheres to a balanced personnel policy, filling the relevant positions with the most qualified employees. The share of female employees increased year-on-year, reaching 63% as of 31 December 2016 (31 December 2015: 55%). 4SC offers flexible working arrangements that enable its employees with children in particular to balance career and family. As of the 31 December 2016 reporting date, 35% (31 December 2015: 25%) of the 4SC workforce were working part-time. Including part-time employees and employees on parental leave, the Company had 44 full-time equivalents (FTEs) at the end of 2016 (31 December 2015: 58 FTEs). Of these FTEs, 70% (31 December 2015: 76%) worked in research and development, and 30% (31 December 2015: 24%) in business development, administration and IT. The Company currently has no trainees.

Staff costs decreased to €4,577 thousand in the 2016 financial year (2015: €5,056 thousand) due to the significantly lower number of employees. Staff costs include €11 thousand (2015: €-2 thousand) arising from non-cash expenses for stock option plans.

Total number of employees	31 Dec. 2016	31 Dec. 2015
Research & Development	34	50
Business Development & Administration	13	15
IT	2	2
Total	**49**	**67**

5. Financial and non-financial key performance indicators

5.1 FINANCIAL KEY PERFORMANCE INDICATORS

Over time, development processes generate product value by means of data, validation and commercialization, thereby increasing the Company's value. Various key performance indicators are used for purposes of optimal planning, management and control of business development. Further details of financial key performance indicators can be found in section 1.3.

5.2 NON-FINANCIAL KEY PERFORMANCE INDICATORS

5.2.1 INDUSTRIAL PROPERTY RIGHTS

For a biotechnology company focused on development such as 4SC, having a strong portfolio of industrial property rights is crucial. It both enhances the competitive position of the Company's proprietary development programs on route to marketability and supports their potential future market success. 4SC's patent management activities strategically optimized the existing patent portfolio in the reporting period.

As of the close of 2016, the Group held 316 patents (31 December 2015: 361) and had filed 102 patent applications which were still pending (31 December 2015: 182) in 19 patent families (end of the previous year: 26). As a result, the total number of patents issued and patent applications in this segment declined slightly year-on-year, which was due to a continued focus on the patent portfolio in line with the product strategy and, in particular, to the out-licensing of two anti-inflammatory projects to Immunic.

For resminostat, 4SC's most advanced drug candidate, the Company held a total of 149 patents at the end of 2016, including 61 composition-of-matter patents. The resminostat compound is protected in all of the world's key pharmaceutical markets, such as those in the USA, Europe, Japan, China, South Korea, India and Russia. Moreover, 4SC holds patents on resminostat's mesylate salt used in formulating the compound as well as patents on the compound's manufacturing process in key pharmaceuticals markets.

At the end of 2016, 4SC also held an extensive portfolio of 86 issued patents in total, including 58 composition-of-matter patents, for the younger clinical oncology compound 4SC-202. 4SC-202 is protected in the world's major markets, particularly in the United States, Europe and key countries of the Asia/Pacific region, such as Japan, China, Korea, Taiwan, India and Australia. Patents for the salt form used in the clinical trials have also been issued in the USA, Japan, Korea, China and other countries.

At the end of 2016, most of the patent applications for the preclinical oncology substance 4SC-208 were still at the early stages of the examination process carried out by the respective national patent offices. The US Patent Office has already notified 4SC of the imminent granting of a patent for 4SC-208, however.

In addition, at the end of 2016 4SC held a series of patents and patent applications in early-stage projects, for which licensing deals either already exist or are in the initial phase.

Besides its patents, 4SC also owns a variety of rights to strategically important word and word/picture marks. Overall, 4SC's extensive portfolio of intellectual property rights illustrates the Company's innovative strength, which is further bolstered by a forward-looking patent strategy for the development and later commercialization of future drugs.

5.2.2 CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Employee safety and environmental protection

Corporate responsibility is an important topic at 4SC. The Company places a high value on ensuring the maximum possible safety of its employees and on protecting the environment. 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. Going forward, the regular risk assessments required by the German Occupational Health and Safety Act will be conducted by the responsible supervisor or laboratory manager, aided by the Company's own occupational safety professional. A psychological stress risk assessment was prepared in 2015 and 2016, and will be updated regularly in future. Furthermore, all laboratory employees once a year 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 – as appropriate.

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. Last but not least, 4SC's waste disposal concept also helps to protect the environment. The professional and environmentally compatible disposal of hazardous waste is carried out by a specialist company.

The sale of the key operating assets of 4SC Discovery to BioNTech Small Molecules in April 2016 resulted in significant changes, especially in terms of laboratory operations. The 4SC Discovery departments Analysis and Chemistry were sold in full to BioNTech Small Molecules, while the Biology unit was integrated into 4SC AG. 4SC moved into new premises at the end of 2016. The Company is in contact with the relevant authorities to ensure that work in 4SC's laboratories can continue as before. One key task in 2017 will be the modification of the safety plan for the new premises.

Due to the systematic implementation and observance of occupational safety measures, not a single notifiable incident 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 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. All experiments involving animal subjects conducted by 4SC in the reporting year were performed only after obtaining regulatory approval and were monitored on a continuous basis by an external animal welfare officer.

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

5.2.3 PROCUREMENT

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

The Group has a broad supplier base in order to ensure that it is not dependent on any one supplier. The required goods are generally sourced based on quality, pricing and availability. Despite 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.

5.2.4 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 and the environment while also minimizing threats to the Company's economic position.

In light of the above, 4SC has installed a quality management system according to „GxP" guidelines. The abbreviation GxP is an umbrella term referring to guidelines that codify quality standards used in an industry. Such guidelines include Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practice (GMP). This quality management system ensures that internal processes, workflows and Company 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 drawing up an annual audit program. This involves taking a risk-based approach to determining which of the many external companies and service providers to which 4SC entrusts work – such as CROs (for performing clinical studies) or contract manufacturers (for producing compounds and investigational medicinal products) – are to be audited for compliance with the required quality standards in the course of ongoing clinical trials.

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

6. Report on post-balance sheet date events

The investigators for the Phase II study conducted by Yakult Honsha and concluded in 2016 with resminostat in HCC presented detailed study results on 20 January 2017 at the Gastrointestinal Cancers Symposium in San Francisco, USA. In the patient subgroup with a normal to high platelet count, which represented roughly half of the 170 study participants, median survival of patients receiving the resminostat and sorafenib combination therapy was 13.7 months, whereas median survival of patients receiving sorafenib alone was just 5.1 months. For these subgroup patients with normal to high baseline platelet levels, the risk of dying during the study was reduced by approximately 40%.

These findings have resulted in 4SC and Yakult Honsha entering into intense discussions as to the further development of resminostat in HCC and the potential initiation of a global pivotal study. In this context, 4SC would extend the rights granted to Yakult Honsha for the development and marketing of resminostat in all indications from Japan to all remaining regions with the exception of Europe. In return, 4SC would receive milestone, sub-licensing and royalty payments. 4SC would retain all rights to resminostat in Europe.

7. 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.

7.1 MACROECONOMIC AND SECTOR DEVELOPMENT

In its most recent World Economic Outlook issued in January 2017, the International Monetary Fund (IMF) estimates that the global economy will expand by 3.4% in the current year, a slight increase on the previous year (2016: 3.1%). The significant risks to global economic growth identified by the IMF experts include an increase in protectionism, an unforeseen deterioration in global financing terms for specific euro zone countries, a number of emerging market economies, increased geopolitical tensions and an unexpectedly sharp slowdown in growth in China. The ultimate repercussions of Brexit and the still relatively low commodity prices also constitute economic risks for 2017 that are difficult to calculate.

The IMF estimates that in 2017 the euro zone will see a slightly lower growth rate than in the previous year of 1.6% (2016: 1.7%). An increase of 1.5% is forecast for Germany (2016: 1.7%). The US economy is likely to expand at a somewhat faster pace year-on-year of 2.3% (2016: 1.6%). Asia's economic growth is projected to reach 6.4% (2016: 6.3%). China, the largest economy, is expected to expand by 6.5% this year compared with 6.7% in 2016.

With regards to the development of the biotechnology industry in 2017, a report by the industry information service BioCentury shows that investors are torn between concern and optimism. The concern arises from uncertainty about the healthcare policy of the new US government, on which a clear statement has yet to be made. There is also concern about the competition for capital with other areas such as financial services and infrastructure, which has already resulted in funds being withdrawn from the biotech industry. According to BioCentury, around half of all investors and bank representatives are optimistic that Trump will make a policy that is favorable for the industry. Specifically, they believe that the requirement for repatriation of the funds US companies have invested overseas, together with rising interest rates and price pressure for established products, could lead to particularly high M&A activity. BioCentury predicts that the area in which biotech investors will invest most heavily in 2017 will be therapeutics. The focus will continue to be on immuno-oncology. A couple of major deals could bring the generalists among the investors back to the biotech industry. Plus, the comparatively low market prices for biotech securities might also make the industry attractive to financial investors.

The experts from Investing News Network (INN) also believe that the mood will brighten in the coming year. They expect that in 2017 business models will return to value creation through the development of products that deliver additional benefits to people. INN estimates that the market for immunotherapies will witness a veritable explosion as soon as planned clinical studies with vaccines against cancer are commenced and a number of new drugs come on the market. For example, several checkpoint inhibitors for treating different types of cancer are expected to be approved, which would then result in considerable advances in treatment. Gene therapies are likewise coming increasingly close to being

marketed, and the revolutionary CRISPR-Cas 9 genome editing tool is already being tested on people. However, new products and clinical data are not the only promising indicators. For 2017, the experts are again forecasting less volatility, better financing options and increased M&A activity.

The German biotech industry is optimistic for the new year, as indicated in a survey by the biotechnology industry association "BIO Deutschland" in cooperation with the industry magazine |transkript. As in the previous year, the business owners surveyed at the end of 2016 stated that they would be making new investment in personnel and research & development. Two-thirds consider the current business situation to be good, while 54% also expect to see a further improvement in 2017. Consequently, the confidence survey conducted by the biotech association achieves positive figures, just like in 2016.

The German Association of Research-Based Pharmaceutical Companies (Verband der forschenden Pharma-Unternehmen, VfA) expects at least 30 drugs with new compounds to come on the market in 2017. Around one-third of the new drugs launched are expected to be drugs to combat cancer, including non-small cell lung cancer (NSCLC) and different forms of leukemia. The new drugs will use a broad repertoire of modes of action, some of which target the tumor cells themselves, whereas others target adjoining immune and vascular cells that are manipulated by the cancer cells.

7.2 COMPANY OUTLOOK

Further operating and strategic development

4SC is continuing to focus its development strategy on drug candidates in the field of innovative anti-cancer therapies. The 4SC product pipeline currently comprises a total of three key small molecule compounds: the clinical candidates resminostat and 4SC-202 and the preclinical compound 4SC-208.

The primary operational focus is still on resminostat. At present, the compound is being examined in cutaneous T-cell lymphoma (CTCL) in the pivotal RESMAIN study being conducted in Europe. The first patient was included in this double-blind, randomized placebo-controlled pan-European study in December 2016. In the course of this study, 150 people will be treated at more than 50 study centers in eleven European countries up to 2018. The Company estimates that headline results could be available in 2019. If these are positive, 4SC will immediately submit an application for approval of the drug.

In January 2017, the investigators presented data from the Phase II study that had been conducted by 4SC's cooperation partner Yakult Honsha with resminostat in combination with sorafenib in first-line therapy in advanced liver cancer (HCC), compared to the use of sorafenib as a monotherapy. Subgroup analysis of the study revealed that addition of resminostat to the standard of care sorafenib resulted in a prolonged time until disease progression and a substantial benefit in median overall survival in patients with a normal to high platelet count at study entry. Patients in this subgroup also had a significant survival benefit. At median, patients in this subgroup treated with resminostat and sorafenib survived for 13.7 months compared to 5.1 months in patients treated with sorafenib alone. Based on these encouraging results, Yakult Honsha and 4SC entered into intense discussions to extend their collaboration, which could result in the initiation of a pivotal worldwide study in HCC in early 2018.

4SC will also continue to conduct preclinical studies with resminostat to investigate this compound's properties as an immunomodulator and in combination with other therapies. If successful, these studies would offer substantial additional value and market potential. The initial findings show that resminostat's epigenetic mechanism of action creates the potential for the drug candidate to be used in combination with already approved immunotherapies and to boost their efficacy in the treatment of cancer.

For the oncology compound 4SC-202 it has been demonstrated that due to its epigenetic mechanism of action 4SC-202 is an effective combination partner for checkpoint inhibitors when treating cancer. The results of preclinical investigations published in June 2016 showed that the combination of 4SC-202 with checkpoint inhibitors is much more effective in treating cancer than treatment with checkpoint indicators alone.

4SC expects to start two Phase II trials in 2017 investigating 4SC-202 in combination therapy with immuno-oncology drugs.

The SENSITIZE Phase II study is set to begin in the second half of 2017, trialing 4SC-202 in combination with anti-PD-1 antibodies for treating PD-1 refractory melanoma. Therapeutic antibodies targeting this checkpoint will ensure that the tumor cells can be combated again by the body's immune system. Included in this study will be patients who do not respond to the therapy with checkpoint inhibitors that in many cases has been used very successfully to treat melanoma. Through combination therapy with 4SC-202 a therapeutic success is expected to be achieved for these patients as well, resulting in major commercial potential for 4SC. 4SC believes that 4SC-202 is the only epigenetic compound for which a clinical investigation is planned in this indication at the present time.

The Company expects to announce headline results from the study in the second half of 2018. Assuming the results of the study are positive, 4SC intends to commence randomized clinical studies based on these results.

In the Phase II EMERGE study – to be conducted by an internationally renowned academic institution – 4SC-202 will also be tested in combination with an immuno-oncological compound for treating gastrointestinal tumors starting in the second half of 2017. These tumors account for around 80% of intestinal cancers, and 4SC expects headline results to be available in 2019.

Finally, 4SC-208 for combating cancer stem cells will be examined further in preclinical trials aimed at facilitating preparation of Phase I clinical trials.

In addition to the currently available funds, significant additional funding will be required to finance the above-mentioned projects; 4SC hopes to procure this on the capital markets in the near term.

In addition to its own projects, 4SC will continue aiming to secure further licensing deals with companies from the pharmaceutical and biotech sectors to ensure the further clinical development of its products and boost its enterprise value. The partnerships are intended to achieve a short-term inflow of funds while optimally exploiting these development programs' value creation potential over the long term.

Financial forecast

4SC Group's cash balance/funds were at €11,333 thousand on 31 December 2016. The average monthly operating cash burn rate in 2016 was €827 thousand, which is slightly more than 30% below the level of €1,200 thousand forecast in the previous year's report. On the one hand, the discrepancy in the forecast is largely due to the deferral of clinical expenses for the RESMAIN study to 2017. On the other hand, by focusing on innovative modes of action in the field of epigenetics 4SC generated additional, originally unplanned income in 2016.

Taking into account the current financial planning and the intended operating activities, the Management Board estimates that the funds earmarked for the Company's financing will probably be sufficient for another twelve months. For 2017, 4SC is expecting an average monthly use of cash from operations between €600 thousand and €1,400 thousand. If 4SC were to succeed as planned in procuring significant additional funding to implement the projects set out in the preceding section entitled "Further operating and strategic development", the financing range would be considerably extended. Once it has completed the corporate action it is pursuing, 4SC will issue a more specific forecast.

For 2017, 4SC expects a moderately greater consolidated net loss than in 2016 as it plans to step up clinical activities. 4SC projects continued annual net losses in the short to medium term as well.

8. Report on opportunities and risks

8.1 4SC'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The 4SC Group 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, the cooperation with partners, the preservation of equity and the Group's sufficient medium- and long-term financing. These risks must be reviewed continually and, if appropriate, entered into in a controlled fashion to leverage the Company's opportunities to their fullest.

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

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

4SC Group's internal control system (ICS) was set up to supplement the risk management system. It ensures monitoring of the Company's activities by employing various rules such as signatory powers, controlled specification and verification documents, policies, standard operating procedures (SOPs), work instructions, the two-person integrity (TPI) 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, e.g. the creation of job and job function descriptions. Also used are verification documents, which are records or documents that document the achieved results or provide objective proof of activities carried out, e.g. in the form of an audit report.

Group-wide signatory powers define which employees are authorized to sign orders and invoices. These are assigned depending on the amount of the order or invoice, whether it was budgeted and whether the signatory is a project employee or project manager, or a Management Board or executive management member. In 4SC's view, it is ensured that payment instructions are only executed if compliant with the provisions mentioned above.

The development programs are discussed in detail at regular meetings under the direction of the CDO. These meetings ensure close coordination between the development teams and with senior management. At the meetings, which are normally held at two-week intervals, advances in the Company's key preclinical and clinical development programs are presented and discussed. The meetings are attended by the CDO as well as the project managers of the three clinical development programs for resminostat, 4SC-202 and 4SC-205, the project manager of the preclinical development program 4SC-208 and the alliance manager, who is in charge of the resminostat partnership with Yakult Honsha. The meetings are also attended by representatives of the Chemical Development, Production Coordination, Quality, Medical, Business Development, Patents, and Corporate Communications & Investor Relations departments so that the project activities can be organized and managed taking all relevant aspects into account.

Risk management and internal control system in the financial reporting process

In terms of the Group's financial reporting process, the internal control and risk management system ensures that the accounting is uniform and is conducted in accordance with statutory rules and generally accepted accounting principles as well as International Financial Reporting Standards (IFRSs). It includes work instructions, compliance with the two-person integrity principle, spot checks and emergency planning. Continual training for the financial team contributes substantially to ensuring that all statutory requirements relating to the Group are implemented securely and completely in the Company. The controls for ensuring the regularity and reliability of the Group's financial reporting process primarily constitute automated checks, such as validation checking of financial figures and system access monitoring on the basis of a rights model. They are supplemented by manual checks, such as deviation and trend analyses made on the basis

of defined key figures, as well as comparisons with budget figures. In addition, the key financial indicators are discussed and analyzed regularly with the operating units.

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

The IFRS financial statements are prepared in accordance with uniform rules and regulations. The manageable size of the bookkeeping team ensures uniform presentation of all like items. Specific access rules are defined in the enterprise resource planning (ERP) system. Any changes in these rights are subject to approval by the 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 by an audit by the German Financial Reporting Enforcement Panel (DPR e. V.) for the 2015 financial year, which confirmed accounting correctness.

8.2 4SC'S EXPOSURE TO RISK

4SC is exposed to different individual risks which are related to each other and can affect each other, in a positive or negative way. Should these risks manifest themselves, either individually or together with other risks or other circumstances, this may severely compromise or prevent 4SC's business activities, its achievement of key corporate goals and/or its ability to refinance itself, as well as adversely affecting the Company's results of operations, financial position and net assets and/or share price to a significant degree. In a worst-case scenario, this could lead to a situation where the Company is forced to go into liquidation or file for insolvency due to illiquidity.

8.2.1 SECTOR-SPECIFIC RISKS

Competition

The defining characteristics of the biotech industry are short technology cycles, long development cycles and substantial investments in clinical 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 that this will intensify overall competition in the biotechnology industry.

Furthermore, there is a risk that regulators may approve competitors' products in the same indications ahead of those of 4SC, whether this is due to their possibly superior efficacy or tolerability. As a result, the products that 4SC is developing and plans to license might not be approved at all or only to a limited extent or might fail to

gain a sufficiently strong or extended market position. This could make it impossible for 4SC to enter into licensing partnerships for its proprietary compounds or cause a cooperation or licensing partner to fail in its efforts to advance or market these in a way that makes sense economically. As a result, 4SC would not generate any milestone payments or royalties in future under existing or planned licensing agreements with pharmaceutical and biotech companies.

Product development (general)

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

Typical risks include the following:

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

The Company currently has several low molecular weight compounds for treating cancer, which are in preclinical and clinical development stages. The risks arising from and dependence on a single compound can be reduced by maintaining a diversified product pipeline, although all products cannot be weighted equally in terms of their value. Although the study results available to date indicate that the compounds that are currently in the clinical development pipeline are safe to use and well-tolerated, 4SC cannot rule out that in on-going or pending clinical studies they may turn out not to be sufficiently efficacious in treating patients, or side effects may emerge which are classed as relevant to safety. This is also true for findings from ongoing clinical trials being conducted by the Company's license partners, such as Yakult Honsha in Asia. Any negative or unclear findings from their clinical studies could have a similar effect for 4SC as corresponding findings from its own clinical studies. Such findings might delay the development of a compound or cause its development to be terminated, which could have a negative impact on 4SC's results of operations, financial position and net assets and its stock exchange valuation.

Trends in healthcare policy

In the medium to long term, the pharma and biotech industry is dependent to a certain degree on trends in national and international healthcare systems. It remains the aim of healthcare policy to lower healthcare costs. Increasingly restrictive regulatory and reimbursement conditions could have an adverse effect on achievable drug prices and thus impact revenue from drug sales and royalties.

The difficult economic conditions in many healthcare systems mean that healthcare policy has a growing influence on the remuneration of new drugs, and indirectly on the business rationale of companies for seeking regulatory approval, which could have an adverse effect on the industry. Furthermore, health insurance funds and government institutions are increasing the pressure to reduce prices for medication. The benefit of medications is being measured with complex regulations, which is increasing the administrative burden and making it more difficult to obtain regulatory approval. The German federal government, for example, expects such measures to continue to deliver significant cost savings and/or quality improvements in the healthcare sector. Among others, this means that in the future pharmaceutical companies will no longer be able to set their own prices, e.g. in the German market. This may have an adverse effect on the remuneration structure and profitability of individual compounds. It could therefore become financially unattractive for pharmaceutical companies to get products approved in certain markets. In addition, this may even prevent products from being approved for commercialization at all due to tougher approval conditions.

Administrative proceedings

The business operations of 4SC are subject to extensive legal regulations and controls. The development and marketing of new products can be hampered by administrative proceedings over which the Company has only limited control. For instance, 4SC requires approval from the authorities to carry out clinical studies and to operate its own facilities for carrying out its development work. The loss, expiry or withdrawal of such approval can lead to delays in the advancement of 4SC's projects.

8.2.2 RISKS ARISING FROM THE COMPANY'S BUSINESS ACTIVITIES

Development and licensing deals

4SC Group specializes in developing innovative low molecular weight anti-cancer drugs. Achieving profitability and securing independent financing both require 4SC to generate corresponding revenue, for instance from upfront payments, milestone payments or royalties under license agreements with pharmaceutical and biotech companies. The revenue generated to date is not yet sufficient for this purpose. In light of these facts, and also considering the future need to incur large development expenses, the Company will continue to post negative operating results for the time being. In order to become profitable in the medium term, 4SC has to enter into suitable agreements with the pharmaceutical industry or other biotechnology companies. The development of the respective products could be delayed and/or result in lower revenue and thus reduce the project's value if 4SC fails to gain such partners at all or if it can only do so at economically unfavorable terms. Any delay in negotiations concerning development and licensing deals with respect to the Company's proprietary drug programs also presents a risk. If 4SC were to be dependent on a partnership not yet finalized or financing for further clinical development of a product, this could delay clinical development. The same is true for the receipt of upfront payments, which the Company aims for at the start of such partnerships. This in turn would adversely affect the financial and liquidity planning of the Company.

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

Marketing risks

4SC has marketed only a small number of products so far and does not possess a distribution or marketing structure. The Company must cooperate with other entities to market its drug and product candidates after approval. Since it can only exert limited influence on these companies, 4SC's revenue also depends on the performance of its partners. 4SC AG will generally participate in the revenue generated from its products through license fees and payments contingent on reaching previously defined targets (milestone payments). The Company's net assets, financial position and results of operations might be negatively affected to a material extent if the Company fails to close the requisite distribution and marketing cooperation agreements at reasonable terms or if such cooperation agreements do not bring about the expected success. The same is true when cooperation agreements are terminated prematurely, options are not exercised, or individual terms and conditions in existing contracts are amended. A decision by 4SC to establish its own distribution and marketing organization in certain regions could entail a substantial expenditure in terms of money and time. The establishment of such entities can also run into unforeseen difficulties or fail altogether. In turn this could delay the market launch of the Company's products, which could have a significantly negative effect on the Group's net assets, financial position and results of operations.

Cooperation partners

4SC currently generates most of its revenue from agreements with only a few cooperation partners. In the 2016 financial year, the partnerships with Yakult Honsha, Japan, Menarini, Singapore, and the licensing and development partnership for 4SC-205 entered into with Link Health, China, in May 2016 together contributed 82% of revenue. If one or more of these important partnerships were to be terminated, if payments were not made, or if planned new partnerships did not materialize, this could have an adverse effect on 4SC' revenue and earnings.

Business activities of 4SC Discovery GmbH

Until the disposal of its key operating assets to BioNTech Small Molecules in April 2016, the research subsidiary 4SC Discovery, which has been in operation since the beginning of the 2012 financial year, aimed among other things to generate a positive cash flow from operations from the corresponding revenue to make a contribution to the Group's financing. This goal was achieved in part in recent years. 4SC sold the key operating assets of 4SC Discovery to BioNTech Small Molecules at the end of April 2016. The financial implications of this transaction are described in section 3.1 ("Results from operations"), in the paragraph entitled "Profit/loss from discontinued operations". Since the sale, 4SC Discovery

has retained only its preclinical projects. 4SC will continue using the epigenetic schemes and the underlying intellectual property for itself, and in addition plans to out-license other projects.

Patents and trademarks

Proprietary technologies and developments are protected by 4SC and its various legal entities through industrial property rights as well as through comprehensive patenting and licensing strategies. However, it cannot be ruled out that third parties may object to patent applications made by 4SC during the patent approval process or even challenge the validity of patents. It can also not be ruled out that 4SC may become involved in patent disputes with third parties. Any legal ruling against 4SC's patents – generally following lengthy and cost-intensive legal proceedings – could impede the Company's continued development. Even imminent or actual proceedings could have a material adverse effect on the Company's economic situation and market capitalization. No such objections have been raised or are known to 4SC at this time.

8.2.3 RISKS ARISING FROM PRODUCT DEVELOPMENT

Collaboration with external development service providers

4SC currently does not own or operate any facilities for the manufacture of pharmaceutical products. Because it does not have the requisite governmental permit, the Company depends on subcontractors (Contract Manufacturing Organizations, CMOs). These organizations furnish the pharmaceutical substances for 4SC's products, manufacture them in clinical and commercial quantities, formulate and optimize product preparation and ultimately produce the drug. 4SC's dependence on such external suppliers and manufacturers exposes it to risks.

In particular, this concerns timely and sufficient deliveries in terms of quantity and quality as well as compliance with governmental requirements and quality assurance standards. The occurrence of this risk could result in the postponement or termination of ongoing clinical studies or in the postponement or cancellation of individual clinical studies with the attendant consequences for the development of the respective drugs. 4SC is also dependent on clinical research organizations (CROs) in connection with preclinical and clinical development. Any failure on the part of a cooperation partner in question to exercise due care could jeopardize the development of 4SC's compounds and possibly even cause the respective study to be discontinued. Moreover, the CROs must fulfill governmental requirements and quality assurance standards that 4SC can only influence to a limited degree even though the CROs are carefully selected and regularly monitored and audited.

Patient recruitment

Another risk of drug development is the necessity to recruit a sufficient number of suitable subjects or patients for clinical studies. This can encounter delays, given the complex medical circumstances that surround clinical studies (e.g. attractiveness of a study, study design, inclusion criteria, competitive situation, patient population, locations). In addition, clinical study centers might be unable to recruit a sufficiently large number of patients for the clinical study in question or generate evaluable data because other clinical studies are being conducted concurrently or a center's internal organizational processes show sustained quality deficiencies. In turn, this could jeopardize the studies' timeline and execution and result in delays. To push forward with the

studies, 4SC might thus be forced to include additional clinical centers in the ongoing studies, which in turn would involve significant additional costs.

8.2.4 CAPITAL MARKET RISKS

Additional financing

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

4SC Group's cash balance/funds were at €11,333 thousand on 31 December 2016. Taking into account the current financial planning and the intended operating activities, the Management Board estimates that the funds earmarked for the Company's financing will probably be sufficient for another twelve months. 4SC could be forced to rely on prematurely raising additional funds on the capital markets, for example due to additional clinical studies, the failure of cooperation partners to reach anticipated milestones, the termination of cooperation partnerships or changes in planning assumptions. In this connection, planned corporate actions might partly fail, or fail entirely, e.g. due to a difficult market environment. Should the Company have no access to additional funding this could impede or entirely prevent it from continuing as a going concern and result in the insolvency of 4SC AG and/or 4SC Discovery GmbH. If the Company raises additional capital by issuing new shares, existing shareholders could see a potentially significant dilution of their shares.

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 Group management report has been prepared. Together, these shareholders hold just under 66% 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 AG. This could influence 4SC's future business transactions as well as the future composition of the Supervisory Board and thus, indirectly, the Management Board. On account of the comparatively low liquidity of the 4SC 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.

8.2.5 FINANCIAL RISKS AND BALANCE SHEET RISKS

Cash investments

As a rule, the Company invests available free cash in a way that generates interest if possible. All of these funds are invested safely (investment grade) in overnight and term deposits that entail only minor liquidity and default risks. Transactions with international partners where contractual payment terms are made in a currency other than the euro entail a currency risk. This risk includes the relative decrease or increase of the euro vis-à-vis the other currencies during the period until payment of the liability or receivable. For this purpose, 4SC does not engage in hedging transactions but instead also endeavors to settle its own obligations in foreign currencies, primarily US dollars, British pounds and Swiss francs, thereby mitigating the risk of exchange rate fluctuations.

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

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

Allowance of tax loss carryforwards

Pursuant to the last notification received concerning the separate determination of residual loss carryforwards as of 31 December 2014, 4SC has corporate tax loss carryforwards of €149,045 thousand and trade tax loss carryforwards of €148,060 thousand. This notification is subject to a review by the taxation authority. In the period since 31 December 2014, which to date has not been subject to a tax assessment, considerable additional losses were incurred. As a result, the loss carryforwards for corporate income tax are expected to increase to approximately €168,967 thousand and the loss carryforwards for trade tax will likely rise to some €167,711 thousand as of 31 December 2016. The risks resulting from this are described in the second next paragraph.

As of 1 January 2008, the application of Section 8c of the German Corporate Income Tax Act (Körperschaftsteuergesetz, KStG) relating to the use of cumulative loss carryforwards, which is problematic for the industry, was introduced under the German Business Tax Reform Act. Any transfer of more than 25% to 50% of the subscribed capital within a five-year period results in a partial elimination of tax losses carried forward whereas any transfer of more than 50% of the subscribed capital results in a complete elimination thereof. As part of the Citizens' Relief Act (Bürgerentlastungsgesetz) that took effect in the summer of 2009 and the German Growth Acceleration Act (Wachstumsbeschleunigungsgesetz) that took effect on 1 January 2010, the German parliament has taken steps to ease the limitations on loss carryforwards. Whilst these statutes partially mitigate the problem, they do not eliminate it. Furthermore, the legal situation continues to be uncertain due to ongoing and pending court cases as well as pending legislative processes at national and European level.

In recent years, 4SC has seen some changes among its shareholders, capital increases and investments from new shareholders, all of which remains likely in future. At the same time, new operating assets of significant scope have been acquired. Section 8c of the KStG could have a negative impact on 4SC's future after-tax results and equity. It is possible in 4SC's view therefore, that tax authorities might adopt the position that existing loss carryforwards may no longer be partially or fully offset against future profits. This would have a material negative impact on the Company's after-tax earnings once it reaches profitability, result in premature income tax payments and have a negative influence on liquidity.

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.

8.2.6 ADMINISTRATIVE AND OTHER RISKS

Key personnel and holders of know-how

The success of 4SC largely depends on its senior management and qualified key scientific and technical personnel. Many of these employees have many years of experience and are hard to replace. Although competition for highly-skilled personnel in the biotechnology and pharmaceutical sector is very intense, 4SC has so far usually succeeded in filling the most important positions with suitable staff on reasonable employment terms. However, if the Company were to lose key managerial, scientific or technical personnel who could not be replaced adequately, or could be replaced only after a considerable delay or by incurring substantial search and hiring costs, this could be detrimental to the Company's competitiveness and/or earnings situation.

Legal risks

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

Other risks

Other risks related to environmental protection, IT security, purchasing as well as general safety requirements are not deemed significant. Here, 4SC has taken organizational precautions in order to fulfill the requirements in question and control the internal processes.

8.2.7 OVERALL ASSESSMENT OF THE COMPANY'S EXPOSURE TO RISK

From today's perspective, aside from its liquidity risk, the Company perceives only a few factors that could jeopardize the existence of 4SC as a going concern in the 2017 financial year, taking all aforementioned risks into account. However, the value of individual products or 4SC's overall capital market valuation could be significantly adversely affected by negative clinical data from ongoing studies and/or unfulfilled expectations from partnerships. The Company's senior management is convinced that its opportunities outweigh the risks, especially for the further development and financing of drug candidates. Thanks to its attractive and diversified pipeline, its technical expertise and existing partnerships, 4SC is positioned well overall.

The Management Board believes that the funds available at 31 December 2016, in connection with the currently projected expense and revenue planning, should be sufficient to finance the Company for another twelve months. 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.

8.3 OPPORTUNITIES OF 4SC

Epigenetics and immune priming

Drugs which utilize epigenetic mechanisms of action are considered a future growth market in the field of oncology based on their promise as both a monotherapy and in combined approaches with immuno-oncology drugs and other therapeutic agents. Both resminostat and 4SC-202 are products with an epigenetic mechanism of action. In a July 2016 report by business information publisher Grand View Research, the worldwide epigenetics market was projected to generate revenues of more than US-$16 billion in 2022, up from just under US-$ 4 billion in 2014.

There are significant opportunities in the Company's "immune priming" activities. Activation and improvement of cancer patients' immune systems is currently one of the most important issues in the biotechnology industry. While this therapeutic approach is still in its infancy, the combination of epigenetic substances such as those of 4SC with immunotherapies is already considered to be very promising, and an anti-cancer therapy that holds a lot of potential for the future. The research team of 4SC has discovered that the 4SC-202 compound strengthens the endogenous immune response to cancer cells. 4SC-202 uses epigenetic mechanisms to attack cancer tissue, thus ensuring that genes silenced in cancer cells are read again or that excessively active regions are downregulated. This changes the genetic activity of cancer cells, making them visible to the body's own immune system and more responsive to drug treatment. Resminostat is another compound that not only supports the body's own immune system in its fight against cancer, but also enhances the effect of immunotherapeutic anti-cancer drugs like rituximab. This was demonstrated by new data obtained in the cell culture in mid-2016. These new findings could form the basis of additional industry partnerships.

Senior management team strengthened

Over the last two years, 4SC has considerably expanded its senior management team. In addition to Susanne Danhauser-Riedl, M.D., who has acted as CMO of 4SC since April 2015, Frank Hermann, M.D., former Medical Director Clinical Development at Bristol-Myers Squibb, joined 4SC in June 2016 and has exercised the position of CDO since October 2016. The senior management team is also strengthened by the new CEO Jason Loveridge, Ph.D., who has held this post since September 2016, and by Roland Baumgartner, Ph.D. as CSO, who prior to this had worked for 4SC for 14 years in the Company's Translational Pharmacology department. The management team's key responsibilities include continually analyzing the market and competition as well as monitoring the scientific and clinical market environment in order to discover new alternative applications for 4SC's products.

Establishment of an advisory panel

Since July 2016, 4SC has been advised by its own, newly established international Scientific Expert Panel (iSEP). The panel is comprised of renowned epigenetics and oncology experts, who will support 4SC in the further development of advanced anti-cancer drugs. The current iSEP members are Prof. Thomas Jenuwein, Ph.D., Charles B. Epstein, Ph.D. and Prof. Wolff Schmiegel, M.D.

Project-related progress enhances the Company's enterprise value

Several of 4SC's products might reach important milestones in the short and medium term. In all likelihood, this will have a positive impact both on the assessment of individual programs and the measurement of 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.

Single product candidates can generate several programs

In the past, 4SC's research and development programs have shown repeatedly that a single compound can be suitable for use in various indications. This can enlarge the product pipeline and increase the value of the respective project, which would result in risk diversification at 4SC. One such example is the oncological compound resminostat, which has been or is being evaluated by 4SC and its partner Yakult Honsha in clinical studies in a total of seven different indications to date: cutaneous T-cell lymphoma (CTCL), liver cancer (HCC), Hodgkin's lymphoma (HL), colorectal cancer (CRC), non-small cell lung cancer (NSCLC) and pancreatic and biliary tract cancer.

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

4SC is involved in intensive and regular discussions with potential partners in the pharmaceutical industry. These days, pharmaceutical companies are entering into cooperation agreements and licensing partnerships for new products at increasingly earlier development stages. A number of factors contribute to this development. For one, many patents for existing products are expiring and, for another, there were setbacks in several development projects of pharmaceutical companies. As a result, partnerships between pharmaceutical and biotech companies are increasingly being structured to the benefit of the biotech industry. 4SC has benefited from this trend in the licensing deals signed with Yakult Honsha (for resminostat) and Link Health (for 4SC-205). 4SC has programs in the stages of development that are interesting for pharmaceutical companies. Such partnerships may also validate 4SC's programs and – for example in the form of licensing revenue, upfront payments and milestone payments received as well as royalties

– attest to the Company's business model and strengthen its net assets, financial position and results of operations.

Takeovers

In addition to the in-licensing of compounds, pharmaceutical and biotech companies are also increasingly interested in acquiring entire companies to obtain access to promising compounds and noteworthy technologies. This trend has been underscored by very lively M&A activity in this industry in recent years. The premiums that are paid over such companies' current market value usually are significant. This could benefit 4SC's shareholders.

Licensing revenue from patents

4SC's broad and well-positioned patent portfolio can generate additional licensing revenue if other developers are forced to use such patent rights in order to advance their own projects. Granting the use of its patent rights would enable 4SC to generate licensing revenue and improve its net assets, financial position and results of operations.

9. Corporate Governance Report

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

- The Statement on Corporate Governance pursuant to Section 289a of the German Commercial Code (Handelsgesetzbuch, HGB), containing the Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 German Stock Corporation Act (Aktiengesetz, AktG), as issued by the Management Board and the Supervisory Board. Further the Statement on Corporate Governance includes disclosures on corporate governance practices, and the statement also lists the working practices of the Management Board and the Supervisory Board, describes Committees, and provides information on the composition of the Management Board and the Supervisory Board.
- The Remuneration Report pursuant to Sections 289(2) No. 5 and 315(2) No. 4 HGB, which is also included in section 10 of the notes to the consolidated financial statements.
- The Takeover-related Disclosures pursuant to Sections 289(4) and 315(4) HGB, which are also included in section 7.11 of the notes to the consolidated financial statements.

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

The management report of the Group's parent, 4SC AG, and the Group management report of 4SC for the 2016 financial year have been combined in accordance with Section 315(3) German Commercial Code (HGB) in conjunction with Section 298(2) HGB. In addition to the reporting on the 4SC Group, 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 the parent company of the 4SC Group with headquarters in Planegg-Martinsried, Germany. Its operations are focused on the clinical development of new compounds. The principal management functions of the entire Group are the responsibility of 4SC AG's Management Board. Among other things, the Management Board defines the Group strategy, allocates resources such as investment funds and is responsible for the managing the Group's executives and finances. The Management Board of 4SC AG also makes decisions about communication with the Company's main target groups, especially with the capital markets, shareholders and business partners. 4SC AG's economic environment is largely identical to that of the Group and is described in section 2 of the combined management report. As of 31 December 2016, 4SC AG had 49 employees, including two Management Board members. The annual financial statements of 4SC AG have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) under consideration of the German Accounting Directive Implementation Act (Bilanzrichtinie-Umsetzungsgesetz, BilRUG) and the German Stock Corporation Act (Aktiengesetz, AktG).

10.1 RESULTS OF OPERATIONS OF 4SC AG (HGB)

Revenue

4SC AG's revenue amounted to €2,799 thousand in the 2016 financial year, an increase of 22% compared with the previous year (2015: €2,296 thousand). Revenue comprised the proportional reversal of the deferred income recognized in connection with the partnerships entered into with Yakult Honsha, Menarini and Link Health in 2011, 2015 and 2016 totaling €1,762 thousand (2015: €1,085 thousand). License revenue of €100 thousand was generated (2015: €0 thousand) as a consequence of a milestone being reached. Through the application of the new definition of Section 277(1) of the German Commercial Code (HGB), in contrast to the previous year income from subletting as well as allocations of costs for staff, external services and materials to the affiliated companies were now presented under revenue. The income from cost allocations to affiliated companies in the amount of €209 thousand resulted from ongoing clearing transactions for example in the form of allocated staff and project costs. In addition, income of €240 thousand was generated from cost allocations and services rendered. Income from subletting, due to 4SC's relocation until further notice incurred for the last time, in the amount of €488 thousand relates to the contracts with Crelux, 4SC Discovery, BioNTech Small Molecules and Immunic.

Other operating income

4SC AG's other operating income increased by 105% to €2,813 thousand (2015: €1,369 thousand). This item primarily comprises non-recurring income from the sales of fixed assets to BioNTech Small Molecules, Crelux and Immunic amounting to €1,817 thousand and from the sale of the 48.8% interest in quattro research (€788 thousand), as well as income from investment grants of €196 thousand.

Cost of materials

The cost of materials fell by 38% to €654 thousand (2015: €1,053 thousand) and is associated with cost allocations to subtenants. It mainly contains expenses for purchased services in the amount of €648 thousand (2015: €1,052 thousand).

Staff costs

4SC AG's staff costs amounted to €4,029 thousand, up 16% from the prior year (2015: €3,464 thousand). The reasons for this are employee turnover, also because four employees from 4SC Discovery were taken over by 4SC AG, as well as minor salary adjustments.

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 4% to €833 thousand (2015: €800 thousand).

Other operating expenses

4SC AG's other operating expenses rose 48% to €8,920 thousand (2015: €6,029 thousand). The major items here are third-party services provided by external and affiliated companies in connection with the start of the RESMAIN study with resminostat in CTCL, e.g. legal and consulting costs, occupancy costs, as well as corporate communications investor relations costs.

Net finance income/loss

4SC AG posted net finance income of €60 thousand, up €395 thousand year-on-year (2015: net finance loss of €335 thousand). This is mainly attributable to the substantial drop in interest expense for borrowings after the full repayment of the shareholder loan as a result of the capital increase in July 2015.

Cost of loss absorption

A loss of €1,274 thousand arose in 2016 from the control and profit transfer agreement based on which 4SC AG has absorbed the losses of 4SC Discovery GmbH since 2012 (2015: loss of €7,768 thousand).

Net profit/loss for the year

The developments described reduced 4SC AG's net loss for the year by €5,715 thousand to €-10,109 thousand (2015: €15,824 thousand). Together with the loss carried forward from the previous year in the amount of €141,968 thousand, the net accumulated losses thus amount to €152,077 thousand.

10.2 NET ASSETS OF 4SC AG (HGB)

Fixed assets

4SC AG's fixed assets declined year-on-year to €16,845 thousand as of the reporting date (31 December 2015: €17,203 thousand). This reduction was mainly due to the sale of goodwill to Immunic and pro-rata depreciation and amortization of fixed assets and a low level of new investments.

Current assets

The fall in current assets to €11,954 thousand at the close of the 2016 financial year (31 December 2015: €23,088 thousand) was primarily attributable to the decrease in the cash funds. This comprises the items securities as well as cash in hand and bank balances. In total, these two items decreased to €11,387 thousand (31 December 2015: €22,500 thousand) as a result of the operating loss incurred by 4SC AG.

Equity

Equity fell by €10,109 thousand to €15,713 thousand as of 31 December 2016 (31 December 2015: €25,822 thousand) due to the net loss for the year.

The equity ratio declined by 9.4 percentage points, from 63.8% as of 31 December 2015 to 54.4% as of 31 December 2016.

Other provisions

The other provisions increased by 24% to €816 thousand (31 December 2015: €658 thousand), largely due to the rise in consulting services and an increased use of outsourced scientific services.

Liabilities

Liabilities decreased by 12% to €12,355 thousand as of 31 December 2016 (31 December 2015: €13,974 thousand). On account of the control and profit transfer agreement concluded with 4SC Discovery GmbH on 6 August 2012 with retroactive effect to 1 January 2012, the absorption of 4SC Discovery GmbH's loss of €1,274 thousand (31 December 2015: €7,768 thousand) makes up the majority of the liabilities item. Added to this are €385 thousand (31 December 2015: €-472 thousand) resulting from ongoing clearing transactions with this subsidiary. The opening balance of €1,500 thousand of the shareholder loan from Santo Holding was repaid in full in the 2016 reporting period (31 December 2015: €1,962 thousand). Furthermore, liabilities from the deferred income items were attributable to the upfront payments made by Yakult Honsha in 2011 and Link Health in 2016 in the amount of €1,485 thousand (31 December 2015: €2,597 thousand) and trade accounts payable of €702 thousand (31 December 2015: €545 thousand).

Total assets/total equity and liabilities

Total assets/total equity and liabilities of 4SC AG amounted to €28,884 thousand as of 31 December 2016, down 29% on the end-of-year figure for the previous year (31 December 2015: €40,454 thousand). This decrease was due to the reduction of equity triggered by the net loss for the year in 2016.

10.3 FINANCIAL POSITION OF 4SC AG (HGB)

Cash flows from operating activities

The cash inflows from investing activities in financial year 2016 amounted to €2,974 thousand (2015: outflows of €1,427 thousand). The Company invested €483 thousand (2015: €85 thousand) in property, plant and equipment. Investments in intangible assets totaled €28 thousand (2015: €0 thousand). These cash outflows were overcompensated by the sale of intangible assets (€2,000 thousand), property, plant and equipment (€12 thousand) and financial assets (€800 thousand).

Cash flows from investing activities

The cash inflows from investing activities in financial year 2016 amounted to €2,974 thousand (2015: outflows of €1,427 thousand). The Company invested €483 thousand (2015: €85 thousand) in property, plant and equipment. Investments in intangible assets totaled €28 thousand (2015: €0 thousand). These cash outflows were overcompensated by the sale of intangible assets (€2,000 thousand), property, plant and equipment (€12 thousand) and financial assets (€800 thousand) resulted in a cash inflow of €2,301 thousand (2015: €0 thousand).

Cash flows from financing activities

The cash outflows from financing activities in the reporting year amounted to €1,500 thousand (2015: cash inflows of €30,300 thousand). They include the full repayment of the shareholder loan (2015: €1,500 thousand).

Funds

The cash funds amounted to €10,045 thousand at the reporting date. Since additional funds of €1,342 thousand were invested in borrower's note loans. The total funds of 4SC AG amounted to €11,387 thousand as of 31 December 2016 (31 December 2015: €22,500 thousand).

10.4 GENERAL STATEMENT REGARDING THE COMPANY'S ECONOMIC POSITION

Revenue declined on account of the lower allocation of production costs to Yakult Honsha. Through the application of the new definition of Section 285 No. 4 HGB in the context of the BilRUG enactment, in contrast to the previous year income from subletting as well as allocations of costs for staff, external services and materials to the affiliated companies were now presented under revenue, which had a positive effect. 4SC's focus on the development of advanced anti-cancer drugs led to one-off additional income being generated in 2016. This was reduced by the expenses for the intensive preparations and the commencement of the RESMAIN study with resminostat in CTCL. The absorption of a loss in the amount of €1,274 thousand (2015: €7,768 thousand) under the control and profit transfer agreement with 4SC Discovery triggered additional expenses. The Company had sufficient liquidity at all times during the 2016 financial year. The financing of the programs was not in jeopardy at any time. The operational economic development of 4SC AG proceeded according to plan in the 2016 financial year and up until the preparation of the combined management report in the 2017 financial year.

10.5 EVENTS AFTER THE REPORTING PERIOD

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

10.6 RISKS AND OPPORTUNITIES

The performance of 4SC AG is essentially subject to the same risks and opportunities as that of the 4SC Group. 4SC AG generally shares in the risks to which its equity investments and subsidiaries are exposed, corresponding to its stake in these companies. On account of statutory and contractual contingencies, the relationships to the equity investments and subsidiaries can also put pressure on 4SC AG. As the parent company of the 4SC Group, 4SC AG is part of the Group-wide risk management system. For more information please refer to section 8.1 of the combined management report. A description of the internal control system for 4SC AG required by Section 289(5) HGB is also provided in section 8.1.

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

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

In order to be able to commence operations with 4SC Discovery at the beginning of 2012, important tangible and intangible assets, particularly from the area of research, were transferred by way of contributions in kind from 4SC AG to 4SC Discovery. These assets were measured and recognized at 4SC Discovery, triggering fair value adjustments amounting to €9,064 thousand at 4SC AG. Due to disposals and linear amortization, the carrying amount of these assets as of the closing date was €0 thousand (2015: €1,139 thousand).

Risks arising from a control and profit transfer agreement between 4SC AG and 4SC Discovery

The control and profit transfer agreement concluded retrospectively to the beginning of financial year 2012 between 4SC AG and 4SC Discovery could be terminated early in certain circumstances, e.g. if the shareholder structure of 4SC Discovery were to change due to the addition of new external shareholders. A new control and profit transfer agreement could only be concluded and be relevant for tax purposes with the next Annual General Meeting and it is possible that 4SC AG's Annual General Meeting might not approve such an agreement again. This could mean that both companies might no longer be permitted to be

consolidated at tax level which, in turn, could have an adverse effect on the companies' results of operations, financial position and net assets. The same applies if, for example, a new shareholder of 4SC Discovery does not accept a new control and profit transfer agreement. Due to the control and profit transfer agreement, the poor business performance of 4SC Discovery can directly affect the business performance of 4SC AG, which in turn can adversely affect the Company's results of operations, financial position and net assets.

10.7 REPORT ON EXPECTED DEVELOPMENTS (OUTLOOK)

Expectations concerning 4SC AG's continued performance in the next two years are virtually identical to the outlook for the 4SC Group, which is described in detail in the report on anticipated developments for the Group in section 7.2. 4SC AG aims to generate cash inflows and increasing revenue by forging alliances in the form of development cooperation deals and licensing agreements for its clinical development programs. The planned increase, especially in research and development expenses, is predominantly due to the costs of performing the clinical RESMAIN study of resminostat in CTCL and higher staff costs, particularly due to additions to the clinical team.

4SC AG had funds of €11,387 thousand at the end of the 2016 financial year. Based on the statements in the Group's report on anticipated developments in section 7 and the control and profit transfer agreement with the wholly-owned subsidiary 4SC Discovery, the financing of the parent company, 4SC AG, is ensured for the next twelve months and beyond. The Management Board of 4SC AG is careful to point out that should it prove impossible to generate sufficient additional cash flows with the planned operating income of 4SC AG, especially in the form of cooperation deals or partnerships, additional capital requirements would have to be met short or mid-term by raising further equity and/or borrowings to ensure the Company's continued existence in the long term.

As the parent company of the 4SC Group, 4SC AG expects to be able to benefit from the assumed positive development of the 4SC Group in 2017 and beyond.

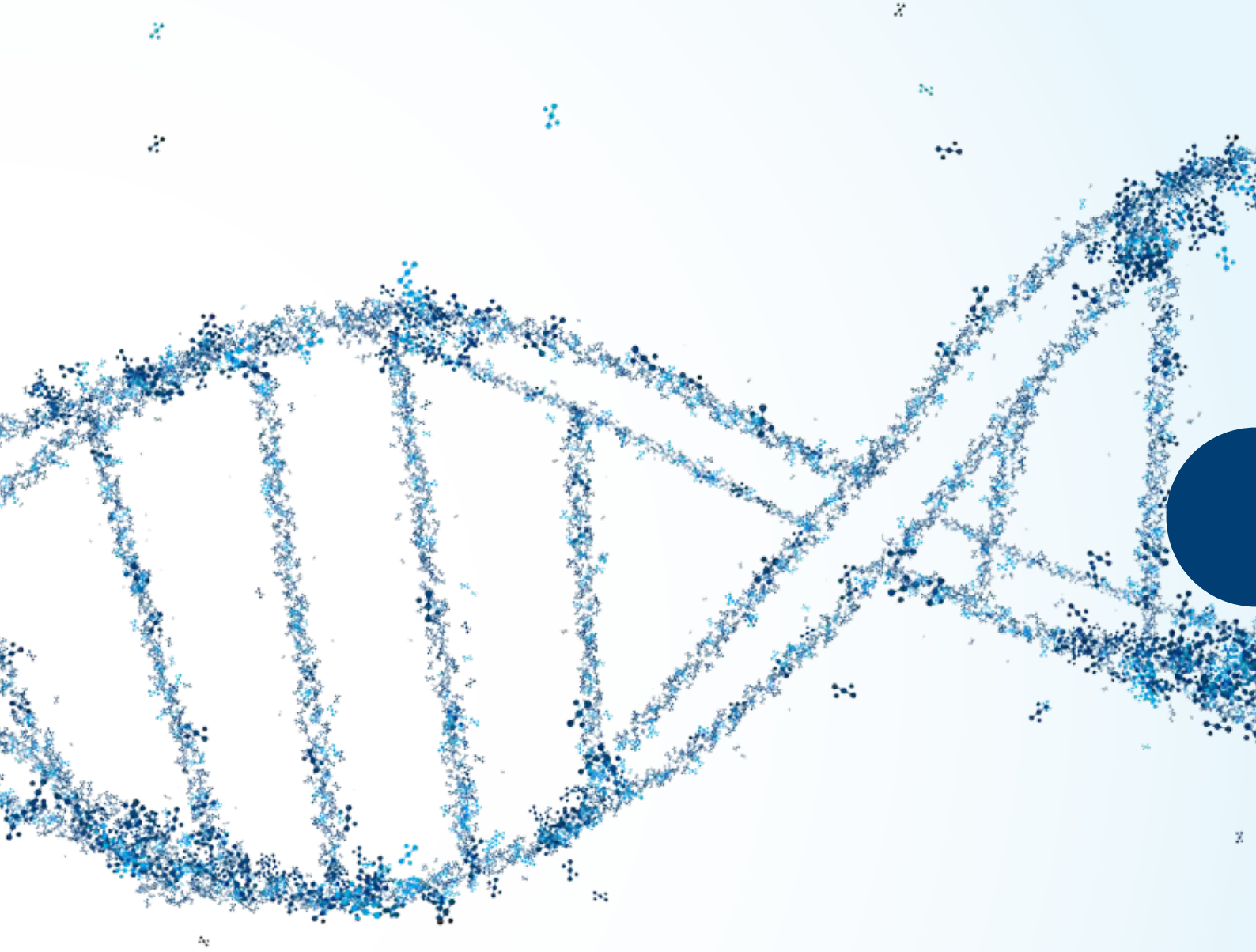
10.8 PUBLICATION

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

Planegg-Martinsried, 23 February 2017

Jason Loveridge, Ph.D.
Sole Managing Director

FINANCIAL REPORT



For more information visit 4SC.com.

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in € 000's, unless stated otherwise	Notes	2016	2015*
Revenue	4.1	2,060	2,296
Cost of sales	4.3	-76	-1.108
Gross profit		**1,984**	**1,188**
Distribution costs	4.4	-410	-348
Research and development costs	4.5	-10,601	-6,060
Administrative costs	4.6	-3,380	-2,879
Other income	4.7	615	184
Operating profit/loss		**-11,792**	**-7,915**
Net finance income/loss			
Share in the profit of equity-accounted investees	4.9	522	58
Finance income	4.9	51	24
Finance costs	4.9	-65	-355
Net finance income/loss		**508**	**-273**
Earnings before taxes		**-11,284**	**-8,188**

in € 000's, unless otherwise stated	Notes	2016	2015*
Income tax expense	5.	-71	-40
Profit/loss from continuing operations		**-11,355**	**-8,228**
Profit/loss from discontinued operations	2.4	189	-1,000
Profit/loss for the period = Consolidated comprehensive income/loss		**-11,166**	**-9,228**
Earnings per share from continuing operations (basic and diluted, in €)	6.	-0.60	-0.57
Earnings per share from discontinued operations (basic and diluted, in €)	6.	0.01	-0.07
Earnings per share (basic and diluted, in €)		**-0.59**	**-0.64**

See the attached notes to the consolidated financial statements.

* The figures of the previous year 2015 were adjusted in order to show the contribution of continuing and discontinued operations. The presentation of the 2015 consolidated comprehensive income/loss remains unchanged.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

in € 000's	Notes	31 Dec. 2016	31 Dec. 2015
Non-current assets			
Intangible assets	7.1	6,499	9,123
Property, plant and equipment	7.2	222	357
Payments on account for property, plant and equipment	7.2	275	0
Investments accounted for using the equity method	7.3	0	278
Other investments	7.4	0	1,318
Other assets	7.10	100	1
Total non-current assets		**7,096**	**11,077**
Current assets			
Inventories	7.5	0	20
Trade accounts receivable	7.6	95	94
Receivables from associates	7.7	0	8
Other investments	7.4	1,285	0
Cash and cash equivalents	7.8	10,048	21,476
Current income tax assets	7.9	13	1
Other assets	7.10	518	816
Total current assets		**11,959**	**22,415**
Total assets		**19,055**	**33,492**

See the attached notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

in € 000's	Notes	31 Dec. 2016	31 Dec. 2015
Equity			
Subscribed capital		18,967	18,967
Share premium		143,829	143,829
Reserves		1,827	1,816
Accumulated deficit		-149,350	-138,184
Total equity	7.11	**15,273**	**26,428**
Total non-current liabilities			
Other liabilities	7.13	32	38
Deferred income	7.13	493	1,433
Total non-current liabilities		**525**	**1,471**
Current liabilities			
Trade accounts payable	7.12	834	688
Liabilities to shareholders	7.13	0	1,962
Other liabilities	7.13	1,431	1,779
Deferred income	7.13	992	1,164
Total current liabilities		**3,257**	**5,593**
Total equity and liabilities		**19,055**	**33,492**

See the attached notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in € 000's	Notes	2016	2015*
Cash flows from operating activities			
Earnings before taxes		-11,284	-8,188
Adjustment for statement of comprehensive income items			
Depreciation, amortization and impairment losses	4.8	892	895
Net finance income/loss		-508	273
Stock options	9.	11	-2
Other non-cash items		275	21
Changes in statement of financial position items			
Inventories		0	0
Trade accounts receivable		-36	640
Receivables from associates		0	15
Current income tax assets		-12	17
Other assets		232	-284
Trade accounts payable		145	-320
Accounts payable to associates		0	-6
Other liabilities		-353	-938
Deferred income		-1,112	-85
Interest received		8	7
Interest paid		-539	-9
Income taxes paid		-71	-40
Cash flows from operating activities, continuing operations	8.	**-12,352**	**-8,004**
Cash flows from operating activities, discontinued operations		-570	-954
Total cash flows from operating activities		**-12,922**	**-8,958**

in € 000's	Notes	2016	2015*
Cash flows from investing activities			
Purchase of intangible assets	7.1	-60	-114
Purchase of property, plant and equipment	7.2	-404	-109
Purchase of financial investments		0	-1,318
Proceeds from sales of intangible assets		2,000	0
Proceeds from sales of property, plant and equipment		8	0
Proceeds from sales of current assets		0	0
Proceeds from sales of equity investments		800	0
Cash flows from investing activities, continuing operations	8.	**2,344**	**-1,541**
Cash flows from investing activities, discontinued operations		650	0
Total cash flows from investing activities		**2,994**	**-1,541**
Cash flows from financing activities			
Payments to subscribed capital		0	7,297
Payments to share premium		0	20,311
Payments for/from the repayment/issuance of convertible bonds		0	-335
Payments from the receipt of shareholder loans		0	1,500
Payments for the repayment of shareholder loans		-1,500	0
Total cash flows from financing activities	8.	**-1,500**	**28,773**
Net change in cash and cash equivalents		**-11,428**	**18,274**
+ Cash and cash equivalents at the beginning of the period		21,476	3,202
= Cash and cash equivalents at the end of the period		**10,048**	**21,476**

See the attached notes to the consolidated financial statements.

* The figures of the previous year 2015 were adjusted in order to show the contribution of continuing and discontinued operations. The presentation of the 2015 total cash flows from operating, investing and financing activities remains unchanged.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in € 000's	Subscribed capital	Share premium	Reserves stock options	Retained earnings	Accumulated deficit	Total
			Reserves			
Balance on 1 Jan. 2015	**50,849**	**78,339**	**1,751**	**67**	**-128,956**	**2,050**
Options issued (ESOP 2009/2010)*			-2			-2
Options issued (ESOP 2009/2011)*			0			0
Capital increase from the conversion of convertible bonds	47	88				135
5:1 capital reduction	-40,679	40,679				0
Capital increase 8 July 2015	7,250	20,276				27,526
Non-cash capital increase 17 July 2015	1,500	4,447				5,947
Consolidated comprehensive income/ loss 2015					-9,228	-9,228
Consolidated profit/loss 2015					*-9,228*	*-9,228*
Balance on 31 Dec. 2015	**18,967**	**143,829**	**1,749**	**67**	**-138,184**	**26,428**
Balance on 1 Jan. 2016	**18,967**	**143,829**	**1,749**	**67**	**-138,184**	**26,428**
Options issued (ESOP 2009/2010)*			0			0
Options issued (ESOP 2009/2011)*			0			0
Options issued (ESOP 2016)*			11			11
Consolidated comprehensive income/ loss 2016					-11,166	-11,166
Consolidated profit/loss 2016					*-11,166*	*-11,166*
Balance on 31 Dec. 2016	**18,967**	**143,829**	**1,760**	**67**	**-149,350**	**15,273**

See the attached notes to the consolidated financial statements.

* ESOP: Employee Share Option Program.

For more information on components and changes in equity, see note 7.11 to the consolidated financial statements, "Equity".

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

1. General disclosures

1.1 PARENT COMPANY

The consolidated financial statements of 4SC comprise 4SC AG as the parent company, which is headquartered at 82152 Planegg-Martinsried, Germany, Fraunhoferstrasse 22, and has been recorded in the Commercial Register of the Munich District Court under HRB no. 132917, and the following wholly owned and fully consolidated subsidiary:

- 4SC Discovery GmbH, Planegg-Martinsried, Germany

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

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

1.2 COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

4SC AG consolidates 4SC Discovery GmbH (together the Group or 4SC) as an affiliate in accordance with IFRS 10.

4SC Discovery GmbH was recorded in the Munich Commercial Register on 14 December 2011 and commenced operations on 1 January 2012. The object of this company is the identification, investigation and optimization of new compounds and therapeutic agents, in the form of both research services and proprietary compounds, as well as the development and marketing of innovative chemical, biotechnology and computer simulation processes for the development of drug candidates. This company shares the premises of 4SC AG. In a capital increase in return for contributions in kind, both tangible and intangible assets belonging to the research activities of 4SC AG were transferred to the subsidiary. Assets comprise all those projects and products including the related intellectual property (IP) rights, for which no early development candidate (EDC) has been defined yet as well as 4SC's proprietary technology platforms for modeling, screening and drug discovery and optimization. At the end of April 2016, the operations, material assets and technology platform were sold to BioNTech Small Molecules GmbH, Mainz, Germany (see note 2.4 "Discontinued operations").

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

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

1.3 CHANGES IN THE GROUP OF CONSOLIDATED COMPANIES

In 2016, there were no changes in the group of consolidated companies compared with the previous year. However, the 48.8% share in quattro research GmbH, which had been carried on the balance sheet as an associate in the previous year was fully sold at the end of September 2016.

1.4 RELEASE OF THE FINANCIAL STATEMENTS

The Management Board approved the consolidated financial statements for release on 23 February 2017. The Supervisory Board is authorized to revise the consolidated financial statements after approval by the Management Board.

2. Summary of significant accounting policies

2.1 BASIS OF PREPARATION

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

Due to the factors explained under 8.2.7 in the combined management report, these financial statements were prepared on the assumption that the Company will continue operating as a going concern.

The financial year corresponds to the calendar year. The consolidated financial statements are prepared in euros. The degree of precision used in the presentation is thousands of euros (€000's). Differences may result from commercial rounding of exact figures.

The consolidated statement of financial position is broken down into current and non-current assets and liabilities; the statement of comprehensive income has been prepared using the cost of sales method. Where items in the consolidated statement of financial position and in the consolidated statement of comprehensive income are 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 PRINCIPLES OF CONSOLIDATION

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

2.3 EFFECTS OF THE APPLICATION OF NEW STANDARDS

Initial mandatory application

The following standards amended or newly issued by the IASB which must be applied to the consolidated financial statements for the period ended 31 December 2016 affect the consolidated financial statements of 4SC as follows:

Standard / interpretation*	Title	Effective date for annual periods beginning on	Implications	Adopted by the EU	Effects on 4SC**
IFRS 10, IFRS 12 and IAS 28 (A)	Investment Entities: Application of Consolidation Exception	1 Jan. 2016	Applicability is industry or company specific	Yes	None
IAS 19 (A)	Defined Benefit Plans: Employee Contributions	1 Feb. 2015	General applicability	Yes	None
IFRS 11 (A)	Accounting for Acquisitions of Interests in Joint Operations	1 Jan. 2016	General applicability	Yes	None
IAS 1 (A)	Disclosure Initiative	1 Jan. 2016	General applicability	Yes	None
IAS 16 and IAS 38 (A)	Clarification of Acceptable Methods of Depreciation and Amortization	1 Jan. 2016	General applicability	Yes	None
IAS 16 and IAS 41 (A)	Agriculture: Bearer Plants	1 Jan. 2016	Impact is industry or company specific	Yes	None
IAS 27 (A)	Equity Method in Separate Financial Statements	1 Jan. 2016	Not applicable, only relevant for separate financial statements	Yes	None
Improvement IFRS 2010-2012	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	1 Feb. 2015	General applicability	Yes	None
Improvement IFRS 2012-2014	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 Jan. 2016	General applicability	Yes	None

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

Accounting standards issued, but not yet applied

The IASB recently issued the following new or amended standards relevant to 4SC from the current perspective. However, since these standards are not required to be applied and have not yet been adopted by the EU, they were not applied to the consolidated financial statements for the period ended 31 December 2016. The new standards or amendments to existing standards must be applied in annual periods beginning on or after their effective date. They are not usually applied earlier, even though some standards permit this.

Standard / interpretation*	Title	Effective date for annual periods beginning on***	Adopted by the EU	Effects on 4SC**
IFRS 9	Financial Instruments	1 Jan. 2018	Yes	Yes
IFRS 15	Revenues from Contracts with Customers	1 Jan. 2018	Yes	Yes
IFRS 14	Regulatory Deferral Accounts	n/a	No	None
IFRS 16	Leases	1 Jan. 2019	No	Yes
IFRS 2 (A)	Classification and Measurement of Share Based Payment Transactions	1 Jan. 2018	No	None
IFRS 4 (A)	Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts	1 Jan. 2018	No	None
IFRS 10 and IAS 28	Sales or Contributions of Assets between an Investor and its Associate / Joint Venture	Delayed until further notice	No	None
IFRS 15 (A)	Clarifications on IFRS 15	1 Jan. 2018	No	Yes
IAS 7 (A)	Disclosure Initiative	1 Jan. 2017	No	None
IAS 12 (A)	Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan. 2017	No	None
IAS 40 (A)	Transfers of Investment Property	1 Jan. 2018	No	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	No	None
Improvements IFRS 2014-2016	Amendments IFRS 12	1 Jan. 2017	No	None
Improvements IFRS 2014-2016	Amendments IFRS 1 and IAS 28	1 Jan. 2018	No	None

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

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

IFRS 15, Revenue Recognition. The key principle of IFRS 15 is the recognition of revenue from the supply of goods or the provision of services to the customer in a figure representing the amount as revenue, which corresponds to the amount that the

Company is expected to receive as consideration from the customer. Revenue is realized when the customer receives the goods or services. In addition, IFRS 15 contains provisions for recognizing performance surpluses or other performance obligations at the reporting level. In addition, IFRS 15 contains further disclosures regarding performance obligations or additional performance obligations as agreed contractually. 4SC is currently evaluating the impact of the IFRS 15 applications on the consolidated financial statements. Regarding its current business model, 4SC does not expect any change to the previous practice in accordance with IAS 18.

IFRS 16 introduces a uniform accounting model whereby leases are to be recognized in the lessee's balance sheet. A lessee captures a right of appreciation, which represents his right to use the underlying asset, and a liability arising from the lease, which is his obligation to lease payments. There are derogations for short-term leases and leases for low-value assets. The accounting at the lessor is comparable to the current standard - that is, the lessor continues to classify leases as finance or operating leases. IFRS 16 replaces the current guidelines on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. At current 4SC is not in a position to make specific quantitative statements, however, upon initial application of IFRS 16 its assets and liabilities will probably increase marginally. Early adoption of IFRS 16 is permitted with simultaneous application of IFRS 15, however not intended at this point in time.

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

Discontinued operations

Part of the Group's business, whose business activities and cash flows can be clearly distinguished from the rest of the Group for operational and accounting purposes, is reported as discontinued operations if it was sold or classified as held for sale, and if it,

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

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

At the end of April 2016, key components of what was until then the Discovery & Collaborative Business business area, in particular the material assets and technology platform, were sold to BioNTech Small Molecules GmbH, Mainz, Germany. In addition, current contracts and employees were taken over by this company. Hence the sale covers the operating segment Discovery & Collaborative Business.

The profit/loss from these discontinued operations is presented as a separate line item in the consolidated statement of comprehensive income as profit/loss from discontinued operations. The consolidated statement of comprehensive income for the previous year was adjusted accordingly. Cash flows from the discontinued operations are also reported separately in the consolidated statement of cash flows and the previous year's statement was adjusted accordingly. Assets and liabilities are reported separate from other assets and liabilities in the balance sheet. As of the balance sheet date, there were no assets and no liabilities to be reported separately, and the numbers of the previous year are not be adjusted. The presentation of the 4SC Group's results of operations, financial position and net assets therefore adhere to the basic concepts of IFRS 5.

The following table contains a separate presentation of the income statement of the discontinued operations:

in € 000's, unless stated otherwise	2016	2015
Revenue	278	970
Cost of sales	-159	-655
Gross profit	**119**	**315**
Distribution costs	0	0
Research and development costs	-763	-1,195
Administrative costs	0	-120
Other income	833	0
Operating profit/loss	**189**	**-1,000**
Net finance income/loss	**0**	**0**
Earnings before taxes	**189**	**-1,000**
Income tax expense	0	0
Profit/loss from discontinued operations	**189**	**-1,000**
Earnings per share from discontinued operations (basic and diluted; in €)	**0.01**	**-0.07**

The separate consolidated statement of cash flows of the discontinued operations is summarized in the following table:

in € 000's	2016	2015
Cash flows from operating activities	**-570**	**-954**
Cash flows from investing activities	**650**	**0**
Cash flows from financing activities	**0**	**0**
Net change in cash and cash equivalents from discontinued operations	**80**	**-954**

2.4 KEY ACCOUNTING POLICIES

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

Foreign currency items

Foreign currency transactions are initially measured by using the spot exchange rate applicable at the respective transaction date (IAS 21.21). On each reporting date, monetary items in a foreign currency are translated at the closing rate in accordance with IAS 21.23. In contrast, non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing on the date of the transaction.

Exchange differences arising on translating monetary items at rates different from those at which they were translated on initial recognition are recognized in profit or loss in the period in which they arise in accordance with IAS 21.28. They are shown under net finance income/loss.

Intangible assets

Intangible assets acquired are 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 7.1 "Intangible assets".

Property, plant and equipment

Property, plant and equipment is recognized at cost less cumulative depreciation using the

straight-line method. The carrying amounts of property, plant and equipment are tested for impairment whenever there are indications that an asset's carrying amount may exceed its recoverable amount. IAS 36.6 defines recoverable amount as the higher of an asset's fair value less costs to sell and its value in use. The useful lives of and depreciation methods applied to property, plant and equipment are reviewed and adjusted as necessary at the end of each financial year.

Maintenance and repairs are expensed as incurred while replacements and improvements, if the item qualifies for recognition as an asset, are recognized. Gains resulting from the sale or retirement of fixed assets are recognized in other operating income, losses from the sale of retirement of fixed assets are recognized under the area of activity concerned.

In accordance with IAS 16.73, the development of property, plant and equipment is shown in the statement of changes in non-current assets under note 7.2 "Property, plant and equipment".

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 7.2 "Property, plant and equipment".

Equity investments

As of the reporting date, 4SC has equity interests in one company each via 4SC AG and 4SC Discovery GmbH, respectively. The companies are each recognized as associates in accordance with IAS 28 or as investments in accordance with IAS 39 depending on the degree of influence 4SC AG has in each case.

The company quattro research GmbH (quattro research), Planegg-Martinsried, Germany, in which 4SC AG holds a 48.8% stake, was founded as an independent entity at the beginning of January 2004. 4SC AG has a significant but not controlling influence on the company's business policy as it only appoints one of the three Advisory Board members. The stake held in the entity is thus recognized as an associate using the equity method in accordance with IAS 28. The reporting date and accounting policies employed for similar business transactions and events are the same for 4SC AG and this associate. In September 2016, all of the shares held were taken over by quattro research, as a result of which no equity investment in quattro research existed as of 31 December 2016 anymore.

In early July 2013, 4SC Discovery GmbH (4SC Discovery) sold the worldwide exclusive rights to its substance SC53842 and its derivatives to Panoptes Pharma Ges.m.b.H. (Panoptes), Vienna, Austria. This substance will be developed by Panoptes for eye diseases, but can also be used in other indications with the exception of inflammatory bowel disease (IBD) and rheumatoid arthritis (RA) for which 4SC Discovery retains the rights. In return, 4SC Discovery received a direct equity investment of 24.9% as well as claims to later performance-based milestone payments

and royalties based on the sales revenue generated with the compound. In October 2015 financing at Panoptes, in which 4SC Discovery did not participate, diluted its interest to 22.1%. 4SC Discovery has no controlling influence on the company's business policy as it is not represented on the company's Advisory Board. The stake held in the entity is thus recognized as an associate using the equity method in accordance with IAS 28. The reporting date and accounting policies employed for similar business transactions and events are the same for 4SC AG and this associate. The carrying amount of the equity investment takes account of all risks as of the reporting date.

Inventories

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

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.

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.

Other financial assets

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

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

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

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

Financial instruments that are categorized as „available for sale" are measured at fair value. The resulting gains and losses from measurement at fair value – with the exception of impairment losses in accordance with IAS 39.67 ff. – are recognized directly in equity under revaluation surplus as per IAS 39.55b until the financial asset is derecognized. At that point in time, the cumulative gain or loss previously recorded in equity is reclassified to profit or loss. However, the interest calculated using the effective interest method is recognized in profit or loss. This measurement also applies to the equity investments in Quiescence Technologies LLC, which are also classified as available for sale in accordance with IAS 39. Since 2008, the company has ceased to pursue any business activity and is consequently no longer consolidated.

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

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

In accordance with IAS 1.60, financial instruments are classified as non-current or current assets, depending on their remaining life as of the reporting date. Financial instruments with a remaining life of more than one year as of the reporting date are shown as other investments among non-current assets. Financial instruments with a remaining life on the reporting date of less than one year are shown as other financial assets among current assets, insofar as they do not meet the recognition criteria as defined by IFRS 7.7. Analogous to the financial instruments as defined by IAS 39, fixed deposits that have a term of more than three months calculated from the date of acquisition are shown as other financial assets. If the other financial assets meet the recognition criteria as defined by IFRS 7.7, they are shown as cash equivalents.

Other assets

Other assets comprise all receivables that are not shown as separate items in the statement of financial position. They are measured at an amount equivalent to the anticipated level of reimbursement.

Cash and cash equivalents

Cash consists of cash on hand, bank balances and short-term time deposits. Cash equivalents comprise other short-term and highly liquid investments with a term of no more than three months calculated from the date of acquisition, which are subject only to insignificant fluctuations in value. Receivables are recognized at their nominal value.

Stock options

The accounting for stock options granted to employees and the Management Board is handled according to the guidelines of IFRS 2 Share-based Payment. Under IFRS 2, the Company is required to spread the estimated fair values of stock options and other benefits at the measurement date as remuneration cost over the period in which the employees provide the services associated with the grant of equity instruments.

Trade accounts payable / 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.

Provisions and accruals

Provisions and accruals are recognized in accordance with IAS 37.14 whenever current legal or factual obligations exist arising from a historical event, an outflow of resources is probable and a reliable estimate of the obligation is possible.

According to IAS 37.11, provisions can be distinguished from accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. Accruals are recognized accordingly as part of other liabilities, whereas provisions are reported separately.

Where a provision entails a range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used in accordance with IAS 37.39.

Other liabilities

In addition to accruals, other liabilities also comprise all payment obligations of the Company that are not shown as separate items in the statement of financial position. They are carried at their settlement amount.

Loan agreement with Santo Holding (Deutschland) GmbH

In June 2014, 4SC AG agreed a loan of up to €10,000 thousand with its main shareholder, Santo Holding (Deutschland) GmbH (Santo Holding). This loan was earmarked for financing the costs of preparing for the planned clinical development of resminostat and for covering part of the Company's ongoing administrative costs. The loan, which carried interest of 8% p.a., ran until the end of 2016 (maturity date) and could be drawn down in tranches up to 31 December 2015. The full amount of this loan was repaid ahead of schedule in March 2016, and the loan agreement expired as of 31 December 2016.

Deferred income

Unless all criteria for recognition as revenue are met, non-refundable upfront payments received in connection with out-licensing agreements concluded are reported as deferred income, which is recognized in profit or loss over the probable development life of the products or the option period. The revenue is recognized in full when the stipulated contractual condition is met and the cooperation deal is terminated.

Income tax

The actual tax liabilities arising from income taxes for the current and previous periods are to be recognized as liabilities pursuant to IAS 12.12 for the amounts as yet unpaid. In the event that the amount incurred and already paid for the current or previous period exceeds that owed for the period concerned, the difference is to be recognized as an asset. The refund claims or liabilities are measured at the amount corresponding to the expected level of refund from the tax authorities or payment to the tax authorities. The given amount is calculated on the basis of the tax rates and laws applicable as of the reporting date.

Deferred taxes are accounted for in the statement of financial position in accordance with IAS 12. They are recognized on the basis of temporary differences in the recognition of assets and liabilities between the IFRS financial statements and the tax accounts. To this end, those tax rates are used which apply on the reporting date or such future tax rates as have already been announced. Deferred tax assets on unused tax losses are carried as assets pursuant to IAS 12.34 in an amount corresponding to the resulting deferred tax liability if it is probable that a future taxable profit will be available in order to realize the claim. In accordance with IAS 1.56, deferred

tax assets and liabilities must not be not shown as current assets and liabilities.

Revenue recognition

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

Upfront payments are due as prepayments at the start of a given development cooperation. Revenue recognition requires an analysis of the overall circumstances and is therefore contingent on the content of the relevant contract. Provided that all conditions in IAS 18.14 ff. have been satisfied, revenue is recognized when the service has been rendered and the material risks of ownership have been transferred to the customer. Where individual conditions have not been met, upfront payment are recognized as deferred income. The income is then reversed to profit or loss on a pro-rata basis over the term of the contract, the expected development period or based on the terms of the agreed options.

Milestone payments are contingent upon the achievement of contractually stipulated targets. The attainment of these milestones depends largely on meeting specific requirements, so that the resulting revenue is only posted as such once contractual milestones have been fully achieved and, if agreed, has been confirmed by the business partner.

Royalties are income from the sale of products pursuant to cooperation agreements. Royalties are recognized as revenue as of the date upon which the cooperation partner generates external sales that result in royalties. Income from licenses granted for specific, contractually-defined periods is deferred and recognized as revenue pro rata temporis over the duration of the license.

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

Sales from cooperation agreements are accounted for under development services rendered in connection with the cooperation contracts concerned. The given amounts are in general calculated in line with their service character on the basis of flat sums per scientist service billed (full-time equivalent, FTE). Settlement for the services rendered is recognized as trade accounts receivable until payment by the customers. Amounts received prior to the rendering of services are recognized as advances received before being reversed to profit or loss as of each reporting date in accordance with the current progress of services rendered as per project management.

Cost of sales

Cost of sales comprises staff, material, consulting and other costs incurred directly attributable to the generation of revenue as well as commission.

Distribution, research and development as well as administrative costs

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

- Direct staff and material costs
- Depreciation, amortization and impairment losses
- Other direct costs
- Prorated overheads

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

Development costs are defined as expenses incurred to put research results into technical and commercial practice. They are recognized as intangible assets if the criteria pursuant to IAS 38.57 are met. At 4SC, the risks involved up until the commercialization of its products mean the requirements for the recognition of development costs as intangible assets in accordance with IAS 38 are not met in full. Developments costs are therefore also expensed in the period in which they are incurred.

Government grants

In accordance with IAS 20.12, government grants are recognized in profit or loss on a systematic basis in the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. As funding represents the reimbursement of development expenditures, such amounts offset research and development costs for the relevant period; specific explanations are provided in the notes.

Other income

Other income includes all income from operating activities which is not shown as finance income or does not represent the reimbursement of development expenditures. For the most part, 4SC generates income from the reimbursement of expenses. Such reimbursements are made in the amount of the actual costs incurred or plus a previously agreed administration fee, depending on the individual case.

2.5 USE OF ESTIMATES

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

Impairment losses

The impairment test for goodwill requires the estimation of the value in use on the basis of anticipated future cash flows of the cash-generating unit and of the appropriate discount rate. Different factors such as lower than expected sales and subsequent lower net cash flows, as well as changes in the discount rate, could have considerable consequences for the determination of fair value and, ultimately, the level of goodwill impairment. The probability of market entry, market potential and potential market share are also factors for projecting the cash flow and thus for determining the value in use.

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

Measurement of equity investments

An assessment had to be made whether 4SC Discovery GmbH exercises control over Panoptes Pharma Ges.m.b.H. (Panoptes), in which case the company would have to be consolidated in accordance with IFRS 19. The Management Board determined that Panoptes does not influence the Group's activities and cash flows but that conditions which would constitute control of Panoptes do not exist, either. Nor have the conditions been met in the Management Board's view for a consolidation of the company as special purpose entities in accordance with IFRS 12.

Reserves ESOP / Expenditure from stock options

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

Revenue recognition

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

3. Segment reporting

IFRS 8 requires that entities report financial and descriptive information about their reportable segments. A reportable segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. In addition, the segment's operating results are regularly reviewed by the chief decision makers for the purpose of making decisions about how to allocate resources and assess its performance. The financial information must generally be provided based on internal management reporting. Key components of the Discovery & Collaborative Business operating segment, which the Company has reported on since 2012, were sold in an asset deal during the financial year. This segment is therefore presented in the consolidated financial statements under "Discontinued operations" in section 2.4 of the notes to the consolidated financial statements. In contrast with the prior year, it is therefore the Management Board's view that the Company now only has one segment: Development. Since 4SC AG does not currently report any separate financial information for various segments, i.e., there are no reportable segments, no segment reporting is presented anymore.

4. Disclosures on the consolidated statement of comprehensive income

4.1 REVENUE

Consolidated revenue decreased year-on-year to €2,060 thousand (2015: €2,296 thousand). The significant year-on-year decline is mainly due to the fact that, contrary to the prior-year period, in the reporting period significantly lower costs for third-party services in connection with the manufacturing campaign conducted for resminostat on behalf of Yakult Honsha Co., Ltd. (Yakult Honsha) were allocated to the cooperation partner. Revenue mainly consisted of the proportional reversals of the deferred income recognized in connection with the partnerships entered into with Yakult Honsha and Menarini Asia-Pacific Holdings Pte., Ltd. (Menarini) for resminostat, and with Giangzhou LingSheng Pharme Tech Co., Ltd. (Link Health) for 4SC-205, in 2011, 2015 and 2016 totaling €1,762 thousand (2015: €1,085 thousand), and of the achievement of a licensing milestone of €100 thousand.

4.2 STAFF COSTS

in € 000's	2016	2015*	Change in %
Salaries	3,731	3,487	7
Social security contributions	594	547	9
Stock options	11	-2	n/a
Total from continuing operations	**4,336**	**4,032**	**8**
Employees and Management Board (annual average)	48	45	7

* Adjusted.

The Company's staff costs increased by 8% in 2016 to €4,336 thousand (2015: €4,032 thousand), whereas the average number of employees rose by 7% overall.

In 2016 funds accruing through salary waiver were appropriated for direct insurance for the benefit of Company staff and the Management Board. These contributions are classified as defined contribution plans and are recognized and measured in accordance with IAS 19.44. Total expenditures in connection with defined contribution plans amounted to €128 thousand in the reporting year (2015: €163 thousand). In addition, a total of €532 thousand (2015: €645 thousand) was paid to statutory social security funds.

The stock options granted to staff and Management Board members during the reporting year were shown as staff costs in accordance with IFRS 2. A total of €11 thousand in staff costs arose in the 2016 financial year from the options (2015: €-2 thousand).

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

4.3 COST OF SALES

in € 000's	2016	2015*	Change in %
Staff	5	0	n/a
External services	0	1,040	-100
Material	2	0	n/a
Depreciation, amortization and impairment losses	69	68	1
Total from continuing operations	**76**	**1,108**	**-93**

* Adjusted.

The decrease in the cost of sales from €1,108 thousand in 2015 to €76 thousand in the reporting period can be attributed to the elimination of the production costs incurred in the previous year to produce the resminostat compound for Yakult Honsha Co., Ltd. This is reflected in the line item "External services".

4.4 DISTRIBUTION COSTS

in € 000's	2016	2015*	Change in %
Legal and other consulting, travel and conferences	131	60	118
Staff	117	172	-32
Literature and databases	77	59	31
Rental costs including ancillary costs	26	36	-28
Corporate communications	36	8	350
Other	23	13	77
Total from continuing operations	**410**	**348**	**18**

* Adjusted.

Distribution costs, which consist of the costs incurred by the Business Development and Strategic Planning & Marketing units, rose by 18% year-on-year to €410 thousand during the reporting period (previous year: €348 thousand). The increase in costs for legal and other consulting, travel and conferences was the key factor here; these mostly stemmed from expenses required for collaboration start-up activities in Asia in the previous year.

4.5 RESEARCH AND DEVELOPMENT COSTS

in € 000's	2016	2015*	Change in %
Staff	2,940	2,572	14
External services	5,893	1,634	261
Amortization and impairment losses	796	762	4
Patents	342	358	-4
Rental costs including ancillary costs	651	312	109
Material	211	292	-28
Software licenses	165	228	-28
Travel and conferences	199	158	26
Asset disposals	134	0	n/a
Other	150	121	23
Grants (EU and BMBF**)	-880	-377	133
Total from continuing operations	**10,601**	**6,060**	**75**

* Adjusted.
** BMBF: Bundesministerium für Bildung und Forschung, the German Federal Ministry of Education and Research.

Research and development costs increased considerably by 75% to €10,601 thousand in 2016, (2015: €6,060 thousand). This is mainly due to the anticipated year-on-year increase in current expenses for the RESMAIN trial of resminostat in CTCL.

4.6 ADMINISTRATIVE COSTS

in € 000's	2016	2015*	Change in %
Staff	1,273	1,289	-1
Investor relations	380	538	-29
Legal and other consulting	727	282	158
Rental costs including ancillary costs	174	207	-16
Supervisory Board	205	154	33
Depreciation, amortization and impairment losses	27	65	-58
Insurance, fees and contributions	119	61	95
Travel and conferences	149	134	11
Staff recruitment	117	24	388
External services	13	1	1,200
Other	196	124	58
Total from continuing operations	**3,380**	**2,879**	**17**

* Adjusted.

Administrative costs amounted to €3,380 thousand in the reporting period, an increase of 17% year-on-year (2015: €2,879 thousand). The increase was mainly driven by higher legal and other costs for consultancy related to the Company's strategic direction, and by expenses for staff recruitment incurred in connection with the personnel restructuring activities carried out in the reporting period.

4.7 OTHER INCOME

in € 000's	2016	2015*	Change in %
Sublease	349	92	279
Income from sales of assets	259	0	n/a
Income from bankruptcies	2	55	-96
Income from the reversal of liabilities	0	32	-100
Other	5	5	0
Total from continuing operations	**615**	**184**	**334**

* Adjusted.

There was a year-on-year increase in other income by 327% to €786 thousand in 2016 (2015: €184 thousand) due to the higher income from the sub-letting of premises as well as non-recurring income from the out-licensing of the immunology portfolio to Immunic AG. Due to the Company's relocation, from 2017 there will be no continuing income from sub-letting.

4.8 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

in € 000's	2016	2015*	Change in %
Amortization of and impairment losses on intangible assets	836	827	1
Depreciation of and impairment losses on property, plant and equipment	56	68	-18
Total from continuing operations	**892**	**895**	**0**

* Adjusted.

At €892 thousand, depreciation, amortization and impairment losses in 2016 were virtually unchanged year-on-year (2015: €895 thousand). Amortization of and impairment losses on intangible assets – which mainly stemmed from the capitalization of the rights acquired from Nycomed and the recognition of an asset for customer loyalty as defined by IAS 38 plus the corresponding amortization – rose slightly, whereas depreciation of and impairment losses on property, plant and equipment declined because new investments were only minimal. Depreciation, amortization and impairment losses are shown in the income statement under the items, cost of sales, research and development costs, and administrative costs.

4.9 NET FINANCE INCOME/LOSS

Net finance income/loss includes the result derived from the accounting of the shares held in associates using the equity method and their sale, among others. This concerns the measurement of the equity investment in Panoptes Pharma Ges.m.b.H. and the proceeds from the sale of quattro research GmbH. Further explanation can be found under note 7.3 "Investments accounted for using the equity method".

in € 000's	2016	2015*	Change in %
Proceeds from the sale of the 48.8% share in quattro research GmbH	522	0	n/a
Share in the profit/loss of quattro research GmbH	0	58	-100
Total from continuing operations	**522**	**58**	**900**

* Adjusted.

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

in € 000's	2016	2015*	Change in %
Interest-bearing investment of cash and cash equivalents	43	20	115
Income from exchange rate differences	8	4	100
Total from continuing operations	**51**	**24**	**113**

* Adjusted.

The rise in finance income was principally due to the funds from the capital increase in July 2015.

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

in € 000's	2016	2015*	Change in %
Expenses from exchange rate differences	8	9	11
Interest on the convertible notes/bonds	0	-44	n/a
Interest on the shareholder loan	21	331	-94
Interest on upfront payment from Yakult Honsha Co., Ltd.	2	34	-94
Securities measured through profit or loss	33	24	38
Other interest expense	1	1	0
Total from continuing operations	**65**	**355**	**-82**

* Adjusted.

The decrease in interest expense stems from the full repayment of the shareholder loan granted by Santo Holding (Deutschland) GmbH, and the interest-free upfront payment made by Yakult Honsha Co., Ltd. for the manufacturing costs of the resminostat compound.

5. Income tax, deferred taxes and withholding tax

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

in € 000's	2016	2015	Change in %
Current tax expense	-71	-40	-77
Deferred tax income	0	0	0
Income tax expense (-) / income (+)	**-71**	**-40**	**-77**

The tax expense for discontinued operations is €0.

The determination of the effective tax rate for the purpose of calculating deferred taxes is based on the following assumptions: In Germany, taxes on income and earnings comprise the corporate income tax, the solidarity surcharge and trade tax. As a result of the German Business Tax Reform Act in

2008 (Unternehmenssteuerreformgesetz) the corporate income tax rate in Germany as of 1 January 2008 is 15%. To calculate deferred taxes, an effective tax rate of 15.83% was applied for corporate income tax (including the solidarity surcharge), and a rate of 10.5% was applied for trade tax. As was the case for the previous year, the total tax rate as of 1 January 2016 is therefore 26.33%.

As in the previous year, at 31 December 2016 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 €16 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 2016 and 31 December 2015 are distributed as follows across the statement of financial position:

in € 000's	2016	2015	Change in %
Intangible assets	18	60	-70
Investments accounted for using the equity method	0	-3	n/a
Other financial assets	-15	-7	114
Other liabilities	13	13	0
Deferred tax assets	-16	-63	-75
Deferred tax assets and liabilities	**0**	**0**	**0**

The deferred tax liabilities reported under intangible assets arose from the use of different recognition criteria for an asset resulting from customer loyalty programs recognized in accordance with IFRSs. In the other liabilities they arise from different recognition criteria applicable to deferred liabilities under IFRS and tax law.

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

in € 000's	2016	2015
Tax loss carryforward	168.339	159.212
Reduction for deferred tax liabilities	-61	-239
Effective tax rate (in %)	26,33	26,33
Value of the tax loss carryforwards	**44.308**	**41.858**

This calculation is based on the assumption that the tax rates applicable after 1 January 2016 will still be valid in the future upon achieving the value of the taxable losses carried forward, and that 4SC's losses carried forward will still be able to be utilized in full.

In general, losses may be carried forward indefinitely to offset future profits, although some restrictions apply with regard to the use of losses carried forward in relation to Section 8c of the German Corporate Income Tax Act (Körperschaftsteuergesetz - KStG). The criteria mentioned – various shareholder changes, capital increases, the addition of new shareholders and a significant infusion of new operating assets – could result in a pro-rated elimination of tax loss carryforwards, applied to 4SC during previous years. Because of the prevailing legal uncertainty, which has arisen in connection with the interpretation of the provisions applicable in this context, and the attitude the competent revenue authorities might adopt, 4SC considers it a possibility that the current losses carried forward will, in future, no longer be available for the purpose of offsetting against profits. 4SC will, however continue to petition for the admissibility of its loss carryforwards.

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

in € 000's	2016	2015
Earnings before taxes (including income/loss from discontinued operations)	-11,095	-9,188
Expected tax income at a tax rate of 26.33% (2015: 26.33%)	2.921	2,419
Income (+)/expense (-) shown in the statement of comprehensive income	-71	-40
Difference to be explained	**2,992**	**2,459**
Unrecognized tax loss carryforwards	2,387	2,744
Non-deductible expenses	24	16
Ineligible foreign withholding tax	52	29
Sale of goodwill	414	0
Sale of the equity investment	137	0
Temporary differences for which no deferred taxes were recognized (capital increase costs)	0	-382
Other differences	-22	52
Total reconciliation	**2,992**	**2,459**

6. Earnings per share

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

	2016	2015*
Based on net profit/loss for the year of continuing operations (in €000's)	-11,184	-8,228
Based on average number of shares (in thousand)	18,967	14,344
Earnings per share from continuing operations (basic and diluted, in €)	**-0.60**	**-0.57**
Earnings per share from discontinued operations (basic and diluted, in €)	0.01	-0.07

* Adjusted.

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

Potential equity instruments

The Company's Annual General Meetings on 28 June 2006, 29 June 2007, 5 June 2008, 15 June 2009, 21 June 2010, 6 August 2012 and 9 May 2014 decided to increase the Company's share capital conditionally. These resolutions could mean that undiluted earnings per share could potentially be diluted in future if option rights are granted to members of the Management Board and employees of the Company or shares are granted to the owners or creditors of convertible bonds to be issued, participation rights and/or warrants. Details about the conditional capital can be found under notes 7.11 "Equity" and 9 "Stock option plan".

7. Disclosures on the statement of financial position

7.1 INTANGIBLE ASSETS

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

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

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

		Cost				Amortization and impairment losses				Carrying amounts	
In € 000's	Useful life from 1 to 18 years	Balance on 1 Jan. 2015	Additions 2015	Disposals 2015	Balance on 31 Dec. 2015	Balance on 1 Jan. 2015	Additions 2015	Disposals 2015	Balance on 31 Dec. 2015	Balance on 31 Dec. 2015	Balance on 31 Dec. 2014
Software and patents	1-18	14,214	0	0	14,214	6,370	737	0	7,107	7,107	7,844
Customer loyalty	4.75	480	114	0	594	274	90	0	364	230	206
Goodwill	n/a	1,786	0	0	1,786	0	0	0	0	1,786	1,786
Intangible assets		**16,480**	**114**	**0**	**16,594**	**6,644**	**827**	**0**	**7,471**	**9,123**	**9,836**

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 €831 thousand and €4,175 thousand (2015: €921 thousand to €4,681 thousand) and whose residual amortization period is between 8.25 years and 10.17 years (2015: between 9.25 and 11.17 years).

Addition in the reporting year relate to customer loyalty items in connection with the collaboration with Link Health agreed during the reporting year.

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

in € 000's	2016	2015	Change in %
Cost of sales and administrative costs	54	95	-43
Research and development costs	782	732	7
Amortization of/impairment losses on intangible assets	**836**	**827**	**1**

7.2 PROPERTY, PLANT AND EQUIPMENT

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

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

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

		Cost				Amortization and impairment losses				Carrying amounts	
in € 000's	Useful life from 0 to 12 years	Balance on 1 Jan. 2015	Additions 2015	Disposals 2015	Balance on 31 Dec. 2015	Balance on 1 Jan. 2015	Additions 2015	Disposals 2015	Balance on 31 Dec. 2015	Balance on 31 Dec. 2015	Balance on 31 Dec. 2014
Office equipment	6-12	164	1	0	165	140	5	0	145	20	24
Laboratory equipment	1-12	646	62	6	702	413	60	6	467	235	233
Leasehold improvements	1.5-12	526	0	0	526	396	63	0	459	67	130
Other operating and office equipment	1-11	155	0	0	155	146	3	0	149	6	9
IT equipment	1-11	436	26	5	457	407	26	5	428	29	29
Other	0-3	147	20	20	147	147	20	20	147	0	0
Property, plant and equipment		**2,074**	**109**	**31**	**2,152**	**1,649**	**177**	**31**	**1,795**	**357**	**425**

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

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

in € 000's	2016	2015	Change in %
Research and development costs	74	140	-47
Administrative costs	28	37	-24
Depreciation of / impairment losses on property, plant and equipment	**102**	**177**	**-42**

7.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method concern shares held in Panoptes Pharma Ges.m.b.H. (Panoptes). All of the shares held in quattro research GmbH (quattro research) were sold to quattro research itself in September 2016.

The respective key figures of Panoptes as of 31 December 2016 are as follows:

in € 000's	2016	2015	Change in %
Revenue	157	10	1,470
Net profit/loss for the year	-1,029	-403	155
Total assets	1,012	1,338	-24
Equity	-1,168	-636	84
Liabilities	2,180	1,974	10

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

7.4 OTHER INVESTMENTS

This item in the statement of financial position reflects financial instruments within the meaning of IAS 39 with a remaining life of more than one year as of the reporting date. This includes the equity investment in Quiescence Technologies LLC (Quiescence) and the borrower's note loan held for the purpose of achieving higher interest income.

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

The borrower's note loans held are classified as held-to-maturity financial assets in accordance with IAS 39, which means that they are subsequently measured at amortized cost by applying the effective interest method.

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

The terms and conditions of financial assets as of 31 December 2016 were as follows:

in € 000's	Carrying amount	Term in months	Interest rate per year in %
Financial instruments with a remaining life of less than one year			
Deutsche Bank AG, borrower's note loan	1,285	4	0.48

7.5 INVENTORIES

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Consumables	0	17	-100
Solvents	0	3	-100
Inventories	**0**	**20**	**-100**

Inventories decreased by €20 thousand year-on-year to €0 as of the reporting date.

Material costs amounting to €276 thousand (2015: €383 thousand) were recorded as an expense during the reporting year. In part, these were shown as inventories during the financial year; however, the other part was used directly for the respective projects and therefore recorded directly as expenses.

7.6 TRADE ACCOUNTS RECEIVABLE

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Germany	95	79	20
Import/Export	0	15	-100
Trade accounts receivable	**95**	**94**	**1**

On 31 December 2016, as on the reporting date of the previous year, there were no bad debt allowances for trade accounts receivable in accordance with IAS 39.63 f.

Trade accounts receivable mainly result from cooperation deals and service agreements with BioNTech AG, BioNTech Small Molecules GmbH, Immunic AG and Crelux GmbH. No trade accounts receivable were due on the reporting date; they were paid by February 2017, as contractually stipulated.

7.7 RECEIVABLES FROM ASSOCIATES

Since there were no receivables from associates as of the reporting date, no receivables are shown (31 December 2015: €8 thousand).

7.8 CASH AND CASH EQUIVALENTS

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

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Financial instruments with an original term of less than three months calculated from the date of acquisition	0	0	0
Bank balances	10,047	21,475	-53
Cash on hand	1	1	0
Cash and cash equivalents	**10,048**	**21,476**	**-53**

7.9 CURRENT INCOME TAX ASSETS

4SC receives interest from its fixed deposits, money market funds and securities. Financial institutions are required to withhold tax and solidarity surcharge on such interest income. Because the Company reported a net loss for the 2016 financial year, it has a tax refund claim with regard to the taxes it has paid.

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Current income tax assets	**13**	**1**	**1,200**

The current income tax assets as of 31 December 2016 comprise a claim for withholding tax on investment income for the 2015 and 2016 financial years that the tax office has not yet refunded. The prior-year figure included the refund claim for 2015.

7.10 OTHER ASSETS

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Prepaid expenses	85	212	-60
Current tax assets	152	198	-23
Rent deposits	267	157	70
Advances paid for third-party services	7	196	-96
Government grants EU, BMBF, BMWi*	94	44	114
Other	13	10	30
Other assets	**618**	**817**	**-24**

* BMBF: Bundesministerium für Bildung und Forschung, the German Federal Ministry of Education and Research.
BMWi: Bundesministerium für Wirtschaft und Energie, the German Federal Ministry for Economic Affairs and Energy.

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

	Total receivables		Thereof non-current		Thereof current	
in € 000's	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Prepaid expenses	85	212	0	1	85	211
Current tax assets	152	198	0	0	152	198
Rent deposits	267	157	100	0	167	157
Advances paid for third-party services	7	196	0	0	7	196
Government grants EU, BMBF, BMWi*	94	44	0	0	94	44
Other	13	10	0	0	13	10
Other assets	**618**	**817**	**100**	**1**	**518**	**816**

* BMBF: Bundesministerium für Bildung und Forschung, the German Federal Ministry of Education and Research.
BMWi: Bundesministerium für Wirtschaft und Energie, the German Federal Ministry for Economic Affairs and Energy.

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

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

7.11 EQUITY

Share capital and shares

The share capital of 4SC AG as of 31 December 2016 amounts to €18,966,646 as in the previous year. It is composed of 18,966,646 no-par value bearer shares. Each share represents €1.00 of 4SC AG's share capital, entailing one vote at the Annual General Meeting. Share capital is fully paid-in at this time.

4SC AG shares are 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.

Conditional capital

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

Conditional capital	Amount (€ 000's)	AGM resolution dated	Purpose
II	11	28 June 2006/ 21 June 2010	Granting of options to members of the Management Board and Company employees with a term of up to ten years („ERSATZ-ESOP 2001")
IV	38	28 June 2006/ 21 June 2010	Granting of options to members of the Management Board and Company employees as well as employees of affiliated companies with a term of up to ten years ("ESOP 2006")
V	6,976	6 Aug. 2012	Granting of shares to owners and/or creditors of still to be issued convertible bonds and/or warrants, income debentures and/or participation rights (or a combination of these instruments)
VI	110	15 June 2009	Granting of options to members of the Management Board and Company employees as well as employees of affiliated companies in Germany and abroad with a term of up to ten years („ESOP 2009")
VIII	1,600	17 June 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")

Authorized capital

The Annual General Meeting on 2 May 2013 authorized the Management Board to increase the Company's share capital, with the approval of the Supervisory Board, until 1 May 2018, once or repeatedly, by up to €25,185,907 (€50,371,814 in share capital at the time of approval) in return for contributions in cash or in kind by issuing, once or repeatedly, an aggregate total of up to 25,185,907 new no-par value bearer shares (Authorized Capital 2013/I). Capital increases in the 2015 financial year reduced the number of shares by 8,750,000, resulting in 16,435,907 shares remaining as of 31 December 2015. The authorized capital as of 31 December 2016 remained unchanged compared to the previous year.

Share premium

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

Reserves

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

The ESOP reserve increased slightly to €1,760 thousand (2015: €1,749 thousand) year-on-year and corresponds to the amount of the share options granted during the reporting year and the previous years to employees and the Management Board, which have been measured in accordance with the provisions of IFRS 2. The calculation is explained under note 9 "Stock option plan".

The retained earnings of €67 thousand as of 31 December 2016 remained unchanged compared to the previous year.

Appropriation of earnings

The accumulated deficit of €149,350 thousand (2015: €138,184 thousand) is carried forward to new account.

Capital management disclosures

Since the Company posted a net loss for the year, the primary objectives of capital management are to retain a sufficiently high amount of liquid reserves to enable the further development of the project pipeline and technology without significant limitations, and to maintain or re-strengthen equity. Accordingly, an increase in the accumulated deficit and thus a further reduction in equity must be minimized to the extent possible without compromising the programs' progress. Management keeps a close eye on the equity ratio and the total of the items reported under equity. A very restrictive handling of financial reserves is a prerequisite for the achievement of these goals. Furthermore, the acquisition of additional liquid funds is also one of the main options in terms of realizing these objectives. Given the Company's development stage and risk profile, raising equity is usually the only action that can be taken in this context. The Company's goal remains to generate revenue in order to reach break-even and reduce the losses carried forward.

Capital management as a whole concerns continuous management of equity and loss carryforwards. Due mainly to the net loss posted for the year, equity fell from €26,428 thousand as of 31 December 2015 by €11,155 thousand to €15,273 thousand as of 31 December 2016.

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

7.12 TRADE ACCOUNTS PAYABLE

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Germany	510	272	88
EU	273	328	-17
Other countries	51	88	-42
Trade accounts payable	**834**	**688**	**21**

Trade accounts payable increased by 21% year-on-year. They primarily result from outsourced scientific services and patent services, but also from legal and consulting services invoiced at the end of the year.

7.13 OTHER LIABILITIES AND DEFERRED INCOME

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Deferred income	1,485	2,597	-43
Accrued liabilities	967	993	-3
Tax liabilities (wage & church tax)	93	90	3
Advances received	393	721	-45
Liabilities to shareholders	0	1,962	-100
Deposits received	10	10	0
Other liabilities	0	3	-100
Other liabilities and deferred income	**2,948**	**6,376**	-54

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

	Total liabilities		Thereof non-current		Thereof current	
in € 000's	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Deferred income	1,485	2,597	493	1,433	992	1,164
Accrued liabilities	967	993	32	38	935	955
Tax liabilities (wage & church tax)	93	90	0	0	93	90
Advances received	393	721	0	0	393	721
Liabilities to shareholders	0	1,962	0	0	0	1,962
Deposits received	10	10	0	0	10	10
Other liabilities	0	3	0	0	0	3
Other liabilities and deferred income	**2,948**	**6,376**	**525**	**1,471**	**2,423**	**4,905**

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

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Invoices outstanding	425	375	13
Bonus paid to Management Board and the executive management	55	144	-62
Remuneration of the Supervisory Board	46	137	-66
Legal consulting	72	13	454
Financial statements preparation and auditing costs	77	131	-41
Personnel liabilities	220	110	100
Renovation IZB West	45	44	2
Contribution to employer's liability insurance	3	10	-70
Other	24	29	-17
Accrued liabilities	**967**	**993**	**-3**

The non-current portion of deferred income item results from the liabilities relating to the upfront payment made by Link Health in May 2016. It is released as revenue on a pro rata basis over the entire assumed development period for 4SC-205. Of the current portion of the deferred income item, €992 thousand result from the above-mentioned liabilities relating to Link Health and from the advance payment made by Yakult Honsha Co., Ltd. in April 2011. The non-current accrued liabilities result from long-term Management Board bonuses and outstanding invoices.

All other accrued liabilities are of a current nature. A total of €1,834 thousand were added, €1,805 thousand were used, and €55 thousand were reversed. There is only insignificant insecurity regarding the amount of actual utilization. There are no claims for reimbursement against third parties.

7.14 OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

Carrying amounts and fair values according to measurement categories

		Measurement as of 31 Dec. 2016		Measurement as of 31 Dec. 2015	
in € 000's	Measurement category pursuant to IAS 39	Carrying amount	Fair value	Carrying amount	Fair value
Trade accounts receivable	LaR	95	95	94	94
Receivables from associates	LaR	0	0	8	8
Current income tax assets	LaR	13	13	1	1
Other non-current assets	LaR	100	100	1	1
Other current assets	LaR	518	518	816	816
Fixed deposits and bank balances	LaR	10,048	10,048	21,476	21,476
Financial assets at fair value through profit and loss - held for trading	AFVPL	0	0	0	0
Held-to-maturity financial assets	HtM	1,285	1,285	1,318	1,318
Available-for-sale financial assets	AfS	0	0	0	0
Accounts payable to shareholders	AC	0	0	-1,962	-1,962
Trade accounts payable	AC	-834	-834	-688	-688
Accounts payable to associates	AC	-525	-525	-1,471	-1,471
Other current liabilities	AC	-2,423	-2,423	-2,943	-2,943
Total		**8,277**	**8,277**	**16,650**	**16,650**
Of which aggregated by IAS 39 measurement category					
Financial assets at fair value through profit or loss	AFVPL	0	0	0	0
Held-to-maturity investments	HTM	1,285	1,285	1,318	1,318
Loans and receivables	LaR	10,774	10,774	22,396	22,396
Available-for-sale financial assets	AFS	0	0	0	0
At amortized cost	AC	-3,782	-3,782	-7,064	-7,064

Valuation methods

Trade accounts receivable and other assets mainly have short remaining terms. The values recognized represent the approximate fair value. The majority of the non-current other assets shown is interest-bearing; their carrying amount and fair value are therefore identical. These were guarantee deposits (deposits) lodged with the landlord. The fixed deposits and bank balances are also interest-bearing; carrying amount and fair value are therefore also identical.

The primary financial instruments existing as of the reporting date were classified as financial assets at fair value through profit or loss or held-to-maturity financial assets in accordance with IAS 39.

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

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

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

Fair value hierarchy

Both the primary financial instruments that are recognized at fair value through profit or loss as of the reporting date and the securities that were classified held to maturity in the previous year were allocated to Level 1 (prices in active markets) and Level 2 (directly observable assets) in accordance with IFRS 13.76 ff. No reclassifications of fair values from or into another hierarchy level were made in 2016.

Net results according to measurement categories

The net result of the financial instruments in the reporting year, in accordance with IAS 39 is composed of the following:

		Subsequent measurement				
in € 000's	Interest result	At fair value	Currency translation	Impairment loss	Disposal	Net result 2016
Financial assets at fair value through profit or loss held for trading	0	0	0	0	0	0
Held-to-maturity investments	43	-33	0	0	0	10
Loans and receivables	-1	0	8	0	0	7
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortized cost	0	0	-8	-15	0	-23
Total	**42**	**-33**	**0**	**-15**	**0**	**-6**

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

		Subsequent measurement				
in € 000's	Interest result	At fair value	Currency translation	Impairment loss	Disposal	Net result 2015
Financial assets at fair value through profit or loss held for trading	0	0	0	0	0	0
Held-to-maturity investments	17	-24	0	0	0	-7
Loans and receivables	2	0	4	0	0	6
Available-for-sale financial assets	0	0	0	0	0	0
Liabilities at amortized cost	0	0	-9	0	0	-9
Total	**19**	**-24**	**-5**	**0**	**0**	**-10**

The interest from financial instruments as defined in IAS 39 is shown in net finance income, as are the other components of the net result.

Risks from financial instruments

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

4SC possesses liquid reserves that are invested in order to earn interest as long as these funds are not needed. Currently, all of these funds are invested by 4SC in safe forms of investment – with a good or very good credit rating – such as borrower's note loans that entail only insignificant liquidity and counterparty credit risks. These securities do not expose the Company to an interest rate risk. As of the reporting date, all the invested funds had short maturities and thus would not be sensitive to changes in interest rates.

More information is contained in the report on opportunities and risks in section 8 of the combined management report.

2. Liquidity risk inherent in financial liabilities

4SC has financial liabilities, i.e. contractual obligations to deliver liquid assets to another party. These are presented in the statement of financial position under trade accounts payable, accounts payable to associates and other liabilities. Because most of the financial liabilities are current, they are not subject to liquidity risk.

3. Currency risks

4SC executes transactions with international business partners where contractual payment terms are made in a currency other than the euro, exposing the Company to a currency risk in the items, loans and receivables and liabilities at 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 2016, 4SC had bank accounts in US dollars worth €0 (31 December 2015: €0).

Liabilities denominated in foreign currencies as of 31 December 2016 were limited to the equivalent of €40 thousand in US dollars (US-$) and the equivalent of €7 thousand in British pounds (GBP). Varying exchange rates and their impact on assets and liabilities were simulated in a sensitivity analysis so as to determine the effects on profit or loss. A gain or decline by 10% in the value of the euro versus the foreign currency in question would have changed the outcome as follows as of 31 December 2016:

	31 December 2016		31 December 2015	
in € 000's	Increase	Decrease	Increase	Decrease
Euro vs. US dollar	-4	-4	-1	1
Euro vs. British pound	-1	1	0	0

If euro and foreign currency exchange rates had remained stable in the financial year just ended, the net loss of 4SC would not have changed (2015: no change).

4. Counterparty credit risks in connection with receivables

In addition, 4SC is subject to the risk of a possible loss due to bad debt in terms of the loans and receivables category. The Group has receivables on its books, all or some of which may be settled with a delay or may not be settled at all. This would lead to valuation allowances being made on such receivables, and would thus have a negative impact on the Company's net assets, financial position and results of operations.

4SC's maximum counterparty credit risk in connection with receivables is equivalent to the carrying amount of the trade accounts receivable, i.e. €95 thousand as of the reporting date (2015: €102 thousand). To reduce the counterparty credit risk, the Company regularly runs its business relationships through different evaluation scenarios and fosters intensive customer relationships.

7.15 OTHER FINANCIAL OBLIGATIONS

Other financial obligations for the years subsequent to the reporting date stem from leases for the facilities and office space as well as the basement space rented by 4SC. These agreements were signed on 19 May 2016 for a period of ten years and run until 30 November 2026. Purchase options do not exist. The leases contain escalation clauses that are linked to the consumer price index for Germany compiled by the Federal Statistical Office. In the event of a change of more than 5% in the index, the rent is adjusted accordingly by a ratio (converted to a percentage), which may be applied no sooner than 1 December 2018. Other financial obligations result from a fixture lease for the facilities and office space of 4SC. This agreement was also signed on 19 May 2016 for a period of ten years and runs until 30 November 2026. Purchase options do not exist. The lease contract on plant and equipment contains an escalation clause determining that the monthly rent will be reduced by 80% for the first time as of 1 December 2021.

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

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

in € 000's	2016
2017	334
from 2018	3,056
Total	**3,390**

The statement of comprehensive income for the reporting year contains expenses of €825 thousand from the leases (2015: €823 thousand). 4SC did not have any expenses under leases in 2016 and the previous year.

Financial obligations above and beyond those under leases basically stem from scientific service contracts, including external services in connection with the execution of the clinical and preclinical studies. This entails obligations up to an amount of €12,319 thousand (2015: €1,139 thousand). The maturity is contingent on the progress of the respective study, and about €5,000 thousand of this amount will fall due in 2017.

8. Disclosures on the statement of cash flows

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

in € 000's	2016	2015*	Change in %
Total cash flows from operating activities, continuing operations	-12,352	-8,004	54
Total cash flows from investing activities, continuing operations	2,344	-1,541	n/a
Total cash flows from financing activities, continuing operations	-1,500	28,773	n/a
Total cash flows from discontinued operations	80	-954	n/a
Net change in cash and cash equivalents	**-11,428**	**18,274**	**n/a**
+ Cash and cash equivalents at the beginning of the period	21,476	3,202	571
= Cash and cash equivalents at the end of the period	**10,048**	**21,476**	**-53**

* Adjusted.

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

in € 000's	31 Dec. 2016	31 Dec. 2015	Change in %
Cash and cash equivalents at the end of the period	10,048	21,476	-53
Other investments	1,285	1,318	-3
Cash balance/funds	**11,333**	**22,794**	**-50**

9. Stock option plan

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

Option plan	Tranche	Issue	Subscription price	Subscription ratio[1]	Issued	Outstanding on 1 Jan. 2016	Issued in 2016	Expired in 2016	Exercised in 2016	Outstanding on 31 Dec. 2016	Exercisable on 31 Dec. 2016	Max. number of shares available on 31 Dec. 2016	Fair value	Cumulative staff costs[2]	Staff costs in 2016
Unit			€		000's	000's	000's	000's	000's	000's	000's	000's	€	€	€
ESOP 2001	2001/1	31 Mar. 2001	48.00	2:1	74	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2001/2	10 Oct. 2001	48.00	2:1	110	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2002	30 Jun. 2002	60.00	2:1	120	0	0	0	0	0	0	0	n/a	0	0
ESOP 2001	2003	30 Sep. 2003	25.40	2:1	318	0	0	0	0	0	0	0	3.70	52	0
ESOP 2004	2004	30 Sep. 2004	21.20	2:1	122	0	0	0	0	0	0	0	3.60	62	0
ESOP 2004	2005	30 Sep. 2005	21.20	2:1	93	0	0	0	0	0	0	0	3.55	53	0
ESOP 2004	2006/1	30 May 2006	22.65	2:1	26	0	0	0	0	0	0	0	3.70	19	0
ESOP 2006	2006/2	25 Aug. 2006	19.00	1:1	296	40	0	40	0	0	0	0	8.55	436	0
REPLACE-MENT ESOP 2001	2006/3	25 Aug. 2006	19.00	1:1	166	16	0	16	0	0	0	0	7.70	183	0
ESOP 2006	2007	26 Nov. 2007	18.25	1:1	9	1	0	0	0	1	1	1	7.45	14	0
ESOP 2006	2008	22 Aug. 2008	17.25	1:1	43	1	0	1	0	0	0	0	7.50	62	0
ESOP 2009	2009	26 Nov. 2009	16.45	1:1	888	108	0	21	0	87	87	87	5.20	829	0
ESOP 2009	2010	26 Nov. 2010	15.45	1:1	18	1	0	1	0	0	0	0	3.85	11	0
ESOP 2009	2011	30 Nov. 2011	7.20	1:1	18	3	0	0	0	3	3	3	3.25	10	0
ESOP 2016	2016	22 Dec. 2016	2.34	1:1	1,019	0	1,019	0	0	1,019	0	1,019	1.15	1,039	11
Gesamt					**3,320**	**170**	**1,019**	**79**	**0**	**1,110**	**91**	**1,110**		**2,770**	**11**

[1] The tranches affected by the December 2004 capital reduction had a subscription ratio of 2:1.
[2] Cumulative staff costs are calculated until the end of holding period.

All option tranches issued are exercisable only in return for shares. Authorized Capital I through IV and VI, and Conditional Capital VIII were adopted to fulfill exercise of options issued.

Tranches issued since 25 August 2006 have a term of ten years. Half of the options under the "ESOP 2006", "ESOP 2009" and "ESOP 2016" plans may be exercised a minimum of two years after the issue date. Another 25% are exercisable one year thereafter, and the remaining 25% in another year's time thereafter. All of the options of the "2006/3" tranche are exercisable after two years. All options under the "ESOP 2016" plan may be ex-

ercised a minimum of four years after issuance. The subscription rights may be exercised on condition that the applicable reference price exceeds the exercise price by more than 1/240th per month for the number of full months between the date on which the option is issued and the onset of the respective exercise period in the previous month.

The weighted average remaining term of all tranches outstanding is 9.40 years. The exercise prices of all outstanding tranches range from €2.34 and €18.25.

An overview of weighted average exercise prices is given below:

Exercise prices (weighted, €)	2016	2015
Options outstanding as of 1 Jan.	17.11	17.10
Options issued in the reporting period	2.34	-
Options expired in the reporting period	18.22	16.60
Options outstanding as of 31 Dec	3.48	17.11
Options exercisable as of 31 Dec.	3.48	17.11

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	Risk-free interest rate
2016	3.75	2.41	68.98%	-0.71%
2011	3.75	6.80	67.89%	0.81%
2009	3.75	16.30	40.17%	1.89%
2007	3.75	17.50	52.46%	3.79%

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

10. Remuneration of the Management Board and the Supervisory Board

10.1 MANAGEMENT BOARD

The total remuneration paid to the members of the Management Board amounted to €501 thousand (2015: €511 thousand) in the reporting year. Of this total amount, €26 thousand (2015: €47 thousand) represents contributions to defined contribution plans according to IAS 19.7. Pro-rated staff costs attributable to options included in overall remuneration amounted to €3 thousand for the reporting year (2015: €0 thousand).

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

	Fixed		Variable		Staff costs arising from options		Total	
Remuneration in € 000's	2016	2015	2016	2015	2016	2015	2016	2015
Jason Loveridge, Ph.D.	95	0	21	0	3	0	119*	0
Daniel Vitt, Ph.D.	279	201	-22	16	0	0	257	217
Bernd Hentsch, Ph.D.	0	0	0	-23	0	0	0	-23
Enno Spillner	180	301	-55	16	0	0	125**	317
Remuneration of the Management Board	**554**	**502**	**-56**	**9**	**3**	**0**	**501**	**511**

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

The following overviews show the shares and stock options held by members of the Management Board as of the 31 December 2016 reporting date.

Number of shares	1 Jan. 2016	Purchase	Sale	31 Dec. 2016
Daniel Vitt, Ph.D.	83,361	0	0	83,361
Total	**83,361**	**0**	**0**	**83,361**

Number of stock options	1 Jan. 2016	Additions	Expired	Exercised	31 Dec. 2016 (= maximum number of shares available)
Daniel Vitt, Ph.D.	28,520	0	6,200	0	22,320
Jason Loveridge, Ph.D.	0	300,000	0	0	300,000
Total	**28,520**	**300,000**	**6,200**	**0**	**322,320**

A total of 300,000 stock options were issued to the members of the Management Board in the 2016 financial year under the "ESOP 2016" stock option plan.

In addition to the fixed remuneration, of which a percentage is paid out at the end of each month, current benefits owed to the members of the Management Board resulting from a portion of the variable remuneration totaled €11 thousand as of 31 December 2016.

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

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

Jason Loveridge, Ph.D.
- Chairman of the Supervisory Board of Actinogen Medical Ltd., Sydney, Australia
- Member of the Supervisory Board of Resonance Health Ltd., Perth, Australia
- Member of the Supervisory Board of JDS Biopharma Pty Ltd., Perth, Australia
- Managing Director of Warambi Sarl, Paris, France
- Managing Director of Warambi Ltd., Swansea, United Kingdom

Daniel Vitt, Ph.D.
- Advisory Board member of quattro research GmbH, Planegg-Martinsried, Germany
- Member of the Advisory Board of Nexigen GmbH, Bonn, Germany
- Member of the Supervisory Board of Immunic AG, Planegg-Martinsried, Germany (since August 2016)

10.2 SUPERVISORY BOARD

The total remuneration paid to the members of the Supervisory Board amounted to €160 thousand (2015: €137 thousand). Individual Supervisory Board member remuneration for the reporting year breaks down as follows:

in € 000's	Main occupational activity	Remuneration 2016	Remuneration 2016
Clemens Doppler, Ph.D. (Chairman since 19 Sep. 2014)	• Partner & Managing Director of HeidelbergCapital Asset Management GmbH, Heidelberg, Germany • Managing Director of HeidelbergCapital General Partner GmbH, Heidelberg, Germany	42	35
Joerg von Petrikowsky (Deputy Chairman since 18 Jun. 2016)	• German public auditor and tax consultant	30	18
Irina Antonijevic, M.D., Ph.D.	• CMO of vasopharm GmbH, Würzburg, Germany	21	17
Helmut Jeggle	• Managing Director of Apceth Biopharma GmbH, Ottobrunn, Germany • Managing Director of Apceth Biopharma Manufacturing Company GmbH, Munich, Germany • Managing Director of Apceth Verwaltungs GmbH, Munich, Germany • COO / Managing Director of Athos Service GmbH, Munich, Germany • Managing Director of AT Impf GmbH, Munich, Germany • Managing Director of AT Newtec GmbH, Munich, Germany • Managing Director of Klinge Pharma GmbH, Bad Ems, Germany • Managing Director of Neula Holding GmbH, Munich, Germany • Managing Director of Salvia GmbH, Holzkirchen, Germany • Authorized Officer of Santo Holding (Deutschland) GmbH, Holzkirchen, Germany • Managing Director of Santo International Holding GmbH, Holzkirchen, Germany • Managing Director of Santo Venture Capital GmbH, Holzkirchen, Germany	17	17
Prof. Helga Rübsamen-Schaeff, Ph.D.	• Chair of the Scientific Advisory Board of AiCuris GmbH & Co. KG, Wuppertal, Germany	25	22
Manfred Rüdiger, Ph.D. (Deputy Chairman until 17 Jun. 2016)	• CEO of Kiadis Pharma N.V., Amsterdam, the Netherlands • Managing Director of Kiadis Pharma Canada, Inc., Saint-Laurent, Quebec, Canada; • Managing Director of Kiadis Pharma Deutschland GmbH, Munich, Germany	25	28
Remuneration of the Supervisory Board		**160**	**137**

The following overview shows the shares held by members of the Supervisory Board as of the 31 December 2016 reporting date.

Number of shares held	1 Jan. 2016	Purchase	Sale	31 Dec. 2016
Manfred Rüdiger, Ph.D.	1,500	0	0	1,500
Clemens Doppler, Ph.D.	3,719	0	0	3,719
Prof. Helga Rübsamen-Schaeff, Ph.D.	0	2,000	0	2,000
Total	**5,219**	**2,000**	**0**	**7,219**

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

Clemens Doppler, Ph.D.
- Merlion Pharmaceuticals Inc., Berlin, Germany / Singapore, member of the Supervisory Board
- Nanogate AG, Quierschied-Göttelborn, Germany, member of the Supervisory Board
- vasopharm GmbH, Würzburg, Germany, member of the Advisory Board

Helmut Jeggle
- AFFiRiS AG, Vienna, Austria, member of the Supervisory Board
- APK ALUMINIUM UND KUNSTSTOFFE AG, Merseburg, Germany, member of the Supervisory Board
- BioNTech AG, Mainz, Germany, Chairman of the Supervisory Board
- Glycotope GmbH, Berlin, Germany, member of the Advisory Board
- Press Ganey Holdings Inc., Wakefield, Massachusetts, USA, Member of the Advisory Board
- Sidroga AG, Zoffingen, Switzerland, President of the Administrative Board
- SiO2 Medical Products Inc., Auburn, Alabama, USA, member of the Advisory Board
- VANGUARD AG, Berlin, Germany, member of the Supervisory Board

Prof. Helga Rübsamen-Schaeff, Ph.D.
- E. Merck KG, Darmstadt, Germany, member of the Board of Partners
- Merck KGaA, Darmstadt, Germany, member of the Supervisory Board
- E. Merck KG, Darmstadt, Germany, Chair of the Scientific Advisory Board
- Bonn University Clinic, 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. and Joerg von Petrikowsky did not hold any positions in other control bodies or Supervisory Boards as of the reporting date.

11. Other information

11.1 RELATED PARTY TRANSACTIONS

4SC was engaged in the following significant business transactions with related parties in the period from 1 January to 31 December 2016:

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

4SC AG held a 48.8% stake of the share capital of quattro research GmbH (quattro research) since its founding at the beginning of 2004. This equity stake was sold in its entirety back to quattro research in September 2016 for €800 thousand. The software service contract that existed between the companies had a net volume of €120 thousand in the 2016 financial year (2015: €120 thousand). Further, in the reporting period a software license was purchased from quattro research for €2 thousand (2015: less than €1 thousand).

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

4SC Discovery GmbH (4SC Discovery) maintains legal relations with Panoptes Pharma Ges.m.b.H. (Panoptes), in which it holds a 22.1% stake of the share capital. In the 2016 financial year, 4SC Discovery billed a net amount of €5 thousand for contract services (2015: €3 thousand). As of reporting date, there were no receivables from Panoptes (31 December 2015: €8 thousand).

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

4SC AG maintains legal relations with its main shareholder Santo Holding (Deutschland) GmbH. In June 2014, 4SC AG agreed a loan of up to €10 million with Santo Holding. This was earmarked for financing the costs of preparing for the planned clinical trial of the resminostat compound in the liver cancer indication and for covering part of the Company's ongoing administrative costs. The loan, which carried interest of 8% p.a., ran until the end of 2016 (maturity date) and could be drawn down in tranches up to 31 December 2015. The liability amounting to €1,983 thousand from this financing agreement – including €483 thousand in interest expense – was repaid in full prematurely in March 2016. At the reporting date, there were no liabilities to Santo Holding (2015: 1,962 thousand €).

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

4SC AG and 4SC Discovery GmbH (4SC Discovery) maintain legal relations with BioNTech AG, Mainz, Germany (BioNTech), and its subsidiaries BioNTech RNA Pharmaceuticals GmbH (BioNTech RNA) and BioNTech Small Molecules GmbH (BioNTech Small Molecules), all of which belong to the Santo Holding (Deutschland) GmbH Group, Holzkirchen, Germany. On 17 December 2012, a licensing agreement was concluded for TLR agonists. 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 will identify new small-molecule, anti-cancer compounds for defined therapeutic targets on behalf of BioNTech and optimize these further for BioNTech. In financial year 2016, this contract had a net volume of €107 thousand (2015: €416 thousand) with respect to BioNTech and €0 net (2015: €14 thousand) with respect to BioNTech RNA.

The operations of 4SC Discovery were sold to BioNTech Small Molecules for €650 thousand as of 29 April 2016. In addition and without financial compensation, 4SC is granted the right to temporarily utilize research services provided by BioNTech Small Molecules worth a person year. In this context, a sub-lease (for €230 thousand, net) and a service and materials agreement as of 1 May 2016 (for €29 thousand, net) were signed with BioNTech Small Molecules. There were no receivables from BioNTech as of the reporting date (31 December 2015: €63 thousand). There were also no receivables from BioNTech RNA as of the reporting date (31 December 2015: €0). The outstanding receivables from BioNTech Small Molecules as of the reporting date totaling €50 thousand were paid in January and February 2017. The right to use services equivalent to a person-year was exercised in full in 2016.

Other related party transactions

Beyond this, there were no further business transactions with related parties in the reporting period where the transaction volume in each case exceeded €10 thousand or where the total annual transaction volume is likely to exceed €10 thousand. No liabilities existed from these transactions as of 31 December 2016.

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

On 22 February 2016 and 17 February 2017, the Company's Management Board and Supervisory Board declared in accordance with Section 161 German Stock Corporation Act (Aktiengesetz - AktG) that they are in compliance, with a few exceptions, with the recommendations of the "Government Commission on the German Corporate Governance Code" issued by the Federal Ministry of Justice. The declarations of compliance were made permanently available to the public on the same day on the website www.4SC.com.

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

The following table shows the principal shareholders of 4SC AG who – on the basis of the notifications received by the Company in accordance with Sections 21 ff. of the German Securities Trading Act (WpHG) – hold more than 3% of the Company's shares. The figures given in each case refer to the last published notification. The actual status at 31 December 2016 may differ from these amounts, however.

Notifying entity	Date of notification	Voting share
Roland Oetker, Germany	16 Feb. 2012	3.01%[1]
First Capital Partner GmbH, Gräfelfing, Germany WE Vermögensverwaltungs GmbH & Co. KG, Gräfelfing, Germany, WE Verwaltung GmbH, Gräfelfing, Germany, Wolfgang Egger, Germany	5 July 2012	9.91%[1]
Santo Holding (Deutschland) GmbH, Holzkirchen, Germany	9 July 2012	41.48%[1]
Wellington Partners Advisory AG, Zurich, Switzerland, Wellington Partners Management Limited, St. Helier, Jersey, United Kingdom, Wellington Partners Ventures IV Life Science Fund L.P., Edinburgh, United Kingdom	29 Dec. 2015	6.59%[1]

[1] Based on an estimate of the management, the shares as of 31 December 2016 were as follows:
- Wellington Partners Ventures IV Life Science Fund L.P., Edinburgh, United Kingdom 6.6%
- Roland Oetker, Germany 3.9%
- First Capital Partner GmbH, Gräfelfing, Germany 7.4%
- Santo Holding (Deutschland) GmbH, Holzkirchen, Germany 47.8%

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

On 17 June 2016, the Company's Annual General Meeting appointed Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Nymphenburgerstrasse 3b, 80335 Munich, Germany, to serve as the auditor of the 2016 financial statements.

in € 000's	2016	2015
Auditing services	75	68
Other verification services	14	10
Other services	15	93
Total fee billed	**104**	**171**

11.5 AVERAGE NUMBER OF EMPLOYEES

The average number of employees developed as follows:

Average number of employees (excluding Management Board and executive management)	2016	2015*
Annual average – continuing operations	46	43
Annual average – discontinued operations (until 30 April 2016)	22	23

* Adjusted.

The number of employees working in continuing operations (excluding the Management Board of 4SC AG) during 2016 was 46 (2015: 43).

Of these 46 employees (excluding the Management Board and the executive management), 31 worked in research and development (2015: 28), 13 in sales and administration (2015: 13) and two in information technology (2015: 2).

In discontinued operations until the sale of 4SC Discovery all employees (excluding the Management Board and the executive management) were allocated to research and development.

12. Events after the reporting period

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

- The investigators for the Phase II trial concluded in 2016 with resminostat in HCC presented detailed study results on 20 January 2017 at the Gastrointestinal Cancers Symposium in San Francisco, USA. In the patient subgroup with a normal to high platelet count, which represented roughly half of the 170 study participants, median survival of patients receiving the resminostat and sorafenib combination therapy was 13.7 months, whereas median survival of patients receiving sorafenib alone was just 5.1 months. For these subgroup patients with normal to high baseline platelet levels, the risk of dying during the study was reduced by approximately 40%.

Planegg-Martinsried, Germany, 23 February 2017

Jason Loveridge, Ph.D.
Sole Managing Director

AUDITOR´S REPORT

The following auditor's report is a mere convenience translation from the German language. The German language version of the auditor's report only refers to the German language version of the consolidated 2016 IFRS financial statements of 4SC AG.

We have audited the consolidated IFRS financial statements - comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, notes to the consolidated financial statements and the combined management report of 4SC for the financial year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and combined management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB („Handelsgesetzbuch": „German Commercial Code") are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in accordance with principles of proper accounting in the consolidated financial statements and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the legal representative, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and the additional provisions of German commercial law pursuant to section 315a (1) of the HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with principles of proper accounting. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the

Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer the Management Board's explanations in section 8.2.7 "Overall assessment of the Company's exposure to risk" of the combined management report. Therein it is disclosed that the Company's ability to continue as a going concern is jeopardised if the assumptions regarding the cash accruing to the Company from collaborations and partnerships as well as from potential financing deals do not materialise to a sufficient degree and no additional funds in the form of equity capital or debt financing can be raised.

Munich, 23 February 2017

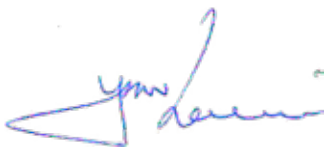
Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

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

RESPONSIBILITY STATEMENT

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

Planegg-Martinsried, Germany, 23 February 2017



Jason Loveridge, Ph.D.
Sole Managing Director

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

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

INCOME STATEMENT

in € 000's	2016	2015
Revenue	2,799	2,296
Other operating income	2,813	1,369
Total revenue and income	**5,612**	**3,665**
Cost of materials		
Cost of raw materials, consumables and supplies	-6	-1
Cost of purchased services	-648	-1,052
Personnel expenses	-4,029	-3,464
Depreciation, amortization and write-downs	-833	-800
Other operating expenses	-8,920	-6,029
Total expenses	**-14,436**	**-11,346**
Other interest and similar income	84	31
Interest and similar expenses	-24	-366
Net finance income/loss	**848**	**-335**
Cost of loss absorption	-1,274	-7,768
Taxes on income	-71	-40
Profit/loss after taxes = Net loss for the year	**-10,109**	**-15,824**
Loss brought forward	-141,968	-126,144
Income from the capital reduction	0	40,679
Contribution to capital reserves pursuant to the provisions governing simplified capital reduction	0	-40,679
Accumulated deficit	**-152,077**	**-141,968**

BALANCE SHEET

in € 000's	31 Dec. 2016	31 Dec. 2015
ASSETS		
Fixed assets		
Intangible assets	6,376	7,106
Tangible fixed assets	497	113
Long-term financial assets	9,972	9,984
Total fixed assets	**16,845**	**17,203**
Current assets		
Receivables and other assets	567	588
Securities	1,342	1,342
Cash-in-hand and bank balances	10,045	21,158
Total current assets	**11,954**	**23,088**
Prepaid expenses	**85**	**163**
Total assets	**28,884**	**40,454**
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	18,967	18,967
Capital reserves	148,823	148,823
Accumulated deficit	-152,077	-141,968
Total equity	**15,713**	**25,822**
Provisions	**816**	**658**
Liabilities		
Trade accounts payable	702	545
Other liabilities	11,653	13,429
Total liabilities	**12,355**	**13,974**
Total equity and liabilities	**28,884**	**40,454**

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

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

GLOSSARY

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

CHECKPOINT INHIBITOR
The immune system has a series of mechanisms to prevent excessive defense reactions. Cancer cells misuse these so-called checkpoints 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 humans in order to advance a drug candidate to the market approval stage.

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.

EG5 (KIF11)
Protein exercising a key function during cell division. In the development of cancer therapies, Eg5 (KIF11) provides an interesting point of attack for inhibiting tumor cell division and thus tumor growth.

EMERGE STUDY
Phase II study planned to start in the second half of 2017 in which 4SC-202 will be tested in combination with an immuno-oncological compound for treating gastrointestinal tumors. These tumors account for around 80% of intestinal cancers. 4SC expects headline results to be available in 2019.

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.

HCC
Hepatocellular carcinoma, liver cell carcinoma, colloquially known as "liver cancer".

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

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

HISTONES
Proteins around which DNA is wrapped in the cell nucleus.

IMMUNE PRIMING
Activation of immune cells to fulfill a particular function.

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

IND APPLICATION
US Food and Drug Administration's (FDA) investigational new drug application. IND applications are based on preclinical data that indicates that a drug is sufficiently safe for testing in humans.

INDICATION
Medical field of application for a compound.

INHIBITOR
A blocking substance.

KINASE
Enzyme adding a phosphate group to a target molecule.

LYMPHOMA
Collective term for lymphatic tissue tumors.

LYSINE-SPECIFIC DEMETHYLASE 1 (LSD1)
Epigenetically active enzyme that modifies histones by removing methyl groups from them. LSD1 thereby enables a greater or lesser degree of expression of certain genes.

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

METABOLISM
The entirety of life-sustaining transformations in an organism.

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

NSCLC
Non-small cell lung cancer. Can often be surgically removed.

ONCOLOGY
The scientific study of cancer.

PD-1
Programmed cell death protein 1. Is a cell surface receptor acting as an immune checkpoint with an important role in down-regulating the immune system.

PHARMACOKINETICS
Spatial and temporal distribution of compounds throughout an organism.

PHARMACOLOGY
Branch of science dealing with interactions between substances and organism.

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

RESMAIN STUDY
Pivotal study started in 2016 in which resminostat is examined in cutaneous T-cell lymphoma (CTCL). In the course of this double-blind, randomized placebo-controlled study, 150 patients will be treated at more than 50 study centers in eleven European countries up to 2018, with headline results likely to be available in 2019. If these results are positive, 4SC will immediately submit an application for drug approval in Europe.

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

SENSITIZE STUDY

Phase II study planned to start in the second half of 2017 in which 4SC-202 will be tested in combination with anti-PD-1 antibodies for treating PD-1 refractory melanoma. Therapeutic antibodies targeting this checkpoint will ensure that the tumor cells can be combated again by the body's immune system. Included in this study will be patients who do not respond to the therapy with checkpoint inhibitors that in many cases has been used very successfully to treat melanoma. Through combination therapy with 4SC-202 a therapeutic success is expected to be achieved for these patients as well. Headline results are likely to be announced in the second half on 2018. Assuming the results of the study are positive, 4SC intends to commence further clinical studies thereafter.

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.

TARGET MOLECULE

Molecule to which a compound binds, thereby triggering its therapeutic action. Usually these are biological molecules, e.g. enzymes or receptors that play a key role in the emergence or development of a disease.

THIRD-LINE THERAPY

Treatment that is given when both initial treatment (first-line therapy) and subsequent treatment (second-line therapy) don't work, or stop working.

TOXICOLOGY

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

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

RESULTS OF OPERATIONS AND CASH FLOWS

in € 000's unless stated otherwise	2016	2015	2014	2013	2012
Revenue	2,338	3,266	7,055	4,904	4,353
*from continuing operations**	*2,060*	*2,296*	*3,778*	*1,601*	*1,396*
*from discontinued operations**	*278*	*970*	*3,277*	*3,303*	*2,957*
Operating profit/loss	-11,603	-8,915	-9,437	-10,592	-13,366
*from continuing operations**	*-11,792*	*-7,915*	*-8,554*	*-9,457*	*-10,933*
*from discontinued operations**	*189*	*-1,000*	*-883*	*-1,135*	*-2,433*
Net profit for the year	-11,166	-9,228	-9,696	-10,525	-13,217
Earnings per share (basic and diluted) in €**	-0.59	-0.64	-0.95	-1.05	-1.45
Monthly use of cash from operations (average)	827	767	706	597	1,260
Cash flows from financing activity	-1,500	28,773	6,778	-60	11,367

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

in € 000's unless stated otherwise	2016	2015	2014	2013	2012
Equity	15,273	26,428	2,050	11,282	21,813
Equity ratio in %	80.2	78.9	13.7	63.7	75.0
Total assets	19,055	33,492	14,934	17,705	29,067
Cash balance/funds	11,333	22,794	3,202	4,899	12,064
Number of employees (incl. Management Board)	49	67	66	73	86
Number of full-time equivalents (incl. Management Board)	44	58	57	56	74

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

FINANCIAL CALENDAR

2017

Annual Report 2016	29 March 2017
3-Month Group Communication	27 April 2017
Annual General Meeting	6 July 2017
6-Month Consolidated Financial Report	10 August 2017
9-Month Group Communication	26 October 2017

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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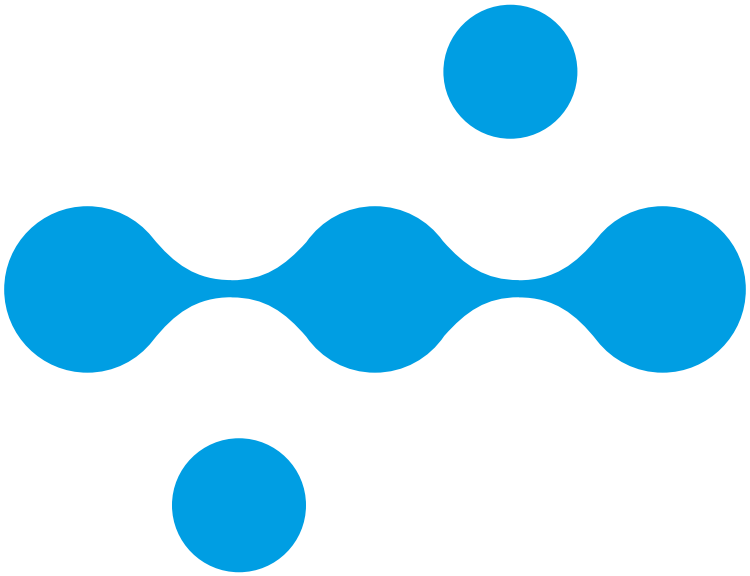
DISCLAIMER

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



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