Biofrontera AG | quarterly financial report as at 30 September 2014

Contents

Development of sales revenue in the third quarter of the 2014 financial year

- Significant growth in sales revenue of 61% compared to the same period in the previous year
- Growth in sales revenue of 54% in Germany compared to the same period in the previous year

Financial developments in the first nine months of the 2014 financial year

- Growth in sales revenue of 7% compared to the previous year
- Growth in sales revenue of 31% in Germany compared to the same period in the previous year
- Capital increase of 4,438,292 shares in total successfully placed. The net revenue from the issue amounted to EUR 15.3 million.
- Increased tradability of shares as a result of admission to the Prime Standard segment of the Frankfurt Stock Exchange and listing on the *Alternative Investment Market* of the London Stock Exchange

Further significant progress in operational business in the first nine months of the 2014 financial year

- Completion of the Phase III clinical study for broad area therapy for actinic keratosis, with outstanding results
- Completion of the safety studies required by the FDA
- Patient recruitment for phase III trial on basal cell carcinoma is in progress in Germany and the UK.
- Conclusion of a licensing agreement for Israel with Perrigo Israel Agencies LTD
- Conclusion of a licensing agreement for Switzerland and Liechtenstein with Louis Widmer SA
- Successful market launch of Belixos® Liquid

Key indicators

Key consolidated figures for the first nine months of the 2013 and 2014 financial years in accordance with IFRS

In EUR thousands	9M 2014	9M 2013	Q3 2014	Q3 2013
	unaudited	unaudited	unaudited	unaudited
Results of operations (earnings)				
Sales revenue	1,991.8	1,867.8	775.3	482.7
of which sales in Germany	1,399.1	1,069.6	483.8	314.6
Sales and distribution and general administration costs	-5,231.0	-3,999.1	-1,483.0	-1,332.7
Research and development costs	-3,146.0	-1,950.3	-1,083.0	-786.8
Operating profit (EBIT)	-7,130.8	-5,093.5	-2,279.3	-2,013.6
Profit/loss after tax	-7,964.6	-6,021.5	-2,545.9	-2,323.7
Cash flow statement				
Cash flow from operating activities	-6,321.8	-5,909.5	-2,065.4	-2,138.8
Cash flow from investment activities	-29.1	-209.4	7.9	-91.8
Cash flow from financing activities	13,379.1	7,576.6	0.0	-15.0

In EUR thousands	9M 2014	9M 2013
Key balance sheet figures	unaudited	unaudited
Balance sheet total	15,868.1	10,990.5
Current liabilities (excluding provisions)	1,194.9	1,050.5
Long-term liabilities	10,965.3	11,912.1
Equity (subscribed capital & capital reserve)	98,571.4	83,391.1
Equity ratio	17.06%	-22.41%
Cash and cash equivalents	9,961.8	4,824.0
Employees as at 30 September	41	39
Biofrontera share	30.09.2014	30.09.2013
Outstanding shares	22,196,570	17,753,168
Share price (Xetra closing price)	2.20	3.57
Dividend in EUR	0	0

Biofrontera's financial instruments

Key details of the Biofrontera share	
Stock exchanges	Düsseldorf, Frankfurt, Berlin, Munich, Stuttgart, Xetra, Tradegate, London, UK (AIM)
WKN (German securities ID number)	604611
ISIN	DE0006046113
Shares outstanding as at 30 September 2014	22,196,570
9-month high (19 February 2014)*	EUR 4.08
9-month low (19 September 2014)*	EUR 2.18
Closing price 30 September 2014*	EUR 2.20
Market capitalisation as at 30 September 2014	EUR 48.83 million

*(Price data from Xetra)

Key details for warrant bond I with warrant*	
Stock exchanges	Düsseldorf
WKN (German securities ID number)	A0Z169
ISIN	DE000A0Z1690
Term, final maturity	8 years, 31 December 2017
Stepped coupon	4% (2010), 6% (2011), 8% (2012)
9-month high (23 January 2014)	EUR 99.00
9-month low (30 September 2014)	EUR 85.00
Closing price 30 September 2014	EUR 85.00

*(Price data from Düsseldorf Stock Exchange)

Key details for warrant bond II with warrant*	
Stock exchanges	Düsseldorf
WKN (German securities ID number)	A1KQ9Q
ISIN	DE000A1KQ9Q9
Term, final maturity	5 years, 31 December 2016
Coupon	5%
9-month high (11 July 2014)	EUR 98.50
9-month low (25 July 2014)	EUR 89.70
Closing price 30 September 2014	EUR 89.75

*(Price data from Düsseldorf Stock Exchange)

Consolidated interim management report for the first nine months of the 2014 financial year

Fundamentals of the Group

1. Group structure

This report describes the business performance of the group (also referred to in the following as "Biofrontera" or the "Biofrontera Group") in the first nine months of the 2014 financial year. The group consists of a parent company, Biofrontera AG, and four wholly owned subsidiaries, Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH and Biofrontera Neuroscience GmbH. All the companies are based at Hemmelrather Weg 201, 51377 Leverkusen.

The listed public limited company (AG in German) has a holding function in the group of companies and ensures the necessary financing for the group. Biofrontera Bioscience GmbH assumes responsibility for research and development tasks for the group and is the holder of patents and owner of the approval for Ameluz®. Based on a licence agreement with Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, which is also owner of the approval for BF-RhodoLED®, is responsible for the manufacturing and also the further licensing and marketing of the Biofrontera Group's approved products.

Biofrontera Development GmbH and Biofrontera Neuroscience GmbH were established as additional wholly owned subsidiaries of Biofrontera AG in December 2012. The purpose of both companies is to pursue the further development of pipeline products that are not part of Biofrontera's core business and therefore cannot be sufficiently financed within the framework of normal business development. To this end, the two projects BF-derm1 and BF-1 were purchased from Biofrontera Bioscience GmbH by Biofrontera AG, with purchase and transfer agreements dated 31 December 2012, and then transferred to the two new subsidiaries as part of a partner's investment, with the contribution agreement being effective from 31 December 2012. The product BF-derm1, which is intended for the treatment of severe chronic urticaria, is now the responsibility of Biofrontera Development GmbH, while the product BF-1, which is intended for the prophylactic treatment of migraines, is the responsibility of Biofrontera Neuroscience GmbH. This outsourcing of development candidates has created a structure through which the financing of the further development of these two products can be uncoupled from the normal group financing.

2. Group strategy

The strategic objective of the **Biofrontera Group** is to establish the company as a pharmaceutical company specialising in the dermatological sector. In addition to the further expansion of business in Germany, the main priorities are to increase the range of indications for existing products and to expand international sales activities. In order to market the company's products outside Germany, agreements are concluded with suitable partners in the countries concerned.

Biofrontera was the first small German company to receive a centralised European drug approval for a completely independently developed drug, Ameluz®. In the months prior to the market launch of Ameluz®, the company's own sales division was systematically prepared, and since its launch in February 2012, Biofrontera has been selling Ameluz® to dermatologists in Germany through its own field sales team. The drug is distributed in other European Union member states, Israel and Switzerland by licensing partners.

For some time, in addition to further business expansion in Germany, group development has focused on further development abroad. In Israel, the first hurdles of the approval process have been overcome and submission for approval will soon take place in Switzerland. Biofrontera is working extremely hard with a view to obtaining approval for Ameluz® in the USA. After the conclusion of the clinical trials and the completion of the approval package, Biofrontera is planning to submit the approval documentation, ideally in the first quarter of 2015. The results of the relevant Phase III clinical trial for this purpose are now available and they impressively confirm the high effectiveness of Ameluz®. A further successful milestone achieved at the beginning of October was the pre-NDA-Meeting (NDA = "New Drug Application") with the FDA. The preparatory documents submitted in advance by Biofrontera were of such high quality that the FDA proposed that the meeting could be held as a conference call. The few questions still outstanding were all answered. With regard to the planned schedule for approval, it was particularly important that the FDA did not request additional studies. Once a positive decision regarding approval is received from the FDA, which is expected approximately 12 months after submission of the application, Biofrontera will have access to the largest healthcare market in the world.

In parallel to this, Biofrontera is financing a clinical phase III trial to extend Ameluz® indications to include basal cell carcinoma. First, Biofrontera is striving for expanded approval in Europe in order to exploit further market potential for Ameluz. According to a market study recently published by Technavio, the international pharmaceutical market for actinic keratosis is expected to grow by approx. 8% annually, from its current level of USD 546 million to USD 942 million in 2020. However, in the same period, the pharmaceutical market for basal cell carcinoma is expected to grow at a phenomenal rate, from approx. USD 236 million today to nearly USD 5 billion, because the availability of new pharmaceuticals (Ameluz® is mentioned in this context) will mean that fewer and fewer patients will be subjected to surgical interventions.

3. Products

Ameluz® and BF-RhodoLED®

Ameluz® 78 mg/g Gel received a first centralised European approval for the treatment of mild and moderate actinic keratoses on the face and scalp in December 2011. Actinic keratoses are superficial forms of skin cancer, and there is a risk that they can spread to deeper layers of skin. The combination of Ameluz® with light treatment is an innovative approach that constitutes a form of photodynamic therapy (PDT). The product information approved by the European approval authority, the EMA, explicitly mentions the significant superiority of Ameluz® to its direct competitor product in terms of removing all of a patient's keratoses. During the treatment, the active substance 5-aminolevulinic acid (ALA) penetrates into the affected cells, assisted by an innovative nano-emulsion, where it is then converted into a second substance, particularly in tumorous cells. This second substance, protoporphyrin IX, serves as a photo-sensitizer that can be stimulated by a 10 to 15-minute exposure to high-intensity red light. The molecule stimulated in this way causes the formation of cytotoxic amounts of highly reactive oxygen, which induces tumour cell death via oxidation processes. In the phase III trials relevant to approval, Ameluz® showed excellent healing rates and demonstrated significant superiority to the approved comparison preparation, which was tested in parallel to it. In the first phase III trial, which involved the drug being combined with an LED lamp, all keratoses were completely removed for more than 96% of patients treated with Ameluz®. When counting individual keratosis lesions, no fewer than 99% were completely eradicated. In the second phase III trial relevant to approval, the effectiveness of Ameluz® was tested in comparison with an already approved standard medication. The results of the trial provided evidence that Ameluz® was clearly superior to

the competitor drug available in Europe. Based on the average for all lamps used in the treatment, Ameluz® resulted in complete healing of actinic keratoses in 78% of patients, whereas the approved rival product achieved a healing rate of only 64%. With LED lamps, the healing rates were as high as 85% for Ameluz® and 68% for the competitor product. The side effect profile was comparable for both preparations.

In a third, recently completed phase III trial, in which the combination of Ameluz® with Biofrontera's BF-RhodoLED® PDT lamp was tested, 91% of the patients treated with Ameluz® and 94% of the individual actinic keratoses were completely healed by the end of the study. In this study, photodynamic therapy was tested on larger areas of skin for the first time ever in a Phase III trial, although this therapy is actually recommended in the dermatological guidelines for broad area therapy. In the study, a whole tube of Ameluz® was applied to one or two areas of treatment on each patient and the cosmetic success was also assessed in addition to the healing rate. It is well documented in the literature that PDT stimulates collagen synthesis in the dermis, which gives the skin a younger and fresher appearance. Approximately 67% of the patients treated with Ameluz® in the clinical phase III study assessed the cosmetic result after treatment as being very good or good, which is twice as many as after a corresponding placebo treatment. Only 10% of the patients rated their skin appearance as less satisfactory after treatment with Ameluz®, compared to 42% of the patients in the placebo group. The significant skin rejuvenation effect of PDT was thus demonstrated for the first time in a phase III study and thereby provides a convincing argument for choosing PDT on sun-damaged skin.

Furthermore, a recently published meta-analysis of all clinical trials already carried out for the medical treatment of actinic keratosis confirms that, compared with all other drugs, Ameluz® constitutes by far the most effective form of treatment for mild and moderate actinic keratosis on the face and scalp[1].

Actinic keratosis is classified as a tumour that requires treatment, and the international treatment directives list photodynamic therapy as the gold standard for the removal of actinic keratosis, particularly for patients with large areas of keratoses. The latest statistics show that actinic keratosis is becoming a widespread disease, that 8 million people are affected in Germany alone, and that there is a marked upward trend in cases. Subclinical and mild actinic keratosis can develop into life-threatening squamous cell carcinomas, and this happens to the relevant lesions within two years on average. The fact that doctors are taking actinic keratosis more and more seriously is illustrated by the fact that actinic keratosis has been recognised as an occupational illness since summer 2013. Since then, occupational insurance associations have been obligated to cover the treatment costs of patients who have mainly worked outdoors for a long period and who fulfil certain criteria, for the duration of these patients' lives. The reimbursement details to be provided by occupational liability insurance associations are expected to be defined in the first half of 2015.

At present, actinic keratoses are treated using a wide range of methods. Lesions may be treated for weeks or months with topical creams[1], which are far less effective, or the degenerated skin may be removed by mechanical intervention (curettage) or freezing (cryotherapy), which usually leads to scar formation or permanent pigment changes. At present, the market for topical creams is constantly growing and the use of legally questionable PDT formulations remains at a high level.

[1] Vegter & Tolley, Plos One 2014, June, Vol. 9 Issue 6

Because Ameluz® is already the market leader in the PDT proprietary medicinal product market in Germany in the field of practising dermatologists, with a market share in excess of 65%, Biofrontera expects there to be a significant increase in sales in future, as a result of taking market share from the above-mentioned sectors. Through an intensive information campaign concerning the manufacturing and liability risks associated with the use of formulations, Biofrontera also intends to gain a greater market share at the expense of the formulation market. Using an awareness plan to provide further training to doctors, physicians with a preference for topical applications will be given a better understanding of PDT as a treatment option. Both marketing concepts are geared to long-term success.

The overall advantages of Ameluz® in terms of effectiveness, handling, user friendliness and cosmetic results, as well as the clear superiority of PDT in the treatment of actinic keratoses, will encourage dermatologists to focus on this treatment option in the future. Above all, this will add to the extension of the range of indications to include basal cell carcinoma, which the company is currently striving to achieve, as the majority of PDT treatments are for this indication in England and Spain, in particular.

In order to achieve stronger penetration of the hospital sector, which is significant in many European countries, Biofrontera is aiming at extending the European approval to include the indication of basal cell carcinoma (BCC). To this end, Biofrontera is currently conducting a phase III trial in 26 treatment centres in Germany and the UK. BCCs are the most common invasive tumours to affect humans and account for approximately 80% of all invasive white skin cancers. About 30% of all Caucasians develop at least one BCC in their lifetime, and cases are increasing rapidly worldwide due to increased exposure to UV light. Surgical removal is the most frequent treatment currently used in Germany but this can lead to clearly visible scarring, whereas treatment with photodynamic therapy (PDT), which is an alternative particularly in the treatment of thin BCCs, is not only a highly effective treatment method, but also produces excellent cosmetic results. In the clinical trial, Biofrontera will compare Ameluz® with the competitor product approved for BCC, Metvix®. It has already been demonstrated in the approval studies for the treatment of actinic keratosis that the overall healing rates for patients treated with Ameluz® were significantly higher than those for Metvix®-patients. Patient recruitment began in Germany at the beginning of February and in the UK in May 2014. The aim is to subject 360 patients in total to treatment in the trial. It is expected that the recruitment of patients will be completed at the end of this year, which means that approval for the expansion of indications can probably take place at the beginning of 2016.

As a result of the EU approval issued by the European Medicines Agency (EMA) in December 2012, Ameluz® can be sold and distributed in all EU countries as well as in Norway, Iceland and Liechtenstein. However, health insurance agencies in many countries first have to carry out a procedure to define the pricing and reimbursement before market launch is possible. Biofrontera Pharma GmbH started distribution in Germany on 1 February 2012. Ameluz® is marketed by Desitin Arzneimittel GmbH in Denmark, Sweden and Norway, by BiPharma N.V. in Benelux, by Pelpharma Handels GmbH in Austria, by Spirit Healthcare Limited (in cooperation with Biofrontera) in England, by PHA Farmed in Slovenia, and by Allergan Pharmaceuticals in Spain. For France, Biofrontera is currently preparing an application for reimbursement eligibility for Ameluz®, with the assistance of a consulting company that specialises in this field.

Louis Widmer SA has been granted the Ameluz® distribution licence for Switzerland and Liechtenstein, and the Ameluz® distribution licence for Israel has been granted to Perrigo Israel Agencies LTD. Both agreements were concluded in the reporting period under review. In these countries, it is necessary to obtain independent approval, which the above-mentioned distribution partners are currently pursuing in cooperation with Biofrontera. Per-

rigo has already been able to submit the approval dossier to the competent pharmaceutical authority, the IMOH, and has successfully completed the first stage of the process.

Approvals in the largest healthcare market in the world, the USA, are issued by the FDA, which recommended the implementation of two phase I studies at a first consultation meeting in the summer of 2010, with the aim of increasing the amount of drug safety data available about Ameluz®. The first study was a contact sensitisation study in which 220 healthy volunteers were exposed to Ameluz® or a placebo for a period of 21 days (intra-individual, placebo-controlled, double-blind design). After a 2-week period without treatment, the volunteers were subsequently tested with Ameluz® or a placebo. The long-term exposure to Ameluz® caused skin irritations among the volunteers during the induction phase. However, exposure to Ameluz® or the placebo did not have to be interrupted before the scheduled end of the induction phase for any of the subjects. Allergic contact sensitisation was observed in 6% of subjects during the subsequent test phase. Any reactions were limited to the skin area being treated in all the volunteers. Just a few cases of skin irritation and no allergic reactions occurred on the placebo-treated skin areas. The allergic reactions were classified as delayed hypersensitivity. As the design of the sensitisation studies pursuant to FDA guidelines is far removed from the real clinical situation of PDT, the low number of contact sensitisation cases confirms the safety of treatment with Ameluz®. As a comparison, a similar study with the competitor product Metvix resulted in 38% of the volunteers being withdrawn from the incubation phase prematurely and 52% of the remaining subjects subsequently displaying allergic reactions (Korshoj et al, 2009 Contact Dermatitis. 60: 320).

In addition, the FDA proposed a "maximum use pharmacokinetic" study that was conducted as a non-randomised, open, placebo-controlled, intra-individual phase I study. A whole 2g tube of placebo or Ameluz® was applied in each case to 12 patients who had at least 10 mild or moderate actinic keratoses on the face or on the scalp. The results showed no increase in the concentration of protoporphyrin IX (PpIX), the concentration of 5-aminolevulinic acid (ALA) was slightly increased compared to normal blood levels. The temporary increase in ALA reached its maximum concentration after 3-4 hours and was far below the daily rate of normal ALA synthesis. This increase was therefore classified as being clinically insignificant and not critical for the patient.

BF-RhodoLED®

BF-RhodoLED® is a lamp designed for photodynamic therapy (PDT), and features LEDs emitting red light at a wavelength of approx. 635 nm. Light at this wavelength is ideally suited for PDT illumination with drugs containing ALA or methyl ALA. It is red but is still outside the warming infrared range. The BF-RhodoLED® lamp combines a controlled and consistent emission of light at the required wavelength with simplicity, user-friendliness and energy efficiency. The light intensity and fan power settings can be adjusted during a PDT treatment, in order to reduce any discomfort experienced during the treatment. No other lamp on the market offers comparable power and flexibility. BF-RhodoLED® has been CE-certified since November 2012 and is distributed throughout the EU.

Belixos®

The Belixos® range consists of a combination of active ingredients extracted from plants in a biocolloid formulation developed especially for this range of products. In October 2009, Belixos® cream was the first product to be launched in this range - it was initially available only from an online shop, but was later also sold in pharmacies.

In February 2014, a new product was added to the Belixos range: Belixos Liquid for the scalp. Belixos® products are also available from Amazon.

Belixos® contains valuable ingredients extracted in a complex and very gentle process from the medicinal *Mahonia aquifolium* plant, which has been used for centuries by North American Indians. The innovative biocolloid-based composition of Belixos® enables the well-balanced active ingredient combinations to spread very quickly and evenly in the upper skin layer.

The drug's sound scientific basis and specific combination of high-quality herbal ingredients should set new standards in the bitterly-contested medicinal cosmetics market. The combination of caring and regenerative effects should reduce the need for medical treatment and its side effects in people who suffer from itchiness or chronic ailments, such as atopic dermatitis or psoriasis.

Belixos® Cream soothes itching rapidly and reliably and is the ideal basic treatment for itchy, reddened and flaky skin. As well as mahonia, Belixos® Cream contains chamomile extract, which has soothing and healing properties, and tea plant extract, which is anti-inflammatory and anti-oxidative.

Belixos® Liquid treats the problems of itchy and flaky scalp with a combination of anti-inflammatory mahonia, moisturising oats and zinc PCA complex, which effectively fights the causes of itching and flaky scalp. Zinc PCA also helps to regulate sebaceous buildup on the scalp, which is highly susceptible to greasiness. Urea moisturises the skin, and panthenol has soothing and regenerating properties.

Following the approval of Ameluz®, the resources of the sales force and of the marketing department have been focused exclusively on the marketing of Ameluz®. Thanks to convinced Belixos users, sales of the drug have remained at a consistent yet low level, but an increase in marketing activity was delayed until late 2013 for financial reasons. With the expansion of the Belixos® range, marketing efforts have been gradually realigned. The first of the new products, the scalp tonic Belixos® Liquid, was launched in early 2014, and in the course of the year, Belixos® Gel for acne and rosacea and Belixos® Protect, a daily cream with protective anti-ageing properties specifically for light-damaged skin, will complete the range.

4. Sales and marketing

In Germany, Ameluz® is marketed by Biofrontera's own sales force, while in other European countries it is promoted and sold with the help of marketing partners. It was launched in Germany on 1 February 2012. The new drug is available in Germany at a pharmacy retail price of just under EUR 200 per 2g tube. Distribution to public pharmacies takes place via pharmaceutical wholesalers, whereas hospital pharmacies are supplied directly. In addition to regular sales force visits to dermatologists, Biofrontera has presented Ameluz® at the major dermatological conferences in Germany since it was launched. The response from dermatologists has been extraordinarily positive. A comparison of 2012 and 2013 shows that Biofrontera achieved a significant increase in sales revenue of more than 38% in Germany. Sales revenue in Germany increased by a further 31% in the first nine months of 2014, and growth of 54% was even achieved in the third quarter.

Within a few months, Ameluz® has become a market leader in Germany in terms of sales by pharmaceutical wholesalers to public pharmacies, overtaking the previous gold standard, Metvix®. The market share of tube-based Ameluz® is now consistently between 60% and 70%, with the remaining 30-plus % being held by the competitor products, Metvix® and Alacare®. In spite of this, Ameluz® still only has a small share of the actinic keratosis market as a whole, because, according to Biofrontera's own estimate, only approximately 5% of patients are treated with proprietary medicinal products for photodynamic therapy (PDT). In order to persuade doctors to change their minds, it will be necessary to pursue a consistent information campaign. However, although PDT achieves by far the highest healing rates, the complexity of the treatment and the time required by medical practices to administer it have so far prevented significant market penetration. Hence, in parallel to this, Biofrontera has started to inform patients about the benefits of photodynamic therapy, albeit within a highly restrictive legal framework. For instance, an information video on this subject has been uploaded to YouTube (http://www.youtube.com/watch?v=aK4a3R5kqMA, which is also available in English at http://www.youtube.com/watch?v=2xEO8DWCO8o).

If approval is granted for basal cell carcinoma, this may help PDT to become a far more significant treatment. In other European countries in particular, this indication would seem to be a basic prerequisite for Ameluz® to make a breakthrough, although both we and our sales partners initially underestimated its importance. This is because actinic keratosis is still inadequately treated in many countries and is considered only in connection with other carcinomas, such as basal cell carcinoma. Basal cell carcinoma is the most common infiltrating tumour in humans: in the USA alone, there are approx. 2.8 million basal cell carcinoma treatments annually, and the number of European individuals is comparable. Because basal cell carcinoma is also triggered by lifelong UV exposure, this number is rapidly rising. Compared with the surgical procedures that are still most commonly used today, photodynamic therapy offers significant advantages, particularly for thin tumours.

Biofrontera has formed partnerships with other pharmaceutical companies to enable distribution in several European countries. As a result, the distribution of Ameluz® is managed in Spain by Allergan Pharmaceuticals, in Denmark, Sweden and Norway by Desitin Arzneimittel GmbH, in Benelux by Bipharma N.V., in Austria by Pelpharma Handels GmbH, in Switzerland and Liechtenstein by Louis Widmer S.A., and in England by Spirit Healthcare Limited. All contracts have been concluded in such a way that Biofrontera has received no down-payment, or only a modest down-payment, and the regional partners purchase Ameluz® from Biofrontera at a price that is coupled to their own sales price. Depending on the market conditions, Biofrontera's share of the sales price varies considerably from country to country, ranging between over 30% and 65% of net sales. Admittedly, Biofrontera's share stands at 80% in Great Britain, but in return the company itself makes a contribution to the sales and marketing costs, meaning that Biofrontera has made only losses in this country to date. This contract is therefore drawn up for the very long-term and allows Biofrontera to take over the sale and distribution in its entirety in Great Britain. The marketing and distribution costs in Great Britain have been reduced since the beginning of 2014 with the objective of cost-neutral operation in this country. In Israel, Ameluz® is to be sold and distributed by Perrigo Israel Agencies LTD, and by Louis Widmer SA in Switzerland. Because neither company is covered by the central European drug approval, however, these companies must first apply for their own approval there. This application for approval in Israel has already been made, and the application for approval in Switzerland should be made in the near future. Up until now, sales in other European countries have lagged some way behind sales in Germany. This is because of more demanding market launch thresholds caused by price and reimbursement agreements, some of which can take years to be finalised, and in particular because of a larger proportion of treatments for basal cell carcinoma, for which Ameluz® has not yet been approved.

Biofrontera has been selling and distributing the medical cosmetic Belixos® Cream for itchy and inflamed skin since autumn 2009. This was complemented in February 2014 by including the Belixos® Liquid, a tonic for scaly and itchy scalp. In addition to being marketed in pharmacies in Germany, both the Belixos® products can be obtained in 26 European countries via Amazon since August 2014. The availability at Amazon was accepted by customers immediately after start-up and the Belixos® products have received numerous 5-star ratings and reviews from highly satisfied users since then. An important basis for online marketing was the creation of a Belixos® Facebook page at the beginning of the year, which features skin care articles, product details and competitions. The page has been "liked" more than 4,700 times since then and a stable interaction rate of over 5%, the campaign enjoys enduring popularity among the general public. In addition to this advertising campaign aimed at the general public, the product is also promoted in discussions initiated by the dermatological field sales team, and at specialist conferences and in printed media that addresses medical and naturopathic professionals and self-help groups. In particular the addition of the hair tonic Belixos® Liquid to the Belixos range has aroused considerable interest among doctors, because there is virtually no alternative for concomitant care when treating seborrhoeic eczema, a flaky scalp rash. In the long term, the Belixos® range should develop into a brand-based core business area that is not affected by uncertainties, risks and time limits associated with business activities involving innovative, patent-protected pharmaceuticals, which are very strictly regulated by state healthcare systems. Although a new medical cosmetic brand requires a lot of effort to establish and only very slow progress can be made to begin with, especially when there is no significant marketing budget, it can become a constant source of revenue for the company in the long run. In addition to Belixos® Liquid, which was launched in February 2014, and in the course of the year Belixos® Gel for acne and rosacea, and at the beginning of 2015, Belixos® Protect, a daily cream specifically for light-damaged skin will complete the range.

5. Further development projects

BF-derm1

BF-derm1 is a tablet for the treatment of severe chronic urticaria (hives). In its severe form, this illness cannot be treated adequately using currently available drugs. The tablet contains an active ingredient with a completely new action profile, and it can be used to soothe chronic urticaria that cannot currently be adequately treated. A phase IIa study has already been completed that has demonstrated the product's efficacy and also its limited side effects. As Biofrontera will focus on further developing Ameluz® in the coming years, it intends to look for a partner for the further development and funding of the phase III costs and the approval expenses. No efforts to this end have been undertaken yet for reasons of capacity, however.

BF-1

BF-1 is an active agent candidate from the Biofrontera drug portfolio. It is intended to be used for the prophylactic treatment of patients who frequently suffer from migraines. Because this product candidate no longer fits Biofrontera's dermatological product focus, the intention is to licence it out after the initial development stages.

After the first results involving humans, which proved the excellent bioavailability and pharmacokinetics of the active agent, further preclinical investigations were carried out concerning the tissue distribution, metabolism

and toxicology of the substance. These trials did not yield any critical findings, so there is no reason why further tests on humans should not be carried out. The chemical manufacturing process has been optimised, and the active ingredient required for clinical development synthesised, in accordance with the Good Manufacturing Practice (GMP) quality standards.

Patent and trademark developments since the end of 2013

ALA

In the first nine months of the 2014 financial year, further official communications regarding the patent "Nanoemulsion" (PCT/EP2007/011404) in Europe, Japan, Canada, India, Israel and the USA were issued, and responses were sent by the relevant deadlines.

The patent for the nanoemulsion used in Ameluz® was issued in Japan on 13 June 2014 and in Belarus on 30 April 2014. The granting of the patent in Europe and the USA is expected.

The filing of the application for this patent has also been initiated in the United Arab Emirates.

Migraines

A new PCT application (PCT/EP2014/051863) was submitted to the European Patent Office as the receiving office in January 2014 claiming priority for WO patent application no. PCT/EP2013/052060 of 1 February 2013.

All states that were contracting states at the time of the PCT application were named in this subsequent application.

Brand development

The European Community trademarks, "Gefühlt mir" and "Natural Heritage with Herbal Biocolloids" in two different versions, were published on 13 March 2014 in the European Community Trade Mark Bulletin for Community trademarks no. 2014/049, after the expiry of the objection period.

The trademarks have thus been legally registered and can be enforced against third parties.

Economic report

For the first nine months of the 2014 financial year for the Biofrontera Group:

- **31% growth in sales revenue in Germany compared to the same period in the previous year, but weak sales performance in other European countries**
- **EBIT: EUR -7.1 million (same period in previous year: EUR -5.1 million)**
- **Consolidated profit/loss before tax: EUR – 8.0 million (same period in previous year: EUR -6.0 million)**
- **Undiluted earnings per share amounted to EUR -0.37 (same period in previous year: EUR -0.35)**

Achievement of objectives as at 30 September 2014:

Sales revenue: Sales revenue in Germany increased in Germany by approx. 31 % compared to the same period in the previous year. The targeted goal of 30% growth in sales revenue in Germany has thus so far been achieved, and the forecast of 30% growth in Germany for the entire year 2014 remains unchanged. In the rest of Europe, sales revenue in the first nine months is below the sales revenue for the same period in the previous year. The marketing partners each order fairly large volumes and only order new production batches again when these quantities have been sold in the respective countries. In the first nine months of 2014, deliveries to the European partners have been significantly lower compared to the same period in the previous year. Overall, the development of sales revenue outside Germany is thus still disappointing. Although several partners may have to submit orders in 2015, we expect significant increases in sales in other European countries only following the extension of the approval to include basal cell carcinoma.

Belixos®: the Belixos® Liquid scalp tonic has been available at pharmacists and on Amazon since February. Promotion on Facebook is being carried out at the same time in order to boost sales. Although sales of the Belixos® range have tripled since online promotion was initiated and are even exceeding the planning figures, they are so far still of little relevance in terms of overall sales revenue.

Preparation of the approval application for Ameluz® in the USA: Three clinical trials have been completed in preparation for the submission of the approval application dossier to the FDA (Food and Drug Administration). All three studies have by now been completed with very convincing results. Finalisation of the registration documents for the FDA now only requires a reformatting to comply with the data format of the FDA as well as an integrated analysis of all the clinical results. The submission of the dossier is now envisaged for March 2015. The approval is expected to be issued about one year later. The pre-NDA (new drug application) meeting, at which significant issues relating to the approval dossier were discussed again, was carried out as a telephone conference at the beginning of October 2014, at which all open questions could be resolved.

Sales and licensing agreements: Biofrontera concluded a licensing agreement with Perrigo Israel Agencies LTD for the approval application and the sale of Ameluz® in Israel in January 2014. However, because of Israel's relatively small population, a not very sizeable down payment was agreed here, which will be paid in several instalments. Biofrontera will subsequently receive a transfer price for Ameluz® of the size that is also obtained in

Europe. In May 2014, another licensing agreement was concluded for Switzerland and Liechtenstein with Louis Widmer SA. Biofrontera has also agreed an appropriate down payment and a comparable transfer price with this licensee.

Financial position, cash flows and results of operations of the Biofrontera Group

Biofrontera Group profit/loss account (summary)

	9 M 2014	9 M 2013	Change	Q3 2014	Q3 2013	Change
	in EUR	in EUR	in %	in EUR thousands	in EUR	in %
	unaudited	unaudited		unaudited	unaudited	
Sales revenue	1,992	1,868	7	775	483	61
Cost of sales	875	1,295	-32	527	392	34
Research and development costs	3,146	1,950	61	1,083	787	38
Sales and distribution and general administration costs	5,231	3,999	31	1,483	1,333	11
Other operating income and expenses	129	283	-54	38	15	156
EBIT*	-7,131	-5,094	40	-2,279	-2,014	13
Financial result	-825	-928	-11	-264	-310	-15
Profit/loss before income tax	-7,956	-6,022	32	-2,543	-2,324	10
Income tax	9	0	100	3	0	100
Profit/loss after tax	-7,965	-6,022	32	-2,546	-2,324	10
of which attributable to other shareholders	0	0		0	0	

Sales revenue

In the first nine months of the 2014 financial year, the Biofrontera Group achieved sales revenue of EUR 1,992 thousand (previous year 2013: EUR 1,868 thousand), which represents an increase of 7% compared to the same period in the previous year. Revenue from sales of our products in Germany increased by 31%, to EUR 1,399 thousand (same period in previous year: EUR 1,070 thousand), but sales in other countries fell to EUR 523 thousand (same period in previous year: EUR 798 thousand). Furthermore, down payments of EUR 70 thousand were received in the first nine months of 2014 (same period in previous year: 0).

Cost of sales

The cost of sales decreased significantly by 32%, from EUR 1,295 thousand to EUR 875 thousand, which resulted in the gross profit from sales improving from EUR 573 thousand in the first nine months of the 2013 financial year to EUR 1,117 thousand in the first nine months of the 2014 financial year. This was due both to systematic cost

management and to the fact that expenses incurred in 2013 for the qualification of new production methods and producers, as required by the EMA, were not incurred again to the same extent in 2014.

Research and development costs, distribution and administration costs

The research and development costs, which amounted to EUR 1,950 thousand in the first nine months of the 2013 financial year, increased to EUR 3,146 thousand in the first nine months of the 2014 financial year. This significant increase is in line with Biofrontera's strategy, which provides for investments in research and development for extending the range of indications (basal cell carcinoma and broad area therapy) and the approval application for Ameluz® in the US. By virtue of savings and the postponement of some expenses, development costs are thus lower than predicted. Primarily because of the international market launches of Ameluz®, the distribution and administration costs increased as planned by EUR 1,232 thousand compared with the previous year, to EUR 5,231 thousand.

Financial result

The interest expenses included in the financial result, which amount to EUR 878 thousand, are almost entirely the result of the interest payments for the two warrant bonds and the compounding of interest on them using the effective interest method. The payment of interest on warrant bond II for the 2013 calendar year was made in January 2014, and the payment of interest on warrant bond I for 2013 was made in December 2013.

Share capital

On 30 September 2014, the fully paid-up share capital of the parent company, Biofrontera AG, amounted to EUR 22,196,570.00. It was divided into 22,196,570 registered shares, each with a nominal value of EUR 1.00.

On 31 December 2013, the share capital amounted to EUR 17,753,168.00, and was increased during the course of the first nine months of the 2014 financial year by EUR 4,443,402.00, divided into 4,443,402 registered shares (see the "Corporate actions" section).

The Biofrontera AG shares were listed on the regulated market of the Düsseldorf Stock Exchange in 2006. Likewise, approval was granted for trading on the regulated market of the Frankfurt Stock Exchange in August 2012. The company's shares are also traded on the computer trading system Xetra and all other German stock exchanges. On 3 June, the share was admitted to the Prime Standard of the Frankfurt Stock Exchange. Since 3 June 2014, the shares have also been traded on the *Alternative Investment Market* (AIM) of the London Stock Exchange.

The shares held by the shareholders as at 30 September 2014, based on the most recent compulsory disclosures of the shareholders, are as follows:

	30 September 2014 EUR
Maruho Deutschland GmbH, Düsseldorf The total share of voting rights is assigned to Maruho Co., Ltd, Osaka, Japan, in accordance with section 22(1) sentence 1 no. 1 WpHG (German Securities Trading Act) via the company that it controls, Maruho Deutschland GmbH, Düsseldorf, Germany.	4,467,143
MM Familien KG, Hanover, Germany MM Familien KG has a direct holding amounting to 200,497 voting rights, and 2,018,680 voting rights are indirectly assigned to it, pursuant to section 22(1) sentence 1, no. 1 WpHG, by Alternative Strategic Investments GmbH, Hanover. Moreover, all of the above voting rights are assigned to Dr Carsten Maschmeyer, pursuant to section 22(1) sentence 1 no. 1 WpHG, via the companies that he controls, MM Familien KG and Strategic Alternative Investment GmbH.	2,282,177
Professor Ulrich Abshagen, Germany Professor Abshagen has a direct holding of 52,293 voting rights, and he is indirectly assigned 976,056 voting rights, pursuant to § 22, paragraph 1, sentence 1, no. 1 WpHG (German Securities Trading Act), by Heidelberg Innovation BioScience Venture II GmbH & Co.KG (in liquidation) via Heidelberg Innovation Asset Management GmbH & Co. KG, of which he is one the managing partners.	1,028,349
Universal-Investment-Gesellschaft mbH, Frankfurt	981,438
Professor Hermann Lübbert, Leverkusen	685,512
Free float	12,751,951
	22,196,570

Financial position and cash flow

The company's capital management body regularly reviews the equity ratio of the group and of the group subsidiaries. The management's objective is to ensure an appropriate equity base, within the framework of the expectations of the capital market and creditworthiness with respect to national and international business partners. The Management Board of the company ensures that all group companies have sufficient capital at their disposal in the form of equity and debt capital. Another round of financing took place in February 2014. The proceeds will predominantly used for financing research-and development expenses.

For more details of the development of the company's equity capital, see the equity reconciliation statement. The company carried out a capital market transaction during the reporting period under review in order to secure financing for development costs.

The cash flow in the operating activities decreased from EUR -5,910 thousand on 30 September 2013 to EUR -6,322 thousand on 30 September 2014.

Because of several reductions of the PDT lamps held in the company's own fixed assets, cash flow from investment activity improved by EUR 180 thousand from EUR -209 thousand to EUR -29 thousand.

In the first nine months of both 2013 and 2014, capital increases were implemented in order to provide further financing for the company. Cash flow from financing activities rose, on account of higher net proceeds from capital increases, from EUR 7,577 thousand to EUR 13,379 thousand.

The company was able to meet its payment obligations at all times, but may also be dependent on further financing measures in future.

According to IFRS, the group has positive equity amounting to EUR 2,708 thousand. As at 30 September 2014, Biofrontera AG had positive equity amounting to EUR 65,847 thousand.

Personnel details

Staff

As at 30 June 2014, 41 (31 December 2013: 38) employees worked for the Biofrontera Group. Of these, 14 were employed at Biofrontera AG (31 December 2013: 13), 5 at Biofrontera Bioscience GmbH (31 December 2013: 4) and 22 at Biofrontera Pharma GmbH (31 December 2013: 21). No staff are employed at Biofrontera Development GmbH or Biofrontera Neuroscience GmbH.

Key developments

Corporate actions

A capital increase was implemented in the period under review. In a pre-emptive rights offering, all shareholders were given the opportunity to subscribe for new shares, with the possibility of an additional subscription. 4,438,292 new shares were issued in this process, and the increase was registered in the commercial register on 6 February 2014. The net revenue from the issue amounted to EUR 15.3 million.

By virtue of the exercise of warrants from the 2011/2016 warrant bond, further shares were issued with a nominal value of EUR 5,110 and registered in the commercial register on 13 March 2014.

Maruho

With an annual turnover of more than USD 600 million, Maruho Co., Ltd is the largest dermatological company in Japan. In February, Maruho acquired a significant quantity of shares through its German subsidiary as part of the capital increase implemented by Biofrontera, increasing its stake in Biofrontera to more than 20%. This is a clear indication of its strong long-term commitment to Biofrontera.

In a compulsory disclosure after exceeding the 20% threshold, Maruho communicated the objectives associated with this. According to this disclosure, Maruho aims to make a long-term strategic commitment to Biofrontera. Depending on the market trend, its intention is to purchase further shares in Biofrontera, although it certainly does not intend to exceed a 30% stake. Maruho does not aspire to exert any influence as to who occupies administrative or managerial positions. Nor does Maruho aspire to change Biofrontera's capital structure in any significant way.

For some time, Biofrontera has been having very constructive talks about future cooperation with Maruho. This includes projects in the area of sales, as well as that of development. There are no concrete results as yet, but they will be reported as soon as they have been achieved.

Supplementary report

Events of special significance occurring since 30 September 2014

On 8 October, a pre-NDA-Meeting (NDA = "New Drug Application“) was held with the American drug approval agency FDA (Food and Drug Administration). The preparatory documents submitted in advance by Biofrontera were of such high quality that the FDA proposed that the meeting could be held as a conference call. The few questions still outstanding were all answered.

Following a mutual agreement made on 07 November Allergan S.A. and Biofrontera have decided that the distribution rights to all Biofrontera products in Spain will revert to Biofrontera with effect from 17 March 2015. Biofrontera will take over responsibility itself for sales activities in Spain from this date forward. A Spanish branch of Biofrontera Pharma GmbH is to be established for that purpose. Corresponding applications and notifications for the responsible healthcare agencies are currently being prepared.

Risk, opportunity and forecast report

Risk report

The consolidated interim financial statements have been drawn up on the assumption that the company will continue its business activity.

In addition to general risks, such as market developments and the competitive situation, the company is also subject to specific risks associated with the pharmaceutical and biotechnology sectors.

It is possible that the product Ameluz® will not prevail against other treatment options for actinic keratosis. Despite the better effectiveness of Ameluz®, doctors may revert to other products more often than expected because of the higher treatment costs associated with PDT, for which they frequently do not obtain any or sufficient remuneration from the healthcare systems.

There is no guarantee that the extensions currently pursued by the company of the approval of Ameluz® to basal cell carcinoma, broad area therapy or the US market will be obtained in the time frames sought by the company or even at all. A lack of success in the extension of the approval may have a significant adverse impact on the company's market opportunities and its stock market value.

There is no guarantee that a product will be launched on the market at the end of a project's development period – which is 6 to 10 years on average. A lack of success in the individual development steps could incur additional costs, cause project delays or even bring project development to a complete halt. It is possible that none, or only some, of the funds invested will be recouped in sales revenue.

The company tries to counterbalance these risks, to some extent, by selecting projects with relatively attractive risk profiles, by setting up a project control and reporting system, and by drawing on the outstanding professional expertise of the Supervisory Board members. The project control system represents the entire development process in detail right up to approval, and it makes it possible to analyse the effects that even small changes or delays, e.g. with clinical trials, can have on the development process and on its costs. Thus it is possible to observe the development risk associated with individual projects precisely, and to take the steps necessary to minimise the development risk. The risk associated with individual projects is also counterbalanced by the breadth of the project portfolio.

Because of the present loss situation and uncertainties relating to future business expansion, it is possible that the company's survival will depend substantially on further cash injections from shareholders or other capital investors.

In this context, investor acceptance for this industry and the associated risks as well as the balance-sheet anomalies and fiscal framework conditions are of great importance. The company cannot influence such circumstances, which are of crucial importance for the company as long as it is in the development phase and relies on the allocation of the necessary equity from the financial markets.

The risks existing in the group are described in detail in the risk report included in the published consolidated management report of 31 December 2013. No other significant changes in the risks described there have occurred as at the due date of 30 September 2014.

Risk management system

Biofrontera's management counters the risks existing in the group using a comprehensive risk management system. Please refer to the consolidated management report most recently published for a description of this system.

Legal disputes

A negative declaratory action against Biosynth AG (Biosynth), Staad, Switzerland, a former supplier of Biofrontera Group, had been filed as was explained in detail in the last quarterly report. Since then, talks have taken place between the parties and an out of court settlement could be reached. In this context, Biosynth had claimed that the constraints mentioned in the ad-hoc notification issued on 20 August 2014 by the European Medicines Agency (EMA) had formally addressed the Biofrontera Group as the applicant and not Biosynth. The constraints imposed by the EMA relating to the approval of Ameluz® were not processed further by Biosynth after termination of the collaboration with the Biofrontera Group in February 2014. In Biosynth's opinion, the GMP requirements specified by the EMA relate to the active substance 5-aminolevulinic acid hydrochloride (ALA) produced by the company only with regard to its use in Ameluz®, as Biosynth has a GMP certificate from Swissmedic in the latter's capacity as the competent Swiss authority, which covers the EU in accordance with the agreements between the EU and

Switzerland. As a result of the agreement, the Biofrontera Group and Biosynth have abandoned all reciprocal claims. There are no reciprocal financial obligations for either the Biofrontera Group or Biosynth arising from the agreement. The previous business relationship has been terminated by mutual agreement. Biofrontera has subsequently withdrawn negative declaratory action against Biosynth.

Forecast of key tax figures

In the forecast for 2014, sales revenue of EUR 5 to 6 million was expected. In Germany, revenues from product sales in the first nine months of the financial year were in line with expectations. Biofrontera also continues to assume that sales revenue in Germany can be increased significantly for the 2014 financial year, by approximately 30% compared to the previous year. One-off income through licence payments from other European licensees amounting to EUR 1 million for the entire year were also planned. In France, in particular, it seems unlikely at present that the planned licence agreement will be concluded at economically viable conditions before then end of this year, due to restrictions by the local health authorities. Biofrontera has therefore decided to apply for the reimbursement itself before deciding whether or not an agreement with a licensee is required. In addition, there are still significant sales revenue development uncertainties relating primarily to the speed of market penetration in the rest of Europe. The current absence of the indication for basal cell carcinoma for Ameluz® represents a significantly greater impediment to sales performance in some European countries than either the company or any of the licensees had assumed at the beginning of the year. Hence, sales in the rest of Europe may continue to fall short of prior expectations in the further course of 2014.

The conclusion of contracts with a US distribution partners and the associated down payments have not yet been taken into account in the planning for 2014.

In order to extend the range of indications of Ameluz in 2014, in particular with regard to basal cell carcinoma, and to receive approval for the USA, Biofrontera will continue to invest heavily in research and development and in the area of "Regulatory Affairs". Because of some cost reducing measures that can be taken within the approval process in the USA, we currently expect a lower increase in our development costs however.

Furthermore, Biofrontera does not plan to make any significant investments in tangible fixed assets in 2014.

The financial result reflects the interest payments and compounding of interest using the effective interest method for the two warrant bonds. It will therefore not significantly change in 2014 compared with 2013.

Leverkusen, 13 November 2014

Biofrontera AG

Professor Hermann Lübbert

Thomas Schaffer

Consolidated balance sheet as at 30 September 2014

Assets

in EUR	30 September 2014 unaudited	31 December 2013
Non-current assets		
Tangible assets	363,963.89	467,323.63
Intangible assets	2,732,966.67	3,202,208.62
	3,096,930.56	**3,669,532.25**
Current assets		
Current assets		
Receivables from goods and services	266,015.41	578,410.60
Other financial assets	1,064,272.78	767,224.80
Cash and cash equivalents	9,961,769.04	2,933,578.47
	11,292,057.23	**4,279,213.87**
Other current assets		
Inventories		
Raw materials and supplies	628,879.30	819,912.99
Unfinished products	64,044.17	141,723.44
Finished products and merchandise	718,922.25	623,559.71
Income tax reimbursement claims	21,880.03	22,280.71
Other assets	45,352.91	80,908.61
	1,479,078.66	**1,688,385.46**
	12,771,135.89	**5,967,599.33**
Total assets	**15,868,066.45**	**9,637,131.58**

Liabilities

in EUR	30 September 2014 unaudited	31 December 2013
Equity		
Subscribed capital	22,196,570.00	17,753,168.00
Capital reserve	76,374,858.86	65,598,778.57
Loss carried forward	(87,899,306.51)	(79,832,687.98)
Net loss for the year	(7,964,591.58)	(8,066,618.53)
	2,707,530.77	**(4,547,359.94)**
Long-term liabilities		
Long-term financial liabilities	10,965,258.29	12,030,950.38
Current liabilities		
Current financial liabilities		
Liabilities for goods and services	455,159.29	713,098.17
Short-term financial debt	622,630.71	435,750.00
Other financial liabilities	33,897.29	22,608.18
	1,111,687.29	**1,171,456.35**
Other current liabilities		
Income tax provisions	0.00	11,863.00
Other provisions	1,000,337.44	879,226.67
Other current liabilities	83,252.66	90,995.12
	1,083,590.10	**982,084.79**
	2,195,277.39	**2,153,541.14**
Total liabilities	**15,868,066.45**	**9,637,131.58**

Consolidated statement of income and accumulated earnings for the first nine months of the 2014 and 2013 financial years

in EUR	9M 2014	9M 2013	Q3 2014	Q3 2013
	unaudited	unaudited	unaudited	unaudited
Sales revenue	1,991,847.38	1,867,821.81	775,317.78	482,671.64
Cost of sales	-874,790.20	-1,294,922.03	-526,558.85	-391,659.97
Gross profit from sales	1,117,057.18	572,899.78	248,758.93	91,011.67
Operating expenses:				
Research and development costs	-3,145,992.02	-1,950,303.58	-1,082,957.54	-786,784.06
General administrative costs	-2,441,994.90	-1,822,608.24	-701,722.57	-601,113.58
of which financing costs	-723,128.74	-136,606.82	-83,482.83	-64,524.84
Sales and distribution costs	-2,789,041.95	-2,176,442.00	-781,309.73	-731,559.09
Loss from operating activities	**-7,259,971.68**	**-5,376,454.04**	**-2,317,230.91**	**-2,028,445.06**
Financial result				
Interest expenses and similar	-877,979.74	-944,415.21	-283,916.83	-317,782.41
Interest income and similar	53,376.64	16,406.10	20,384.04	7,688.01
Other income and expenses				
Other expenses	-15,389.33	-80,055.69	-2,700.86	17,191.32
Other income	144,558.53	362,991.05	40,648.76	-2,369.91
Profit/loss before income tax	**-7,955,405.58**	**-6,021,527.79**	**-2,542,815.80**	**-2,323,718.05**
Income tax	-9,186.00	0.00	-3,062.00	0.00
Profit or loss for the period	**-7,964,591.58**	**-6,021,527.79**	**-2,545,877.80**	**-2,323,718.05**
Expenses and income not included in profit/loss				
Subsequent valuation of financial assets available for sale	0	0	0	0
Other expenses and income not included in profit/loss	0	0	0	0
Total result for the period	**-7,964,591.58**	**-6,021,527.79**	**-2,545,877.80**	**-2,323,718.05**
Undiluted (= diluted) earnings per share	-0.37	-0.35	-0.12	-0.14

Consolidated cash flow statement for the first nine months of the 2014 and 2013 financial years

	9M 2014 unaudited	9M 2013 unaudited	Q3 2014 unaudited	Q3 2013 unaudited
	EUR	EUR	EUR	EUR
Cash flows from operating activities				
Total result for the period	-7,964,591.58	-6,021,527.79	-2,545,877.80	-2,323,718.05
Adjustments to reconcile net profit or loss for the period with cash flow into operating activities:				
Financial result	824,603.10	928,009.11	263,532.79	310,094.40
Depreciation	605,744.90	538,264.20	196,260.00	177,761.00
(Gains) / losses on disposal of assets	2,632.00	-2,664.91	0.00	-2,664.91
Non-cash expenses and income	23,618.88	-200,850.60	29,541.00	20,236.00
Changes in operating assets and liabilities:				
Receivables from goods and services	312,395.19	23,734.05	-96,304.66	102,091.09
Other assets and income tax assets	-214,378.17	-279,722.39	-10,947.16	-56,810.77
Inventories	173,350.42	-551,184.27	172,505.15	-130,025.43
Liabilities for goods and services	-257,938.88	-447,244.38	-79,427.66	-286,184.20
Provisions	169,239.44	86,289.85	-6,535.47	49,217.06
Other liabilities	3,546.65	17,377.64	11,843.61	1,245.10
Net cash flow into operations:	**-6,321,778.05**	**-5,909,519.49**	**-2,065,409.20**	**-2,138,758.71**
Cash flows from investment activities:				
Purchase of intangible and tangible assets	-113,860.51	-218,248.58	-28,336.01	-92,691.59
Interest received	6,663.20	8,886.97	3,337.09	901.58
Revenue from the sale of intangible and tangible assets	78,085.30	0.00	32,940.72	0.00
Net cash flow from (into) investment activities	**-29,112.01**	**-209,361.61**	**7,941.80**	**-91,790.01**
Cash flows from financing activities:				
Proceeds from the issue of shares	15,333,626.29	7,592,034.75	0.00	-15,000.00
Payouts from the repurchase of own warrant bonds	-199,038.00	0.00	0.00	0.00
Interest paid	-454,416.67	-435,756.83	0.00	0.00
Increase/(decrease) in long-term financial debt	-1,923,721.71	-202,306.71	-207,558.57	-207,543.57
Increase/(decrease) in short-term financial debt	622,630.72	622,630.71	207,543.58	207,543.57
Net cash flow from financing activities	**13,379,080.63**	**7,576,601.92**	**-14.99**	**-15,000.00**
Net increase (decrease) in cash and cash equivalents	**7,028,190.57**	**1,457,720.82**	**-2,057,483.39**	**-2,245,548.72**
Cash and cash equivalents at beginning of period	**2,933,578.47**	**3,366,232.58**	**12,019,252.43**	**7,069,502.12**
Cash and cash equivalents at end of period	**9,961,769.04**	**4,823,953.40**	**9,961,769.04**	**4,823,953.40**
Composition of financial resources at end of period:				
Cash and bank balances and cheques	**9,961,769.04**	**4,823,953.40**	**9,961,769.04**	**4.823.953.40**

New table with adjustment of values for previous years

Consolidated statement of group equity for the first nine months of the 2014 and 2013 financial years

unaudited	Ordinary shares Number	Subscribed capital EUR	Capital reserve EUR	Accumulated loss EUR	Total EUR
Account balance at 31 December 2012	**16,143,168**	**16,143,168.00**	**59,595,506.32**	**(79,832,687.98)**	**(4,094,013.66)**
Capital increase	1,610,000	1,610,000.00	5,924,800.00	0.00	7,534,800.00
Cost of capital procurement	0	0.00	(23,798.25)	0.00	(23,798.25)
Changes in the capital reserve associated with the sale of own warrant bonds I and II	0	0.00	81,551.00	0.00	81,551.00
Changes in the capital reserve resulting from transaction costs in connection with the sale of own warrant bonds I and II	0	0.00	(518.00)	0.00	(518.00)
Increase in the capital reserve from the share option programme			60,424.75		60,424.75
Net loss for the year	0	0.00	0.00	(6,021,527.79)	(6,021,527.79)
Account balance on 30 September 2013	**17,753,168**	**17,753,168.00**	**65,637,965.82**	**(85,854,215.77)**	**(2,463,081.95)**
Capital increase	0	0.00	0.00	0.00	0.00
Cost of capital procurement	0	0.00	(67,138.50)	0.00	(67,138.50)
Changes in the capital reserve associated with the sale of own warrant bonds I and II	0	0.00	0.00	0.00	0.00
Changes in the capital reserve resulting from transaction costs in connection with the sale / repurchase of own warrant bonds I and II	0	0.00	0.00	0.00	0.00
Increase in the capital reserve from the share option programme			27,951.25		27,951.25
Net loss for the year	0	0.00	0.00	(2,045,090.74)	(2,045,090.74)
Account balance on 31 December 2013	**17,753,168**	**17,753,168.00**	**65,598,778.57**	**(87,899,306.51)**	**(4,547,359.94)**
Capital increase	4,443,402	4,443,402.00	11,105,950.00	0.00	15,549,352.00
Cost of capital procurement	0	0.00	(215,725.71)	0.00	(215,725.71)
Changes in the capital reserve associated with the repurchase of own warrant bonds I	0	0.00	(198,939.00)	0.00	(198,939.00)
Changes in the capital reserve resulting from transaction costs in connection with the repurchase of own warrant bonds I	0	0.00	(99.00)	0.00	(99.00)
Increase in the capital reserve from the share option programme			84,894.00		84,894.00
Net loss for the year	0	0.00	0.00	(7,964,591.58)	(7,964,591.58)
Account balance on 30 September 2014	**22,196,570**	**22,196,570.00**	**76,374,858.86**	**(95,863,898.09)**	**2,707,530.77**

Selected notes on the consolidated interim financial statement as at 30 September 2014

1 Information about the company

Biofrontera AG (www.biofrontera.com), with its head office at Hemmelrather Weg 201, 51377 Leverkusen, Germany, registered in the Commercial Register of Cologne District Court, Department B under no. 49717, and its wholly-owned subsidiaries Biofrontera Bioscience GmbH, Biofrontera Pharma GmbH, Biofrontera Development GmbH and Biofrontera Neuroscience GmbH, research, develop and market dermatological products. The main focus is on the discovery, development and distribution of dermatological drugs and dermatologically-tested cosmetics for the treatment and care of diseased skin. Biofrontera AG (hereinafter also the "company") pursues this goal along with its subsidiaries. All the companies together form the “Biofrontera Group”.

The Biofrontera Group was the first German startup company to receive a centralised European drug approval for an independently developed drug, Ameluz®. In December 2011, Ameluz® was approved for the treatment of mild and moderate actinic keratosis. Two further clinical development projects, one dermatological project and one for the prevention of migraines, are in the pipeline but are not being actively pursued at the present time. In addition, a range of cosmetic products is to be expanded; the first product in this range, Belixos®, was launched in the autumn of 2009. A hair tonic, Belixos® Liquid, was launched in spring 2014, and Belixos® Gel for acne and rosacea and Belixos® Protect, a daily cream specifically for light-damaged skin, are scheduled to follow in the course of 2014 or at the beginning of 2015.

The product Ameluz® (development name BF-200 ALA), which is approved since end of 2011, has been tested in one phase II and two phase III clinical trials for the treatment of actinic keratosis. Ameluz® is a combination of the active agent, aminolevulinic acid (ALA), and a nanoemulsion (BF-200), which gives ALA chemical stability and enables it to penetrate the skin effectively. The clinical results regarding the treatment of actinic keratosis have shown its clear superiority to the competitor product against which it was compared in the phase III trials. An application for centralised European approval was submitted on 1 September 2010, and this approval was granted by the European Commission on 16 December 2011. Ameluz® has been sold in Germany since February 2012 and in several other European countries since autumn 2012.

In November 2012, Biofrontera's BF-RhodoLED® PDT lamp received pan-European approval for use as a medical device and has since been sold in parallel with Ameluz®.

The project BF-derm1 is not currently being actively developed, but it has been tested in a three-part phase II trial for the treatment of chronic, antihistamine-resistant urticaria (hives). The trial demonstrated the good effect of the drug, which reduced the intensity of urticaria rashes and itching, as well as reducing the amount of drowsiness-inducing antihistamines required by patients.

The third project (BF-1) is an innovative substance that is intended to be used for migraine prophylaxis. The substance was administered to healthy subjects for the first time towards the end of 2006, by intravenous injection and in tablet form. The company received the results of this trial in early 2007. They show that the substance is almost completely absorbed in the gut, and that it takes around two days for 50% of the substance to be broken down or excreted. These results are an excellent starting point for developing the substance to be administered in tablet form. As this project has huge market potential but is not related to the field of dermatology, it is to be licensed out for further development at the latest at the end of the phase II clinical trials.

The intention is to finance the development of both BF-derm1 and BF-1 independently of Biofrontera's normal budget, using funds that are specifically sought for and directly allocated to the development of these products. For this reason, both projects were acquired from Biofrontera AG and allocated as a partner's investment to the two newly-founded subsidiaries, Biofrontera Development GmbH and Biofrontera Neuroscience GmbH, in December 2012. The product BF-derm1, which is intended for the treatment of severe chronic urticaria, is now the responsibility of Biofrontera Development GmbH, while the product BF-1, which is intended for the prophylactic treatment of migraines, is the responsibility of Biofrontera Neuroscience GmbH. This outsourcing of development candidates has created a structure through which the financing of the further development of these two products can be uncoupled from the normal group financing. As a result, the short-term financial plans can focus on the market launch of Ameluz® in North America and the extension of its range of indications, as well as the establishment of the group as a specialist pharmaceutical company.

2 Accounting and valuation principles

Pursuant to the provisions of section 37y of the German Securities Trading Act (Wertpapierhandelsgesetz - WphG) in conjunction with section 37w WphG, the quarterly financial report as at 30 September comprises an abridged consolidated interim financial statement, a consolidated interim management report, and an affidavit of the legal representatives that corresponds to the specifications of section 297(2) p.3 and section 315(1) p.6 of the German Commercial Code (HGB).

The quarterly financial report as at 30 September 2014 of Biofrontera AG from 1 January 2014 to 30 September 2014 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) for "Interim Financial Reporting" pursuant to IAS 34, as applicable in the European Union. In the opinion of the Management Board, these quarterly financial statements reflect all the business transactions that are necessary for the presentation of the financial position, cash flows and results of operations for the periods ending on 30 September 2014 and 2013.

These interim financial statements do not include all the information and data that is required to prepare annual financial statements. The interim financial statements should therefore be read in conjunction with the consolidated financial statements for 2013.

In the context of the preparation of the consolidated interim financial statements, the Management Board has to make estimates and assumptions that influence the use of accounting principles in the Group and the disclosure of the assets and liabilities as well as of the income and expenses. The actual amounts may deviate from these estimates. The results achieved in the first nine months of the 2014 financial year do not permit any forecasts to be made concerning the further development of business performance.

Concerning the accounting, valuation and consolidation principles used in the preparation of the consolidated interim financial statement of Biofrontera AG, which are essentially unchanged, and the information on the companies included in the consolidated statement, please refer to the notes to the consolidated financial statement of 31 December 2013. Costs of capital procurement offset against equity are presented in the consolidated statement of changes in equity.

The consolidated interim financial statements do not contain any segment information, as no business or geographical segments subject to reporting requirements have been identified.

Due to the special importance of the research and development costs, these are shown in a separate section in the profit and loss account.

This interim financial statement of Biofrontera AG was approved for publication by resolution of the Management Board in November 2014.

3 Deferred taxes

As at 30 September 2014, the company has a considerable amount of tax loss carryforwards.

In accordance with the tax regulations applicable in Germany, these tax loss carryforwards are non-lapsable and can be offset against future taxable profits of the company.

The existing tax loss carryforwards were assessed as legally binding in the tax audit in the first half of 2008 and in the final assessment up to the 2003 assessment period. In addition, another audit was conducted for the years from 2003 to 2009 and the existing tax loss carryforwards were also assessed as legally binding.

Nevertheless, no deferred tax assets from temporary differences or from tax loss carryforwards have been recognised in the balance sheet. This decision has been taken against the background that, from the current perspective, the Management Board still does not regard it as certain that the deferred tax claims can be realised in the next few years.

In accordance with IAS 12.34, the recognition of the deferred tax claims has therefore been dispensed with.

4 Employee stock option programme 2010

In order not to be at a disadvantage in the future regarding staff recruitment and retention, the company must continue to be able to offer share and/or securities-based remuneration. Moreover, in accordance with the German act concerning the appropriateness of management board remuneration, such schemes must be linked to the long-term success of the company. As the stock option programme approved by the Annual General Meeting of the company on 24 May 2007 could not be used, the Annual General Meeting held on 2 July 2010 granted the Management Board and Supervisory Board the authorisation to issue, within the next 5 years, up to 839,500 options to directors and employees. Further provisions governing this action were specified in the invitation to the Annual General Meeting and are available on the company's website. The issue of a first tranche of these options is described in the consolidated financial statements of 31 December 2010. The second tranche took place in the 2011 calendar year and is noted in the consolidated financial statements of 31 December 2011. A further 116,500 option rights (third tranche) were issued in the first half of 2012 at an exercise price of EUR 3.30 or EUR 4.09 each. On 2 September 2013, 179,500 options (fourth tranche) were issued with an exercise price of EUR 3.373. In a further tranche (fifth tranche), on 2 April 2014 159,350 options were issued with an exercise price of EUR 3.43 each. On account of the vesting period involved, none of these can be exercised or have lapsed as yet. There were therefore still 181,350 options outstanding on 30 September 2014. In the reporting period, the expenditure booked was EUR 85 thousand (30 September 2013: EUR 60 thousand).

5 Shares/earnings per share

The earnings per share are calculated in accordance with IAS 33 on the basis of the half-yearly results of the Biofrontera Group as well as on the basis of the ordinary shares outstanding during the relevant periods in 2014 and 2013.

	30 September 2014 unaudited	30 September 2013 unaudited
Ordinary shares	22,196,570.00	17,753,168.00
Net loss for the year in EUR	(7,964,591.58)	(6,021,527.79)
Earnings per share in EUR, related to net loss for the year	(0.37)	(0.35)

The increase in the number of shares in comparison with the previous year can be attributed to a capital increase from authorised capital. The subscribed capital was increased on 6 February by 4,438,292 shares (cf. ad hoc announcements of 4 February 2014). A further capital increase was implemented on the basis of the conditional increase in the share capital resolved on 10 May 2011. Subscription shares from the exercise of warrants from the

2011/2016 warrant bond were issued with a nominal value of EUR 5,110 and registered in the commercial register on 13 March 2014.

6 Notes on repurchases of bonds

As a result of the repurchase of 15,000 warrant bonds I (2009/2017) of Biofrontera AG at a price of EUR 100 per unit, the fees paid and the transaction costs for the repurchase are to be allocated in accordance with IFRS to the borrowed capital and equity capital components at the time of the transaction. Taking the transaction costs into consideration, the borrowed capital component was reduced by EUR 1,301 thousand and the equity capital component was reduced by EUR 199 thousand in this process.

7 Members of the Management Board

The members of the Management Board are:

- Prof. Hermann Lübbert, chairman of the Management Board (Chief Executive Officer)
- Thomas Schaffer, member of the Management Board (Chief Financial Officer)

In the first nine months of the 2014 financial year, the remuneration paid to the members of the Management Board amounted to EUR 462 thousand (same period in 2013: EUR 582 thousand).

8 Members of the Supervisory Board

As a result of the resolution passed by the Annual General Meeting held on 10 May 2011, the Supervisory Board has consisted of the following members since 10 May 2011, with these members acting as representatives of the shareholders:

Jürgen Baumann Chairperson of the Supervisory Board, expert in the field of sales and marketing of pharmaceuticals, resident in Monheim, Germany

Prof. Bernd Wetzel Deputy chair of the Supervisory Board, advisor, resident in Biberach/Riss, Germany

Dr Ulrich Granzer Owner and managing director of Ulrich Granzer Regulatory Consulting & Services, resident in Krailling near Munich, Germany

Ulrike Kluge	Managing partner of klugeconcepts GmbH, Cologne; resident in Cologne, Germany
Andreas Fritsch	Sales/strategy manager of Alfred Wieder AG, Pullach, and managing director of Unternehmensberatung Fritsch, Seefeld; resident in Seefeld, near Munich, Germany
Alfred Neimke	Managing director of Kopernikus AG in Zurich, Switzerland, resident in Zurich, Switzerland

In the first nine months of the 2014 financial year, the remuneration paid to the members of the Supervisory Board amounted to EUR 84 thousand (same period in 2013: EUR 84 thousand).

9 Transactions with related persons

During the period under review, additional advisory services were called on by the company from two members of the Supervisory Board, Dr Ulrich Granzer and Ms Ulrike Kluge. These services went beyond the scope of normal Supervisory Board activity. Dr Granzer assisted the company with key issues relating to the preparation of the application for approval by the supervisory authorities. During the course of the first nine months of the 2014 financial year, advisory services amounting to EUR 82 thousand (same period in previous year: EUR 22 thousand) were provided by Granzer Regulatory Consulting & Services. Accounts payable to Granzer Regulatory Consulting & Services amounted to EUR 1,700 on 30 September 2014 (31 December 2013: EUR 6,100). Ms Kluge advises the company in the area of business development. In the first nine months of 2014, the consultancy services amounted to EUR 5,900 (same period in previous year: EUR 0), and the accounts payable to klugeconcepts GmbH as at 30 September 2014 amounted to EUR 3,800 (31 December 2013: EUR 4,400).

The amounts stated here do not include statutory VAT at the current rate of 19%. The underlying consultancy contracts were approved in consideration of the statutory provisions.

10 Significant events since the interim balance sheet date

On 8 October, a pre-NDA-Meeting (NDA = "New Drug Application") was held with the American drug approval agency FDA (Food and Drug Administration). The preparatory documents submitted in advance by Biofrontera were of such high quality that the FDA proposed that the meeting could be held as a conference call. The few questions still outstanding were all answered.

Following a mutual agreement made on 07 November Allergan S.A. and Biofrontera have decided that the distribution rights to all Biofrontera products in Spain will revert to Biofrontera with effect from 17 March 2015. Biofrontera will take over responsibility itself for sales activities in Spain from this date forward. A Spanish branch

of Biofrontera Pharma GmbH is to be established for that purpose. Corresponding applications and notifications for the responsible healthcare agencies are currently being prepared.

Leverkusen, 13 November 2014

Professor Hermann Lübbert

Chairman of the Management Board

Thomas Schaffer

Chief Financial Officer

Editor

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